

**Guanxi Capitalism in China: the role of private
enterprises and networks for economic development**

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Zusammenfassung

Diese Dissertation befasst sich mit der Analyse der Entwicklung des chinesischen Wirtschaftssystems seit 1978. Der Transformationsprozess verlief je nach Region und Sektor unterschiedlich, teilweise kam es schon sehr früh zur Entwicklung von privatwirtschaftlichen Strukturen, in anderen Teilen des Landes dominiert nach wie vor der Staat die wirtschaftliche Produktion. Abhängig von der lokalen Entwicklung folgen verschiedene Sektoren bzw. Regionen unterschiedlichen Logiken, was zu der Vermutung führt, dass verschiedene Kapitalismustypen in China definiert werden können. Diese Dissertation vertritt hingegen die Ansicht, dass die chinesische Wirtschaft eine spezielle Variante von Kapitalismus entwickelt hat, die insbesondere von Netzwerkbeziehungen (Guanxi) und der Privatwirtschaft beeinflusst wird. Obwohl der Staatssektor natürlich ebenfalls keine zu unterschätzende Rolle spielt, konzentriert sich diese Arbeit auf die Rolle von Privatunternehmen. Zum einen, weil diese als die treibende Kraft hinter der wirtschaftlichen Entwicklung identifiziert wurden und zum anderen, weil dort das Phänomen Guanxi besonders stark ausgeprägt ist.

Bedingt durch die ausgeprägte lokale Heterogenität Chinas ist es schwierig, das Land aus einer Makroperspektive zu betrachten. Diese Dissertation wird dennoch eine holistische Betrachtung der Entwicklung Chinas vorstellen, die sich aber auf einige spezielle soziale und kulturelle Charakteristika fokussieren wird, um grundlegende Gemeinsamkeiten des Prozesses aufzudecken, ohne dabei der Gefahr der Simplizität zu erliegen. Es wird daher noch einmal betont, dass obschon diese Arbeit keine erschöpfende und vollständige Betrachtung des chinesischen Wirtschaftssystems anbietet, dennoch die Synthese eines großen Wissensgebietes zur Privatwirtschaft und der Rolle von Netzwerken präsentiert wird, indem neben ökonomischer auch soziologische, historische und politologische Literatur mit in die Betrachtung einbezogen wird. Dadurch soll Einsicht in die Funktionsweise eines chinesischen Kapitalismus gewonnen werden, dessen Erfolg vor allem auf Guanxi basiert. Die Arbeit ist zweigeteilt: Während im ersten Teil die theoretischen Grundlagen vorgestellt werden, bezieht sich der zweite Teil unter Hervorhebung von sozio-ökonomischen Institu-

tionen auf die Entwicklung und eine Analyse des chinesischen Wirtschaftssystems seit 1978 und untersucht den Kapitalismustyp, der dort entsteht.

Nach der Einleitung beginnt die Arbeit daher in Kapitel 2 mit den theoretischen Grundlagen. Das Kapitel wird mit einer Beschreibung und einem Vergleich der Methodologie von neuer und alter – amerikanischer – Institutionenökonomik eingeleitet. Die neoklassische Grundlage der Neuen Institutionenökonomik und deren einschränkende Annahmen machen diesen Theoriezweig weniger geeignet als den methodisch breiter angelegten Amerikanischen Institutionalismus, dessen Methoden im weiteren Verlauf des Kapitels noch genauer dargelegt werden. Im Anschluss daran nähert sich die Arbeit der Definition des vielschichtigen Begriffs „Institution“ an. Beginnend mit der Definition von Douglass North arbeitet sich die Arbeit nacheinander an verschiedenen Denkansätzen aus neuer und alter Institutionenökonomik an diesen Begriff ab, um danach genauer auf die Methodologie des Amerikanischen Institutionalismus einzugehen. Es wird festgestellt, dass hier eine holistische Herangehensweise vertreten wird, die in der Nutzung von Evolutionismus und sog. „Pattern Models“ zur Theoriebildung zum Ausdruck kommt. Auf diese Weise ist diese Art des Institutionalismus in der Lage, Wirtschaftssysteme auf narrative Weise holistisch darzustellen. Es ermöglicht zudem die Darstellung verschiedener Kapitalismusvarianten, da das kulturelle und soziale Umfeld sowie geschichtliche Aspekte mit in die Analyse einbezogen werden, die dadurch eine umfassende Betrachtung gestattet. Die Methodik des amerikanischen Institutionalismus erlaubt so einen kritischen Einblick in die Dynamik sozialen Wandels und menschlicher Verhaltensweisen in ihrem institutionellen Kontext. Das Ziel von Institutionalismus ist nicht das Aufstellen von generellen, gesetzesähnlichen Aussagen und Prognosen, die besonders ‚robust‘ oder streng sein müssen, sondern das Verstehen und Erklären einer spezifischen Situation.

Ergänzend zu dieser Analyse beschreibt die Arbeit Theorien zum Wandel von Institutionen, da das Ziel der Arbeit nicht die Betrachtung eines ‚fertigen‘, und somit statischen, Systems ist, sondern eines Wirtschaftssystems, das sich weiterhin in Transformation befindet. Nach einer kurzen Zusammenfassung der Herangehensweise der alten Institutionenökonomik fokussiert sich das Unterkapitel auf die Theorie zum Institutionenwandel, die auf Kathleen Thelen und James Mahoney zurückgeht. Diese stellt eine Erweiterung der Neuen Institutionenökonomik dar, wird aber dennoch für diese Arbeit als fruchtbar empfunden, weil die Konzeption des Strukturwandels auch über den engen neoklassischen Theorierahmen hinaus verwendbar ist. Das Model nähert sich somit der Denkweise des alten Institutionalismus an, ist aber analytisch präziser formuliert. Die ver-

schiedenen Varianten des Institutionenwandels werden vorgestellt und im weiteren Verlauf der Arbeit immer wieder vergleichend herangezogen.

Im anschließenden Kapitel 3 werden verschiedene Konzepte von Netzwerken und (soziale) Netzwerktheorie vorgestellt. Das Kapitel bezieht sich dabei aber eher auf qualitative als auf quantitative Methoden. Zudem sind es Modelle, die Netzwerke westlichen Typs zum Vorbild nehmen. Diese sind, kurz gefasst, zumeist eher eindimensionaler Natur und unterscheiden sich damit grundsätzlich von Chinas Guanxi-Netzwerken. Um aber dennoch eine solide Grundlage für die Analyse und Vergleich zu haben, ist eine Untersuchung der Theorien dieses Typs unerlässlich, um neben den zahlreichen Unterschieden auch Gemeinsamkeiten herauszuarbeiten.

Als grundlegendes Element von Netzwerken wird zunächst der Begriff Sozialkapital in der Interpretation verschiedener Autoren vorgestellt und definiert. Dies ist darüber hinaus als Vergleich für das chinesische Guanxi wichtig, welches in Kapitel 6 dargestellt wird. Im Anschluss wird der Begriff Netzwerk analysiert, erst auf allgemeinere Weise als Begriffsbestimmung, dann spezifischer in Bezug auf regionale und korporative – oder strategische – Netzwerke. Netzwerke stehen als Organisationsstruktur zwischen Markt und Hierarchie und sind dabei hochgradig personenbezogen, sowohl in ihren formalen als auch informellen Varianten. Verschiedene Netzwerktypen können über die Merkmale Reziprozität, wechselseitige Abhängigkeit und Macht definiert werden. Neben Sozialkapital spielen auch Vertrauen und ‚Embeddedness‘ eine große Rolle für Netzwerke; diese Konzepte werden in einem Exkurs in Kürze aus westlicher Sicht dargestellt.

Nachdem die relevanten Eigenschaften sowie generelle Organisationsformen von Netzwerken vorgestellt wurden, geht der nächste Abschnitt auf verschiedene Typen von regionalen Netzwerken ein. Diese sind im Allgemeinen nach dem Grundsatz der flexiblen Spezialisierung organisiert und können in Form von innovativen Milieus, Clustern oder Industriedistrikten auftreten. Die Gemeinsamkeiten und Unterschiede der einzelnen Organisationsformen werden aufgezeigt, analysiert und kritisch diskutiert. Auf diese Evaluierung wird im sechsten Kapitel beim Vergleich verschiedener konkreter Netzwerktypen erneut Bezug genommen.

Das vierte Kapitel widmet sich der Definition des Begriffs Kapitalismus. Kapitalismus war schon bei seiner Prägung im 19. Jahrhundert ein kontroverser Begriff, zumal bis heute keine eindeutige Begriffsbestimmung vorliegt. Es gibt zahlreiche Definitionen, basierend auf sehr unterschiedlichen Konzepten und Typologien, die aber in den meisten Fällen mit ideo-

logischen Konnotationen belastet sind.¹ In modernen Definitionen wird der Begriff häufig gleichgesetzt mit einem Wirtschaftssystem, in dem Kapital zentral für alle Transaktionen ist, das über eine liberale Gesellschaftsordnung verfügt und in dem Land und Arbeiter frei auf dem Markt verfügbar sind.

Diese Dissertation stützt sich vor allem auf die Ausführungen von Max Weber, der Kapitalismus als „da vorhanden, wo die erwerbswirtschaftliche Bedarfsdeckung einer Menschengruppe auf dem Wege der Unternehmung stattfindet“, definierte, und ein „speziell rationaler kapitalistischer Betrieb“ einer „mit Kapitalrechnung“ ist bzw. einer, „der seine Rentabilität rechnerisch durch das Mittel der modernen Buchführung...kontrolliert“.² Der Geist des Kapitalismus beschreibt für ihn „diejenige Gesinnung, welche berufsmäßig systematisch und rational legitimen Gewinn...erstrebt“.³ Er beschreibt sehr bildhaft die unumkehrbaren Folgen dieses Systems: Sein Auftreten führt dazu, dass der Alltag und das Leben der Menschen fundamental und für immer verändert werden und sie sich in einem „stahlharten Gehäuse“ wiederfinden.⁴ Er stellt dies als Trennungsprozess von vormalig verschmolzenen Einheiten dar, der die alte Wirtschaftsordnung zerbricht und die bestehenden traditionellen Institutionen überformt. Max Weber bezeichnete dies als die Natur des modernen Kapitalismus. In dieser Sichtweise spielen persönliche Beziehungen zunehmend keine Rolle mehr für Geschäftstransaktionen, sondern werden von Vertragsbeziehungen ersetzt. Insbesondere der Haushalt als Einheit von Privatem und Betrieb ging verloren und damit auch seine Bedeutung als Wirtschaftseinheit - für Weber eine unabdingbare Vorbedingung des modernen Kapitalismus, unabhängig von der Gesellschaft und ihrer institutionellen Ausgestaltung.⁵ Die jeweiligen Ökonomien werden unter der Doktrin der individuellen Nutzenmaximierung, rationalistischen Rechtsprinzipien und privaten Akkumulation vereinheitlicht. Traditionelle Institutionen können der allumfassenden, alles überlagernden Logik des Kapitalismus, dessen Entwicklung klar vorgezeichnet erscheint, wenig entgegensetzen.⁶ Obwohl auch in früheren Wirtschaftssystemen Gier und „die universale Herrschaft absoluter Skrupellosigkeit der Geltendmachung des Eigeninteresses beim Gelderwerb“ existierte, waren diese von einem „undisziplinierten ‚liberum arbitrium‘“ der „bewussten Rücksichts-

¹ Brunner; Conze and Koselleck, 1982, 'Kapital, Kapitalist und Kapitalismus'. Der Begriff "Kapitalismus" entstammt dem Französischen und wurde in Deutschland meist im Zusammenhang mit kritischen Beschreibungen der Veränderungen in der Gesellschaft genutzt. Siehe auch Köster and Plumpe, 2007, p. 4, Pohle, 1910, p. 6.

² Weber, 1958 [1923], S. 238.

³ Weber, 2007 [1904], S. 53.

⁴ Weber, 2007 [1904], S. 160.

⁵ Weber, 1958 [1923], S. 7..

⁶ Yang, 2000, S. 481.

losigkeit des Gewinnstrebens“ getrieben, der die Disziplin und Rationalität des bürgerlichen Kapitalismus fehlte.⁷

In ähnlicher Weise argumentiert Werner Sombart, der für seine Ausführungen zum modernen Kapitalismus auch die Wichtigkeit eines bestimmten Geistes betont, der neben Organisation des Wirtschaftslebens und der verwendeten Technik die größte Rolle spielt. Dieser Geist setzt sich für ihn aus einer Mischung von wagemutigem Entrepreneur und rationalem, rechtschaffenem Bourgeois zusammen, der zugleich Eroberer, Erfinder, Organisator und Kaufmann ist. Ein dynamischer Kapitalismus kann nur entstehen, wenn die Elemente von rationalem Entrepreneur, Staatsintervention und Bürokratisierung zusammenkommen. Beide Autoren stimmen darin überein, dass Kapitalismus mit der „Gliederung des Produktionsprozesses unter wissenschaftlichen Gesichtspunkten dessen Gebundenheit an die natürlich gegebenen ‚organischen‘ Schranken der menschlichen Person beseitigt“ hat.⁸ Menschen wurden zu „fiktiven Waren“, die ihre Arbeitskraft auf Arbeitsmärkten anboten und nicht in der Lage waren dem „stahlharten Gehäuse“ zu entrinnen.⁹ Weber - und in ähnlicher Weise auch Sombart - konstruiert damit einen idealtypischen Kapitalismus, der mit wachsender Rationalisierung, Bürokratisierung und Professionalisierung innerhalb eines homogenen institutionellen Umfelds einhergeht. Ein Wirtschaftssystem entstand, bei dem die Wirtschaft nicht mehr in die Gesellschaft eingebettet ist, sondern umgekehrt die Gesellschaft nur noch ein bloßes Anhängsel der Wirtschaftsordnung ist. Die Wirtschaft wurde zu einem von Effizienz und Gewinnstreben dominierten selbständigen System. Kapitalismus führt in dieser Sichtweise immer und unausweichlich zu steigender Bürokratisierung und Rationalisierung. Unternehmen werden zu Großunternehmen, die in Massenproduktion mit Hilfe eines rationalen Managements produzieren und daher maximal unabhängig von einzelnen Individuen werden. Unpersönliche bürokratische Leitung ersetzt die traditionelle, persönliche.¹⁰ Im Gegensatz dazu wird sich im Verlauf der Arbeit zeigen, dass die These der unabwendbaren Bürokratisierung und „rationalen Versachlichung“¹¹ nicht aufrecht zu erhalten ist. Die flexible Produktion des 21. Jahrhunderts hängt nicht mehr ausschließlich von multinationalen Unternehmen ab, sondern zunehmend auch von kleinen Zulieferbetrieben.¹²

⁷ Weber, 2007 [1904], S. 44f.

⁸ Weber, 2007 [1904], S. 63.

⁹ Polanyi, 1995, S. 102ff.

¹⁰ Weber, 1976 [1922], S. 126.

¹¹ Weber, 1963 [1924], S. 374.

¹² Yang, 2000, S. 481.

Bezugnehmend auf Webers Betonung des Protestantismus für den Kapitalismus und die „Spirit of Capitalism“-Diskussion der 1980er Jahre, beschäftigt sich der nächste Abschnitt mit dem Zusammenhang von Konfuzianismus und Kapitalismus. Zunächst werden die Grundprinzipien des Konfuzianismus überblicksartig behandelt, danach Webers Einschätzung der Betonung von konfuzianischen Werten auf die Entwicklung eines kapitalistischen Wirtschaftssystems in China dargestellt. Diese wird einer aktuelleren Evaluierung gegenübergestellt, die auch eine Genderperspektive in die Analyse mit einbezieht. Die Konfuzianismusdebatte wurde im Laufe der 1990er Jahre durch eine netzwerkbasierende Sichtweise auf den chinesischen Kapitalismus abgelöst.

Im Anschluss daran werden verschiedene Ansätze der komparativen Kapitalismusanalyse vorgestellt. Der aktuell viel diskutierte Varieties of Capitalism-Ansatz macht den Anfang. Es wird festgestellt, dass dieser sich weniger eignet, die Entwicklung eines chinesischen Kapitalismustyps nachzuvollziehen, da er zum einen von demokratischen Staaten ausgeht, zum anderen nur in der Lage ist, eine statische Beschreibung von Kapitalismus zu geben. Dies ist für das sich in Transformation befindliche China nicht ideal, zudem sind Beschreibungskriterien, die das Unternehmen, insbesondere die Organisation der Produktion, in den Mittelpunkt stellen, eher auf entwickelte post-industrielle Ländern zugeschnitten. In der Erweiterung von Amable wird ein asiatischer Kapitalismus definiert, der aber Privatunternehmen nicht beachtet.¹³

Anschließend werden Euckens Theorie der wirtschaftlichen Ordnung sowie das Wirtschaftsstilkonzept vorgestellt. Insbesondere letzteres wird als Ergänzung und Komplementierung des holistischen ‚Pattern Models‘ verwendet. Auch der Wirtschaftsstil ist ein qualitatives Instrument, welches charakteristische Verhaltensstrukturen und historisch gewachsene Lebensbedingungen und Institutionen in die Betrachtung mit einbezieht. Wie das ‚Pattern Model‘ ist auch der Wirtschaftsstil hochgradig subjektiv und relativistisch, aber gerade dadurch in der Lage, ein Gemälde einer wirtschaftlichen Epoche zu entwerfen, anstatt eines einfachen Schnappschusses wie im Falle des Varieties of Capitalism-Ansatzes.

Mit dem anschließenden fünften Kapitel beginnt der zweite Teil der Dissertation. Es beschäftigt sich mit dem Phänomen der Entwicklung und Transformation, zunächst theoretisch, danach bezogen auf China. Es wird dargestellt, dass sich Transformation graduell oder schockartig vollziehen kann, gleichzeitig wird festgestellt, dass China in keine der beiden Kategorien passt, da ein eigener - sehr pragmatischer - Weg der Transformation gegangen wurde. Zur Veranschaulichung der Thesen wird vergleichend der westliche Ent-

¹³ Hall and Soskice, 2004, Amable, 2003, Jackson and Deeg, 2006, Lane, 2005.

wicklungsprozess während der industriellen Revolution als Vergleich herangezogen und entsprechend in aller Kürze beschrieben; dabei beschränkt sich die Arbeit aber auf eine Betrachtung des englischen und deutschen Falls. Anschließend werden der Ablauf und die wichtigsten Merkmale der chinesischen Transformation seit 1978 unter Hervorhebung von Besonderheiten in groben Zügen beschrieben und mit Daten zum aktuellen Stand der chinesischen Entwicklung unterlegt. Nach der Darlegung des historischen Ablaufs und seiner Fakten wird die chinesische Transformation kritisch analysiert. Sie war – und ist – ein sehr pragmatischer Prozess, der allgemein hin als ‚gegen jede Regel‘ beschrieben und wahrgenommen wird. Dezentralisiertes soziales Lernen und lokale Experimente der Lokalregierungen führten zu unterschiedlichen Ergebnissen in verschiedenen chinesischen Provinzen. Die Zentralregierung dient dabei mehrheitlich nur als Vermittler und überträgt erfolgreiche Experimente in einer ex-post Sanktionierung von bis dahin allenfalls halblegalen Aktivitäten der Privatwirtschaft auf den Rest des Landes. Dies und die Akzeptanz eines relativ hohen Levels an Unsicherheit ermöglichen dem Privatsektor und seinen pragmatischen Unternehmern auch ohne klar definierte Verfügungsrechte sehr erfolgreich zu sein.

Diese theoretische Analyse wird im weiteren Verlauf des Kapitels um eine Betrachtung der Rolle der Familie für den Entwicklungsprozess bereichert. Aus westlicher Sicht wird die Familie bzw. das Familienunternehmen als veraltete Produktionseinheit bzw. -form für den Kapitalismus betrachtet, die eigentlich dem Privatleben zuzurechnen ist. Konsequenterweise war der westliche Industrialisierungsprozess auch begleitet von einer Veränderung und Anpassung von traditionellen Familienstrukturen und Institutionen an die Gegebenheiten des neuen wirtschaftlichen Systems, das auf Fabrikarbeit basierte. Dies führte letztendlich zur Verwandlung des ländlichen traditionellen ‚ganzen Hauses‘ hin zum individuellen, städtischen Haushalt des Fabrikarbeiters. Dieser Prozess ist zudem mit einer Wandlung der Geschlechterwahrnehmung, der Arbeitsteilung und des Lebensstils verbunden, die aber zunächst für Arbeiter- und Bürgerhaushalte unterschiedlich verlief. Der Zusammenhang von Sozialstruktur und wirtschaftlicher Entwicklung wird im achten Kapitel wieder aufgegriffen, wenn die Rolle des bourgeois Unternehmers analysiert wird.

Diese westliche Entwicklung wird der chinesischen gegenübergestellt und insbesondere die Wichtigkeit der chinesischen Familie für den kapitalistischen Transformationsprozess betrachtet. Während Weber und später die Modernisierungstheorie die Familie als eine Institution wahrgenommen hat, die der kapitalistischen Entwicklung eher hinderlich ist, verkehrte sich diese Beurteilung später ins Gegenteil. Während man beim Kapitalismus Weberscher Lesart davon ausgeht, dass für eine erfolgreiche kapitalistische Entwicklung

zwingend traditionelle Institutionen durch ‚moderne‘ ersetzt werden müssen und dass vor allem die Familie als Wirtschaftseinheit ihre Bedeutung verlieren muss, scheint dies für China anders zu sein. Die Bewertung der chinesischen Familie hatte bis in die 1960er Jahre hinein Bestand, als auch die Modernisierungstheorie in der personalistischen chinesischen Kultur den Grund sah, den China von der Einführung des Kapitalismus abhielt. Seitdem hat sich diese Einschätzung drastisch zugunsten der chinesischen Familie entwickelt. Während der Wirtschaftsreformen nach 1978 griff die chinesische Bevölkerung auf Institutionen aus ihrer Vergangenheit zurück, vor allem auf persönliche Netzwerke. Die Familie dient oftmals als organisatorischer Mittel- und finanzieller Startpunkt für kleine Privatunternehmen und behielt somit ihre Bedeutung für den Produktionsprozess. Dies führte China zu einem wirtschaftlichen Erfolg, der in der Geschichte seinesgleichen sucht. Im Gegensatz zu Ost- und Mitteleuropa verlief hier die Transformation von Plan- zu Marktwirtschaft erstaunlich glatt.¹⁴ Der chinesische Familismus wird jetzt als vorteilhaft und sogar als ‚Motor der Entwicklung‘ bewertet, da Guanxi-Beziehungen der Familie oftmals der Ausgangspunkt für erfolgreiche Familienunternehmen wurden, die mit Erfolg in einem zunehmend kapitalistischen System agierten.¹⁵ Die chinesische Familie konnte Tradition mit modernen Elementen verbinden und schuf so dem westlichen Modell komplementäre Institutionen, die zum Erfolg der privaten Firmen beitrugen.

Dies führt die Arbeit weiter zum Thema Guanxi und damit zum sechsten Kapitel. Es beginnt mit einer allgemeinen Definition dieses chinesischen Ausdrucks für Netzwerk. Guanxi beschreibt die Dynamik der Konstruktion von persönlichen Beziehungen und ist ein zentraler Bestandteil chinesischer Kultur. Persönliche Beziehungen zwischen Individuen können durch gegenseitige Geschenke oder andere Gefälligkeiten ausgedrückt werden. Bestandteil von Guanxi sind daher langfristige, teilweise sogar generationenüberschreitende, ‚Schulden‘, die durch ‚Gaben‘ bzw. Geschenke entstehen. Als Teil von persönlichen Beziehungen ist die Vorstellung von Reziprozität, Obligation und Verpflichtung zentral, obwohl durchaus auch eine taktische Dimension von Guanxi existiert.¹⁶ Guanxi baut auf bereits bestehenden Verbindungen zu Leuten auf, mit denen eine gemeinsame Identität besteht, z.B. aus gemeinsamer Schul- oder Militärzeit, der gleichen regionalen Herkunft oder zwischen Kollegen, und schafft so fiktive Quasi-Verwandtschaftsbeziehungen, die ebenfalls dauerhafter Natur und daher vertrauenswürdig sind.¹⁷

¹⁴ Dirlik, 1997, p. 304.

¹⁵ Wong, 1988, p. 146.

¹⁶ Yang, 1994, S. 63, 67, 122.

¹⁷ Yang, 1988, S. 409-411, Krug, 2002, S. 139f., Whyte, 1996, S. 12.

Guanxi ist in den meisten Bereichen des Privat- und Geschäftslebens zu finden. Allerdings werden diese Bereiche nicht so strikt getrennt wie in der westlichen Kultur. Es gibt daher auch in den meisten Fällen keine vom privaten Leben getrennten Netzwerke für Geschäftsbeziehungen. Traditionell empfindet sich das Individuum als Teil eines Ganzen bzw. eines Netzwerkes, das von gegenseitiger Unterstützung und Rücksichtnahme lebt.¹⁸ Im Gegensatz zum Westen gibt es also keine getrennte Moralität oder Regeln für Geschäftsbeziehungen in China. Diese werden nicht losgelöst vom Privatleben gedacht. Guanxi berücksichtigt gleichzeitig gesellschaftliche Moral und individuellen Nutzen, wie gegensätzlich dies auch erscheinen mag. Verhandlungspartner bewegen sich immer auf Messers Schneide zwischen Freundschaft und Profit, Altruismus und Rivalität, sozialer Harmonie und Wettbewerbsvorteil.¹⁹ Es wurde vermutet, dass Guanxi als vermeintlich weniger effiziente Institution zugunsten von Vertragsbeziehungen in einer vollständigen kapitalistischen Marktwirtschaft im Laufe der Reformen verschwinden würde. Stattdessen beobachtete man genau das Gegenteil: Guanxi passte sich den neuen Gegebenheiten der kapitalistischen Wirtschaft an.

Im Verlauf des Kapitels wird eine traditionellere, eher ländliche, sowie eine moderne, eher städtische, Variante von Guanxi beschrieben und Guanxi somit als sich ständig wandelnde Institution dargestellt. Es wird auch nicht versäumt, Guanxi mit Korruption zu vergleichen. Als weiterer Aspekt wird eine Genderperspektive mit in die Betrachtung einbezogen. Guanxi ist nicht nur ein Mechanismus, der Frauen systematisch benachteiligt, er wird auch instrumentalisiert, indem Geschlechtsstereotypen in den Prozess integriert und so z.B. in Geschäftsverhandlungen geschickt ausgenutzt werden. Im letzten Abschnitt des Kapitels wird die Spezifität von Guanxi-Netzwerken hervorgehoben. Hierfür werden sie Beispielen aus Deutschland, Italien und Russland gegenübergestellt. Neben den Unterschieden werden aber insbesondere auch Gemeinsamkeiten betont und die Konzepte von Guanxi mit dem russischen *Blat* verglichen.

Das nächste, siebte, Kapitel greift das Thema Privatwirtschaft und somit private Unternehmer erneut auf. Als nach 1978 allmählich eine Marktwirtschaft entstand, spielten traditionelle Institutionen wie z.B. kleine Familienunternehmen mitsamt ihrer Netzwerke im globalen Kapitalismus des 21. Jahrhunderts mit seiner flexiblen, transnationalen Produktionsweise eine mindestens genauso große Rolle wie große multinationale Firmen.²⁰ Unternehmerische Bestrebungen haben sich über die sozialistische Zeit hinweg erhalten und

¹⁸ Pohl, 2002, S. 114f., Mauss, 1966, S. 1-3, 36f., 76-78., Yan, 1996, S. 8f.

¹⁹ Souchou, 2002, S. 238.

²⁰ Dirlik, 1997, S. 310.

konnten sich während der Reformen mit Hilfe ihrer Netzwerke relativ ungestört entwickeln. Unternehmertum wurde als Chance wahrgenommen.²¹

Es wird argumentiert, dass chinesische Unternehmer eine spezifische, sehr pragmatische Haltung einnehmen und geschickt Guanxi im Geschäftsleben einsetzen. Mehr als das, es scheint gar keine klare Trennung von Geschäftlichem und Privatem zu existieren. Wie auch im achten Kapitel noch einmal hervorgehoben werden wird, gehören chinesische Unternehmer oftmals zwar der Kategorie der ‚neuen Reichen‘ an, sie sind aber nicht auf dem Weg, eine Bürgergesellschaft im westlichen Sinne zu schaffen. Im Gegensatz zum westlichen Bourgeois, der sich als Teil des Wirtschaftsbürgertums verstand, das gemeinsame Werte teilte, streben chinesische Unternehmer nicht nach strategischen Verbindungen, die im Westen typischerweise über Industrieverbände oder Vereine hergestellt werden. Die chinesische Unternehmermoral ist zukunftsorientiert und auf die Bedürfnisse der Familie hin ausgerichtet, die Motivation für Unternehmensgründungen kommt vor allem aus dem Antrieb, langfristige Sicherheit für die Familie zu schaffen. Es wird dargelegt, dass diese Strukturen langfristiger Natur sind, da über Guanxi verbundene Kleinunternehmen und flexible Produktion einen Vorteil in der heutigen globalisierten Wirtschaft darstellen. Diese Faktoren beeinflussen die weitere Entwicklung des chinesischen Wirtschaftssystems und somit auch den Kapitalismustyp, der dort entsteht.

Nach der Analyse der Bedeutung des chinesischen Unternehmers für den Transformationsprozess werden die verschiedenen chinesischen Unternehmenstypen untersucht. Um die Komplexität und die Verschiedenheit der Unternehmensstrukturen abzubilden, ist es notwendig, hier sowohl Privat- als auch Staatssektor mit in die Analyse einzubeziehen. Die definitorische Abgrenzung des Privatsektors ist nicht einfach, was sich auch im nächsten Abschnitt zeigt, der einen Überblick über Wirtschaftsdaten zum Privatsektor gibt.

Es wurde bereits betont, dass die chinesische Privatwirtschaft nicht homogen ist, sondern sich je nach Region bzw. Sektor unterschiedlich entwickelt. Dies wird durch ein Fallbeispiel der Region Wenzhou verdeutlicht. Wenzhou war eine der Gegenden, die sehr früh privatisiert hat, und auch eine Provinz, die sehr stark von der Wirtschaftskrise 2008 betroffen war. Die Erfolgs- und Überlebensstrategien des dortigen Privatsektors werden vorgestellt. Diese beruhen zum einen auf der hohen Bedeutung von Guanxi und damit zusammenhängend den symbiotischen Beziehungen zur Lokalregierung, die einen starken Einfluss auf die Entwicklung ausgeübt hat.

²¹ Whyte, 1995, S. 1015, sowie Krug, 2002, S. 133, Yang, 2002, S. 466ff. und Peng, 2004, S. 1059.

Unter Geschäftsleuten werden Netzwerke als langfristige strategische Allianzen gesehen, um Informationen, Bankkredite oder Ressourcen zu beschaffen. Netzwerke verhindern oder verzögern durch ihre Unterstützungsleistungen aber auch Insolvenzen. Wenn ein Unternehmer scheitert, wird er bei einem Neuanfang unterstützt. Das Netzwerk ‚speichert‘ die gemachten Fehler und macht so aus dem individuellen Verlust ein Lernexperiment für alle. Zu diesem Zwecke werden auch Beziehungen zur lokalen Regierung gepflegt.²²

Dies führt uns zum achten Kapitel, das den Zusammenhang von politischen und ökonomischen Akteuren genauer analysiert. Zum Vergleich werden die Selbstwahrnehmung und der Diskurs über den deutschen bourgeoisen Unternehmer herangezogen. Die europäischen Unternehmer des 19. Jahrhunderts sind nach Webers Definition „in harter Lebensschule aufgewachsene, wägend und wagend zugleich, vor allem aber nüchtern und stetig, scharf und völlig der Sache hingeebene Männer mit streng bürgerlichen Anschauungen“, die dem „traditionalistischen Schlendrian“ hinter sich gelassen haben.²³ Der Unternehmer war daher wichtig, um den Kapitalismus in Gang zu bringen. Der idealtypische Unternehmer entstammte einer bestimmten Schicht, dem Bürgertum, was ihm wiederum erleichterte, seinen Geschäften nachzugehen, weil er sich sozusagen unter ‚seinesgleichen‘ wähnte. Mit diesen pflegte er persönliche Vertrauensbeziehungen; man begegnete sich aber nicht nur auf geschäftlicher, sondern auch auf gesellschaftlicher Ebene.²⁴ Auch politisch spielte der Unternehmer, vor allem auf lokaler Ebene, eine nicht zu unterschätzende Rolle bei der Schaffung eines einem kapitalistischen System zuträglichen politischen und gesetzlichen Umfelds.

Es wird zudem argumentiert, dass die Figur des Unternehmers sowohl in Deutschland des 19. Jahrhunderts als auch im heutigen China eine tragende Rolle bei der Formierung eines spezifischen Kapitalismus spielte. In beiden Systemen führte seine Einbettung in Familie und Gesellschaft aber zu Ausformungen verschiedener Wirtschaftskulturen. In Deutschland verstand sich der Unternehmer als Teil einer Schicht – dem Wirtschaftsbürgertum – und agierte weitgehend in einer von der Familie separaten Sphäre. Obwohl auch in Europa besonders in der Frühphase der Industrialisierung Netzwerke eine nicht geringe Rolle spielten, entwickelte sich die Wirtschaft zugunsten einer rationalisierten, bürokratisierten Massenproduktion in hierarchisch strukturierten Konzernen. Persönliche Verbindungen ebenso wie die Familie traten zugunsten stetiger Bürokratisierung und Rationalisierung in den Hintergrund des Wirtschaftslebens. Erfolg und Profitabilität hingen nicht mehr in ers-

²² Krug and Mehta, 2004, p. 60f.

²³ Weber, 2007 [1904], S. 51+57.

²⁴ Lesger, 1997, S. 266.

ter Linie mit dem Charakter und den Beziehungen des Unternehmers zusammen, wie dies z.B. Sombart in seinen Werken darstellte. Im Zuge der Weiterentwicklung des kapitalistischen Systems trat der Unternehmer und mit ihm auch die Bedeutung seines Beziehungsgeflechtes hinter den Einfluss von Rationalität und Bürokratisierung zurück.

Dies änderte sich erst unter den Bedingungen der globalisierten Wirtschaft des späten 20. Jahrhunderts, da hier neben den multinationalen Großunternehmen kleine Zulieferbetriebe als ‚global player‘ in Erscheinung traten. In diesen oftmals als Familienbetriebe organisierten, zu Clustern zusammengefassten Kleinunternehmen dominiert die Figur des Unternehmers, der durch seine Einbettung in dichte Netzwerkbeziehungen extrem flexibel zu agieren in der Lage ist und auch die nötige (Risiko-)Bereitschaft hierfür mitbringt. Bei bestimmten Produktgruppen des Privatsektors, wie Textilien oder Spielzeuge, die arbeitsintensiv hergestellt werden und keine komplizierten Produktionsprozesse benötigen, agieren diese Unternehmen äußerst erfolgreich.²⁵

Trotz Ausnutzung von persönlichen Beziehungen, gerade auch zu lokalen Behörden, bilden aber chinesische Unternehmer keine eigene Klasse oder Bourgeoisie heraus. Gesellschaftlich stammen Chinas Unternehmer aus völlig verschiedenen Schichten und würden sich, wenn überhaupt, eher einer Arbeiterklasse zugehörig fühlen. Obwohl chinesische Unternehmer ähnlich zum europäischen Bürgertum durchaus einem gemeinsamen kulturellen Kodex folgen, in ihrem Fall den Gesetzmäßigkeiten des Guanxi, fühlen sie sich einander nicht prinzipiell als Unternehmer – oder Bürger – verbunden, da Guanxi kein unternehmerspezifisches Instrument darstellt, sondern von ihnen nur sehr erfolgreich im Geschäftsleben angewendet wird. Solange die Beziehungen zur Lokalregierung keinen negativen Einfluss auf ihre Geschäfte haben, sehen sie auch keine Notwendigkeit auf politische Reformen hinzuwirken, außer in sehr eng begrenztem, konkreten Rahmen.²⁶ Private Unternehmer wurden von der zentralen Regierung dennoch als wichtige (wirtschaftliche) Kraft identifiziert. Um der Entstehung von oppositionellen Kräften vorzubeugen, wurde u.a. die Partei für den Eintritt von privaten Unternehmern geöffnet.

Lokale Verwaltungsbeamte werden in bestehende Netzwerke integriert, um Zugang zu Krediten und Produktionsmitteln zu erlangen. Diese Verbindungen sind allerdings nicht durchweg positiv zu bewerten. Die Lokalregierungen unterstützen die Privatunternehmer nicht nur, sondern diskriminieren sie auch, indem sie z.B. Anteile an ihrem Unternehmen

²⁵ Fukuyama, 1995, S. 104ff.

²⁶ Wank, 1995, S. 63f., Tsai, 2005, S. 1150ff.

verlangen.²⁷ Ist ein Unternehmer nicht kooperativ, riskiert er, die Unterstützung der Behörden zu verlieren. Ein Mittel dem entgegenzuwirken war, Unternehmen als Kollektivunternehmen anzumelden, es aber als Privatunternehmen bzw. sog. ‚red hat enterprise‘ zu führen. Weiterhin werden Produktportfolios und -standorte diversifiziert, um eine größere Variation von Produktionsmöglichkeiten zu erhalten.²⁸ Man lässt zudem Firmen nicht über eine bestimmte Größe wachsen, sondern gründet lieber ein Subunternehmen in einem anderen Sektor, in einer anderen Provinz oder unter der Leitung eines anderen Familienmitglieds. Dies schafft eine Art Handelskonzern in Form eines organisatorisch diffusen, über Verwandtschaftsbeziehungen verknüpften Unternehmensclusters, der eine beachtliche Gesamtgröße erreichen kann, auch wenn die einzelnen beteiligten Firmen eher klein bleiben. Dies hilft, die Besitzstrukturen nach außen zu verschleiern und so der Diskriminierung und Verfolgung durch die Behörden zu entkommen.²⁹ Jede der kleinen Firmen hat dadurch die Möglichkeit an Skaleneffekten teilzuhaben und Zugriff auf ein größeres Netzwerk und damit Ressourcen zu erhalten. Statt westlichen Wachstumsstrategien zu folgen und sich eine Kernkompetenz anzueignen, vergrößern chinesische Unternehmer lieber ihre Netzwerke und investieren in ein breites Produktportfolio, statt alles auf eine Karte zu setzen. Dies hat auch den Vorteil, dass man flexibel auf Lieferengpässe oder einen Mangel an Produktionsmittel reagieren kann, ohne direkt Verluste zu generieren, sondern im Gegenteil neue Investitionsmöglichkeiten erkundet, was gerade in hochkompetitiven Märkten mit großen Nachfrageschwankungen extrem effizient ist. Auch die Entstehung von Nischenmärkten und Spezialisierung bevorteilt kleine Produktionseinheiten. Effizienz hat hier eine umfassendere Bedeutung, ist weniger rationalistisch, sondern erfasst auch nicht-ökonomische Faktoren.³⁰ Das Konzept der Kernkompetenz macht auch aus dem Grund keinen Sinn, da eine Firma nicht dafür bekannt ist, was sie produziert, sondern von wem sie geleitet wird.³¹ Es entspricht der Logik dieses Systems, dass Verträge weniger nützlich sind, da sie auf einem „discrete transaction paradigm“ basieren, das einen klar definierten Anfang durch die getroffene Vereinbarung hat und ein durch die erbrachte Leistung begründetes Ende. Wer die ausführenden Parteien der Transaktion sind, spielt dort im Grunde keine Rolle.³²

²⁷ Liu, 1992, S. 305f.

²⁸ Krug and Mehta, 2004, p. 55.

²⁹ Wank, 1999, S. 254, 267, Wank, 1996, S. 837.

³⁰ McNally, 2006, S. 41, Kiong and Kee, 1998, S. 93.

³¹ Krug and Mehta, 2004, S. 58f., Lever-Tracy, 2002, S. 519.

³² Lovett; Simmons and Kali, 1999, S. 236.

Im Westen ist das Wirtschaftssystem mit einem elaborierten Rechtssystem verbunden, das in der Lage ist, Verträge durchzusetzen, wohingegen man in China auf Ruf und Vertrauen setzt. Die Vertrauensbasis von Netzwerkbeziehungen trägt zur Beschleunigung und Vereinfachung des Geschäftsverkehrs bei und verhindert Betrug oder anderes opportunistisches Verhalten, da dies u.U. den Ausschluss aus dem Netzwerk zur Folge hätte.³³ Netzwerke erleichtern den Geschäftspartnern auch, Interessenskonflikte zu umgehen und funktionieren besser in kleinen Gruppen als in komplexen Unternehmensstrukturen: Dieser Pragmatismus und die Akzeptanz von Unsicherheit und Ambiguität stehen im Gegensatz zum westlichen Drang, alles im Detail zu regeln.

Auch das chinesische Rechtssystem ist von politischen Experimenten charakterisiert, Regulierungen und Steuergesetze änderten sich unentwegt, und dies auch noch regional verschieden. Waren die lokalen Versuche erfolgreich, wurden sie in vielen Fällen ex post durch die Zentralregierung kodifiziert und auf ganz China angewandt.³⁴ Die chinesische Gesetzgebung geht bei der Entwicklung von Gesetzen bzgl. der Privatwirtschaft sehr pragmatisch vor. Das Gesetz zum Privateigentum wurde beispielsweise anlehnd an lokale Experimente immer wieder angepasst und revidiert. Dies kann daher als ein besonders illustratives Beispiel für institutionellen Wandel verstanden werden, wie er im Theorieteil der Arbeit vorgestellt wurde. Andere Gesetze, wie z.B. zum Insiderhandel, wurden aus westlichen Ländern übernommen.

Obwohl China damit ein nahezu vollständiges Gesetzeswerk geschaffen hat, ist das Rechtssystem weiterhin unvollständig. Zwar wurden unabhängige Gerichte geschaffen, diese werden aber als manipulierbar und korrupt wahrgenommen und daher nur in seltenen Fällen, z.B. wenn es um überregionale oder internationale Rechtsstreitigkeiten geht bzw. das eigene Netzwerk nicht involviert ist, angerufen. Die Konzepte von universalem Recht und individueller Rechtsprechung sind dem eher partikularistischen chinesischen Denken fremd und werden als aus dem Westen importiert wahrgenommen. In der chinesischen Tradition wird der Umgang miteinander eher durch Beziehungen und über die ungeschriebenen Gesetze des Guanxi geregelt, eine solche Problemlösungsstrategie wird als effektiver empfunden.³⁵ Dies macht die Durchsetzung eines bürgerlichen Freiheitsbegriffs und eine Verrechtlichung menschlicher Beziehungen schwer vorstellbar, da menschliches Miteinander mehr gilt als kategorisches Gesetz. Die westliche, aus der Zeit der Aufklärung

³³ Lesger, 1997, S. 269ff., Smart, 1993, S. 398.

³⁴ Zhu, 2007, S. 1507f., Holbig, 2002, S. 41, McNally, 2006, S. 27ff.

³⁵ Peng, 2004, S. 1050: "A noble man would sacrifice self-interest to honor his obligations, whereas a commoner would forsake his obligation to serve his self-interest."

stammende Vorstellung von Idealen wie demokratische Prinzipien, Bürgerfreiheiten, Gleichheit und unabhängige Justiz, also eher universalistische Werte, hat in China keine entsprechende Tradition.³⁶ Netzwerke haben daher nicht nur eine Unterstützungs-, sondern auch eine Schutz- und Sanktionsfunktion, weil niemand das Gesicht und damit seinen Ruf verlieren will. Sie dienen so quasi der Schaffung von Vertragssicherheit. Dies wird nicht nur als effektiver wahrgenommen, die Anrufung von Gerichten wird auch als Versagen interpretiert, Probleme innerhalb des Netzwerkes zu lösen.³⁷

Im anschließenden Schlusskapitel werden die Ergebnisse der Arbeit zusammengefasst. Der Erfolg der chinesischen Wirtschaft basiert zu einem nicht geringen Grad auf der Rolle des Unternehmers und seinen Netzwerken. Diese familienbasierten Beziehungen helfen, den Anforderungen einer von plötzlichen Nachfrageänderungen geprägten Produktion für den Weltmarkt gerecht zu werden und dabei extrem erfolgreich zu sein. Es wird eine Form des Kapitalismus ermöglicht, die sich weitaus besser mit traditionellen Sozialformationen verbindet, als dies der Kapitalismus des 19. Jahrhunderts vermochte, ohne dass aber ein spezifisches Wirtschaftsbürgertum entstünde. Das chinesische Wirtschaftssystem scheint zu beweisen, dass der Kapitalismus nicht notwendigerweise traditionelle Sozialformationen überformen muss, um sie durch (im westlichen Sinne) rationalere zu ersetzen. Dies stellt die auf Weber zurückgehende Abgrenzung von traditionellem und rationalem Handeln in Frage. Es zeigt sich, dass auch diese Institutionen durchaus in der Lage sind, in einem modernen kapitalistischen System effizient zu funktionieren und stellen somit unter Beweis, dass ihr Wiederaufleben durchaus als rational zu bezeichnen ist. Statt den Unternehmer in althergebrachten Verhaltensweisen verharren zu lassen, dienen Netzwerke auch als Schutzschild, das den Unternehmer nicht von den Bedingungen einer globalen Wirtschaft abschirmt, sondern ihm im Gegenteil ermöglicht, diesen zu trotzen und mit dem Wissen um diesen Rückhalt extrem erfolgreich zu handeln. In China scheint ein moderner Kapitalismus basierend auf traditioneller Kultur hoher Persistenz zu entstehen und das Verhältnis von Wirtschaft und Kultur auf neue Weise zu definieren. Guanxi ermöglicht also eine andere Art des Kapitalismus, der sich auf weit bessere Weise mit traditionellen sozioökonomischen Institutionen zu verbinden bzw. diese aktiv wiederzubeleben und zu nutzen vermag.

³⁶ Pohl, 2002, S. 115f.

³⁷ Wank, 1999, S. 264ff.

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List of Abbreviations

ABC	Agricultural Bank of China
ACFIC	All-China Federation of Industry and Commerce
ACWF	All-China Women's Federation
ADB	Asian Development Bank
BOC	Bank of China
CASS	Chinese Academy of Social Sciences
CCB	Construction Bank
CCP	Chinese Communist Party
CME	Coordinated Market Economy
est.	estimated
EU	European Union
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GNI	Gross National Income
HDI	Human Development Index
HRS	Household-responsibility system
ICB	Industrial and Commercial Bureau
ICBC	Industrial and Commercial Bank of China
IMF	International Monetary Fund
LME	Liberal Market Economy
NBS	National Bureau of Statistics
NGO	Non-Governmental Organization
NIE	New Institutional Economics
NPC	National People's Congress
ODA	Official Development Assistance
P2P	Peer-to-Peer (sometimes also Person-to-Person)
PC	People's Congress
PCC	Political Consultative Conferences
PEA	Private Enterprise Association
PPP	Purchasing Price Parity
PRC	People's Republic of China
RMB	Renminbi

SELA	Self-employed Laborers' Association
SEZ	Special Economic Zone
SME	Small- and medium enterprise
SOE	State-owned enterprise
TVE	Town- and Village enterprise
UN	United Nations
UNDP	United Nations Development Programme
VoC	Varieties of Capitalism Approach
WTO	World Trade Organization
WWII	Second World War

1. Introduction

1.1. Aim and framework

*“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”.*¹

China’s development has been very impressive over the last decades. However, it has been a process that occurred unevenly in different regions and sectors in terms of progress, but also in terms of the importance of the private sector and hence, Guanxi. As regions and sectors that are more influenced by the state sector operate differently than those that are more privately organized, it can be argued that this points towards the existence of different varieties of Capitalism within China. It is possible that there is one variety that dominates but it is also possible that there is just a “patchwork of local political economies”.² On the other hand, it can be argued that for that reason it is impossible to describe a homogenous Chinese system from a macro perspective. A more promising way might be to take on a micro perspective and describe economic development on the village level. Hence, numerous empirical case studies exist, but although their results delivered many new insights, they are limited to the local level and are difficult to aggregate. This stands in stark contrast to studies conducted before reforms, when the political atmosphere only allowed for “outside and high-level view of the country”.³ “Yet none of the standard models of economic and political theory can explain China. [...] China still does not have well-specified property rights, town-village enterprises hardly resembled the standard firm of economics, and it remains to this day a communist dictatorship”.⁴

Presenting a holistic picture of the development path of post-reform China can only focus on a few specific characteristics to discover some underlying fundamentals of the process, to escape the risk of appearing overly simplistic. It has to be emphasized that although this dissertation does not claim to present an exhaustive picture of the Chinese economic system, it still provides a synthesis of a large body of knowledge on the private sector and the role of networks. However, although this analysis is limited to certain societal and cultural aspects, it still aims at giving some insights towards the workings of a Chinese

¹ Deleuze and Guattari, 1994 [1983], p. 3, found in Yang, 1994, p. 173.

² McNally, 2007a, p. 196.

³ Redding and Witt, 2007, p. 230-232.

⁴ North, 2005a

Capitalism that seems to use Guanxi as one main factor for its success. This work strives to get one step closer by stepping back, so that we might see the forest rather than just the trees

Hence, this dissertation strives to discover possible underlying fundamentals that characterize the Chinese economic system and its development. This work assumes that “while producer goods sectors, transportation and finance are in the state’s hands, the vibrancy and outward orientation of the economy is being driven by ‘network capitalism’”; thus the driving force of development is the private sector and a mode of operation that includes Guanxi.⁵ This work therefore focuses on the private sector, and the relevance of Guanxi within it. It is assumed, however, that Guanxi is employed in the entire Chinese economic system, even if it is most significant for private enterprises. Since the private sector itself is not homogenous, it works differently in different regions and/or sectors. It is however important to note that the Chinese economic system is not bifurcated into a state-controlled economy and a private economy, each obeying their own sets of rules, but rather that there is a continuum of varieties that together result in a specific Chinese type of Capitalism. However, as it is the driving force for the development process, this work focuses only on the private sector.⁶ To illustrate regional differences, a case study of Wenzhou will be provided as example how Guanxi can influence regional business patterns. It will also demonstrate that some basic essentials exist.⁷

However, this dissertation is not only interested in the differences, but even more so in common factors – within China, but also compared to other regions that also implemented successful industrial districts. In general, the global economic system has seen the increasing importance of so-called flexible production, and hence small firms, often organized in clusters or networks. In addition, this work is particularly concerned with the differing importance of networks, as well as with the role the state plays for each economic system.

The theoretical definition of Capitalism within this work is mainly based on Weber and Sombart, their ideal-typical notion of Capitalism and the role of the entrepreneur therein. This ideal-type framework will be contrasted with the reality of China, particularly the role of the private sector, entrepreneurs and their networks with a particular emphasis of how their co-operation (and interaction with the state) works.

⁵ McNally, 2007a, p. 193.

⁶ Goodman, 2007, p. 176f.

⁷ Studies that explore regional differences from an economics point of view can for example be found in Goodman, 1997 and Krug, 2004.

The emergence of Capitalism is said to always lead to extreme changes in the structure of a society. Modern Capitalism developed during the 18th century in Europe, in the wake of the industrial revolution, with severe consequences for the traditional societies. It gradually eliminated many of the existing socio-cultural structures, which had been specifically developed for a feudal economy and were only able to function in the framework of this social environment. New institutions had to evolve before capitalistic production based on factory work could be prosperous. Authors like Max Weber assumed that it is the nature - or spirit - of modern Capitalism to impose a unique institutional structure on the existing traditional society. Gradually, but compared to the pace of economic change of the centuries before, still very rapidly, it replaced obsolescent traditional socio-cultural institutions to create a system of large-scale enterprises under rational, bureaucratic management, affecting family structures in particular. As a result, in the course of the evolution of Capitalism the old institutions gradually vanished and human beings became “fictitious commodities” traded on (labor) markets, thus obliterating the old ‘*oikos*’, rendering the family as economic unit obsolete.⁸ The traditional rural self-sufficient household had integrated business and personal life, but in the capitalistic economy the rationality of companies and business contrasted the “sentimentality of the family”.⁹ Capitalism in the Weberian sense with a separation of business and house was created and the family as production unit more and more disappeared from working life and retreated to the privacy of the home.

Industrialization fuelled its own development and propelled European societies from feudalism to Capitalism. Within this process, a market economy emerged where, instead of economic life being embedded in society, social institutions served as mere accessories to the economic system. Industrialization introduced a new institutional mechanism to a hitherto feudal society based on autarkic households, replacing these structures with capitalistic production dependent on wage labor. The economy became an autonomous system that was dominated by a rational spirit based on efficiency, profitability and similar institutional structures. In this environment, the family lost its influence, not only over its members, but also over how one’s living was earned. Even more than that, Capitalism not only forms a uniform institutional framework, overriding traditional structures; it also separates private and business; not only in a spatial sense, but also creating a separate form of behavior with its own set of rules and morality for doing business. This phenomenon is considered to be independent of individual institutional frameworks. Local economies are re-

⁸ Polanyi, 1944, p. 68ff.

⁹ Brunner, 1956, p. 42.

garded as being standardized according to 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”.¹⁰ By contrast, this work argues 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.

Since China opened up to the global market in 1978 it has formed an economic system that in the literature is often called Guanxi or network Capitalism. It presents a specific type of Capitalism, and is embedded in the cultural environment of post-1978 China. Its appearance coincided with an increasingly flexible global production, both probably mutually influencing each other.¹¹ It is described as being constituted of a different set of institutions than Western-type Capitalism, especially relying on personal connections to facilitate business, comprising a way of doing business ‘Chinese style’. During the 1980s the explanation for the existence of Chinese Capitalism was ascribed to Confucian values as the main element; later this was dismissed and replaced by the notion of a network - Guanxi - Capitalism.

Following Weber’s conception, a unique type of Capitalism would imply an explicit institutional framework that evens out the differences between countries and different forms of Capitalism. Weber believed that, over time, the destruction of traditional structures will always lead to large-scale enterprises under rational, bureaucratic management. The subsequent requirements of mass production cannot be fulfilled by small family businesses. The institutionalized instrumental rationality does not leave space for outdated socio-cultural structures like family businesses. It is thus 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. 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 connections for business success will come to an end. This line of argument also perceives Guanxi as less efficient and more time- and money-consuming than Western contractual institutions. Western Capitalism is conceived as inevitably leading to a system with large-scale

¹⁰ Yang, 2000, p. 481.

¹¹ Dirlik, 1997, p.304.

enterprises under efficient rational management, independent of specific individuals and their personal connections.

In contrast, this dissertation argues that it is possible to achieve economic success with a variety of Capitalism that is based on a different set of institutions derived from a specific history and culture. In particular, Chinese Guanxi-Capitalism strongly depends on personal connections between individuals. It will be shown that it is the persona of the entrepreneur with her network of connections that will help her company survive. Guanxi is not only a powerful instrument in overcoming the challenges of an economy in transformation; it also proves to be extremely adaptable and powerful in situations of crises, as networks are often more durable than actual enterprises.

This work will also analyze the link between a capitalist economy and a democratic political system. In theory, entrepreneurs with increasing wealth will seek political influence. In practice, Chinese entrepreneurs are more interested in connections with the local government than with the central government, since they are not interested in system change, so long as it does not interfere with business activities. China's so-called 'new rich' do not form a class, let alone a bourgeoisie.

During the emergence of Capitalism, entrepreneurs and their networks played a significant role in transforming traditional societies to modern, rational economies. This has been true for the emergence of a capitalist system in Europe in the 19th century as well as for the China of today. In both countries, the entrepreneur was embedded in socio-economic institutions, particularly in family and networks; but this did not lead to the same form of economic culture. In Europe, the economy was converted into a structure with a separated economic and private sphere and the relative irrelevance of personal relations for business transactions. It brought about the gradual transformation and growth of (family) firms into mass-producing multinational corporations as 'best practice' for economic success.

According to Max Weber and Werner Sombart, but also mainstream economic theory, bureaucratic, hierarchically organized large-scale enterprises are the only rational, hence cost-minimizing and efficient, way of building an ideal-type modern Capitalism. These large corporations were not connected through personal relations but through contracts, made possible by the emergence of the state as a regulatory authority that ensured contract security through impartial courts and commercial law. The emphasis on formal business relations led also to a specific form of collaboration consisting mainly of strategic networks or organization in formal associations with set rules, often with government participation and support. A negative aspect of the co-operation between large-scale corporations

is their tendency towards trusts and syndicates. This problem was faced by anti-trust and competition legislation. The tie to the state also manifested itself in lobbying as a legal possibility for influencing political decisions in favor of certain economic transactions. Hence, from a Western perspective, the spheres of politics and economics are clearly separated.

Yet against 'accepted wisdom', the economic conditions of the second half of the 20th century produced a new type of rational and efficient economic system that once again based its comparative advantage on the entrepreneur and his networks, and sometimes even on the family. Industrial districts in some areas in Europe, most famously in Italy, became extremely successful in relying on small family businesses that formed clusters connected by personal networks. This is even more true for China: after 1978 it was mainly the private sector that transformed the economic system into a market economy, hence Capitalism. The newly established, privately-owned family businesses resorted to traditional institutions that once more became competitive in a changed global environment with rapidly changing demand. The reality of an increasingly flexible global economy favors not only mass production, but even more so subcontracting and small-business production, which is most effectively done in cities that created clusters for production and particular products. Small private firms are able to respond promptly to rapidly changing market conditions, representing a comparative advantage compared to large-scale multinational corporations. Networks not only serve as a shelter to protect private property, but also as a monitoring and sanctioning power which secures (informal) contracts, additionally providing information on supplies or business opportunities.

In the Chinese economic environment, with its unique culture and history, networks among private firms and the state form a specific type of economic system, a Chinese Capitalism that bases its success in no small part on an institutional setting that differs significantly from its European counterpart. It led to an economic style that emphasizes personal relations and the role of the entrepreneur, implementing existing social formations without overriding them, and melding Western business practices with Chinese traditions. Guanxi (i.e. personal relations), trust, social capital and a certain political framing of entrepreneurial action constitute a specific form of 'traditional' network capitalism in which the actions of private and state actors overlap. Networks play a more prominent role for the Chinese economic system than elsewhere. Here personal relations are not separated into a private and a business sphere, nor replaced by other, in Western thinking more rational, means of doing business. Personal relations display comparative efficiency, chosen as the

most capable instrument for the private sector in China, making the system as successful as we can observe today. They are also fundamentally different in their structure, less formal and less strategic than their European counterparts. The structure of the Chinese family proved to be very persistent over time and able to accommodate diverse economic and political environments while maintaining its core identity.

This dissertation sets out to explore these differences, particularly the relations of state authorities and the private sector, emphasizing the importance of the entrepreneur and the specific meaning, significance and essence of Chinese networks (Guanxi) together with the difference of Chinese networks to their European counterparts, thereby dissecting a new form of Capitalism that extrapolates traditional institutions for its economic success and survival, instead of supplanting and overwriting traditional socio-economic structures. This challenges Weber's distinction between rational and traditional behavior, and redefines the boundaries of economy, politics, society and culture in a new way. The socio-economic structures behind a variety of capitalism that relies heavily on traditional (and insofar outdated) institutions, especially networks, will be analyzed. Instead of constructing "Capitalism as a monolithic, all-encompassing, penetrating, seamless, and integrated total system with a predetermined and knowable teleology", this dissertation rather assumes that a Chinese variety of Capitalism exists that requires a modified set of institutions. It thus consists of its own characteristic institutions, complemented by more 'typical' capitalist institutions.¹²

The aim of Guanxi Capitalism is not only to obtain merely material but, equally important, also symbolic capital.¹³ Contrary to Western capitalistic thinking, there is a gain in giving away. The more generous businessmen prove to be, the more symbolic capital - social status and face - they gain. This type of Capitalism is thus not as purposive-rational as Western Capitalism; it combines it with a different set of socio-economic rules. Guanxi represents a different framework for a capitalist system. In contrast to the 19th century ideal-type of Capitalism which superimposed itself upon 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.¹⁴

¹² Yang, 2000, p. 483.

¹³ Yang, 2002, p. 475.

¹⁴ Screpanti, 2001, p. 266f.

1.3. Methodology and structure

This dissertation is separated into two parts. The first presents the theoretical foundation of my reasoning, whereas the second analyzes the Chinese economic transformation since 1978 and the type of Capitalism developing.

Therefore in chapter 2, following a definition of the meaning of ‘institution’ within this work, the methodology of American Institutionalism will be presented. In building holistic pattern models that describe an economic system in a narrative way, this is conceived as a fruitful approach for a complex, multifaceted economic order such as China. American Institutionalism supports the view that different sets of institutions can lead to different forms of Capitalism, depending on the history and cultural environment. It is a tool to provide critical insight into the dynamics of social change and to explain human behavior within its institutional and cultural context. Hence the aim of institutionalism is not to be especially rigorous, or to be applicable on a general level, forming law-like statements; but instead being capable of understanding and explanation, rather than prediction, a specific situation. It will be briefly contrasted with the theoretical foundation of New Institutional Economics, which, since it is mainly based on neoclassical economics, is deemed less useful than American Institutionalism. The “comparative advantages of institutionalism are the breadth of factors and forces it is willing to consider, including institutional and historical details; its evolutionary paradigm; and its emphasis on adjustment processes in a non-judgmental manner, in contrast to the neoclassical fixation on determinate optimal equilibrium solutions”.¹⁵ However, since this work seeks to analyze an economic system that is still in flux, it is also necessary to discuss institutional change, more specifically the theory of Kathleen Thelen and James Mahoney. Even though their theory originates in New Institutional Economics, it is still close to the methodology of American Institutionalism, which, however, did not formulate their arguments with such analytical clarity. However, the theoretical foundation of both new and old institutionalism, especially the concept of path-dependence, will be critically reviewed.

Following the theoretical elaboration on institutions and institutionalism, in chapter 3 this dissertation approaches the concept of networks and network theory. However, these theories are designed from a Western point of view with Western-type networks in mind. These kinds of networks are mostly rather one-dimensional in nature and thus differ from the Guanxi networks of China. However, to have a solid foundation upon which both concepts can be compared, it is necessary to analyze these theories in depth. Among much

¹⁵ Samuels, 1995, p. 580.

dissimilarity also some common ground will be found. Therefore the chapter starts with a more general definition of the concepts of social capital and networks, after which it becomes more specific by describing the concepts of regional and corporate networks. This discussion will be enhanced by an excursus on embeddedness and trust, both also presenting the Western view of those concepts.

In the following section the issue of network organization will be raised, and thus the theoretical foundation of flexible specialization together with several concepts of regional networks: neo-regionalism for a more general approach, innovative milieus, clusters and industrial districts, the last going back to Alfred Marshall. The chapter ends with a brief evaluation and comparison of the concepts. They will be taken up again in chapter 6, when concrete types of networks are compared.

Chapter 4 discusses the concept of Capitalism. Starting with a brief overview over the history and complexity of the phenomenon, a variety of definitions will be presented that seek to capture the core of Capitalism, before focusing on the works of Weber and Sombart. In presenting the definition of these two selected authors this work does not strive to present an unambiguous, ultimate definition of Capitalism. Instead, it presents a view that 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.

After that, in relation to Weber's emphasis on the importance of Protestantism, a discussion on the significance of Confucianism for Capitalism follows. For that, the principles of Confucianism will be summarized first, after which Max Weber's assessment of the meaning of Confucianism for Capitalism will be presented. This will be contrasted with a more recent evaluation of the relationship between Confucianism and Chinese Capitalism that includes a gender perspective. The significance of Confucian values for Chinese Capitalism will also be discussed. This work will only briefly touch on the subject of the 'spirit of Capitalism'-line of research of the 1980s that defined Chinese Capitalism as a unique purposive-rational action, and implying that 'modernity' was seen as an ahistorical identity and a yardstick against which a society could be measured. This approach was superseded during the 1990s and replaced by a network-based view of the Chinese capitalist system.

This perspective on Capitalism is complemented by a critical discussion of several approaches to the comparative analysis of Capitalism. In recent years a vast amount of literature and much discussion has been spurred by the Variety of Capitalism-approach. Its theo-

ries and models are based on New Institutional Economics, underscoring the effect of distinct institutional arrangements for economic performance, thereby painting a static picture of Capitalism, relying "on rather ad hoc-descriptions of actual institutions and institutional forms", looking for equilibrium outcomes.¹⁶ The Varieties of Capitalism literature is concentrating on the firm as a unit of inquiry, thereby largely ignoring socio-cultural institutions. It is also primarily focused on Western Europe, North America and Japan - thus post-industrial, already developed economies. First and foremost, a critical discussion of the Varieties of Capitalism-approach will be provided. It will also elaborate Bruno Amable's five types of Capitalism.

This approach will be compared to Eucken's theory of economic orders and the economic style concept. The latter is complementary to the holistic pattern model- approach of American Institutionalism as presented in this work. Economic styles differentiate the broader concept of economic systems into various types of real economies. A specific style is distinguished by characteristic behavioral patterns, organically evolved living conditions and activities as well as institutions, and is thus a qualitative instrument and explicitly not a quantitative one.¹⁷ It is a concept that is both highly subjective and relativistic: it creates a painting, rather than a photograph, of an economic era.

The fifth chapter is the beginning of the second part of the dissertation and is directed to the actual process of transformation and economic development in China. However, it first provides general definitions of development and transformation, the latter especially focusing on the gradual approach versus 'shock therapy'. Before demonstrating that the Chinese transformation and development process does not fit into these categories, Western development during the industrial revolution will be analyzed. This of course is only a very rough outline and focuses on Great Britain and Germany as illustrative examples. It will be contrasted to a short outline of the main features of the reform process since 1978, including related data concerning Chinese economic development.

After analyzing these historical events and facts the process of transformation will be evaluated. It is widely conceived as development defying all rules, and as a very pragmatic approach. It has been - and still is - a process of decentralized social learning in which local governments experiment with different solutions. The central government is merely the facilitator of this process, adopting the best experiments ex post and applying them to the

¹⁶ Jackson and Deeg, 2006, p. 22ff.

¹⁷ Meyer-Abich and Schefold, 1981, p. 114.

entire country. Even without clearly defined property rights, the Chinese private sector thrived, pragmatic entrepreneurs accepting a relatively high level of uncertainty.

Complementing this theoretical analysis, closer attention will be given to the role of the family as the main driving force of economic development within the private sector. From a Western perspective, the family, and hence family firms, are conceived as an outdated mode of production for Capitalism, merely belonging to the private sphere. Consequently, the Western industrialization process was accompanied by the change and adaptation of family structures up to the point where traditional institutions were replaced to better fit the conditions of a capitalist economy heavily based on factory work. This is exemplified by the description of the transformation of traditional peasant households towards urban worker models, accompanied by a change in gender conception, division of labor and in lifestyle. This demonstrates the manner in which Capitalism is characterized by constant conflict and struggle, creating an ‘iron cage’, as Weber and also Sombart argued. The subject of the link between social structure and economic development will be taken up again in chapter 8, when the implications of the industrial revolution for bourgeois families are analyzed.

This is contrasted with the role that the Chinese family assumed during the transformation process. Interestingly, the theoretical evaluation of the relation between Chinese family structures and the development of Capitalism changed enormously over time. From Weber to modernization theory the family has been conceived as an institution that is opposed to capitalistic development. Weber argued that Protestantism was able to shatter the ‘fetters of the sib’ in contrast to the Chinese family whose values are based on Confucianism, and thus are not able to establish rational, bureaucratic companies and compete with the West.¹⁸ This evaluation of the family prevailed up until the 1960s within modernization theory, which argued that a personalistic culture is the cause of China's failure to develop capitalistic structures.

Since then, the assessment of the Chinese family has changed dramatically. Chinese familism is now conceived as “motor of development”, since their Guanxi relations were the starting point for many family businesses.¹⁹ The collective era seems to have created a desire for more autonomy, which then resulted in substantial entrepreneurial activities, especially in rural areas. Entrepreneurial instincts were preserved and could flourish within the institutions provided by economic reforms. The Chinese family combined tradition

¹⁸ Weber, 1968, p. 237.

¹⁹ Wong, 1988, p. 146.

with the features of a capitalist society, and provided complementing institutions that helped private firms thrive.

This brings us to the subject of Guanxi, covered in the next chapter. Chapter 6 therefore starts with a definition of Guanxi and an extensive analysis of the concept from a cultural, sociological and economic perspective. It is broadly divided into a rural, more traditional, and an urban, more modern, version of Guanxi that is especially important for business practices. Guanxi is thereby presented as an evolving institution that adapts over time. Since Guanxi is also often compared to corruption, one section of the chapter has been dedicated to this subject. It can also be analyzed from a gender perspective, which is done in the next part of the chapter. Not only does Guanxi disadvantage women, it is also instrumentalized to incorporate gender stereotypes for successful business negotiations. The last segment of the chapter is concerned with the specificity of Guanxi networks, but also with exploring commonalities with similar networks found in Germany, Italy and Russia. Specifically, the concepts of Russian *blat* and Guanxi are compared.

The next chapter picks up the issue of the private sector and hence, private entrepreneurs. It argues that Chinese entrepreneurs have a specific, very pragmatic mindset, including Guanxi networks in their business practices. More than that, it will be shown that the boundaries between the private and the business sphere are not as clear-cut as is usual in the West. As will be again emphasized in chapter 8, except for all belonging to the ‘new rich’, Chinese entrepreneurs do not form a bourgeois class and thus are not connected strategically through horizontal ties, nor are they organized within business organizations. Additionally, the Chinese entrepreneurial ethic is future-oriented and directed towards the family and close relations, since setting up an enterprise meant securing long-term benefits to the network. Social institutions were adapted and revived, also bridging the gap left by the breakdown of social order caused after the Cultural Revolution. It is argued that personal connections based on family structures prevail, and that small-scale production has a comparative advantage in the globalized economy of today. These key-factors determine the further development and success of the Chinese economy and the type of Capitalism arising. Small Chinese firms connected through Guanxi networks are able to respond to rapidly changing demand and motivate maximum efforts for modest pay.

After the analysis of Chinese private entrepreneurs the differing types of enterprises in the private sector are described; and to present a more complete picture the collective sector is also briefly described. This illuminates the huge variety of ownership structures and the difficulties of defining private (or rather non-state) and collective enterprises. This is

again emphasized in the next section that gives an overview of the size and other data on the private sector.

The private sector is not a homogenous formation but varies across sectors and regions; this will be shown in the case of Wenzhou. This was one of the first provinces to heavily privatize and also one of the regions most severely hit by the economic crisis of 2008. Statistical data will be complemented with more anecdotal evidence from newspapers, to give more in-depth insight into the economic development in Wenzhou in particular, and China in general, showing how Guanxi is used as an instrument to enhance economic success. It will be shown that in China it is not the corporation that survives, but rather Guanxi, and thus the Chinese variety of Capitalism proves to be more sustainable than is believed by the conventional view.

One issue that has been raised in the section on Wenzhou is the relationship between private entrepreneurs and the state. This subject is further scrutinized in chapter 8. For comparison, the self-conception and discourse on the image of German bourgeois entrepreneurs will be briefly analyzed, as well as their relation to the state. In contrast to Western development, where the middle class was the driving force for democratization and the formation of a civil society, a similar trend cannot be detected in China. Chinese entrepreneurs seem not to be on their way to forming a bourgeois class, and they do not seek political participation. Hence, they only negotiate with local – not central - governments for beneficial business conditions. Guanxi include also local officials and, depending on the local scheme of development – which itself is strongly based on cadre behavior – the private sector is either promoted or discriminated against. The strategies of Guanxi that protect against predatory government action are described in detail.

However, as powerful economic actors, private entrepreneurs are also wooed by the central government. To this end entrepreneurs have been invited to join the CCP, among other measures a move aimed at preventing the formation of a power outside state control. Chinese private entrepreneurs consider being part of the political system, and thus enhancing their social status, as contributory to the success, growth and reputation of their companies, facilitating access to bank loans and obtaining vital information. However, their interest ends when the benefits for business are satisfied.

In turn, the pragmatic attitude toward the transformation process is also apparent in the development of laws concerning the private sector. Issues such as private property rights were designed following local experiments, for example in Wenzhou, and the state turning a blind eye towards virtually illegal activities and gradually adjusting the existing laws

(and, if necessary, also ideologies). It is therefore presented as an example of institutional change by layering and converting. Other laws were adopted from the USA or Europe, such as laws regulating insider trading, or labor law. Although the central government enacted comprehensive, complete laws, the legal system is still far from complete, not only because of the lack of an independent jurisdiction. On the one hand, this is caused by the distrust of Chinese people against top-down formal institutions and their preference for informal solutions such as Guanxi; on the other hand, this is caused by the lack of the cultural and social adjustment of these laws to a Chinese socio-economic environment that also needs to incorporate unwritten rules. Networks are capable of supporting and sanctioning their members by the threat of shame and loss of reputation. Guanxi is thus considered more effective than formal law. Additionally, the Western ideals of democratic principles, civil liberty, equality and independent justice, all universal values coming from the Age of Enlightenment, have no corresponding tradition in China. As contracts are conceived as a means of dealing with people who are not trusted, laws are only necessary when a relationship is not based on mutual trust. However, it might be misleading to regard Guanxi as an exact opposite of a formal legal system since it is rather part of the legal system, completing and complementing Chinese legal culture. China manages to combine the new laws with old traditions and in accepting local differentiations; it constructed a legal system that in no small part relies on Guanxi to be effective.

The final chapter presents conclusions, arguing that it is possible to achieve economic success with a variety of Capitalism based on a different set of institutions. There is not one 'best practice' for a country to follow regarding the dynamics and regulations of a capitalistic economy, but this depends on the specifics of the institutional background. There are diverse ways to develop efficiently. Guanxi is an essential part of the Chinese type of Capitalism. Guanxi Capitalism revived authoritarian traditional institutions and made China a competitive force in the global market. Instead of regarding small family businesses as an outdated mode of production, Chinese economic success relies on the flexibility and personal networks of privately-owned firms. Thus it is argued that the rationality of Guanxi Capitalism is based on the unique framework of China's culture and history. It has been shown that personal relations were always of importance throughout the Chinese history and are deeply ingrained in Chinese culture. So even though from a Western thinking this might be deemed inefficient, from a Chinese point of view Guanxi not only includes economic considerations, but also factors like reputation and long-term benefits for the family.

2. Institutions and Institutionalism

*“Another hidden source of error in historical writing is the ignoring of the transformations that occur in the condition of epochs and peoples with the passage of time and the changes of periods. Such changes occur in such an unnoticeable way and take so long to make themselves felt, that they are very difficult to discern and are observed only by a small number of men”.*²⁰

2.1. Institutionalism as a framework for an analysis of Capitalism²¹

Economics as a scientific discipline can be characterized methodologically as composed by the opposition of two differing schools of thought; the so-called orthodox approach and the heterodox approach. Orthodox theory is primarily represented by neoclassical economics, which stands for standard or mainstream economics that particularly is made up of neoclassical economics including its newer augmentations.²² The heterodox approach is distinguished by a pluralist attitude towards economics, with (Old or American) Institutionalism²³ as one of its strands. The methodology of American Institutionalism will be described below, but the axioms of neoclassical economics will be assumed to be known. In general, this dissertation adheres to the assessment of neoclassical economics made by Blaug and Hodgson,²⁴ who argue that in orthodox theory, formalism overshadows

²⁰ Issawi, 1950 [1377], p. 29f.

²¹ This analysis concentrates on the American version of Institutionalism. The insights of the German Historical School will be briefly covered in chapter 4. However, American Institutionalism shares with the German school a rejection of Ricardian economics and of laissez-faire policies derived from it. Veblen, for example, largely disagreed with German historical economists. He did not think the German School to be a modern science as in his view its members failed to develop a more general theory of the process of economic change, although recognizing its significance. In contrast to Veblen, John R. Commons felt closer to the German historical school. He said that the "so-called historical school ... brought into the science the concepts of custom, property, and conflicts of interest.... The historical school led to the ethical and institutional schools....". Commons, 1934, p. 115, Mayhew, 1987, p. 908ff.

²² Gunnar Myrdal also calls it “ordinary economics”. Myrdal, 1978, p. 775. Within this dissertation, mainstream economics is defined as being primarily neoclassical economics together with its newer augmentations. The so-called neoclassical synthesis combines neoclassical methods and a Keynesian approach to macroeconomics. Mainstream economics is divided into micro- and macroeconomics, and typically includes rational choice theory, a representative agent and rational expectations. It employs induction as its methodology assuming axioms such as the rationality of individuals seeking to maximize their utility. The individual lives in a world of perfect and symmetric information, complete markets, perfect competition and non-existing transaction costs. Mathematical models are used that include calculus, optimization, and comparative statics. See, for example, Samuelson and Nordhaus, 2010 or Blaug, 2002: “[A]ny unemployment we see is still voluntary unemployment because the labor market, like all other markets, is always said to be in equilibrium. Money is ‘neutral’ or, alternatively expressed, there is always a long-run vertical Phillips curve, and business cycles would never occur were it not for the fact that there are unpredictable shocks of one kind or another that, for a while, surprise us until we adjust to them”, p. 43. However, relatively recent developments such as evolutionary, neo-Schumpeterian or behavioral economics make any distinction between orthodox and heterodox theory far less unambiguous.

²³ The origin of the term ‘institutional economics’ is commonly associated with Walton Hamilton who coined it in a paper presented at the Meetings of the American Economics Association in 1919. Lawson, 2005, p. 8, fn 1.

²⁴ Hodgson, 2007 and Blaug, 2002.

substance and that technical specialization prevents the researcher from developing a broader methodological inquiry.²⁵ Institutionalists object to the use of formalism in their models, for them mathematical techniques “are recognized as the servants of, rather than the essence of, economic theory“.²⁶

However, New Institutional Economics (NIE) can be considered to be an elaboration of mainstream economics. It can thus be regarded to distinct from the older American Institutionalism emphasized in this work. NIE is usually associated with the research of Ronald Coase and Oliver Williamson, the latter having given it the name New Institutional Economics. Other Nobel laureates such as Douglass North and most recently, Elinor Ostrom, are associated with this approach. It originated with two articles by Ronald Coase *The Nature of the Firm* of 1937 and *The Problem of Social Cost* of 1960, the latter being the source of what later came to be called the Coase Theorem.²⁷ Its basic insights consist of the recognition of the importance of property rights, transaction costs, asymmetric information, moral hazard, adverse selection and principal-agent relations. This school of thought will be discussed briefly in chapter 3 and 4 in connection with the Varieties of Capitalism approach (VoC).²⁸

²⁵ Wilber, 1978, p. 62-64. Formalism in this view is defined as a “method that consists of a formal system of logical relationships abstracted from any empirical content it might have in the real world... It is characterized by the use of mathematics (at least implicitly) and by the development of an axiomatic, deductive structure”. It starts with the construction of a model that specifies assumptions and definitions including relations within the model. After creating the basic structure of the model its dynamics are deduced. In the case of microeconomic equilibrium models these dynamics lead to a steady state. This kind of model is thus also able to produce law-like statements and describes not real economic actors but ideal, rational actors whose behavior is not deduced from actual observations but from logic. Hence, the law-like statements derived from these models are nearly impossible to falsify empirically as the ceteris paribus conditions are changing. However, of course also mainstream economics evolved and for example introduced more sophisticated methods such as econometrics in order to empirically test the now even more mathematically complicated models, turning economics into a positivist science that emphasizes empirical verification. Mainstream economists are said to “prepare econometric studies, ‘massage’ the data on the basis of other information, vary the auxiliary hypotheses to paribus the ceteris, develop ad hoc explanations, and thus make up a story about what happened”. Wilber, 1978, p. 70. Unquestionably, neoclassical models are very tidy and neat – “Occam’s Razor” cutting them down to their “bare logical bone”, so nothing of the institutionalists’ “messy details” is left. Dugger, 1979, p. 902. Trying to escape this type of economic methods, Veblen and others developed institutional economics as an alternative approach. Stinchcombe notes that for the old institutionalist theory “reason and good sense are values, and formality a means to reason and good sense”. Stinchcombe, 1997, p. 8.

²⁶ Hodgson, 1998, p. 173.

²⁷ The Coase Theorem describes the economic efficiency of an economic allocation in the presence of externalities. The theorem states that so long as bargaining is costless and contracts can be costlessly enforced - if there are therefore no transaction costs - markets will generate an efficient outcome regardless of the initial allocation of property rights. Economic theory analyzes different property right regimes, comparing their efficiency in internalizing externalities and different institutional designs. See also Varian, 2010. It is of interest to note that George Akerlof’s article *Market for ‘Lemons’* was rejected three times and took four years to be published while Coase’s *Theory of the Firm* was ignored by the profession for more than two decades. Blaug, 2002, p. 45.

²⁸ This work will not rehearse the principles of NIE. For a detailed analysis please refer to Edeling, 1999 and Richter; Furubotn and Streissler, 2010. Paul A. David notes that new institutional economists assume “that

There are in fact several tendencies in new institutionalism: rational-choice institutionalism, which is basically the NIE described above; historical institutionalism and sociological institutionalism. They all treat institutions as means for continuity rather than for change. If change is analyzed, then principally as brought about by exogenous shocks rather than by endogenous transformation; and such change is mostly conceived as a move towards one best practice.²⁹ As will be elaborated in more detail below, institutions are regarded from this point of view as constraints on human behavior. Historical institutionalism emphasizes the development of political institutions, which are treated as path-dependent regularized practices. It recognizes cultural elements and the coordinating functions of institutions, but concentrates on their “political legacies of concrete historical struggles”, hence emphasizing their functioning as distributional instruments. In this view, continuity is created by increasing returns to power.³⁰ Sociological institutionalism analyzes social agents that act within political institutions. It focuses on “non-codified, informal conventions and collective scripts that regulate human behavior”.³¹ The boundaries between sociological and historical institutionalism are not clear cut.³² Scholars like Wolfgang Streeck or Kathleen Thelen went beyond this dichotomy and developed their own theories of institutional change, drawing on both political and sociological institutions in a historical perspective. Their approach, among others, will be analyzed in more depth below.

(American) Institutionalists have certainly written about their methodology at length, but are mostly concerned with what institutional economics is not, or what it should be, rather than what it actually is. Their position is often established merely through criticism of the methodology of mainstream economics. This dissertation will give an overview of a possible common basis for institutional methodological techniques, together with their general principles as this work understands them. Thus, the underlying fundamentals of American Institutionalism without focusing on specific authors are examined. The cohe-

the present shape of things can best be explained by considering their function and particularly their function in some future state of the world...the so-called "new institutional economics" proposed to explain many current features of organizations and economic institutions in a thoroughly neoclassical fashion, by citing the respects in which these represented presently efficient solutions to resource allocation problems". David, 1994, p. 206. Chang points out that the proposed relationship between well-defined private property rights and their positive impact on economic development often is overly simplistic because the theory ignores certain forms of ownership structures (he names the Chinese Town and Village Enterprises (TVEs) as one example, see also chapter 7). Chang, 2010, p. 7-9.

²⁹ Amable and Palombarini, 2009, p. 124.

³⁰ Mahoney and Thelen, 2010, p. 8-10. The concept of path dependence will be briefly discussed in chapter 2.4.

³¹ Mahoney and Thelen, 2010, p. 6.

³² Schmidt, 2010, p. 2.

rence within this school of thought seems relatively undeveloped, Geoffrey Hodgson among others admitting that “institutionalism may attract those economists of lesser general ability, as well as the first-rate and original minds who are willing to pay the high costs of professional isolation from the mainstream”.³³ In addition, institutional publications today “are notoriously varied in overall quality and often lacking in theoretical precision”.³⁴ What unifies institutional economics seems not to be a theoretical core but rather a shared ideological viewpoint, and thus “the support for heterodoxy comes from those who eschew orthodox policy conclusions rather than the core assumptions of the neoclassical theory”.³⁵ In this context, institutionalists are often accused of being atheoretical. David Hamilton notes that “to many students of economics the suggestion that institutional or evolutionary economics might make some contributions to theory may seem a bit presumptuous, if not preposterous....In the popular myths concerning the institutionalists, the latter are composed of individuals who once long ago objected to the rationalism of the classicists, especially that of David Ricardo....They were...verbal virtuosos who wished to add a descriptive element to economics. They were ‘literary economists’”.³⁶ It is often forgotten that economists such as Veblen or Commons made important contributions to economic thinking, although it has to be admitted that institutionalism has not yet succeeded in building a complex model. However, Veblen was the first to develop a theory of economic and institutional change along “Darwinian lines”.³⁷ Hamilton points to Veblen’s consumer theory, as exposed in his book *The Theory of the Leisure Class*, as an alternative to standard consumer theory and one of the first theoretical contributions made by Institutionalism.³⁸ Veblen always argued for systematic theory, but never succeeded in developing such a theory himself.

Unquestionably the institutional method has the severe limitation that it often lacks precision, and also has to be continuously updated with new data from surveys or case studies. If it is not supported by empirical data it easily turns into “uncontrolled speculation”.³⁹ Unfortunately, many articles elaborate the writer’s own preferences rather than present actual analysis backed up by solid research. Part of the problem lies in the great difficulty of verifying hypotheses, rendering the holistic principle of institutionalism difficult to reconcile with the demands of analysis (see below). It is also important to remember that so-

³³ Hodgson, 1994, p. 59.

³⁴ Hodgson, 1994, p. 59.

³⁵ Hodgson, 1994, p. 60, Wilber, 1978, p. 72.

³⁶ Hamilton, 1973, p. 197.

³⁷ Hodgson, 1998, p. 166f.

³⁸ Hamilton, 1973, p. 201f., Veblen, 1964 [1899].

³⁹ Wilber, 1978, p. 83.

called pattern models employed by institutionalists are always “tentative and subject to change” (see also below).⁴⁰ Since the construction of a pattern model is a lengthy business many economists end up making compromises, because of pressures of time or other obstacles. Institutionalism is consequently often too vague, diffuse and uncontrolled.

However, institutionalists look for patterns and therefore are open to a range of possible solutions. By contrast, mainstream economics is able to produce more rigorous, precise models and to make relatively precise and realistic predictions. But even so, “[w]ithin institutional economics, indeed, there is no one theory, no one definition, no one concept, no one model, no one paradigm, no one sense of what constitutes the discipline that can answer every question we have all the time. Most importantly, there is no one answer, conclusive for all purposes and for all time, to any question”.⁴¹

A definite advantage of American Institutionalism is its practical relevance, even though it is not defined in terms of policy proposals. It is also highly interdisciplinary, and therefore able to treat the economy as an evolving system that is embedded in an institutional environment of cultural, social and political relationships which shape individuals.⁴² By contrast, mainstream economic science “has tended to become isolated from the other social sciences, and this isolation has hardened in the postwar period. In our journals and at our universities economists have worked in a purified model world, and even their empirical studies have borne the mark of self-sufficiency and sometimes sectarian arrogance”.⁴³

Institutionalists can be said to have the more honest approach to economics, but face a more or less irresolvable problem. In contrast to the general laws presented by mainstream, especially neoclassical, economics, they can only concentrate on very specific cases, treating specific institutions in specific environments during specific periods of time. Their findings thus cannot be generalized, but if one is more interested in understanding how the real world works, this approach provides more insight than mainstream economics. Furthermore, institutional economics seeks to overcome disciplinary boundaries between social sciences. It strives to establish a dialogue between disciplines like sociology, politics and even biology, since each of these subjects can make valuable contributions to the understanding of economic phenomena and the nature, evolution and economic effects of institutions. However, it can be argued that institutionalism is more a part of sociology than

⁴⁰ Wilber, 1978, p. 84.

⁴¹ Samuels, 2000, p. 310.

⁴² Lawson, 2005, p. 8, Hodgson, 2000, p. 318.

⁴³ Myrdal, 1978, p. 783. Even when collaborating with other sciences like psychology in areas such as behavioral or experimental economics, it does so in a very formalistic and limited manner that, for example, treats an individual as a rationally-bounded homo economicus.

of economics; and indeed economic sociology assumes an institutional perspective which is, however, based on NIE.⁴⁴ Thus, if a science is defined by the type of method or analysis it applies, and if this were the assumption of individual utility maximization, then it is undeniable that institutional economics cannot be called economics. If however a science is defined as the study of a real object, which in case of economics would obviously be the economy, then there is no doubt that institutionalism is economics, since it analyzes aspects of the economic system. “The strength of institutional economics lies in the explanatory power of its ideas, not the force of its numbers”.⁴⁵ However, this is not to deny that mainstream economics, and neoclassicism in particular, is sometimes great use in describing certain economic processes; but it is less useful than institutional economics in picturing the complexity of the transformation of an economic system. The “comparative advantages of institutionalism are the breadth of factors and forces it is willing to consider, including institutional and historical details; its evolutionary paradigm; and its emphasis on adjustment processes in a nonjudgmental manner, in contrast to the neoclassical fixation on determinate optimal equilibrium solutions”.⁴⁶

Despite the methodological difficulties this dissertation treats institutional economics as a more valuable theoretical background for my analysis of Capitalism and the Chinese economic system than mainstream economics. However, the chapter on Capitalism (chapter 4) will also cover the so-called Varieties of Capitalism (VoC) approach, based on neoclassical economics. In the following the methodological advantages of institutionalism will be dealt with in detail. Together with the theoretical frameworks outlined in chapter 3 and 4 it will become clearer why it has been chosen as the instrument to analyze the Chinese economic system, and the form of Capitalism there developing.

2.2. Institutions: a definition

Definitions of institutions are manifold.⁴⁷ There is no single agreed characterization of the term, although a definition as building-blocks of social order would be widely accepted. As such they are socially sanctioned, collectively enforced expectations of a certain behavior of actors. This behavior can be categorized as appropriate and inappropriate, or

⁴⁴ Besides economic sociology, the American Institutional School can also be considered as the origin of evolutionary economics, and ultimately also as part of the Neo-Schumpeterian School. However useful the insights of those schools may be, their theoretical insights will not be covered in depth within this thesis. They will only be briefly touched in chapter 4 (particularly in fn 588).

⁴⁵ Miller, 2003, p. 51.

⁴⁶ Samuels, 1995, p. 580.

⁴⁷ Summary for example in Djelic, 2010, p. 25ff.

even ‘right’ or ‘wrong’, resulting in reliable, stable patterns of behavior. To put it differently, institutions are legitimate rules for behavior. Institutions can also be corporate actors or organizations, to the extent that their existence is publicly guaranteed and backed by societal norms and enforcement capacities. An institution is then seen as the equivalent of a social regime.⁴⁸ In Douglass C. North terms “[i]nstitutions provide the framework within which human beings interact. They establish the cooperative and competitive relationships which constitute a society and more specifically an economic order”.⁴⁹ Hence, they can also be interpreted as “rules of the game of society” or “humanly devised constraints imposed on human interaction”.⁵⁰ An institutional formation defines the incentive structure of society as well as the interactions of human beings in reducing ubiquitous uncertainty, such that the intentions of individuals linked to the institutional rules are realized.⁵¹ Institutions are incentive systems, but imperfect ones. The resultant institutional matrix is a combination of formal rules, informal constraints and their enforcement characteristics. Formal rules include constitutions, laws and regulations whereas informal constraints would be norms of behavior, conventions or codes of conduct. Informal rules are regarded as more important than formal ones. Over time, institutional constraints accumulate and the culture of a society is nothing else than the “cumulative structure of rules, norms and beliefs that we inherit from the past, that shape our present and that influence our future”. Culture tells us ‘how to play the game’ and incentives vary with the institutional environment. A change of institutional structures can occur by an alteration of one of the three elements from which institutions are constituted: formal rules, informal norms or their enforcement mechanisms.

North here emphasizes the significance of path dependence, which constantly constrains the gradual changes of institutions and thus the choices of society (see also below).⁵² Political and economic actors (or ‘entrepreneurs’ in North’s terms) with the power of changing policies have a certain belief structure that strongly influences the resultant institutional structure of society and its performance. It limits the freedom of choice of actors who aim to alter existing institutions, or create new ones. Therefore it proves difficult to change existing political and economic environments. North argues that path dependence necessarily leads to incremental, but at the same time continuous, change. Consequently, North is

⁴⁸ Streeck and Thelen, 2005a, p. 9f.

⁴⁹ North, 1981, p. 201.

⁵⁰ North, 1990, p. 3. This is also the most common definition of institutions in neo-institutional economics in general.

⁵¹ North, 1999, p. 9f.

⁵² North, 1999, p. 14f., North, 2005b, p. 129, 131, 137.

also critical of the concept of ‘social engineering’, which implies that the same set of institutions can in principle be realized anywhere *de novo* (please refer also to chapter 5.1.). He also maintains that this is especially true for economic orders, in the sense that the same economic order cannot be implemented in all places. Institutions form a specific incentive structure and construct specific organizations. Within this distinctive matrix political actors decide on the economic rules of the game. The actual rate of change may “depend on the degree of competition among organizations and their entrepreneurs”. Actors within an organization react like players in a game who obey its rules, therefore its institutional constraints.⁵³

North argues in accordance with NIE, hence with the aid of neoclassical economics.⁵⁴ In this context institutions are also considered as “not only endogenous equilibrium strategies, but more specifically as political-economy equilibriums, i.e. as the outcome of strategic interactions among agents in a specific power structure”.⁵⁵

Another recent development within institutionalist political economy employs the concept of institutions as “Weberian *Herrschaftsverbände*” that connect rule makers and rule takers who interact within a society defined as a surrounding environment of “third parties”. This approach thus defines institutions as regimes.⁵⁶ The distinction of rule makers governing the behavior of rules takers is often merely analytical since in reality both may be identical, especially in democratic orders. Rule makers create and enforce “a normative order that is sanctioned by the society at large”.⁵⁷ Weber’s concept differentiates between on the one hand rule makers and rule takers; and on the other between institutions defined as social structures linked to actors whom they at once constrain and enable, in combination with norms of behavior and actors’ obedience to them. Ideally, institutions constrain the behavior of actors through their rules. This can only occur if actors internalize and obey these rules “voluntarily out of self-interest”. However, actors in the role of rule takers may object to certain rules or strategically counteract specific institutions. This system of governors and governed produces a unique institutional formation, requiring creative understanding of the meaning and relevance of its rules in specific situations.⁵⁸

It is a perspective that is also particularly useful for analyzing institutional change (see 2.4.) Even when rules are perfectly and completely followed, the need to adapt existing

⁵³ North, 1999, p. 11, North, 2005b, p. 138f.

⁵⁴ Especially in North, 1981.

⁵⁵ Amable, 2003, p. 35.

⁵⁶ Streeck, 2010a, p. 5.

⁵⁷ Streeck, 2010a, p. 5.

⁵⁸ Streeck, 2010a, p. 5.

institutions innovatively to fit specific situations and changing environments arises over time, which means that institutions are necessarily continuously reinvented. Institutions and their rules are constantly interpreted and bent by rule takers in ways that were ex ante impossible to foresee for the rule makers. Thus, certain rules create outcomes that may have not been intended by the rule makers and over time these need to be adjusted either to meet the new circumstances, or to be revised to fit to the original purpose. “Thus, not only rule-breaking, but also rule-following tends to set in motion interactive processes between rule makers and rule takers which make the institution and its meaning evolve over time...[T]he reproduction of any social order can only be an imperfect one;...all social-institutional orders are always in flux; and...slow and gradual change is an ever-present condition in institutional structures”.⁵⁹ This again also means that a social order can never be perfectly reproduced elsewhere. In the case of capitalist orders, actors “are socially constructed as constitutively devious by the institutions designed to govern them. The typical rule taker that capitalist institutions must reckon with as the normal case is a rule bender: She reads rules entrepreneurially, untiringly looking for ways of twisting them in her favor”.⁶⁰ Analytically, it can be differentiated between the rule itself and its implementation. The friction between these two, and hence between the ideal and the real pattern of a rule, gives actors the possibility of gradually and endogenously changing existing institutions via direct feedback between rule takers and rule makers.⁶¹

Streeck divides institutions into so-called Durkheimian⁶² institutions of classical sociology and the Williamsonian⁶³ institutions of modern institutional economics. He regards the transformation towards more liberal forms of Capitalism in advanced industrial countries as one from Durkheimian to Williamsonian institutions, hence a “transition from organized to disorganized, from nonliberal to liberalized capitalism”. He defines Durkheimian institutions as authoritative organizations that ensure a public order of obligation, enforced by third parties (the society as a whole), and hence imposed exogenously.⁶⁴ Institutions in Durkheim’s sense are normative social structures which regulate and limit the behavior and pursuit of the material interests of actors based on legitimate authority and arising from collective action. While this kind of institution may also contain markets, they do not ori-

⁵⁹ Streeck, 2010a, p. 5, incl. fn 3. Similar in Streeck and Thelen, 2005a, p. 13f.

⁶⁰ Streeck, 2010a, p. 10. See also below and chapter 5 and 8 as examples for that.

⁶¹ Streeck and Thelen, 2005a, p. 13f.

⁶² Referring to Émile Durkheim, a French sociologist, 1858-1917. Information taken from Archives Biographiques Françaises (ABF), accessed online 5 December 2010.

⁶³ Referring to Oliver E. Williamson, one of the major advocates of institutional economics and a Nobel laureate.

⁶⁴ Streeck, 2010a, p. 17f.

ginate in markets. Durkheim defined economic institutions in relation to the production of wealth from serfdom through tenant farming to corporate organization and factory production, in relation to exchange in markets or stock markets, and in relation to the distribution of rent, interest and salaries which together form the content of economic sociology.⁶⁵ Institutions are social facts that exist “apart from and beyond the choosing of those subject to it” as such “constraining external reality that they are not in principle free to adopt, reject, or change”. Consequently, Arthur Stinchcombe conceives this definition as being in contrast with the Old Institutionalism in which people built and ran institutions. In what he calls “the new Durkheimian Institutionalism” collective representations operate on their own.⁶⁶ It is in the public interest that actors abide by institutionalized obligations, that sanctions are imposed, and that order is established by a third party, hence providing government.⁶⁷ Durkheim was interested in the non-contractual elements of private contracts, which he considered to be the indispensable obligatory fundamentals of liberal voluntarism.⁶⁸ Markets are constituted by contracts, and these usually consist of agreements about future performance. This means that the non-contractual components of contracts are essential, since expectations of the other party’s future behavior depend on predictions about both parties’ future morality.⁶⁹ Durkheim also conceived symbolic systems, such as those of belief, knowledge and moral authority, to be social institutions.⁷⁰ He therefore considered society to be a precondition for the conclusion of competitive contracts, not as their product.⁷¹

In contrast, Williamsonian institutions are based on voluntary private contracts between partners, not on public constitutional processes. These rational contracts are designed to make transactions optimally efficient, and are thus economic in nature. They are devices that develop out of private market relations and hence create “nonmarket though market-responsive and indeed market-driven coordination of economic behavior”. They consist of “private hierarchies of Coasian firms” such as trade associations, subcontracting networks and cartels and aim to lower transaction costs below market exchange costs, offering governance through self-enforcement.⁷²

⁶⁵ Durkheim, 1978 [1909], p. 80, Smelser and Swedberg, 2005, p. 10f.

⁶⁶ Stinchcombe, 1997, p. 2.

⁶⁷ Streeck, 2009a, p. 154ff. Similar in Streeck, 2010a, p. 17f. and Streeck, 2009b, p. 25f.

⁶⁸ Durkheim, 1949 [1893], book 1, chapter 7, Streeck, 2009a, p. 156.

⁶⁹ Stinchcombe, 1997, p. 10.

⁷⁰ Scott, 2008, p. 13.

⁷¹ Streeck, 2010a, p. 17f.

⁷² Streeck, 2009a, p. 154ff., Streeck, 2010a, p. 17f.

Durkheimian and Williamsonian institutions are in dialectical conflict since they are respectively obligatory and voluntaristic, or historically inherited and freely contracted; they represent two types of social order, one public and one private.⁷³

Yet another approach to institutions comes from ‘old’ American Institutionalism for which institutions also play a vital role in the everyday life of human beings. Institutions are here defined not only as formal organizations, but also as “socially habituated behavior” similar to North’s definition of informal constraints.⁷⁴ A ‘society’ within this line of thought can be defined as a set of institutional systems which themselves can be thought of as sets of institutions. An institution in this sense can be characterized as “a set of socially prescribed patterns of correlated behavior”.⁷⁵ Thus, an institution is what Commons calls “collective action” in control, liberation and expansion of individual action.⁷⁶ It is a way of thought with a permanent character, embedded in the habits of a group. Institutions guide, but at the same time constrain, individual behavior. Decisions are always made in the context of a specific institutional environment. In other words, institutions are always linked to specific cultural values. Therefore it is important to study institutions as an explanation of economic development. American Institutionalism “focus(es) on the institutions of economic and social life and promote(s) modes of analysis that center on the structured relations and transactions between individuals”.⁷⁷ The main task of institutionalism is its contribution to a better understanding of the role of institutions for economic decisions, and through this to understand economic environments.

Additionally, 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”.⁷⁸ Individuals are at the same time part and product of those going concerns. They are situated in a specific cultural environment without given but constantly changing and adapting preference functions. That does not mean that the individual is not considered to be important, but she has to act within an institutional context, which in turn is part of a

⁷³ Streeck, 2009b, p. 25. For a comparison of North and Durkheim institutions please refer to Dallinger, 2007.

⁷⁴ Hodgson, 1994, p. 64.

⁷⁵ Bush, 1987, p. 1076.

⁷⁶ Commons, 1931, p. 649.

⁷⁷ Hodgson, 2005, p. ii.

⁷⁸ Dugger, 1979, p. 901. In Dugger’s terms “[a] going concern refers to a corporation, a labor union, regulatory agency, stock exchange, and so forth”, Dugger, 1977, p. 452f. Commons defines ‘going concerns’ “as developed by the courts” and as “an adequate and relevant unit of investigation in economics. We were searching for a unit that would be more appropriate than the mechanistic, atomistic, or organic analogies from the physical sciences”. Commons, 1950, p. 118.

specific cultural environment. Another important point is that individuals do not merely create institutions but are also affected by them, since both are in a relationship of mutual feedback.⁷⁹ Hence for an American Institutionalist the individual cannot be the starting point of theoretical reflection, because an institution guides individual behavior, forming the habits of individuals, and is also changed by succeeding generations of individuals.

For Thorstein Veblen, one of the major founders and protagonists of American Institutionalism, an institution is a set of norms and ideals which is imperfectly reproduced or internalized through habituation.⁸⁰ Veblen defines institutions as “cultural products” and “element of the cultural fabric”.⁸¹ Also “[t]hey are principles of action which underlie the current, business-like scheme of economic life, and as such, as practical grounds of conduct, they are not to be called in question without questioning the existing law and order...[M]en order their lives by these principles and, practically, entertain no question of their stability and finality. That is what is meant by calling them institutions; they are settled habits of thought common to the generality of men”.⁸² Individuals cannot choose freely, but are confronted with certain constraints imposed upon them by their institutional environment, limiting their available alternatives. Institutions are also supposed to be stable over a period of time, and therefore contribute to the stabilization of individual behavior.

However, the ‘idle curiosity’ of the individual still creates diversity and variation.⁸³ Veblen connects this to the concept of culture. Culture is for him based on an institutional structure that develops and grows and is the product of habituation. The development of culture for Veblen is equal to a cumulation of, and accustomization to, habits that vary according to different environments. This is a continuous process that is never complete, because each change creates new situations requiring the adaptation of behavior and habits; an argument which recalls the more modern theoretical analyses of institutional change described in 2.4. However, Veblen argues for path-dependent development as the past influences future variations, although of course he does not use this expression. He also argues that there are some underlying fundamentals of human nature which, despite constant gradual change, never alter.⁸⁴ “The wants and desires, the end and aim, the ways and

⁷⁹ Hodgson, 2000, p. 318, 325.

⁸⁰ Veblen, 1964 [1899], p. 84 and 92.

⁸¹ Veblen, 1909, p. 621, 624.

⁸² Veblen, 1909, p. 626.

⁸³ The term ‘idle curiosity’ is often associated with Veblen’s book *The theory of the leisure class*, but actually it appears in Veblen, 1906. For Veblen, ‘idle curiosity’ is the way that scientific progress takes place. Diggins, 1999, p. xxv, Veblen, 1964 [1899].

⁸⁴ Veblen, 1909, p. 628.

means, the amplitude and drift of the individual's conduct are functions of an institutional variable that is of a highly complex and wholly unstable character".⁸⁵ Economic institutions as specific type of institutions are the result of certain conventions and methods facilitating economic growth that develop over time.⁸⁶

A degree of invariance is important if institutions are to be treated as units of analysis, but they of course cannot be immutable. Institutions display relative stability, but periods of continuity are disrupted by periods of crisis and rapid change. NIE treats such institutional change as mostly caused by external shocks. Change can also be caused by conflicts between institutions and routines. Due to the 'idle curiosity' of men, technological change can come about. Technological change is treated as evolving and as a major force for economic development –contrasting with mainstream economics which takes technology as given. Individuals have a tendency toward experimentation and innovations, both of which constantly generate novelty. Changing habits cause frictions between old institutions, routines and the new customs, which in the end causes institutions to change to accommodate new conditions.⁸⁷

2.3. American Institutionalism

2.3.1. The methodology of American Institutionalism

As has already been indicated above, the major differences between institutionalism and mainstream economics turns on model-building, the unit of analysis and psychological perspective. As far as model building is concerned, institutionalism looks for pattern, holistic models, whereas mainstream economics takes a positivistic approach and therefore seeks to build predictive models. The two approaches differ also in their unit of analysis. Mainstream economics assumes the maximizing individual consumer, whereas institutionalists look to institutions as the basis of their theories.

The third point of difference is the psychological perspective of the two approaches, namely behaviorism versus individualism. Institutionalists adhere to behaviorism because it is rooted in institutional structures for the explanation of human behavior. Institutional structures in this case are defined as norms, working rules or habits. There are no preconceptions or assumptions, and so individual preferences are seen to rely on the cultural and institutional environment of the individual. Individual preferences are considered to be

⁸⁵ Veblen, 1909, p. 629

⁸⁶ Veblen, 1898, p. 392.

⁸⁷ Wilber, 1978, p. 72, 78. Together with other approaches to institutional change, this Veblenian dichotomy between dynamic technology and static institutions will be discussed in chapter 2.4.

unreliable and of a highly subjective nature, and hence the milieu influencing the individual is thought to be the better starting point for analysis.⁸⁸ Behaviorism relies on the observation of actual behavior within a specific institutional context. Analysis of human action has therefore always to start with scrutiny of this milieu. Individuals are not discounted, but are considered to be important since they are not only guided by their institutional environment, but they also continuously change the institutions surrounding them. This also places emphasis on different reactions under different conditions, dependent on time, space and history. Individuals are thus more than just the “missing middle term in stimulus-response psychology”, and the explanation does not stop at a static description of observed behavior.⁸⁹

But apart from these common points in explaining economic phenomena, there is hardly any shared body of theory found within institutional economics. Instead, it is more a way of investigation than a “corpus of knowledge” which ties it together.⁹⁰ Institutional economics is however in general based on evolutionary and holistic principles. It rejects formalism, rationalism and the positive/normative distinction used in mainstream economics because institutionalists regard these methods as failure to elucidate the nature of social reality. Reality is changed by economic processes which include power and conflict as central causalities. Conflict is caused by the technological change of social institutions (see also 2.4.). Humans act non-rationally and exhibit an appetite for power, adventure and independence, guided by altruism, custom, habit together with what, as mentioned before, Veblen calls “idle curiosity”, which contributes to technological change. These ‘variables’ cannot be handled within formal models, but call for a different approach. For Veblen, institutionalists “take as an (unavowed) postulate the fact of consecutive change. Their inquiry always centers upon some manner of process”, and so Veblen’s approach to economics is a narrative one.⁹¹ He and many of his successors focus on institutional change and the impact of institutions on the economy; he considers conceptualism rather than formalism which to be the best approach. Institutionalism provides a “spectrum of acceptable alternatives from which individuals can choose”.⁹²

(American) Institutionalism argues that “what survives organizationally may not be most efficient or effective, but it survives anyway because it has come to be instilled with

⁸⁸ Bush, 1987, p 1077f., Dugger, 1979, p. 903.

⁸⁹ Dugger, 1979, p. 904.

⁹⁰ Wilber, 1978, p. 73, similar in Samuels, 1995.

⁹¹ Veblen, 1908 as cited in: Dugger, 1977, p. 453.

⁹² Dugger, 1979, p. 905.

value in that specific institutional context”.⁹³ This challenges the view that institutions are designed and adopted for reasons of efficiency; instead "institutions are the expression of a political compromise".⁹⁴

2.3.2. The analytical tools of American Institutionalism

2.3.2.1. *Evolutionism and holism*

A leading principle of American Institutionalism is to treat economic processes as evolutionary. Thorstein Veblen was a main protagonist of this approach. He regards actors as part of an evolutionary process and as such not as fixed or given but institutionally and socially shaped.⁹⁵ Also, he considers changes in the relation between individuals and institutions as essential for social reality. Social change is not purely mechanical, but a product of human action which is formed and guided by the society and the institutions within. Institutionalism for Veblen is therefore founded upon an evolutionary conception of economics in making a distinction between the pre-Darwinian, Newtonian mechanistic character of economics and a post-Darwinian one based on causation. Veblen uses evolutionary concepts from biology to describe economic phenomena. He also introduced the idea of “cumulative causation”, rejecting the assumption of a static equilibrium and focusing on continuous economic change as a causal process. He defines it as follows: “The economic life history of the individual is a cumulative process of adaptation of means to ends that cumulatively change as the process goes on, both the agent and his environment being at any point the outcome of the past process”.⁹⁶ Veblen aimed to rebuild “economics by use of evolutionary concepts and metaphors taken from biology”.⁹⁷ He defines evolutionary science as an analysis of (non-teleological) processes of cultural growth and the cumulative change of economic institutions. It is thus a theory of an economic life process.⁹⁸ For him, economics should be a science of constant change, having no final term and without a self-balancing mechanism.

For Veblen, orthodox economics considers an individual as having “neither antecedent nor consequent. He is an isolated definitive human datum, in stable equilibrium except for the buffets of the impinging forces that displace him in one direction or another...When

⁹³ Kiong and Kee, 1998, p. 87.

⁹⁴ Amable, 2003, p. 9.

⁹⁵ Hodgson, 2002, p. 95f.

⁹⁶ Veblen, 1898, p. 391, also p. 387 and similar in Veblen, 1964 [1919], p. 597.

⁹⁷ Hodgson, 2004, p. 59.

⁹⁸ Lawson, 2005, p. 15f., Veblen, 1898, p. 393f.

the force of the impact is spent, he comes to rest, a self-contained globule of desire as before”.⁹⁹

In evolutionism, individuals are treated as being embedded in their institutional surrounding; they therefore take their objectives from the institutions they find in their environment. But although these institutions are relatively stable, they are also subject to continuous changes, because they are displaced by new ones that better fulfill their purpose.¹⁰⁰ Institutions are seen as cumulatively self-reinforcing and are therefore regarded as analog to the gene, for both are subject to the forces of mutation and selection. Institutions experience positive feedback because, by virtue of their ability to self-reinforce they create locked-in situations (to use a modern term) which make them sufficiently stable units of selection in the evolutionary process. Institutional change happens not as a result of choice, but because of a development that leads to new patterns and ways of thinking replacing the old ones. It is therefore gradual and adaptive. “The capabilities and attitudes of an individual were congealed in his or her habits, acquired in activity and social interaction with others. Human behavior is largely a matter of institutional coercion and constraint”.¹⁰¹ Veblen is thus mainly concerned with the way in which human beings in certain societies and cultural surroundings develop and change over time.¹⁰² Hence, institutional economics can have the capacity to explain the phenomenon of institutional change (see also in 2.4.).¹⁰³

In contrast to the above analysis, many institutionalists also use an instrumentalist approach, claiming that processes are intentional more than unintentional, and that they play an important role for society. This approach was mainly developed by John Dewey, who treated theories as instruments or tools capable of modifying the social environment of human beings.¹⁰⁴ These tools are evaluated with respect to the consequences of their implementation; instruments are valued by their effectiveness in solving social problems. Instrumentalism removes the difference between science and metaphysics insofar as it defines a set of values as the goal to be reached, and as in science assesses theories by their ability to fulfill these goals.¹⁰⁵ Dewey’s instrumentalism can be defined in the following way: It “is an attempt to constitute a precise logical theory of concepts, of judgments and

⁹⁹ Veblen, 1898, p. 389.

¹⁰⁰ Lawson, 2005, p. 17.

¹⁰¹ Hodgson, 2002, p. 96.

¹⁰² Lawson, 2005, p. 16.

¹⁰³ Bush, 1987, p. 1075.

¹⁰⁴ John Dewey (1859-1952) was an American philosopher, psychologist, and educational reformer. He was, along with Charles Peirce, one of the founders of American pragmatism. Together with others like the economist Thorstein Veblen Dewey is one of the founders of The New School for Social Research in New York. Mirowski, 1987, p. 1014-1018.

¹⁰⁵ Bush, 1987, p. 1078-1080.

inferences in their various forms, by considering primarily how thought functions in the experimental determinations of future consequences ... it attempts to establish universally recognized distinctions and rules of logic by deriving them from the reconstructive or meditative function ascribed to reason".¹⁰⁶

J.R. Commons, one of the founders of American Institutionalism, calls this process an "artificial selection of the plant or animal breeder rather than that of natural selection".¹⁰⁷ Intended, and thus purposeful, changes of artificial selection help to control evolution according to society's ideas of fitness.¹⁰⁸ In his view, institutional change also helps to solve conflicts and guarantees the sustainability of the whole system over time.

Veblen was more influenced by Charles Peirce,¹⁰⁹ and in contrast to Dewey regards science not as a tool to control the dynamics of social change, but rather as something that provides critical insight into it. For him, an idea has to be analyzed for its meaning, not tested for its validity. He suggests that institutional change is an unintentional process.¹¹⁰

Another major element of American institutional economics is to focus on pattern of relations between part and whole, therefore striving for a holistic approach to models and theories. Holism as a concept originates from the book *Holism and Evolution* by Jan Christian Smuts of 1926, who derived it from the Greek word *holos* meaning 'whole'.¹¹¹ He applied it to categorize a new type of evolutionary or dynamic theory in the natural sciences, for example Darwin's theory of evolution of 1859. This kind of theory replaced the mechanistic scientific theories à la Newton, which are static and deterministic.

Holism implies that the physical world be seen as an evolving dynamic whole. This whole is supposed to be greater than the sum of its parts, and the relations among the parts condition their functioning. A holistic model "emphasizes the interconnectedness or unity of the system" and the "primacy of subject matter over method", in the sense that whatever method is being used, it should be an adequate description of what is analyzed.¹¹²

For holists, reality cannot be explained using universal law-like statements, and so institutionalists favored the introduction of the holist philosophical orientation to economics.

¹⁰⁶ Thayer, 1981, p. 169.

¹⁰⁷ Rutherford, 1998, p. 250.

¹⁰⁸ Commons, 1934, p. 45 and 120.

¹⁰⁹ Mayhew, 1987, p. 977. Charles Sanders Peirce (1839-1914) was an American logician, mathematician and philosopher. Today he is largely appreciated for his contributions to logic, mathematics, philosophy, semiotics and American pragmatism, for which he was largely unrecognized in his lifetime. Mirowski, 1987, p. 1007-1014. His definition of pragmatism reads as follows: "Consider what effects, that might conceivably have practical bearings, we conceive the object of our conception to have. Then, our conception of these effects is the whole of our conception of the object". Peirce; Hartshorne and Weiss, 1934, p. 1.

¹¹⁰ Dugger, 1990, p. 428.

¹¹¹ Smuts, 1926, Wilber, 1978, p. 73.

¹¹² Wilber, 1978, p.75 and 80f.

For institutionalists reality is a process of evolutionary change driven by the interaction between the parts of a system and its whole, meaning that one certain aspect cannot be isolated from its social surrounding. Social reality is seen as an organic unity, where the parts cannot be explained without referring to the larger whole to which it belongs.

To illustrate this Wilber and Harrison quote an example from Robert Heilbroner regarding the functioning of markets in an unnamed developing country.¹¹³ He demonstrates that two superficially similar parts of different systems –markets – can in fact vary quite markedly. To improve living conditions in a developing economy and to make its markets more efficient experts in economic development replaced the traditional peasant market, where prices are set by bargaining, with a fixed-price supermarket. This new type of market was not accepted by the population, because this supermarket could not satisfy consumer needs that included haggling as significant part of the social interaction provided by the institutional environment. This illustrates that supposedly similar elements, in this case markets, exhibit very different functions in different systems. However, this example does not only apply to developing countries. Phenomena of this kind have to be reproduced in a more complex model that places strong emphasis on habits.

Holism tries to capture these differences in its models. It stresses the importance of comparative institutional analysis including a broad variety of factors in its models. It confirms that prediction cannot be seen as the only form of verification for economic theories as is the case in mainstream economics, but rather looks for an adequate causal explanation. Thus, institutionalists carefully locate human behavior in a pattern that explains the processes of change in a whole system. For them, society is more than “just a group of independent actors”; rather they act within “sets of social conventions and norms” defining objectives and roles.¹¹⁴ This cannot be explained solely from an individualistic point of view. For holists, economics is seen as an evolving system, characterized by a general interdependence of “cumulative causation”.¹¹⁵ Holism is therefore about understanding and explaining, not predicting.

To construct holistic explanations, institutionalists use the participant-observer method. The subject matter is a particular social system of any scale, but which has to be a unique unified whole. The system can be a family, a society, a formal organization or even a whole historical epoch. First of all, the theorist has to socialize herself with the system so that she might become a participant and hence to be as close as possible to it. In this posi-

¹¹³ Wilber, 1978, p. 79f., quoting a lecture given by Robert Heilbroner in 1972.

¹¹⁴ Rutherford, 1998, p.250.

¹¹⁵ Veblen, 1898, p. 378.

tion the researcher can obtain a wide variety of information about interrelations of themes that matter to the system. These themes addressed can be an accepted practice, for example a ceremony, a cultural norm such as the importance of consumption, or a particular mode of production, like Capitalism.

As an observer, the researcher looks for themes that illuminate the whole system and demonstrate its unity. Universal statements are consequently unsuited for describing such a specific system. Instead the theorist has to construct hypotheses from the information she has obtained as participant. This is a somewhat arbitrary process, since it depends strongly on the themes the researcher encountered while undergoing socialization. The hypotheses are tested with as much data as possible, gained from previous case studies or other survey data. The evidence is cross-checked to evaluate the plausibility of the initial interpretations. The hypothesis is valid as long the evidence does not call its validity into question. During that process the interpretation becomes increasingly accurate, and a complex picture of the subject matter is built up.

The shortcoming of this process is that it can only produce varying degrees of plausibility; instead of being rigorous and delivering a precise prediction as a model in mainstream economics. The final stage of the process is actually building the model, taking the form of pattern models. "The institutionalist paradigm focuses upon...a holistic and evolutionary view of the structure-behavior-performance of the economy...in a system of general interdependence or cumulative causation". This definition could also serve as a summary of holism.¹¹⁶

2.3.2.2. *Pattern models*

Pattern models seek to explain human behavior within its institutional and cultural context. This type of model is sometimes also called "concatenated", in contrast to hierarchical, formal models.¹¹⁷ Abraham Kaplan defines a concatenated theory as one "whose component laws enter into a network of relations so as to constitute an identifiable configuration or pattern".¹¹⁸ A pattern model consists of components forming a particular pattern, which in this context means it shapes a social reality described in its natural setting. A specific pattern can also be conceived as a culture whose components tend towards some central point, namely an institution. Emphasis is placed on interrelationships within a system.

¹¹⁶ Wilber, 1978, p. 73.

¹¹⁷ Kaplan, 1964.

¹¹⁸ Kaplan, 1964, p. 298.

Systems develop a characteristic ‘wholeness’ or unity that includes a specific set of values and a particular socio-economic structure. The nature of the unity is quite varied; it can stem from diverse sources, such as religion or technology that often are also combined.¹¹⁹ “Individual behavior is explained when it is shown to fit into an institutional structure of behavioral norms, and institutional structure is explained when it is shown to fit into a cultural context”.¹²⁰

A theory is then formed from a set of patterns fitting together. The theorist takes the validated hypotheses derived from the holistic research process and links them to form a pattern. The institutional structure of the model is embedded in a specific cultural context with certain behavioral norms, showing a multiplicity of connections between the parts and the whole of the described system. Abraham Kaplan describes this type of model as a pyramid, with basic principles at the top of the hierarchic theory and deductions derived from them at the bottom. He claims that human behavior can be “explained when it is deduced from basic postulates and initial conditions” and refers to pattern models as a form of storytelling.¹²¹ Generally, prediction is not considered to be important for this method and therefore “the accuracy of predictions cannot be the main form of verification in the pattern model”.¹²² Nevertheless, the model can be tested empirically.

In order to do so, hypothesized institutional structures, serving as qualitative patterns, are compared with observations. In this process, the model is fine-tuned with respect to its coherence and the interconnections between parts and whole. For institutional economics it is of major importance that these institutional structures are as realistic as possible, and therefore institutionalists look for structural evidence to prove their theories, which includes norms of behavior and power relations. The individual has to fit into this structure, which in turn has to fit into a bigger cultural context.

Hence, institutional economics bases its models on case studies of specific historical conditions, each possessing a unique set of institutions. If we take a basic type of theory for illustrative purposes, for the creation of a consumption theory an institutionalist examines the cultural and social structure surrounding an individual to construct a pattern of consumer behavior. This theoretical analysis is followed by an empirical test that compares the interpretations of the researcher with data from other case studies and further data sources

¹¹⁹ Wilber, 1978, p. 79.

¹²⁰ Dugger, 1979, p. 900.

¹²¹ Kaplan, 1964, p. 298, also see p. 332-346, Wilber, 1978, p. 71.

¹²² Wilber, 1978, p. 78.

so that the structure of the model can be compared with the concrete real types in the world.¹²³

This kind of investigative technique was used by Veblen in his narrative description of institutional change, especially in his study *The Theory of the Leisure Class*, where he creates a theory of consumption using the procedure described before.¹²⁴ First, he constructed a basic pattern model, which was extended by some case studies that he conducted himself and in which he attempted to find structural evidence. He used this to understand economic problems, not predict certain outcomes.¹²⁵

A multitude of similar studies can be found in the *Journal of Economic Issues* as well as in the *Journal of Institutional Economics*, where also more recent examples of consumption theories are included using the same technique for developing theories based on case studies.¹²⁶ The abstract to one of those articles states: “This article presents several case studies of the dimensions of behavioral lock-in or lock-ins emanating from learning and habituation. [...] Once a product has become established as an industry standard and once consumers or users have invested time or money in learning a particular system or becoming comfortable with a traditional practice, they will be less likely to try a rival process, even if over time it proves superior...Institutional influence can habituate economic actors over time into particular behavior...”.¹²⁷ Even while using terminology that is more closely associated with NIE, and even employing the QWERTY example introduced below, the authors’ methodology is that of the old institutionalism.¹²⁸

However, for institutionalists it is important to scrutinize as many sources of evidence as possible to evaluate hypotheses and test the plausibility of the initial interpretation. For institutionalists, modeling is a continuous process which never ends, since institutional change requires new case studies and the need to constantly update and revise theories including their hypotheses according to the new data. This type of model is continuously augmented with new details, and is therefore never completed.¹²⁹

Institutional models are therefore constructed according to descriptive realism, which means they are very detailed. In the case of consumption theories this implies that individuals are based on real consumers. Hence, the aim of pattern models is not to form law-like statements, or to be especially rigorous with respect to general applicability, but instead to

¹²³ Wilber, 1978, p. 76-80.

¹²⁴ Veblen, 1964 [1899].

¹²⁵ Wilber, 1978, p. 72.

¹²⁶ For example Barnes, 2004 and Redmond, 2001.

¹²⁷ Barnes, 2004.

¹²⁸ See fn 148.

¹²⁹ Wilber, 1978, p. 75ff.

understand and explain, rather than to predict, a specific situation. As a result it does not determine the precise behavior of individuals, but defines a range of possible solutions. Due to its characteristics, a pattern model determines a “spectrum of acceptable alternatives from which individuals can choose”, which is of a qualitative, not quantitative, character.¹³⁰ A pattern model provides understanding, not predictions and has therefore much in common with anthropology, which uses cultural patterns as its unit of analysis.¹³¹

This can be demonstrated with a trivial example taken from Dugger: “Knowing the norms of dress established in a particular organization does not give [...] the power to predict *exactly* what Mr. Jones will wear on Monday. Nevertheless, an institutionalist would argue that although his coat might be either dark gray or pale brown, if Jones is an IBM executive, he will wear a suit and tie. Also, he will live in a particular kind of house [...], even though his exact address is problematic. Jones will drink scotch, not beer; he will marry a thin woman, not a fat one...”.¹³² This rather trifling example illustrates that institutionalism aims at making qualitative statements, not specific, quantitative ones.

Additionally, it is thus possible to detect Kuhn’s distinction between normal and revolutionary science¹³³ within institutional economics: the former in conducting case studies and constructing pattern out of them; the latter in the replacement of old patterns with new ones, better fitted to the ‘real’ world.¹³⁴

Although not creating a general model, the process of comparison can reveal a typology. A type is defined as an abstract description of situations or phenomena, indicating the characteristics of particular importance to a system. A type summarizes the analyzed cases, and in this respect gains reality in the sense that it describes the concrete reality of the system. It is therefore not the type itself which is real, but the cases. Typologies reduce overly complex features and deliver some level of abstraction. They guide the researcher towards relevant questions connected to the cases, but they are also dangerous because they invite the creation of stereotypes. This is especially dangerous in a situation where a theorist has a great deal of theory but not enough empirical case studies.¹³⁵

This approach enables this dissertation to define different types of Capitalism, each dependent on the specific cultural and institutional environment of a country. The individual itself does not play a central role in those scenarios; it is rather the nature of its embedded-

¹³⁰ Dugger, 1979, p. 905.

¹³¹ Wilber, 1978, p. 77ff.

¹³² Dugger, 1979, p. 905.

¹³³ Kuhn, 1981, chap. 12: *Second thoughts on paradigms*.

¹³⁴ Wilber, 1978, p. 68, Dugger, 1979, p. 906.

¹³⁵ Wilber, 1978, p. 78f.

ness in institutional structures which is of central interest. Institutionalism is a means of providing critical insight into the dynamics of social change and explaining human behavior within its institutional and cultural context in a narrative way. Institutionalism employs pattern models to explain human behavior within its institutional and cultural context in a narrative way. These 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 behavior. 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, modeling 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 by forming law-like statements, but to be able to understand and explain, rather than predict, a specific situation.¹³⁶

Within this structure, the Chinese type of capitalist economy can be analyzed and defined as a distinct form of economic system. It supports the view that different sets of institutions can lead to different forms of Capitalism, depending on the cultural and institutional environment. “The point is that the attainment of acceptable explanations is not the accumulation of eternal and absolute truths; we have not, in attaining them, laid another brick on the edifice, not fitted another piece into the mosaic. What has happened is that we have found something which serves the ends of inquiry at a particular time and place; we have gotten hold of an idea which we can do something with—not to set our minds at rest but to turn their restlessness into productive channels. Explanations do not provide us with something over and above what we can put to some use, and this statement is as true of understanding as it is of prediction”¹³⁷.

¹³⁶ Dugger, 1979, p. 904f., Wilber, 1978, p. 63.

¹³⁷ Kaplan, 1964, p. 355.

2.4. Institutional change

*“It is a time-honored Japanese gardening technique to prepare a tree for transplanting by slowly and carefully binding the roots over a period of time, bit by bit, to prepare the tree for the shock of the change it is about to experience. This process, called nemawashi, takes time and patience, but it rewards you, if done properly, with a healthy transplanted tree”.*¹³⁸

All theories of institutional change, independent of their theoretical provenance, shed light on institutions and their development over time. So although the theory of institutional change emphasized in this chapter has its background in NIE, it nevertheless is surprisingly similar to the analyses of the Older Institutional School, which used different terms and less clear structures to describe the same basic elements of institutional change. However, American Institutionalists also sought to explain institutional change, and even conceived it as their most important task.¹³⁹ “Institutionalists use the ‘going concern’ or the ‘institution’ as their unit of analysis, not because the choice behavior of individuals does not matter, but because institutionalists are concerned primarily with the very long-run process of institutional change....[I]nstitutionalists are more interested in explaining the evolution of institutions or of going concerns than they are in explaining individual choice”.¹⁴⁰ As described above, they developed certain analytical tools to describe the change in institutions over time, mostly understood as technological progress.¹⁴¹ Veblen for example conceived every culture as consisting of both dynamic and static elements. He defined the dynamic component as technology, and the static one as institutions that exist “simultaneously and in symbiotic relationships in all cultures. It is important to understand, and it frequently is misunderstood, that technology does not refer to artifacts or institutions to social structures. Technology and institutions are patterns of behavior; they are social processes. The test of truth and validity for institutional patterns is authority, for example, law, religion, custom, magic and myth. The test for technology is its ability to achieve a specific end-in-view. Technological patterns are developmental; institutional patterns are inhibitory or, at best, permissive”.¹⁴² This dichotomy between technology and institutions can be said to be the foundation of Veblen’s theoretical writing.¹⁴³ Hence, institutionalists stress the importance of technology as a major component in the transformation of economic systems. “While generally not monistically deterministic with regard to technology

¹³⁸ Morita, 1986, p. 158.

¹³⁹ Dugger, 1977, p. 453.

¹⁴⁰ Dugger, 1977, p. 452f. See also above, chapter 2.1.

¹⁴¹ For a summary please refer to Bush, 1987.

¹⁴² Miller, 2003, p. 55, Hamilton, 1967, p. 313f.

¹⁴³ Miller, 2003, p. 55.

or the state of the industrial arts, institutionalists have found that the logic of industrialization has profound effects on social, economic and political organization and on the nature of culture, just as culture has profound effects on the adoption and operation of technology".¹⁴⁴ This work regards the emphasis on technology for the explanation of institutional change as less fruitful for a description of the transformation of the Chinese economic system. Although technology should not be neglected as a significant component, the dichotomy of static institutions versus dynamic institutions has to be overcome if we are to develop an explanation that includes the social, cultural and political elements in gradual institutional change.¹⁴⁵ However, American Institutionalism also emphasizes the role of culture for determining social structures. Cultural change is caused by the behavior of individuals, but the connection is not made between this kind of evolutionary process and technological change conceived as the sole dynamic element and cause of progress; although "[f]or the institutionalists the economic system not only comprises more than the market, it is an ongoing cultural process with elements which co-evolve through complex processes of cumulative causation".¹⁴⁶ This kind of institutional change is analyzed and systematically structured in the modern version of institutionalism described below.

The more modern versions of theories of institutional change are mostly specifically targeted towards the changes in the institutional structure of advanced capitalist societies "associated with a significant renegotiation of the politically regulated social market economy of the postwar period".¹⁴⁷ The concept is also used to describe the transformation processes in Eastern European countries. It has often been associated with the notion of path dependence, which suggests that transformation can only occur in two forms; gradually, or suddenly and discontinuously. To characterize change as path-dependent also implies that the notion of the rational design of institutional arrangements from scratch is rejected, complete with efficient incentive structures (see also chapter 5 for an analysis of the different forms of transformation).¹⁴⁸

¹⁴⁴ Samuels, 1995, p. 573

¹⁴⁵ Lawson, 2005, p. 18f.

¹⁴⁶ Samuels, 1995, p. 574f.

¹⁴⁷ Streeck and Thelen, 2005a, p. 4. Others are concerned with the evolution of rules and norms. See for example Ostrom and Basurto, 2010.

¹⁴⁸ Streeck and Thelen, 2005a, p. 6. The term path dependence originates from the works of the economist and mathematician W. Brian Arthur and of the economic historian Paul A. David. It was popularized by Paul A. David who illustrated the concept with the now famous example of the QWERTY keyboard layout. This example demonstrates that a technology can be stabilizing even if the reason for its development ceased to exist and more optimal and efficient alternatives could have been chosen. Beyer, 2005, p. 7, David, 1985, David, 2000. Douglass North generalized path dependence and made it the foundation for his theory of institutional change. For him, institutional change is a continuous incremental process triggered by self-interested individuals and competition between organizations. Beyer, 2005, p. 9, North, 1990, p. 95f. Path dependent

Path dependence can also be interpreted as a punctuated equilibrium model that combines long periods of continuity with abrupt radical changes.¹⁴⁹ “Institutional analysis of capitalism must expect, therefore, not order in equilibrium, but what Beckert has called a ‘dynamic disequilibrium’: a continuous contest between creative destruction of social rules by enterprising innovators interested, at best, in expedient voluntary arrangements for efficient coordination from below, and political projects to defend or regain a modicum of social stability”. Streeck claims that in contrast to the accepted wisdom that with the help of institutional change institutions per definition tend towards stability and order, they rather have a tendency toward “public disorder”.¹⁵⁰ Economic systems are considered to be “merely moments in continuous processes of change” and hence stability is only a “temporary product of social and political construction”.¹⁵¹ Although change can be triggered by external events (shocks), it is more often generated endogenously, even involving a “‘dialectical’ self-undermining of institutions and social orders in the course of their normal operation”. In his view, complementary institutional arrangements, either (politically) designed or developed accidentally, are only temporary.¹⁵² The notion of path dependence merely confirms that institutions matter in so far as “different institutional arrangements are likely to remain different and will in particular not converge on a universal model”. Although institutions are restricted by their past or by other institutions, the evolution of institutions cannot be ascribed to an “unfolding historical process” that results in a capital-

development itself can be defined as a contingent design of a process that has been chosen from a variety of alternative possibilities, which are also called trajectories or development paths. Lehmann-Waffenschmidt and Reichel, 1999, p. 4. The concept of path dependence is based on the notion that the range of alternative possibilities of the future development of a variable is influenced by the past and present. Certain trajectories are excluded due to the evolution of past events. Friedrich, 2000, p. 2. Thus, path dependence is often connected to the notion of institutional lock-in, which implies that divergences from and changes to a path are the exception or even impossible. Beyer, 2005, p. 6. One of the most famous studies related to the concept of path dependence has been produced by Avner Greif who states that “...my findings suggest the theoretical and historical importance of culture in determining societal organizations, in leading to path dependence of institutional frameworks, and forestalling successful intersociety adoption of institutions”. Greif, 1994, p. 914. Path dependence in Greif’s view is caused by the complementary interaction of institutions and the positive feedback mechanism triggered by them. Ackermann, 1999, p. 107. Often, the concept of path dependence is used on a very general level that emphasizes the significance of the past in the sense that ‘history matters’. Beyer, 2005, p. 10 However, especially Veblen’s arguments of institutional change are reminiscent of the concept of path dependence. The concept of “cumulative causation”, often used by Veblen, but also other authors of American Institutionalism such as Myrdal, is by some authors compared to that of path dependence, although the first is a much broader concept than the latter. However, in arguing for a self-reinforcing process both concepts resemble each other, although Veblen does not argue that past events can prevent a certain development from happening. Cumulative causation is also not regarded as a series of static equilibria. Hayter, 2004 , p. 104f. Path dependence, path creation and path plasticity became an autonomous field of research that includes researchers such as Thelen, 2004, Dimaggio and Powell, 1991. Storz, 2009, Storz and Pascha, 2005.

¹⁴⁹ Pempel, 1998, p. 1, 3.

¹⁵⁰ Streeck, 2009a, p. 246, referring to Beckert, 2007a.

¹⁵¹ Streeck, 2009a, p. 2.

¹⁵² Streeck, 2009a, p. 2.

ist economic system. The process of capitalist development is often associated with an undermining of collective institutions that traditionally, hence in pre-capitalist times, imposed social obligations upon individuals to constrain their behavior. These ‘traditional’ institutions are replaced by contractual ones “that are voluntary rather than obligatory....[C]apitalist development is fundamentally misconstrued as a collective and consensual quest for ever higher levels of efficiency – as historical progress, or a contingent lack of such, in a collective effort at ‘economizing’ transaction costs”.¹⁵³

Streeck argues that the development of institutions follows no particular direction and is thus not influenced by “a historical mode of production and social order”.¹⁵⁴ What is even more definite than the flexibilities of structures is general uncertainty, as societies are historical processes and their social systems can already be regarded as outdated as soon as they are fully developed. Theories of institutional change in claiming that dynamics are more prevalent than statics, therefore overturned the accepted wisdom.¹⁵⁵

From this point of view gradual change, although mostly regarded as non-disruptive, is also transformative. Therefore, as slow change is easily overlooked, the time horizon of analysis has to be broadened to be more detailed.¹⁵⁶ Correlational analysis assumes “that cause produces effect essentially immediately without delay and friction; that the time that passes between cause and effect is short enough to be negligible; and that ‘independent’ and ‘dependent’ variables are tightly coupled when in fact their relationship may realize itself only with time”. Thus, it is necessary to discard “the correlational machine model of society..., which, just like neo-classical economics, tend to treat time, and transitions in time, as too short to be worth attention or make a difference” to understand gradual change.¹⁵⁷

The description of the actual process of institutional change mostly remains vague and not very concrete, except for one approach that has been conceptualized by Thelen and Mahoney and later also employed by Streeck.¹⁵⁸ Thelen originally defined two ideal-type stylized modes of endogenous institutional change, namely ‘conversion’ and ‘layering’.¹⁵⁹ This approach was later augmented to five types of gradual change that added displacement, drift and exhaustion.¹⁶⁰ Conversion and layering are “stylized representations of in-

¹⁵³ Streeck, 2009a, p. 5.

¹⁵⁴ Streeck, 2009a, p. 13.

¹⁵⁵ Streeck, 2009a, p. 119.

¹⁵⁶ Streeck, 2009a, p. 16, Mahoney and Thelen, 2010, p. 3.

¹⁵⁷ Streeck, 2009a, p. 16, 122.

¹⁵⁸ Thelen, 2003, Streeck and Thelen, 2005b. See Héritier, 2007 as a summary of less palpable approaches.

¹⁵⁹ Thelen, 2003, Thelen, 1999, Mahoney and Thelen, 2010, a summary also in Djelic, 2010.

¹⁶⁰ Streeck and Thelen, 2005a, p. 18, Streeck, 2009a, p. 14ff., summary on p. 31.

stitution-building practices of policymakers who are prevented by the existing social order and the interests embodied in it from creating entirely new institutions from scratch”. Trying to introduce a new institutional framework will most likely not succeed and result in defeat of the actors in power. One alternative strategy for real change is thus to leave existing institutions intact, while attaching new elements to the old institutional structure that will gradually change the overall status and behavior of the existing institutional environment. Another way is to “undertake stepwise to devote old institutions to new purposes, instead of trying to undo them and create new institutions in their place”. The first would be institutional change by layering, the latter by conversion.¹⁶¹ Layering sets path-altering dynamics in motion by amendments, additions or revisions to existing institutions, meaning that new rules are attached to existing ones, thereby changing the structure of behavior. The creation of new layers does not directly undermine already existing institutions, but they can alter the overall trajectory of development in supplanting or crowding-out the older set of institutions. The compromise between old and new institutions causes the older ones to stagnate and finally being defeated.¹⁶² “Due to this friction among various institutional layers, actors may establish adaptive patterns that are simultaneously new, yet familiar”.¹⁶³

In contrast to layering (and drift, see below), conversion means that existing institutions are “redirected to new goals, function, or purposes”.¹⁶⁴ Although the formal characteristics of an institution remain unchanged, their purpose can change drastically. Subtle and small changes in relatively stable times and environments can be of great importance, since over time they accumulate into substantial transformations. It is not a result of neglect, but is instead produced by actors that actively exploit the ambiguities of the gap between rules and their application. This can occur when the original rules were already ambiguous enough to allow for differing interpretations.¹⁶⁵

The third mode, drift, occurs “when a changing environment distorts the intended effects of an institution in a way that fits the interests or intentions of agents with power over its design”.¹⁶⁶ Institutional change happens when no measures are taken to readjust the institutions to fit their original purpose, and thus when rules are not enforced. In the case of drift and conversion, the weakness of administrative capacities plays an important role in

¹⁶¹ Streeck, 2009a, p. 124f.

¹⁶² Streeck and Thelen, 2005a, p. 22ff., 31, Tsai, 2006a, p. 119, 121, Mahoney and Thelen, 2010, p. 20f.

¹⁶³ Tsai, 2006a, p. 121.

¹⁶⁴ Streeck and Thelen, 2005a, p. 26ff., Tsai, 2006a, p. 119.

¹⁶⁵ Thelen, 2004, p. 292, Tsai, 2006a, p. 122, Mahoney and Thelen, 2010, p. 22, 26.

¹⁶⁶ Streeck, 2009a, p. 124f.

altering existing institutions. Drift in particular is the “result of deliberate, strategic neglect of institutional maintenance when external change produces slippage in institutional practice”. This also suggests stability, because rules remain unchanged despite the fact that external conditions have changed.¹⁶⁷

Displacement stands for the exchange of existing rules for new ones. It happens through rediscovery, or the activation of alternative or hitherto dormant institutional forms which were possibly previously suppressed or suspended, that then replace traditional institutional forms and behavior. Displacement may also occur by the invasion of foreign practices which supplant indigenous institutions. It can be an abrupt, radical change, but it also can be a slow process. Displacement and layering are modes of change neither of which rely on the exploitation of gaps between rules and their enforcement, which remains intact.¹⁶⁸

The difference between rule makers and rule takers can most clearly be found in institutional change through the fifth mode of institutional change: exhaustion. Exhaustion “refers to a process by which an institution ‘withers away’ through ‘self-consumption’”, meaning that the normal functioning of an institutions leads to “the undermin[ing of] its external preconditions”.¹⁶⁹ This type of institutional change is truly endogenous, in that it cannot be caused by externalities. It is a gradual breakdown of institutions over time.¹⁷⁰

Common to all these processes of institutional change is the idea that time plays a critical role. They evolve over time, and the effect of this adds up over time. This is a constant, never-ending development that not only matters in certain periods of change, but continuously. This follows logically from the assumption that institutional change is a process of learning about “the inevitably imperfect enactment of social rules in interaction with a complex and unpredictable environment” as the world constantly changes. It also means that institutions age. The probability of an institution being changed by one or the other mode of institutional change increases with chronological time, but also with the location of the institution in historical time, implying a sequence of “historically unique, contingent conditions and events”.¹⁷¹

These types of institutional change are similar to Veblen’s notion evolutionary change (see above), as in the case of drift. Dewey’s instrumentalism, in contrast, which features active and purposeful selection of specific institutions, has little in common with this approach to institutional change.

¹⁶⁷ Mahoney and Thelen, 2010, p. 21, 26, Streeck and Thelen, 2005a, p. 24ff., 31.

¹⁶⁸ Mahoney and Thelen, 2010, p. 19f., 27, Streeck and Thelen, 2005a, p. 19ff.

¹⁶⁹ Streeck and Thelen, 2005a, p. 29ff.

¹⁷⁰ Streeck, 2009a, p. 124f.

¹⁷¹ Streeck, 2010b, p. 665.

To a certain extent institutional change is irreversible; what historically happened cannot be undone. Institutional change occurs over time, and is always conditioned by past experiences and preconditions. “The idea that one cannot step in the same river twice would have to be translated to mean that the historical process alters not just the properties but the property space of institutions and social orders, by turning variables into constants and constants into variables, redefining variable ranges, resetting parameters, introducing new kinds of units, and undoing or reversing causal links between properties as well as creating new ones. What happens changes the rules that govern what happens next, confronting actors at any given time with a world that is in part unexplored and will have changed further by the time it could, perhaps, be understood”.¹⁷²

As will be outlined in more detail throughout this work, transformation in China did not lead to the replacement of the existing institutional framework, but rather to new arrangements, by layering and conversion.¹⁷³

In the words of Joseph A. Schumpeter: “Capitalism...is by nature a form or method of economic change and not only never is but never can be stationary. And this evolutionary character of the capitalist process is not merely due to the fact that economic life goes on in a social and natural environment which changes and by its change alters the date of economic action...Nor is this evolutionary character due to a quasi-automatic increase in population or capital or to the vagaries of monetary systems...The fundamental impulse that sets and keeps the capitalist engine in motion comes from the new consumers’ goods, the new methods of production or transportation, the new markets, the new forms of industrial organization that capitalist enterprise creates”.¹⁷⁴ Streeck summarizes this as follows: “Change...is the only thing that is constant about capitalism”.¹⁷⁵

¹⁷² Streeck, 2009b, p. 11f, fns 10, 11.

¹⁷³ ten Brink, 2010, p. 3.

¹⁷⁴ Schumpeter, 1942, p. 82f.

¹⁷⁵ Streeck, 2009a, p. 236.

3. Network theory

3.1. Social network theory

3.1.1. Social capital

Social capital as a term has been made known by Pierre Bourdieu in 1980.¹⁷⁶ According to Bourdieu, capital can be categorized in several forms, namely cultural capital in the form of the objectified state, the embodied state and the institutionalized state, as well as economic, symbolic and social capital.¹⁷⁷ The latter Bourdieu defines as “the aggregate of the actual or potential resources which are linked to possession of a durable network of more or less institutionalized relationships of mutual acquaintance and recognition... which provides each of its members with the backing of the collectivity-owned capital, a ‘credential’ which entitles them to credit, in the various senses of the word... [T]he volume of the social capital... depends on the size of the network of connections he can effectively mobilize and on the volume of the capital (economic, cultural or symbolic) possessed in his own right by each of those to whom he is connected”.¹⁷⁸ The network, defined as the structural foundation of social capital, is a dynamic structure that permanently changes and needs continuing efforts to be maintained. The denser a networks is, the more social capital can be accumulated.¹⁷⁹ Social capital is thus an immaterial resource and a means that helps individuals reaching certain ends.

One form of capital can principally be transformed into other forms of capital, but often not instantaneously as in the case of social capital “the ambiguity of social exchange” needs a “much more subtle economy of time” as for example economic capital. However, economic capital is “at the root of all other types of capital”.¹⁸⁰ Social capital can explain how individuals, even when endowed with the same amount of cultural and economic capi-

¹⁷⁶ Bourdieu, 1980. His first English article mentioning social capital was published in 1986, in the *Handbook of Theory of Research for the Sociology of Education*, ed. by J. E. Richardson, re-published in Bourdieu, 1997 [1986]. However, the notion of social capital can already be found in Max Weber’s work. Without using the terms ‘network’ or ‘social capital’, in Weber, 1976 [1930] Weber describes that the coherence and cohesion of a (religious) group can be decisive for its (economic) success. The first actual mentioning of the term itself seems to be in Jacobs, 1961: “Networks are a city’s irreplaceable social capital...”, p. 138. An overview of history and development of the concept of social capital can be found in Woolcock, 1998.

¹⁷⁷ Bourdieu, 1997 [1986], p. 47ff. Sometimes also the term ‘network capital’ is found in the literature. It is defined as the use of networks, its role and extent dependent on a society’s social structure. Its volume is equal to the number and size of networks an economic actor is involved in. Its value is accordingly a function of the number and availability of the other network members and their respective networks and resources. Network capital can act as addition or substitution for market and state structures. See Ledeneva, 2005, p. 3.

¹⁷⁸ Bourdieu, 1997 [1986], p. 51f. Elsewhere Bourdieu defines social capital as “the sum of resources, actual or virtual, that accrue to an individual or a group by virtue of possessing a durable network of more or less institutionalized relationships of mutual, acquaintance and recognition”. Bourdieu and Wacquant, 1992, p. 119.

¹⁷⁹ Bourdieu, 1997 [1986], p. 52.

¹⁸⁰ Bourdieu, 1997 [1986], p. 54.

tal, can reach different positions in society by mobilizing their social capital.¹⁸¹ It results in a network of relations that is the product of individual or collective investment strategies which is – consciously or not – oriented towards immediate utility in the present or future. Random and coincidental acquaintances (what Granovetter terms ‘weak ties’, see below) can be transformed into durable relations that also include obligations. However, social capital entails not only utilitarian connections and in so far is virtual capital, still, it can be transferred into economic capital.¹⁸² Granovetter defines the link between the structure of social relations and economic action as embeddedness (see below, the excursus on embeddedness and trust).

A different definition of social capital has been developed by Putnam. He defines it related to the notion of social organization, which means trust, norms and networks that support the cohesion of society “by facilitating coordinated actions” for mutual benefit.¹⁸³ Social capital is not only dependent on the individual, but even more on the social context and what Putnam calls the culture of ‘civicness’. Norms, values and institutions are the base of a community that is shaped by trust, solidarity and tolerance. The totality of these values result in social capital that is expressed in generalized trust and spontaneous cooperation of the members of the community. A community possessing a high level of social capital is assumed to be “safer, cleaner, wealthier, more literate, better governed, and generally ‘happier’” because its members “find and keep good jobs, initiate projects serving public interests, costlessly monitor one another’s behavior, enforce contractual agreements, use existing resource more efficiently, resolve disputes more amicably, and respond to citizens’ concerns more promptly”.¹⁸⁴ However, this kind of social capital and its networks are more based on system trust than personal trust as well as on formal than on informal social capital. The latter means that formal connections like the membership in (voluntary) associations, like sport clubs or political parties, are essential for the type of social capital Putnam describes.¹⁸⁵ Historically developed social capital like that can explain the economic success of certain regions, such as the *Third Italy* (see chapter 6.4.2.). Elsewhere Putnam adds that social capital is a feature of “social life – networks, norms and trust – that enable participants to act together more effectively to pursue shared objectives”.¹⁸⁶ Putnam’s macro perspective has been criticized for presenting a static, pre-determined, path-

¹⁸¹ Bourdieu, 1983, p. 191.

¹⁸² Walter, 2004, p. 27f.

¹⁸³ Putnam; Leonardi and Nanetti, 1993, p. 167, Woolcock, 1998, p. 155f.

¹⁸⁴ Woolcock, 1998, p. 155.

¹⁸⁵ Putnam, 2001, p. 25, Putnam; Leonardi and Nanetti, 1993, p. 167.

¹⁸⁶ Putnam, 1995, p. 664f.

dependent notion of social capital which would imply that regions are on certain trajectories and without an adequate original endowment of social capital can never improve.¹⁸⁷

A third approach to social capital can be found in Coleman as part of the rational choice paradigm. For him, social capital is an “informational resource emerging as a result of interaction between rational agents needing to co-ordinate for mutual benefit”.¹⁸⁸ Social capital is, like any other form of capital, also productive in the sense that it enables accomplishments based on network structures and trust that otherwise would be impossible or at least much more difficult to achieve.¹⁸⁹ However, he interprets social capital as a characteristic of social structure and social relations in which the individual is embedded and thus takes on a more micro perspective.¹⁹⁰ Insofar, social capital is not owned by an individual but is a public good.¹⁹¹ Social capital can not only be accumulated by individuals, but also by collectives, such as corporations, which can use it as competitive advantage (and as unique selling proposition).¹⁹² Even more so, the foundation of social capital are family and group solidarity, which means that the more stable and closed to the outside a community is, the more social capital it has. Open structures that allow members to come and leave freely can, according to Coleman, not accumulate as much social capital, differing here from the concept of other authors, like Granovetter (see 3.1.2.). For Coleman, within a closed social community the cohesion, trust and mutual assistance are higher than elsewhere. Social capital is the ingredient that makes a group of individuals a community. Social capital functions as “moral resources” but in contrast to other forms of capital does not decrease but increase with extensive use. Even more so, people who possess a lot of social capital tend to accumulate ever more.¹⁹³ An entrepreneur uses social capital like all other forms of capital: she “transforms financial capital into physical capital in form of building an tools..., human capital in the form of persons occupying positions and social capital in the form of organization of positions...Social capital (like other forms of capital) requires investment in the design of structure of obligations and expectations, responsibility and authority and

¹⁸⁷ Woolcock, 1998, p. 159, also Fukuyama, 1999.

¹⁸⁸ Woolcock, 1998, p. 155f.

¹⁸⁹ Coleman, 1990, p. 302, 304, 307.

¹⁹⁰ Coleman, 1988, p. S105, Coleman, 1990, p. 302.

¹⁹¹ Coleman, 1988, p. S116f., Coleman, 1990, Putnam; Leonardi and Nanetti, 1993, p. 170, Walter, 2004, p. 30.

¹⁹² Coleman, 1988, p. 116f., Coleman, 1990, p. 315. Here one of the main differences to Guanxi comes to light. Guanxi is highly individual and cannot be accumulated by collectives of any sort. Please refer for a further discussion to chapter 6.

¹⁹³ Putnam; Leonardi and Nanetti, 1993, p. 169f., Dasgupta, 1988a, p. 56. Quote by A. O. Hirschman: Against parsimony: three easy ways of complicating some categories of economic discourse, *Proceedings of American economics Review*, Vol. 74, 1984, p. 93, cited in Dasgupta.

norms and sanctions which will bring about an effectively functioning organization”.¹⁹⁴ Although being employed for instrumental reasons, social capital is still part of social structure and thus an individual cannot act entirely egoistic and out of self-interest. The creation and destruction of social capital follows similar rules, as it is constructed in social systems. Obligations, which are created by doing favors, are part of social capital. In refusing to reciprocate, the process is reversed and social capital destroyed. Favors guarantee durable participation in networks. This again leads to access to knowledge, experience and infrastructure that reduces uncertainty and risk and thus serves as a kind of insurance for the future.¹⁹⁵ Another important form of social capital is information as it is the basis for action. Better knowledge of the members of the group facilitates co-operation and informal norms support the enforcement of formal rules. Obtaining efficient and reliable information can be complicated and costly because at least attention is required for it. However, the information obtained over network contacts is ‘thicker’ than that over markets and also ‘freer’ than in hierarchies.¹⁹⁶

Norms are part of social capital but are a fragile form of it as sanctions are needed to keep them effective. However, a cultural order is the foundation of social capital because it provides a shared identity and solidarity.¹⁹⁷ Fukuyama adds to that view that social capital accumulates especially in closed static social contexts which might impede change and advocate intolerance.¹⁹⁸ High levels of social capital can thus also have negative side-effects as it exercises particularistic pressure on its members and it also permits free riding of community goods.¹⁹⁹

A similar view to Coleman can be found in Burt as well as Dasgupta who have an even more economic, structural view on social capital that is based on the individual.²⁰⁰ For Burt, social capital refers to “friends, colleagues, and more general contacts through whom you receive opportunities to use [other forms of] capital... Relations within and between

¹⁹⁴ Coleman, 1990, p. 313.

¹⁹⁵ Walter, 2004, p. 86, Putnam; Leonardi and Nanetti, 1993, p. 172. Reciprocity is an important element of social capital. In the short-run it can be considered altruistic, in the long-run it has also instrumental objectives and is led by self-interest, but still makes all participants better off, Gouldner, 1960. See 3.1.2., fn 218.

¹⁹⁶ Powell, 1990, p. 304.

¹⁹⁷ Coleman, 1990, p. 310, Coleman, 1988, p. S105. The concept of sanctions is closely related to socialization. This means that social norms can be internalized and thus are followed of one’s own accord. Otherwise the fear of sanctions from others is the reason for complying social norms. “Norms do not need external sanctions to be effective. When norms are internalized, they are followed even when violation would be unobserved and not exposed to sanctions. Shame, anticipation of it, is a sufficient internal sanction”. Elster, 1989, p. 131.

¹⁹⁸ Fukuyama, 1995.

¹⁹⁹ Woolcock, 1998, p. 158, 165.

²⁰⁰ Dasgupta, 2000, p. 380ff. Dasgupta describes how the social positioning of actors within networks can be used for economic purposes similarly to human capital. See also Lin, 2001.

firms are social capital...; [it] is the final arbiter of competitive success”.²⁰¹ Depending on the position within a network and the type of ties, an actor can use his connections (which here means the same as social capital) strategically, especially if he closes gaps, so-called ‘structural holes’, in networks. He becomes thus a ‘broker’ who can make profits by connecting otherwise not connected nodes of a network. In the same vein, an actor uses ‘strong ties’ to be well informed about (economic) opportunities and investment possibilities.²⁰² In the view of Dasgupta and Burt, social capital is a highly individual resource that is used for instrumental reasons only. It differs immensely from Bourdieu’s view and also is different to the concept of Guanxi as will be further discussed below in chapter 6.

To recapitulate, social capital is the sum of social relations, informal rules and psychological dispositions as well as the interdependence between its three parts facilitate cooperation within society. Social capital is the product of social interaction in the past which exhibits substantial inertia in the present.²⁰³ As common within sociology, the exact meaning differs from author to author. For Putnam, social capital is represented in voluntary social work; other schools emphasize the role of networks. Social capital in this sense is measured in the degree of engagement for the network, which not necessarily has to be voluntary.²⁰⁴ The diversity of approaches defining it shows that social capital gained importance as explaining variable for economic activity. Common to all definitions is that it often interpreted, although being immaterial, as merely one factor among others for capitalistic success and thus as purely instrumental, neglecting a broader social and cultural context. The concept of social capital has even gained the attention of international economic organizations such as the World Bank which “[a]fter the failure of shock therapy in transition economies, [reached] the insight that markets have social and political preconditions” and made the concept “a core policy concept”.²⁰⁵

3.1.2. Networks

The first usage of networks as form of organization has been in the 19th century for transport and communication purposes. It was made possible with the help of additional infrastructure that is needed to use networks for industrial purposes and which earlier were not yet available. Although already in the 18th century road maps were known concepts,

²⁰¹ Burt, 2005, p. 9.

²⁰² Burt, 2005, 11ff., 97ff.

²⁰³ Ackermann, 1999, p. 104.

²⁰⁴ Sennett and Bischoff, 2005, p. 56.

²⁰⁵ Beckert, 2007b, p. 6.

the first net in its modern sense was the railway system conceptualized by Friedrich List²⁰⁶, which again enabled the establishment of a postal network. Cities were equipped with water, canalization and electricity networks that contributed to urban development.

This rather technical conception of networks changed only in the 20th century when it became a sophisticated means to analyze personal relations.²⁰⁷ Network as a term for social connections between people is “a specific set of linkages among a defined set of persons”.²⁰⁸ The members of a network and their actions are not autonomous but interdependent actors that share material and immaterial resources. These relations between actors are durable patterns.²⁰⁹ A network can besides individuals also link organizations, political actors, households and families. The link itself can be specified as relation or interaction and be based on emotions, power or information exchange.²¹⁰ Also, “networks represent a third dimension to the existing dichotomy of the vertical (hierarchies) and the horizontal (markets) ones. Networks are neither vertical nor horizontal; their enabling quality resides in their ambiguity and their ‘navigational’ ... capacity...to compensate for the defects of vertical and horizontal structures and to turn these defects into advantage of network members”.²¹¹ Between the two extremes of market and hierarchy, networks are hybrid forms that combine elements of competition with hierarchical organizational structures.²¹² Networks can act as substitute or addition to markets and the state and be associated with both negative and positive effects of social capital. Networks are systems of nodes and ties around particular persons and are thus considered highly personal. Networks can be analyzed internally as an object of interest itself to evaluate its importance and utility for the individual or it can be seen only as an instrument and thus is scrutinized externally.²¹³ Formal and informal networks are part of nearly every existing society in past and present, although networks may vary in influence and structure.²¹⁴ The existence of networks does not necessarily have influence on economic growth, but it might have depending on its structure, as becomes clear in the comparison of the Chinese and Russian reform expe-

²⁰⁶ List, 1833.

²⁰⁷ Neurath and Krempel, 2008, p. 64. , Wassermann and Faust, 1999.

²⁰⁸ Ledeneva, 2005, p. 4, Mitchell, 1969, p. 2.

²⁰⁹ Wassermann and Faust, 1999, p. 4, 36ff.

²¹⁰ Hollstein, 2006, p. 14.

²¹¹ Ledeneva, 2005, p. 7.

²¹² Bathelt and Glückler, 2000, p. 171.

²¹³ Ledeneva, 2005, p. 3. In the case of franchise networks of firms or restaurants, railway networks or virtual information networks, networks can also be regarded as impersonal. This type of network, however, is outside the scope of this dissertation.

²¹⁴ Putnam; Leonardi and Nanetti, 1993, p. 173.

rience.²¹⁵ The term network is also used as metaphor and ideal type for a modern system organizing economic interaction.²¹⁶

Various types of networks can be defined in combining reciprocity, interdependence, power and loose affiliations in different ways. Reciprocity is important within networks as it guarantees the voluntary sequence of transactions over a longer period of time.²¹⁷ There are networks that require a balanced reciprocity, hence a simultaneous exchange of goods and favors of comparable value (this kind of reciprocity is often found in corporate networks, like that connecting the German *Mittelstand*, see also below and chapter 6.4.1.). Other types of networks are more reliant on generalized reciprocity, which is never balanced but always entails the expectations that a favor given now will be repaid at an unknown time in the future (this kind of reciprocity is an important part of Guanxi networks, see chapter 6).²¹⁸ Networks thus rely on the interdependence of intertwining relations somewhere between the complete independence of markets and the complete dependence in hierarchies. Over time, reputation, loyalty and trust are built up within a network, dependent on experience, strengthening the permanent nature of network relations. Nevertheless, not all participants of a network need to be equal as power asymmetries can exist, which are often more complex than within markets or hierarchies. One reason for that can be seen in the nature of connections which are often only very loosely linked as well as voluntary, each ‘node’ keeping its autonomy. Loose affiliations also result in redundancies, which further stabilize the networks.²¹⁹ Building up a reputation within a network is paramount as it is the foundation for trust and only then can an actor have full access to his social capital.²²⁰

²¹⁵ Ledeneva, 2005, p. 8, please refer also to chapter 5.1.

²¹⁶ Walter, 2004, p. 82.

²¹⁷ Bathelt and Glückler, 2000, p. 171.

²¹⁸ Putnam; Leonardi and Nanetti, 1993, p. 172. For a detailed definition of reciprocity see Gouldner, 1960, but of course also the seminal book of Marcel Mauss, Mauss, 1966. Reciprocity is often defined in a functionalist way, “as a mutually contingent exchange of benefits between two or more units, as if it were an ‘all or none’ matter”. Defined like this, reciprocity becomes a quantifiable variable that does not rule out that the items exchanged may be equal or that a favor is not reciprocated at all. Gouldner, 1960, p. 164. Reciprocity is a stable norm when the exchange parties have both rights and duties, moreover, it structures the roles within such a system, (p. 169). “In sum, beyond reciprocity as a pattern of exchange and beyond folk beliefs about reciprocity as a fact of life, there is another element: a generalized moral norm of reciprocity which defines certain actions and obligations as repayments for benefits received”, p. 170. “A norm of reciprocity, in its universal form, makes two interrelated, minimal demands: (1) people should help those who have helped them, and (2) people should not injure those who have helped them”. Although it is a universal norm, reciprocity varies with status and in different cultures functions differently, but always facilitates social interaction, p. 171, 176.

²¹⁹ Bathelt and Glückler, 2000, p. 171f.

²²⁰ Ackermann, 1999, p. 103.

Networks consist of strong and weak ties. The strength – or quality – of a tie “is a (probably linear) combination of the amount of time, the emotional intensity, the intimacy (mutual confiding), and the reciprocal services which characterize the tie. Each of these is somewhat independent of the other, though the set is obviously highly intracorrelated”.²²¹ Bian adds to this the finding that the strength of a tie also depends on its institutional and cultural environment and additionally, if the connection is used for obtaining influence or information.²²² However, strong ties create dense networks with high levels of trust and loyalty, whereas weak ties are part of less dense networks, that above were called loose affiliations. Different ‘nodes’ of a network might be connected over so-called ‘bridges’ which are ‘lines’ in a network that are the only existing connection between two points. Usually, two persons A and B each have many contacts and a bridge between the two thus “provides the only route along which information or influence can flow from any contact of A to any contact of B, and, consequently, from anyone connected indirectly to A to anyone connected indirectly to B”. In other words, this means that new ideas or innovations can flow, or, in Granovetter’s terms, “diffuse” over these bridges which usually are weak ties and thus create shortcuts for the diffusion that is also able to reach more people over greater (social) distance. As mentioned before, an actor that is able to bridge these structural holes acts as a broker. However, weak ties are not only important for innovation, they also usually help in finding new employment opportunities and thus support (social) mobility.²²³ Granovetter calls this the “strength of weak ties”.²²⁴

By using ‘strong ties’ of dense networks on the other hand, an actor can keep herself always up-to-date with investment opportunities. Strong ties also support co-operations as everyone in the network knows each other well. Sanctions are easy to enforce, as the level of information on everybody is high which makes monitoring costs low. Also, within dense networks ideas about proper behavior are more likely to come upon which makes deviation from existing norms as well as free riding harder. An individual has to invest time and financial resources to become part of those close relationships and to be able to use them as resource.²²⁵

²²¹ Granovetter, 1973, p. 1361. Granovetter concentrates on positive, symmetric ties but of course networks may also consist of negative, asymmetric connections.

²²² Bian, 1997, p. 367.

²²³ Granovetter, 1973, p. 1372f. However, please refer to chapter 6.4.3. and the section on *blat*. Here, usually strong ties provide job opportunities which overall has repercussions on the functionality of the network and ultimately, for the Russian society.

²²⁴ Granovetter, 1973, p. 1364ff., 1370, Burt, 2005, p. 11ff.

²²⁵ Burt, 2005, p. 97ff., Granovetter, 2005, p. 34.

Networks function as safety net in that they provide mutual assistance and support; it is also a survival kit for hardships. Additionally, it is an enabling structure to overcome obstacles for example of a bureaucratic state. It also compensates for defects and gaps in the legal and formal system.²²⁶ Social networks are multiplex in nature which means that social relationships within networks can be of different character which is typical for social networks in cultures like China and its culture of Guanxi. Corporate networks, in contrast, are one-dimensional in nature, which means that their members are only connected over one type of connection (typically work relations). Generally, Western industrial societies separate spheres and thus networks for different purposes, a notion that is foreign for example in China that is used to intertwining of spheres (see also chapter 6). In contrast, actors in one-dimensional networks switch between different social situations and their characteristic discourses. These differences in culture result in different network structures.²²⁷

To analyze the specifics and structure of social networks, a sophisticated technique of data analysis with the help of complex software has been developed. It is mainly used to map networks between companies but also within communities and aims to present the different roles and power structures within networks, personal and professional ties as well as centrality and cores of networks by simply counting connections of each member of the network. This enables them to locate people within networks and estimate the amount of knowledge and access to research they have. It is an approach that is often used for business and management studies and is concentrating on the instrumental functionality of a network.²²⁸

A highly controversial approach to network analysis comes from Hofstede as part of his research on inter-cultural management. Hofstede is most known for his studies on cultural preferences which he also applies to network analysis. Networks in his view result from the behavioral codes of norms and rules, which, in the case of China, he finds in Confucian values.²²⁹ Culture, in Hofstede's view, can be analyzed using five dimensions, that are defined by using certain variables derived from surveys (originally, his research was based on a global survey of IBM employees)²³⁰, namely individualism versus collectivism, long-versus short-term orientation (originally called Confucian dynamism), masculinity versus

²²⁶ Ledeneva, 2005, p. 7.

²²⁷ Walter, 2004, p. 93f.

²²⁸ Ledeneva, 2005, p. 13, fn 2, see also Stegbauer, 2008 and Stegbauer and Jäckel, 2008. This dissertation is purely theoretical and not empirical in nature. However, it also seriously doubts the success of quantitative approaches to network analysis in the case of Guanxi networks, as Guanxi is a more subtle and all-encompassing concept than pure instrumental network connections.

²²⁹ Hofstede, 2005, Hofstede and Bond, 1988.

²³⁰ Hofstede, 1980.

femininity (performance-orientation), small versus large power distance and weak versus strong uncertainty avoidance (reciprocity). The factors that in Hofstede's view are able to explain Chinese network behavior are collectivism, long-term orientation, reciprocity and large power distance. Collectivism induces the creation of networks that connect small groups of people that have no direct economic function. These networks serve more the purpose to gain status and reputation for the entire group in a long-term perspective that is also necessary for reciprocal relations. This does not imply that each member of the network needs to be equal to other members. However, Hofstede's approach is highly contested as being a static approach that treats the culture of a nation as homogenous and uniform. He also compares cultures in assigning certain values to the respective dimensions that result in either 'good' or 'bad' behavior. It also fails to explain the creation of networks without resorting to social groups that are the foundation of the networks and thus offers an insufficient set of explaining variables. Also, resorting to Confucian values makes it also in this sense a rather dissatisfactory approach (please see the discussion of the relevance of Confucian values in chapter 4.4. and 6.3.).²³¹

In contrast, qualitative network analysis, which is mostly used in anthropology but increasingly also in sociology, has a different methodological approach. It deploys expert or structured narrative interviews, network maps or other visualization, sometimes combined with quantitative methods. Qualitative analysis tries to be close to the individual actors and their perceptions and interpretations. It is a relational approach that goes beyond the individual and aims at the formal structure of connections such as dimension, the frequency of contacts or spatial distance between members of the networks.²³² These formal aspects are often combined with functional characteristics to analyze the virtues of the network, such as an emotional, material or practical support function.²³³ Qualitative network analysis aims at a hermeneutic approach of an understanding of social reality in retracing its meaning and its context, or in other words, it is a controlled methodological perspective taking.²³⁴ By that it tries to eventually reach the subjective interpretations of reality of the actors and their individual priorities.²³⁵

Network analysis in general aims at a depiction of the structures of networks and their dynamics as well as their use for social integration. Network analysis as relational approach is situated between a micro and a macro level.

²³¹ Bramall, 2009, p. 534-554, Krug, 2002a, p. 5f.

²³² Hollstein, 2006, p. 11ff.

²³³ Hollstein, 2006, p. 14.

²³⁴ Hollstein, 2006, p. 17.

²³⁵ Hollstein, 2006, p. 21.

3.1.2.1. Corporate networks

A corporate network is a strategic network that constitutes an organizational form of economic activity that has the aim to realize competitive advantages. It is characterized by complex reciprocal relations of at least two corporations that are more co-operative than competitive. These connections are relatively stable ties between legally independent but economically mostly dependent corporations.²³⁶ Corporate networks are often received as the most relevant organization form of the 21st century and as model developmental path for corporate rationalization processes. Co-operation and networks are conceived as the consequence of the crisis-laden socio-economic development trends that forced corporations to more or less voluntarily join strategic networks. They provide better means to react to the fast changing demands of a global market that required brief ‘just-in-time’ product cycles, specialization, flexibility and innovativeness. The emergence of information and communication technology enhanced this process.²³⁷

Participating in a corporate network is received as an efficient model of facing these changes in the economy and as superior to market and hierarchies. Corporate networks are a form of network that is a strategic, medium-term project-related structure to co-ordinate enterprises. The objective is to reduce complexity, risk and uncertainty and by pooling resources facilitate collective learning processes and the accumulation of knowledge and ultimately the performance of the co-operating companies by synergy and rationalization effects.²³⁸ It thus found its theoretical outlet in NIE and especially in the transaction cost theory of Williamson who emphasized the reduction of transaction and control costs and thus an increase in profits (see also chapter 2).²³⁹

Networks combine the organizational advantages of market logic and the paternalistic structures of hierarchies. Networks create commitment, routines and controllability but also individual freedom of action for each participating corporation. The increasing stability of relations reduces risk and costs but increases the dependence of network partners and thus might again result in rigid structures. This casts doubt on the fact that networks are always “lighter on the feet” as Powell claims.²⁴⁰ The requirement of networks of a certain level of mutual trust, reciprocity, altruism, shared values and goals often contradicts economic objectives which endangers the durability of networks. The relationship of autono-

²³⁶ Sydow, 1992, p. 79.

²³⁷ Castells, 1996.

²³⁸ Walter, 2004, p. 82ff.

²³⁹ Powell, 1990, p. 300ff. For an overview on different theoretical approaches to networks see also Powell and Smith-Doerr, 1994.

²⁴⁰ Powell, 1990, p. 303.

my and dependence in co-operations is sometimes considered as ‘paradox’. It also means that networks are only viable in a certain context under specific conditions.²⁴¹ Some authors even claim that networks are nothing else than huge corporations “dressed in new costumes and armed with new technology”.²⁴²

The co-operation needs to be of use for all partners but it can be of material as well as immaterial nature. The disadvantage of collaborations is that companies have to give up a certain degree of autonomy. However, as companies are often competitors in the same industrial sector, there is also a degree of ‘domesticated’ competition within the network which is said to encourage innovation. This interpretation and the assumption that more than pure rational, strategic motives are to be considered, puts strategic networks not far from regional networks (see below). However, the most important incentive for co-operation is greater profitability and cost-efficiency which is achieved by the complementarity of specialization and systemic rationalization together with the integration of processes of the entire supply chain.²⁴³

Members of strategic networks therefore not only include the companies itself but also suppliers, logistic, transportation and financial institutions as well as research organizations and business associations. The intensity of the relations between these actors results in different network structures.²⁴⁴ Corporate networks existing on a sector level are mostly strategic in nature, which means they have a formal structure. Mostly, they are established around one central, ‘focal’, corporation with international dimension but they can also be situated in a certain region.²⁴⁵

3.1.2.1. Regional networks

“We define (regional) networks...as (regional) clusters which develop an intensive, lasting and comprehensive multilateral co-operation, which utilize specific infrastructures and which, therefore, co-operate with relevant public, semi-public, and social agents....We define (regional) clusters as (regionally concentrated) groups of firms which are functionally interconnected (vertically as well as horizontally), including manufacturing and services, plus related (‘hard’ or ‘soft’ infrastructures and public, semi-public, or social agents

²⁴¹ Hirsch-Kreinsen, 2002, p. 113, 120.

²⁴² Harrison, 1994, p. 12.

²⁴³ Hirsch-Kreinsen, 2002, p. 111, Walter, 2004, p. 85f.

²⁴⁴ Walter, 2004, p. 87.

²⁴⁵ Hirsch-Kreinsen, 2002, p. 110, Dörsam and Icks, 1997, p. 8.

financing and/or running them”.²⁴⁶ A regional network integrates ‘hard’ economic conditions with social and cultural relations for economic activity. The economic objectives of strategic networks between corporations are combined with the notion of the innovative milieu (see below) as they are additionally territorially, socially and culturally linked. The development of a region is the result of interaction between resources, technologies, enterprises and the socio-cultural interaction of the people in the region. The success of a region depends on the quality of its network structures (which, following Putnam’s argument is a function of the competence of its civil society). It is also dependent on the cohesion of connections between individuals, the access to information, trust and reciprocity, consensus and recognition. A region is regarded as communicative space and socio-economic field of interaction.

Regional networks often consist of a mixture of different sectors (depending on its structure, see below), a diversity of linked enterprises and a dense net of local supporting institutions that foster innovation, knowledge transfer and co-operation such as associations, banks and local government. An industrial district as a specific kind of regional network typically only consists of one sector. Regional networks in general are characterized by a high level of trust and strong identification with the region and thus a social embeddedness of companies. Regional networks are polycentric organized structures within a geographically bounded area, consisting of many SMEs instead of one central authority.²⁴⁷

However, within regional networks the chance of getting locked-in can have serious consequences for the entire region. This might happen when strong ties overpower weak ties and the network isolates from the outside. Weak ties are needed to stay open to new influences which ultimately will be needed to stay innovative. Granovetter argues that strong ties are only helpful with uncritical, incremental innovations but that radical new ideas are mostly received over weak ties at the periphery of a network. The same problem may arise with a too high level of trust that emphasizes well-trying problem solving strategies.²⁴⁸

Regional networks can take on different forms, such as innovative milieus, industrial districts or clusters, which will be analyzed in detail below.

²⁴⁶ Elsner, 2000, p. 413, 415, Dörsam and Icks, 1997, p. 10.

²⁴⁷ Walter, 2004, p. 108ff., Dörsam and Icks, 1997, p. 8f.

²⁴⁸ Bathelt and Glückler, 2000, p. 172, Granovetter, 1973, p. 1367f., Ledeneva, 2005, p. 8f., Ramazotti, 2010, p. 960.

Excursus: embeddedness and trust

Embeddedness as a concept has been developed by Karl Polanyi in this book *The Great Transformation*.²⁴⁹ However, Polanyi himself, although coining the term, never used it frequently or even defined it thoroughly. He mentioned it in the chapter “Evolution of the Market Pattern” of *The Great Transformation*, but besides that he never attached great importance to the term.²⁵⁰ He defined it as anchoring of economic institutions (first and foremost the market, but also other forms of exchange like reciprocity and redistribution) into social regulations that confine their functioning. Also, Polanyi regarded embeddedness not only as theoretical term but also a political and social one which makes the term more than merely related to the economy but to the entire system as such.²⁵¹

Thus, the significance of the concept derives from the reception of the book rather than from Polanyi himself. The term was taken over by New Economic Sociology when social anchoring of economic configurations such as the industrial district seemed to contradict the mainstream economic theory. It has been made famous by Mark Granovetter in a “founding manifesto”.²⁵² However, Granovetter’s use of the term differs from that of Polanyi. Whereas the latter strives towards an institutional analysis, Granovetter develops a structural network approach which limits the analysis, for example of markets, to a single aspect. This “leads to a neglect of the social content underlying the observed structure” which ultimately fails to explain the structure of specific networks and neglects “Polanyi’s concern with the stability of social order”.²⁵³

Granovetter developed his embeddedness theory essentially to build up an approach in opposition to the NIE around Williamson who declared network relations as weak and temporary (see also chapter 2). The latter “explains existence of economic institution merely by functions it performs for the economic system”, but fails “to recognize the importance of concrete personal relations and networks of relations”.²⁵⁴ Granovetter argues against this atomistic, functionalistic concept of economic action that happens without being embedded in a context. In contrast, he argues that actors are embedded into systems of

²⁴⁹ Polanyi, 1944.

²⁵⁰ In Polanyi, 1944 Polanyi mentions the term twice: first in the famous quote “Instead of economy being embedded in social relations, social relations are embedded in the economic system”, p. 57; and a few pages later: “Acts of barter are here usually embedded in long-range relations implying trust and confidence, a situation which tends to obliterate the bilateral character of the transaction”, p. 61.

²⁵¹ Beckert, 2007b, p. 7f.

²⁵² Beckert, 2007b, p. 5f., Granovetter, 1985. Ever since “[h]ardly any article associated with the new economic sociology fails to mention ‘embeddedness’ as the core concept indicating a sociological approach to the economy. Few economic sociologists would disagree with the statement: ‘We are all Polanyians now’”. Beckert, 2007b, p. 7.

²⁵³ Beckert, 2007b, p. 9.

²⁵⁴ Coleman, 1990, p. 302.

social relations and are neither undersocialized and only focused on profit maximization nor oversocialized and only acting under the impression of norms, but rather relational and embedded. Embeddedness marks the quality of a relationship between persons which is not only opportunistic. Social relationships are the foundation for trust which is built up by time and experience. Thus, the concept of embeddedness implies that economic relations are contextual and dependent on experience. Social routines and institutions give trust that facilitates decisions and the conclusion of contracts will not fail due to uncertainty through opportunism. Based on that, long-term network relations are constructed.²⁵⁵ The embeddedness approach lies in the middle between the undersocialized notion of impersonal, institutional arrangements and the oversocialized one of generalized morality and scrutinizes concrete forms of social relations.²⁵⁶

However, embeddedness consists of relational and structural dimensions. The relational embeddedness characterizes the quality of a relation between two actors that is based on mutual trust. Structural embeddedness means the quality of connections between several actors. The action of two actors is in this view dependent on the context of the ties to the other individuals as well as their reputation within the network.²⁵⁷

Trust also creates and enforces norms and together with embeddedness adds social and organizational connections to the analysis of economic systems. However, embeddedness is “not merely [...] a structure that springs in to fulfill economic function but [...] is] a structure with history and continuity that give it an independent impact on the functioning of the system”.²⁵⁸ Trust is unlike other resources never diminished by use, to the contrary.²⁵⁹ However, distrust “is very difficult to invalidate through experience...once distrust has set in it soon becomes impossible to know if it was ever in fact justified, for it has the capacity to be self-fulfilling”.²⁶⁰

Trust is the central mechanism for coordinating networks. The ability to trust, so-called generalized trust, is the foundation for situational trust. It is also the foundation of reciprocity and is a main mechanism for integration for a network in that it reduces the complexity and need for co-ordination within networks. Vice versa, reciprocity again engenders trust. Powell even claims that trust is more efficient and economical than “prediction, authority,

²⁵⁵ Granovetter, 1985, Bathelt and Glückler, 2000, p. 170f.

²⁵⁶ Granovetter, 1985, p. 493.

²⁵⁷ Bathelt and Glückler, 2000, p. 170f.

²⁵⁸ Coleman, 1990, p. 302.

²⁵⁹ Putnam; Leonardi and Nanetti, 1993, p. 169, Dasgupta, 1988a, p. 56.

²⁶⁰ Gambetta, 1988a, p. 234.

or bargaining”.²⁶¹ Trust is crucial for the stability and capacity for action of networks and is necessarily connected to the reputation of a network member. Reputation, together with reliability, loyalty and trust can only develop in long-term relations because they strongly depend on repeated experience. Trust reinforces the durability of reciprocal connections and reduces opportunist behavior.²⁶²

Trust can take on an informal and a formal form. Formal trust means that by interacting with another person, both believe that the other will obey the accepted rules and convention of the encounter. Informal trust depends on the degree of knowledge of another person in different situations and that this person is dependable even in stressful circumstances. The latter form of trust needs time to develop.²⁶³

Trust can be conceptualized in different ways, for example in the distinction of trust as familiarity or confidence in the case of system trust of Niklas Luhmann. For Coleman, trust is essential for (non-)economic transactions but it is not ‘entrusted’ without a calculation of utility. Trust is a risk-carrying decision as the behavior of the ‘transaction partner’ remains uncertain. Trust in this approach is conceived as investment.²⁶⁴ It can also be defined as goodwill and competence or as expectation of benign action and reliance within networks.²⁶⁵

Redding defines two forms of trust in the case of China, one that derives from formal institutions such as law and regulation, and an informal one that derives from “networks of interpersonal obligation”, with the latter dominating “by a wide margin”. Institutional trust, in contrast, is “still in its infancy and its growth is not aided by any collective memory of its existence in the past”.²⁶⁶ However, in China trust is “mainly based on some subsocieties such as family or clan family, the village, etc.”.²⁶⁷

3.2. Network organization

3.2.1. Flexible specialization

The concept of flexible specialization, or how it is often also called, flexible production, has been created by Piore and Sabel in their book "The second industrial divide", published in 1984. They compared the socio-economic systems and the networks of small and me-

²⁶¹ Powell, 1990, p. 305.

²⁶² Walter, 2004, p. 114f.

²⁶³ Sennett and Bischoff, 2005, p. 59.

²⁶⁴ Coleman, 1990, p. 91, Junge, 2006 p. 26, Gabbay and Leenders, 2002,

²⁶⁵ Walter, 2004, p. 115. For a more detailed discussion on trust, see Fukuyama, 1995, Gambetta, 1988b, Dasgupta, 1988b and Luhmann, 1988.

²⁶⁶ Redding and Witt, 2007, p. 211f.

²⁶⁷ Hu, 2007, p. 23. See also chapters 6-8.

dium enterprises (SMEs) of regions in and outside Europe and observed that artisan production seems not to be an outdated form of economic action but rather a viable alternative. The book thus draws a connection from premodern craft traditions to the organization of modern production. The authors argue that while the typical production method of Fordism²⁶⁸ which takes place within large-scale enterprises and being highly dependent on vertical integration, has dominated and replaced small-scale production up until the middle of the 20th century; the trend has been reversed towards flexible production within industrial districts in the second half of the last century. However, up to this point, mass production triumphed everywhere, except in areas that were "too narrow and fluctuating to repay the specialized use of resources of mass production".²⁶⁹ When in the middle of the 20th century a crisis of Fordism began, flexible production "became the leading edge of a totally new form of capitalist production".²⁷⁰ By deploying flexible specialization and with the help of subcontracting, SMEs could use advanced and innovative technology to meet the differentiated and fast changing demands of global costumers.²⁷¹ Even more so, the small enterprises were by this method forced to move "toward greater flexibility [in] provoking technological sophistication - rather than regression to simple techniques".²⁷² Also, it is "clear that this form of production has become increasingly rationalized so that these small-firm economies progressively get better at being efficient, flexible producers".²⁷³

To be able to do that, flexible specialization needed to remove itself from the type of organization of production of Taylorism.²⁷⁴ Together with small-scale, custom-made goods it had to introduce co-operation between workers on the three levels of white collar, skilled and unskilled workers as well as a middle skilled group. This increases the professionalism of all workers on the job by experience. This approach often resulted in workers quitting their job to become independent entrepreneurs themselves. Hence, in contrast to Taylorist organizations of work, flexible specialization is intertwined with social mobility and takes place in SMEs within regional economies (see also below).²⁷⁵

²⁶⁸ Fordism is a method of production that relies on mass production of standardized products with the price being the key element of competition. See Capecchi, 1990, p. 20f.

²⁶⁹ Piore and Sabel, 1984, p. 206.

²⁷⁰ Hamilton and Chang, 2003, p. 182.

²⁷¹ Piore and Sabel, 1984, p. 215, Hamilton and Chang, 2003, p. 182, Capecchi, 1990, p. 20f.

²⁷² Piore and Sabel, 1984, p. 207.

²⁷³ Hamilton and Chang, 2003, p. 187.

²⁷⁴ Taylorism means an organization of work that clearly separates between a minority of white-collar workers, and the majority of unskilled blue-collar workers, with hardly any social mobility. See Capecchi, 1990, p. 20f.

²⁷⁵ Capecchi, 1990, p. 20f.

“Thus, production systems develop complementarities with their societal contexts so that a limited number of different ones become established and, once dominant in a particular society, they are slow to change....Many forms of flexible production, in contrast, are associated with extensive obligational networks between economic actors and considerable cooperation between competitors that developed and continue to be reproduced by particular state and private structures and agencies”.²⁷⁶

Regions that emphasize flexible specialization have three features in common. They have a specific relationship to the market in the sense that they produce for highly differentiated, regional as well as global markets with instable demand. They are able to change product types and styles quickly to meet the changed needs but also to create those needs. Additionally, they use diversely applicable, highly flexible technology. The third characteristic is the creation of regional institutions that support co-operation, and competition between companies stimulates innovation. This means that competition does not rely on price reductions but requires creativity. This reconciliation between competition and co-operation can be achieved by regional clustering of SMEs, like for example in the *Third Italy*, by groups of loosely connected large corporation, by ‘solar’ enterprises that gather small subsidiary companies around them geographically and also by decentralized production.²⁷⁷

Within regional clusters, no single enterprise has permanently the leadership but arrangements between companies are organized over short-term contracts in which the role of the participating companies can change, supported by surrounding institutions like trading associations or unions. The cohesion of these regional industries is based on a deeply rooted sense for community or sometimes also ethnical or religious ties. Familism and kinship ties play also a decisive role in providing the necessary capital for starting up a small enterprise or providing labor.²⁷⁸

Flexible specialization relies on the complementarity of co-operation and competition that enhances the potential for innovations and impedes a ‘race to the bottom’ for wages and prices. Also, it includes the workers and their skills into the production and innovation process and thus also works towards a strong community and an attractive atmosphere for working and living. It is interesting to note that the implementation of high-end technology

²⁷⁶ Whitley, 1999, p. 22f.

²⁷⁷ Piore and Sabel, 1984, p. 205ff., 266f., 305f.

²⁷⁸ Piore and Sabel, 1984, p. 34f., 274ff.

depends to a large part on social relations and loyalty that are usually associated with a pre-industrial society.²⁷⁹

3.2.2. Concepts of regional networks

*“For in these trades the advantages of production on a large scale can in general be as well attained by the aggregation of a large number of small masters into one district as by the erection of a few large works”.*²⁸⁰

3.2.2.1. Neo-regionalism

In contrast to the notion of mainstream economics that international enterprises are not geographically or nationally bound and not anchored to a certain region, and that locations of production are merely determined by the most cost-efficient production factors, the concept of neo-regionalism emphasizes the significance of regional embeddedness.²⁸¹ A region in this setting is defined as a socio-economic integration as well as a relational space and political unit with a shared territorial identity.²⁸² Whereas the first view regards global players as being connected over a dynamic global network within a “global space of flows”, the second approach sees territorial attachment as competitive advantage as the region serves as spatial synergy and innovation system without a single business being the driving force behind the overall technological progress.²⁸³ It is rather the geographically bound cluster of specific, regionally developed skills and knowledge that benefits from the highly innovative, post-fordist environment instead of price competition.

Therefore, one of the key assumptions of neo-regionalism is that “long-term industrial competitiveness is related to the ability of firms continuously to upgrade their knowledge base and performance, rather than just to obtain static efficiency through identification and exploitation of cheap resources and economies of scale”.²⁸⁴ Thus, neo-regionalism assumes that differences between regions will increase as local skills and knowledge further differentiate, collaborating in a highly dynamic setting of flexible organization and intertwining of competition and co-operation within a network.²⁸⁵ However, “the more tacit the know-

²⁷⁹ Walter, 2004, p. 54-58.

²⁸⁰ Marshall, 1975 [1879], p. 196.

²⁸¹ Walter, 2004, p. 19f.

²⁸² Walter, 2004, p. 20f.

²⁸³ Castells, 1989.

²⁸⁴ Maskell and Malmberg, 1999, p. 179.

²⁸⁵ Walter, 2004, p. 20.

ledge²⁸⁶ involved, the more important is spatial proximity between the actors taking part in the exchange. [...] To communicate tacit knowledge will normally require a high degree of mutual trust and understanding, which in turn is related not only to language but also to shared values and ‘culture’”. Hence, companies are connected over relationships that are dependent on local conventions, norms and values.²⁸⁷ Regions compete and can be distinguished by their cultural background and ethics which are regarded as an influential variable for economic development.²⁸⁸ Economic agents are embedded in enduring systems of social relationships which are necessarily locally and contextually bound. So besides geographical closeness, also social proximity is essential because only by that participation in regional labor markets and supply structures can be ensured.²⁸⁹ The explanation of how a specific region can be more successful than others is often seen in the particular communication and co-ordination structures that result in routines that favor innovation and progress.

Neo-regionalism also emphasizes the active role of public policy and implicitly claims that it is in principle possible to choose specific regions and by the right dose of subsidies to induce learning processes and turn those regions into successful industrial hubs. Although neo-regionalism emphasizes the role of specific regions in supporting learning, innovation and growth processes, it fails to explain the socio-cultural conditions of those innovative networks. When and how these are developed is largely left unexplored.²⁹⁰ “Without adding a cultural dimension to structural accounts of embeddedness, it is difficult to understand the negotiated, emergent quality of trust in many concrete settings, and the ability of entrepreneurs to construct networks out of diverse regions of their social worlds”.²⁹¹ The concept of regional economies dependent on flexible production has been linked to the notion of Marshall’s industrial district (see also below).²⁹²

It is also connected to the concept of innovative milieu, also further analyzed below. Regions equipped with the necessary endowment or “localized capabilities” developed a so-called innovative milieu with a thick knowledge base. It is embedded in individual skills, in routines and procedures of organizations. The milieu itself encompasses dynamic network structures within firms and auxiliary institutions. If skills and knowledge are diffi-

²⁸⁶ For the comparison of codified and non-codified as well as implicit - or tacit - knowledge that is necessarily associated with a certain person, please refer to Bathelt and Glückler, 2003, p. 57.

²⁸⁷ Maskell and Malmberg, 1999, p. 180.

²⁸⁸ Walter, 2004, p. 21ff.

²⁸⁹ Bathelt and Glückler, 2000, p. 168ff.

²⁹⁰ Walter, 2004, p. 26.

²⁹¹ DiMaggio, 1994, p. 39.

²⁹² Storper, 1992, p. 89.

cult to obtain and imitate and if they are singular enough, the competitive advantage of a milieu (and hence, a region), can be a long-term phenomenon. Generally, the combined capabilities of knowledge creation and cumulative learning of a region is more than ‘the sum of its parts’ and for that difficult to replicate. This fact is often called path-dependent, as it is regarded as explanans for the development of “spatial agglomerations of related firms”.²⁹³ However, “there is a need to remain open to the radical change which will sooner or later require, to paraphrase Schumpeter, a readiness for creative ‘un-learning’”.²⁹⁴

3.2.2.2. *Innovative milieus*

The concept of innovative milieu is a European invention²⁹⁵ but is not a uniform approach. It defines a milieu as “context for development, which empowers and guides innovative agents to be able to innovate and to coordinate with other innovating agents” within a “system of regional institutions, rules, and practices”.²⁹⁶

A common definition of the milieu can be given as follows: “A territory is not a defined space of resources. It is the mode of establishment of a group, in the natural environment, which through the organization and localization of activities, generates prevalent conditions of communication-language and collective learning (the forms of cooperation which create technological and organizational rationalities)” and “the milieu appears as the socio-economic formation which, at one and the same time, generates the economic dynamic and constitutes itself in setting this dynamic into motion. In other words, milieux take form in organizing themselves and they do so even better insofar as they are territorialized. The emergence of organizational dynamism is correlative to the dynamism of local milieux”.²⁹⁷

A milieu determines “a specific external ‘image’ and a specific internal ‘representation’ and sense of belonging, which enhances the local innovative capability through synergetic

²⁹³ Maskell and Malmberg, 1999, p. 180.

²⁹⁴ Maskell and Malmberg, 1999, p. 181. The importance of economic geography, or more correctly geographical economics, was also brought to attention by Krugman, 1993. However, his theory circles around the idea of lowering transaction costs and economies of scale when spatial issues are included in discussion. Thus, Krugman presents a rather narrow concept of spatial economics. Also, it is not a new concept as such, but he merely introduced geography to mainstream economic theory.

²⁹⁵ The concept of the innovative milieu was developed by the GREMI group (Groupement Europeen des Milieux Innovateurs), consisting of French, Italian and Swiss regional economists, founded in 1986. Aydalot, 1986.

²⁹⁶ Storper, 1995, p. 203. Storper gives an overview and critical analysis on several regional concepts of innovation.

²⁹⁷ Storper, 1995, p. 203, quoting from a French paper of Jean-Claude Perrin: “Pour une Révision de la Science Régionale: l’Approche en Termes de Milieu”, Centre d’Economie Régionale, University of Aix-Marseille, Aix-en-Provence, No. 148-1993/3.

and collective learning processes”.²⁹⁸ The milieu as localized production system is the geographical phenomenon of what Mark Granovetter called the ‘embeddedness’ of social and economic processes.²⁹⁹ It uses informal networks to organize these processes as well as for co-operation and communication but is often regarded as network of the actors itself who are bound to a certain territorial context and therefore also produce the milieu. The localized production system relies on the network relations between companies. These relations are on the one hand material and commercial, but even more so horizontal and multilateral, immaterial and non-commercial and dependent on the strength of “relational capital”. The habitual collaboration results in dense relational capital and trust which are mutual dependent. Personal contacts are transformed for innovative business purposes.³⁰⁰ These relations are part of what Ratti calls „supporting space“, which is separated from a market and production space.³⁰¹ Nevertheless, the region is not merely a passive location but has the ability to organize its development within global economic structures.³⁰² As within Marshall’s district, there is something “in the air” that supports innovation.³⁰³

The spatial delimitation of an innovative milieu is not dependent on administrative units but on homogeneity of behavior, values, collective know-how, technical culture and shared work ethics, resulting in solidarity and mutual trust and ultimately in a feeling of belonging.³⁰⁴ The milieu is defined as innovative if it is able to open up to the outside to acquire necessary information or resources for alterations.³⁰⁵ Innovation is thus possible when the endogenous logic of the milieu and the strength of its relational capital is combined with its interaction with the world outside. It is a continuing process of adaptability, change and evolution. Knowledge becomes a territorial specificity and withdraws itself from the competitive pressures of the market because it is hard to reproduce elsewhere.³⁰⁶ Regional innovation networks are multi-functional and developed based on the existing relational capital, without clear defined costs and benefits. It remains open under which circumstance actors are induced to use personal contacts for innovative projects and networks.³⁰⁷

A milieu is seen as metaphor for the explanation of regional embeddedness of economic activity in cultural, social and political structures. Related to the concept of neo-

²⁹⁸ Camagni, 1991, p. 3

²⁹⁹ Granovetter, 1985

³⁰⁰ Maillat, 1995, p. 159.

³⁰¹ Ratti, 1991.

³⁰² Walter, 2004, p. 35.

³⁰³ Marshall and Marshall, 1888, p. 53, Marshall, 1919, p. 284ff., see below.

³⁰⁴ Walter, 2004, p. 38f., Ramazotti, 2010, p. 960.

³⁰⁵ Maillat, 1995, p. 161, Walter, 2004, p. 39.

³⁰⁶ Walter, 2004, p. 39, Maillat, 1998, p. 10.

³⁰⁷ Walter, 2004, p. 40.

regionalism, an emphasis is made on cumulative learning processes which stem from a regional identity and typical local production structures.³⁰⁸ However, the mechanism of how a milieu encourages innovation remains unresolved. It is a circular argument that innovation happens within a milieu which only exists because of the innovative environment. Besides the notion that knowledge creation is an essential part of it, the economic logic behind its processes is no more specified than the importance of the geographical limitation for its dynamics.³⁰⁹

The boundary of an innovative milieu to an industrial district is also not straightforward and mostly both phenomena are described very similar. Often, no differentiation is made between innovative milieu, industrial district and cluster and these terms are used as synonyms.³¹⁰ However, the theories of the industrial district seem to be further developed and are presented below in detail.

3.2.2.3. Cluster

In his book *The Competitive Advantage of Nations* Michael Porter developed the concept of the business cluster which is today therefore also often called Porterian cluster. Similar to the concept of the milieu and the district, the cluster is defined as consisting of enterprises, suppliers and related institutions producing in the same or a complementing sector, which are connected over networks within a specific region. Clusters for Porter are “critical masses - in one place - of unusual competitive success in particular fields”, its boundaries determined by “linkages and complementarities across industries and institutions that are most important to competition”, but which do not necessarily coincide with national borders.³¹¹ As other forms of agglomeration economies, also the cluster is regarded to increase competitiveness and productivity by supporting innovativeness and attracting more businesses to the cluster. It is an “alternative way of organizing the value chain”.³¹² To be a cluster, a region needs sufficient resources and know-how to stand out

³⁰⁸ Walter, 2004, p. 35.

³⁰⁹ Storper, 1995, p. 203f.

³¹⁰ For example in Ramazotti, 2010.

³¹¹ Porter, 1998, p. 78f.: “Clusters are geographic concentrations of interconnected companies and institutions in a particular field. Clusters encompass an array of linked industries and other entities important to competition. They include, for example, suppliers of specialized inputs such as components, machinery, and services, and providers of specialized infrastructure. Clusters also often extend downstream to channels and customers and laterally to manufacturers of complementary products and to companies in industries related by skills, technologies, or common inputs. Finally, many clusters include governmental and other institutions - such as universities, standards-setting agencies, think tanks, vocational training providers, and trade associations - that provide specialized training, education, information, research, and technical support”.

³¹² Porter, 1998, p. 80.

from its competitors. It also requires a long-term perspective to develop and maintain its competitive advantage. It needs to produce goods that are either unique in quality or innovativeness because then they can be sold with a price premium. Porter specifies three types of clusters, namely the so-called techno cluster that is concentrated on high-end technology and often associated with universities or research centers (a famous example is Silicon Valley). The second is the historical know-how-based cluster that has its knowledge accumulated over a long time period and has a strong tradition in production; the last is the factor endowment cluster that is successful due to a comparative advantage related to its location.

Porter specifies his definition of the cluster in the so-called diamond model,³¹³ which determines how a region can increase its competitiveness and why this might be the case. The model is primarily aimed towards business strategy and government advice. Porter lists four determinants of national advantage, namely the factor conditions, which means the factor endowment and the level of skilled labor and infrastructure; the nature of demand for the products; the status of related and supporting industries; as well as firm strategy, structure and rivalry. These factors are often represented in ‘Porter’s diamond’, a diamond-shaped graph that interconnects the elements of this structure. It is a mutually reinforcing system. Additionally, Porter names the government as significant factor, but also ascribes chance not a small role either, as it accelerates the development process of a region. The listed factors are not necessarily path-dependent or even natural or inherited as they might develop and change by government programs, innovations or socio-cultural changes.³¹⁴ The core of Porter’s argument is the rivalry between regions and enterprises that results in high quality products and innovation, supported by state policies such as infrastructural investments, subsidies and research and education political measures at the local, but also national level³¹⁵: “Clusters affect competitiveness within countries as well as across national borders. Therefore, they lead to new agendas for all business executives - not just those who compete globally. More broadly, clusters represent a new way of thinking about location, challenging much of the conventional wisdom about how companies should be configured, how institutions such as universities can contribute to competitive success, and how governments can promote economic development and prosperity”.³¹⁶ The

³¹³ Porter, 1990, p. 71ff.

³¹⁴ Porter, 1990, p. 162ff.

³¹⁵ Porter, 1990, p. 81, 126ff.

³¹⁶ Porter, 1998, p. 78.

performance of one company is correlated to that of competitors and other participants of the value-added chain, including customers.

However, the term cluster is not exclusively employed for Porter's concept. It is also used as generic term for spatial agglomerations of economies. The OECD, for example, mentions it in a more broad definition: "Large companies can shape environments – SMEs typically can only operate within them... [and] gain strength by cooperation and collaboration...through clusters [of]...formal and informal networks...anchored in their local communities".³¹⁷ This definition puts it more in the line with the concept of the industrial district, analyzed below.

3.2.2.4. *Industrial districts*

"[T]he small and medium-sized firm industrial districts in Western Europe...each tells a different story of how trust became, for it, a fact of life; and the only common feature of these stories is that none could be reproduced elsewhere precisely because each dependent on an improbable chain of fortuitous local circumstances".³¹⁸

The industrial district is a concept first developed by Alfred Marshall.³¹⁹ He used it to analyze locally bounded socio-economic systems in Great Britain. Later it has been adopted by Giacomo Becattini³²⁰ for the Italian case (see also chapter 6.4.2). Marshall defined it as consisting of "many social advantages" as artisans are "intelligent and self-reliant" because they have escaped "the dominion of custom".³²¹

Today, it is defined by certain stylized facts that include a flexible production that meets the final demand and variable different needs of global clients, production in a large number of small- and medium sized firms in a naturally and historically limited geographical territory, or what Becattini calls "a socio-territorial entity"³²² and Marshall describes the following way: "When an industry has thus chosen a locality for itself, it is likely to stay there long: so great are the advantages which people following the same skilled trade get

³¹⁷ Definition taken from Dörsam and Icks, 1997, p. 2

³¹⁸ Sabel, 1992, p. 215f.

³¹⁹ Marshall, 1919, esp. p. 267-77, also Marshall and Marshall, 1888, p. 46ff. He also refers to it as "manufacturing district" or "localization of industry". A summary of his thoughts on industrial districts can be found in Belussi, 2009. "Marshall noted the apparent importance of industrial localization in looking at English industrial regions of the 19th century, noticing the intangible dimensions of localization, as evidenced in his famous comment about the secrets of industry being in the air. Though Marshall made reference to the technological dynamism of English industrial districts, he did not clearly distinguish between localization as a means of reducing production costs under conditions of market uncertainty and localization as an underpinning of the technological trajectory of an industry", Storper, 1992.

³²⁰ Becattini, 1979.

³²¹ Marshall and Marshall, 1888, p. 47.

³²² Becattini, 1990, p. 38.

from near neighborhood to one another“.³²³ The local enterprises produce in the same broadly defined industrial branch with the same kind of production process but at different stages of this process, which Marshall calls “main industry” and “auxiliary” or “subsidiary industry” in vertically integrated sectors: “[S]ubsidiary trades grow up in the neighborhood, supplying it with implements and materials, organizing its traffic, and in many ways conducing to the economy of its material...the economic use of expensive machinery can sometimes be attained in a very high degree in a district in which there is a large aggregate production of the same kind, even though no individual capital employed in the trade be very large. For subsidiary industries devoting themselves each to one small branch of the process of production, and working it for a great many of their neighbors, are able to keep in constant use machinery of the most highly specialized character, and to make it pay its expenses...”³²⁴

An industrial district is regarded as a special case of the innovative milieu described above, but the line to strategic networks is blurry.³²⁵ However, it differs from the latter concept in being more than just a cluster of atomistic companies in one locality. Necessarily connected to the concept of the industrial district is the embeddedness of its economic activity as well as the significance of trust.³²⁶ It differs from the concept of the innovative milieu in not only being an instrument to overcome uncertainty. In the past, solving this problem was possible for single companies, but in the global economy of the 20th century uncertainty could only be overcome by co-operation as best practice.³²⁷ Thus, the innovative milieu is „a set of territorial relationships encompassing in a coherent way a production system, different economic and social actors, a specific culture and a representation system, and generating a collective learning process“.³²⁸

An industrial district is heavily characterized by the collaboration between business and social sphere which means that the local community plays a decisive role for the functioning of the district and social cohesion is an important component of the district’s vitality.³²⁹ However, it differs from other types of economic region in that the industrial process dominates. “Self-containment and the progressive division of labor” result in an “increasing surplus of final products” that has to be sold on the global market. Hence, it “requires a

³²³ Marshall, 1920, p. 271.

³²⁴ Marshall, 1919, p. 288, similar in Marshall and Marshall, 1888, p. 52f., Pyke and Sengenberger, 1990, p. 2f.

³²⁵ Ambrosius; Petzina and Plumpe, 2006, p. 10f.

³²⁶ Dörsam and Icks, 1997, p. 27f.

³²⁷ Dörsam and Icks, 1997, p. 29f.

³²⁸ Camagni, 1991, p. 140ff.

³²⁹ Ramazotti, 2010, p. 959.

permanent network of links between the district and its suppliers and clients”.³³⁰ Consequently, a district consists of a mixture of firms, of which some sell directly to a (global) market and some act as sub-suppliers producing components without clear boundaries and a separation between producer and supplier as a firm can be both. By working together, the often family-owned small-scale firms can achieve economies of scale by lending out expensive machinery or subcontracting to a competitor if an order is too large for one firm or business is low.³³¹ Enterprises can be categorized as final firms that produce the final good, stage or phase firms that specialize on one stage in production and complementing firms that provide supplemental products or services.³³² Nevertheless, the division of labor is localized but not restricted to one firm neither is it distributed over a general market as the firms of the district are firmly rooted within a certain area.³³³

It is a concept closely related to that of flexible specialization already analyzed above. The individual steps of the production process need to be separable in time and space as they are often distributed within local networks and mostly are not standardized.³³⁴ However, the relations to a local supplier are typically long-term in nature which has the advantage to be able to rely on contextual, tacit knowledge and adaptability of the local subcontractor.³³⁵

Related to this, workers have acquired a specialized knowledge of production and although they frequently change the workplace within the district to find an occupation most suitable for them, the knowledge is still not lost for the district as such as it is still part of the “local pool of skill”.³³⁶ Knowledge is rather treated as a public good, resulting in an, how Marshall puts it, “industrial atmosphere” that has its secrets in form of “skill and the taste required for their work...in the air, and children breathe them as they grow up”.³³⁷ Elsewhere he says: “The mysteries of the trade become no mystery; but are as it were in the air...Good work is rightly appreciated, inventions and improvements in machinery, in processes and the general organization of the business have their merits promptly discussed: if one man starts a new idea, it is taken up by others and combined with suggestions of their own; and thus it becomes the source of further new ideas”.³³⁸ Entrepreneurs

³³⁰ Becattini, 1990, p. 38, 40.

³³¹ Pyke and Sengenberger, 1990, p. 2ff.

³³² Walter, 2004, p. 42.

³³³ Becattini, 1990, p. 40.

³³⁴ Becattini, 1990, p. 41, Li and Li, 2007, p. 29ff..

³³⁵ Walter, 2004, p. 42.

³³⁶ Pyke and Sengenberger, 1990, p. 5f.

³³⁷ Marshall and Marshall, 1888, p. 53, Marshall, 1919, p. 284ff.

³³⁸ Marshall, 1920, p. 225.

and workers meet each other in informal places like bars and restaurant and thus acquire information on new technology and innovations. It is also a way to spread knowledge. This can only work, if all members of the district have principally the same goals, hence, the success of the district as a whole.³³⁹ The free flow of information also means that information on new employees is easily available at very low cost. Overall, this makes an industrial district a space where workers find their skill acknowledged and appreciated. “[A] localized industry gains a great advantage from the fact that it offers a constant market for skill. Employers are apt to resort to any place where they are likely to find a good choice of workers with the special skill which they require; while men seeking employment naturally go to places where there are many employers who need such skill as theirs and where therefore it is likely to find a good market. The owner of an isolated factory, even if he has good access to a plentiful supply of general labor, is often put to great shifts for want of some special skilled labor; and a skilled workman, when thrown out of employment in it, has no easy refuge”.³⁴⁰ However, a large fraction of workers are on a continuum between homeworkers and part-time workers in addition to waged workers, self-employed and entrepreneurs, which links the production process to the family structure of the district. Hence, beside the worker, the entrepreneur is another prominent character of the industrial district whose entrepreneurial spirit and ability lie in her “special function in translating all the capabilities which are latent in the historical heritage of the district into products”. She has to negotiate to sell and advertise the district’s products on global markets and hence has a tendency to lose her roots and become a cosmopolitan and thus leave the boundaries of the industrial district.³⁴¹ However, her motivation and life style are defined by her enterprise whose success is dependent on her reputation which again is locally bound. Her ultimate aim is to ensure the long-term well-being of her family.³⁴²

Another very distinct feature is the parallel existence of competition and co-operation which means that “firms do not fight one other but try to find market places for new production without having destructive effects within the industrial district”.³⁴³ Competition rather leads to technological dynamism which is embedded in social culture. “[...] Inventions and improvements in machinery, in processes and the general organization of the business have their merits promptly discussed: if one man starts a new idea, it is taken up by others and combined with suggestions of their own; and thus it becomes the source of

³³⁹ Ramazotti, 2010, p. 959, fn 3.

³⁴⁰ Marshall, 1920, p. 271f.

³⁴¹ Becattini, 1990, p. 41ff.

³⁴² Walter, 2004, p. 46, 50.

³⁴³ Capecchi, 1990, p. 21f.

further new ideas”.³⁴⁴ A district is a very dynamic, adaptive system that conceives technological changes and innovativeness as an important trait.³⁴⁵

Thus, the strong interdependence, or how it sometimes also called “the merger” of the production sphere with that of the social and political structure of the district mentioned above is a crucial factor. Or, as Marshall put it: “The whole mechanism of society rests on confidence”.³⁴⁶ Even more so, the industrial district is shaped by the functioning and interaction of all spheres. The community, including the family, with its social and political life, plays an important role within the district and for its success. Social structures and shared values are shaped as to complement economic activity in providing labor or financial resources especially in the case of the family, and generally offer mutual assistance in times of need and the incentive to become an entrepreneur.³⁴⁷ The district can also be interpreted as network with the community providing social capital and entrepreneurs being connected over kinship ties.³⁴⁸ A district is a “thickening of industrial and social interdependencies in a certain place” that also includes the role of public policy and a local credit system.³⁴⁹ It is an intermediate case between extremes of social relationships and the “capitalist core” found in factories. This also means that a district exhibits a homogenous system of values related to a certain view on work, the family, reciprocity and ethics in general, including the attitude towards change. These rules and values are distributed throughout the district and passed along to every new generation and lead to a strong feeling of belonging, local traditions and social cohesion.³⁵⁰ Industrial districts can accommodate various sets of values and cultures but these have to be complemented by a certain institutional structure, such as “market, firm, family, church, school, local authorities and structures of political parties, cultural and charitable, religious and artistic bodies”. The value system is important for the functioning of the economy of the district and thus is more conceived as enabling than as limiting.³⁵¹

However, it would be misleading to conceive the industrial district as a closed community. Although it has a quite homogenous population, it still heavily relies on being dynamic, innovative and adaptive to maintain the unity of the district which can only happen if the system stays open to outside inflow, for example through migration. This also implies a

³⁴⁴ Marshall, 1920, p. 271.

³⁴⁵ Marshall, 1920, p. 271, Marshall, 1919, p. 284.

³⁴⁶ Marshall, 1919, p. 165.

³⁴⁷ Pyke and Sengenberger, 1990, p. 5f.

³⁴⁸ Piore, 1990, p. 54f., Capocchi, 1990, p. 21f., Becattini, 1990, p. 38ff., Pyke and Sengenberger, 1990, p. 2f.

³⁴⁹ Becattini, 1987, p. 5, Becattini, 1990, p. 46f.

³⁵⁰ Putnam, 2001, p. 21.

³⁵¹ Becattini, 1990, p. 39, 49.

high capacity of assimilation of the migrants to the homogeneous structure of values and views existing within the district, although migration is often a short-distance phenomenon (for example within Italy). The “cultural distance” between native and “alien” also results in behaving differently towards people from within than from outside.³⁵²

To summarize, an industrial districts is has several main features: “the presence of a special ‘atmosphere’; its settlement for a long period of time (more than one generation); a division of labor among the (small and medium) firms collected in the district; the presence of an ‘automatic organization’, that is a high degree of technological complementarities; a continuous interplay between competition and cooperation”.³⁵³ It thus mixes specific socio-cultural characteristics of a community such as values and institutions with the historical-natural facts of a certain territory and the technical aspects of the production process resulting a in dynamic process of interaction within production networks for the flexible allocation of labor and the distribution of products. It is a territorial organism and social reality.³⁵⁴ As in the case of innovative milieus it remains unclear how the development of a district comes about and why they, as in the case of the *Third Italy*, seem almost to appear spontaneously.³⁵⁵ However, for many authors it is obvious that an industrial district can only have long-term success when it besides being able of “systemic integration” is also able of “social integration” that incorporates the “self-organizing capabilities of society as a whole”. Often, economic success comes at the expense of social viability of industrial districts.³⁵⁶

Regional networks are a concept that is immanent to industrial districts which are also more local, rather than international constructs. Regional networks are sometimes also called geographically integrated corporate networks but they are enlarged by its embeddedness in the socio-cultural context of the region. Economic activity within an industrial district is embedded in a dense net of relations. As mentioned before, an industrial district is a special case of innovative milieu that enables an analysis of the different levels of network structure within the region. Networks are often also interpreted as economic interaction and the milieu adds to this the surrounding social context. Both concepts interact but do not need to be identical.³⁵⁷

³⁵² Becattini, 1990, p. 39f.

³⁵³ Belussi, 2009, p. 343.

³⁵⁴ Walter, 2004, p. 40, 47.

³⁵⁵ Walter, 2004, p. 52.

³⁵⁶ Ramazotti, 2010, p. 961, 971.

³⁵⁷ Walter, 2004, p. 109ff.

4. Capitalism: definition, history, typology

“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.”³⁵⁸

4.1. Capitalism since the 19th century – derivation and rapprochement

The term Capitalism was from its creation in the 19th century controversially discussed among and within disciplines, its definition varying enormously in the understanding of different authors, mainly due to the lack of agreement of its precise meaning.³⁵⁹ Therefore, many interpretations exist, of which most are encumbered by value judgments and political connotation.³⁶⁰ Economists and historians are disputing over the question if capitalism is a system that can be described abstractly by various characteristics or if it is rather an historical entity.³⁶¹ This is additionally exacerbated by the fact that the usage of the scientific term is different from that in everyday language, where it is less a means to gain insights but rather an accusation that is more intended to address value judgments and preconceptions.³⁶² In English speaking countries it is considerably less burdened and less political than in Germany, where the term Capitalism was a popular ideological instrument, especially at the beginning of the 20th century. Today Capitalism is on the one hand the self-designated term for the economic modernity, on the other a concept to analyze economic structures.³⁶³

The common ground of all definitions is the association of Capitalism with an economic system for which capital is central for all economic activities, together with a liberal economic order with ‘free’ work(ers) and freedom of property and the accumulation of money and wealth as a common objective.³⁶⁴ 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”³⁶⁵; others see Capitalism merely as a special case of a ra-

³⁵⁸ Heilbroner, 1953, p. 24.

³⁵⁹ The term ‘Capitalism’ is of French origin, and is used in Germany from the 1870s in critical descriptions of the negative development of society. It achieved its terminological breakthrough in Sombart’s “Modern Capitalism”. For a detailed discussion see Brunner; Conze and Koselleck, 1982, ‘Capital, Capitalist and Capitalism’ and also Köster and Plumpe, 2007, p. 4.

³⁶⁰ Pohle, 1910, p. 6.

³⁶¹ See Dobb, 1947, p. 1ff.

³⁶² Pohle, 1910, p. 6.

³⁶³ Plumpe, 2007, p. 363, Bog, 1978, p. 419.

³⁶⁴ Heimann, 1931, p. 14ff.

³⁶⁵ Heimann, 1931, p. 33, my own translation.

tional economy.³⁶⁶ On the other hand, Capitalism cannot only by “identified with a system of unfettered individual enterprise: a system where economic and social relations are ruled by contract, where men are free agents in seeking their livelihood, and legal compulsions and restrictions are absent”, because it would reduce it to a synonym to “a régime of laissez-faire”.³⁶⁷ To the contrary, Capitalism is more than a market economy, as it also includes social relations as part of the economic system, it is thus non-technological.³⁶⁸ Most definitions of the 19th century associate with Capitalism a machinery gobbling up all aspects of society from which no one can escape.

Probably due to its imprecise definition the term Capitalism was not included in many encyclopedias for a long time. It was not integrated into the “Handwörterbuch der Staatswissenschaften” until its 4th edition in 1923, and Palgrave’s “Dictionary of Political Economy” did not contain an article named “Capitalism” until 1926. Today it is left out of many mainstream encyclopedias again because it is not considered a scientific term. One reason for this could be its ideological and political connotation. Some authors dismiss it on the grounds that Walter Eucken’s theory of economic orders replaced the elusive and imprecise term ‘Capitalism’ with its analytical instruments after the Second World War. It is argued that the creation of a hierarchy of economic systems such as the market and the planned economy made the term “Capitalism” obsolete for scientific discussion.³⁶⁹ It has been reactivated within the Varieties of Capitalism (VoC) approach to compare different forms of economic systems, which will be discussed in detail below (see chapter 4.5.)

In this book *Studies in the Development of Capitalism* Dobb distinguishes three different meanings of Capitalism.³⁷⁰ The first is the one coined by Max Weber, who creates the notion of a “spirit” of Capitalism, also inspiring the writings of Werner Sombart. Their approach links culture and economy, showing their interdependency, contrasting the more material approach of Marx (see below) who regarded Capitalism as the inevitable result of technological progress.³⁷¹ Weber’s notion of Capitalism and the capitalistic spirit is closely related to Sombart’s. He distinguishes between modern and pre-modern Capitalism. He defines pre-modern Capitalism as a purely economic phenomenon, existing in any exchange of products with the purpose of making profit. The modern Capitalism instead re-

³⁶⁶ Heimann, 1931, p. 42.

³⁶⁷ Dobb, 1947, p. 3.

³⁶⁸ Appel, 1992, p. 77.

³⁶⁹ See Bog, 1978 for details.

³⁷⁰ Dobb, 1947.

³⁷¹ Schefold, 1994a, p. 75. Joseph A. Schumpeter could be cited as third proponent of this approach, who, for example in Schumpeter, 1942, also combined historical understanding with economic theory, although he was also an advocate of ‘methodological individualism’, and thus an ambiguous figure.

lies on a rational capitalistic spirit inspired by the religious assurance of salvation of Calvinism. Weber creates an ideal-type of Capitalism that requires a certain attitude towards the economy, which is inevitably accompanied by rising rationalization, bureaucratization and professionalization within a homogenous institutional framework. An autonomous system of large-scale enterprises under rational, bureaucratic management emerges, which does not leave space for outdated socio-cultural structures like small family businesses. Local economies are standardized to fulfill the objectives of “individual maximization, rational-legal principles and private accumulation”.³⁷² Capitalism is described by a systematic combination of characteristics and imposes a unique institutional structure on the existing traditional society, with obsolescent cultural idiosyncrasies being replaced.³⁷³ Weber and also Sombart regard the capitalistic development as an ongoing struggle. Keeping up with it and not going to rack and ruin in the evolution of events is another essential attribute of modern economy.³⁷⁴ In their view, social institutions serve as mere accessories to the economic system instead of the economy being embedded into society. The certain attitude needed for modern, rational Capitalism is described by both Weber and Sombart but justified in different ways. It will be shown that both authors consider Capitalism to be an age of separation, by which not merely separating the pre-modern traditional economy from the modern, capitalistic one is meant, changing the notion of what economy is forever, but also the separations taking place in people’s private lives. Both authors and their works on Capitalism will be discussed and compared in detail below (see chapter 4.2. and 4.3.).

The second meaning of Capitalism according to Dobb identifies it with production for an anonymous market with the motive to gain. This definition was created by the German Historical School³⁷⁵ and its concept of development, but associated with a modern monetary economy as the term Capitalism was hardly ever used. Development for the Historical School meant, roughly speaking, that there is a distinction between the natural economy of

³⁷² Yang, 2000, p. 481.

³⁷³ Köster and Plumpe, 2007, p. 4.

³⁷⁴ Parsons, 1928, p.646.

³⁷⁵ The German Historical School (19th century till First World War) regarded history as the key source of knowledge about human actions and economic matters, since these are culture-specific and hence not generalizable over space and time. Thus, the universal validity of economic theorems was also rejected. The School preferred reality, historical, political, and social as well as economic empirical analysis, to self-referential mathematical modelling. Most members of the school were also *Kathedersozialisten*, i.e. concerned with social reform and improved conditions for the common man during a period of heavy industrialization. Members of the Older Historical School were Wilhelm Roscher, Karl Knies and Bruno Hildebrand, Gustav Schmoller was part of the Younger Historical School and Max Weber, Arthur Spiethoff and Werner Sombart were famous members of the so-called Youngest Historical School. Rieter, 1994.

the mediaeval time and the money economy which followed to that.³⁷⁶ The Historical School emphasizes “the area of the market as defining the stages in the growth of the modern economic world”.³⁷⁷ For the authors belong to that school of thought, every economic stage also comes with an increase in morality and ethical progress (*Sittlichkeit*). Most explicitly this is elaborated by Hildebrand, an important member of the Older Historical School, in his work on economic stages. He strongly believed that morality is improving in the course of time and stressed the importance of the forms of economic communication and transactions (by which he means the succession of barter, money and credit). Therefore his stages are natural economy, monetary economy and credit economy.³⁷⁸ His theory already points to the idea of economic style (see below, chapter 4.5.3.). Similarly, also Karl Bücher, a member of the Younger Historical School, developed a stage theory, based on progress in social integration. He defined the stages of hunting and gathering, household economies, city economies and national economies. He is also famous for spurring the so-called Bücher-Meyer controversy³⁷⁹ on a methodological level.³⁸⁰ The Historical School, with its relativity of economic systems and epochs associated with particular characteristics without general economic laws necessarily needed, has an important influence on Weber and Sombart, who are part of the Youngest Historical School, and for the emergence of the so-called ‘intuitive theory’.³⁸¹ However, as stated above, the Historical School hardly ever uses the term Capitalism because the aforementioned need to draw a line between traditional and modern economy does not fit into their theory of evolutionary stages with uninterrupted economic development. In contrast, Weber and Sombart both regard the need for a concept that reflects the disruption between the two economic orders as essential, which led them to the development of the notion of the ‘spirit’ of Capitalism in their works.³⁸²

³⁷⁶ Stage theory is an idea of the 19th century and is closely connected to the notion of constant development (both material and a progress of morals), but the idea itself can already be found in Aristotle and in the 18th century in authors like Adam Smith among others. This dissertation refrains from a detailed discussion of the theory of the economy of stages. See for example Hildebrand, 1971 and Bücher, 1917. For a detailed discussion, see Schefold, 1996 and Schefold, 2004a. An overview can be found in Schachtschabel, 1971a.

³⁷⁷ Dobb, 1947, p. 6.

³⁷⁸ Hildebrand, 1971 and Hildebrand and Schefold, 1998, for a discussion see Schefold, 2004a, Schefold, 1998, p. 407 and Schefold, 1996, esp. p. 178ff., 186.

³⁷⁹ See Finley and Bücher, 1979 for details. The Bücher-Meyer controversy took place in the 1890's, opposing Bücher's primitivistic view of the antique against Meyer's concept of modernism, hence analyzing the antique as a capitalist society.

³⁸⁰ Bücher, 1971, Schefold, 1998.

³⁸¹ Salin, 1967, p. 180ff. and Schefold, 1996, p. 187. Please refer to chapter 4.5.3. for a discussion of the notion of the ‘economic style’ and ‘intuitive theory’.

³⁸² Köster and Plumpe, 2007, p. 5f.

The third meaning of Capitalism is derived from Marx³⁸³, the most important forerunner of Weber and Sombart, with whom most people identify the term and the concept of Capitalism. He associates Capitalism with a certain mode of production, which includes that the ownership of means of production is concentrated within a certain class of the society, which consists of only a small group of private owners. In contrast, a propertyless work force emerges, which through the specific process of production is inseparably bound to contract labor. Such created labor-power is free from feudal obligations but also free from ownership of means of production.³⁸⁴ In Marx' notion of Capitalism labor itself becomes a commodity for which a market has to be created. This was possible through the emergence of the 'double-free' class of laborers, the proletarians. For those people the sale of their labor power is the only way to make a living, thereby giving the owner of the means of production the possibility to exploit them.³⁸⁵ This means that workers do not get the full value of their work but only a fraction, which is defined through wage. The surplus labor is appropriated by the 'capitalists'. The production of commodities becomes anonymous, made for unknown demand and therefore creates "anarchy of production".³⁸⁶

Capitalism for Marx is an epoch in social and economic development, connected to a certain period in history.³⁸⁷ Although Sombart and Weber define this the same way, both push ahead in their works, which separates them from Marx but also from each other. Marx 'historical materialism' is the starting point of Weber's thinking and more notably, Sombart's, who goes beyond that method to create his own type of "cultural morphology".³⁸⁸ He provides a multicausal explanatory model for the origins of the capitalistic spirit.

Modern Capitalism has shaped the culture of all the societies in which it emerged, beginning with Europe since the late 18th century. However, the cultural impacts of Capitalism are extremely varied, depending on the institutional preconditions dominant in a country.³⁸⁹ Yet, it has some key concepts to it, like the profit motive, human desire and the market economy. The capitalist system is one based on private ownership and consolidation of the means of production, where the production of commodities is guided by a profit motive to satisfy human desires. The standard textbook defines this principle as "the study

³⁸³ See Marx, 2000 [1872]. Marx' theory of Capitalism will not be discussed in detail as it is outside the scope of this dissertation. Please see for example Bertram Schefold's essays on Marx in Schefold, 2011a.

³⁸⁴ See Kromphardt, 1991, p. 20 f.

³⁸⁵ Dobb, 1947, p. 7.

³⁸⁶ Marx, 1970 [1887], Vol. 1, chap. 15, section 8.

³⁸⁷ Parsons, 1928, p. 642.

³⁸⁸ Parsons, 1928, p.646 and Sombart, 1987 [1908-1927], Vol I,1, preface to 2nd ed. and introduction.

³⁸⁹ Screpanti, 2001, p. 255. See also chapter 3.6.

of human choice in using scarce resources to satisfy unlimited wants”.³⁹⁰ The operations of the market economy determine how much is invested, how goods are distributed and in general decide about production, pricing of goods and services. Economic growth since the industrial revolution has been consistently strong, life expectancy has increased considerably, and child mortality has decreased in every developing region of the world.³⁹¹

Additionally, one of the most important features of Capitalism is competition. It promotes progress which also encourages entrepreneurs to use their knowledge and resources to accumulate profits. This is complemented by a culture of desire which means that the higher the desire of consumers for certain goods, the more can be sold on a market, which then expands and which results in an increase of profits. Capitalism organizes itself in complex decentralized systems without the need of external guidance or planning mechanisms. The transactions on free markets serve as price signal and the system regulates itself. Private enterprises and ‘free’ markets are seen as the core of Capitalism, giving the state only the role as ‘night watchman’ that sets the legal framework of the economy and protects private property.³⁹²

In a more recent definition, McNally names the “three basic elements of capitalism” as “the drive to amass capital; the emergence of market society; and the bifurcation of secular authority”.³⁹³ The third element means that “an autonomous, self-directing economic realm appears that assures the continued existence and social influence of capital-holders [...] The power structures of ‘the state’ and ‘the economy’ become different realms, each with its own logic, yet a need to coexist in the same territory. [...] [I]n order to survive and thrive, capital must exist in a mixed state of independence from and dependence on state power”.³⁹⁴ Heilbroner adds that although markets are the main organizing principle and exercise competitive pressure via the price mechanism, “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 or of its distinctive bifurcation of authority”.³⁹⁵ Capitalism is based on the accumulation of capital and the dynamic of exchanging money for goods and vice versa, which is the “major organizing basis for sociopolitical life”.³⁹⁶ Capitalism is always seeking new production opportunities to further expand and therefore is not only

³⁹⁰ See for example Samuelson and Nordhaus, 2010, Bofinger, 2007 or Mankiw, 2007.

³⁹¹ Heimann, 1956, p. 512f.

³⁹² Friedman, 2002, p. 4, McNally, 2007b, p 18.

³⁹³ McNally, 2006, p. 2.

³⁹⁴ McNally, 2006, p. 5.

³⁹⁵ Heilbroner, 1993, p. 96.

³⁹⁶ Heilbroner, 1985, p. 143.

open for change and progress, but simultaneously demands it in the economic, social and political sphere.³⁹⁷ Another important element of Heilbroner's definition of Capitalism is the emergence of a 'capitalist' class and their rise "from a subordinate position within society" to one with control over strategic resources and social functions which triggers the aforementioned bifurcation of authority.³⁹⁸

Other definitions define Capitalism as an amoral process of unlimited accumulation of capital by formally peaceful means. The repeated reinvestment of capital into the economic system with the aim of drawing profits, combined with wage labor and competition results in the dynamic of the capitalist system. The capitalistic system demands at the same time a high level of commitment of workers, especially on the managerial level to create a meaning for their lives – a modern form of the spirit of Capitalism. In Boltanski's sense of the term the 'spirit of Capitalism' is an ideology that justifies the involvement into the capitalist system.³⁹⁹ This involvement includes being part of what Boltanski within his approach to Capitalism terms 'project-based polis'. For him the model of a hierarchical and integrated large-scale corporation that is so important for Weber's view on Capitalism has been replaced by a „network metaphor“.⁴⁰⁰

Tobias ten Brink distinguishes five structural characteristics of capitalist system, which he differentiates from a capitalist society that also has to include institutions such as housework, family and cultural factors. He names the horizontal axis of capitalist competition which describes the decentralized structure of capitalist markets that guides cooperation and competition between companies that leads to capital accumulation and innovation. Next he lists the vertical axis of capitalist social relations, namely the conflict between labor and capital over the participation in the processes of decision-making, planning and controlling production, distribution and consumption. The third feature consists of the monetary and fiscal relations, the fourth is the role of the state in capitalist systems and the interaction between economic and political actors. The fifth dimension of a capitalist system is its international and transnational embeddedness.⁴⁰¹

As this last point indicates, Capitalism is often described as a global system. Globalization has increased the mobility of people and capital since the last quarter of the 20th cen-

³⁹⁷ Heilbroner, 1993, p. 134f. A similar definition can be found in Boyer, 2010.

³⁹⁸ McNally, 2007a, p. 182f. and Heilbroner, 1985, p. 41.

³⁹⁹ Boltanski and Chiapello, 2001, p. 462, Boltanski; Chiapello and Tillmann, 2006, p. 43.

⁴⁰⁰ Boltanski and Chiapello, 2001, p. 470.

⁴⁰¹ ten Brink, 2010, p. 4ff. He defines the specific combination of characteristics in China as market-liberal state capitalism as a consequence of the strong role of the state and the symbiotic relationship with companies. However, he mainly focuses on state-owned enterprises and leaves aside the private sector and its dynamics.

tury. The growing internationalization of capital and the relocation of operations of large corporations to low-wage states especially contributed to the belief that the state is no longer able to control economic forces. However, in most modern states, some centralized economic planning exists, for example to set interest rates on financial markets, but more importantly to protect the workers in regulating the labor market. Those regulations actually allow the market to operate more efficiently.⁴⁰² In implementing those policies, the state guarantees a legal framework for doing business and especially protects private property rights in securing ownership and transactions, setting “the economic rule of the game”.⁴⁰³ Thus, governmental intervention can improve market outcomes also in economic crises when due to market failures resources are not allocated efficiently. At the same time Capitalism has created and maintained the political and economic institutions needed during its historical development to function optimally, and more so it “becomes increasingly capable of defying, or existing ‘above’ the state”.⁴⁰⁴ Capitalism is a system that reveals a great ability to adapt to different epochs and usurping different cultures and societies.⁴⁰⁵

However, the relationship between a political system and Capitalism is not restricted to democratic orders. In the 20th century, Capitalism also emerged in as diverse political systems such as liberal democracies, fascist regimes, monarchies, and single-party states, with the most recent example of China. Some researchers tried to prove that capitalist development inevitably leads to the emergence of democracy, but authoritarian regimes like China have been able to achieve economic growth without making concessions to greater political freedom (for a more detailed discussion please refer to chapter 5 and 8).

In this work, it will not be tried to find an unambiguous, ultimate definition of Capitalism, but rather the view of Max Weber and Werner Sombart will be presented, whom have the most valuable and useful definition for this purpose. Their view creates an ideal type of Capitalism that assumes a certain attitude towards the economy with increasing rationalization, bureaucratization and professionalization within a homogenous institutional framework. In this setting, personal connections do increasingly not play an important role for doing business but are replaced by contractual relations. This point of view is still a common argument within mainstream economic literature.

⁴⁰² Polanyi, 1944, p. 251f.

⁴⁰³ North, 1998, p. 71f., 167.

⁴⁰⁴ Heilbroner, 1985, p. 94.

⁴⁰⁵ Boltanski; Chiapello and Tillmann, 2006, p. 257.

4.2. Max Weber's definition of Capitalism

“The most trifling actions that affect a man's credit are to be regarded. The sound of your hammer at five in the morning, or eight at night, heard by a creditor, makes him easy six month longer; but if he sees you at a billiard-table, or hears your voice at a tavern, when you should be at work, he sends for his money the next day; demands it, before he can receive it, in a lump”.

*Benjamin Franklin*⁴⁰⁶

At the beginning of the 20th century, Max Weber described the relatively new economic system called Capitalism developing then in Europe. He defined 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”. Rational Capitalism has the following institutional characteristics: firstly, a capitalistic enterprise holds profit-making as its sole end; profit is the criterion of its success or survival. Secondly, profit is pursued by the ‘capitalistic adventurers’ by rationality, continuity, and moral restraint. Also, the labor force is a legally free wage-earning class separated from ownership of means of production. This free labor is rationally organized under bureaucracy, the most efficient pattern of organizing large numbers of people for performing common impersonal functions for Weber. And lastly it involves modern technical features such as production technology and technical means of exchange and distribution, and the price mechanism in competitive markets.⁴⁰⁷

In his study *The Protestant Ethic and the Spirit of Capitalism*⁴⁰⁸ Max Weber analyzes the relationship between religion and the economy and its relevance for the emergence of Capitalism. For him, although he avoided a conclusion on causality and merely strived to analyze the influence of religion on the emergence of a certain economic system, the modern rational capitalistic spirit of Capitalism relies on the religious assurance of salvation of Calvinism and for him described “the attitude which seeks profit rationally and systematically”.⁴⁰⁹ This new type of economic order was developed as “a very different form of Capitalism which had appeared nowhere else: the rational capitalistic organization of (formally) free labor”.⁴¹⁰ Not only is free labor a major characteristic of rational bourgeois Capitalism, but it is also necessary to have a “rational industrial organization, attuned to a regular market, and neither to political or irrationally speculative opportunities for profit”. This can be accomplished with the aid of rational business book-keeping and the “rational struc-

⁴⁰⁶ Weber, 1976 [1930], p. 48f.

⁴⁰⁷ Parsons, 1967 [1937], p. 503-507.

⁴⁰⁸ See Weber, 1976 [1930].

⁴⁰⁹ Weber, 1976 [1930], p. 64, Schefold, 1996, p. 189.

⁴¹⁰ Weber, 1976 [1930], p. 21.

tures of law and of administration”, which provides a calculable legal system and administration in terms of formal rules.⁴¹¹ Essential for this type of economic system is thus freedom of markets with a regulated exchange and rational forms of organizations like corporations that use budgets and capital accounts for their business calculations with the aim of profit maximization.

Weber defines rationalization⁴¹² as a unique view of the world achieved only by Western civilization. He associates it with the rise of science together with the “belief that sense, perception and reasoning (rather than faith) are the sole or ultimate source of knowledge”.⁴¹³ By rationalization of bureaucracy he therefore indicates a process in which a firm is reorganized with the aim of profit maximization. This also means the growth of an elaborately formed organization. Thus, Weber emphasizes the legal separation of corporate from personal property and the invention of rational book-keeping as distinctive patterns that made Western Capitalism unique. These characteristics are “indispensable requisites for [...] independence”, which other parts of the world like the Far East, the Near East and in Antiquity lacked.⁴¹⁴ He uses rational as opposed to irrational Capitalism in the sense of a Capitalism that develops the methods and the increased quantity of production and can therefore also be called productive. Irrational Capitalism in contrast would not enhance technical progress or growth and thus is 'parasitic'.⁴¹⁵

Capitalism is therefore defined as a function of a certain spirit, described by a systematic combination of characteristics, creating the modern, rational Capitalism. Max Weber's works were not only concerned with the evolution of Capitalism, they were also, and this is probably what stands out, involved with what this spirit of Capitalism is, what the consequences of this for people are and how they could lead their lives within this economic system. He very vividly describes the spirit of Capitalism as having irretrievable consequences which changes the lifestyle of people fundamentally. Max Weber also assumed that it is the nature - or spirit - of modern Capitalism to impose a unique institutional struc-

⁴¹¹ Weber, 1976 [1930], p. 21f and 25.

⁴¹² Max Weber differentiates between several forms of rationality and additionally between rational actions and rationality. Rationality is “neither ‘reasonableness’ nor a high degree of theoretical scientific development, but a thoroughgoing systematization and adaptation of practical life to a particular set of ideals”. It rests “on a complex, hierarchically organized division of tasks [...] and impersonality, in the sense that [...] commands are given and obeyed by virtue of a ‘legal’ authority vested in the position of the individual who gives them, not his personal qualities”. Parsons, 1928, p. 36f. He defines four types of rationality: affectional, traditional, value rational and purposive rational. He was, for example by Ludwig von Mises, criticized for this approach. Mises claims that there is only one unique form of rationality: purposive rationality. See Weber, 1988 [1922], p. 427-452, 475-488 and also Schefold, 2004b and Weber; Hellmann and Palyi, 1991.

⁴¹³ Weber and Andreski, 2006, p. 7f.

⁴¹⁴ Weber and Andreski, 2006, p.26.

⁴¹⁵ Weber and Andreski, 2006, p. 8f.

ture on the existing traditional society to develop, with obsolescent cultural idiosyncrasies being replaced. Capitalism had constituted a completely new epoch, breaking with the old economic order and challenging the existing institutions. Constructing a severe disruption between the traditional economy and modern rational capitalism lends Max Weber's arguments plausibility. It also separates him from the stages theories of the Historical School that interpreted development more in an evolutionary manner. For Weber, modernity and hence, Capitalism, is defined by inescapable and ongoing conflicts; an interpretation he shares with Sombart. Both also agree on the impression that Capitalism develops a dynamic which becomes impossible to stop once it started; competition is the fuel that keeps this 'machine' going. Sombart calls this the "esbat" of Capitalism.⁴¹⁶ Price becomes the means of struggle in markets to the end of economic surviving. This "struggle for gain is in a 'continuous, rationally conducted capitalistic enterprise'".⁴¹⁷ Weber stated about the rational economy: "It is oriented on money prices, found in a fight of interests among men in the market. Without estimation in money prices, that is, without any fight, there is no possibility for calculation given. Money is the most abstract and 'impersonal' concept in the existence of men".⁴¹⁸ Capitalism is accompanied by an enormous increase in production of goods but this is not connected with rising social harmony or distributive justice.⁴¹⁹

This shows that an even more important prerequisite is a cultural factor that is manifested in both economic ethos and a special business ethic for both entrepreneur and employer. This results in a causal relation between the "spirit of Capitalism" and the protestant ethic. The economic spirit is the prerequisite, not the result of Capitalism. A state of mind had been developed that fitted perfectly to the functional characteristics of the capitalistic economy.⁴²⁰ Thus, a certain form of organization is not enough to create the necessary attitudes for Capitalism which is therefore not merely a reflection of its material elements.⁴²¹ In opposition to Marx' historical materialism Weber stresses the importance of "ideas and ideals, which instead of always being reflections of materialistic conditions can be independent, voluntaristic forces in initiating socio-economic change".⁴²²

Therefore, not only is the notion of free labor essential for the Weberian type of Capitalism, but institutional preconditions also play an important role, especially the spatial separation of business from the household, therefore also the separation of corporate from

⁴¹⁶ See Köster and Plumpe, 2007, p. 3ff., 10, 18f., Sombart, 1987 [1908-1927], Vol. III,2 p. 1010.

⁴¹⁷ Parsons, 1928, p. 36.

⁴¹⁸ Weber, 1963 [1924], p. 544: „Zwischenbetrachtung“, my own translation.

⁴¹⁹ Köster and Plumpe, 2007, p. 8.

⁴²⁰ Weber, 1976 [1930], p. 91ff.

⁴²¹ Parsons, 1967 [1937], p. 516f.

⁴²² Weber, 1968, p. xv.

personal property.⁴²³ But not only physical institutions are separated, destructing formerly holistic units into fractions; Capitalism also separates people from their homes. In 19th century Germany, family structures were still built so as to fit in the feudal structures of medieval Europe. Without going into details of the historical development, in the end the traditional self-sustainable household was not able to counter Capitalism and the long-established institutions withered away (see also chapter 5.2). In this process, the unity of house and business was lost, which for Weber was a mandatory prerequisite for successful capitalistic production. The “iron cage” 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.⁴²⁴ For Weber, Capitalism changed the lifestyle of people fundamentally once it emerged; he portrays it as separation of formerly unified units and institutions, breaking with the old economic order and challenging existing traditional institutions. Free labor thus also means social inequality, which forces people to work in factories only able to sell their labor power. 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”.⁴²⁵

Individuals had to be turned into ‘fictitious commodities’⁴²⁶ who found themselves in an inescapable ‘iron cage’, traded on (labor) markets for sale to entrepreneurs and became a class of propertyless workers that was forced to sell its labor power, not being able to escape that “iron cage”.⁴²⁷ The traditional family division of labor was put under pressure because production and retail sale were disconnected in time and space by the intervention of an entrepreneur who advanced money for production with the object of subsequent sale at a profit.⁴²⁸

After migrating to the cities, the significance of the household in providing shelter and guidance vanished. In the traditional economic, the *pater familias* had sole responsibility for business, organizing the work within the household.⁴²⁹ With the emergence of Capital-

⁴²³ Weber, 1988 [1922], p. 612.

⁴²⁴ Köster and Plumpe, 2007, p. 3f., Weber, 1976 [1930], p. 181.

⁴²⁵ Weber, 1976 [1930], p. 75.

⁴²⁶ Polanyi, 1944, p. 68ff.

⁴²⁷ Weber, 1976 [1930], p. 181. The ‘iron cage’ of course is more than just a metaphor for the capitalist labor market. It is a concept that illustrates that the values of Capitalism are so internalized that the expression of a ‘free will’ becomes impossible.

⁴²⁸ Brunner, 1956, p. 33.

⁴²⁹ Dülmen, 1995, p. 41 and Weber - Kellermann, 1988, p. 144.

ism, 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.⁴³⁰

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 achieve this, Capitalism needs to destroy and override all traditional socio-cultural structures of society to prosper. Weber's concern was mainly with the cultural significance of Capitalism which had constituted a completely new epoch of evolution in economy and society, breaking with the old economic order and challenging the existing institutions. In that sense it artificially constructed the notion of a traditional economy separated from the emerging modern, capitalistic economy, which as the main characteristic exposes the accumulation of wealth that goes far beyond the former pure satisfaction of needs.⁴³¹

Related to the aim of money acquisition is that gain is sought without limits such as the needs of a standard of living or any other notion of traditional contentment. Hard work is considered a duty and a moral obligation that requires discipline and control. It is "systematic, continuous rational honest work in the service of economic acquisition". 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.⁴³² This separates the modern human from the traditional which – at least in the philosophical thinking of the time - "contrary to the ethical feelings of whole epochs"⁴³³ - did not strive to earn more and more money but were content in the Aristotelian sense to lead a 'good life'. This Weber refers to as "backward"; Calvinism gave people the means to 'overcome traditionalism' and expose 'a cool self-control and frugality which enormously increase performance'.⁴³⁴ "The sole purpose of his life-work, to sink into the grave weighted down with a great material load of money and goods" and the difference between the "hand-to-mouth existence of the peasant", the "privileged traditionalism of the guild craftsman and of the adventurer's Capitalism" can only be understood from the viewpoint of Calvinism and its role for the development of rationalism and hence capitalis-

⁴³⁰ Egner, 1985, p. 140f.

⁴³¹ See Köster and Plumpe, 2007, p. 4, 6.

⁴³² Weber, 1976 [1930], p. 54-67.

⁴³³ Weber, 1976 [1930], p. 73.

⁴³⁴ Weber, 1976 [1930], p. 63.

tic economy.⁴³⁵ Nearly the same description of capitalistic characteristics can be found in Sombart, as described in chapter 4.3., but Weber adds religion as the main cause for that development. Thus, a certain spirit is the prerequisite not the result of Capitalism.

Weber chose Calvinism for that purpose because it especially represents the asceticism that shows the closest affinity to the spirit of Capitalism. It rests on predetermination which committed the believer to an active, ascetic, this-worldly life with work being a sign of true faith and self-confidence that oneself was among God's chosen. "Labor must [...] be performed as if it were an absolute end in itself, a calling".⁴³⁶ This also cultivated an impersonal attitude toward the duties of an office and fostered the individualism necessary to rationally organize labor in a competitive world. Through the notion of predestination Calvinism also created an "inner isolation of the individual".⁴³⁷ This derives from the fact that no worldly agency exists between the individual and God as would be the case in Catholicism. For Calvinists, other humans might only endanger the election by God, therefore individuals need to separate themselves from their fellows to ensure their own election.⁴³⁸ Furthermore, although the election by God is predetermined before one is even born and the 'outcome' cannot be changed 'ex post', Calvinists still work hard, as success in life and work means that one belongs to the chosen ones. It is a mechanism to overcome this uncertainty. Thus, rationality is not only restricted to the economic realm but also has an effect on how people lead their life in general.⁴³⁹

Max Weber believed that Capitalism will always and inevitably lead to a rising bureaucratization and rationalization and thus mass production, which does not leave space for outdated socio-cultural structures like small family-owned businesses: "The modern capitalist enterprise rests primarily on calculation and presupposes a legal and administrative system, whose functioning can be rationally predicted, at least in principle, by virtue of its fixed general norms...The modern enterprise finds incompatible the theocratic or patrimonial governments...whose administrations operated according to their own discretion and, for the rest, according to inviolably sacred but irrational traditions...The specific features of modern capitalism, in contrast to these ancient forms of capitalist acquisition, nowhere developed in such irrationally constructed states....".⁴⁴⁰ Max Weber assumed that it is the nature of modern Capitalism to impose a unique institutional structure on the existing

⁴³⁵ Weber, 1976 [1930], p. 72, 76.

⁴³⁶ Weber, 1976 [1930], p. 62.

⁴³⁷ Weber, 1976 [1930], p. 108.

⁴³⁸ Parsons, 1967 [1937], p. 525f.

⁴³⁹ Kromphardt, 1991, p. 40.

⁴⁴⁰ Weber and Roth, 1978 [1922], p. 1394f.

traditional society to develop, with obsolescent cultural idiosyncrasies being replaced. 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 an autonomous system which was dominated by a rational spirit based on efficiency and profitability and at least similar institutions no matter where it arose.⁴⁴¹ For this, personal relationships had to become less important and had to be replaced by contractual relations. Enterprises grew in size and were put under efficient rational management and thus become increasingly independent of specific individuals. Impersonal bureaucratic authority replaced the traditional, personal authority. Additionally, "administrative staff should be completely separated from ownership of the means of production or administration".⁴⁴² In this view, social institutions serve as mere accessories to the economic system instead of the economy being embedded into society. The economy becomes an autonomous system which is dominated by a rational spirit based on efficiency and profitability. When enterprises grow in size and are put under efficient rational management, they become increasingly independent of specific individuals. Impersonal bureaucratic authority replaces the traditional, personal authority. As mentioned before, the growing bureaucratization of the enterprises with the sole aim of profit maximization not only had separated the sphere of business from the sphere of the household, but also corporate from personal property. The character of the entrepreneur increasingly became unimportant for the success of a firm and the maximization of profit does not depend on the personality and connections of one specific individual. In contrast, it was organized in a way to be maximally independent of a certain individual. Therefore, the development of capitalistic societies is connected with increasing rationalization, bureaucratization and professionalization; personal connections and the family do increasingly not play an important role for doing business but are replaced by contractual relations. In addition to the increasing integration of enterprises in relation to rising bureaucratization Weber also analyzed the development of the so-called middle classes that serve as buffer between working and upper class and who derive their position also from their authority with this bureaucratic system in the economic and politics (see also chapter 7). However, he emphasizes the significance of the entrepreneur for capitalist production and in this precedes the famous work of Schumpeter and by the no-

⁴⁴¹ Weber; Henderson and Parsons, 1947, p. 338f.

⁴⁴² Weber; Henderson and Parsons, 1947, p. 331.

tion of a charismatic leader of a bureaucratic corporation he furthermore precedes the thesis of the ‘managerial revolution’.⁴⁴³

As has previously been said, the rational characteristics of state and economy in a capitalistic society are associated with a whole set of values that constitute Weber’s ‘spirit of Capitalism’. Most importantly, money acquisition is now treated as an end, rather than a means and is not seen as evil any more, although the entrepreneur is still careful of the “ethical limitations” given by religion. Those constraints given by religion seized over time in a matured Capitalism, and with “the dying out of the religious root, the utilitarian interpretation crept in unnoticed” - but the point for Weber is rationality as the major force people follow and that keeps things ‘orderly’.⁴⁴⁴ As he says “the Puritans wanted to work in a calling; we are forced to do so”, finding ourselves inside the “iron cage”.⁴⁴⁵ Weber’s image of the ‘iron cage’ is at the same time prison and home. Within, it is possible to construct personal relations, but at the price of giving up individuality and freedom.⁴⁴⁶

In conclusion, the system of modern Capitalism in Weber's sense is constituted in a process of rationalization under the conditions described above. The autonomous and actively-participating citizen of occidental cities is the main agent of the process, supported by the instructions and value-system of Calvinism. 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 labor and thus, be successful. Weber’s Capitalism is designed as an ideal-type that does not exclude the existence of a real type, hence, differently developed forms of Capitalism. The ideal-type contains characteristics that need not exist in reality in their pure form and is thus a utopia.⁴⁴⁷ However, for Weber the notion of rising rationalization and bureaucratization in combination with growing enterprises, which through the professionalization of the

⁴⁴³ Schefold, 2004b, p. 455. An entrepreneur in Schumpeter’s sense is a “man of action” who innovates and by that induces changes to an economy and is differentiated from capitalists and other business owners such as shareholders or what is also called by Schumpeter “the static leader”. An entrepreneur’s strength lies in pioneering new products (‘new combinations’) or methods of production, taking on risk financially and otherwise. His “creative destruction” often results in the failure of competitors. The term ‘entrepreneur’ stems from a French verb of the 13th century (*entreprendre*), which means ‘doing something’ or ‘undertake’ and became a noun during the 16th century, which was for the first time used academically by Richard Cantillon. Later it was taken on for example by Jean-Baptiste Say and John Stuart Mill. Throughout this dissertation the term ‘entrepreneur’ is used in Schumpeter’s sense. Schumpeter and Röpke, 2006 [1912], chapter 2, Swedberg, 2007, Sobel, 2008, Schumpeter, 2000 [1928].

⁴⁴⁴ Weber, 1976 [1930], p. 177.

⁴⁴⁵ Weber, 1976 [1930], p. 181.

⁴⁴⁶ Sennett and Bischoff, 2005, p. 151. The ‘iron cage’ is by others also interpreted as coerce from which people seek to escape and something where they can never feel at home in.

⁴⁴⁷ The abstract notion of the ideal-type structures reality in bringing historical configurations in context that itself is shaped by rationality. Ideal-types therefore correspond to a specific form of rationality. See Schefold, 2004b, p. 453, Parsons, 1928, p. 31, Weber, 1988 [1922], p. 190ff., Weber, 1976 [1922].

entrepreneur also becomes increasingly independent of certain individuals are necessarily connected to Capitalism.

4.3. Werner Sombart's approach to "Modern Capitalism"

Werner Sombart (1863-1941) is one of the most famous members of the Youngest Historical School. In line with the research program of this school (see above), which combines an historical and a theoretical approach, he analyzes the phenomenon of modern Capitalism, particularly the reasons for its emergence. He "claims to have made the first scientific approach ever to the concept of 'capitalism'".⁴⁴⁸ In doing so, he goes beyond the theoretical horizon of the stages theory of the German Historical School because he uses more than one criterion to characterize an economic epoch.⁴⁴⁹ In trying to systemize economic life and defining economic systems, he "targets the phenomenological description of a formal connection brought about by a unity of inner orientation", but is actually "talking about what was later to be called economic style".⁴⁵⁰

Instead of the notion of stages, he uses the term economic system, which for Sombart is defined as a meaningful portrayal of an economy, which basic principles reveal a specific form.⁴⁵¹ Sombart wants to identify the basic structure of an economy and construct a theory within an economic system to understand the meaning of economic activity.⁴⁵² An economic system for him is a "particular organization of economic life within which a particular mental attitude predominates and a particular technique is applied",⁴⁵³ and thus "a number of spiritual and material, natural and artificial circumstances".⁴⁵⁴ It is not a mechanism assembled from individual components.⁴⁵⁵ Each economic system is connected with a certain epoch in history and its material definition has to include three aspects: a certain form of organization based on private initiative and exchange, sophisticated technology, and a mental attitude or spirit. Essential to this thought is the rational capitalistic

⁴⁴⁸ Schneider, 1996, p. 31.

⁴⁴⁹ Schefold, 1988, p. 241f., See also Chapter 4.1 and 4.5.2.

⁴⁵⁰ Schefold, 1995, p. 224, also Schachtschabel, 1971b, p. 12.

⁴⁵¹ Schachtschabel, 1971b, p. 13.

⁴⁵² Theory in Sombart's sense is defined as "consistent and unified system of concepts to be used in the analysis of social phenomena", not merely the system of (general) equilibrium of the orthodox theory.⁴⁵² It is also derived from cultural sciences, which for Sombart also included the so-called 'interpretative or hermeneutic economics' [*verstehende Nationalökonomie*, see below chapter 4.5.2] and which for him were "the expression of the only aristocracy of which the bourgeois culture is capable". Sombart, 1950 [1929], p. 341, translation taken from Schefold, 1995, p. 222.

⁴⁵³ Parsons, 1928, p. 643 f.

⁴⁵⁴ Sombart, 1987 [1908-1927], Vol. I, 1, p. 17f., 21ff. Translation taken from Schefold, 1995, p. 224, Gottschalk and Broyer, 2004, p. 39.

⁴⁵⁵ Gottschalk and Broyer, 2004, p. 40.

entrepreneur, state intervention and bureaucratization.⁴⁵⁶ This especially in the ‘last phase’ of Capitalism points to a socialist, planned economy.

With the coinage of the phrase ‘Capitalism’ modeled after the ideas of Marx, he categorizes the development since the medieval times.⁴⁵⁷ He uses a dichotomic approach within the three main components attitude, organization and technology to characterize a specific economic system and the separation of traditional from modern economies. He contrasts the “satisfaction of needs” (*Bedarfsdeckung*) with the “principle of acquisition” (*Erwerbsprinzip*), traditionalism with rationalism and solidarity with individualism to describe the economic mentality and continues with similar dichotomies for the other two elements.⁴⁵⁸

In his work *Modern Capitalism*⁴⁵⁹ Sombart follows the trace of Karl Marx, who “only occasionally specified one or two elements of this concept”.⁴⁶⁰ Like him, Sombart evaluates Capitalism as an inexorable, even instinctive historical process motivated by capital utilization.⁴⁶¹ He writes *Modern Capitalism* with the aim to present a “systematic, genetic treatment of the development of European and American economic life as a whole”.⁴⁶² Sombart characterizes Capitalism as defined by the principle of acquisition, individuality and competition and governed by economic rationality. This includes the freedom of trade, private property and organization of the economy by the private sector as well as an aristocratic structure of society.⁴⁶³ It is an exchange economy with two different classes of people: those who own the means of production and the “unprosperous only-workers”. The first, the entrepreneurs, are also responsible for the management and are therefore economic subjects, whereas the latter are only economic objects. Both groups are interconnected by the market and motivated by the principle of profit-seeking and economic rationalization”.⁴⁶⁴

Sombart also tries to both historically and theoretically define the essence of Capitalism, which for him can be found in his creation of the term “spirit” (*Geist*) that also in-

⁴⁵⁶ Sombart, 1987 [1908-1927], Vol. I, 1, p. 319f., Gottschalk and Broyer, 2004, p. 44f.

⁴⁵⁷ Appel, 1992, p. 33.

⁴⁵⁸ For a further discussion and details, please refer to Gottschalk and Broyer, 2004, p. 39f.

⁴⁵⁹ Whereas the first edition of *Modern Capitalism* following Marx’ arguments in emphasizing the material aspects of the emergence of Capitalism closely hardly gained recognition of the scientific community, the 2nd edition had a much greater impact. It is differentiated from the 1st edition by more stressing the immaterial, hence spiritual, factors with rationalization, objectivation, contractualization as forming elements. Appel, 1992, Backhaus and Sombart, 1996, p. 11f.

⁴⁶⁰ Sombart, 1909, p. 690, my own translation.

⁴⁶¹ Appel, 1992, p. 9, 14.

⁴⁶² Parsons, 1928, p. 643.

⁴⁶³ Sombart, 1971 [1922], S. 365ff.

⁴⁶⁴ Sombart, 1987 [1908-1927], Vol I,1, p. 319.

spired Max Weber when writing his *Protestant Ethic*. This attitude towards the economy, an “economic mentality”, is found in the moral concepts and setting of goals of economic actors.⁴⁶⁵ Sombart wants to understand the historical development that led to the creation of the capitalistic economy, because “Capitalism has to be there first before there are capitalist motives. And I can only understand these if I know what Capitalism is”.⁴⁶⁶ This is in contrast to Weber who assumes that the spirit of the entrepreneur is the prerequisite for Capitalism, not its result.⁴⁶⁷

Thus, the spirit of an epoch is a unique phenomenon of this particular period of time. Sombart believes that “at different times different economic attitudes have always reigned, and that it is this spirit which has created the suitable form for itself and thereby an economic organization”, which for him is the fundamental idea of his work.⁴⁶⁸ Sombart’s spirit is therefore a mixture of an adventurous entrepreneur and a rational bourgeois. The first can either be a conqueror, inventor, explorer, organizer or merchant. Only when this dynamic entrepreneurial spirit is combined with a morally upright bourgeois spirit that guarantees a well-ordered, rational management modern Capitalism can develop.⁴⁶⁹ The organization of capitalistic production needs the help of certain techniques of which Sombart describes double-entry book-keeping as the most important symbol. This method separates capital stock and the managing person and so enables production to become abstract and thus unlimited.⁴⁷⁰ The virtues of tenacity and perseverance needed to be merged with business ethics and accountability to be able to create a rational, well-planned management.

This means that the origin of Capitalism for Sombart lies in the human mind and the creation of conditions suitable to generate the institutional environment of a modern mar-

⁴⁶⁵ Sombart, 1987 [1908-1927], p. 13.

⁴⁶⁶ Sombart, 1950 [1929], p. 227, my own translation.

⁴⁶⁷ Weber, 1976 [1930], p. 193.

⁴⁶⁸ Sombart, 1987 [1908-1927], Vol. I,1, p. 25, my own translation.

⁴⁶⁹ Schneider, 1996, p. 37ff. The term ‘bourgeois’ is a complicated construct and is connotated with different meanings in different national contexts and is differentiated from the terms ‘citoyen’, ‘citizen’, ‘*Bürger*’ and ‘*middle class*’. In this dissertation it is used in the sense of the German term ‘*Bürger*’ and is differentiated from the notion of the citizen. The German *Bürger* is member of a small class (*Schicht*) with a distinct set of values and characteristics (also: bourgeoisie and middle class) but at the same time a *Bürger* of a state has certain rights and duties towards a collective entity (also: citizen, citoyen). It refers to the new social formation that was shaped during the late 18th and early 19th century, a socially ascending class of propertied and/or educated members. This new formation is called ‘*bürgerlich*’ or bourgeois in the sense that they are part of the ruling or capitalist class because they either belong to the intelligentsia or to the wealthy, owning classes. A summarizing definition of the complex and changing meaning of the term ‘*Bürger*’ can be found in Kocka, 2008 for the Bielefeld School. See Gall, 2000 for an alternative approach to the term of the Frankfurt research group on ‘*Bürgertum*’. Please refer also to chapter 6.4.1. on the German *Mittelstand*, chapter 8.1.1. for the role of the bourgeois entrepreneur in the economy and chapter 8.2. on his interaction with the state. In this work, instead of using the German terms ‘*Bürger*’ and ‘*bürgerlich*’ the words ‘bourgeois’ and ‘middle class’ will be used in the same sense. If applied to another context, it will be pointed out in the text.

⁴⁷⁰ Lenger, 1995, p. 122.

ket economy.⁴⁷¹ “Out of the bottom of the European soul Capitalism arose...It is the spirit which since the middle ages tears men away from the quiet, organically grown love and community relationships and forces them onto the way of restless selfishness and self-determination”.⁴⁷²

Sombart believes that the notion of Capitalism always existed, but that in pre-capitalistic times the “living man” was the most important element and production was only for the purpose of satisfaction of human needs.⁴⁷³ Those needs were limited and fixed. The capitalist “rooted up” this “natural man” and “turn(ed) topsy-turvy all the values of life”, who now regarded the accumulation of capital as major incentive to engage in economic life.⁴⁷⁴

The rationality of Capitalism becomes the most important issue, subordinating everything in life to this end with the unlimited multiplication of wealth connected with sober and precise calculations, orderliness and expediency.⁴⁷⁵ As already indicated above, Sombart therefore distinguishes between “satisfaction of needs” and the “principle of acquisition”⁴⁷⁶, where the aim of the first case is the “attainment of the goods necessary to meet personal needs” in a traditional economy, the “latter a struggle for profit free from the limits set by needs”, therefore merely the acquisition of money.⁴⁷⁷ The economy of satisfaction of needs is built upon craftsmen working in a static, feudal system which is always in equilibrium. The economy based on the principle of acquisition of money is characterized by unlimited material pursuit.⁴⁷⁸ The greed for money he defines as the objective aim of a capitalistic economy, which may not need to coincide with the subjective goal of individuals.⁴⁷⁹

Similarly, Werner Sombart described the change of attitude towards the conduct of business during the process of industrialization. Related to this, the tendency towards juridification complemented the rationality of capitalism in replacing personal connections by contractual relations quite early during the process of industrialization.⁴⁸⁰ On the one hand this involved an increase of personal freedom; on the other hand it made relations less per-

⁴⁷¹ Appel, 1992, p. 17.

⁴⁷² Sombart, 1987 [1908-1927], Vol. I, 1, p. 327, my own translation.

⁴⁷³ Sombart, 1987 [1908-1927], Vol. I, 1, p. 62.

⁴⁷⁴ Sombart, 1978 [1930], p.13-21, 239.

⁴⁷⁵ Sombart, 1971 [1922], p. 383f.

⁴⁷⁶ See Sombart, 1971 [1922].

⁴⁷⁷ Weber, 1976 [1930], p. 64.

⁴⁷⁸ Sombart, 1987 [1908-1927], p. 328.

⁴⁷⁹ Kromphardt, 1991, p. 39.

⁴⁸⁰ Heilbroner, 1993, p. 50, Pohl, 2002, p. 115.

sonal and took away the security of traditional social formations.⁴⁸¹ In the beginning of industrialization a good citizen had to show a certain morally defined behavior towards the outside world, including the behavior in doing business, whereas in a mature capitalistic system the sphere of private life and business were separated. This included the image of the ‘good citizen’ that had to show a certain morally defined behavior towards the outside world in the beginning of industrialization, including the behavior in doing business. Sombart describes this notion was overcome in the matured capitalistic system, when the spheres of private life and business were conceived as and actually were separated. Traditionally, only a morally sound lifestyle could lead to success in doing business in creating trust in the persona of the entrepreneur. Only a person who overall exhibits moral behavior was regarded as trustworthy in a business context.⁴⁸² This is complemented by the establishment of transaction with the help of contracts and by the juridification of hitherto unofficial norms and thus the emergence of the state as regulative authority. The West has a long tradition of contracts, originating from Roman law, which regulates the relationships between individuals (*ius est ad alios*).⁴⁸³

Thus, the behavior in private and in business was separated. This created a specific set of manners for entrepreneurs, which have often been described as necessary for the development of a mature Western capitalistic system. In this environment, it is not the character or the individual personality of an entrepreneur that is important for doing business, but merely his actions in the process of business transactions. The private life of businessmen is not of interest anymore; it is regarded as totally detached from the actions conducted in the role as entrepreneur and underlies different rules.⁴⁸⁴ The success and the reputation of a firm do not depend on the personality and connections of one specific individual but on the quality of its products.⁴⁸⁵ This means that “business relations in the West are more technical and company orientated with early recognition of the possible need for contractual formality.”⁴⁸⁶

Additionally, the increase in productivity of labor relieves economic life “from its dependence upon the natural organic limitations of the human individual”.⁴⁸⁷ Economic activity in a modern, capitalist surrounding is characterized by rationality and orderliness,

⁴⁸¹ Groppe, 2010, p. 289.

⁴⁸² Sombart, 1978 [1930], p. 121f., Groppe, 2010, p. 53.

⁴⁸³ Tilly, 1995, p. 41.

⁴⁸⁴ Sombart, 1909, p. 709 and Sombart, 1978 [1930], p. 187.

⁴⁸⁵ Sombart, 1978 [1930], p. 186ff.

⁴⁸⁶ So and Walker, 2006, p. 7. For a discussion of the role of the entrepreneur in Capitalism, please refer to chapter 7 and 8.

⁴⁸⁷ Weber, 1976 [1930], p. 75.

separating it thus from the traditional feudal economy. Its major rationale is the need for capital to be utilized in a competitive environment created through a market, in a competition that can be called a fight with only formally peaceful means. Capitalism has also developed individualism in the sense that entrepreneurs compete with each other, seeking advances for themselves.⁴⁸⁸ This is also true for the propertyless workers, who however also express solidarity in creating a group of people they belong to and feel responsible for. Thus, the spirit of Capitalism is either shaped by the traditional satisfaction of needs or by the rational-effective principle of acquisition; hence the behavior of economic actors is either individual or communal.⁴⁸⁹

The necessity to grow is another major condition for the success of a corporation in a capitalist system. Sombart regards the level of profits as the sole sensible objective of a capitalistic enterprise.⁴⁹⁰ For that, specific business principles are necessary that lead to an absolute rationality that helps to extinct the “old bonds of tradition and morality that held capitalism in check in its earliest stages”.⁴⁹¹ The organization and growing bureaucratization of a profit-maximizing firm requires the separation of the sphere of business from that of the household, therefore also corporate from personal property.⁴⁹² To achieve this kind of independence from ethic considerations the idea of ‘reckless acquisition’ has to be established. This puts the value of acquisition above moral and aesthetic values which are not considered as relevant any more. In contrast, doing business becomes unscrupulous in the choice of its means and completely detached from any moral considerations.⁴⁹³

Moreover, Sombart argues that the emergence of Capitalism has caused extreme cultural changes, and thus he seems to express a certain sadness about a lost era.⁴⁹⁴ He affirms the need for Capitalism even in the knowledge of its costs. As a consequence, the traditional way of living in a static equilibrium would disappear and be replaced by the solitude and “asphalt culture”⁴⁹⁵ of urban life.⁴⁹⁶ Science and technology, in his opinion soulless, lead to a process of depersonalization. Capitalism “took the inner quiet” of feudalism and “alienated from nature” and thus created a proletariat that instead is bound to the entrepreneur in a slave-like relationship of dependence.⁴⁹⁷

⁴⁸⁸ Sombart, 1971 [1922], p. 383.

⁴⁸⁹ Appel, 1992, p. 104.

⁴⁹⁰ Sombart, 1909, p. 708.

⁴⁹¹ Sombart, 1978 [1930], p. 357, similar p. 184.

⁴⁹² Weber, 1976 [1922], p. 15.

⁴⁹³ Sombart, 1909, p. 708ff.; Sombart, 1978 [1930], p. 185.

⁴⁹⁴ Schacht, 1903, p. 548.

⁴⁹⁵ Sombart, 1987 [1908-1927], Vol II, 1, p. 190.

⁴⁹⁶ Lenger, 1995, p. 136f.

⁴⁹⁷ Sombart, 1903, p. 253f and 509.

Sombart divides Capitalism into three phases: Early, High and Late Capitalism.⁴⁹⁸ The latter two are differentiated from the earlier version by a new structure of enterprise management. This transition to High and also Late Capitalism was not immanent to the nature of Capitalism. Science and technology broke through the boundary of living nature in using inorganic substances for the first time.⁴⁹⁹ A worldly spirit emerged “out of the European soul” destroyed “old formations of nature (*alte Naturgebilde*), bondages and barriers” and reconstructed new ways of life in artificial functional forms (*künstliche Zweckgebilde*). It forced people “to the track of restless selfishness and self-determination”.⁵⁰⁰

Sombart’s analysis dissects the capitalistic structures in all existing institutions showing the whole margin of Capitalism from a historical perspective. Capitalism develops from its early stage where capital and manpower were the driving forces in a market environment of demand and supply. In a second stage the system rationalized and objectified. With objectification, Sombart does not mean a motivation that gives the essential impulses to develop a capitalistic economic. He rather means that there is an independent machinery of modern life which produces a competitive pressure. If an entrepreneur does not obey, the mechanism of this rational system he will be eliminated. He will also lose all sense for non-business matters like art, nature or family and will “live his business”.⁵⁰¹

Finally, in the third and last phase of Capitalism, rationalization turns into spiritualization. Rationality is for Sombart a process including all economic activities, which through scientification, planning and risk aversion controls the economy. In this final stage, the competitive capitalistic economy tries to stabilize the business cycle, having lost all ‘adventurous’ features. The entrepreneur becomes fully rational and exchanges the entrepreneurial talent through learnable skills.⁵⁰² The entrepreneur is confined to his corporation, having only a few degrees of freedom left. The space for speculation is minimized due to cartelizing and organized workers, so the freedom of the high time of Capitalism fades in favor of a more bound, reasonable late capitalistic economic order.⁵⁰³

In sum, the three components of spirit, technology and order define which economic system an epoch constitutes. The spirit is thus a means to define economic phenomena in accordance with other theoretical elements of an economic system. It is not only an ethos of individual entrepreneurs but also becomes an objective principle. In Sombart’s notion, it

⁴⁹⁸ Sombart, 1987 [1908-1927], Vol I, 1, p. XII.

⁴⁹⁹ Sombart, 1987 [1908-1927], Vol, III, 1, p. 114

⁵⁰⁰ Sombart, 1987 [1908-1927], Vol. III,1, p. 114.

⁵⁰¹ Prisching, 1996, p. 324.

⁵⁰² Sombart, 1987 [1908-1927], Vol. III, 2, p. 588ff.

⁵⁰³ Appel, 1992, p. 74.

is thus not a psychological but more a sociological precept and in this sense a guideline for economic activities.⁵⁰⁴

4.4. Confucian Capitalism?

“There is government, when the prince is prince, and the minister is minister;
when the father is father, and the son is son”.

Analects XII, 11

4.4.1. A brief summary of the main principles of Confucianism

Confucianism is not a religion, but rather a very complex social philosophy and ethical doctrine including moral, social, political and philosophical thoughts.⁵⁰⁵ It is a this-worldly philosophical construct that stresses the importance of idealism and humanism, hence, personal relationships. It emphasizes “the ideal of a society in which ‘right principles prevail’”.⁵⁰⁶ It is not oriented towards a transcendent, divine entity or towards the idea of faith connected to an afterlife as Christianity is. It is instead built upon a practical rationality-based activity-orientation which seeks the mastery of life in the here and now.⁵⁰⁷ Ritual propriety in terms of graded degrees of kinship distance and levels of obligations are emphasized, as for example with the concept of *Rénqíng* (see chapter 6.1.2.). The concept of Confucian values like trustfulness, sincerity, loyalty and humaneness are today also used to link Confucianism to economic behavior favorable for development and the standing of Chinese business managers.⁵⁰⁸

Confucianism was developed from the teachings of the Chinese philosopher Confucius (ca. 551–479 BC, Kǒng Fūzǐ (the latter part of name being a respectful form of address, meaning old master). The name originates from the Latin translation of Jesuits in China; the term itself exists in China only since the beginning of the 20th century).⁵⁰⁹ The most important source for Confucianism are the *Confucian Analects* (*Lún Yǔ*, 论语) and *The Book of Rites* (*Lǐjì*, 礼) which is one of the so-called Five Classics of the Confucian canon.⁵¹⁰ It is believed that it also goes back to Confucius himself.⁵¹¹

Confucianism had an enormous impact on the structure of state and society. Traditionally being an agrarian state, China was based on the self-sufficient family household (*jiā*, 家).

⁵⁰⁴ Appel, 1992, p. 105.

⁵⁰⁵ Redding, 1993, p. 43ff.

⁵⁰⁶ Tang, 1991, p. 51.

⁵⁰⁷ Pohl, 2002, p. 113.

⁵⁰⁸ Zurndorfer, 2004, p. 3.

⁵⁰⁹ van Ess, 2003, p. 8.

⁵¹⁰ Other main sources are *The Mencius* (孟子, *Mengzi*), the Doctrine of the Mean (中庸, *zhōng yōng*) and *The Great Learning* (大学, *Dà Xué*).

⁵¹¹ van Ess, 2003, 10ff.

As will be demonstrated in chapter 5 in more depth, the family served as shelter and insurance against disaster and was thus the fundament of society. A main component of Confucianism is the notion of self-cultivation and moral perfection and to obey the main moral values of *rén* and *lǐ*, emphasizing humanity and honesty with the goal of social harmony. The three main elements of Confucianism are: *rén* (仁- humanity, goodwill), *lǐ* (礼- rituals, in the sense of moral order, ethics; in Chinese “violating ritual” means “having no decency”) and *yì* (義, righteousness). Ritual, which also means the behavior in everyday life, and filial piety (*xiao* - 孝) are the rules of interaction, including the notion of reciprocity, as part of *rén*. *Rén* is not meant for individuals but can only be practiced between a minimum of two people and can only be reached through virtuous acts.⁵¹² Thus, Confucian culture is built upon harmony, consent and stability. In addition to the three main principles, the Confucian virtues of loyalty, brotherhood and trust are seen as the cultural roots of Guanxi.⁵¹³ For the sake of the whole, the individual has to stand back. The individual is embedded into a network of personal connections. More than that, they are part of a social structure, which views individuals not “as apart from their social positions”.⁵¹⁴ The position within the family defines the personal identity and thus the Chinese society is not based on discreet individuals but defined by interpersonal relationships.⁵¹⁵ Thus, the social categories of ‘man’ and ‘woman’ are meaningless outside familial relationships. The main relationships (each connected with an appropriate tenor) for Confucianism are those of *i* (righteousness) between master and servant (or ruler and subject), *ch’eng* (affection) between father and son, *pieh* (distinction) between husband and wife, *hsu* (order) between old and young and *hsin* (sincerity) between friends.⁵¹⁶ The most important relation is between father and son and thus filial piety is considered as the virtue that matters the most. Children owe their parents absolute obedience, even when they are already grown up. This also means that they have to care for their parents once they are old; individualism is not supported.⁵¹⁷ The emphasis on learning (学, *xué*) is closely related to that issue.⁵¹⁸ Thus, everybody has his or her natural role to fulfill within society, with certain duties and norms to obey. Both society and personal relationships are structured as vertical hierarchies, being a culture of status.⁵¹⁹ Interpersonal relationships therefore get rationalized, coincidence and

⁵¹² Weggel, 1996, p. 21. *Rén* is also an important concept of Guanxi, see chapter 6.

⁵¹³ Yang, 1994, p. 71.

⁵¹⁴ Gold; Guthrie and Wank, 2008a, p. 5.

⁵¹⁵ Gold; Guthrie and Wank, 2008a, p. 6.

⁵¹⁶ Lo and Otis, 2003, p. 136.

⁵¹⁷ Fukuyama, 1995, p. 94f.

⁵¹⁸ Paul, 1990, p. 69.

⁵¹⁹ Pohl, 2002, p. 115f.

spontaneity are eliminated. Hierarchy is legitimated through mutual debts, if one side of the relationship acts according to the given norms, the other part will act accordingly. Those laws are unwritten, but follow the norm of modesty and morality. The vertical structure of society is not questioned and individual rights are barely of importance. The notion of law is not received as strict categorical norms, adjudicating rights to individuals, but always depending on interpersonal relationships, thus revealing a more particularistic culture.⁵²⁰ This is not only true among individuals but also for state leadership which is supposed to rule humanly and justly. The ruled owe their leader loyalty. The relationship between ruler and ruled is also part of the five bonds mentioned above. Filial piety also includes certain duties, also towards the ancestors and characterizes not only the relations to parents but all relationships mentioned before. Relationships and mutuality are thus central to Confucianism and every individual is supposed to know its place within the hierarchical order and accordingly “treat each other differently depending on family background, place of origin, shared experiences, educational affiliation...with the nature of these affiliations determining the treatment received”.⁵²¹

4.4.2. Max Weber’s assessment of the relation between Confucianism and Capitalism

In his studies on Confucianism and Taoism, published in the first volume of the *Collected Essays in the Sociology of Religion*, named *Religion of China* in the English translation, Weber again attempts to prove the causal relation of Protestantism and Capitalism. Whereas in *The Protestant Ethic* he argues that rationalization is the result of the 'spirit of Capitalism' derived from Calvinism, in *The Religion of China* he distinguishes that from the rationalization found in China which did not lead to the emergence of rational bourgeois Capitalism in the 19th century. He compares Confucianism with Calvinism to highlight the uniqueness of development in Western cultures in the 19th century and its differentiation, for that matter, of any other great civilization of the world.⁵²²

⁵²⁰ Weggel, 1996, p. 22.

⁵²¹ van Ess, 2003, p. 15f., McNally, 2010, p. 6.

⁵²² See Blaut, 2000. The reasons of why Capitalism did not emerge in China will not be discussed in this dissertation in depth as it is more concerned with the type of economic system arising after 1978. This chapter will give an overview on Weber’s findings on China. It is important to note that it differentiates from recent research. As this work is also more concerned with tracing Weber’s arguments, it will only point towards corresponding literature. There is a large body of literature of the still ongoing debate on the emergence of Capitalism. The discussion took place mainly in the *Journal of Asian Studies* in two rounds in 1991 and 2003, with basically the California School (Kenneth Pomeranz among others) against Eurocentrists. Among the reasons given for China’s ‘failing’ to introduce Capitalism in the 19th century were: geography, overpopulation, legal and political system, ideology and foreign imperialism. Huang argues that the reasons lie within China, whereas Pomeranz argues for the exceptional position of Europe compared to all other re-

He tries to show why anything like rational bourgeois Capitalism fails to appear in any of the other great civilizations of the world. But instead of really doing a comparative study of the different ethics of other religions and ascetic Protestantism to analyze the relevance to the spirit of Capitalism, many authors criticize his work because it is rather meant as a substantiation of his thesis in the *Protestant Ethic*.⁵²³ He is stating that the ideals of a certain religion support the arising of Capitalism. He analyzes Confucianism to demonstrate that “China’s failure to develop rational bourgeois Capitalism owed mainly to the absence of a particular kind of religious ethic as the needed motivating force”.⁵²⁴

That is probably due to the fact that China did not exhibit typical features of Capitalism such as rationalization, mechanization and growing urbanization. Max Weber scrutinizes the Chinese culture to see which aspects inhibited the development of rational Capitalism. He first takes the monetary system and the cities into account, choosing these areas because they show the closest affinity to analogue factors in the West that did lead to rational Capitalism. Additionally, he also compares the type of agriculture in both regions.

In China, this involved large scale works of irrigation and flood control. It was managed by a central authority, and once established did not need to “transform this mode of sustenance” and thus the system remained stable.⁵²⁵ Money is an important instrument of economic exchange, facilitating the acquisition and accumulation of wealth, and determining profits and losses in business operations. Weber also claims China historically failed to establish an effective monetary system conducted by the state which was an obstacle to the development of capitalistic structures.⁵²⁶ Also, the occidental city with its bourgeois inhabitants as birthplace of Western Capitalism was missing in China.⁵²⁷ Weber explains that with the following reasoning: “The Chinese city god was merely a local protective deity, not the god of the community: usually he was a canonized urban mandarin”.⁵²⁸ Thus, China's cities, due to their lack of military and political autonomy could not guarantee the legal and financial grounds necessary for capitalistic businesses.⁵²⁹ Weber justifies his argu-

gions. Please refer to Sieferle, 2003 and for a general overview: Pomeranz, 2000, presenting the California School, and Huang, 1990 for the more recent and Elvin, 1984 as well as Elvin, 1996 for the earlier debate. Lin, 1995 is representative for a more technological explanation. More general on Chinese economic history: Deng, 1999 and Arrighi, 2007.

⁵²³ Hamilton, 1984, p. 400f. and Parsons, 1967 [1937], p. 530 and 539f.

⁵²⁴ Weber, 1968, Introduction, p. xiv.

⁵²⁵ Mayes, 1977, p. 163 and Li, 1998, p. 1-15, 157-180.

⁵²⁶ For a more differentiated – and accurate – picture, see Vogel, 1986, Wang, 1992. As a sidenote: In Weber’s critical review on Chinese towns, he overlooked the fact that these were indeed run by merchants, disguised as scholar officials. Faure, 2006, p. 20.

⁵²⁷ For a detailed discussion on the relation of bourgeoisie and Capitalism, please refer to chapter 8.1.

⁵²⁸ Weber and Andreski, 2006, p. 60.

⁵²⁹ See for a comparison Skinner, 1977.

ments with the fact that China was unified very early (around 200 B.C.) which was followed by a centralized administration under a national bureaucracy. Although the flow of goods was fostered by political peace, this situation at the same time prohibited competition between feudal states like in Europe. Thus, without the pressure of competition and rivalry there was not much stimulation for capitalistic enterprises.⁵³⁰

The central bureaucracy was conducted by Mandarins, a class of civil servants, who were primarily recruited from the *literati*. Access to this status was not given by birth but was the result of the passing of examinations, which not only required the mastery of Chinese writing and literature but also knowing the Confucian principles by heart. Although this procedure of qualifying objectified the process, due to the limited amount of positions the selection of candidates could still be influenced through personal connections.⁵³¹ Additionally, in contrast to rational bureaucracy the efficiency of this system was reduced because Confucianism did not see specialization as suitable for an educated man.⁵³² This is related to the fact that Chinese families instead of investing in rational enterprises deemed it more worthwhile to invest in their own family member's education, so they could become educated and later on probably a Mandarin. This would result in various advantages for the family once the member was part of the administration. It also meant that the extensive kinship organization did not support the development of independence and individualism, another social prerequisite to becoming a successful entrepreneur.

In addition, Weber compares his view on Confucian and puritan rationalism, both designing a lifestyle according to their respective religious requirements, both in principal consistent with accumulation of wealth for him.⁵³³ He claims that Confucianism as the dominant value system in China is serving as life orientation especially for the class of *literati*. It leads to a this-worldly orientation, having no metaphysical, transcendental foundation. It is based on traditionalism instead of change and innovation, hence also celebrating traditional conservative education and literature and accepting the existing order.⁵³⁴ In Confucianism the merchant is not associated with a high social status. This is related to the ideal of a gentleman for whom it is more important to be able to cite classical quotations than to engage in business. The merchant's importance lies in guaranteeing the lifestyle of the gen-

⁵³⁰ Weber, 1968, p. xxff. and 20ff., actually, although unified politically, China was no integrated economic region till 1923. See Skinner, 1985.

⁵³¹ Parsons, 1967 [1937], p. 543f. and Hamilton, 1984, p. 403, please see also chapter 8.

⁵³² Weber, 1968, p. 159f.

⁵³³ Weber, 1963 [1924], *Zwischenbetrachtung*, p. 534.

⁵³⁴ Parsons, 1967 [1937], p. 548.

try. Thus, the position of the merchant, trade and the accumulation of wealth were not forbidden but should not extend without limits.

As described above, the heart of Confucian ethic is *tào* (道), "which is the immutable order of harmony, tranquility, and equilibrium underlying the universe and human society".⁵³⁵ Thus, Confucianism is presented in Weber's work as conservative and traditional and thus impedimental to rational bourgeois Capitalism. Moreover, for him it also correlates to the rigidification of Catholicism.⁵³⁶

Of course, the institutional preconditions such as separation of household and business, the emergence of rational bureaucracy and book-keeping is also said to be missing in China.⁵³⁷ Although some beneficial pre-conditions existed, like a long period of relative peace under the Qing Dynasty (1644-1911)⁵³⁸ and the growth of a diligent population, Capitalism did not evolve.⁵³⁹ 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"⁵⁴⁰ for the inhibition of a bourgeois Capitalism. "Rational and calculable administration and law enforcement, necessary for industrial development, did not exist"⁵⁴¹, hence individualization and capitalistic production were missing.

This rationale presents a very common view of China of the time, namely, that China embodies a "recalcitrant traditionalism that has resisted modernization".⁵⁴² Max Weber only had access to translated and therefore somewhat limited sources and thus based his analysis on his understanding of ancient Mediterranean societies.⁵⁴³ Still, he comes to the conclusion that "Confucian rationalism meant rational adjustment to the world; Puritan rationalism meant rational mastery of the world".⁵⁴⁴ "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 spi-

⁵³⁵ Weber, 1968, p. xxix.

⁵³⁶ Balazs, 1977 [1964], p. 18f.

⁵³⁷ Hollstein, 2002, p. 44.

⁵³⁸ The Qing Dynasty was the last Imperial dynasty of China. The dynasty was founded by the Manchu clan Aisin Gioro in northeast China (Manchuria). It expanded into China, establishing the Empire of the Great Qing, with complete pacification of China in 1683. The Qing Dynasty was overthrown following the Xinhai Revolution on Feb 12, 1912. Dunstan, 1996.

⁵³⁹ Schluchter, 1983, p. 42.

⁵⁴⁰ Weber, 1968, p. 66.

⁵⁴¹ Weber, 1968, p. 100.

⁵⁴² Yang, 1994, p. 36f.

⁵⁴³ Hamilton, 1984, p. 404.

⁵⁴⁴ Schluchter, 1983, p. 41 and Weber, 1968, p. 248.

rit”⁵⁴⁵ According to Weber, Confucianism aimed at making rational adjustment to eternally given social structures, which means that it took the world as set and thus, given. So although China had rationality, it was static and hence not prone to new developments and the initiation of drastic changes.⁵⁴⁶ Confucianism also lacked the emotional pressure and dynamic of Puritanism that drove the faithful to rebuild the world according to God's wishes. In contrast, Confucianism emphasized orderliness and self-discipline, thus being “a prudent policy of sound conservatism”⁵⁴⁷.

Confucianism tends to a traditional society; it is also not as opposed to nepotism and favoritism as Puritan ethic. The latter is based on universalism that applies its ethics impersonally to everybody, not only to relatives. The particularism of the Confucian ethic contrasts sharply with this. It is based on the personal relations of individuals especially to their kinship.⁵⁴⁸

As indicated before, it is speculated that the purpose of Weber's analysis is to support his previous work on rational Capitalism based on a certain spirit as prerequisite for its emergence. He is not really interested in presenting China's society and value system systematically; his intention is merely to contrast the Chinese economy with the Western. He wants to prove the uniqueness of the Western phenomenon. He thus stresses that the development taking place in the Western world was a singular event without really scrutinizing the Asian culture thoroughly.⁵⁴⁹ In contrast Elvin emphasizes that to explain why Capitalism has not developed in China, economic and ecological reasons alone would suffice and the detour to religion as Weber does is not necessary. Among other reasons, those facts are easier to verify empirically.⁵⁵⁰

According to Weber, cultural factors are the reason for rational Capitalism not arising in China, but they still have facilitated the reception of modern Capitalism there once it was created somewhere else.⁵⁵¹ Hence, 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 the Confucian culture.⁵⁵² He perceives this as essential for an easy incorporation of Capitalism, even though the very same culture did not form Capitalism by itself. Weber's research interest in Chi-

⁵⁴⁵ Weber, 1968, p. 247.

⁵⁴⁶ Elvin, 1984, p. 38.

⁵⁴⁷ Parsons, 1967 [1937], p. 548

⁵⁴⁸ Parsons, 1967 [1937], p. 550f. See also chapter 6.

⁵⁴⁹ Hollstein, 2002, p. 46.

⁵⁵⁰ Elvin, 1984, p. 379. Please see also fn 522.

⁵⁵¹ See Hollstein, 2002.

⁵⁵² Weber, 1968, p. 248.

nese Confucianism is due to its rational utilitarian characteristics which allow to draw analogies to the occident and to explain why one society was able to create Capitalism whereas the other was not. This made the singularity of development of Western Capitalism extremely insightful and comprehensible and thus supported his previous research.⁵⁵³

According to Weber, within the patriarchal structure of China, the family head and the head of state held discretionary power over rituals and administration, respectively. He asserts that "family piety, resting on the belief in spirits, was by far the strongest influence on man's conduct."⁵⁵⁴ He emphasizes institutional factors, such as family and networks, to be of great significance for the development of a completely different system of economy and society.⁵⁵⁵ Weber justifies that with a "lack of a particular mentality" with a "personalistic principle" being in place in China with traits like absence of curiosity, credulity or stolidity derived from Confucian values.⁵⁵⁶ Additionally, Weber claims that "the Chinese soul has never been revolutionized by a prophet"⁵⁵⁷ and thus its traditionalism is reinforced by a lack of ethical demands, raised by prophets or a "supramundane God"⁵⁵⁸, who might be able to set up new ethical norms. In contrast, Protestantism was able to shatter the fetters of the sib.⁵⁵⁹

4.4.3. The significance of Confucianism for Chinese Capitalism

*"The mind of the superior man is conversant with righteousness;
the mind of the mean man is conversant with gain".⁵⁶⁰*

The economic rise of the Asian region, most recently of the People's Republic of China, created the need to develop a capitalistic system which turned out to be different to the Capitalisms found elsewhere. With the economic reforms in China after 1978 a gradual shift from socialism and the planned economy towards a capitalistic market economy took place, with an increasing pace since the 1990s. This coincided with an increasingly flexible global production, both probably mutually influencing each other.⁵⁶¹

⁵⁵³ Schluchter, 1983, p. 15ff.

⁵⁵⁴ Weber, 1968, p. 236.

⁵⁵⁵ Hamilton, 1984, p. 397.

⁵⁵⁶ Weber, 1968, p. 104, 231f. and 236.

⁵⁵⁷ Weber, 1968, p. 142.

⁵⁵⁸ Weber, 1968, p. 229f.

⁵⁵⁹ Weber, 1968, p. 237.

⁵⁶⁰ Legge, 1893, p. 170.

⁵⁶¹ Dirlik, 1997, p.304. Please refer to chapter 5 for a detailed outline of the historical events and as discussion of the importance of the family for economic development.

In the 1980s, the concept of a 'Confucian Capitalism' was developed. It claimed that traditional family and kinship ties are more an asset than an obstacle to development due to the "Confucian familistic culture" of China.⁵⁶² The invention of this 'Capitalism with Chinese characteristics' coincided with a "post-revolutionary discourse on Capitalism" and with the retreat of socialism.⁵⁶³ 'Chinese' characteristics were rearranged with the intention to create a new model and "a new reality of development" to explain the economic dynamics of East Asia out of long existing stereotypes.⁵⁶⁴ Interestingly, the concept was coined by US researchers in the wake of exceptional Asian growth and the simultaneous decline of Euro-American economies, only later taken on by native Chinese researchers.⁵⁶⁵

This research drew an analogy to Weber's 'spirit of Capitalism', reversing his impression of the potential of Confucianism. As a consequence, it also implied that only one 'modernity' can exist with a timeless and ahistorical identity as a yardstick against which the degree of backwardness of a society will be measured. Confucianism got "Weberized" in its revival, because it was claimed that it shares similar values to those Weber ascribed to the Protestant ethic, such as a collectivist ethic, predilection for hard work, and respect for education.⁵⁶⁶ Thus, if there is something like 'Chineseness' in doing business and creating a specific sort of Capitalism, people will be careful not to associate anything traditional, feudal, and hence backward with it. The use of Confucianism as an explanation of a unique way to do business was a loophole out of this dilemma and for that reason was fostered as a concept by Chinese researchers and politicians.⁵⁶⁷

One reason to explain this artificial concept is that the Confucian renaissance substituted socialism in providing norms for social behavior and guaranteeing social order because it merely constitutes the reinforcing of an already existing value system. This contradicts actual historical facts: Although it is true that Confucianism has a long tradition in Chinese society, it was forgotten, and during socialism, especially during the Cultural Revolution⁵⁶⁸, even forbidden. In the course of explaining China's economic success, Con-

⁵⁶² Greenhalgh, 1994, p. 746.

⁵⁶³ Dirlik, 1997, p. 304.

⁵⁶⁴ Dirlik, 1997, p. 304.

⁵⁶⁵ Dirlik, 1997, p. 305.

⁵⁶⁶ Greenhalgh, 1994, p. 746 and Dirlik, 1997, p. 313.

⁵⁶⁷ Greenhalgh, 1994, p. 768f. It is a difficult task to define precisely the concept of China or 'Chineseness'. However, within this dissertation, Chinese Capitalism refers to 'inside China', not to Chinese communities outside mainland China. Additionally, I do not want to imply that a 'global' Chineseness exists that ignores national, regional and even local differences. It is also noteworthy that Chinese Capitalism is not identical with a maybe existing Asian Capitalism.

⁵⁶⁸ The Cultural Revolution was launched by Chinese Communist Party chairman Mao Zedong during his last decade in power (1966-76) officially as a campaign to rid China of its 'liberal bourgeoisie' elements and to renew the spirit of the Chinese revolution. Fearing that China would develop along the lines of the Soviet

Confucianism seemed as a logic explanation of an otherwise curious development. Also, Chinese people thankfully took up rationalization, Confucianism getting ‘en vogue’.⁵⁶⁹ Thus, Confucian values such as strong family structures, commitment to education, kinship and pseudo-kinship social networks, but also diligence, thrift and business orientation are not “essential exclusive, unchanging Chinese values”⁵⁷⁰ of “intrinsic timeless nature”.⁵⁷¹ Rather, those values have been used to create a ‘new’ tradition to explain Chinese behavior in “obliviousness to its historical and social complexity”.⁵⁷²

For political purposes, Confucianism was since the 1980s often presented in a reduced form with only useful elements for one's purpose picked out. The recalling of certain virtues and traditions suited the purpose to limit Western influences on the Chinese culture and to create a distinct ‘Chineseness’.⁵⁷³ This suppresses the structural context within which this Capitalism did arise, the ‘tradition’, existing outside of historical time, served as a justification for the recent developments.⁵⁷⁴ Turning Max Weber’s arguments upside down, American and Chinese researchers tried to establish the existence of ahistorical, timeless Chinese values in a form of Orientalist economics. This means that for them a Chinese ‘essence’ exists, different from the Western individualistic, conflict-ridden society.⁵⁷⁵ Both lines of research reduce Confucianism to a “timeless mystification of cultural traits” to create an effective means to explain the specifics of China’s experience with Capitalism.⁵⁷⁶

It is indeed true that Confucianism has a very long tradition in Chinese society, but the impact of it over the centuries is more than variable. Some authors⁵⁷⁷ even argue that Neo-Confucianism was invented by US researchers, and then taken up by Chinese scientists as a convenient way to explain the Chinese success, therefore reinforcing the belief in their own distinctiveness. In posing a dichotomy between the Western and Chinese culture, research-

model and concerned about his own place in history, Mao threw China's cities into turmoil in a monumental effort to reverse the historic processes underway. It was a struggle for power within the Communist Party of China that manifested into wide-scale social, political, and economic chaos, which grew to include large sections of Chinese society and eventually brought the entire country to the brink of civil war. See Yergin and Stanislaw, 1999.

⁵⁶⁹ For example, China’s non-fiction book of the year 2007 was *Thoughts about the Confucian Analects* by Yu Dan. Maybe this is a sign of people looking for orientation and values in times of social and economic transition. On the other hand – if Confucian values are as ubiquitous as is claimed, why should Chinese people want to buy yet another book about it? In: *Frankfurter Allgemeine Sonntagszeitung*, 12. September 2007, p. 57.

⁵⁷⁰ Dirlik, 1997, p. 314.

⁵⁷¹ Yang, 1994, p. 35.

⁵⁷² Dirlik, 1997, p. 315.

⁵⁷³ Fahr, 2000: Ommerborn, Wolfgang: *Die Politisierung der Konfuzius-Debatte*, p. 86-122, p. 117.

⁵⁷⁴ Greenhalgh, 1994, p. 749.

⁵⁷⁵ Greenhalgh, 1994, p. 747ff.

⁵⁷⁶ Zurndorfer, 2004, p. 1.

⁵⁷⁷ For example Dirlik, 1997.

ers try to prove that Capitalism is a universal rational construction, no matter in which kind of society it arises.

For family businesses this means a structure of vertical stability that is built upon morality and not threat, and depends on the responsibility of the bosses for their subordinates. Family firms are thus organized in a paternal, authoritarian pattern. Additionally, the family is regarded as the only organization that can be trusted.⁵⁷⁸ Having to obey a certain role, the individual is subordinated to the family (or the collective), thus showing loyalty and obedience. The appeal to the honor of the family, especially through education and learning, is also an essential feature of Confucianism.⁵⁷⁹

In addition, it also suppresses class and gender differentiation. The ideology of authoritarianism is exported as solution for development also in a political context. The Confucian revival celebrates loyalty and obedience as keys to the stability of family and workplace. Authoritarianism is instrumentalized “in the cause of a capitalistic regime of discipline” to control a social situation “that no longer is subject to the hold of traditional values”. Thus, it is difficult to describe the emphasis of patriarchy as typical Confucian value as persistence of ‘old’ tradition and as distinguishing feature of ‘Chineseness’.⁵⁸⁰ This is even more doubtful, when also taking into account that during the Cultural Revolution Confucianism was dismissed as being part of an old regime which did not have space in the Chinese society of the time.

The emphasis on Confucian 'rational' values served not only the purpose of contrasting it with the issue of Guanxi that is often associated with “an older ethics of personalistic loyalties and indebtedness”, which from a “linear teleological scheme of history imported from the West” perspective is received as backward.⁵⁸¹ It also created a Chinese identity build upon Confucian values that assimilates a “Chinese tradition to the values of European Capitalism”.⁵⁸² The intention of that is to define Capitalism as a unique purposive-rational action with the same characteristics no matter where it arises, thus denying that varieties of Capitalism can exist. This also emphasizes the unique ‘Chineseness’ of it which at the same time has the same features of rationality than Capitalism elsewhere has and thus cannot be backward. In doing so, the Chinese success could be explained by creating a distinctive “Chineseness”, at the same time denying that the logic of Chinese Capitalism is different from other forms of Capitalism. As Dirlik summarizes: “The insis-

⁵⁷⁸ Redding, 1993, p. 208.

⁵⁷⁹ Heberer and Weigelin, 1989, p. 184, Hamilton, 1990, p. 92. and Krieger, 1990, p. 118, 222ff.

⁵⁸⁰ Dirlik, 1997, p. 317f.

⁵⁸¹ Yang, 2002, p. 462.

⁵⁸² Dirlik, 1997, p. 313.

tence on essentialist Chinese characteristics erases the historicity of being Chinese to produce a Chinese identity resistant to time and space”. In a “self-orientalization”⁵⁸³ it denie[s] history [...], substituting for historical temporalities and spatialities dehistoricized and de-socialized cultural characteristics”.⁵⁸⁴ In turning Orientalism upside down, the ‘other’, Eastern, culture is seen in the research work on Confucianism as superior to the Western culture by both Western and native researchers.⁵⁸⁵

However, the concept of reciprocity which is typical for *Guanxixue*⁵⁸⁶ can be found in three sources: in Confucian ethics, in the knight-errantry tradition and in the Buddhist notion of retribution. As many researchers feel that Chinese Capitalism is a Capitalism with a spirit inspired by Confucianism to it, comparable to the Weberian notion of a ‘spirit of Capitalism’, only the first point will be emphasized. Throughout this work it is argued that it is actually a Guanxi (network) Capitalism rather than a ‘Confucian Capitalism’, the latter using Confucian values to prove the distinctiveness and superiority of the Chinese way to make business.

During the 1980s the emphasis shifted to Confucian values as the main element and explanation of a Chinese Capitalism, later this was again dismissed and exchanged by the notion of a network (Guanxi) Capitalism.⁵⁸⁷

4.5. Varieties of Capitalism and China

4.5.1. The Varieties of Capitalism approach and China

Weber's ideal-type conception of Capitalism can also be found within the *Variety of Capitalism* approach (VoC).⁵⁸⁸ In recent years a vast amount of literature and much discus-

⁵⁸³ Orientalism refers to the study of the East by Western researchers shaped by the attitudes of European imperialism in the 18th and 19th century. It implies traditional inherently ideological and prejudiced outsider interpretations of Eastern cultures. It creates a divide between East and West that situates the West as a superior culture. This viewpoint was coined by Edward Said in his 1978 book *Orientalism*, stating that any historical discourse has to be placed within a particular framework whose overall structure is necessarily ideological. People in the West studying the East – an inferior culture by definition-, do so within an already coded discourse. See Said, 1979.

⁵⁸⁴ Dirlik, 1997, p. 319, 322f.

⁵⁸⁵ Greenhalgh, 1994, p. 749f.

⁵⁸⁶ Expression, coined by Yang, 1994, referring to the ‘art of Guanxi’, see chapter 6.

⁵⁸⁷ Please see chapter 6 for a detailed discussion on Guanxi Capitalism.

⁵⁸⁸ Economic sociology provides a similar framework, see for example Smelser and Swedberg, 1994 or Nee and Swedberg, 2005. The latter combines the insights of institutional economics with new economic sociology to better understand capitalist institutions. Capitalism core principles are seen as “exchange and the feedback of profit into production” on a market that is “the central institution in capitalism” (p. xxxv, 7, 12). As McNally, 2007b notes, the editors neglect the role of “state elites and of conflicts among social interest groups” (p. 19). A similar cross-disciplinary analysis is undertaken by Coates, 2005 who mostly makes the point that his approach is difficult, yet the only one that might result in real insights into the workings of a capitalist system. However, please refer to chapter 3.1 on the notion of economic sociology, and especially Mark Granovetter on networks, trust, and embeddedness.

sion has been spurred by this research paradigm. Although it defines several types of Capitalism, they are also all based on the same (homogenous) institutions that are assumed to be essential for a capitalist system. Its models are based on new institutional economics, underscoring the effect of distinct institutional arrangements for economic performance, thereby painting a static picture of Capitalism, relying "on rather ad hoc descriptions of actual institutions and institutional forms" in the sense of a snapshot of the presence that cannot represent transformation. It thus is looking for equilibrium outcomes.⁵⁸⁹ 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".⁵⁹⁰

This approach mainly concentrates on the firm as unit of inquiry, with an emphasis on the organization of the production process.⁵⁹¹ It goes back to a book by Hall and Soskice, published originally 2001, who created a dichotomous classification of the *Varieties of Capitalism*, namely the "coordinated market economy" (CME) versus the "liberal market economy" (LME) model.⁵⁹² Since its appearance it has spurred an ongoing debate and a "vast list of amendments, qualifications, additions, extensions, exceptions to the original formulation of the approach".⁵⁹³ The building blocks of the original 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".⁵⁹⁴ Hence, it concentrates on industrial relations, vocational training and education, corporate governance, inter-firm relations and coordination of employees, with institutional complementarities reinforcing the differences between liberal and coordinated market economies in the sense that for example "dense networks of business associations support collaborative systems of vocational training".⁵⁹⁵ Those complementarities strengthen the tendency of liberal market economies to rely on markets to coordinate transactions whereas the coordinated market economies maintain institutions that support "higher levels of non-market cooperation" and aim towards a specific kind of economic performance.⁵⁹⁶ Ultimately, this design leads to the conclusion that the "change in any one institution, exogenous or endogenous" is, due to "balancing changes", followed by a resto-

⁵⁸⁹ Jackson and Deeg, 2006, p. 22ff.

⁵⁹⁰ Jackson and Deeg, 2006, p. 5.

⁵⁹¹ Hall and Soskice, 2004, Jackson and Deeg, 2006, p. 21, 34.

⁵⁹² Hall and Soskice, 2004.

⁵⁹³ Streeck, 2009a, p. 19.

⁵⁹⁴ Jackson and Deeg, 2006, p. 21+34.

⁵⁹⁵ Hall and Soskice, 2004, p. 17f.

⁵⁹⁶ Hall and Soskice, 2004, p. 18f.

ration of the “system’s typical performance equilibrium”.⁵⁹⁷ Hence, VoC is basically a comparison of different institutional structures in equilibrium, thus delivering an accurate picture of the current status of a national economy but – like a snapshot photograph - has not much to say about the dynamics of the system.

This is also a feature in the amended versions of the approach which also enriched the original framework by adding the product-market competition, the wage-labor nexus and labor market institutions, the financial-intermediation sector and corporate governance, social protection and the education sector by authors like Bruno Amable.⁵⁹⁸

For example, in his book on the diversity of modern Capitalism Amable defines five types of Capitalism, including an Asian variety. His approach is much broader than that of Hall and Soskice whose dichotomous framework mainly concentrates on the firm as unit of inquiry but the basic assumptions remain the same.⁵⁹⁹ Amable regards the pressure of globalization and worldwide liberalization, particularly of financial services, to even out differences between the EU and the rest of the world in a rapid pace resulting in a ‘new global capitalism’. However, it can also be argued that although globalization exercises pressure on all existent forms of capitalism, this need not lead to convergence. Rather, change can, dependent on existing institutional arrangements, have dissimilar influence on institutions and political structures.⁶⁰⁰ In the end, "institutions are the expression of a political compromise".⁶⁰¹ Consequently, for Amable Capitalism is a robust environment that principally can accommodate varied institutional environments.⁶⁰²

Thus, also the Asian model of Capitalism that Amable 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”.⁶⁰³ Hence, it focuses on the state and collective sector and ignores the private sector and therefore also entrepreneurs and their networks, which on the other hand this work argues to be a main driving force of development. In other words, Amable's model largely neglects the importance of socio-cultural institutions as well as culture (let alone an economic spirit), for the formation of a

⁵⁹⁷ Streeck, 2009a, p. 18.

⁵⁹⁸ Amable, 2003, p. 93.

⁵⁹⁹ Hall and Soskice, 2004.

⁶⁰⁰ McNally, 2007a, p. 185.

⁶⁰¹ Amable, 2003, p. 9.

⁶⁰² Amable, 2003, p. 3f.

⁶⁰³ Amable, 2003, p. 107.

capitalistic system what this dissertation regards as essential for the type of Capitalism developing in China. He claims that “plain regularities of behavior are not institutions [...]. An institution must be a rule which applies to all the cases”.⁶⁰⁴ 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”.⁶⁰⁵

However, the extensions of the original approach of works like that of Amable merely blur the underlying fundamentals of the VoC approach, namely that, as Streeck puts it, “social systems are politically structured to compete with each other economically; that competitive institutional arrangements tend to move and settle into a self-stabilizing equilibrium; that politics is about designing institutions that enable an efficient deployment of economic resources; that today there exist basically two variants of capitalism that are in principle equally competitive and therefore unlikely to “converge”; that especially employers and their firms, interested as they are in their own competitiveness, can and do instruct states and government on how optimally to organize a society as an efficient production regime; and that social systems are kept together by pressures for institutional complementarity in the service of competitive production”.⁶⁰⁶ In other words, the VoC approach invokes that different national institutional arrangements compete with each other keeping the system dynamic, which leads rather to specialization and diversification of products as well as institutional frameworks than to convergence to a uniform system. This means that national capitalisms can be distinguished “across both temporal and geographical axes”.⁶⁰⁷ However, it is probably more true to say that competition causes tendencies to converge and diverge simultaneously. Although the VoC approach rejects the idea of convergence towards a “best practice” as the “economic simplicities of neo-liberal wishful thinking”, it is done, in Streeck’s view, “for the wrong reasons” as it explains the divergence of systems “by the same causal factors: pressures for efficiency originating in competitive markets”.⁶⁰⁸ Overall, “VoC allows for just one possibility of convergence, which is capital market-driven convergence of CME towards LME models”, which for him “looks like defensive ad hoc addition in response to uncomfortable empirical observations” to keep the theoretical framework of strict nonconvergence of two dichotomous but nevertheless independent,

⁶⁰⁴ Amable, 2003, p. 37

⁶⁰⁵ Heilbroner, 1993, p. 96.

⁶⁰⁶ Streeck, 2009a, p. 20.

⁶⁰⁷ McNally, 2007a, p. 185.

⁶⁰⁸ Streeck, 2009a, p. 161ff.

equally efficient capitalist institutional setups which reproduce themselves continuously.⁶⁰⁹ In some later extended versions of the VoC the “attempt is made to represent the distinction between ‘liberal’ and ‘coordinated’ ‘market economies’ as continuous rather than dichotomous”, which for Streeck is not plausible because then a convergence to the nearer of the two types would occur.⁶¹⁰

Also, the VoC-approach does not incorporate the dynamics happening in the economies of developing or transition countries.⁶¹¹ Not least, because its models take a democratic polity as given and "fail to account for the political dynamics of post-socialist economies".⁶¹² Consequently, research in the VoC line is primarily focused on Western Europe, North America and Japan and thus "post-industrial economies".⁶¹³ These advanced industrial economies differ considerably from the political structure of China which as developmental and transitional economy still is far from having an established institutional framework. In contrast, its institutions are still constantly changing and defy the possibility to be described in a ‘snapshot’ analysis like that of the VoC or even compared to already existing ‘snapshots’.⁶¹⁴

However, VoC and all similar modern comparative approaches have in common that they try to give an insight to the “dynamics and contradictions” of Capitalism. Beside understanding, this might, at least in the view of Victor D. Lippit, help to enhance “its positive features and ameliorate its most destructive and socially reprehensible ones” as “there is no viable alternative to capitalism... the capitalist system is likely to be with us for several more centuries at least”.⁶¹⁵

4.5.2. Other typologies of economic systems

The Varieties of Capitalism approach is merely one of many ways to categorize economic systems. Another major branch of literature comes from comparative economics, which has its origins in the study of different forms of socialism, which became after 1989 the analysis of the transformation of socialism to capitalism and is concentrating mainly on transition countries. It is thus also mainly concerned with institutions, and especially insti-

⁶⁰⁹ Streeck, 2009a, p. 165.

⁶¹⁰ Streeck, 2009a, p. 166.

⁶¹¹ Lane, 2005, p. 228.

⁶¹² Wilson, 2007, p. 253.

⁶¹³ Wilson, 2007, p. 24.

⁶¹⁴ McNally, 2007a, p. 178.

⁶¹⁵ Lippit, 2005, p. 4.

tutional change, but it is less occupied with scrutinizing different types of capitalistic systems.⁶¹⁶

Beside those more recent approaches, there have been earlier efforts to classify different economic orders. In this seminal work *Die Grundlagen der Nationalökonomie* also Walter Eucken did overcome the question if, or if not, an economy is capitalistic in creating another classification of economic systems in comparing market and planned economies.⁶¹⁷ He defined two basic types (or ‘orders’ in Eucken’s terms), which are differentiated into a multitude of system specifications, which are mainly characterized by market forms and monetary system.⁶¹⁸ Coming from the Freiburg School and as founder of Ordoliberalism, he believed that the state, in contrast to ‘laissez-faire’, should provide a stable framework for the economy, but not interfere as an economic actor in economic processes. The state has to guarantee the ‘constituent principles’ of a market economy, such as monetary stability, free entry, private ownership, freedom of contract, liability, a functioning price mechanism, consistency in economic policy and maintaining competition. These principles are supplemented by ‘regulatory principles’ such as monopoly regulation, social policy and process stabilization policy. In a centrally planned economy, the state dominates both.⁶¹⁹ This reflects the distribution of economic power, not necessarily the degree of economic activity by the state. For Eucken, the antipode of the planned economy is not the laissez-faire state, but perfect competition which guarantees every economic actor a share within the economic process, without giving one group, be it state, large corporations or lobbyists, too much influence.⁶²⁰ His theory therefore deals with the relationship between the state and the economy. Economic orders are the “legal and institutional framework of economic activity, and the economic process, the daily transactions of economic agents”.⁶²¹ In his work he formulates an interdependence of orders, both of the economy and the state, collaborating within the order of competition.⁶²² He prefers to use the term

⁶¹⁶ The “Aims and Scope” of the *Journal of Comparative Economics*, one of the journals of the Association of Comparative Economics states that “in recent years, mostly as a result of the transition experience, a new orientation of comparative economics has emerged that focuses on the comparison of the economic effects of the various institutions of capitalism, be it in the legal sphere (common law versus civil law), in the political sphere (different types of democracies and electoral regimes) or in the sphere of culture, social norms, etc. This new orientation is a natural development following the very diverse experience of transitions from socialism to capitalism. The transition experience has indeed shown with a vengeance the importance of institutions in the process of economic development”. Taken from <http://ees.elsevier.com/jcec/>, accessed on 12 August 2010. See also Djankov; Glaeser; La Porta; López de Silanes and Shleifer, 2003, p. 1ff.

⁶¹⁷ See Eucken, 1947. Translated as Eucken, 1992.

⁶¹⁸ Schefold, 1994a, p. 94.

⁶¹⁹ Hagemann, 2008, and Molsberger, 2008, accessed August 12, 2010.

⁶²⁰ Eucken, 1947, p. 513.

⁶²¹ Molsberger, 2008, accessed 12 August 2010.

⁶²² Eucken and Eucken, 1975, p. 338, 345.

“order” instead of Sombart’s system, because an economic system is a special case of orders that rely on contrasting principles and serve the purpose of selecting the appropriate set of theoretical doctrines as opposed to a comparative analysis of historical epochs in Sombart’s sense.⁶²³

In contrast, ‘Capitalism’ as a form of economic system provides in Eucken’s view no unambiguous definition of an economy’s structure and thus fails to describe its order. Describing an economy with this term is for Eucken hypostatizing and replaces the need to scrutinize the variations of real economic systems.⁶²⁴ To the contrary, “‘Capitalism’ slurs over this variety”.⁶²⁵ For Eucken, to analyze the essence of an economy, that is, to reflect Capitalism and its spheres of production, distribution and consumption, means speculation and distracts from the unity of the real economy which is not separated into different spheres.⁶²⁶

He also dismisses the notion of ‘stages’ of development as an idea of the 19th century on the ground that it implies that every country passes through the same sequence of phases and that connects higher level of development with every stage.⁶²⁷ Also, the further development in this line of research, the economic style, is criticized by him (in the course of his work he uses both terms synonymously). Although it describes less a sequence of different stages of a system but rather a parallel existence of different systems, it is for him still concerned with development and also merely with what he calls cross-sections of economic history, which neglects the fundamental structure of (economic) orders.⁶²⁸ Instead, ‘the great antinomy’ of economic analysis, namely the necessity to combine general-theoretical models that need a rational, analytical approach with the historical aspects of economics that require intuition and empathy, has to be overcome.⁶²⁹ He denies that economic styles with their notion of finding time-dependent theories, valid only for certain epochs and cultures, and thus, an ‘intuitive theory’ in the sense of Salin, enables to fully understand economic processes and hence, economic reality. He demands that to explain real economic processes, it is not enough only to understand an economy but that it has to be possible to construct a more general theory out of the findings (see below).

He prefers to use the term ‘order’ instead of ‘style’, because an economic order is an universal prerequisite for economic activity and provides the framework for economic

⁶²³ Kloten, 1971, p. 449.

⁶²⁴ Eucken, 1947, p. 92, 101ff.

⁶²⁵ Eucken, 1947, quote taken from translation: Eucken, 1992, p. 98.

⁶²⁶ Eucken, 1947, p. 14f.

⁶²⁷ Eucken, 1947, p. 64. For a description of the theory of stages, please refer to chapter 4.1.

⁶²⁸ Eucken, 1947, p. 65f., 95.

⁶²⁹ Eucken, 1947, p. 36f.

processes. Eucken goes even as far as claiming that without order economic transactions are impossible. As described above, an order for Eucken can take on two forms: it is either centrally planned or it is a market economy, based on a competitive order (differentiated from a laissez-faire state) (*Verkehrswirtschaft*).⁶³⁰ Eucken proclaims the universality of economic principles and thus the general applicability of the neoclassical theory, combined with the denial of the significance of a specific mind set for the economic activity of an epoch or a culture. For him, a theory is always right, but not always timely. He also rejects the idea of the differentiation between the “satisfaction of needs” and the “principle of acquisition” which is central to Sombart’s work.⁶³¹

Even though the economic order concept claims that the economy is embedded in culture, both are still treated as separate spheres. It states that cultural factors have a defining influence on specific economic systems, but as preferences are said to be given exogenously, embeddedness has no further meaning for the analysis and is not examined in greater depth.⁶³² Consequently, only abstract theorems are able to describe the individuality of economic reality. More than that, Eucken even questions the existence of “competing theories for alternative forms of economy; [he] believed the general equilibrium theory was ‘always valid’”.⁶³³ In identifying the economic order first, it is then possible to apply the right set of theories that has been constructed for each economic order (therefore theories in Eucken’s sense are not time-bound, but order-bound).⁶³⁴ Economic orders represent a sober and prosaic classification of historical economic structures, which is used as the basis of not a historical but current comparison of systems.⁶³⁵

In Eucken’s view, the economic style-approach neglects the details of reality due to its ‘macro’ perspective that is only able to construct ‘types’. Instead, the economic order-approach for him emphasizes small elements from a more ‘micro’, individual perspective and thus represents the real economy, thereby identifying (in the sense of recognizing and understanding, instead of merely ‘constructing’) ideal types, thereby eliminating the ‘antinomy’.⁶³⁶ In an earlier chapter, he dismisses the creation of ideal types by the economic styles (and stages) approach as merely defining arbitrary real types. He justifies his own construction of ideal types in differently defining them as a ‘pure’ morphological system, which is more than just representing cross-sections of economic reality. Also, his ideal

⁶³⁰ Eucken, 1947, p. 82, 127.

⁶³¹ Spiethoff, 1948, p. 588, Schefold, 1995, p. 226f., Schefold, 1994a, p. 94.

⁶³² Schefold, 1995, p. 227.

⁶³³ Schefold, 1995, p. 247.

⁶³⁴ Eucken, 1947, p. 64ff., 104f., 269, 275, Gottschalk and Broyer, 2004, p. 48.

⁶³⁵ Schefold, 1994a, p. 93f.

⁶³⁶ Eucken, 1947, p. 253f., 262f., 364f.

types are the result of a different form of abstracting process, namely the “isolating abstraction [or] abstraction of specially significant characteristics”.⁶³⁷ They are constructed from a “delimited class of configurations for describing the ideal and typical basic elements of the economic order”, which represent the aggregation of real phenomena abstracted from reality, which are used as a model to characterize real economies. Ideal-types do not embody perfection, and they only exist in reality, understood as real types, as amalgamated forms. They function as connection between historical narrative and deductive analysis of economic processes.⁶³⁸

In contrast, generalizing abstraction, as used by the economic style-approach, constructs cross-sections and in Eucken’s view therefore distances itself from reality and details.⁶³⁹ Real types of economies, hence “spatially and temporally localized economic system[s]”, consist thus always of layers of different ideal types earlier defined.⁶⁴⁰ Economic orders are thus ideal- not real-types for Eucken, although he emphasizes only to perpetuate the definition of the term by Max Weber in characterizing it more exactly and exhaustive.⁶⁴¹

However, Eucken’s concept is a static concept, not a dynamic theory and it fails to describe the change of economic systems. He defines stable and unstable states of economic systems which induce the institutional constellation of an order to change towards a stable variant, but omits an explanation for this process.⁶⁴²

Eucken’s dichotomic concept of economic orders has been expanded and refined by authors like Norbert Klöten and Michael Kröll, who categorize ideal types in Eucken’s sense and in a second step describe various real types of existing economies, but also these more recent approaches fail to describe institutional change and hence, transformation.⁶⁴³ Eucken and the theory of orders paved the way for the modern comparative analysis of economic systems.⁶⁴⁴ In so far it is not far away from the Varieties of Capitalism-approach, except that these types are defined according to a different set of characteristics.

⁶³⁷ Eucken, 1947, p. 68f., 366. Quote taken from Eucken, 1992, p. 326

⁶³⁸ Schefold, 1995, p. 227, Gottschalk and Broyer, 2004, p. 48.

⁶³⁹ Eucken, 1947, p. 253f., 366.

⁶⁴⁰ Schefold, 1995, p. 227, Gottschalk and Broyer, 2004, p. 48.

⁶⁴¹ Eucken, 1947, Note 66, p. 418ff.

⁶⁴² Eucken, 1947, p. 288f., Gottschalk and Broyer, 2004, p. 54.

⁶⁴³ Gottschalk and Broyer, 2004, p. 60, for details on the concepts of Norbert Klöten and Michael Kröll please see Schachtschabel, 1971a.

⁶⁴⁴ Gottschalk and Broyer, 2004, p. 51.

4.5.3. The economic style approach

In contrast to the more functional notion of the economic system (or economic order in Eucken's terms) with its two antipodes of plan and market, the concept of the economic style is able to distinguish economies in a more differentiated way, including its institutions and value systems.⁶⁴⁵ The term has been coined at the end of the 19th century and stems from the notion of style in art history, referring to works of the same period.⁶⁴⁶ It assumes that in every epoch a certain spirit prevails and complements the existing economic organization, thus culture is endogenized into this theoretical approach. It has therefore a fundamentally different approach as system analysis in the sense that "system analysis involves the reconstruction of functional connections by drawing on formal models – in the context of a given order; the style concept on the other hand aims to give the research a complementary structure based on understanding and interpretation (hermeneutics)".⁶⁴⁷

The latter concept, namely the intuitive theory [*anschauliche Theorie*, sometimes also translated as 'concrete theory'] has been introduced by Edgar Salin in his festschrift for Werner Sombart in contrast to "rational theory". Both concepts are theories in the sense that isolation and abstraction are the fundamental guideline of both methods. Therefore, they are not antipodes, but rather intuitive theory has also to include rational theory, it is hence "also-rational" instead of "only-rational". Rational theory only concentrates on the functional causal relations of a subsection of the economy, namely the exchange economy, and is associated with the notion of an economic system.⁶⁴⁸ In contrast to this 'pure' theory, which simplifies phenomena and uses deduction to reach conclusions, intuitive theory seeks to understand an economic as a whole and deconstructs the various layers of the real economy to reveal the ideal type within, using inductive logic. Intuitive theory provides mainly "sense cognition, cognition of totality, unity, for and essence".⁶⁴⁹ Its goal is to draw an image of reality⁶⁵⁰, but it abstracts from historical singularities. It is a phenomenological description that aims towards greater insight and a revelation of the changing of economic structures, trying to understand the embeddedness of economic institutions in the cultural background, not to forecast future developments. Intuitive theory means ethical economics and is associated with the concept of economic styles.⁶⁵¹

⁶⁴⁵ Meyer-Abich and Schefold, 1981, p. 112.

⁶⁴⁶ Müller-Armack, 1944, p. 7.

⁶⁴⁷ Schefold, 1995, p. 228.

⁶⁴⁸ Salin, 1967, p. 181f., my translation.

⁶⁴⁹ Harada, 1997, p. 379.

⁶⁵⁰ Harada, 1997 calls this „a theoretical transcribed picture of reality" [*Abbild der Wirklichkeit*], p. 384.

⁶⁵¹ Spiethoff, 1948p. 570f., 594, 643ff., Schefold, 1994a, p. 78, Schefold, 1995, p. 236ff., Gottschalk and Broyer, 2004, p. 36f.

In connection to this theory, Arthur Spiethoff characterized an economic style with the following five attributes: economic spirit, natural endowment and technology, economic and social constitution, economic dynamism. Economic spirit comprises the moral attitudes, in particular towards economic activity, innovation and technology; natural endowment and technology includes population growth and density, the degree of the division of labor as well as available technology, hence material factors; social constitution means the solidarity and coherence of a society, be it blood, enforcement or contract as well as the degree of social division of labor, whereas the economic constitution incorporates property rights (free, state, collective), economic institutions (enterprises, state price formation, work relations, principle of acquisition versus satisfaction of needs) and the distribution mechanism. With this concept, Spiethoff followed the intentions of Sombart but worked out the concept in greater detail, although his structure is partly congruent with Sombart's notion of economic system, in for example using the term "economic spirit" instead of Sombart's "economic mentality". He goes beyond Sombart in describing as the fifth characteristic the dynamics of an economy with the subcategories 'constant' and 'progressive' economy (and creates his theory of crises out of that thought).⁶⁵²

In contrast to the concept of economic stages – and also contrasting Eucken's assessment – the notion of economic style uses more than one characteristic to describe a style. Here it also goes beyond Sombart in claiming that the catalogue of characteristics has to be open and able to expand. The stages theory follows the development of a single attribute over time and therefore creates longitudinal sections in observing the economy. It implies that every stage is connected to a higher state of material and moral development. In contrast, the style concept is going beyond this notion and builds a cross-section of economic life, thereby using a theoretical framework and defining the characteristics by the inductive logic of description, observation of specific phenomena, resulting in a construction of conceptions and extraction of regularities. This means a considerable progress in comparison to the stage theory. In a next step, the reality is scrutinized and the attributes defined before are structured to reveal a concrete style, which represents an image of reality. The ideal-type is always the starting point of this process, the image of reality its end. Economic phenomena within the style are thus explained deductively.⁶⁵³ Spiethoff claims, that the attention is not turned towards the sequence of stages but towards their interrelation and context as well as the development from one stage to the other and thus includes a dynamic

⁶⁵² Spiethoff, 1971, p. 146ff., Gottschalk and Broyer, 2004, p. 41.

⁶⁵³ Gottschalk and Broyer, 2004, p. 43f. and Spiethoff, 1948, p. 577, 641ff.

element.⁶⁵⁴ Hence, “the concepts of economic style and real type therefore refer not to absolute models of knowledge, but rather to explicative structures which are capable of measuring up to the development of history both because of their inner logical need and because of the peculiar type of relationship they have with external changes”.⁶⁵⁵

A theory in Spiethoff’s (but also Sombart’s) sense has to be constructed by a combination of deduction and induction.⁶⁵⁶ The universality of economic theories and hence a ‘time-less economic’ cannot exist within this theoretical framework. To the contrary, for the economic style concept, the relevance of economic theories necessarily varies with time and place according to how well their assumptions suit the actual economic circumstances and historical change. Rational theory, for instance, may not be suitable to describe the economies during feudalism, but has been developed parallel to the emergence of rational Capitalism.⁶⁵⁷

Economic styles are differentiated from economic systems like feudalism or capitalism in further differentiating them into various types of real economies. A specific style is distinguished by characteristic behavioral patterns, organically evolved living conditions and activities as well as institutions and is thus a qualitative instrument and explicitly not a quantitative one.⁶⁵⁸ A style reveals intuitively (in Salin’s sense) the unity of manifold, partly even controversial, phenomena, which goes beyond the functionality of an economic system, as it proclaims the complementarity between economic spirit and economic order. Programmatically, a style can be understood as a concept of life, deeply anchored in society. An economic style describes an ideal type, but not in the sense of Max Weber, whose version can include details that do not exist in real economies, but is created to understand the essence of how an economy functions. In this sense it reflects realities of past and present. An economic style is not able to extrapolate possible future economic systems, but only explains concrete and intuitive differentiations of a known system. Insofar it also defines certain types.⁶⁵⁹ This approach also implies that it is highly dependent on the person of the researcher and his subjective views. He is, however, bound to a catalogue of attributes which Spiethoff mostly borrowed from Sombart. Spiethoff himself never defined a specific economic style.⁶⁶⁰

⁶⁵⁴ Spiethoff, 1971, p. 135.

⁶⁵⁵ Gioia, 1997, p. 181.

⁶⁵⁶ Gottschalk and Broyer, 2004, p. 48f.

⁶⁵⁷ Spiethoff, 1948, Schefold, 1995, p. 224f., 247, Meyer-Abich and Schefold, 1981, p. 113f.

⁶⁵⁸ Meyer-Abich and Schefold, 1981, p. 114.

⁶⁵⁹ Gottschalk and Broyer, 2004, p. 42ff., Meyer-Abich and Schefold, 1981, p. 116ff.

⁶⁶⁰ Schachtschabel, 1971b, p. 15f.

A style is not static, but dynamic in nature, and thus, it is of most interest how the change of a style occurs.⁶⁶¹ Defining a ‚new‘ economic style requires the interaction of various disciplines, like sociology, political studies, history and economics to collaborate.⁶⁶² Implying that a certain era is connected to a certain economic spirit does not mean that the economic actors were aware of their own attitude.⁶⁶³

The most common, but also the latest, elaboration of the economic style stems from Müller-Armack. He defined the “social market economy” as an economic style of compromise between a liberal and a social state, balancing between the principles of the market and of redistribution. This overlapping of structural principles results into an individuality, a unique style.⁶⁶⁴ Müller-Armack defines a style as “unity of expression and composure” of an epoch.⁶⁶⁵ He defines a modern (contrasting a medieval) economic style, which he does not like to call ‘Capitalism’ due to the terminological difficulties associated with that term.⁶⁶⁶

Whereas the system approach is better suited for broad description of epochs but less to describe the qualitative change of an economy, as it is more abstract and general and looking for the unvarying element of a basic structure; the style concept can be applied to specific variations of the system. It indicates the transformation of an economy by describing the change of economic thought but rather from a long-term perspective. On the other hand, a style can also aim at different eras and indicates various systems within.⁶⁶⁷ It is a concept that is both highly subjective and applying relativism in creating a painting rather than a photograph of an economic era.

In creating types, the concept of the economic style can be said to be methodically not far away from the notion of the holistic pattern model, presented in the last chapter. Whereas the first concentrates more on past and present, searching for underlying fundamentals that often can be better detected with (spatio)temporal distance, the pattern models focuses more on continuous updates, therefore on the immediate present and seeks maximal closeness with its subject of analysis. However, of course they differ conceptually and methodologically, but both concentrate rather on qualitative rather than quantitative elements and thus can nevertheless reveal a rather accurate painting of the Chinese economic system in taking also social, political and cultural influences in account – without neglecting its de-

⁶⁶¹ Schefold, 1994b, p. 26.

⁶⁶² Schefold, 1994c, p. 69f.

⁶⁶³ Schefold, 1995, p. 237.

⁶⁶⁴ Schefold, 1994a, p. 80 and Meyer-Abich and Schefold, 1981, p. 118.

⁶⁶⁵ Müller-Armack, 1971, p. 156, my own translation.

⁶⁶⁶ Müller-Armack, 1971, S. 198.

⁶⁶⁷ Schefold, 1995, p. 245f., Schefold, 1994d, S. 81

velopment and transformation. In this work, these theoretical approaches will be further enhanced by the instruments of institutional change outlined in chapter 2.4.

5. Chinese development since 1978

5.1. The Chinese notion of development

5.1.1. Development – a definition

The notion of what (economic) development is, can be or should be, varies widely in different schools of thought. The German Historical School, for example, had a specific idea of what economic development means, for them it also included ethical progress (please refer also to chapter 4.1.). Also the Marxists have their own ideas and for the neo-classical school it has often been treated as equivalent to economic growth (having disastrous consequences for developing countries especially during the time of the Washington Consensus).⁶⁶⁸

In this rather teleological view, the concept of development is associated with gradual unfolding of something often already existing hidden ‘in a nutshell’. It therefore is often confused with growth because development is interpreted as a process of unwrapping something hitherto concealed that grows in size but also changes its structure. It is then seen as a transformation towards improvement and advancement. Although this in general is a positive tendency, it is also associated with a merely upward and forward movement. In this notion development is conceived as deterministic process that leaves no space for “agency and choice, conflict and contradiction, risk and uncertainty, and for creative invention and reinvention of the future as it unfolds”. Hence, development is also regarded as similar to a concept of evolution which from this point of view can be defined as “a theoretical model of dynamic historical change in which the passage of time is a causal force; events and conditions are conceived as historically unique; and change, while driven by causes rather than pulled by effects, is intelligibly patterned” and comes about continuously and incrementally. Just as development, evolution is regarded as being linked to the concept of growth as it is also associated with a consecutive appearance of ever more complex structures. “[E]volutionary theory can therefore serve as a model for a processual theory of social systems in which an explainable past and present are faced with an open

⁶⁶⁸ Washington consensus labels a specific era of development aid. The term was coined by John Williamson in his article Williamson, 1990. He used this expression to describe the shared development goals constituting in policy advices of Washington-based institutions such as the IMF and the World Bank. The expression became the label for mainstream development theories that argued that best results could be achieved by stabilization measures and structural adjustment, resulting in economic liberalization and deregulation. The reforms’ goals were a low inflation rate, lower state involvement and free trade. This type of policy advice had its heyday during the 1990s, now called the ‘lost decade’ by development agencies. Today it is a largely contested theoretical frame. United Nations Development Programme (UNDP), 2010, p. 15, Williamson, 2008. A detailed discussion on the merits of various development theories can be found in Boyer, 2006.

future”.⁶⁶⁹ Capitalist development can from this point of view be interpreted as an unfolding process that expands market relations and reproduction and exercises endogenous pressure for capital accumulation. It is a “discontinuous sequence of subversion and restoration of order”, shaped by competitive innovation”.⁶⁷⁰

Hence, definitions vary considerably, even within development agencies. Superficially, a definition of development seems straightforward: development leads to poverty reduction and solves the problems of underdevelopment, satisfying ‘basic needs’, often also including social and economic progress. However, the latter definition just exchanges one vague expression (development) with another (progress). Development has besides social and economic aspects also a cultural and political dimension and is thus not a synonym for economic growth. Hence, from one point of view Capitalism means development, from others it is the exact opposite. Even the question what exactly ‘basic needs’ are, is contested. Some argue that this made the term development even more fuzzy, draining it from its meaning and leaving as its only function to bestow any interference with a higher-order authority.⁶⁷¹ Cowen and Shenton claim that “development defies definition...because of the difficulty in making the intent to develop consistent with immanent development”.⁶⁷²

Twenty years ago, Amartya Sen broke new grounds with his capability approach that provided the philosophical and theoretical background for re-thinking human development.⁶⁷³ Out of his thoughts the Capability Poverty Measure was developed that assesses the possibility of a country to develop, in taking besides growth also nutrition, education and health, human rights, empowerment, democratic practices and good governance into account, thus also providing a “clear yet open-ended ethical orientation”.⁶⁷⁴ The capability approach also criticizes the notion of development equating economic growth that can be measured in GDP growth. It became a paradigm for the debate of development and inspired the creation of the Human Development Index⁶⁷⁵ (HDI) of the UN that also includes per-capita GDP, but also incorporates the “average achievements in a country in three ba-

⁶⁶⁹ Streeck, 2010b, p. 669-671, similar in Streeck, 2009b, p. 15-2.

⁶⁷⁰ Streeck, 2010b, p. 678.

⁶⁷¹ Nuscheler, 2005, p. 225.

⁶⁷² Cowen and Shenton, 1995, p. 43.

⁶⁷³ Sen, 1985, Sen, 1999.

⁶⁷⁴ United Nations Development Programme (UNDP), 2010, p. 16.

⁶⁷⁵ The HDI aims to measure the multidimensionality of human development, in also accounting for health and education. The statistic consists of data on life expectancy, education and per-capita GDP (as an indicator of standard of living). It is the geometric mean of normalized indices measuring achievements in each dimension of life expectancy at birth, mean years of schooling, expected years of schooling and gross national income (GNI) per capita. United Nations Development Programme (UNDP), 2010, p. 215ff., Nuscheler, 2005, p. 143ff., Reddy and Pogge, 2009.

sic dimensions of human development: a long and healthy life, access to knowledge and a decent standard of living”.⁶⁷⁶

China is among the “top movers” of the HDI, meaning it developed rapidly in a very short time. However, it achieved this purely on the ground of high economic growth. Yet, it has been found that the correlation between GDP per capita growth and other non-monetary development goals approaches zero.⁶⁷⁷ “Take a revealing comparison between China—the world’s fastest growing economy in the past 30 years—and Tunisia. In 1970 a baby girl born in Tunisia could expect to live 55 years; one born in China, 63 years. Since then, China’s per capita GDP has grown at a breakneck pace of 8 percent annually, while Tunisia’s has grown at 3 percent. But a girl born today in Tunisia can expect to live 76 years, a year longer than a girl born in China. And while only 52 percent of Tunisian children were enrolled in school in 1970, today’s gross enrolment ratio is 78 percent, considerably higher than China’s 68 percent”.⁶⁷⁸

The recent Human Development Report defines: “Human development is the expansion of people’s freedoms to live long, healthy and creative lives; to advance other goals they have reason to value; and to engage actively in shaping development equitably and sustainably on a shared planet. People are both the beneficiaries and the drivers of human development, as individuals and in groups”.⁶⁷⁹ It includes as major objectives well-being, empowerment and agency as well as justice. It defines political freedoms, such as democracy and civil liberties to have an intrinsic value for development.⁶⁸⁰

Common to all definitions is that they are Western centered and even more so European centered, with the notion of a democratic, capitalist, bourgeois society in mind.⁶⁸¹ Often, they are also associated with the notion of the all-knowing development expert, in Easterly’s words the “planner” (working for a development agency or NGO) who knows best how to develop an economy. Easterly also claims that planners usually act in a patronizing way in telling that ‘we’ (meaning ‘we whites’) know best what is good for everyone else.⁶⁸²

⁶⁷⁶ United Nations Development Programme (UNDP), 2010, p. 216.

⁶⁷⁷ Bourguignon, 2008, United Nations Development Programme (UNDP), 2010, p.23, 47.

⁶⁷⁸ United Nations Development Programme (UNDP), 2010, p. 47.

⁶⁷⁹ United Nations Development Programme (UNDP), 2010, p. 2. The 2010 edition is at the same time the 20th anniversary edition of the report. It gives a detailed overview of the improvements of the definitions, measures and concepts of development.

⁶⁸⁰ United Nations Development Programme (UNDP), 2010, p. 22f.

⁶⁸¹ Nuscheler, 2005, p. 226f.

⁶⁸² Easterly, 2006, p. 26.

However, along with the new line of thinking on development, evolving around the concept of capabilities, it has been recognized that there cannot be a ‘one size fits all’. Rather, “the payoffs to policy reform differ with circumstances and that appropriate strategies need to be identified and developed locally”.⁶⁸³ Even the World Bank realized that it had to adjust its approach to development in recognizing the differences in growth despite similar policy regimes.⁶⁸⁴ In 2008, also the Commission on Growth and Development supported these findings. It claimed that for sustained growth “no generic formula exists. Each country has specific characteristics and historical experiences that must be reflected in its growth strategy”. That is also reflected in the rapid economic development of China, but also in countries such as Brazil and India.⁶⁸⁵

This dissertation is not occupied with the history and definition of development aid and its failures during the last ‘development decades’ since WWII, but as the example of the transition of communist countries towards capitalist and sometimes also democratic systems illustrates, the notion of ‘one best practice’ failed miserably for the post-soviet countries. The case of China, which did openly defy any advice from agencies such as the IMF and World Bank and which therefore should not have developed at all, demonstrates that also different strategies can work. As will be outlined in chapter 5.1.5. below, China’s strategy was not to have a strategy at all.⁶⁸⁶

5.1.2. Transformation: big bang versus gradualism

Transformation, similar to development, is a term that can be applied to diverse processes but in its modern definition is mostly used for the transformation of former socialist countries into capitalist-oriented economies. It stands for social change that - in contrast to transformations happening in the past - is not necessarily accompanied by revolutionary activities.⁶⁸⁷ The expression transformation is often also used in a broader sense to capture change in development countries outside Eastern Europe that are also on their way to market-based democracies.⁶⁸⁸ The term transformation (as well as transition)⁶⁸⁹ is used

⁶⁸³ United Nations Development Programme (UNDP), 2010, p. 20.

⁶⁸⁴ World Bank, 2005.

⁶⁸⁵ Commission on Growth and Development, 2008, p. 2, similarly in Nohlen and Axtmann, 2000, p. 182.

⁶⁸⁶ Another very interesting phenomenon related to the subject of development will not be discussed within this dissertation; namely the role of China for Africa’s development. Officially still considered a developing country itself (although the EU Commission, 2007 re-assessed this categorization), China became an important agent of African development, its role however being discussed controversially in the literature. See for example Dent, 2011.

⁶⁸⁷ Beyme, 1994, p. 99f.

⁶⁸⁸ Reißig, 2009, p. 31.

for modernization processes that aim to implement - from a Western perspective - 'modern' institutions to a country to achieve a democratic, market-based, constitutional system. As such it can be considered as a neutral term, merely meaning transition from one type of system to another. However, it is often associated with the notion of 'one best practice' that fails to recognize local peculiarities. In reality, transformation is a multidimensional and complex process.

Nevertheless, in its standard definition a transformation process can take on two different forms: it can happen in a 'big bang' or gradually.⁶⁹⁰ Basically, the two different approaches for transformation and thus in the end also for development, can be ascribed to two famous development researchers: Jeffrey Sachs and William Easterly. The first stands for the shock therapy (or what Ellerman terms "social engineering")⁶⁹¹, the latter is a proponent for a gradual approach. Sachs argues for 'one best way' a country can develop, which is determined by professional development specialists and therefore is a top-down approach. For him, the bottom-up gradualism approach leads to "costly and dangerous wrong turns" for a country.⁶⁹² He also acts as an advocate for the 'Big Push' that aims to overcome the so-called poverty trap, regarding poverty as a social engineering problem and by investments and actions directing a country toward a trajectory of self-sustained economic growth and progress.⁶⁹³ Sachs argues that "the 'big-bang' reforms...are attempts to create a 'normal' capitalist economy...The long-run goals of institutional change are clear, and are found in the economic models of existing market-economies. The 'big-bang' countries had social consensus on what economic institutions they wanted, and hence speed on a broad front was possible".⁶⁹⁴

An illustrious example of the shock therapy (hence of top-down implementation of markets, the official term "structural adjustment" used by IMF and World Bank) are the reforms in the Eastern European countries, most famously in the former Soviet Union (see

⁶⁸⁹ In the literature a distinction is made between those two terms, but as this difference is only in nuance, this dissertation will use them synonymously.

⁶⁹⁰ An overview on the comparison of the Eastern European versus the Chinese transformation can be found in Naughton, 1996.

⁶⁹¹ Ellerman, 2010, p. 3. The term 'social engineering' was used before him by Karl Popper and Friedrich August von Hayek who understood it as the planning of economic processes by the state. However, Hayek was very critical of social engineering in general whereas Popper, who differentiated between piecemeal and utopian social engineering, only supported the idea of piecemeal social engineering. Hayek, 1984, Gray and Hayek, 1998, p. 81.

⁶⁹² Ellerman, 2010, p. 17.

⁶⁹³ As this dissertation is not occupied with methods of development aid and more practical issues of development, but is rather interested in the abstract notion of development, it will not discuss the concept of the poverty trap in depth. For a detailed discussion, please refer to Sachs, 2006, p. 14ff. and Easterly, 2006, p. 6, 39ff.

⁶⁹⁴ Sachs and Woo, 2000, p. 8.

also chapter 6.4.3 for a detailed description of the Russian experience), which had near-catastrophic outcomes for the economy and society. The strategy has been implemented by the Russian government together with the IMF and World Bank and included fast privatization, price liberalization and establishment of an accompanying legal system. It thus exchanged both economic and political system at the same time, which in theory should have provided the appropriate institutions for a functioning market economy, to enable Russia to get rid of the old institutions and start fresh in one big sweep. In theory, Russia became a free-market economy on 1 January 1992. In practice, the Russian economy collapsed within one year and to this day a large share of the economy operates in grey and black markets, with a high level of corruption on all levels of government. Overall, since the beginning of reforms in 1992 production fell and resulted in a 50 percent drop in GDP.⁶⁹⁵ One reason is attributed to the fact that the approach failed to recognize the “de facto” property rights people developed during socialist times, which were discarded by the newly installed system.⁶⁹⁶ The institutions copied from advanced developed countries, which in theory should have been the best solution, failed in practice.

In contrast, the gradualism approach regards, beside the implementation of a liberal market economy, as an equally important goal the establishment of good governance and democracy. However, also markets can only be successful when they are established by a process that originates at the basis instead at the top. The planner of the shock therapy is replaced by many searchers looking for the best strategies and solution on an individual basis. Gradualism changes a society incrementally and involves active participation of the population of a country in the transformation process. It is thus also a slow, piecemeal approach.⁶⁹⁷ Often the Chinese economy is given as example of a gradual transformation. However, as will be outlined in detail below, this is only partially the case.

5.1.3. A brief recapitulation of the Western industrial revolution

This chapter focuses on the actual historical development that transformed traditional (feudal) societies into capitalist (modern) ones and less on the reasons for this development. As already outlined in chapter 4 in detail and as only briefly indicated within this chapter, the development of Capitalism has a complex mixture of material and immaterial

⁶⁹⁵ Easterly, 2006, p. 63ff., Ellerman, 2010, p. 7.

⁶⁹⁶ Ellerman, 2010, p. 10f. See also chapter 6.4.3.

⁶⁹⁷ Easterly, 2006, p. 5, 14f., 60-63, 117f.

reasons. However, here and in the following, this dissertation concentrates on the actual impact of the capitalist transformation on society.

In the 19th century, the European economy rested on a relatively persistent balance-of-power system between states which contributed considerably to stabilizing the industrializing economy. This wider institutional environment hinged on the existence of self-regulating markets and the liberal state for its stability. They shaped the background of the Hundred Years' Peace after the turmoil of the Napoleonic wars. The new organizations of economic life helped to prevent a general war, "while providing for peaceful business amidst an endless sequence of minor ones".⁶⁹⁸

Also, with the development of the 'new' sciences since the 16th century together with the enlightenment movement, the view of the world and the idea of man have been radically altered. Individualism and self-interest increasingly were legitimated as base of action, the rational calculation reflecting the spirit necessary for capitalistic production. When during the 18th and 19th capitalistic production emerged, new, more liberal institutions were created. The interpersonal relationships of the traditional household⁶⁹⁹ slowly disappeared, but at the same time the members of the household became more and more equalized and individualized to fit into the new system. The traditional cultural institutions requiring a compulsory ethical institutional background for economic activity withheld the pressure of Capitalism for some decades. Gradually an economic society surfaced that was not structured in classes depending on one's social status anymore, into which one is born and which cannot be changed; but which defines its members in terms of their function for the market, for example as farmer, craftsman or merchant.⁷⁰⁰ Thus, the daily routines of people sustainably changed along with reforms, innovations and the enlargement of markets.⁷⁰¹

Put differently, the institution of the self-regulating market is considered as 'innovation' that ultimately led to a specific social structure that created the liberal state as a consequence. Hence, the market economy became the foundation on which Capitalism could arise, having in turn huge impacts on the lifestyle of the population. It also fostered the transformation of the feudal society into an industrialized one.

As outlined above in chapter 4, all factors necessary for production, including labor and soil, needed to be turned into commodities tradable on markets. Consequently, together with the emergence of Capitalism a labor market had to be established, determining calcul-

⁶⁹⁸ Polanyi, 1944, p. 16.

⁶⁹⁹ In this dissertation 'traditional' is defined as pre-industrial, mostly related to the (changes for) rural households.

⁷⁰⁰ Brunner, 1956, p. 53.

⁷⁰¹ Plumpe, 2007, In: Jaeger, 2007, p. 363.

able prices for working power. This meant nothing less than a class of propertyless workers had to be created that was forced to sell its labor power. Thus, traditional social structures, including families, had to transform to be able to provide the human factors necessary for factory work and industrialization.⁷⁰²

While in the beginning markets were anarchical and self-regulated, people started to realize that to prevent nature and human labor to be destroyed, laws and regulations had to be initiated in order to control the market forces. Thus, the state intervened and – depending on the respective country but mostly decades after industrialization started– established a protective legal framework that at the same time created the necessary (contract) security for doing business. Although it can be easily argued that markets existed at all times in history, until industrialization they had been embedded into the social structure of society which was ruled by custom, autarchy and traditional households, not the motive of gain. From the 16th century and thus, already under the mercantile system⁷⁰³, markets started to become increasingly significant and a main concern of governments. However, a market economy as described previously did not arise until the industrial revolution, as a prerequisite of Capitalism.⁷⁰⁴

As has already been outlined on a more theoretical basis in chapter 4, modern Capitalism emerged in Great Britain first and improved productivity by developing factories. It uprooted people from their traditional environment which often put them into extreme poverty, before the first regulations for protecting human labor were enacted. Polanyi argues that once Capitalism emerged and the “liquidation of social structures” was under way, the development could not be stopped anymore. However, German reformers were able to slow it down in the case of Germany (see below). No matter where, individuals had no chance but to adapt to the new system and social formation. Many people were faced with extreme poverty and misery during the 19th century.⁷⁰⁵

As Polanyi shows in detail, the enclosures of open fields in Great Britain since the 17th century were the starting point for the industrial revolution 150 years later.⁷⁰⁶ Ultimately, they were an important component of the dislocation of common people, which forced

⁷⁰² Wehler, 1989, and esp. Wehler, 1987, p. 141 and 592 and Polanyi, 1944, p. 3, 16f and 55.

⁷⁰³ In short, Mercantilism and its German version Cameralism (roughly 16th to 18th century) holds that nations are depending on the incoming of capital, especially in the form of bullions, because trade is seen as a zero sum game. Mercantilism suggests that in a peaceful way this is best achieved through a positive balance of trade with other nations. The ruling government should advance these goals by encouraging exports while discouraging imports through the use of tariffs. Schmidt, 1994.

⁷⁰⁴ Wehler, 1987, p. 592f. and Polanyi, 1944, p. 55.

⁷⁰⁵ Wehler, 1987, p. 142.

⁷⁰⁶ Polanyi, 1944.

them to move into the growing cities. At that time, cities were not yet prepared to provide sufficient accommodation, and in the very beginning, also jobs. In setting private interests above the public's, the enclosures disrupted "the fabric of society", literally "robbing the poor of their share in the common, tearing down houses which, by the hitherto unbreakable force of custom, the poor had long regarded as theirs and their heirs".⁷⁰⁷ Workers had been "crowded together in new places of desolation [...]; the country folk had been dehumanized into slum dwellers, 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'".⁷⁰⁸ This vigorous description of the living conditions of England's workers is similarly vivid in Weber's image of the "iron cage"⁷⁰⁹, describing the forces behind Capitalism and its effect on cultural and social institutions as "a veritable abyss of human degradation"⁷¹⁰.

A new institutional mechanism slowly transformed Western society to the belief that material commodities together with continuous economic progress and growth will lead to prosperity for the whole population. As outlined above, for such a mechanism to work, a market economy needed to facilitate the free, money-based trading of products. To ensure a frictionless production with the help of machines, all factors for production needed to be available for sale, including man and nature, with their prices also determined on a market. This implies transforming man and nature into commodities, traded on markets that needed to be created first. It also meant that now instead of "being embedded in social relations, social relations are embedded in the economic system".⁷¹¹ Even contemporary writers noticed that industrialization could not be stopped without risking the functioning of state and society but that at the same time its concomitants severely endanger the social environment.⁷¹² This view was supported by a strand of economic theory, constructed around Walras's "general equilibrium" that for a long time limited its analysis to the functioning of markets. Other institutions were mostly regarded as hindrances for a proper price mechanism to work.⁷¹³

As already indicated before, until industrialization even the national markets emerging during Mercantilism were "merely an accessory feature of an institutional setting con-

⁷⁰⁷ Polanyi, 1944, p. 35.

⁷⁰⁸ Polanyi, 1944, p. 39.

⁷⁰⁹ Weber, 1976 [1930], p. 181.

⁷¹⁰ Polanyi, 1944, p. 39.

⁷¹¹ Polanyi, 1944, p. 41f. and 57.

⁷¹² Braun, 1965, p. 63.

⁷¹³ Amable, 2003, p. 26.

trolled and regulated more than ever by social authority”.⁷¹⁴ The extension of the market mechanism to labor was the consequence of capitalistic production in factories. A market system was needed to provide the factors for a fluent production. The law of the market turned labor into being a commodity which as a consequence also limited possibilities to decide how someone led his life.⁷¹⁵

This also implies that the organization of labor needed to be changed which in the end fundamentally changed the lives of the common people. The outcome is a change of society’s social institutions to serve as an accessory to the economic system. In an environment of rapid economic growth, increasing productivity and rising wealth, people could hardly survive on their own working power, “detached from home and kin, torn from [their] roots and all meaningful environment”.⁷¹⁶

The emergence of Capitalism with its self-regulating markets separated society into an economic and a political sphere.⁷¹⁷ Acts of production and of retail sale were disconnected in time and space by the intervention of a wholesale merchant who advanced money for the purchase of goods with the object of subsequent sale at a profit. Hence, Capitalism changed the thinking about economic issues in a “thinking coming from the market” with a separately existing economic system being not a function of society.⁷¹⁸ For the market economy to function properly, the subordination of all elements of society was needed, including man and land. The substance of society itself was comprised to the laws of the market.⁷¹⁹

The market economy additionally transformed them into human commodities on a (labor) market for sale to entrepreneurs looking for factory workers. Polanyi defines labor as fictitious commodity, because as economic activity it is part of life itself and is not produced for sale, nor can it be sold or stored detached from life. What’s more, the labor market cannot be left to the rules of a free market mechanism for this would lead to the destruction of the human being. Labor power has always to be considered as affecting the human individual who happens to be the owner – and provider – of this commodity. Therefore supply and demand cannot be flexible and frictionless; the price has to be stable at a minimum enabling subsistence.⁷²⁰

⁷¹⁴ Polanyi, 1944, p. 67.

⁷¹⁵ Wehler, 1987, p. 185.

⁷¹⁶ Polanyi, 1944, p. 75 and 83ff.

⁷¹⁷ Polanyi, 1944, p. 70.

⁷¹⁸ Brunner, 1956, p. 33.

⁷¹⁹ Polanyi, 1944, p. 71f.

⁷²⁰ Polanyi, 1944, p. 72ff.

Germany started to industrialize half a century after Great Britain, introducing Capitalism not until the middle of the 19th century. Germany took over many of England's technological innovations, being able to leave out the less successful steps towards industrialization. The industrialization went not as experimental, and thus, quicker once it got started because from the beginning large firms could be created to catch economies of scale.⁷²¹ This meant that by learning from England's mistakes, and additionally due to social specifics, the changes were less extremely life-threatening, but still painful, depending on region and industrial sector. The peasants were not forced off the land by enclosures, but the economic change nonetheless radically altered social structures. In some cases such as that of the linen weavers, conditions turned out to be dramatic.⁷²²

In general, industrialization was a much slower process than in Great Britain, taking several decades, thus it did not take place as industrial revolution in the narrower sense.⁷²³ It is also important to note that the transition from a feudal to a modern society developed not linear and not at the same pace even within Germany due to its late unification only in 1870. Therefore, the traditional class system with its long-established conceptions and mentality existed parallel to industrial structures for several decades. Capitalism was not implemented frictionless or without resistance, but in the end was inevitable.⁷²⁴

As a result, the development in Germany ran along the same lines as in England. Borrowed technology ensured a high speed of development with German engineers learning through "imitative acquisition"⁷²⁵ from British techniques. Additionally no 'old' industries existed that occupied working force but all investments could be directed into the sectors with the highest profit rates and the newest technology.⁷²⁶

This was possible after Germany got rid of many institutional, e.g. legal and customary, obstacles.⁷²⁷ One of the necessary prerequisites was the emancipation of peasants, which was mainly achieved after the agrarian reforms in Germany. Peasants were liberated with reforms such as the Stein-Hardenberg reforms in Prussia starting in 1807 with the abolition of feudal restrictions, although they were not accomplished for nearly 50 years.⁷²⁸ The feudal system of the Junkers still held its serfs like slaves. Socage and high duties left few

⁷²¹ Wehler, 1987, p. 68.

⁷²² A detailed description of the increasing pauperism can be found in Wehler, 1987, p. 281ff and 652ff, who also provides an outline of the uprising of the linen weavers.

⁷²³ Kaschuba and Gall, 1990, p. 13ff. and Weber-Kellermann, 1982, p. 99f.

⁷²⁴ Wehler, 1987, p. 140.

⁷²⁵ Veblen, 1990 [1915], p. 187.

⁷²⁶ Borchardt and Cipolla, 1972, p. 29.f

⁷²⁷ Veblen, 1990 [1915], p. 85f.

⁷²⁸ For a detailed description of the reforms and the German industrialization in general, please refer to Wehler, 1987.

resources that could be sold on a market.⁷²⁹ Additionally, the tradition of sovereign care and “clement grace” protected the class society and its social and economic order even under the pressure of a growing population. This prevented economic change for quite a while.⁷³⁰ Riehl even claimed that aristocracy and peasants were the conservative core and “mights of insistence”, contrasting it with an image of a degenerated peasant who included all forms of rural life that did not fit into his idealized picture of the peasant.⁷³¹ This assessment did not reflect but overstated reality, being dismissed as ideology by researchers such as Weber-Kellermann because it oversimplified the reality of village life which did not develop in a linear progress from traditional to feudal.⁷³²

Germany’s territory was not unified, thus development proceeded unevenly with industrialization starting in its North-Eastern part. Nevertheless, under diverse institutional frameworks, technological and economic innovations took place in all parts, forcing agriculture eventually to transubstantiate to a capitalistic, commercialized production aimed at a market.⁷³³ This was accelerated by the increase of population by nearly 50 per cent between 1740 and 1820, mostly due to decreasing mortality rates rather than to rising birth rates. Together with the increasing pressure from international involvements in trade and politics this eventually made changes inevitable. Commercial centers arose, villages became industrial sites attracting rural population but also deconstructing the existing society.⁷³⁴

The first generation of factory workers were urban day laborers, craftsmen and journeymen of the lower end of the petty bourgeoisie. As agriculture changed very slowly, the peasants flooded into the cities in a second phase. Half-peasant subsistence work on small property combined with seasonal employment was not unusual for a long time. It served as social security during early industrialization. Nevertheless, rural workers became more important for industrialization in Germany than the skilled craftsmen who clung to the guild because freedom of trade-laws were not passed until the middle of the 19th century. All in all, the totality of the English experience with sudden separation of house and business was softened by these regional characteristics.⁷³⁵

⁷²⁹ Borchardt and Cipolla, 1972, p. 46.

⁷³⁰ Böhme, 1973, p. 13.

⁷³¹ Riehl, 1976 [1897], p. 268ff.

⁷³² Weber - Kellermann, 1988, p. 10 and 46.

⁷³³ Wehler, 1987, p. 33 and 162ff.

⁷³⁴ Kaschuba and Gall, 1990, p. 12.

⁷³⁵ Bergier, 1976, p. 281, Wehler, 1987, p. 64-94 and Kaschuba and Gall, 1990, p. 15.

5.1.4. History and current state of China's economic development since 1978

5.1.4.1. *Economic reforms since 1978*⁷³⁶

In the 1980s, Deng Xiaoping in turning against Maoist ideology stated that “development is the hard truth”. In Mao’s era, egalitarianism was regarded as more important than economic growth and made China one of the poorest countries at the end of the 1970s. The CCP realized that rapid growth was necessary to overcome poverty and to strengthen China’s economy.⁷³⁷ Thus, the Chinese reforms were from their beginning neither voluntary nor intended to transform the economic system into a market economy. Rather, the CCP were forced to act as a crisis of agrarian production, the stagnation of the economy and a supply shortfall led to increasing discontentment of the population as a consequence of the Cultural Revolution that ended with the death of Mao Zedong on 9 September 1976, and of the Great Leap Forward of 1958-62, both devastating the rural economy and leading to the death of several million Chinese people.⁷³⁸ After Mao’s death and the prosecution of the “Gang of Four”⁷³⁹, the CCP launched the „Four Modernizations“ (of agriculture, industry, national defense and science and technology) in February 1978, together with a new constitution, adopted in March 1978. These policy measures were officially sanctioned by the Third Plenum of the Eleventh Central Committee of the CCP in December 1978.

Thus, reforms started in December 1978, led by Deng Xiaoping, who at that time – and for that matter never officially - had no official position as head of state or General Secretary. Nevertheless, he is the most important figure for the Chinese reforms until the early 1990s, when he died. He introduced a system that was governed by rule and a clear understanding of collective decision making without concentration of too much power as it was the case during Mao’s time.⁷⁴⁰ The beginning reforms were called "socialism with Chinese characteristics" and aimed at improving the overall well-being of the Chinese population by economic growth. In the first phase of reforms until the early 1980s, agriculture was decollectivized and the country opened up to FDI. As a first result, agrarian output rose considerably. This is attributed to the fact that at the beginning of reforms the majority of

⁷³⁶ This dissertation will only provide a brief summary of the Chinese reforms, as this work is rather interested in the mode of the transformation than its meticulous details. Also, extensive chronological outlines and analyses of the Chinese reform process can be found in large numbers elsewhere, for example in Naughton, 2007, Brandt and Rawski, 2008, Spence, 1991 and Chai, 1997. The development of the private sector and enterprise reforms will be analyzed in more depth in chapter 7.

⁷³⁷ United Nations Development Programme (UNDP), 2010, p. 105.

⁷³⁸ Heberer and Taubmann, 1998, p. 16, Spence, 1991, p. 574-583.

⁷³⁹ “The Gang of Four” was the name for the “four radical leaders of the Cultural Revolution” (Wang Hongwen, Zhang Chunqiao, Jiang Qing and Yao Wenyuan) who were after Mao’s death arrested and prosecuted on orders of Hua Guofeng, who followed Mao as chairman of the CCP. Spence, 1991, p. 650ff.

⁷⁴⁰ Shirk, 1993, p. 9.

the rural population was outside the state-sector near subsistence level. This led to a rapid growth of the non-state sector as soon as constraints were removed.⁷⁴¹

Reforms were launched in several phases, starting with a reform of agrarian production, a household-responsibility system (HRS) and an ‘industrial revolution’ of rural areas.⁷⁴² The HRS made formerly collective land available to individual farmers who were allowed to keep the majority of the crop after paying a share to the state. From the end of the 1980s and during the 1990s, price controls were gradually lifted and replaced by a dual price system that allowed SOEs to sell products above the plan quota for market prices, the so-called dual-track system (*shuangguizhi*). It allowed for the coexistence of plan and market for allocation of goods. However, the concept does not refer to two separate ownership structures and therefore the dual-track system operated only within the state sector.⁷⁴³ Additionally, in coastal areas several special economic zones (SEZ) were established, which were open to FDI and were less regulated by the state. These zones became engines of growth for the entire Chinese economy.

As will also be described with the example of Wenzhou in chapter 7, the central government decentralized its control to give local officials the space for economic experiments with privatization. One way to do this was the establishment of Town and Village Enterprises (TVEs), which are firms that officially are owned by the collective but actually are often privately managed.⁷⁴⁴ At the end of the 1980s, corruption was widespread and inflation was increasing which led to rising discontentment in the population which cumulated in the 1989 Tiananmen Square protests and caused a setback in the reform process.⁷⁴⁵ This trend was only reversed by the legendary ‘Southern Tour’ of Deng Xiaoping to the SEZs, where he held a famous speech, reaffirming the need for an increasing pace of economic reforms in a pragmatic, non-ideological manner. Ultimately, this renewed the commitment of the CCP to economic reform and led to the 14th Congress of the Communist Party and the approval of a ‘socialist market economy’ and the extension of markets to all sectors of the economy.⁷⁴⁶ Shortly thereafter, Deng retired. His accomplishment “was not to design ‘the system’ from above..., but to allow mundane experimentation from below”.⁷⁴⁷

⁷⁴¹ Zhu, 2007, p. 1507, Unger, 2002, p. 95-118.

⁷⁴² Lin, 1992, p. 37, Faure, 2006, p. 73-75, see also chapter 8.2.2.

⁷⁴³ Naughton, 2007, p. 92.

⁷⁴⁴ For a description of the development of the private sector and significance of TVEs for it, please refer to chapter 7.

⁷⁴⁵ McNally, 2007b, p. 25.

⁷⁴⁶ Naughton, 2007, p. 99f.

⁷⁴⁷ Zhu, 2007, p. 1514.

Deng started an evolutionary process of establishing a market economy, and in November 1993 the Third Plenum of the 14th Party Congress issued a document named *Decision on issues concerning the establishment of a socialist market economic structure* which has been conceived as “turning point on China’s road to markets”. In September 1997, this was followed by the decision of the 15th Party Congress to declare state-ownership merely as a “pillar of the economy” and private ownership as an “important component of the economy”. Finally, in March 1999 the 11th article of the constitution was amended to incorporate private ownership and in 2004, at the Second Session of the 10th NPC, article 11 of the constitution was again revised to protect private property and encourage the development of the private sector.⁷⁴⁸ Also, entrepreneurs were invited to join the CCP on its 80th anniversary on 1 July 2001, in a now famous speech of then General Secretary Jiang Zemin (see also chapter 8 on the motivation of this move).⁷⁴⁹

In general, 1994 was a milestone year for economic reforms for example with the adoption of the Company Law that provided a uniform legal framework and regulated legitimized ownership structures (see also below, chapter 7 and 8) and many fiscal and financial reforms.⁷⁵⁰

Before 1978, the government-run banking system was merely responsible for providing trade credit and payment services to facilitate the exchange of goods. No long-term lending for investment projects nor a bond or stock market existed. The financial system was passive in the sense that economic decisions were almost never based on financial considerations but were made by planners and then financed from government budgets that also wielded power over the profits of the SOEs. However, especially in rural areas, banks provided the opportunity to save in form of the rural credit co-operatives.⁷⁵¹ Today, China owns a modern financial system, complete with commercial banks and capital market. Particularly the latter has been developed after 1992 but the reforms of the financial system have been continuous since the 1980s when SOEs increasingly relied on the banking system for finance. Loss-making SOEs were provided with credits as the ‘soft-budget-constraint’⁷⁵² led to unlimited access to bank credit. To uphold the notion of ‘reform without losers’ the state-owned banking system piled up a large amount of nonperforming

⁷⁴⁸ Qian, 2000, p. 161, Tsai, 2006b, p. 137. Please see also chapter 8.2.2.

⁷⁴⁹ Tsai, 2006b, p. 133.

⁷⁵⁰ Naughton, 2007, p. 301, Oi, 1999, p 54-56.

⁷⁵¹ Naughton, 2007, p. 451. A detailed analysis of China’s financial system prior to 1978 and of its reforms thereafter can be found in Watanabe, 2006, Yang, 1971 and Stein, 1997.

⁷⁵² The term ‘soft-budget-constraint’ was coined by Janos Kornai in his work on the socialist economy primarily in Hungary. In short, it exists whenever a loss-making enterprise still receives financing on a continuous basis without the risk of going bankrupt. See Kornai, 1992 and Naughton, 2007, p. 309.

loans wide into the 1990s, which thereafter were merely ‘hidden’ by a transfer to specialized management companies. Throughout the reforms, the government kept control over the financial system, which is still dominated by the banking system and only has underdeveloped capital markets. Although stock markets developed rapidly during the 1990s, they are still far from being transparent and good governed.⁷⁵³

The Chinese banking system in general is very centralized and consists of a core of four vast state-owned banks that already existed during the planned economy. These ‘big four’ state-owned banks (originally only subdivisions of one big government (mono)bank) are the Industrial and Commercial Bank of China (ICBC) which is responsible within urban areas and the Agricultural Bank of China (ABC) for rural areas. Additionally, there is the Construction Bank (CCB) that is focused on project financing and the Bank of China (BOC) that handles foreign-trade and foreign-exchange transactions. Additionally, eleven joint-stock commercial banks were set up between 1986 and 2001 and thus were relatively unburdened by China’s past economic system. However, they are owned by groups of SOEs and thus, local government influence their operations. There are also so-called ‘Policy Banks’, which consist of the China Development Bank, the Export-Import Bank and the Agricultural Development Bank. Even today, the banking sector is still dominated by government-owned or –controlled institutions.⁷⁵⁴

However, as this dissertation is primarily concerned with the development of the private sector, it will not in detail discuss the reforms of the fiscal or financial system. Nevertheless, as the private sector is largely exempt from receiving bank loans from the official banking system, it increasingly turns to more unofficial ways to obtain funds. This so-called underground banking will be described below in chapter 7.2. Also the tax system and its reform will be analyzed in depths. Apart from the explanations already given, although there are (rather strict) central government regulations how to govern the fiscal system, it exhibits a large variety locally. The issue of predatory taxation on the local level will therefore be briefly touched in chapter 8.

In the course of transformation, reforms experienced a substantial change of nature. Although decadal differences in GDP growth are rather small, the nature of reforms differed enormously in the 1980s compared to the 1990s. Whereas in the first decade of reforms the transformation was led by rural entrepreneurial endeavors, it was more state-led in the

⁷⁵³ Brandt and Zhu, 2007 and Naughton, 2007, p. 452-454.

⁷⁵⁴ Allen; Qian and Qian, 2008 and Naughton, 2007, p. 455-460.

second decade.⁷⁵⁵ This means that private sector policies became more illiberal and urban biased with an emphasis on investments in state-allied businesses during the 1990s. Increasing tax burdens and other policy measures that curtailed the expansion of rural entrepreneurial businesses were shouldered by the rural private sector.⁷⁵⁶

This tendency was revised only after 2002 with the Hu Jintao - Wen Jiabao government.⁷⁵⁷ The state-sector was downsized, privatization became increasingly accepted. Especially after 1992, decentralization shifted power from the central to local governments.⁷⁵⁸ However, after a firm macroeconomic foundation was given, the focus of reforms shifted to regulatory aspects, such as restructuring of the banking and financial system, of the tax system and of corporate governance. Also, the relations to the international community were intensified, peaking in the admission of China to the WTO. For many, this is regarded as a milestone in the global integration of China.⁷⁵⁹

As already indicated above, the transformation process in China is also characterized by what is called the urban-rural divide, which means that China is characterized by what Huang calls “the entrepreneurial, market-driven rural China vis-à-vis the state-led urban China”.⁷⁶⁰ The gap can also be explained by the Chinese system of citizenship (*hukou*) that is divided in a rural and an urban form, with fewer privileges for the rural type. The urban *hukou* was also related to membership in a work unit (*danwei*) that provided not only work but health care, pensions as well as low-cost housing and education. This system aggravates the notion of two separate worlds that follow different rules and function in different ways, resulting in differing living standards. In theory, mobility is strictly controlled and thus most migrant workers have no official urban *hukou*.⁷⁶¹

It is claimed that China’s transformation process is completed and that now the challenge became economic development.⁷⁶² Indeed, GDP quadrupled in the first two decades of reforms, driven by rising agricultural productivity in the first decade and then with the help of light industry within the TVEs. This led to a substantial decrease in absolute poverty. However, although the Gini-coefficient⁷⁶³ is different for urban and rural households, it

⁷⁵⁵ Huang, 2008, p. xvii.

⁷⁵⁶ Huang, 2008, p. 23, 42f., 123, 173.

⁷⁵⁷ Huang, 2008, p. 24.

⁷⁵⁸ Galbraith, 2004, p. 98.

⁷⁵⁹ Naughton, 2007, p. 100.

⁷⁶⁰ Huang, 2008, p. xvi.

⁷⁶¹ Naughton, 2007, p. 113-118.

⁷⁶² Huang, 2008, p. 8.

⁷⁶³ The Gini coefficient is used as a summary measure of income distribution; it ranges in value between 0 and 1. A Gini of zero means that income is being perfectly distributed. Low Gini coefficients are found in countries like Sweden or Germany. However, in the beginning of reforms, China had a coefficient of 0.28,

is still very high (see also below).⁷⁶⁴ However, China today is the third largest economy and although the per capita GDP is estimated \$ 3,744 in 2009 it still an emerging nation due to its regional disparities of economic development.⁷⁶⁵

A 2007 strategy paper of the EU commission addresses the duality of China's transformation process which puts it on the one hand in the position to be one of the most important countries in international relations, becoming a strategic partner, and being able to hand out development aid to other countries. On the other hand China still remains a developing country in some aspects, although it has the "resources to cover its own longer-term development needs". The EU assists China in matters of trade and business exchange and also in matters of the environment, energy and actions against climate change.⁷⁶⁶ The World Bank elevated China from being a "lower income" to a "lower middle income" country.⁷⁶⁷ However, "China's development guidelines are set out in its 11th Five Year Plan (adopted in 2006) which marks a perceptible shift from all-out economic growth to one which places increasing emphasis on the social consequences associated with rapid economic development".⁷⁶⁸

In sum, "[t]he economy grew at a phenomenal eight percent a year for three decades, and monetary poverty measures fell more than 80 percent between 1981 and 2005. Yet this success was not matched by performance in other dimensions of human development. China ranks first in economic growth since 1970, but 79th of 135 countries in improving education and health. In fact, China is one of only ten countries in the 135 country sample to have a lower gross enrolment ratio now than in the 1970s. [...] The costs of single-minded pursuit of economic growth also became apparent in other dimensions. Escalating environmental pollution threatened many land, water and air systems that people depended on for their livelihoods, sometimes with global implications. Income inequalities worsened. By 2008 per capita household consumption in the coastal region of Guangdong was more than four times that in Tibet. [...] Reducing social imbalances is now a priority in the five-

probably mostly due to an overall very low income level. Since that, inequality in China rose steadily. By 2001, it increased to 0.447. Naughton, 2007, p. 217ff.

⁷⁶⁴ Galbraith, 2004, p. 97.

⁷⁶⁵ GDP per capita (current prices), \$3744 according to the World Bank, 2010, \$3,734.608 according to the International Monetary Fund, 2010, both accessed 20 November 2010. GDP on PPP per capita: \$6,778.091 (IMF), \$6838 (World Bank), same source and \$6600 according the Central Intelligence Agency, 2010, accessed 20 November 2010, \$7075 according to the Economist Intelligence Unit, 2010a. This diversity in numbers reveals the difficulties when dealing with Chinese data. Results also strongly depend on different methodologies and definitions. See also below.

⁷⁶⁶ EU Commission, 2007, p. 2, 4.

⁷⁶⁷ Huang, 2008, p. 240.

⁷⁶⁸ EU Commission, 2007, p. 2.

year plan. China has also recently launched major new policy initiatives aiming to develop a low-carbon economy and expand adoption of climate-friendly technologies”.⁷⁶⁹

5.1.4.2. Current state of economic development

To this day, it remains difficult to obtain accurate Chinese data. To one part, the reason for this lies in the deeply fragmented nature of the Chinese state with local actors having their own agenda and not always being inclined to reveal the true nature, for example, of tax income (please refer also to chapter 7 and 8 on that specific subject). However, there are also other reasons that contribute to the difficulties of obtaining data. The Cultural Revolution completely destroyed the Chinese system of data collection. In 1976 only 46 people worked at the National Bureau of Statistics (NBS) and still in 1986, 90 percent of the data was handled manually.⁷⁷⁰ Additionally, in 1998, the NBS switched to a new system of data collection. In general, the data of the NBS is far from being transparent, and the database is particularly dire for microeconomic processes such as concrete policies, institutions and behavior of economic agents.⁷⁷¹ Of course, officially still being considered a developing country, the fact that GDP and other data might be flawed is not an anomaly as such; it is also the pace of the change that attributes to the magnitude of possible errors.⁷⁷²

Apart from general concerns of taking GDP and GDP per capita data as measures for welfare, in the Chinese case there are additional concerns. More precisely, whereas during the 1980s GDP growth was accompanied by equally fast household income growth, household surveys show that the latter diverged from GDP growth during the 1990s. Also indicators on health and education degraded during the 1990s. Illiteracy rose and social tensions increased. In the Chinese case, adults over 15 that have not the ability to recognize 1500 Chinese characters are defined as illiterate. Usually, Chinese children reach that level in the 3rd or 4th grade in the age of 7 to 9. According to official data, the number of illiterates increased by 30 million between 2000 and 2005 (from 85.07 million to 113.9 million, or 6.72 percent and 11.04 percent, respectively, of the adult population), mostly in rural areas, from a previous steep decline (180 million in 1990 or 15.9 percent of the adult population), which is an increase of 64.3 percent. Illiteracy declined until 2000, from then it increased again. The reason for this can partly be attributed to the fact that those reaching

⁷⁶⁹ United Nations Development Programme (UNDP), 2010, p. 105.

⁷⁷⁰ Huang, 2008, p. xf.

⁷⁷¹ Huang, 2008, p. 24.

⁷⁷² Naughton, 2007, p. 141.

the age of 15 during that time were born between 1985 and 1990, thus in a time when rural education standards decreased rapidly, along with increasing costs for education (government spending in 1998 was only 2.2 percent of GDP, but rural households had to pay an estimated 14.9 percent of their income for education in 2003).⁷⁷³ Interestingly, a World Bank report found that enrolment and education data show that China fulfills the goals of nine-year compulsory basic education. Indeed, official data shows a near to 100 percent enrolment rate. However, local governments often automatically register school-age children as enrolled. In practice, having drop-out ratios of around 70 percent is not rare. This is just one example of many, where details matter and official data is not what it seems on a first glance.⁷⁷⁴ From 2004, this problem, as many others, has been addressed by the Hu Jintao - Wen Jiabao government, for example in waiving tuition. A similar example could be made with health care expenditures.⁷⁷⁵

As has been stated before, China's economic growth has been very fast since the beginning of reforms, since 1970 it increased twenty-one-fold. Its per capita income, however, is only a fifth of the average in developed countries.⁷⁷⁶ The development has been more rapid in the coastal provinces than in the Western ones, but overall it has been 9.1 percent in 2009 and is estimated to increase to 10.2 in 2010. Only Afghanistan, Qatar and Azerbaijan had higher economic growth in 2009.⁷⁷⁷ Its GDP on PPP per capita is approximately \$6,600 which makes China number 130 in country rankings (to compare, Germany is number 35 with GDP on PPP per capita of \$ 34,200, Liechtenstein as number one has a GDP on PPP per capita of \$122,100, Qatar as number two has \$ 121,000).⁷⁷⁸ Export growth recovered remarkably after the crisis in 2008, but it is expected to decline over the next years due to an uncertain global economic environment.⁷⁷⁹ The fast rebound of GDP growth can be attributed to the stimulus package of the central government. However,

⁷⁷³ Huang, 2008, p. 25, 27, 42f, 244f., 246f. Usual concerns about GDP data includes that it leaves out resource costs, environmental pollution among other factors. On a critique on GDP as measure of welfare see Noman, 2005, Attaran, 2005, Baldacci; Clements; Gupta and Cui, 2004. A critique on GDP per capita and hence, the Gini: Reddy and Pogge, 2009, Stevenson and Wolfers, 2008.

⁷⁷⁴ Huang, 2008, p. 243f.

⁷⁷⁵ Huang, 2008, p. 249f. During the 1990, mortality rates for boys under the age of five declined by 2.3 percent a year on average, whereas it rose for girls by 0.5 percent a year. This is not only due to the health system as such, but also to the consequences of the one-child-policy and the Chinese custom to view girls as less valuable than boys and thus due to sex-selective abortions (in 2004 119 boys were born for every 100 girls; the 'natural' ratio is 103-107 for every 100). Klasen and Wink, 2003.

⁷⁷⁶ United Nations Development Programme (UNDP), 2010, p. 42.

⁷⁷⁷ Economist Intelligence Unit, 2010a, p. 7f., Central Intelligence Agency, 2010. All statistical data can also be found in the State Statistical Bureau, 2009.

⁷⁷⁸ Central Intelligence Agency, 2010. Also the PPP theorem is highly contested. However, this dissertation will refrain from a discussion of its (dis)advantages. Please refer to the papers listed in fn 765.

⁷⁷⁹ Economist Intelligence Unit, 2011, p. 3

when the stimulus spending program will be finished, growth is expected to decline to 8.8 percent in 2011 and 8.7 in 2012.⁷⁸⁰

China's labor force is 813.5 million (2009 est.), the world largest labor force. India, number two in the ranking, has 'merely' 467,000,000 (2009 est.) and the EU as a total 225,500,000. By occupation, the labor force works in agriculture with 39.5 percent, in industry with 27.2 percent and in services with 33.2 percent (2008 est.).⁷⁸¹ The GDP is derived from 10.6 percent of the agricultural sector, 46.8 percent coming from the industrial sector and 42.6 percent from services (2009 est.). In September 2009 the unemployment rate was estimated to be 4.3 percent (it is probably much higher, due to the high percentage of unregistered migrant workers that were laid off during the crisis. The data also only includes urban areas, it is estimated that including migrants would increase the rate to 9 percent. An even higher unemployment can be found in rural areas).⁷⁸² The Gini index of 2007 was 41.5 (coming from 40 in 2001), which makes China number 54 in the world.⁷⁸³ This causes rising social tensions and social unrests (rapid increase in demonstrations and strikes, mostly recently in June 2010 in the aftermath of the suicides of workers of Foxconn) in the Chinese society. In a period when China's GDP growth was 10 percent on average, the income of the poorest 10 percent of the population declined by 2.4 percent between 2001 and 2003. Thus, in contrast to a widely conceived truth that living standards in China were constantly rising during reforms, they were actually declining for around 130 million people. The World Bank has similar findings: wage income, and household income in general, has declined as a share of GDP from 53 percent in 1998 to 41.4 percent in 2005.⁷⁸⁴

China's budget deficit was equivalent to 2.2 percent of GDP in 2009 and 2.3. in 2010, slightly improving over the next years as the stimulus spending will come to an end. However, China's official data on this is far from being transparent. Thus, the Chinese fiscal situation might not be as healthy as these numbers suggest. However, expenditure on education, healthcare and pensions are expected to increase over the next years to meet the government goal of a 'harmonious society'.⁷⁸⁵

⁷⁸⁰ Economist Intelligence Unit, 2011, p. 8.

⁷⁸¹ Central Intelligence Agency, 2010.

⁷⁸² Central Intelligence Agency, 2010

⁷⁸³ Central Intelligence Agency, 2010. Other sources find a Gini of 44.7 in 2001 and 49.6 in 2006. Khan and Riskin, 2005 and a report of the Chinese Academy of Social Sciences (CASS), quoted in Huang, 2008, p. 256.

⁷⁸⁴ He and Kuijs, 2007, p.11, Ten Brink, 2010, p.13, Huang, 2008, p. 259f.

⁷⁸⁵ Economist Intelligence Unit, 2011, p. 6, Huang, 2008, p. 241. The concept of a 'harmonious society' (*héxié shèhuì*, and the "harmonious world" internationally) has been introduced by Hu Jintao on 19 February 2005. It has been used in the media the first time on 14 March 2005: „[A] socialist society that is democratic

Consumer price inflation will stay in the relatively modest height of 4 percent on average over the next 5 years, although it peaked to 5.1 percent in November 2010 which is the highest rate since July 2008, most likely caused by rising food prices due to unusual weather conditions. However, rising food prices could also cause a higher inflation over the next years and thus at the same time could lead to discontent in the population, as might the rise of asset prices.⁷⁸⁶

The Economist intelligence unit regards the likelihood of significant political reforms till 2015 as very small. Not least, because the CCP is primarily concerned about maintaining stability, not only in the economy, but even more so in the transition towards a younger generation of political leaders.⁷⁸⁷

5.1.5. Reform without a theory

“[G]overnance should ‘not [be] based on a certain existing doctrine or theory, but rather on consideration of actual national conditions and states interest’”.
Deng Xiaoping⁷⁸⁸

From the beginning of reforms in 1978, China adopted a transformation strategy that aimed at economic growth as sole objective, without changing the political system in large scale. It also rejected the policy advice from international agencies, objecting to the ‘con-

and law-based, fair and just, trustworthy and friendly, full of vigor and vitality, secure and orderly, and in which man and nature are in harmony“.

It is part of a series of political innovations that seek to meet the discontent of people in justifying the inequities of the Chinese modernization process. It is meant to express that the CCP and the government cares for their people who – rather than economic growth – should be the end of development, instead of merely its means. To achieve this, the central government claims to strive fostering social equity, a welfare system, protection of the environment as well as good governance and transparency. The notion of ‘harmony’ is based on Confucian philosophy that includes the two core elements of ‘benevolence’ and ‘harmony’ (see also chapter 4.4.3. and 6.3.). ‘Benevolence’ is more used within interpersonal relations, whereas ‘harmony’ is a more social and political concept. Confucian writings state that these two elements entitle people to ‘eternal peace under the sky’. Its rationale is the belief that harmony has to be employed on the micro-level to achieve harmony between regions and different social groups on a macro level. A significant aspect of this concept is the acknowledgement of social tensions and divergent interests within society that are supposed to be harmonized. However, the central government seeks to reach that goal not only by ‘harmonious’ measures, but also with repressions, monitoring and censoring, for example of the internet. Discontent is often aimed at the local governments, whereas the central government still has a lot of reputational credit with the Chinese population and thus now aims at building on that reputation of a benevolent, paternalistic state. Schucher, 2007. A similar concept is that of the “scientific development concept” (*kēxué fāzhǎn guān*). It is also a people-centered approach that aims to correct the over-emphasis on GDP growth that often encouraged dubious construction projects and false statistical figures on a local level that neglected social welfare especially in the Western, less developed provinces. Its aim is the creation of the ‘harmonious society’. It is a reversal of policies of the predecessor in office of Hu Jintao, Jiang Zemin who emphasized the importance of economic growth. Fewsmith, 2004, Hansen, 2007.

⁷⁸⁶ Economist Intelligence Unit, 2011, p. 8f.

⁷⁸⁷ Economist Intelligence Unit, 2011, p. 3.

⁷⁸⁸ Quote from Beijing Review: *Persistently emancipating the mind*, 15 June 1998, p. 11 as cited in Zhu, 2007, p. 1509.

ventional wisdom' how to correctly transform a country. Hence, reforms officially did not include liberalization or privatization. The driver of economic growth was rural production, not FDI or exports.⁷⁸⁹

As outlined above, the Chinese economic development was the result of a mixture of top-down and bottom-up measures that induced institutional change while “while largely ignoring the advice of economists affiliated with the International Monetary fund and World Bank”.⁷⁹⁰ Deng Xiaoping is often called the architect of the Chinese reforms, but actually he had not an explicit reform strategy in mind.⁷⁹¹ Two famous phrases, coined by Deng Xiaoping, stand for his approach: “crossing the river by feeling the stones” (*mozhe shitou guo he*, 摸着石头过河) and “white or black, it is a good cat as long as it catches mice”.⁷⁹² In practice this meant adapting a capitalistic economic system without changing the political environment. As the term Capitalism was deeply encumbered by ideological concerns, the CCP exchanged the term “capitalistic economy” by “market economy” that was combined with totalitarian politics. This contradiction was on the one hand euphemized by the party, but on the other hand it is a striking example for the Chinese pragmatic mindscape. It can also be regarded as a marketization of power that made economic development and hence profit seeking the main goal of political, economic and intellectual elites. One reason can be seen in the fact that after Mao's death the party as well as the economy itself was in a deep crisis. Being used to call their country and its economic system the best in the world, political leaders now lacked scheme and vision.

Thus, the aim of reforms was to get hold of the socio-economic crisis and as such can be interpreted as a familiar phenomenon. A hundred years earlier, when the Qing dynasty ended in 1911, the so-called Westernization movement aimed to apply Western practical knowledge to the “substance” of Chinese doctrines and thus implant Western technology and science into Chinese institutions, without changing social or cultural context.⁷⁹³ In 1978, reforms again intended to import foreign technologies to modernize the Chinese economy. From 1992 until today the official goal of reforms is called “system of socialist market economy”. However, the explanations as to what this exactly means vary enormously. Deng Xiaoping's opinion on distributional issues was captured in the famous quote:

⁷⁸⁹ United Nations Development Programme (UNDP), 2010, p. 105.

⁷⁹⁰ Nee and Oppen, 2010, p. 2.

⁷⁹¹ He and Reisner, 2006, p. 463.

⁷⁹² The second quote is actually a Chinese proverb.

⁷⁹³ In 1800, Chinese *literati* resisted the incorporation of Western knowledge into traditional curricula, but in 1880 mathematical methods such as algebra and calculus were added to school education. By that time, however, China already lacked behind in technological development. Faure, 2006, p. 31.

“Let some people get rich first”.⁷⁹⁴ It is often also compared to other ‘developmental states’ in East Asia.⁷⁹⁵ Indeed, the Chinese experience shares with those that it built “on a strong authoritarian national leadership and an elite state bureaucracy pursuing developmental goals and industrial policy”. However, the concept of the developmental state remains unclear concerning a definition of the features that propelled economic growth and how policies can influence industrial performance.⁷⁹⁶

The Chinese approach is often seen as incremental and gradual. However, some authors claim that reforms were such a success not because but despite the gradualist approach.⁷⁹⁷ Already fifteen years ago the puzzle of China’s successful transformation ‘against all rules’ was widely discussed.⁷⁹⁸ The common ground of the discussion has been the insight that “history and institutions matter” which gave China a more favorably starting point compared to other transitional countries. Also, all authors agree on the notion that reforms have to introduce competition and choice into the system, to alter incentives for all actors in favor of economic change.⁷⁹⁹ The gradual nature of reforms is often explained by the rising share in output by the private sector.⁸⁰⁰ Ellerman identifies the ‘Chinese method’ as parallel experimentation that “tr[ies] several options, prototype(s) quickly to test the options, and communicate[s] between the experiments since improvements in one option might also benefit other options. Eventually a clear winner might emerge so that resources could then be concentrated on that option”. It is a pragmatic approach that acknowledges that it is impossible ex ante to know what might be the best reform (or development) strategy.⁸⁰¹ It is a process of decentralized social learning that has not the central government as ‘experimenter for the nation’ that knows and implements the correct solution but the periphery – the local governments – that by experiments tries out different solutions. The central government merely is the facilitator of this social learning, as it takes on the best experiments and applies it to the entire country.⁸⁰² Pragmatism “views the social world as being actively constructed by people so, at each point in time, it is radically incomplete and in a state of becoming”.⁸⁰³ However, the “Chinese reforms were neither gradual nor slow”.⁸⁰⁴

⁷⁹⁴ He and Reisner, 2006, p. 463-467.

⁷⁹⁵ Oi, 1995.

⁷⁹⁶ Nee and Opper, 2010, p. 4f.

⁷⁹⁷ See Naughton, 1995 for the first, Sachs and Woo, 2000 for the latter argument.

⁷⁹⁸ Nolan, 1993, Rawski, 1994 among many others and summarizing Walder, 1995.

⁷⁹⁹ Walder, 1995, p. 977f.

⁸⁰⁰ Huang, 2008, p. xi.

⁸⁰¹ Ellerman, 2010, p. 17f., similar in Ellerman, 2004.

⁸⁰² Ellerman, 2010, p. 21f.

⁸⁰³ Ellerman, 2010, p. 4.

⁸⁰⁴ Ellerman, 2010, p. 14.

The notion of gradualism versus shock therapy for many authors is misleading. Some authors go as far as arguing that there is no underlying theory for the Chinese reforms at all. This ‘strategy’ was of course not deliberately chosen; it did not refer to the theoretical schools of neoclassics, Marxism or IMF police advice, but was an entirely pragmatic, ad-hoc endeavor. Indeed, measures were cautious and risk-averse; policy directives in official central government documents remained vague, leaving room for local experiments to develop a private sector, as outlined in detail in chapter 8, without explicitly planning for that to happen.⁸⁰⁵ Even at the beginning of reforms, in the resolution of the Third Plenum of the Eleventh Central Committee, the reform of the agricultural sector was not mentioned – and still having the result of completely abolishing the commune system. The whole transformation process is characterized by regional decentralization and fiscal federalism that resulted in structural learning by regional experimentation.⁸⁰⁶ Even without clearly defined property rights, the Chinese private (or rather non-state) sector thrived, pragmatic entrepreneurs accepting a relatively high level of uncertainty. To interpret that as gradual would rather be an ex post construct than an ex ante decision. As will also be outlined in chapter 7, Chinese tend to be very pragmatic in their actions and thus the acceptance of such a ‘strategy’ is not as odd as it might seem from a Western point of view.⁸⁰⁷ “China’s reform was propelled from below via a peculiar form of massive participation by 800 million farmers who were incapable of theorizing and organizing, not ‘engineered from above’ by power elites armed with ready theories and systematic strategies”.⁸⁰⁸

5.2. The role of the family for economic development in Europe

5.2.1. A short outline of the traditional household before the industrial revolution⁸⁰⁹

In traditional societies, economic activity was usually subordinated to the social relationships. Material well-being was important, but even more so social standing within society. In an ideal-type traditional economy, as for example described by Aristotle for ancient Greece (see also below), material goods were valued for their use, not as investment and thus for sale. The ideal-type traditional household was mostly autonomous, working for its subsistence. Only items that it was not able to produce itself were bought on the vil-

⁸⁰⁵ Zhu, 2007, p. 1503ff.

⁸⁰⁶ Zhu, 2007, p. 1507.

⁸⁰⁷ Zhu, 2007, p. 1504f.

⁸⁰⁸ Zhu, 2007, p. 1515.

⁸⁰⁹ For a detailed description, please refer to Wehler, 1987. For the development of markets and a comparison of traditional and modern economy, see Polanyi, 1944.

lage market. Additional goods were produced by artisans. These craftsmen sold their products retail in the town market and were organized in guilds that regulated prices and quality of the products. However, they were not motivated by gain and profits. Also, they did not work for remuneration as prices were defined by cost of production and custom, and as such needed not to be determined on a market.⁸¹⁰ Land and labor were thus part of the social organization; wages of the craftsmen were determined by the rule of the guild and the town.

The economy in the old, traditional way was based on the house or household (“*das ganze Haus*”) as main institution of economic activity.⁸¹¹ It was an economy based on agriculture; therefore it was a peasant economy, where “economics” was involving a self-sustaining household integrating all spheres of life, which made it also a family economy. The meaning of economics – ‘*Ökonomik*’ - goes back to the Greek word *Oikos*, meaning ‘house’.⁸¹² This sense of economics eventually got lost with the changed attitude towards the notion what life is and, more fundamentally, what the aim of one’s life is.⁸¹³

The traditional household was mostly found in rural areas, but also urban households were organized in that manner in pre-industrial times. Craftsmen often had beside their trade a small husbandry that supplied most of their food (see chapter 7 and 8 for a description of the entrepreneurial bourgeois household).⁸¹⁴

However, this ideal-type traditional *oikos* used to be the origin and basic social unit of economic activity but was not as narrowly defined as it is today with the urban ‘nuclear family’ that became detached from the ‘house’. It was not merely a family consisting of just two generations living under the same roof but rather an extended family of three to four generations living together including the elders and unmarried relatives.⁸¹⁵ Additionally, the menial staff belonged to the household although it was not related to the family but worked on the farm and in the house.

The average family consisted of four to six people, plus two to four servants and maids forming the rest of the household. There was no distinction made between blood relative and menial staff until the 18th century regarding status and treatment. The extended family - including the people without family ties - worked without any or only a very minor wage

⁸¹⁰ Polanyi, 1944, p. 45ff. and 65f.

⁸¹¹ For the etymology of the terms *Oikos* and family please refer to Mitterauer and Sieder, 1977. He provides also an analysis of the typology of the family.

⁸¹² See Richarz, 1991.

⁸¹³ Brunner, 1956, p. 34.

⁸¹⁴ Ipsen, 1992, p. 32.

⁸¹⁵ A definition of the term extended family in contrast to the nuclear family can be found in Schwägler and Mühlmann, 1975.

and was only paid with food and accommodation. It was essential to have enough workers for all errands and duties available and therefore the household needed a minimum size to be functional.⁸¹⁶

The household gave shelter and subsistence to its members, no matter of the individual contribution. Thus, it also served as a social institution for needy and elderly people and even for the lazy. The head of the household had the right to decide about all matters of an individual's path of life, such as marriage or education. Loyalty and obedience towards the family came first.⁸¹⁷

This description does not intend to idealize the traditional household as a cozy, snug place - as was often done during the 19th century by contemporary authors like Riehl – in contrast it has to be perceived as a patriarchal-authoritarian environment, based on inequalities, especially between men and women.⁸¹⁸ Consequently, no separation of house and business existed. This changed drastically with the emergence of capitalistic structures. Later, eighty percent of the population lived in urban environments, their life and work becoming mechanized and the old institution of the household disappearing.⁸¹⁹ In the capitalistic economy, the rationality of companies and business contrasts the “sentimentality of the family”, the first being part of society, the second of a community.⁸²⁰ The household in the old sense had the capacity to unify both spheres.

However, the typical traditional household was focused on securing food and had little involvement with markets, this being characteristic for the subsistence economy of the time as outlined before. The house was not only an economic but also a social collective of domination and authorization, characterized by unity of production and reproduction. Living and working were not spatially separated and duties were assigned according to gender roles.⁸²¹

In the ideal-type house a patriarchal-authoritarian hierarchy reigned. The center of the household consisted of the ‘core family’ – husband, wife and unmarried children. Members of the family were not treated equally; head of the house was always a man, the patriarch. The woman, the housewife, was subordinated under his command, being his deputy and forced to subservience. She was on average far less educated than her husband. The range of a women's authority depended on the size of the household. In smaller crofter house-

⁸¹⁶ Dülmen, 1995p. 13, 24 + 29.

⁸¹⁷ Kerr, 1960, cited in Fukuyama, 1995, p. 89.

⁸¹⁸ Riehl, 1889 [1885], cited in Weber-Kellermann, 1982, p. 87-90.

⁸¹⁹ See Brunner, 1956, p.38-45.

⁸²⁰ Brunner, 1956, p. 42.

⁸²¹ Weber - Kellermann, 1988, p. 144f.

holds, the women had to be more involved. In the hierarchy below the housewife were the children, beginning with the oldest of the sons (the household being a strict gender-stratified surrounding), followed by the menial staff and apprentices. The members of the household did not appear in public as individuals but always as elements of the extended family, represented by the *pater familias*.⁸²² He had the sole responsibility for business, organizing work within the household and additionally maintaining contacts outside the family. He also represented the family in public, for example in village assemblies, which further stressed his high position inside the household.⁸²³

The status of people within the household was also dependent on their role in the domestic division of labor. Women, i.e. the housewife, resided with 'actual' domestic work inside the house (but were not restricted to it). This included responsibility for the garden and the cow barns, whereas the fields and horses were male duties. This traditional division of labor had practical aspects and allowed combining work and childcare. The woman was thus bound to the house, constituting its organizational center. Her responsibilities required diligence and effort, e.g. when handling milk.

Due to their little value for household work, children had low social standing. The status of maids and servants was also low and depended on their specific responsibilities and their gender. The groom had the highest status among the servants.⁸²⁴ The household work in general was diversified and consisted in primary and secondary economic production, reproduction and child care, consumption, care of the elderly and sick and passing on ecclesiastical and worldly norms.⁸²⁵

Besides being organized in a hierarchical fashion, the household had a well-defined distribution of responsibilities without clear segregation of domestic and productive duties.⁸²⁶ There was no separation of work and private life, people slept where they worked, often among the animals or in the kitchen. The notion of privacy was unknown. Even the most intimate matters were carried out in close coexistence. Additionally, the relation between husband and wife was more economical than romantic, being a working partnership.⁸²⁷ This often meant that the wife as central figure of domestic life slept near the hearth. This enabled her to oversee everything and to attend to her duties even in childbed,

⁸²² Egner, 1985, p. 141.

⁸²³ Dülmen, 1995, p. 41 and Weber - Kellermann, 1988, p. 144.

⁸²⁴ Weber - Kellermann, 1988, p. 146f. and Dülmen, 1995, p. 43f.

⁸²⁵ Dülmen, 1995, p. 29.

⁸²⁶ Dülmen, 1995, p. 39.

⁸²⁷ Riehl, 1889 [1885], p. 31ff and 45ff.

even then having no private space. This kind of living reflected the lifestyle of the rural family.⁸²⁸

This ideal-type definition of a house(hold) and its power relations can be traced as far back as the ancient world and the philosophy of Aristotle, who compared the hierarchy in an *Oikos* with that of the polis. Both are occupied by diverse members, but are unified by the “guiding spirit”⁸²⁹ of the head of the hierarchy, which in a sense represented a “monarchy of the house father”.⁸³⁰ This concept is also found in the ‘house father literature’ (“*Hausväterliteratur*”) of the 16th and 17th century. ‘Father’ in the traditional economy was not necessarily a purely biological or sentimental concept but rather a legal and also economic role describing the character of the head of the household. It had nothing to do with the soulful, romantic family of the 18th century (see also chapter 7).⁸³¹

All in all, the peasants were not in need for markets to sustain. The main ‘economic’ risk in those times consisted in bad harvests which could be followed by famines. Markets (at the local level) were only for the purpose of trading commodities that households had abundantly produced (although not for the purpose of selling them) against other goods they were not able to produce themselves. Trade therefore was only necessary to fulfill a supporting role for the self-sustaining household. In pre-industrial times, a household produced nearly everything it needed on its own.⁸³²

With rising needs, especially of the urban bourgeois, for luxury goods, more commodities were traded on the market, including many imported goods from abroad. Of course, peasants were too poor to afford those but with the emergence of a bourgeois class in the course of industrialization, needs changed. Even the proletarians wanted to consume more, as they felt that they thus raised their social status as they were able to imitate the wants and therefore also the taste of the rich. The merchant became the unifying element of society, who organized the distribution of commodities and resources for general consumption (see also chapter 7).⁸³³

Additionally, the concept of leisure time opposed to work was unknown in pre-industrial times. This distinction evolved later during industrialization due to fixed working

⁸²⁸ Weber - Kellermann, 1992p. 29 and 31.

⁸²⁹ Brunner, 1956, p. 44.

⁸³⁰ Egner, 1985, p. 139, my own translation. For a detailed analysis of Aristotle’s thought on economic activity, please refer to Schefold, 1992, Schefold, 1989, Schefold, 2011b.

⁸³¹ Weber - Kellermann, 1988, p. 144ff + 160f. and Brunner, 1956, p. 44f.

⁸³² Weber-Kellermann, 1982, p. 85.

⁸³³ Brunner, 1956, p. 52f.

hours in factories. Festivities, and hence free time, were mostly related to the church with many rituals and customs (see below).⁸³⁴

The pre-industrial German economy was thus not to a small part shaped by the rural patriarchal family whose objective was not profit maximization but security and care. The individual was embedded into the family and hence into a wider social context. This was mirrored by a society ruled by a sovereign as ‘father’ of public order. The notion of the organization of workers in an impersonal factory system away from the feudal system seemed impossible, even considered the existing putting-out-system. The division and process of labor remained inside the family, with female and children labor being defined as ‘care’.⁸³⁵

5.2.2. The transformation from traditional household to capitalist economy

Although it has already been emphasized in chapter 4, it is worth repeating that Capitalism is a phenomenon that separates. It not only separates the place of production from the place where the product is sold, it moreover cuts out the business from the formerly “intact”, integral house, separating people from their homes. This makes them feel that also their body and soul are separated and caught in an “iron cage” that Capitalism created and maintained.⁸³⁶ People had no choice but to take part in capitalistic development and were forced into perpetual struggle by external forces they had no command over.⁸³⁷

As said before, until the industrial revolution classes were virtually immobile and rural life was bound to traditions and regulations that provided stability and security but also prohibited social change and innovations. Industrialization dissipated social collectives such as the church, the guilds and the village community which were not able to protect individuals to the extent they did before. Also the putting-out-systems, the home industries, were in the concentration process bit by bit replaced by production in factories, depriving the families even more of their economic foundation. It took several decades to overcome those institutional features but once people were freed from their feudal obligations they were left with nothing if they did not own land and thus had to move to the cities.⁸³⁸ Nearly

⁸³⁴ Kaschuba and Gall, 1990, p. 10ff.

⁸³⁵ Böhme, 1973, p. 13.

⁸³⁶ Weber, 1976 [1930], p. 181.

⁸³⁷ Köster and Plumpe, 2007, p. 6-8.

⁸³⁸ Borchardt and Cipolla, 1972, p. 103.

half of Germany's population lived in poverty and affliction, was propertyless, uprooted and homeless.⁸³⁹

I do not intend to picture the pre-industrial family life, especially that of peasants, as idyllic and unproblematic. Rather, industrialization merely uncovered the paucity of the rural population. Also, in providing additional income sources the industrialization enabled people to start their own family who otherwise would never have been able to.⁸⁴⁰ The productivity in agriculture was growing, easing the effects of two famines in the 19th century but it was not able to accommodate the additional workers due to a growing population from the 1840s on. Working positions in factories created by industrialization were used to absorb the redundant labor.⁸⁴¹ The new organization of family structures can thus not be evaluated as entirely negative but nevertheless it brought about irrevocable changes to the traditional lifestyle (see below).

For the peasant the change to factory work mostly meant moving into cities, leading a single life, subletting, and all this in a socially and culturally foreign surrounding. On the other hand, the wife, who was left behind, especially if some land was owned, had to take care of all tasks now. This meant the omission of the gendered division of labor. Women became responsible for former male duties.⁸⁴² Additionally, social support, marriage and work licenses were granted only by the village of birth, particularly in Southern Germany. Therefore, many peasants waited as long as possible before moving away. Once people settled in the city, with its new forms of labor, accommodation and consumption, the family lost, among many other aspects, its significance as production unit.⁸⁴³

Due to the development and changing structure of the industries and thus institutional pressure, labor itself had to undergo transformations. Industrial labor, "in the sense of a stable, reliable, and disciplined group that has cut the umbilical cord connecting it with the land and has become suitable for utilization in factories, is not abundant but extremely scarce".⁸⁴⁴ In Germany, workers had been raised in the strict discipline of a Junker estate which made them more amenable to the conditions of factory work, but still, the transformation was far from smooth.

Industrialization also meant the traditional family division of labor was being questioned and put under pressure. The family economy had to modify its structure to maintain

⁸³⁹ Böhme, 1973, p. 31.

⁸⁴⁰ Braun, 1979, p. 61.

⁸⁴¹ Wehler, 1987, p. 51.

⁸⁴² Weber - Kellermann, 1988, p. 384f.

⁸⁴³ Kaschuba and Gall, 1990, p. 16.

⁸⁴⁴ Gerschenkron, 1979, p. 9.

its functions of socialization and at the same time be able to fulfill the requirements of factory work. In other words “a new form of family” had to be created.⁸⁴⁵ Industrialization threw some members of the family into unemployment whereas others found new possibilities of employment. The latter was especially true of women and children.

Before industrialization, sixty to eighty percent of the population worked in agriculture, in industrialized countries this was reduced to only about five percent, the biggest fraction of the population living in urban centers. Those upheavals caused qualitative changes to human employment as already described above.⁸⁴⁶ Apart from economic aspects, social and moral conceptions of the population did change. This means that intuition was replaced by rationality, instinct by calculation and precision. Rapid technological change made constant learning necessary, and when in pre-industrial times old men were considered wise, they now seemed outdated. Division of labor in the factory led to precise but impersonal, indifferent relationships to fellow workers. The pre-industrial patriarchal family was stable and provided social security for several generations. The industrial family is less stable with fewer functions because the state and society increasingly took over responsibilities.⁸⁴⁷

In writing about the change of family structures during the process of industrialization from the traditional family economy to the modern urban household, it is important to distinguish two different developments. The first is the development of the peasant family on which I have focused so far. They became the proletarians of the cities, the working class, as described above. To those people the change was extreme, combined with a total destruction of their living environment and behavior, causing total social uprooting.

The second development, no less important, concerns the wealthier part of the population, thus the changes to the middle and upper class households. Their positions as merchants, entrepreneurs and factory owners made them the key players of industrialization, giving them a leading role for the economy as employers and investors. For those households the industrial revolution brought mainly advantages in an economic but also sociological sense. This aspect will be discussed in chapter 8.

As argued above, the transformation of social structures was more dramatic for the rural population, because they had lost their social and cultural surroundings and were forced to leave their homes for the sake of finding work and an income that would at least promise to guarantee subsistence. Although wages for day-laborer and unskilled workers were very

⁸⁴⁵ Smelser, 1972, p. 35 and 180.

⁸⁴⁶ Cipolla, 1972, p. 17.

⁸⁴⁷ Cipolla, 1972, p. 19f.

low, due to decreasing opportunities to find an income in rural areas, many people fled from the countryside into the cities, both men and women, if no property was owned that needed to be taken care of.⁸⁴⁸

The structure of the paternalistic peasant household changed from a self-sustaining pattern to a more and more dependent one, which needed a market to be supplied. The degree of dependence on supplies from outside the household differed, but basically change already came with the emergence of the proto-industrial putting-out-system during the period of early Capitalism. This system developed preferably in areas where ownership of land was divided between all children due to the prevalent inheritance system. In those areas, peasants were in need and also had the time for by-employments. Hence, those households had an additional source of income, which was nevertheless still integrated within the traditional household. Increasingly, the housewife was autonomously following her own trade; additionally she was responsible for the domestic production of industrial goods.⁸⁴⁹

The (male) domestic head of the household became an “agricultural business leader” who organized the production bearing in mind not merely the well-being of the members of the family but also concerned with the sales of the products on the market.⁸⁵⁰ This meant that domestic production for one’s own needs changed to production for the market and making profits, respectively. In the early stage of development the *pater familias* still incorporated both roles: the business and the domestic head of household, thus being the ‘father’ of his (extended) family, but having several additional objectives to fulfill. The first and most important ones of those are financing of future production and subsequent selling of products. Being the domestic leader of the household also implies a more complicated bundle of aims: nutrition, health care, education of both children and adult members of the household, community support; the combination of both sets of duties an increasingly unsolvable problem. Still, the traditional family remained for quite a long time the institution that guaranteed the cohesion of wage labor, with the subsistence economy as a network for mutual help and exchange.⁸⁵¹

Once people started to move from the countryside into the cities, the hierarchical structure of the traditional household eventually fell apart.⁸⁵² In regions where the single-heir system prevailed, the younger son was sent away to become part of the permanent indus-

⁸⁴⁸ Sombart, 1987 [1908-1927], Vol. III,1, p. 352.

⁸⁴⁹ Habakkuk, 1955, p. 10 and Egner, 1985, p. 145.

⁸⁵⁰ Egner, 1985, p. 142.

⁸⁵¹ Kaschuba and Gall, 1990, p. 84.

⁸⁵² Egner, 1985, p. 139f.

trial labor force. Additionally, young people in particular moved wherever they could find work which caused them to be independent much earlier. Not restrained by tradition, they were able to marry earlier even without having accumulated savings as prerequisite for starting a family.⁸⁵³

The appearance of manufactures had made people increasingly mobile, but the cities were not yet prepared sufficiently for to the inrush of the crowds. Living conditions were due to lack of accommodation devastating. The urban population was not only faced with entirely different living conditions, but also with the risk of unemployment. This became more likely due to economic crisis which as a consequence made keeping a household more difficult and thus additionally destabilized family connections. Moreover, the demands of the labor market with the necessity to change jobs often made it hard for an individual to keep his ties to his family active.⁸⁵⁴

As a consequence, the head of the household lost his main function, to protect and to organize the work within the family household. In the course of that process, he also lost his power over family members who were not bound to the strict hierarchy anymore.⁸⁵⁵ Simultaneously, the status of the housewife was upgraded making her an increasingly equal part of domestic leadership. She also had to work in factories which also meant that she hardly had enough time for household chores and the education of her children which became far less socialized and increasingly neglected. The organization of child-rearing and daily work had been possible in the conditions of the traditional household, but proved to be far more difficult while being employed in a factory. Childcare and housework often was done during her 'leisure time'.⁸⁵⁶ Additionally, due to the interruptions of employment because of pregnancies and child birth, women were not able to establish a professional identity. For women, working simply meant getting additional earnings in undervalued replaceable positions.⁸⁵⁷

As there was hardly time to care for and educate the children, the same is true for leading something just remotely resembling the traditional family lifestyle that rural people had been used to before. Family life had to adjust its daily routines to the rhythm of working shifts.⁸⁵⁸ Because the family got together only a few hours during the week, the authority of the head of household was diminished and the women increasingly had the responsibili-

⁸⁵³ Habakkuk, 1955, p. 11.

⁸⁵⁴ Goode, 1970, p. 13.

⁸⁵⁵ Egner, 1985, p. 140f.

⁸⁵⁶ Weber - Kellermann, 1983, p. 162f. and 190.

⁸⁵⁷ Kaschuba and Gall, 1990, p. 86.

⁸⁵⁸ Wehler, 1987, p. 254ff. and Kaschuba and Gall, 1990, p. 86.

ty for the care for their family, for work, and for organizing all other matters of daily life. Women benefited by becoming relatively independent, giving birth earlier and faster due to better medical conditions which also gave them more control and freedom over their body and their lives. Some authors argue that due to a lack of living space as mentioned above, more and more women worked to escape the misery of their apartments.⁸⁵⁹ Also, the street became a place of communication and living for adults and children alike.⁸⁶⁰

Wages in general were very low. One income was often not enough to guarantee the subsistence of a family. This forced women and even children to work – the children often from the age of six or eight. Children were also needed in the factory to fill the gaps the vanishing apprentices left. Their low wages made them an unproblematic hire, thus for them and also for women work was often easier to find. Also, both children and women were not used to negotiating their salary and not in the position to demand better payment and working conditions. Although children often had nearly as long working days as adults, the low wages forced them to work even longer hours so they could contribute to the livelihood of their families.⁸⁶¹ Women were increasingly preferred as employees because “their labor is cheaper, and they are more easily induced to undergo severe bodily fatigue than men, either from the praise-worthy motive of gaining additional support for their families, or from the folly of satisfying a love of dress”.⁸⁶² Hence, because of the work opportunities of the adult male being limited, he lost his status as chief breadwinner. Child work also meant that the father had no chance to teach his children his own trade.⁸⁶³ The possibility to send children into factories where they could add to the family income was an additional incentive for agricultural workers to move into the industrial centers.⁸⁶⁴

Although working hours were not much longer than those on the farm, the work in the factories was much harder due to the dirty conditions, heat and ear-deafening noise. The simple, reduced tasks of working processes involved only monotonous routines at machines and thus were tiresome. People faced the constant risk of injury, health hazards and early invalidity connected with old-age poverty. This, together with the lack of sleep, made the workers aged at the relative early age of forty.⁸⁶⁵

To run a factory efficiently, a work discipline had to be established that was unfamiliar to the former farmers. Workers were required to work constantly and regularly to make the

⁸⁵⁹ Collier, 1964, p. 53 and Weber - Kellermann, 1983, p. 188.

⁸⁶⁰ Wehler, 1987, p. 254f. and Kaschuba and Gall, 1990, p. 26.

⁸⁶¹ Weber - Kellermann, 1983, p. 163 and 166.

⁸⁶² Pinchbeck, 1985, p. 190.

⁸⁶³ Smelser, 1972, p. 188.

⁸⁶⁴ Smelser, 1972, p. 203.

⁸⁶⁵ Bergier, 1976, p. 283 and Wehler, 1987, p. 248f.

machines profitable. Even talking and walking around, let alone being drunk, which was not uncommon in that time, were not allowed. People were also not used to having up to several hundred co-workers, the impersonal and abstract organization of work was alien to them. The first generation of workers reacted hostile to those conditions and did not like the long shifts with their rigorous controls. To discipline the workers, company owners punished them with money penalties or physical chastisements, especially in the case of children.⁸⁶⁶ The regularity of working times meant that the starting and ending of a shift including the short breaks were exactly scheduled. Some entrepreneurs even confiscated watches from the worker so they would not notice when the clocks inside the factory were manipulated. It also meant that the notion of leisure time clearly separated from working hours was created.⁸⁶⁷

The repercussions were especially hard for the menial staff of the traditional rural household, because in an urban surrounding they were not needed anymore. They formed the main body of the propertyless labor force, the proletarians. Mostly, they had not learned a trade and thus were only hired as day-laborers who were at the low end of the working class, the '*lumpenproletariat*'. Besides working in factories, in particular the maids often also worked as servants in bourgeois households. In contrast to their former involvement in a traditional household, domestic service was organized as wage earning relation to secure the independence of the individual worker from the householder. This freed the individual from any personal relationships to his employer. Hence, like everything else, also service became a commodity, like any other to be traded on a market. For the menial staff increasing independence was linked to the loss of the protection within the traditional household.⁸⁶⁸

All in all, the family as such became economically dependent. The father lost part of his authority, traditional values such as professional identity, striving for independence, pride in the exercise and quality of one's own work got lost.⁸⁶⁹ The education of the children, the subsistence of the family and the future in general became insecure and were questioned in the course of the industrial revolution. The only thing that mattered was monetary gain.⁸⁷⁰ Due to the small use of precautionary saving and because of lacking opportunities for leading a proper household due to the cramped living conditions, people spend and consumed all their earning to ease the hardship of their daily working life. As was already said before,

⁸⁶⁶ Fulcher, 2004, p. 14f. and Kaschuba and Gall, 1990, p. 20f.

⁸⁶⁷ Wehler, 1987, p. 249f and Fulcher, 2004, p. 16.

⁸⁶⁸ Weber - Kellermann, 1983, p. 126 and Wehler, 1987, p. 253f.

⁸⁶⁹ Smelser, 1972, p. 210f. and Polanyi, 1944, p. 74.

⁸⁷⁰ See Egner, 1985, p. 142-151 and p. 153-160.

many people spend most of their free time on the streets and in bars to substitute for a missing home, constituting a “half-open family structure”.⁸⁷¹

Thus, the family as reference point was also missing in the leisure time, particularly for servants and former journeymen without any own family. Time after work had to be spend in new ways, which was mostly accommodated by the newly created infrastructure of restaurants, pubs and bowling alleys, but also gymnastic clubs and choirs. A whole new worker culture evolved.⁸⁷² Those institutions, the friendly society in particular, had besides recreational functions also the task to save or withhold a part of the worker’s income for inelastic expenditures such as funerals, sickness or old age. It served thus as savings bank and insurance company.⁸⁷³

In conclusion, Capitalism was able to produce more goods that could be afforded and consumed even by workers but at the same time it did not cause a better and more equal distribution of those commodities within society. Only a small fraction of the population gained of industrialization. The bigger part had to face the destruction of their traditions, habits and familiar surroundings. This further loss in social harmony between the classes later on resulted in uprisings, riots and in the end even revolutions in the 19th and 20th century. This demonstrates once more the character of Capitalism for conflict and constant struggle as Weber and also Sombart described it.

5.2.3. New institutions as precondition for economic development

The emergence of Capitalism marked the end of an epoch where ‘nature-given’ inequalities between humans were transferred into a system depending on one’s social status. The social class an individual belonged to was no longer determined by birth but by the individual’s performance in society. Social positions were defined by new hierarchies between worker and entrepreneur, therefore between propertied and propertyless class. Until the industrial revolution, life was relatively simple and clearly arranged, taking place mainly in small villages and shaped by the obligations of the feudal system. The main concern of the peasants was the maintenance of the status quo for families over generations, although of course regional differences in the details of daily life existed, sometimes already accompanied by proto-industrial structures.⁸⁷⁴

⁸⁷¹ Wehler, 1987, p. 253.

⁸⁷² Kaschuba and Gall, 1990, p. 16 and 22f.

⁸⁷³ Smelser, 1972, p. 181f.

⁸⁷⁴ Kaschuba and Gall, 1990, p. 5 and 14f.

This static system was disrupted in the 19th century by economic, technological, scientific, demographic, social and cultural developments leading to migration into the cities and ushering in the end of the pre-capitalistic era. The most obvious effect of the new institutional system was thus a process of proletarianization, which together with the pauperization of the rural population and the emergence of wage labor relations in a market economy lead to the destruction of the traditional character of the settled population. They were transformed into a new type of individual, “migratory, lacking in self-respect and discipline – crude, callous beings”⁸⁷⁵ of whom on the lower end of society the laborer and at its upper end the capitalist were an example.⁸⁷⁶

Depending on the skill and the specific sector workers were employed in, they could be better off financially by working in a factory than by working in agriculture. Even then, Capitalism caused the destruction of the workers’ social environment, e.g. their neighborhood and their standing in the community and thus of all social and cultural relationships they were formerly embedded in. Even more than the economic exploitation which already from feudal times was known, this was the main cause of the worker’s degradation. The economic process merely contributes to the destruction of the cultural environment because “the goals for which individuals will work are culturally determined”.⁸⁷⁷ The disappearance of the traditional institutions, the individualization and the atomistic dislocation of the human being from its ‘natural being’ of the pre-modern society of the past caused the loss of self-respect and standards.⁸⁷⁸

Capitalism separated labor from the household and thus made it a commodity to be traded on a market with its conditions negotiated by contracts. Contracts can be interpreted as a means of freedom, contrasting to the non-contractual institutions of kinship, neighborhood and religion. These forms of social environment claim the allegiance of individuals, restraining their freedom, e.g. within the traditional household. To destroy those relations permanently, the spontaneous reinvention of traditional institutions had to be prevented. It was feared that not to do so would harm the economic development of the country.⁸⁷⁹ The experience of riots and revolutions such as in England during the 18th century and also the memory on the French Revolution made entrepreneurs take precautions to prevent the organization of the workers. Especially the first generation of laborers despised the factory where they felt degraded and tortured. To prevent the association of workers with each

⁸⁷⁵ Polanyi, 1944, p. 128.

⁸⁷⁶ Weber - Kellermann, 1988, p. 389.

⁸⁷⁷ Polanyi, 1944, p. 129 and 156ff.

⁸⁷⁸ Köster and Plumpe, 2007, p. 8.

⁸⁷⁹ Polanyi, 1944, p. 163.

other, social structures were smashed and people were forced to work extremely hard and long hours, disciplined by the threat of corporal punishment. It was assumed that only an overworked and demoralized laborer would refrain from fighting for better working conditions. Justification of such maltreatment could be found even in the economic theory of the time. According for example to Ricardo, labor markets could be regulated by keeping wages on subsistence level, thus forcing workers to sell their labor. High wages were not considered as an incentive to work, probably because during the first decades of industrialization people would only work until their livelihood was secured. The appalling conditions in the factories required disciplinary action to force the workers into the “iron cage”.⁸⁸⁰

In Germany, the most brutal consequences of Capitalism were attenuated by the introduction of a social law that protected the rights of laborers and helping to create a „middle class“ which served as a buffer between the proletarians and the upper class (see also chapter 8). For example, as early as in 1839, a law that restricted working hours for children was introduced, followed by the modern Social Security Acts, passed from 1883.⁸⁸¹ To achieve disciplined long-term employment, bourgeois entrepreneurs started to establish occupational housing estates and health and pension schemes, and as a means of personal identification and motivation for the workers. These models of ‘corporate families’ used traditional patterns of peasant family life to create a mixture of cultural and material identification.⁸⁸² Thus, patterns based on “kinship and community permeated the apparently impersonal factory”.⁸⁸³

On the whole, the immense changes of family structures were long and painful due to rigid organizational structures. Unlike a factory, the family involves social and emotional characteristics and thus cannot simply adjust to external pressures by laying off family members or adding some more members. When put under pressure, family organization would often break instead of merely bend. The new social structures that emerged were more differentiated, and therefore better suited for a time of less stable institutions and permanent change.⁸⁸⁴

⁸⁸⁰ Polanyi, 1944, p. 164f.

⁸⁸¹ Schröder, 2000, p. 190.

⁸⁸² Kaschuba and Gall, 1990, p. 96.

⁸⁸³ Smelser, 1972, p. 191.

⁸⁸⁴ Smelser, 1972, p. 213 and 408.

As a result, during industrialization the family became less important, and social structures were increasingly oriented towards the economy. Factory work arranged lifestyle in new ways, emphasizing the role of co-workers over those of family members.⁸⁸⁵

5.3. The role of the family for economic development in China since 1978

*"Gubiao qin beibei qin, zasui gutou lianzhe jin. -
Cousins are close, close through generations,
smash their bones, but they are still attached by tendons".⁸⁸⁶*

5.3.1. Chinese family structures before the Cultural Revolution: the 'obstacle view'

In the Chinese social system families and kinship play an important role. Over time, it changed according to historical circumstances and is thus not a static structure. Family ties and kinship structures served specific functions depending on political and economic conditions. Its basic unit is the patriarchal clan which can be divided into several smaller households. 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 behavioral patterns.

The Chinese kinship system is evaluated very differently in the literature. The older part of it states that the pre-revolutionary family structure posed many obstacles to rational entrepreneurial development.⁸⁸⁷ Max Weber as maybe the most prominent author among those described the negative role of the "sib fetters of the economy" which prevents the economy from growing (see chapter 4).⁸⁸⁸ However, more recent research comes to another, positive conclusion which regards the Chinese family as an engine for economic growth. It has been recently summarized by Ha-Joon Chang: "First, take the case of Confucianism. Today, many people argue that it is a culture that is inherently pro-developmental. Indeed, if we highlighted its emphasis on education, its notion of 'heavenly mandate' (which gives some important voice to the grassroots and justifies dynastic changes), its emphasis on frugality, and so on, you cannot have a better culture for economic development. However, if we emphasized its hierarchical nature (which is supposed to stifle creativity...), its penchant for bureaucracy, its detestation for craftsmen and merchants (engineers and businessmen in modern terms), we cannot have a worse culture for

⁸⁸⁵ Weber - Kellermann, 1983, p. 174.

⁸⁸⁶ Yang, 1994, p. 112.

⁸⁸⁷ Weber, 1968, p. 86-97.

⁸⁸⁸ Weber, 1968, p. 95.

economic development. Indeed, until the 1950s, many people, including the East Asians themselves, argued that the East Asian countries were not developing because of Confucianism....More importantly, over the long term, ‘traditions’ are not immutable. Cultures and institutions themselves change, often dramatically”.⁸⁸⁹

In the time before 1949, the individual defined itself through the family, being bound to its kinship. In rural areas, those facts led to autarkic households, which would ask their neighbors for help only in emergencies. The household was self-sustaining, without the need of markets to be supplied with goods.⁸⁹⁰ In a way, solely relying on one’s family shows economic rationality, especially taking into account that no well-ordered property rights existed. Also, the tax system was random and arbitrary and the state, including its officials, could not be relied on. Thus, family ties served as a buffer against social insecurity and family members were the only ones who could be trusted not to exploit and deceive.⁸⁹¹ As precaution, Chinese families aspire toward having as many sons as possible to secure living in higher age. Therefore, an ideal-typical Chinese family was larger in size than the typical Western family. The self-sustaining family with several children was the answer to hard living conditions.⁸⁹²

On average, Chinese families consisted of up to five generations, which often included the family of the sons. However, also many small families existed, due to the fact that supporting several sons was costly. Women were expected to break with their own families after marriage and leave their families and often also villages to live with their families-in-law. This meant that daughters were of less valuable for the family in terms of provision for old age. Much of the stability and strength of a family depended on how well the women could be dominated.⁸⁹³

The view that the Chinese family poses an obstacle to economic development is based on several claims. The tone is set by Max Weber emphasizing the “sib fetters of the economy” already mentioned above.⁸⁹⁴ He considers Chinese families as constraint to the development of values and impersonal relationships that are necessary for the creation of modern enterprises.⁸⁹⁵ The reason for such an evaluation concerns mainly the defects of family run firms. He describes that the pattern of wealth acquisition was often given through family investment in the form of helping a scholarly member to obtain an educa-

⁸⁸⁹ Chang, 2010, p. 19f.

⁸⁹⁰ Levy, 1949, p. 208f.

⁸⁹¹ See Feuerwerker, 1984 for information on the tax system.

⁸⁹² Fukuyama, 1995, p. 90f.

⁸⁹³ Wong, 1988, p. 145 and Huang, 1992, p. 37.

⁸⁹⁴ Weber, 1968, p. 95.

⁸⁹⁵ Fukuyama, 1995, p. 65.

tion, which later often resulted in a bureaucratic career. In turn, those officials could be used for favors, which in conclusion impeded the development of rational economic enterprises in the Western sense but is based on nepotism.⁸⁹⁶

This is for Weber also due to strong family loyalties being based on Confucian values. The Confucian culture of authoritarianism, hierarchy, insularity and ethnocentrism fostered economic activity in the form of a family business rather than big independent corporations (see also chapter 4).⁸⁹⁷ The Chinese family possesses a high degree of collective solidarity but requires also strict obedience to parental authority, as filial piety is a central Chinese value.⁸⁹⁸ Family companies in comparison to modern corporations are regarded as an outdated mode of production more suited to an agrarian society. Due to their paternal structure they even impede the creation of independent industries. Although “minor growth, innovation and technological change may occur”, they exist in a “traditional equilibrium” of the Chinese economy which prohibits “break[ing] the rigid and inhibiting bonds” of social and economic institutions.⁸⁹⁹ As a result of these static traditional Confucian values, researchers claim, China failed to develop a capitalistic industrialized economy in the 19th century.⁹⁰⁰

In these analyses, the view on the inside dynamics of family businesses is often very negative. They describe that within these family enterprises, the individual family member is protected of outside discrimination. Resources are distributed according to the status within family, generating a lack of work discipline due to nepotism. In contrast, family members owe obedience to the father and head of the family firm. Enterprises cannot acquire labor from a free labor market, because family obligations make it necessary to fill open positions within the company with family members corresponding to their status within the family. Thus hiring, firing and promoting is not done according to one’s skills but is owed to the position in the hierarchy of the family.⁹⁰¹ Also, it is impossible for young people to make themselves available on the labor market, and so cannot fully utilize their own abilities and strengths. On the other hand, talented non-family members hardly have a chance to get into managerial positions. Furthermore, women are not considered as independent individuals, the individual in general appears only as part of a family as member of society, discouraging individualism and independence. Women mostly are not al-

⁸⁹⁶ Weber, 1968, Introduction, p. xxvi.

⁸⁹⁷ Zurndorfer, 2004, p. 17.

⁸⁹⁸ Parsons, 1967 [1937], p. 542.

⁸⁹⁹ Eckstein, 1960, p. 1.

⁹⁰⁰ Zurndorfer, 2004, p. 1. For a short analysis why China failed to develop Capitalism in the 19th century, please refer to chapter 4, fn 522.

⁹⁰¹ Whyte, 1995p. 1001.

lowed to actively contribute to economic production. Female members of the family are further discriminated in being left illiterate and, to fulfill their ideal of beauty, having their feet bound. Even though the latter practice is outlawed in 1911, boys are still more commonly preferred.⁹⁰²

Through the lack of personal mobility the spread of ideas and technology is also slower if not non-existing at all. Beside the problem of nepotism described above, there is additionally the problem of growth and business size. Due to the fact that sons inherit equal shares of their father's company by tradition, it never manages to grow over a certain size. As merchants traditionally have no good standing within the society, families try to get away from their merchant status as soon as they can.⁹⁰³ Once they have established efficient resources, they buy land and send their sons (not daughters!) away to train for bureaucratic careers. Those positions within the Mandarin⁹⁰⁴ system are held in high esteem.⁹⁰⁵

The family system also develops a self-governing administrative authority within the village, mainly through the kinship organization and the power of the elders.⁹⁰⁶ This despotic 'officialism' with its "uninterrupted continuity of the ruling class of Confucian-schooled scholar-officials" leaves not much room for the development of a bourgeoisie and hence private enterprises. The purchase of land and buying sons into this officialdom absorbs all capital of the wealthy.⁹⁰⁷

For Weber these features taken together prohibit some sort of "business confidence" to arise. The traditional customs and filial piety impede the rationalism typical for bourgeois Capitalism of the West to emerge in China".⁹⁰⁸ 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.⁹⁰⁹ In the West, family businesses have been replaced by professionally run bureaucratic corporations which help Capitalism and the industrial revolution

⁹⁰² Whyte, 1996, p. 7 and Parsons, 1967 [1937], p. 539f.

⁹⁰³ Whyte, 1996, p. 7. Li Hsiu wrote in the 12th century: "They grasp their counting slips, their steelyards and their measures of capacity until they have amassed great grains, so that they may seek to own fields and houses, their principal wives be resplendent with hairpins and ear-rings, and their subsidiary wives pluck the strings of the zither. This is what merchants want". Shiba, Yoshinobu: *Commerce and society in Sung China*, transl. by Mark Elvin, Michigan, 1970, p. 251.

⁹⁰⁴ A Mandarin was a bureaucrat in imperial China who impersonated the scholar-official and was well acquainted with poetry, literature, and Confucian learning in addition to performing civil service duties. For around 1300 years from 605 to 1905, Mandarins were selected through the extremely rigorous imperial examination. The mandarins were the founders and core of the Chinese gentry. They were replaced by a modern civil service after the fall of the Qing Dynasty. Deng, 1999, p. 98ff.

⁹⁰⁵ Whyte, 1995, p. 1001-1003.

⁹⁰⁶ Weber, 1968, p. 97.

⁹⁰⁷ Balazs, 1977 [1964], p. 3ff, 34 and 66ff.

⁹⁰⁸ Weber, 1968, p.95.

⁹⁰⁹ Parsons, 1967 [1937],p. 547.

thrive. The same is predicted for China. Only if Chinese people free themselves from family obligations they can hope to establish rational, bureaucratic companies and compete with the West.⁹¹⁰

In 1949, when the communists assumed control over the country, they were determined to get rid of the familism of the Chinese Society. They believed that the traditional patrilineal Chinese family constituted a thread to modernization and an obstacle to Chinese development, as also many Western writers like Max Weber did, although for other reasons. They identified the family as antagonistic institution to the influence of ideology and nationalism.

Additionally, the Chinese way of doing business only with people they are somehow connected to, is considered as weakness by researchers. Thus, the skill to establish Guanxi networks, and more importantly, the time and effort required to set up such systems, distract from business, and furthermore promote corruption. Moreover, it is difficult for newly established firms to get into business because of their lack of Guanxi. Particularly in the modernization theory of the 1950s and 1960 the personalistic culture is regarded as the cause of China's failure to develop Capitalistic structures. The tone for this kind of explanation is set by Marion Levy already in 1949. She describes how the institution of family accounted for the failure of Qing China to modernize.⁹¹¹ In the heyday of modernization theory many works separated 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 [Western] economy. The viewpoint of that time is skeptical towards China's chances for industrializing and developing a rational Capitalism.⁹¹² The reason for this 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 [ake] precedence over other loyalties and obligations. Thus, the extended family tends to dilute individual incentives to work, save, and invest".⁹¹³ 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 important family ties are for China, the reason for its underdevelopment seems

⁹¹⁰ Whyte, 1995, p. 1001.

⁹¹¹ See Levy, 1949.

⁹¹² For example Kerr, 1960.

⁹¹³ Quoted in Wong, 1988, p. 134.

obvious. “The fetters of kinship ties and overriding obligation to family and clan”⁹¹⁴ are interpreted as “incompatible with rational economic performance”.⁹¹⁵

The clan had filled the institutional gap in Chinese social and political structure because it fulfilled duties like for example acting as juridical authority, lending money and protecting its members.⁹¹⁶ The extended family acted therefore as a corporate body threatening the new Communist regime. For those reasons, the Communists tried to weaken and even destroy traditional family structures with political actions in order to win back control over the areas the clan had under its direction. A family law was enacted that outlawed polygamy and supported the rights of women. The latter was an important tool to support industrialization. Until that point, female labor power had been unutilized. After the enactment however, it served as an inexpensive production factor.⁹¹⁷ The CCP also replaced the traditional image of women with that of the ‘iron girls’. In propaganda media they were depicted as heroic comrades, equal to their male peers, the rhetoric denying the notion of hierarchy and gender. These ‘daughters of the revolution’ were expected to participate in production. However, the revolutionary rhetoric differed significantly from women’s realities.⁹¹⁸

In the traditional society most peasants owned land and were self-sufficient. As a consequence of the collectivism of agriculture after 1949 and the introduction of communes instead of clans, the peasant household was deprived of its economic base. Former family production was converted collective production. The peasants became hired farm workers with only little opportunity for economic diversification within the family.⁹¹⁹

The Communists wanted to undermine the authority and the central role of the family, inherited from traditional society. Traditional Confucian values of a harmonious society prevailed even in the time of Communism which became obvious when conflicts between the loyalty to family and to political authorities arose. These values required a son’s loyalty to his family to stand above all other authorities. Disagreement was forbidden, because all relationships should be peaceful with each other, which in practice was not often fulfilled. For this reason, the family should be subordinated to the state.⁹²⁰ The Communist Party also taught children to obey the party, not the family. Probably the heaviest impact on tra-

⁹¹⁴ Feuerwerker, 1958, cited in Zurndorfer, 2004, p. 5.

⁹¹⁵ Zurndorfer, 2004, p. 5.

⁹¹⁶ Goode, 1970, p. 297f.

⁹¹⁷ Goode, 1970, p. 302f.

⁹¹⁸ Croll, 1995, p. 71ff., 108, Honig, 2000.

⁹¹⁹ Huang, 1992, p. 35.

⁹²⁰ Fukuyama, 1995, p. 83f. For a short summary of the Chinese economic reforms, see above.

ditional society, based on Confucian culture that deemed it very important to have as many sons as possible, was the enactment of the one-child-policy.

However, the CCP never succeeded to fully suppress Confucian values because they did not take the tenaciousness of these values into account, which against their expectations even after the Cultural Revolution did not weaken but prevailed. Economic circumstances seemed to have little impact on family structures. Additionally, for a family to change several generations are needed. Even considered that socialism endured a couple of decades, many people were still alive that were socialized in pre-communist times.⁹²¹

5.3.2. Chinese family structures since 1978: motor of economic development?

The other side of the coin turns many negatives of the research mentioned before into something positive, reversing Max Weber's assessment. This is mainly due to a changed institutional environment which is prior to 1949 supporting the more impedimental features. The pre-revolutionary institutions change in a way so to support the features that foster economic success in the competitive capitalistic environment of a market economy. Global capitalism with its features of flexible, transnational production favored small business production over larger corporations and thus, subcontracting.⁹²² The "predatory and irrational policies of political authorities and other external constraint [are] removed"⁹²³ and now "Chinese familism will fuel the motor of development".⁹²⁴

Thus, 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.⁹²⁵ Peasant families were allowed to lease land or invest in private firms. This development was not derogated even with the limitations of birth control policies still in place. The collective times seemed to have built-up urge for more autonomy which then erupted in massive entrepreneurial endeavors, especially in rural areas. Entrepreneurial instincts were preserved and could flourish with the institutions provided by economic reforms.⁹²⁶

As a result, the Chinese family was changed but remained the most important social institution during the 20th century, even after several decades of Communism. The rural family reconstituted, still serving as shelter against social insecurities, now in times of glo-

⁹²¹ Whyte, 1995, p. 1007.

⁹²² Dirlik, 1997, p. 310.

⁹²³ Whyte, 1995, p. 1003.

⁹²⁴ Wong, 1988, p. 146.

⁹²⁵ Fukuyama, 1995, p. 88ff.

⁹²⁶ Whyte, 1995, p. 1015.

balization and Capitalism. On the contrary, all the political and social commotion seemed to only have fortified the trust in the family as the only institution that is able to provide stability. After 1949, people had to get used to the ideology of the CCP and adapt to the new working conditions in collectives – and they learned to live with the risk of friendship and turned their personal relations into ones of comradeship. Even this did not destroy family ties, although it definitely changed them and at the same time reinforced the belief that strangers cannot be trusted.⁹²⁷

In a way, Deng Xiaoping's reforms meant nothing else than a recourse to traditional social relations.⁹²⁸ The Chinese family proved to be a remarkably adaptive social organism, able to respond to a complex set of circumstances, like the latest government actions. The Chinese family adapted and modernized without changing its fundamental principle as most important institution in the life of most Chinese. It is no contradiction that “young women from rural areas may use their work in towns or cities to gain freedom from parental supervision and meet eligible marriage partners on their own, while at the same time they may send home part of their earnings with the understanding that their parents will provide them with a substantial dowry when they marry. Rural entrepreneurs may study how to use the latest technology to make their family-run factories successful, while spending some of their new wealth on ancestor-worship rituals, in the hope that the spirits will help if modern technology fails them”.⁹²⁹ This only emphasizes the longevity of Chinese family structures. Contributing to this is also the improvement of medicine resulting in extended life expectancy in rural areas. This makes it more likely than ever to have three generations living under the same roof.⁹³⁰ Parish and Whyte suggest that “socialism or not, demographically the Chinese rural family has many resemblances with its counterparts in the past”.⁹³¹

But still, even today Chinese tend to mistrust non-related strangers and thus employ mainly family members. The problem of unqualified successors is often solved in sending sons to good universities, preferably in the US or Europe. Another possibility is to strategically arrange for a marriage of 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

⁹²⁷ Vogel, 1965, p. 50.

⁹²⁸ Fukuyama, 1995, p. 84 122f.

⁹²⁹ Whyte, 1992, p. 321.

⁹³⁰ Huang, 1992, p. 35.

⁹³¹ Parish and Whyte, 1981, p. 135.

not an obstacle but an advantage, not to be institutionalized and hence not be able to grow as company over a certain size.⁹³²

Nevertheless, it is a more complex picture that needs to be drawn. There is not ‘one’ type of Chinese family and not ‘one’ category of Chinese family firm, such as the self-employed firm or the township and village enterprises (TVE).⁹³³ Firms will succeed or fail depending on their leadership and decision-making structure, which can vary enormously, and even more so on externalities. However, in contrast to state-owned enterprises, controls are always more latent which makes it necessary to rely mainly on personal relationships. Only somebody with whom one a long-standing relationship is established can be trusted.⁹³⁴ Particularly 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 the essential elements of familiarity and thus are also prerequisites for Guanxixue. Inside the family relationships based on a shared identity can be found, so although those binding ties are not limited to Guanxi, they serve as foundation for potential Guanxi practice.⁹³⁵

Sometimes, families are forced to send their children away to work in a non-family environment. Working as migrant workers not only means to be among total strangers, it also requires them to work even harder to be able to send some money home to support their family. Additionally, they learn as much as possible so they might be able to set up their own business in the future.⁹³⁶ As Chinese people do not like to be employed by strangers, they work longer than necessary until they are able to open up their own enterprise or return to their families.⁹³⁷

Additionally, instead of creating laziness because young Chinese can be sure to get a (leading) position within the family business, they 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 and long hours 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’. Those features formerly interpreted as negative are now seen as positive. The same is true for the “many mouths”. Instead of them ‘eating away’ the

⁹³² Fukuyama, 1995, p. 76.

⁹³³ Baek, 2000, p. 64. For a detailed analysis of different categories of Chinese enterprises, please refer to chapter 7.1.3.

⁹³⁴ Dirlik, 1997, p. 310.

⁹³⁵ Yang, 1994, p. 111.

⁹³⁶ Whyte, 1995, p. 1004f.

⁹³⁷ Fukuyama, 1995, p. 72ff.

surplus, the “obligation to provide for not only the entire family and multiple heirs but also for a lineage estate and generations to come provides a powerful incentive for the firm head”. On the same time the very same characteristic leads to a rapid reduction of fertility rates.⁹³⁸

Business careers get increasingly attractive compared with the traditional high-status careers of bureaucratic official or landlords. When a firm is passed to the next generation, instead of buying land or investing in official positions, this creates a new ‘tradition’ of family businesses. Even in the third generation many Chinese family enterprises have not established an institutionalized firm. The patriarch of the first generation often does not implement modern management structures but decides on the basis of personal relationships to his employees. The second generation, mostly the sons, is seen as possibility to diversify the decision-making when the firm prospers and grows, with the effect that the head of family has not all power. At the same time, there is no loss of profit to outsiders because there is no need to employ external managers.⁹³⁹ Rather, they entrust their sons with a subsidiary unit, for which they have the sole responsibility, including the reinvestment of profits. This creates another incentive to work hard to make one’s own unit as successful as possible within the family firm. When the patriarch dies, the firm is divided between the sons in equal parts - thus preventing a company to grow over a certain size as already mentioned above, but also giving each son the possibility of owning its own business. This “package of individual incentives and group insurance against failure [...] encourages the emergence of highly motivated, risk-taking entrepreneurs.”⁹⁴⁰ 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.

The limited possibility of companies to grow in size is now seen as advantage. They only require small start-up costs and adjustment to changed market situations is more flexible. This situation also produces a highly competitive market environment – if one firm collapses, new ones fill the gap quickly. This is supported by the existing system of heritage described above. This mode of production is particularly efficient in labor-intensive, quickly-changing and segmented markets such as those for textiles, leather or the toys industries. Chinese family firms are successful because of their flexibility and ability to decide quickly. They operate less successfully in capital-intensive sectors where, due to com-

⁹³⁸ Whyte, 1995, p. 1003ff.

⁹³⁹ Wong, 1988, p. 139.

⁹⁴⁰ Greenhalgh, 1990, p. 90.

plex production processes, profits can only be made when a certain volume of production is reached (see also chapter 7).

This is related to the issue of Guanxi (see chapter 6). Big networks accumulated through Guanxi help small enterprises to get access to larger resources, even in an unstable political and economic surrounding, therefore further supporting their flexibility and the ability to adapt.⁹⁴¹ As mentioned in the chapter on Guanxi, especially in the time of Communism it is often used for favors. During that period of “impersonal cruelty and indifference”, the more instrumental side of Guanxi is used. Tactics are emphasized more than ethics when using personal contacts. As Yang states, the “cunning and instrumental tactics [are] required for survival”. Even today it is for example used to obtain bank loans or supplies from unofficial sources, but the “social yearning for more warmth and cooperation in social relations” shifts the emphasis of the “choreography of Guanxi etiquette” again back to a more traditional ethic.⁹⁴²

For an efficient use of Guanxi, a certain degree of familiarity has to be established between two parties on the terms that then a shared personal experience exists. Through elements of trust and obligation, business can be simplified – for those being endowed with a sufficiently big network. The basis of such networks can be found in the family and kinship; due to the nature of the relationship, a shared identity and a more ethical background of the connection can be ensured.⁹⁴³

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 labor costs compared to non-family owned companies gives them a comparative advantage. Therefore, traditional forms of division of labor by gender and generation are recreated to achieve economic success. Also, “despite the hectic pace of economic development, an often turbulent political environment and substantial weakening of the power of the older generation in Chinese families, obligations to parents and the larger family seem robustly intact”.⁹⁴⁴ 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. These units are willing to subcontract for large corporations and can adapt easily to changing market conditions, producing high quality for low cost.

⁹⁴¹ Fukuyama, 1995, p. 80ff.

⁹⁴² Yang, 1994, p. 110 f.

⁹⁴³ Yang, 1994, p. 111.

⁹⁴⁴ Whyte, 1996, p. 17.

The domain of this new kind of Capitalism is the small Chinese family firm, which has been “both a major engine of economic growth in the region and a key embodier of the cultural virtues seen as facilitative of economic success”, which has the “traditional, collectivist, mutually beneficial Chinese family” as a foundation.⁹⁴⁵ Chinese family firms are based on paternal authority and trust, not a legal system. It relies more on interpersonal relationships than individual rights.⁹⁴⁶ Thus, the “dynamics of the Chinese family are absolutely central” for doing business.⁹⁴⁷

In conclusion, both the obstacle and engine view are overly simplistic. As there are no timeless Chinese values, also the Chinese family is not immutable over time. Thus, depending on the external institutional setting, it changed certain patterns while it kept other distinctive features and tendencies. In the contemporary institutional environment of China but also in the global economy, the Chinese family is able to fulfill the requirements of modern economic activity. Under the given circumstances it not only can fuel growth, but is also an important prerequisite for it.⁹⁴⁸

⁹⁴⁵ Greenhalgh, 1994, p. 747f.

⁹⁴⁶ Yang, 2002, p. 467.

⁹⁴⁷ Whyte, 1995, p. 1014.

⁹⁴⁸ Whyte, 1996, p. 19ff. and Whyte, 1995, p. 1017f.

6. Chinese Capitalism: Guanxixue

6.1. A definition of Guanxi

6.1.1. A general definition

"If you want to 'go through the back door' (zour houmen), then you must first 'pull social relationships' (la Guanxi)".⁹⁴⁹

While Western Capitalism following Weber required that feudal institutions be destroyed to create an institutional environment perfectly suited for capitalistic production, it is quite different for China. After 1978, traditional institutions were revived, which especially in rural areas was vital for its economic success. The (re)construction of a private sector and entrepreneurship parallel to the state and collective sector by means of personal networks, with the (extended) family as core organizational unit, led to a success which is largely unequalled in history. In contrast to many East European countries, this transformation from command to market economy, and thus to Capitalism, was achieved comparatively smoothly. The economic rise of China coincided with an increasingly flexible global production and thus the transformation increased its pace since the 1990s.⁹⁵⁰ 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). It is often translated as 'connections', 'relationships' or 'membership', but these terms do not reflect the entire range of Guanxi relations as Guanxi is "a form of social capital that acts as a binding agent among social actors".⁹⁵¹ Guanxi describes the dynamics of constructing personal relationships within networks and is a central feature of today's Chinese society. It is sometimes even called "a third arm that evolution has created for the Chinese man".⁹⁵² Personal connections between individuals consist in granting favors, receiving services or in gift-giving. It has to include *Gǎnqíng* (感情, 'feeling') even in hierarchical relations. It reflects the depth of emotion within a relationship.⁹⁵³ If the *Gǎnqíng* is disturbed, this means not that the emotions but the relationships of people are in disorder.

⁹⁴⁹ Cited in Yang, 1994, p. 5.

⁹⁵⁰ Dirlik, 1997, p. 304.

⁹⁵¹ McNally, 2010, p. 3.

⁹⁵² Nojonen, 2007, p. 1.

⁹⁵³ Jacobs, 1979, p. 243-253, 259.

Another important concept is that of face (*miànzi* 面子) and favor (*Rénqíng* 人情, reciprocity, empathy⁹⁵⁴). The latter means feelings found in friendship, family and kin relationships but also ‘favor’, etiquette and custom.⁹⁵⁵ *Rénqíng* was introduced in *The Book of Rites*⁹⁵⁶ and includes many virtues, like loyalty, justice, honesty and mutuality. It is the source of ritual (*lǐ*, 礼), which is also part of the Chinese expression for gift (*lǐwù*, 礼物). *Lǐ* also entails the sense of ‘ethics’ or ‘etiquette’, which mirrors the reciprocity of social relations.⁹⁵⁷ The term stands for the proper conduct of social relationships and events that preserve social order, thus, also standing for the emotion based on reciprocity.⁹⁵⁸ *Rénqíng* is the moral obligation to maintain personal networks for reciprocal giving of compliments or gifts and is intrinsic to human nature. It “emphasizes the value of maintaining personal harmony and social order among persons situated in hierarchically structured relationships”.⁹⁵⁹ It is understood as long-term ‘debts’ established by receiving a gift, enduring even generations and failing to repay those debts causes loss of moral and social face.⁹⁶⁰

The gift-giving relations of Guanxi can be understood as "total social phenomena", having their own etiquette and rules.⁹⁶¹ Chinese people traditionally expect that for every given gift one will be given in return, which can also be done in providing mutual help. It is the ethical part of Guanxi, embedding it on the one hand, but at the same time getting its meaning extended in guiding all relationships by rules of propriety. Certain rituals have to be employed that reflect the social status of the giving and receiving person within a nexus of personal relations.⁹⁶² The notion of reciprocity, obligation and indebtedness is essential for personal relationships, but can also have a tactical dimension to it.⁹⁶³ It "is less a set of rituals than a cultivating of sensitivity to what is appropriate at any time, it provides the lubrication necessary to reduce social friction and it fosters the sublimating of self-

⁹⁵⁴ In Gold; Guthrie and Wank, 2008b, p. 10, fn 16, the authors explain that the character *rén* in *Rénqíng* is the same than the Confucian *rén*, meaning human heartedness, a key concept of Confucianism. It is made up of a radical for ‘person’ plus the number two [仁], “indicating that to be a fully realized ‘person’ involves interacting properly with other people”.

⁹⁵⁵ See Hwang, 1987 for an extensive discussion of face and *Rénqíng*.

⁹⁵⁶ See Legge, 1893. See also chapter 4.4.

⁹⁵⁷ Yang, 1994, p. 70.

⁹⁵⁸ Yang, 1999, p. 147 and Yang, 1994, p. 67.

⁹⁵⁹ Hwang, 1987, p. 946.

⁹⁶⁰ Wang; Siu and Barnes, 2008, p. 820, Hwang, 2006, p. 277. As a response to ‘Thank you’, Chinese often say “Meiyou Guanxi – No obligation!”. Hsu, 2005, p. 313.

⁹⁶¹ Redding, 1993, p. 49.

⁹⁶² Wank, 1999, p. 264, Yang, 1994, p. 70.

⁹⁶³ Yang, 1994, p. 63, 67, 122.

indulgence in daily interaction."⁹⁶⁴ It is not only a normative standard but also a social mechanism for obtaining desired goods "within a stable and structured social fabric".⁹⁶⁵

Additionally, the idea of "face" (*miànzi*), meaning social status, propriety and prestige is an important factor of Guanxi. A social role has to be successfully performed and maintained, needing to be recognized by others. For example, not being able to return a favor or give a gift of equal value will cause the loss of face for a person. But also if the hierarchies are disregarded, 'face' is lost. The goal of 'face work' is to create a certain self-image and favorable impression on others. Face can be derived by social status, sex or family background. Having *miànzi* facilitates getting privileges and acceptance through others.⁹⁶⁶ To maintain face, permanent self-control is needed that also requires not showing any emotions. Open conflicts are also frowned upon, harmony has to be preserved. As a consequence, the profession of lawyers is not considered as very respectable and thus "power derives from role obedience and not from jurisdiction"⁹⁶⁷, which also means that "the notion of order excluded the notion of law".⁹⁶⁸

Gifts connect people outside the family by the concept of reciprocity. The distinction between in- and outside is crucial as access to goods or support is limited to family members or other people within the Guanxi network. "Gift giving facilitates the movement from outsider to insider status".⁹⁶⁹ Thus, it is a cultural concept with strong ethics, and serves also as "a means for disciplining not only others but also oneself".⁹⁷⁰ *Rénqíng* bridges "the gap between the known and the unknown".⁹⁷¹ *Rénqíng* is not equivalent to private, secret emotions but is a public socially structured phenomenon with clearly identified mutual obligations which means it can have a tactical dimension to it. This has implications to the relationship of Guanxi and corruption (s. below).⁹⁷²

An essential element of personal relationships is trust. The meaning of trust in the Chinese context differs from the Western understanding of the term. In the West, trust is often focused on systems or organizations so that the dependence on personal integrity and guarantee decreases. This reflects the willingness "to rely on another party because of confi-

⁹⁶⁴ Redding, 1993, p. 49.

⁹⁶⁵ Hwang, 1987, p. 954.

⁹⁶⁶ Hwang, 1987, p. 960ff.

⁹⁶⁷ Redding, 1993, p. 128.

⁹⁶⁸ Needham, 1956, p. 290.

⁹⁶⁹ Joy, 2001, p. 240+252.

⁹⁷⁰ Hu, 2007, p. 60f.

⁹⁷¹ Nojonen, 2007, p. 40.

⁹⁷² Herrmann-Pillath, 2000, p. 118.

dence in their credibility, competence and reliability”. It depends on the law to bind a contract, whereas in China default is prevented by a person’s reputation.⁹⁷³

The Chinese version of trust is referred to as *Xìnyòng* (信用, use or usefulness of trust, but also credit). “It refers to credibility, integrity, trustworthiness or the reputation or character of a person and in business circles it refers to a person’s credit rating”.⁹⁷⁴ Possessing *Xìnyòng* and being trusted means that a certain behavior is anticipated and thus, that the rules of *Rénqíng* are followed.⁹⁷⁵ Thus, it is a cultural concept with strong ethics, and serves also as “a means for disciplining not only others but also oneself”.⁹⁷⁶

Guanxi is built on pre-existing links to people with whom a shared identity exist, like those from the same regional origin, classmates, co-workers, or people known from the military or university, creating fictitious quasi-kin-relationships.⁹⁷⁷ The difference to interpersonal relations in general is that “this commonality of shared identification distinguishes kuan-hsi from ordinary social action. Kuan-hsi have quantifiable strength”.⁹⁷⁸ It enables “strangers [to] enter into a meaningful and sustainable social relationship”.⁹⁷⁹ These Guanxi relations are also so-called ‘*tong*-relationships’ (同, alike, similar and co-, as in co-worker, 同事, *tóngshì*).⁹⁸⁰ and can also be described as “concentric Guanxi circles”, extending from the family as core reference point to extended zones.⁹⁸¹ Especially for people in rural areas Guanxi is more than just networks of personal relations; it rather constitutes “the very foundation of the society”.⁹⁸² Guanxi is always based on personal relationships which are not transferable and are often used to influence others. Guanxi is a process of inventing and re-inventing relationships as ongoing “social engineering”.⁹⁸³ It becomes a “cultural metaphor that enables people to imagine and position themselves in new relationships” which has particularistic origins but is “nevertheless applied generally and broadly beyond the confines of primordial relationships”, creating a “generalized particularism” and a unique form of civility.⁹⁸⁴

⁹⁷³ Wang; Siu and Barnes, 2008, p. 820, 823.

⁹⁷⁴ Kiong and Kee, 1998, p. 85.

⁹⁷⁵ Wang; Siu and Barnes, 2008, p. 823. In Wank, 2008, p.105, *Xìnyòng* relations between entrepreneurs (hence, credit relations) are differentiated from Guanxi relations. The first are conceived as objective evaluations of price and quality between partners of equal status, whereas the latter depends on *Gǎnqíng* and *Rénqíng* and often is associated with power asymmetries.

⁹⁷⁶ Hu, 2007, p. 60f.

⁹⁷⁷ Whyte, 1996, p. 12, Jacobs, 1979, p.243-253, 259 and Yang, 1988, p. 49 and 411.

⁹⁷⁸ Jacobs, 1976, p. 80f.

⁹⁷⁹ Lo and Otis, 2003, p. 132.

⁹⁸⁰ Chen and Chen, 2004, p. 311.

⁹⁸¹ Peng, 2004, p. 1049.

⁹⁸² Yan, 1996a, p. 2.

⁹⁸³ King, 1991, p. 69.

⁹⁸⁴ Lo and Otis, 2003, p. 132.

The Chinese society is neither group- nor individual-based, but rather “based on interpersonal relationships”.⁹⁸⁵ As to Chinese “human life is a complex web of relations with the world, relations with the mind and relations to others”⁹⁸⁶, Guanxi is also embedded in most functions of everyday life, including political alliances, recreational and economic activities.⁹⁸⁷ There are no separate networks for business relations. More than that, “it seems that the Chinese are not used to compartmentalizing the different roles that they have with others and so treat the other person according to the requirement of the current role”.⁹⁸⁸ In contrast to most Western countries, there is no separate morality and different rules for business in China. Business affairs and private life are not detached, with separate behavior for each sphere. In So and Walker, 2006 a manager of a large Chinese company describes that “one of the primary differences in the Chinese and Western ways of doing business could be traced to the fact that in the West business developed its own culture separate from private or personal culture, with a different set of rules and a character of its own. This is also expressed in the notion of *xiaowo* and *dawo*, the private individual self and the larger collective self, respectively. The first should be constantly improved and cultivated, whereas the latter embeds the *xiaowo* in society. Both are inseparable and shaping each other. Both selves use different forms of *Rénqíng* for communication, a more official form of polite *Rénqíng* that serves as universal code for correct behavior and a more tacit, indirect version of gift exchange below the surface of “politeness and gallantries”. The interdependent relations of the both selves cannot be analyzed by the dichotomous Western concept of private and collective.”⁹⁸⁹

Hence, in the Chinese context there is no separate morality for business. There are no separate rules that divide the conduct of business from that of personal affairs, in which the key factor is proper human relations. A successful business relationship between Chinese companies begins with the establishment of a personal bond between the principal managers of the companies and is based thereafter on the careful maintenance of these personal ties”.⁹⁹⁰ Guanxi at the same time considers societal ethics and individual utility, however conflictive this may be. Business partners balance on a knife’s edge between friendship and profit, altruism and rivalry, social harmony and competitive advantage.⁹⁹¹

⁹⁸⁵ Hu, 2007, p. 55.

⁹⁸⁶ Zhu, 2007, p. 1505.

⁹⁸⁷ Mauss, 1966, p. 1-3, 36f.+76-78. See also Yan, 1996a, p. 8f.

⁹⁸⁸ So and Walker, 2006, p. 4.

⁹⁸⁹ Nojonen, 2007, p. 64.

⁹⁹⁰ So and Walker, 2006, p. 4.

⁹⁹¹ Souchou, 2002, p. 238.

This goes as far as not developing Guanxi with a particular person at all to avoid the mutual commitment because “it is not possible to behave in very different ways when acting in different roles in relation to the same person”.⁹⁹² Accordingly, there is also the wish for harmony on the private and societal level which is prioritized over individual liberties. Consensus and co-operation are preferred to confrontation. Traditionally, the individual perceives itself as part of a whole that hinges on mutual support and respect. It is a hierarchical-patriarchal model found within the family but also vis-à-vis the state.⁹⁹³ A Chinese individual typically defines itself “in relation to others (within the family)” which “results in greater tolerance of others, greater self-discipline, and in a constant concern for preserving harmony with others”.⁹⁹⁴

However, although it is mostly the family which is particularly important for starting a business, also non-kin can be included if people are seen as family-like and if they can be trusted because long-term relationships based on *Gǎnqíng* exist.⁹⁹⁵ Thus, the core group, even of larger enterprises, consists often in family members or good friends.⁹⁹⁶

On a general level, Guanxi can be compared with the theory of social capital, outlined above in chapter 3. However, when examining both concepts more closely, it becomes clearer that Guanxi is an “indigenous Chinese category” that includes mutual obligations, indebtedness in a reciprocal relation.⁹⁹⁷ This constitutes a structure that is more than “simply an issue of social embeddedness and social connections; it is a system of gifts and favors...and there is no time limit on repayment”.⁹⁹⁸ It can be said to be most similar to Bourdieu’s concept of social capital, in that it needs continuous efforts to be maintained. It differs from his as well as all other concepts presented in chapter 3 in that it is not oriented towards immediate utility in the present or future. It further differs from Putnam’s definition, which claims that social capital is manifested in civil engagement and membership in clubs, parties or other associations and thus is rather formal in nature. Guanxi in contrast is based purely on informal relations, as has been elaborated in detail above. The concept of Guanxi differs most starkly from the more economic interpretations of Coleman, Burt and Dasgupta of social capital. In contrast to Coleman’s assessment of social capital, Guanxi is neither a public good, nor can it be accumulated by corporations or collectives. It is also

⁹⁹² So and Walker, 2006, p. 5.

⁹⁹³ Pohl, 2002, p. 114f.

⁹⁹⁴ Joy, 2001, p. 240.

⁹⁹⁵ Yang, 1988, p. 409+411

⁹⁹⁶ Krug, 2002b, p. 139f.

⁹⁹⁷ Yan, 1996b, p. 14.

⁹⁹⁸ Gold; Guthrie and Wank, 2008a, p. 7. See also Bourdieu, 1997 [1986], p. 52: “The existence of a network of connection is not natural given, or even a social given...It is the product of an endless effort at institution”.

not a static concept, as Fukuyama claims. However, Guanxi is still a form of social capital in the sense that it is a moral resource and a sum of social relations and informal rules that facilitates co-operation within society.

6.1.2. Traditional Guanxi: the rural *Rénqíng* gift economy

*“Yuan qin bu ru jin lin. –
Distant relatives are not as dear as close neighbors”.
“Gong zhang bu ru lao xiang. –
An official seal is not as good as a fellow from the same hometown”.*⁹⁹⁹

Guanxi network can take on a more moral form or be more instrumental in purpose, which is often also a matter of geographic placement as there seems to be a strong dichotomy between rural and urban networking behavior. The first is a more traditional form of Guanxi, whereas the latter is mainly used in business practices. Clearly, this dissertation does not imply that Guanxi can be reduced to a traditional vs. modern or rural vs. urban type, but the distinction is useful to elucidate the various functions that Guanxi can have in Chinese society.¹⁰⁰⁰

However, the traditional form, typically taking place in rural areas, is a more morally bound exchange network, “reproducing [itself] through an endless process of gift-giving”; the urban one is more an instrument to construct “webs of particularistic ties”¹⁰⁰¹ to serve economic goals. This means that for the first kind the *Rénqíng* rules are more important, whereas for the other it is the more instrumental Guanxi that regulate people’s behavior. It is also worth noting that *Rénqíng* is traditionally more exercised by women, because they tend to be more attentive to obligations, debts and reciprocities in interpersonal relations, whereas men often tend to the more instrumental art of Guanxi, found also in business relations, serving as a substitute or at least as a facilitation of market relations.¹⁰⁰²

The traditional type of Guanxi consists of an exchange network that strongly depends on mutual gift-giving, reminding of the ancient gift-giving economy. It is important to keep in mind that Guanxi customs differ among regions.¹⁰⁰³ In this analysis, I will mainly use a case study done by Yunxiang Yan in a Northern Chinese village¹⁰⁰⁴, which provides

⁹⁹⁹ Yang, 1994, p. 115.

¹⁰⁰⁰ Kipnis, 1996, p. 286f.

¹⁰⁰¹ Yan, 1996a, p. 2.

¹⁰⁰² Yang, 1994, p. 312 and 320.

¹⁰⁰³ Yang, 1994, p. 312.

¹⁰⁰⁴ Yan, 1996a.

a specific example but hopefully also serves as instrument to illustrate the traditional form of Guanxi.

In general, kinship ties and a tradition of mutual assistance and obligation are of great importance on the countryside. More than just being networks of personal relations, Guanxi rather constitutes “the very foundation of the society”.¹⁰⁰⁵ Economic gains are only a small part of the significance of Guanxi but rather an essential part of rural human existence. Either individuals have personal relations – then they are part of society (*shèhuì shàng de rén*, 社会上的人, people in society). They are considered “dead doors” (*sǐ ménzi* 死门) if they are not actively participating in creating personal connections and therefore are not at all involved in social exchange and therefore part of society.¹⁰⁰⁶ It is important to establish networks with a large number of people who may vary in social and occupational position as well as geographical location.

Within rural Guanxi, Yan differentiates three different local categories of Guanxi. The personal core entails the closest family, a reliable zone which consists of good friends and less close relatives and an effective zone of friends and family in a broader sense.

In the first one only immediate family is part of the ‘inner circle’. Being a member of that is linked to mutual duties and rights. The people who belong to the reliable zone can be counted on for help; the distinction to the personal core is not always entirely clear defined. Also neighbors and non-kin relations of equivalent status can be found within this zone. The last one is the one that is open to recruitment, and is often used for economic purposes, especially to interact with strangers outside the village community, subsuming also “non-kin superior-subordinate relations”.¹⁰⁰⁷

Of course, Guanxi is not a static structure but a dynamic process which requires engagement and social exchange to keep up with existing relations, redefining, adjusting and creating relations every day. Practically, this is mostly done by gift-giving, which has often, but not always, the function of a ritual and is strongly routinized. A personal network consists of *shou rén* (首任) - familiar persons - and *Guanxihù* (关系户) - a Guanxi household. The latter is understood as a person to whom an obligation has to be fulfilled. *Shou rén* are individuals from whom favors can be asked.¹⁰⁰⁸ Networks are defined and visible through the ritualized gift-giving. The number of gift-givers shows its size because everyone within one’s Guanxi network is obligated to offer a gift at certain occasions. The size

¹⁰⁰⁵ Yan, 1996a, p.2 and similar in Kipnis, 1996, p. 290f.

¹⁰⁰⁶ Yan, 1996a, p.8.

¹⁰⁰⁷ Yang, 1994, p. 111.

¹⁰⁰⁸ Yang, 1994, p. 64.

of a network depends mainly on the effort of individuals to expand especially their reliable and effective zones. Social distance is symbolized by the value of a gift and the occasion when it is given. Everyone is aware of the rules of gift-giving, whether it is how much to give or when it is appropriate to present a gift. For practical reasons, villagers often use gift-lists they can refer to when they need to make gift in return. It is also differentiated between gift-giving among family and kinship during festivals (like Lunar New Year) and "giving *Rénqíng*". The latter takes place at weddings, funerals or other ritual occasions and is in contrast to the first voluntary. This means, that there are no fixed amounts or types of gifts which gives the opportunity to show affection and establish personal relations.¹⁰⁰⁹ Gifts have the attribute to be generous and voluntary but at the same time creating obligations that must be reciprocated, with the failure to do so placing the recipient in a subordinate position.¹⁰¹⁰

In his article, Yan defines a "social space of Guanxi" which identifies the degree of intensity of personal relations, with a very clear-cut border between the inside and outside of a village community.¹⁰¹¹ This social space also constitutes the society for an individual, which is why Guanxi is also called *shèhuì* (society). As mentioned above, individuals, who do not interact and therefore do not have any kind of Guanxi, are not considered a respectable person (*bùhuì zuòrén*). This can have severe consequences for those individuals in times of emergency. One of the most important features of Guanxi is the mutual support during hard times, which during the 20th century was especially true for the decade of the Cultural Revolution, when Guanxi in general became more instrumental (see also below). Peasants had to maintain good relations with officials through gift-giving or other social favors to ensure to be assigned to lighter work or receive better work evaluations. Also, young people 'sent down' to the countryside had to put much effort in building up networks to be able to return to the cities as soon as possible again. Nevertheless, the notion of "giving *Rénqíng*" also never died during the Cultural Revolution even if the peasants were ordered to refrain from those 'feudal' traditions because they represent a "wasteful practice".¹⁰¹²

Whereas in cities it is possible to interact among total strangers, in a village community all activities will be with people connected through Guanxi. This means, an individual will intermingle mostly with people from its network who are the same ones exchanging gifts

¹⁰⁰⁹ Kipnis, 1996, p. 293ff. and Yang, 1994, p. 312.

¹⁰¹⁰ Bourdieu, 1977, p. 195.

¹⁰¹¹ Yan, 1996a, p. 5.

¹⁰¹² Gold, 1985, p. 669 and Yang, 1994, p. 313.

on a regular basis. Historically, this was very important, because due to instable social conditions, only people with whom a long-standing relationship was established could be trusted.¹⁰¹³

Thus, for Guanxi connections family structures are very important, the closest connection always being immediate natal family. Personal relationships are mostly not built upon individual autonomy but rather inherited through already existing networks of one's family.¹⁰¹⁴

Guanxi is a dynamic structure with constant interactions necessary to establish new ties or to sever old ones. Individuals need to take care of the people in their network by giving assistance in everyday life, therefore fulfilling all kinds of obligations, such as gift-giving. Hence, cultivating Guanxi can get very complicated and also economically costly, as gifts need to be of a certain value to be accepted. Additionally, building and maintaining a Guanxi network entails huge social costs and is very time consuming. Particularly during socialist times, gift-giving was often limited by poverty and state restrictions. Yang gives the example of a woman leaving the countryside to work in Beijing. Although she would very much like to go back for visits, she simply cannot afford it. The gifts necessary for all acquaintances would cost her the wages of several months. But going back without providing the necessary gifts would cost her social credit and face. Visiting also means to be forced to accept invitations to countless banquets. Without having the means to either return the many invitations or give adequate gifts, the visitor has no choice but to refrain from visiting her home village at all.¹⁰¹⁵ This shows clearly that gift-giving not only entails a material side but maybe even more a symbolic one, as expressed in the term 'face' already mentioned above.

Women play an important role in maintaining inter-village or inter-lineage relations. Especially married women who moved to their husbands' villages keep close links to their natal families and home villages. Also, females are additionally often responsible to maintain, expand or establish relations within their own village in their exchange of cooked goods or childcare. It is interesting to note that the female component of relations is mostly the horizontal one, bringing different social groups together, while the male sphere is to "fix individuals into kin groups based on a tracing of roots", thus providing stability and security.¹⁰¹⁶

¹⁰¹³ Yang, 1994, p. 75f.

¹⁰¹⁴ Yan, 1996a, p. 9.

¹⁰¹⁵ Kipnis, 1996, p. 300ff and Yang, 1994, p. 112f. and p. 313.

¹⁰¹⁶ Yang, 1994, p. 315f.

To conclude, traditional Guanxi emphasizes gift-giving on a local level and is less concerned with a more instrumental and what Yan calls extended form of Guanxi.¹⁰¹⁷ Nevertheless, it shows an inverse relation between material loss and symbolic gain. Thus, contrary to Western rational thinking, giving away wealth and generosity helps gaining money, and, probably even more important, helps to maintain and develop social status and facilitates doing business.

6.1.3. Guanxi as evolving institution

As already mentioned in chapter 4, the “art of Guanxi” or “the art of personal relationships”, also called Guanxixue, means the “study of connections” or “Guanxiology”. It emphasizes „the binding power and emotional and ethical qualities of personal relationships”.¹⁰¹⁸ It is also defined as a “gift economy” because it calls upon obligations such as giving, receiving and repayment and unifies material and moral, symbolic aspects of life. The gift is never fully separated from the giver, establishing an indissoluble connection.¹⁰¹⁹

Although Guanxi defined like this cannot be said to be utilitarian, it can still expose signs of instrumentalism, in the sense that generous gift-giving serves as a means to invoke reciprocity therefore also certain intentions. Hence, there are voluntary and forced elements of giving and thus of Guanxi.¹⁰²⁰ Most notably during the post-Mao era of the 1980s and 1990s, particularism and instrumentalism increasingly dominated behavior, using ritualized relationships to gain material benefit.¹⁰²¹ Guanxi in this sense emphasizes its instrumental side but in general is a very complex phenomenon. Guanxi is not only a “strategically constructed network of personal connections” that deals with bureaucracy to the end of accessing desirable resources, it is additionally intertwined with social institutions such as family, kinship, neighborhood and community.¹⁰²² Due to Chinese society changing very quickly with some kind of Guanxixue being in use in all epochs, it can be said it is “best treated as a multifaceted ever-changing set of practices”.¹⁰²³

Guanxi has a long history in China and proved to be very adaptable in the past, especially its changing utilization in different historical circumstances. Although the concept of Guanxi can be traced far back in Chinese history, its re-emergence can be attributed to the Cultural Revolution. Guanxi as a social practice is able to adapt to new institutional ar-

¹⁰¹⁷ Yan, 1996a, p. 23f.

¹⁰¹⁸ Yang, 1994, p. 8.

¹⁰¹⁹ Mauss, 1966, p. 31.

¹⁰²⁰ Yang, 1994, p. 8.

¹⁰²¹ Yan, 1996a, p. 3 and Yang, 2002, p. 460.

¹⁰²² Yan, 1996a, p. 3.

¹⁰²³ Yang, 2002, p. 459.

rangements, be it socialism, be it Capitalism, but it is still not a timeless feature independent of political context. Even before the Cultural Revolution it was custom to give banquets and gifts in a reciprocal manner. It would therefore be easy to conclude that China has always been a personalistic, kinship-oriented society. As much as this cannot be dismissed as wrong, it still oversimplifies culture as being a static phenomenon. Cultural and social structures are dynamic and subject to changes over time. Cultures are changing and personalism may change or be reconstructed, which can be shown in the description of the difference between traditional and modern Guanxixue, which indicates the historicity of Guanxi.¹⁰²⁴

However, the Cultural Revolution is often seen as turning point for relationships becoming more manipulative. This decade is also associated with declining moral standards in society. The results of relationships are not mere material gains or granted favors, but “the discernment, acuity, and cunning needed to get by in life” affected the essence of connections.¹⁰²⁵ That is due to the fact that in the time of the Cultural Revolution cutting through bureaucratic procedures was hard. It was necessary to ensure the supplying of resources or even surviving due to the loss of social order and organizational discipline without personal connections. The Cultural Revolution therefore “unleashed ‘feudal remnants’ of thought with people more relying on personal relations than the state due to the social chaos of the time”.¹⁰²⁶ The Communist Party also tried to substitute friendship by comradeship. The latter required people to treat all personal contacts equally. An “absence of a private ethic to supplement the public ethic and support the commitment of the individual to his friend” was created.¹⁰²⁷

The Cultural Revolution made social life highly politicized and unpredictable, living standards stagnated. Due to the irrationalities of the system, Guanxi exchange became highly political, serving mainly the purpose of getting permissions or facilitating other bureaucratic necessities.¹⁰²⁸ It was assumed that Guanxi as supposedly less efficient institution would vanish in favor of contractual relations in a fully established market economy because in a modern rational capitalist society with contractual certainties, freedom of trade, prices determined on a free market, private savings and tradable factors of produc-

¹⁰²⁴ Yang, 1994, p. 152f.

¹⁰²⁵ Yang, 1994 also noticed another facet of this: „I found that women, more than men, objected to the aggressive tactics [...] to the use and manipulation of people. Men tended to have an accepting attitude toward Guanxixue’s instrumentalism, regarding it in a realistic light as something one had to do in order to accomplish certain tasks.”, p. 52f.

¹⁰²⁶ Yang, 1994, p. 147.

¹⁰²⁷ Vogel, 1965, p. 59.

¹⁰²⁸ Shirk, 1993, p. 13f.

tion Guanxi is made obsolete. Quite the opposite has been the case: Although the necessity to overcome bureaucratic hurdles was waning, Guanxi practices increased enormously in the aftermath of the Cultural Revolution. Guanxi adapted to the new institutions in the emerging “capitalist developmental state”, rather than fading away or being exchanged for rational-legal institutions imposed by the state able to allocate goods independently of personal networks.¹⁰²⁹ Guanxi became a more material exchange during the 1980s to facilitate the reviving of the private sector during economic reforms. While mostly ordinary people practiced Guanxi during the planned economy, it became an instrument of businessmen afterwards.¹⁰³⁰ Guanxi is often seen as a “shortcut around, or a coping strategy for dealing with, bureaucratic power”.¹⁰³¹ Due to a Chinese bias against codification, key skills for doing business in China “are [...] those of negotiation; the name of this game is not to economize on bounded rationality or to exercise opportunism but to capitalize on them in a linked network of hierarchical face-to-face relationships in which personal power is traded, using loyalty, compliance, and protection as the medium of exchange”.¹⁰³²

During the rural economic reforms of the 1980s, it was also highly essential to engage in Guanxi. With the growth of rural enterprises, peasant entrepreneurs had to employ in networking to obtain resources and secure markets in other regions. Part of running an enterprise is always to maintain good Guanxi relations, especially to government officials to ensure the provision of supplies.¹⁰³³ Interestingly, as a result of social reforms, cadres lost some of their power. This often is made visible in not giving gifts for example at a wedding which is one of the most important occasions to display one’s prestige. Usually, the status of a person can be measured in the amount and value of gifts received. Chinese would typically give presents to their village leaders at such events to recognize their higher standing. Thus, to Chinese refusing to give a present is an obvious sign of lost power and face living in rural areas, especially in rural areas.¹⁰³⁴

Another aspect of Guanxi is migration. To be able to move into a city to seek employment is much easier if connections to people already living there have been developed because they might provide accommodation and food.¹⁰³⁵ Guanxixue became again the instrument for economic survival, although on different grounds. In the competitive economy of China, entrepreneurs needed to make sure that they could keep up with the market,

¹⁰²⁹ Yang, 2002, p. 460f.

¹⁰³⁰ Yang, 2002, p. 460f.

¹⁰³¹ Yan, 1996a, p. 3 and Yang, 1994, p. 15.

¹⁰³² Boisot and Child, 1988, p. 521f.

¹⁰³³ Yang, 1994, p. 76f.

¹⁰³⁴ Yan, 1992, p. 15.

¹⁰³⁵ Yang, 1994, p. 77.

to retain, or even better, to raise their profits and to build up good connections to officials. This increasingly contained also monetary purposes and the replacement of formerly unpaid favors for paid services. However, monetary relations lack *Rénqíng*, which means that instead of engaging in Guanxixue, people engage in more business-like “cash nexus”¹⁰³⁶ relations to others. Increasingly money is preferred instead of receiving non-monetary gifts because it can be exchanged into something else more easily. This changes the nature of Guanxi, because “in many cases money payment has lifted the veil of the language of friendship and made explicit the exchange of material interests”, leaving no debt on either side.¹⁰³⁷

Thus, from the 1990s Guanxi once again served political and economic intentions, but changed the realm of its appearance. While it faded away in some areas due to the appearance of legal institutions which replaced it, it simultaneously found “new territory to colonize”.¹⁰³⁸ All in all, those changes did not reduce the extent of usage of Guanxi. The gift-economy yet coexisted with the new form of commodity economy, having significance for commercial transactions, because still money cannot buy everything. On the contrary, it helps to save money and to facilitate economic transactions, especially for supplies, in bypassing state institutions for e.g. getting a passport, finding job opportunities or linking up with relatives overseas.¹⁰³⁹ Some authors¹⁰⁴⁰ argue that because of the legal institutions newly introduced by the state, Guanxi is not necessary anymore. It is easy to fall into the trap of this argument, because it is often not openly admitted, especially by businessmen, that they actually engage in Guanxixue. As Guanxi is often associated with corruption and bribery especially managers would never officially claim to use Guanxi as a means of business.

The fact that Guanxi is often used for business transactions gave rise to an again new form of Guanxi that requires doing business with officials or concluding business contracts in a less formal environment, namely by enjoying nightlife. As Yang states, this is less an

¹⁰³⁶ Gold, 1985, p. 662.

¹⁰³⁷ Yang, 1994, p. 166.

¹⁰³⁸ Yang, 1994, p. 167.

¹⁰³⁹ Yang, 2002, p. 463.

¹⁰⁴⁰ See for example Guthrie, 1998 and King, 1991. Guthrie (also in Guthrie, 1999) criticized Yang’s analysis of Guanxi in her book Yang, 1994. She replied to it in a paper that was originally composed for a conference that resulted in the book Gold; Guthrie and Wank, 2008b containing an essay by Guthrie that repeats his arguments in similar form but left out Yang’s work. She published it in *The China Quarterly* soon thereafter: Yang, 2002. However, in the same volume, Scott Wilson finds a middle way between the two opposing views. He claims that the strict differentiation between norm-based *Rénqíng* relations and instrumental exchanges (what Yang calls *Guanxixue*) might be misleading. *Rénqíng* connections may in the long-run also turn out useful for material gains and thus the boundary between both concepts is rather blurry as, for that matter, for him is the boundary between urban and rural Guanxi. Wilson, 2008, p. 177.

exchanging of gifts but rather, and I would like to quote her literally on this: "No longer are gifts or banquets sufficient in these new Guanxi rituals, but a long night sharing the pleasures of masculine heterosexuality and giving women's bodies and sexual services as gifts will cement Guanxi better."¹⁰⁴¹ Thus, strengthening Guanxi through masculine bonding brings Chinese business culture closer to that of other Asian countries and emphasizes the practice of Guanxi as a more male instrument (see also below, chapter 6.3).

To sum up, there are mainly two institutional changes to the Chinese economy: the introduction of a legal-rational regime by the state and the "increasing class and gendered nature or Guanxi".¹⁰⁴² Thus, this again is a proof that ahistorical Chinese values do not exist. Rather, Guanxi is "a historically evolved regime of kinship and ethnic power" that today "traps women and the poor while benefiting fraternal business associations".¹⁰⁴³ It is formed during the process of change of the economic system in the Chinese society. Although for example *Rénqíng* is based on traditional Confucian values, the extent of its usage among business managers cannot be estimated. Thus, beside Guanxi there are also typical Capitalistic features such as profit-seeking or exploitation of workers to be found.¹⁰⁴⁴

As also already mentioned before, Guanxi is a way to bypass bureaucratic obstacles "by redistributing what the state apparatus had distributed according to very different principles of personal relations rather than political evaluations".¹⁰⁴⁵ Guanxi exchanges institutionalized 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. Additionally, institutions, for example for acquiring academic degrees or property, may still be subject to change. 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 imply that once rational-legal institutions are established, Guanxi as more irrational mode of economic activity will fade away. Rather, it will coexist in a newly defined institutional and cultural style of modernity.

¹⁰⁴¹ Yang, 2002, p. 466.

¹⁰⁴² Yang, 2002, p. 466.

¹⁰⁴³ Ong, 1999, p. 116f.

¹⁰⁴⁴ Yang, 2002, p. 466ff.

¹⁰⁴⁵ Yang, 2002, p. 469.

6.1.4. Modern type Guanxi: the urban art of Guanxi and business practice

*“When there are problems, we can always talk it through. With Europeans, it’s quite different. We work with many multinational companies... They are not flexible. They won’t compromise and let you go [if you need to make adjustments]. They don’t share our mutual understanding. The Europeans go according to the books and rules”.*¹⁰⁴⁶

Especially in urban China the exchange of gifts has mostly instrumental reasons. Within China many people consider this type of Guanxi as an antisocial behavior purely for ones’ own self-interest and because of this, particularism is morally rejected. Particularly when dealing with bureaucracy, it can be difficult to differentiate Guanxi from corruption. This issue will be discussed in detail below.¹⁰⁴⁷ Nevertheless, also the instrumental side of Guanxi can have moral aspects and serves as a social function. It therefore not only has an instrumental, manipulative side of mutual exchange, but entails also the notion of emotional feeling for the acquaintance. Additionally, it reveals a resistance to and a mistrust of formal organizations in sidestepping official ways of, for example, obtaining employment or loans.

The range of occasions to use Guanxi in cities covers many aspects of everyday urban life, such as housing, facilitating transportation or better education. One other important end for Guanxi is to obtain supplies, which again was especially essential during the Cultural Revolution, when the production of consumer goods was low. It was also important to get rare or high quality products, such as a certain brand of bicycles. Another important area was employment. Personal relations were needed to get a job, to change a job or to be promoted.

As was mentioned before, also moving geographically was much easier if one knew the right people because due to the 'household registration' moving was very restricted. To change the place of registration was a long process of bureaucracy, intensified when migration from the countryside increased after the economic reform in 1978. With Guanxi, also getting better health-care could be ensured and changing to a certain hospital or doctor was made possible. Doctors are particularly important people with whom developing personal relationships is especially important due to their role in the system of state-medicine.¹⁰⁴⁸

The range of Guanxi relationships in urban areas had and has more categories than in rural areas, entrance and exit to networks are flexible. Not only family and kinship are of

¹⁰⁴⁶ Kiong and Kee, 1998, p. 86.

¹⁰⁴⁷ Yang, 1994, p. 52 + 63.

¹⁰⁴⁸ Whyte, 1995, p. 1011 and Yang, 1994, p. 91ff.

importance, but also relations to neighbors and other native-place ties and non-kin connections of equivalent status such as superior-subordinate relations. Especially the kin-like relationships that are maintained with neighbors have the purpose of substituting missing family which might still live in the countryside. Neighbors are close in a spatial sense and share the same experiences. This is even more the case if people stem from the same region or speak the same dialect. Another important part of personal urban networks are (former) classmates, but of course also teachers or bosses, which can result in a lifetime relationship. Non-kin-relationships, such as people from the military or university, became more important in urban areas, creating fictitious or quasi-kin-relationships. Family metaphors, such as the usage of kin-related vocabulary such as ‘didi’ (弟弟, younger brother) or ‘bóbo’ (伯伯, father's elder brother) served the purpose to bring people from outside the family into an inner circle.¹⁰⁴⁹

Apart from the more social aspects of urban life, Guanxi is obviously of importance to business relations.¹⁰⁵⁰ This means, that the very idea of kinship of loyalty and trust is carried over as principles of urban (business) relations, which are seen as less “confining” and “more enabling”.¹⁰⁵¹ Those people are seen as family-like and thus can be trusted because long-term relationships exist. With them it is possible to found enterprises, exchange information and share resources. Thus, only the more positive aspects are taken over from traditional, rural Guanxi, leaving out the rigid hierarchy aspect.

In urban environments where the state is very dominant, Guanxixue is mostly used to cut through boundaries given by administration.¹⁰⁵² The networks created with non-kin are the seed from which private entrepreneurship stems.¹⁰⁵³ If two enterprises want to cooperate, it has to happen on the base of *Gǎnqíng*. In other words, the network will only work if personal trust exists, especially between the two managers of the firms. They need to find a person they trust, which means nothing else that long-term relationships have to be established. Thus, the core group, even of larger enterprises, often still consists of family members or good friends.¹⁰⁵⁴

After the economic reforms there had been increasing exchange between rural (family) and urban enterprises, due to the bigger networks of personal relationships outside the family, especially of the latter. Also, there are exchanges between companies of overseas Chi-

¹⁰⁴⁹ Whyte, 1996, p. 12.

¹⁰⁵⁰ Yang, 1994, p. 112.

¹⁰⁵¹ Yang, 1994, p. 113f.

¹⁰⁵² Krug, 2002b, p. 139.

¹⁰⁵³ Krug, 2002b, p. 139f.

¹⁰⁵⁴ Kao, 1982, p. 68.

nese and firms in mainland China that take on the form of Foreign Direct Investment (FDI), but which is nevertheless based on Guanxi. The establishment of capitalistic enterprises within a socialist system raises a wide range of problems. Many entrepreneurs utilize social ties especially to Chinese relatives in mainland China who might be able to facilitate and speed up the negotiations of investment. The same is often done in customer negotiations. It is easier to do business with a certain person if a Guanxi relation has been established. Also, customers prefer to do business with whom old relations exist on which this new connection can be based on.¹⁰⁵⁵ Increasingly, also Western companies under non-Chinese leadership engage in Guanxi to facilitate business. During the last year, dozens of studies and surveys in business and marketing journals¹⁰⁵⁶ 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”.¹⁰⁵⁷

This strategy relies mainly on social factors without the involvement of legal contracts, especially when acquiring new customers and business partners. This process involves dinner banquets and gifts, for example cigarettes or alcohol. In contrast to the often difficult negotiations common in joint venture investments, involving Chinese state enterprises and foreign companies, investments based on Guanxi are established much faster.¹⁰⁵⁸ 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.¹⁰⁵⁹ Those market ‘imperfections’ favor business connections among smaller groups of people over more complex organizational structures. Under the con-

¹⁰⁵⁵ Yang, 1999, p. 104f.

¹⁰⁵⁶ For example Wang Qian, 2007, Wong; Leung; Hung and Ngai, 2007 and Balfour, 2007. Balfour states: “as any China veteran will tell you, it is the key to everything: securing a business license, landing a distribution deal, even finding that coveted colonial villa in Shanghai. 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. ‘People want something more professional and strategic from their relationships,’ says Li Yifei, Viacom 's chief representative in China. ‘They want to know how good your guanxi is back home’”.

¹⁰⁵⁷ Ai, 2006, p. 105 and similarly in Siu and Bao, 2008, p. 80.

¹⁰⁵⁸ Granovetter, 1985, p. 490.

¹⁰⁵⁹ See the recent study: Dunning, 2007.

straints of a not yet fully established market economy, smaller firms such as family enterprises have the advantage to react flexible to the requirements for doing business.¹⁰⁶⁰

By and large, family connections build on trust and Guanxi prove to be essential for doing business in China in the course of economic reforms.¹⁰⁶¹ 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”.¹⁰⁶² It mobilizes cultural values such as obligation and reciprocity to pursue “both diffuse social ends and calculated instrumental ends”, substituting and complementing for (not yet) existing market mechanisms.¹⁰⁶³ Those market ‘imperfections’ favor business connections among smaller groups of people over more complex organizational structures. Under the constraints of a not yet fully established market economy, smaller firms such as family enterprises have the advantage to react flexible to the requirements of doing business.¹⁰⁶⁴ This process is known and used as part of the art of Guanxi described above. It is in this context used as “the skilful mobilization of moral and cultural imperatives such as obligation and reciprocity in pursuit of both diffuse social ends and calculated instrumental ends”.¹⁰⁶⁵

Hence, even if the aim of engaging in Guanxi is instrumental, it is still subordinated under the objective to create personal relations, having not only current advantages in mind, but more a long-term commitment. As a result, business is easier accomplished by small enterprises mostly in the ownership of families without the involvement of the state. This results in the creation of a private sector that largely is left on its own and thus in need to establish its own rules - the art of Guanxi.¹⁰⁶⁶

¹⁰⁶⁰ Krug, 2002b, p. 140f.

¹⁰⁶¹ Hamilton; Zeile and Kim, 1990, p. 108.

¹⁰⁶² Smart, 1993, p. 398.

¹⁰⁶³ Yang, 1994, p. 35.

¹⁰⁶⁴ Krug, Barbara (2002): *ibid.*, p. 140f.

¹⁰⁶⁵ Yang, 1994, p. 35. A typical example of using Guanxi for business purposes is given in Nojonen, 2007, p. 40f.: “Mr. Wu illustrated how he used a combination of direct and indirect approaches in reaching a deal. First he made a direct official approach, but after he failed...he found people from various levels and arranged meeting with them. He entertained people at banquets and with karaoke, gave gifts..., and thereby established Guanxi with a number of people in the organization...[H]e waited for a couple of weeks before utilizing his new favorable channel through the mid-level management with the ‘right people’. Eventually, he got a chance to introduce his ‘competitive’ product to the decision-makers. Ultimately, they made a deal”. A similar example is described by Hu, 2007, p. 193f. In this case, in 1986 an entrepreneur sought to buy steel plates from another company which by then could not be obtained on the market and which were short in supply. He finally succeeded after finding out that the other company’s boss’ wife came from the same hometown than himself which facilitated the first contact. The deal was secured after a gift of expensive foreign cigarettes – the favorite brand of the business partner.

¹⁰⁶⁶ Hamilton; Zeile and Kim, 1990, p. 124.

However, Guanxi does not only play a role in investing and establishing new enterprises. It is also an important factor in the workplace itself. This is not only the place where an individual is employed, but much more than that, also a social institution on which a person is socially, economically and politically dependent. The *danwei* (work unit) functions as provider for travel and residency permissions, also able to intervene with municipal housing authorities, the courts and police and other agencies on behalf of the workers.¹⁰⁶⁷ Extensive interpersonal ties between Chinese employees and more influential people exist to obtain goods and services. Workers can also obtain those goods outside the workplace but they often do not have the same quality or are more expensive. Thus, in creating a small community at their *danwei*, workers engage in an instrumental Guanxi to utilize their opportunities.¹⁰⁶⁸ The working place takes the place of a big family, with a boss-worker relationship replacing father-son relations.¹⁰⁶⁹ In private family-owned enterprises this relationship takes the form of a paternalistic management.

To summarize, the ritual gift-relations of the rural areas contrast the more situational and instrumental ones in the cities. Still, even if the Guanxi practiced in urban areas is not organized in clan structures, the exchanges of Guanxi are designed on the base of kinship relations. It was shown that Guanxixue is not an ahistorical concept with a specific set of practices no matter in which social or cultural situation it is used. Rather, it has different meanings and employments depending on the economic and political context within the Chinese society

In general, Guanxi Capitalism shares the major principles of Western Capitalism, but those instruments are used to obtain not only material, but, equally important, also symbolic capital.¹⁰⁷⁰ 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 - they gain. This type of Capitalism is thus not as instrumental-rational as Western 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 19th 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.

¹⁰⁶⁷ Ruan, 1993, p. 93 and Gold, 1985, p. 664.

¹⁰⁶⁸ Ruan, 1993, p. 104f.

¹⁰⁶⁹ Baek, 2000, p. 70.

¹⁰⁷⁰ Yang, Mayfair Mei-hui (2002): *ibid.*, p. 475.

6.2. Guanxi versus corruption

It is important to stress the difference between corruption and Guanxi. While the latter emphasizes long-standing relationships and *Rénqíng*, the first merely emphasizes material exchange, social ties being rather a means than an end. As Guanxi shifts into the business domain it increasingly transforms into structures of corruption. This means, that while Guanxi is a means of ordinary people during the Cultural Revolution, it may now be an instrument segregating them from the wealthy business class. Personal networks established for the purpose of doing business cannot easily be distinguished from networks of corruption, and often they are not. Instrumentalism and consumption orientation replaced personal relationships especially in urban areas.¹⁰⁷¹

(State) institutions are always prone to exploitation by officials and corruption.¹⁰⁷² An official definition of corruption can be said to be “the use of public office for private gains”, among similar ones.¹⁰⁷³ What actually is considered as corruption depends strongly on the informal and formal rules of a society. The term ‘corruption’ underlies the Western understanding of a clear separation between state and society and between office and person, which does not apply in this clarity to China. Interpersonal connections are seen as ‘public’ phenomena and therefore regulated and closely monitored by the moral principles of society. Because of that, instrumentalizing personal relations for individual aims does not reflect a divergence of private and public interests, they are rather seen as openly communicated public connections. In addition, the concept of face leads to strong self-regulation: the fear of losing face, accompanied with the thread of exclusion from one’s network looms large and can be seen as equivalent to legal norms. Even the Chinese discourse on corruption has to be interpreted this way: it has more a didactic character instead of a merely descriptive one.¹⁰⁷⁴

Guanxi, especially in the management literature cited above (see fn 1056), is often reduced to a purely instrumental business phenomenon: “Guanxi refers to a network of informal interpersonal relationships and exchanges of favors established for the purpose of conducting business activities throughout China and East Asia”.¹⁰⁷⁵ On the contrary, the

¹⁰⁷¹ Kammerer; Schauenberg and Senger, 2004, p. 178f.

¹⁰⁷² Schramm and Taube, 2001, p. 2f.

¹⁰⁷³ Bardhan, 1997, p. 15. Transparency International defines corruption as “the abuse of entrusted power for private gain. This definition encompasses corrupt practices in both the public and private sectors. The Corruption Perceptions Index (see below) ranks countries according to the perception of corruption in the public sector. The CPI is an aggregate indicator that combines different sources of information about corruption, making it possible to compare countries”. Information taken from Transparency International Website, accessed 2 January 2011.

¹⁰⁷⁴ Herrmann-Pillath, 2000, p. 110f.

¹⁰⁷⁵ Zhang and Zhang, 2006, p. 375.

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 and less instrumental than bribery would be. The difference between gift and bribe is mostly depending on the manner of giving, if the rules of giving are not followed, the gift might be devalued and its intention turned negative.¹⁰⁷⁶ In bribery, transactions are only tied to social relations for economic purposes. If in giving gifts the motive of getting something in return is getting too obvious, the gift may get interpreted as bribe. Even though the instrumental purpose is the reason for engaging in Guanxi it is essential that it does not appear that way. 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, which raises the exchange to a higher plane. In other words, it has to be apparent that people engaging in the negotiations share strong *Gānqíng*.¹⁰⁷⁷ “Guanxi is based on reciprocity [...], where one does favors for others as ‘social investments’, clearly expecting something in return. It is not a cold exchange, but is intertwined with *Rénqíng*”.¹⁰⁷⁸

This distinction is essential for doing business because bribery is not accepted, even among entrepreneurs. Thus, gifts are given in form of banquets or other complaisances proving the *Gānqíng* element of the connection. The giving of money is avoided because this would constitute bribery, but as long money does not actually change hands, everything is fine.¹⁰⁷⁹ Additionally, in practicing Guanxi the relation to the recipient is seen as long-term connection which creates not only obligations but also a degree of trust essential for doing business together. Bribery would not offer this advantage. Businessmen prefer to deal with people with whom they share an identity and have a long-standing relationship, e.g. in the context of the family or with former classmates. This prevents them to be dependent on corrupt officials and thus minimizes the expenses without loss of face.¹⁰⁸⁰ The latter is especially important because only those with the reputation to have a lot of *miànzi* are also endowed with great networks and thus are worthwhile doing business with.¹⁰⁸¹

Gifts or banquets serve as creation and expression of public emotions (*Rénqíng*) and therefore are not private. 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

¹⁰⁷⁶ Mauss, 1966, p. 36 and Lovett; Simmons and Kali, 1999, p. 234.

¹⁰⁷⁷ Smart, 1993, p. 397ff., Yang, 1999, p. 107f., Yang, 1994, p. 52, 63.

¹⁰⁷⁸ Gold, 1985, p. 659f.

¹⁰⁷⁹ Smart, 1993, p. 400.

¹⁰⁸⁰ Hamilton; Zeile and Kim, 1990, p. 122.

¹⁰⁸¹ Smart, 1993, p. 402.

with the gift. The pre-determined etiquette has to be followed; otherwise the exchange will be regarded as bribe. Thus, gifts are given in form of ample banquets or other complaisance proving the *Gǎnqíng* element of the connection.¹⁰⁸² Public expenditure for such occasions follows ethical norms and is adequate in the sense that there are no clear boundaries to the outside and therefore no obvious criteria of legitimacy. Different rules apply to people within the network (in-group-members, *zìjǐrén* 自己人) and outside the network (out-group members, *wàirén* 外人).

It is therefore difficult to classify certain transactions between state officials and entrepreneurs as corrupt as they are taking place within Guanxi networks and therefore play by different rules. In turn, this does not imply that corruption and outright illegal transactions do not exist, but the grey area of corruption is understood in a different way in the Chinese context.¹⁰⁸³ Thus, corruption in China can be seen as less destructive as elsewhere.¹⁰⁸⁴

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”.¹⁰⁸⁵ It mobilizes cultural values such as obligation and reciprocity to pursue “both diffuse social ends and calculated instrumental ends”, substituting for the not yet existing and complementing already existing market mechanisms.¹⁰⁸⁶ Still, “the line between obligatory giving, flattery, gifts, and bribery blurs on occasions when calculation is prominent in people’s minds”.¹⁰⁸⁷

6.3. Guanxi from a gender perspective

The ‘comeback’ of Confucian values in the Chinese society, as analyzed in chapter 4, can also be discussed from different perspective. As outlined above, the traditional Confucian culture is built upon harmony, consent and stability. In addition to these three main principles, Confucian values like trustfulness, sincerity, loyalty and humaneness are used

¹⁰⁸² Hamilton; Zeile and Kim, 1990, p. 122ff.

¹⁰⁸³ Schramm and Taube, 2001, p. 22, Herrmann-Pillath, 2000, p. 119. Thus, in the country report of Transparency International, as well as in its Corruption Perceptions Index 2010, put China on rank 78 (of 178) countries. Transparency International demands of China that „the state should continue to retreat from over-regulating and over-intervening in the economy in order to maximise the roles of the private sector and civil society, and these groups should pay more attention to corruption“. The Corruption Perceptions Index relies partly on business people opinion surveys and partly on assessments of a country’s performance as provided by a group of country analysts. The underlying methodology and the definition of corruption of Transparency International (see above) does not accommodate for Guanxi and the different perception of corruption within China. Transparency International, 2006, p. 7, Transparency International, 2010.

¹⁰⁸⁴ Sun, 1999, p. 16.

¹⁰⁸⁵ Smart, 1993, p. 398.

¹⁰⁸⁶ Yang, 1994, p. 35.

¹⁰⁸⁷ Joy, 2001, p. 251.

to link Confucianism to economic behavior favorable for development and the reputation of Chinese business managers.¹⁰⁸⁸ They are also regarded as the cultural roots of Guanxi.¹⁰⁸⁹ As has been discussed before, for the sake of the whole the individual has to stand back but is embedded in a network of personal connections. Filial piety is considered as the virtue that matters the most. Children owe their parents absolute obedience, even when they are already grown up.¹⁰⁹⁰ Thus, everybody has his or her natural role to fulfill within society, with certain duties and norms to obey. Both society and personal relationships are structured as vertical hierarchies, being a culture of status.¹⁰⁹¹ Interpersonal relationships therefore get rationalized, coincidence and spontaneity are eliminated. Hierarchy is legitimated through mutual debts, if one side of the relationship acts according to the given norms, the other part will act accordingly. Those laws are unwritten, but follow the norm of modesty and morality. The vertical structure of society is not questioned and individual rights are barely of importance. The notion of law is not received as strict categorical norms, adjudicating rights to individuals, but always depending on interpersonal relationships, thus revealing a more particularistic culture.¹⁰⁹²

For family businesses this means a structure of vertical stability that is built upon morality and not threat, and depends on the responsibility of the bosses for their subordinates. Family firms are thus organized in a paternal, authoritarian pattern. Additionally, the family is regarded as the only entity that can be trusted.¹⁰⁹³ Having to obey a certain role, the individual is subordinated to the family (or the collective), thus showing loyalty and obedience. The appeal to the honor of the family, especially through education and learning, is also an essential feature of Confucianism.¹⁰⁹⁴

In addition, it also suppresses class and gender differentiation. The ideology of authoritarianism is exported as solution for development also in a political context. The Confucian revival celebrates loyalty and obedience as keys to the stability of family and workplace.¹⁰⁹⁵ Authoritarianism is instrumentalized “in the cause of a capitalistic regime of discipline” to control a social situation “that no longer is subject to the hold of traditional values”. Thus, it is difficult to describe the emphasis of patriarchy as typical Confucian

¹⁰⁸⁸ Zurndorfer, 2004, p. 3.

¹⁰⁸⁹ Yang, 1994, p. 71.

¹⁰⁹⁰ Fukuyama, 1995, p. 77.

¹⁰⁹¹ Pohl, 2002, p. 115f.

¹⁰⁹² Weggel, 1996, p. 22.

¹⁰⁹³ Redding, 1993, p. 208.

¹⁰⁹⁴ Heberer and Weigelin, 1989, p. 184, Hamilton, 1990, p. 92 and Krieger, 1990, p. 118, 222ff.

¹⁰⁹⁵ See also chapter 5, fn 785 for a discussion of the recent “harmonious society” political concept of the CCP.

value as persistence of 'old' tradition and as distinguishing feature of 'Chineseness'.¹⁰⁹⁶ This is even more doubtful, when also taking into account that during the Cultural Revolution Confucianism was dismissed as being part of an old regime which did not have space in the Chinese society of the time.

Guanxi-Capitalism is viewed by many as being more "humane and thus more efficient than the alienating contractual and individualistic Capitalism of the West".¹⁰⁹⁷ This line of thought often overlooks in "ritual euphemization" the widespread violence with its consequence of inequality for many. In the newly developed private sector with its many family-owned firms an elaborated (labor) law is either not existing or is ignored and thus is rather "a government by people".¹⁰⁹⁸ This contrasts the state-sector in which an official legal system is effective and thus, controlled. As a consequence, women are employed mainly in "the plethora of new private and smaller enterprises that are less likely to protect their labor or safeguard their maternal benefits".¹⁰⁹⁹ Although family firms have been "both a major engine of economic growth in the region and a key embodiment of the cultural virtues seen as facilitative of economic success"¹¹⁰⁰, they are based on paternal authority and trust rather than a legal system. It relies more on interpersonal relationships than individual rights.¹¹⁰¹

Thus, the emphasis on traditional Confucian values for the success of Chinese family firms obscures and justifies the more negative implications of their success, namely that it is also based on the exploitation of gender and other social inequalities of opportunity and reward. Men constantly reproduce the existing structures of domination, disguised with the emphasis on human emotional bonds and harmony. Particularly in the 1980s many authors celebrated the "benevolent paternalism" of Chinese family firms. S.G. Redding for example evaluates the "productive efficiency" as humanistic, "closely to the needs of their participants".¹¹⁰² Those researchers see the family firm as working to the benefit of all family members, and because of that individual family members are willing to work hard to secure the long-term success of the family (firm).¹¹⁰³

However, the success of family firms, instead of being mutually beneficial, is not to a small part based on rigid inequalities of gender and generation within the family and firm. Rather than building upon old traditions, the recourse to Confucian values and Guanxi is

¹⁰⁹⁶ Dirlik, 1997, p. 317f.

¹⁰⁹⁷ Yang, 2002, p. 468.

¹⁰⁹⁸ Ong, 1999, p. 116f.

¹⁰⁹⁹ Croll, 1995, p. 122.

¹¹⁰⁰ Greenhalgh, 1994, p. 747f.

¹¹⁰¹ Yang, 2002, p. 467.

¹¹⁰² Redding, 1993, p. 238.

¹¹⁰³ Greenhalgh, 1994, p. 749.

used to reinvent old forms of family life which is dominated by men, the patriarchs.¹¹⁰⁴ The reality of global Capitalism forces these businessmen to use the one comparative advantage at hand – the flexibility of their enterprises. This, 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.¹¹⁰⁵

This line of research emphasizing the importance of the revitalization of traditional values also omitted to scrutinize the power differentials which define who within the family really the winner is – and who the loser. One part of Guanxi is thus the recreation of traditional rigid forms of division of labor 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”.¹¹⁰⁶ Guanxi-Capitalism 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.¹¹⁰⁷ The recourse to Confucian values and Guanxi is used to reinvent old forms of family life which is dominated by men.¹¹⁰⁸ 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 labor of kinship is often exploited. In general, the advantage of employing family members is that they are more or less willing to work for little or no money. This would imply that factory families are similar to peasant families whose power distributions are based on the existence of inherited property opposed to acquired property of most family enterprises. Family firms rely on unpaid or low paid family labor, determined by gender and generation, with “senior males making major decisions, younger males performing labor, and females filling in when and where needed”¹¹⁰⁹, slipping ‘effortlessly’ into their traditional roles. Their work is regarded as part of their household and family duties, not as careers. Even if not part of the family, “female workers...may become de facto employees

¹¹⁰⁴ Whyte, 1996, p. 13 and Greenhalgh, 1994, p. 748.

¹¹⁰⁵ The role of FDI and cheap labor in connection with global flexible transnational production also facilitated the development within China. Those externalities are regarded as being the same for all countries, but landed on the extremely fertile soil of internal Chinese social structure, whose effects this dissertation will cover.

¹¹⁰⁶ Whyte, 1996, p. 17.

¹¹⁰⁷ Yang, 2002, p. 467f., 474.

¹¹⁰⁸ Whyte, 1996, p. 13, Greenhalgh, 1994, p. 748.

¹¹⁰⁹ Greenhalgh, 1994, p. 749.

of the male head of the household with all the attendant disadvantages deriving from the structure of familial authority reproduced in production".¹¹¹⁰

Additionally, power structure within kinship is depending on the distribution of inherited property. In China, property was historically a source of great respect, the power structure within kinship related to the distribution of inherited property. While males owned the property, having undivided power over the other family members as long as the property remained also undivided; especially females are deferred to social and economic inferiority. Inherited property has mostly to be divided soon after the marriage of sons, thus limiting paternal power. Acquired property instead is bought by the senior male during his own lifetime, thus giving him unlimited power over subordinated family members when and if property should be partitioned. This also gives him the possibility to decide over other family affairs, such as education or careers of family members. For example, not even sons may claim the right to study. Relationships among family members are based on reciprocal exchange, where junior family members owe labor, commitment and loyalty to the senior members to earn the right to be part of the family.¹¹¹¹ The patriarch of a family firm bases his power over subordinated family members often on acquired property, thus it is difficult to comprehend how at the same time he can claim to act according to generation-old traditions. In contrast to this traditional justification, it is a "political construction of the family head who uses the resources at his command to build his firm out of the loyalties and talents of his family".¹¹¹² Control is only relaxed to grant favors, or give economic or political support, but that does not constitute an entitlement for any of those.¹¹¹³

Family ties are evaluated as creating strong loyalties which lead to economic success and motivation of the single family member.¹¹¹⁴ 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.

¹¹¹⁰ Croll, 1995, p. 124.

¹¹¹¹ See also Whyte, 1996, p. 13.

¹¹¹² Greenhalgh, 1994, p. 751.

¹¹¹³ See also Whyte, 1996, p. 13.

¹¹¹⁴ Yang, 1994, p. 111.

A typical family firm will employ more males than females, the proportion rising with business size. Also, sons are the family members most likely to be employed, followed by brothers, wives and daughters-in-law. The latter are allowed to hold mainly nonmanagerial jobs, often only as part-time general helpers without monetary compensation, merely an extension of their reproductive activities. It is regarded as part of their household and family duties. The wife of the entrepreneur often has the most responsible jobs among females, namely as financial manager or bookkeeper. In both cases the sphere of women is the 'inside', concerned with activities that prevent the contact to unrelated men. Additionally, although non-working wives are a symbol of high status, due to scarce resources, especially during the start-up of an enterprise, often also women have to be employed.¹¹¹⁵ Also, "women employees have been the first to have their employment contracted or terminated in enterprises engaged in some reorganization or streamlining of staff".¹¹¹⁶

Male kin mostly work full-time, receiving salaries. This resembles formal employments, additionally giving them more responsibilities and a rewarding job than female relatives have. However, the work relation is not based on a formal contract and thus jobs and salaries can be easily eliminated if the position holder does not obey. On the other hand, property can be divided to create managerial positions for sons or brothers, giving them an incentive not to leave the family business.¹¹¹⁷

Especially women have no realistic respectable exit strategy and so are dependent on the family, bare of any bargaining tool for a better standing within the family or firm. Men's social status is also derived from their performance inside the family firm which principally also gives them the possibility to get a job outside the family firm, but at the same time no incentive to do so.

What does a female keep from active resistance against those conditions? Entrepreneurs purposely pick very dull and unrewarding jobs for women which require no specific skills. Those jobs may be based on trust but they also inhibit women to think about them as careers and therefore are not worthwhile fighting for. That fact is reinforced by a society that does not define male and female as equals and thus contributes to women not resisting their positions. Independent women are still of no good reputation because this means loss of control over them and possible exploitation by men outside the family.¹¹¹⁸

¹¹¹⁵ Greenhalgh, 1994, p. 753f. and 760.

¹¹¹⁶ Croll, 1995, p. 120.

¹¹¹⁷ Greenhalgh, 1994, p. 754 and 758.

¹¹¹⁸ Greenhalgh, 1994, p. 759+162.

However, also the Guanxi networks are mainly ‘owned’ by the male head of the enterprise. Personal ties are the most useful resource especially for the other family members who are not able to acquire other kinds of assets. To women, even that possibility is very restricted because their jobs offer few opportunities to build a network of business contacts, because they are mainly concerned with ‘inside’ functions.¹¹¹⁹

As mentioned above, the gender aspect is also used in business negotiations. For one part, they often take place in karaoke bars where women are treated as objects in the male-dominated Chinese society. Another method is to hire “business-meeting hostesses” who entertain the business men and also are said to handle discussions “gentler and softer” in creating a relaxed atmosphere and by that lower the guard of the opposite business party.¹¹²⁰

Gender is also utilized to obtain information about a business partner in sending the opposite sex to “soften” the “target”. Also, young women feel less constrained when talking to other women. Thus, gender is used to establish Guanxi and to obtain information on the other person that can be used in the future.¹¹²¹

Therefore, the success of family firms, instead of being mutually beneficial, is more based on rigid inequalities of gender and generation within the family and firm. Rather than building upon old traditions, the recourse to Confucian values and Guanxi is used to reinvent old forms of family life which is dominated by men, the patriarchs.¹¹²²

However, it has been claimed by organization like the All-China Women’s Federation (ACWF) that the status of women has significantly increased since the beginning of reforms. However, although it gave women a wider range of opportunities, the status itself has not been raised within or outside the family, at least not for the average female worker (compared to women whose families are part of the ‘new rich’, see chapter 7). Women in entrepreneurial families are involved in the establishment of business and engage in strategic planning and in the management of daily operations, often being the boss of the business that is still often registered under the husband’s name. Still, gender stereotypes play a decisive role, especially the notion of ‘inside’ women and ‘outside’. Although it became not uncommon for women to go to restaurants and karaoke bar and drinking alcohol, which traditionally was a highly male dominated space, the notion of inside and outside still effects the division of labor. The ‘inside’ has been extended to the family enterprise

¹¹¹⁹ Greenhalgh, 1994, p. 756-761.

¹¹²⁰ Nojonen, 2007, p. 39f.

¹¹²¹ Nojonen, 2007, p. 40.

¹¹²² Whyte, 1996, p. 13 and Greenhalgh, 1994, p. 748.

but it is still the husband that represents it to the outside. The management of a company belongs to the inside and thus to the female realm, whereas the entertaining of costumers and connections to government officials is an outside, thus male sphere. Entertaining clients outside the office is still conceived as inappropriate for women. So, although a new degree of public participation has been reached for women, they are still subject to the traditional gender expectations, even if they belong to the class of the ‘new rich’.¹¹²³

6.4. The specificity of Guanxi networks

6.4.1. Networks and the German *Mittelstand*

In the early phase of the European industrialization, contractual security and control were not protected by government authorities in Germany (or for that matter elsewhere in Europe).¹¹²⁴ Therefore, entrepreneurs had to rely on trust-based networks to secure the quality of their products. The foundation of these networks was often the family. Families connected their businesses over strategic marriages that ensured the adherence to the mostly unwritten agreements. Also, the time spend together in boarding schools established a shared identity, values and connections which as adults were further developed and maintained in clubs or associations. These clubs were an important means to help navigating between the now differentiating spheres of private life, business, politics and society.¹¹²⁵ Access to those clubs was often exclusive and coupled with high membership fees. Besides socializing, those clubs were a platform for business negotiations. As member of a club you were welcome in similar clubs in other cities or abroad which was an important device for conducting business nationally and internationally.¹¹²⁶ They also assisted in building a good reputation which was essential for being successful in business which then again meant that without success you were prone to lose respectability and in the long-run the access to the influential circles.¹¹²⁷

In constructing a civil society that boosted economic relations, entrepreneurs also created a self-identity of which the management of mass producing large-scale enterprises and material interests was the common denominator.¹¹²⁸ A social formation was con-

¹¹²³ Chen, 2008, p. 120ff.

¹¹²⁴ For the relationship between entrepreneurs and the government, please refer also to chapter 8.

¹¹²⁵ Groppe, 2010, p. 54ff, 142f., 354f., 429.

¹¹²⁶ Groppe, 2010, p. 357.

¹¹²⁷ Kocka, 1976, p. 177, Soénus, 2000, p. 67.

¹¹²⁸ Schäfer, 2009, p. 80ff.

structured that justified its distinctiveness not by birthrights but through wealth and qualifications.¹¹²⁹

The status of this entrepreneurial class within society and their economic independence also empowered them to influence the organization of society and the state, especially concerning a legal framework for economic transactions. This in turn meant gains for civil liberties, like freedom of trade, private property, equality etc. Actually, local government and leadership of local parties were often in the hand of entrepreneurs.¹¹³⁰ After 1848 the interest in political participation trickled away and people felt well represented by the existing economic policy.¹¹³¹

In contrast to Sombart's and Weber's expectations, the majority – at least in total number – of (German) firms were still small and middle sized in the beginning and then again at the end of the 20th century. In 1999 the 3.2 million small and medium enterprises (SMEs) (or 99.3 percent of all firms) employed 20 million people (or twothirds of the working force). However, the middle of the 20th century saw the predicted consolidation of companies to large-scale enterprises. This trend was again revised towards the end of the 20th century with the emerging transnational production and globalization.¹¹³² The success of small enterprises is seen in their complementary relevance for large-scale enterprises as subcontractors or in niche and specialized markets. In these markets smaller enterprises have the comparative advantage of flexibility. SMEs and entrepreneurship were also seen as means to overcome unemployment by encouraging self-employment and to confront the global competition that was best faced with lean organizational structures and flexible production.¹¹³³

From the 1960s, the German government systematically subsidized SMEs, for example in expanding the German anti-trust law to improve competition policies and regulations. Apart from economic reasons, the legal framework also had the aim to support the middle class, which traditionally formed the buffer between the values of the upper and the working classes. From the 1970s a so-called 'new middle class' emerged that realized that they had to collaborate with other small-scale entrepreneurs in joint ventures or within networks to be successful. Co-operation enables to compete with larger corporations and is the most

¹¹²⁹ Puhle, 1991, p. 118.

¹¹³⁰ Groppe, 2010, p. 318ff., Schäfer, 2009, p. 168, 136.

¹¹³¹ Soénius, 2000, p. 443.

¹¹³² See Piore and Sabel, 1984 for an extensive discussion.

¹¹³³ Berghoff, 2004, p. 107-113.

rational way for utility maximizing entrepreneurs. Hence, even within networks individualism prevails.¹¹³⁴

These networks have often more formal and contractual relations, set up and formed by political bodies and private economic associations. As has been outlined in chapter 3, they can be organized in the form of either strategic and or networks.¹¹³⁵ However, both types of networks focus on economic functionality rather than maintaining of interpersonal relationships, with the latter additionally concentrating on specific regional areas to facilitate access for smaller firms to specialized labor pools, suppliers, know-how, R&D and market research, customer service and training facilities, which without co-operation they would not be able to afford.¹¹³⁶ Additionally, administrative and financial support is given by economic associations, and infrastructure is provided by an actively involved local government.¹¹³⁷ In general, changing the legal regulations and creating suiting environments was easier for regional networks than for strategic ones as the latter were only approved for rationalization cartels.¹¹³⁸

Within these “decentralized, but integrated industrial districts is a seemingly contradictory combination of competition and cooperation”, with a mixture of low vertical and high horizontal integration. On the one hand, firms are competitors always trying to outcompete other contestants, on the other hand happily co-operate in the aforementioned areas and subcontract to the their competitors when business is low.¹¹³⁹ This “professional solidarity” and the competition for the best product led to high quality standards.¹¹⁴⁰ Additionally, shared distribution and marketing channels lowered transaction cost considerably and created economies of scale and scope for each of the small firms for the price of giving up some of their autonomy and free decision making. The regional networks are often constructed around an ‘anchor’, a large-scale enterprise, for which small firms serve as specialized subcontractors (for example DaimlerChrysler has a huge network of several hundred small firms, all concentrated in Baden-Württemberg).

Besides that, regional clusters are actively using local chambers and associations to coordinate activities and lobby in politics in favor of the network. These organizations serve also as mediation- and sanctioning mechanisms and thus further stabilize local structures and enhance trust building. As firms are always in need of (market) information, net-

¹¹³⁴ Berghoff, 2004, p. 122ff., 172ff.

¹¹³⁵ Berghoff, 2004, p. 177ff.

¹¹³⁶ Lazerson, 1988, p. 331.

¹¹³⁷ Putnam; Leonardi and Nanetti, 1993, p. 160.

¹¹³⁸ Dörsam and Icks, 1997, p. 1, 17, 56ff.

¹¹³⁹ Putnam; Leonardi and Nanetti, 1993, p. 160.

¹¹⁴⁰ Piore and Sabel, 1983, p. 402.

works are good structures to obtain them quite efficiently.¹¹⁴¹ Also, workshops or organizations like trade chambers offer information, hence, membership in associations and other official bodies facilitates access to business opportunities and therefore serve multiple functions.¹¹⁴² To be successful, entrepreneurs need to be able to navigate within these formal structures and position themselves strategically to negotiate on a political level.¹¹⁴³

Often entrepreneurs, although they would probably benefit from being part of a network, are highly hesitant to engage in network activities as collaborating with competitors is not conceived as desirable as it is not secured in contracts and hence an equivalence of merits cannot be guaranteed, which is a significant factor for (German) entrepreneurs.¹¹⁴⁴ They are used to “balanced reciprocity”, hence a “simultaneous exchange of items of equivalent value”, whereas networks, especially of the kind of successful organically developed regional clusters in Europe (and their Chinese counterparts) depend more on “generalized reciprocity” that consists of a “continuing relationship of exchange that is at any given time unrequited or imbalanced, but that involves mutual expectations that a benefit granted now should be repaid in the future”. On the contrary, “a gift which clearly and blatantly paid off the debt and thereby ended the relationship of obligation between the two parties would be considered shockingly offensive”.¹¹⁴⁵ Reciprocity like that is “made up of a series of acts each of which is short-run altruistic - but which together typically make every participant better off”.¹¹⁴⁶ Also, networks are often not regarded as such but entrepreneurs are rather referring to co-operations with other firms which are not seen as the same thing. However, only a minority of German SMEs engages in networks or other co-operations as collaboration is received as weakness and the advantages of networks are often not obvious.¹¹⁴⁷ Besides the affinity for contracts and legal arrangements, German entrepreneurs are also highly individualistic and in general less prone for co-operation within networks.¹¹⁴⁸

Building long-term connections and trust takes time and is often regarded as contradicting the paradigm of flexible production. Without corresponding traditions or a culture that emphasizes personal relations this process can only take place with the help of an external agency – such as the state – that creates the legal and formal institutions necessary for co-

¹¹⁴¹ Casson, 2001, p. 536f.

¹¹⁴² Fiedler and Lorentz, 2003, p. 54.

¹¹⁴³ Kocka, 1975, p. 128.

¹¹⁴⁴ Hirsch-Kreinsen, 2002, p. 108, 110, 112.

¹¹⁴⁵ Hsu, 2005, p. 312.

¹¹⁴⁶ Putnam; Leonardi and Nanetti, 1993, p. 172.

¹¹⁴⁷ Dörsam and Icks, 1997, p. 39, 42, similar in Berghoff, 2003, p. 98.

¹¹⁴⁸ Dörsam and Icks, 1997, p. 47ff.

operation, replacing trust-based network relations by more formal co-operation. This reveals the true incentives for collaboration: economic calculus and pressure of larger firms that are in need of small subcontractors that are able to produce flexibly on the one hand, on the other hand are dependent on the large-scale corporation.¹¹⁴⁹ Some authors even claim that networks are nothing else than huge corporations „dressed in new costumes and armed with new technology“.¹¹⁵⁰ What is more, not specific persons, such as owners or managers, are partners within the networks, but firms, especially in strategic networks. So even if firms collaborate in networks, their success does not necessarily lie in the character of an entrepreneur.

Hence, even in established networks the reason to co-operate is not enthusiasm for the idea but more the pragmatism to solve a concrete problem more efficiently and cost reducing.¹¹⁵¹ It is a difficult or even impossible task to construct “trust-built” networks from scratch, without a local history of co-operation or a tradition of that kind, as “civic traditions have remarkable staying power”.¹¹⁵² Even with massive support and subsidizing efforts from the German government and also from the level of the EU administration, designing ‘artificial’ networks remains problematic.

Unlike the networks of the beginning of the capitalist age, the modern networks are not based on the family but were instrumentalized to serve economic functionality in building long-term connections to business partners. Still, the networks are more stable when underpinned by shared cultural beliefs and traditions, common activities (sports etc) and if family relations exist. The existing successful regional clusters throughout Europe are associated with a certain tradition and culture and are “small islands of prosperity in a sea of misery”¹¹⁵³ where “the cohesion of the industry rests on a more fundamental sense of community, of which the various institutional forms of cooperation are more the result than the cause....Among the ironies of the resurgence of craft production is that its deployment of modern technology depends on its reinvigoration of affiliations that are associated with the preindustrial past. [...] Social norms that forestall opportunism are so deeply internalized that the issue of opportunism at the expense of the community obligation is said to arise less often here than in areas characterized by vertical and clientelistic networks”.¹¹⁵⁴ Yet, these community based structures were strained by the demand of international pro-

¹¹⁴⁹ Hirsch-Kreinsen, 2002, p. 113.

¹¹⁵⁰ Harrison, 1994, p. 12.

¹¹⁵¹ Dörsam and Icks, 1997, 75ff., 116.

¹¹⁵² Dörsam and Icks, 1997, p. 44f., Putnam; Leonardi and Nanetti, 1993, p. 157.

¹¹⁵³ Piore and Sabel, 1984, p. 6.

¹¹⁵⁴ Piore and Sabel, 1984, p. 265, 275.

duction and needed to be complemented by more official structures such as associations.¹¹⁵⁵

Also, network structures, although flexible within, are often too rigid, resisting changes in the production and are hostile towards innovation which led to the break-down of many traditional clusters in Europe. Western networks are often seen as overrated in being able to be superior. “While networks can and do promote innovation within an existing technological system, historical experience suggests that their fragmented...structure is subject to disorganization...during periods of major technological change”.¹¹⁵⁶

However, all kinds of networks are long-term constructs with trust as an important component, but as typical for German (and Western societies) the networks found there are more system than personal trust-based and also more grounded on formal than on informal social capital, as can be seen from the importance of associations and political bodies for the networks.¹¹⁵⁷ Even if manifested in more formal structures, social capital still “refers to features of social organization, such as trust, norms, and networks that can improve the efficiency of society by facilitating coordinated actions”.¹¹⁵⁸

Thus, networks and SMEs still play a role in advanced industrial countries today, even if organized differently than for example in China. Hence, the argument that only a fully developed market economy is needed to overcome this organizational structure needs to be enlarged by the thought of complementarities and a coexistence of organizational structures. Nevertheless, European networks are mostly more formal and where they were not initialized by the state they needed a certain cultural tradition to thrive and often only those are also successful and sustainable in the longer run.

6.4.2. The *Third Italy*

A special case of the European networks described in the last section is Italy, or more specifically, what in the literature is called “*the Third Italy*” (*terza Italia*). This phenomenon was first described by Arnaldo Bagnasco in 1977¹¹⁵⁹ and led to a wide discussion on the meaning of SMEs for the global economy in outcompeting large multinational companies with their system of flexible production (please see also chapter 3.2).¹¹⁶⁰ It is not the result of a political concerted action, but developed spontaneously, unexpected and un-

¹¹⁵⁵ Berghoff, 2004, p. 177-179.

¹¹⁵⁶ Glasmeier, 1991, p. 470.

¹¹⁵⁷ Putnam, 2001, p. 25.

¹¹⁵⁸ Putnam; Leonardi and Nanetti, 1993, p. 167.

¹¹⁵⁹ Bagnasco, 1977.

¹¹⁶⁰ Whitley, 1999, p. 4.

planned.¹¹⁶¹ Besides from the arguments given above, Italy can be treated as a special case – and also as different from China.

The *Third Italy* refers to central and north-eastern regions around Bologna, Florence, Ancona and Venice. The other “two Italies” are those “of the northern triangle and the backward Mezzogiorno”. Within the *Third Italy*, about fifty industrial districts near small urban areas are mainly specialized in textiles, clothing, footwear and furniture. They are technologically advanced, and highly productive.¹¹⁶² Prato, for example, is famous for its textiles and Poggibonsi for furniture. As typical for industrial districts (see also chapter 3), they developed a high degree of division of labor. Some firms act as specialized sub-suppliers and thus not all of the firms have direct contact to the market. These small firms are mostly family-owned and often still use artisans’ methods for production and are thus in a way dependent on the Italian family structure. Kinship ties that were used to structure industrial production, family members who served as low paid labor force and merchant traditions that connected the districts with the global market contributed to the success of the districts.¹¹⁶³ Thus, cultural specifics and other factors joined for the innovative turning point that made the districts the ‘*Third Italy*’. Besides those of the Italian family, the appreciation of craftsmen’s and merchant’s traditions and their connection to a global market, it was also the support of local parliaments and regional governments that provided the necessary infrastructure. The artisan traditions together with a specific form of rent, called *mezzadria*¹¹⁶⁴ advocated dexterity, skills, familial solidarity, a sense for business and an enterprising spirit. Elements of the traditional peasant society survived this transition and supported the social integration of the region during these dynamic changes.¹¹⁶⁵

Besides that, the development of the industrial districts was also a result of a recent economic and political development in Italy.¹¹⁶⁶ A significant role played the trend away from standard clothing towards fashion that caused the industry to restructure away from large-scale factories to small-scale, flexible production that could handle the rapid changes in demand and taste of clients. Each firm concentrates on a specific technology and stage of the production process.¹¹⁶⁷ They compete against each other, thereby creating a highly

¹¹⁶¹ Walter, 2004, p. 16.

¹¹⁶² Putnam; Leonardi and Nanetti, 1993, p. 159f.

¹¹⁶³ Piore and Sabel, 1984, p. 252, Walter, 2004, p. 56.

¹¹⁶⁴ The tenant was able to bargain the quota of the harvest that had to be delivered which is argued to have fostered the negotiation skills necessary for being an entrepreneur. Walter, 2004, p. 155.

¹¹⁶⁵ Walter, 2004, p. 56, 146f.

¹¹⁶⁶ Piore and Sabel, 1983, p. 394f. For details of the historical development, please refer to Piore and Sabel, 1984, esp p. 245f., Hamilton and Chang, 2003, p. 182.

¹¹⁶⁷ Piore and Sabel, 1984, p. 238.

innovative environment as they have to keep up with new technologies and designs. However, despite the competition, technological innovations are quickly shared within the district.¹¹⁶⁸ Thus, they also have to co-operate within network structures to be successful, even if that seems contradictory. Firms collaborate to subcontract to each other if an order or a product is too large-scaled or complicated for one company alone. This requires a high level of trust within the whole sector as investments are often based on the faith that other firms will pass along orders for certain products the other firm is specialized in. If the district expands, firms grow more and more dependent on each other as specialization and the need to innovate increases. Also, often administrative facilities are shared, as are raw materials purchases, accounting, marketing or technical services.¹¹⁶⁹ In that way, low vertical and high horizontal integration are incorporated.

This is supported by the vital role of business associations and the local state. They provide administrative services, financial aid and social infrastructure, such as professional training, market related information and fashion trends.¹¹⁷⁰ This created an innovative environment that encouraged collaboration.¹¹⁷¹ Firms are connected over horizontal networks, which also means that the internal division of labor is extremely flexible but often excludes unskilled labor. Still, “the cohesion of the industry rests on a more fundamental sense of community, of which the various institutional forms of cooperation are more the result than the cause....Among the ironies of the resurgence of craft production is that its deployment of modern technology depends on its reinvigoration of affiliations that are associated with the preindustrial past. [...] [N]orms of reciprocity and networks of civic engagement [...] that forestall opportunism are so deeply internalized that the issue of opportunism at the expense of the community obligation is said to arise less often here than in areas characterized by vertical and clientelistic networks”. The firms within these districts exhibit a high level of mutual trust and social cooperation.¹¹⁷² They have a collective advantage by co-operating, but at the same time act as competitors within an atmosphere of “professional solidarity”.¹¹⁷³

A case study of three industrial districts in Venetia by Sieglinde A. Walter strikingly reveals how the inner dynamics of the districts work.¹¹⁷⁴ Segusino, a typical example of an industrial district in Venetia, produces glasses, and one out of five citizens are entrepre-

¹¹⁶⁸ Trigilia, 1992.p. 33ff.

¹¹⁶⁹ Piore and Sabel, 1983, p. 400f.

¹¹⁷⁰ Putnam; Leonardi and Nanetti, 1993, p. 159f.

¹¹⁷¹ Lazerson, 1988, p. 331.

¹¹⁷² Piore and Sabel, 1984, p. 265, 275.

¹¹⁷³ Piore and Sabel, 1983, p. 401f.

¹¹⁷⁴ Walter, 2004.

neurs who operate businesses from one-man operation to several of companies with dozens of employees. They are either themselves official owners of these businesses, or their wives or children. Often, entrepreneurs own several firms (within the same sector) that provide family members the opportunity to gain experience and probably inherit the enterprise in the future.¹¹⁷⁵ Overall, the family is an essential factor for production.

All entrepreneurs know each other well, on a business as well as on a private level, sharing knowledge on technology, procedures, orders and clients, combining their core competence and being connected over a dynamic, innovative network to achieve success as a district. It is important to note, though, that they are neither trusts nor have mafia-like structures. Also, all prices are known and if it happens that one entrepreneur sells over the common standard, it is assumed that he is struggling with bankruptcy. If there is a technological innovation, entrepreneurs will inform each other about it, machinery and raw materials are frequently borrowed, information on employees is widely shared. It is also possible to acquire information about clients and if an order is too big for one company, it will subcontract to the competition on the bases of informal non-written contracts. As long as the order does stay within the district and is not transferred to the competition in China, entrepreneurs co-operate freely. If business is low, an entrepreneur will work as sub-supplier, as *terzista*, working for a third party. The entrepreneurs have a strong work ethic, work a lot and hardly have any vacation. There is a strong community in the village but entrepreneurs are merely passive members of sport clubs or act as sponsors, as they have no time to be more active but still want to support the community.¹¹⁷⁶ Also, business associations or trade chambers and local politics play only a marginal role as entrepreneurs rather stay autonomous and solve problems on their own and are not interested in having political influence.¹¹⁷⁷

In sum, co-operation between companies within these Italian districts is not fixed in written contracts, but merely in oral agreements between ‘gentlemen’ which needs a high level of trust, loyalty and reputation.¹¹⁷⁸ As co-operation often also includes shared research and development departments, those small enterprises are the driving force of innovation as they have a highly specialized know-how that again fosters collective learning processes. Innovativeness and creativity are key to survive the competitive pressure within

¹¹⁷⁵ Walter, 2004, p. 181f.

¹¹⁷⁶ Walter, 2004, p. 10ff., 210f.

¹¹⁷⁷ Walter, 2004, p. 205ff.

¹¹⁷⁸ Walter, 2004, p. 194f.

the district and the global market.¹¹⁷⁹ However, as firms and suppliers are connected mostly over informal connections, continuity is also essential to ensure quality and reinforce the level of trust. Network connections are polycentric in the sense that enterprises can be working as producer, *terzista* or supplier at the same time and multiplex in the sense that competitors are related on an economic but also social level. However, corporations still stay in the same broadly defined sector and do not switch to different product groups.¹¹⁸⁰

The Italian case is thus on the one hand a typical example for Western-style networks, on the other hand it is due to the strong informal and familial connections similar to the Chinese case. However, the Italian industrial districts are merely “small islands of prosperity in a sea of misery”¹¹⁸¹ and as those are more fragile and under pressure to be ‘drowned’.¹¹⁸²

6.4.3. The *blat* of Russia

*“Many of the formerly Communist societies had weak civic traditions before the advent of Communism, and totalitarian rule abused even that limited stock of social capital”.*¹¹⁸³

Similar to the Chinese experience, also Russia had to open up to market reforms at the end of the 20th century. However, it was considerably less successful in implementing the institutions needed; its GDP shrank 59 percent between 1992 and 1998 (whereas China’s increased 107 percent), so economic reforms ultimately caused the Soviet economy to collapse, whereas they accelerated economic success in China. In the process of economic liberalization, Russia had to face hyperinflation, industrial collapse and rapid privatization, which together produced a more or less chaotic environment.¹¹⁸⁴ Two factors were found influential for this development: on the one hand the missing foreign direct investment in Russia (\$9.2 billion in Russia compared to \$220.2 billion in China between 1992 and 1998) and on the other hand the role of entrepreneurship, which also only thrived in China (only 1.4 percent self-employed labor and 850.000 small businesses (with fifty or less employees in trade or other industries, with approximately ten to twenty percent unregistered)

¹¹⁷⁹ Walter, 2004, p. 188ff.

¹¹⁸⁰ Walter, 2004, p. 197ff., 250f.

¹¹⁸¹ Piore and Sabel, 1984, p. 6.

¹¹⁸² Orrú, 1997, see also chapter 6.4.4.

¹¹⁸³ Putnam; Leonardi and Nanetti, 1993, p. 183.

¹¹⁸⁴ Galbraith, 2004, p. 87. Similar numbers can be found in Nolan, 1995.

in Russia by 1997 compared to China's 5.6 percent self-employment by 1994, even with the state-sector still largely intact).¹¹⁸⁵

The reason for that is often attributed to the differently chosen path of development which is often referred to as shock therapy versus gradual change (see also chapters 5.1.2. and 5.1.5.). Whereas Russia changed its economic and political system in a 'big bang', in a sort of "social engineering"¹¹⁸⁶, and privatized large areas of the economy in very short time, China opted for a more gradual, "crossing the river by feeling the stones"¹¹⁸⁷ approach carried out with the political system remaining in place. This resulted in different abilities of the governments of both countries to control resources and personnel.¹¹⁸⁸ Although Russia very quickly installed a complete new legal system, it remained weak in its ability to enforce contracts and thus to defend the rights of investors and property owners as well as regulate economic transactions. Thus, Russia experienced an "institutional bank run" during the "spontaneous" or "insider" privatization even of banks under lawless conditions, with a lot of "public property plundered by political elites" who took advantage of the privatization process by buying property for only a fraction of its value.¹¹⁸⁹ This "new aristocracy" experienced a rapid increase of consumption possibilities whereas the poorer strata became even poorer. At the same time the society as a whole experienced an extreme change of social values away from collectivism towards extensive individualism.¹¹⁹⁰ As a result, it was rational for people "to grab what they could in the face of a very uncertain and uncontrollable future" as privatization often took away the 'de facto'-property rights and -institutions established during socialist times, such as use rights or other informal norms, instead of merely formalizing or legalizing them. As a consequence, the "market reform created social dislocation on a massive scale".¹¹⁹¹

The gap within the institutional structure was "filled by a ruthless illegitimate force, the mafia" which took over large parts of the economy, controlling as much as 40 percent of the turnover in goods and services and half of the privatized capital in 1993 and later 70 to 80 percent of the private sector and became thus the leading sector outside the state (see also below). It acts not as complementation parallel to the state but rather overtook the

¹¹⁸⁵ On the issue of the private sector and the development of private businesses, please refer to chapter 7. Data taken from Hsu, 2005, p. 310.

¹¹⁸⁶ Ellerman, 2010, p. 3.

¹¹⁸⁷ A catchphrase coined by Deng Xiaoping, please see also chapter 5.1.5.

¹¹⁸⁸ Sun, 1999, p. 2. The Russian way of privatization has been called the "one of the most spectacular failures in the history of economic reform". Braguinsky and Yavlinsky, 2000, p. 123.

¹¹⁸⁹ Sun, 1999, p. 5, 8.

¹¹⁹⁰ Nolan, 1995, p. 20f.

¹¹⁹¹ Ellerman, 2010, p. 9f.

whole economy as a consequence of weak state structures that could not prevent insider trading and other profiteering by bankers, managers, bureaucrats and of course mafia bosses.¹¹⁹² Instead of accepting the newly designed formal institutions, people turned to semi-legal or even illegal means to secure income – or rather, the formally de facto institutions turned now into illegal ones which still guided behavior.¹¹⁹³ Also, the dismantling of the existing political system led to the weakening of authority structures that opened the opportunity for illegal behavior. This goes as far as preferring the mafia to settle disputes than relying on the court system.¹¹⁹⁴

This situation is conceived as being influential on the level of both foreign direct investment and entrepreneurship.¹¹⁹⁵ As much as this is true, it is only a part of the story as investors and entrepreneurs experienced and still experience similar obstacles when dealing with bureaucracy and official institutions or when trying to enforce contracts within China. Still, China's bureaucrats are conceived as much more reliable because Guanxi and the fear of losing face hold them to their word.¹¹⁹⁶

However, even when ignoring the different government structure, Chinese people seem to be much more entrepreneurial than their counterpart in Russia because they could rely on Guanxi mechanisms that complemented missing or insufficient formal institutions in the post-socialist era. The Russian equivalent of *blat* seems to provide less security. Although it served the purpose to overcome the problems of a socialist bureaucracy, it appears to have not developed into a “flexible tool which allowed people to create trustworthy, expansive business networks in the absence of adequate legal guarantees” in post-soviet Russia, like Guanxi did in China. It turned into a form of corruption only for “elite players” and ceased to be of importance for the Russian post-soviet society.

Blat is the Russian term for the use of networks and informal contacts to overcome the shortage of supply and the obstacles of bureaucracy within a communist state, similar to Guanxi before 1978. It has no direct translation in English but “the term *blat* is one of those many flavored words which are so intimate a part of a particular culture that they can be only awkwardly rendered in the language of another”.¹¹⁹⁷ For reasons elaborated below, it was not a sustainable form of interacting with strangers for ordinary people and thus Rus-

¹¹⁹² Sun, 1999, p. 3f., 8.

¹¹⁹³ Ellerman, 2010, p. 12.

¹¹⁹⁴ Sun, 1999, p. 3, 8.

¹¹⁹⁵ Hsu, 2005, p. 310, 320.

¹¹⁹⁶ For the role of corruption in China please refer to chapter 6.2.

¹¹⁹⁷ Berliner, 1957, p. 182.

sian entrepreneurs come mostly from the upper class which more exploited public resources rather than invested in their firms.¹¹⁹⁸

However, examined only superficially, *blat* and Guanxi seem to have a lot in common and they indeed have. But when analyzed in detail, *blat* evolved in a different way than Guanxi in the reform era. The term is rooted in pre-communist criminal jargon of the 1930s, but actual is an invention of Soviet times although its usage was avoided in official communication. It also differs in how it is constructed. *Blat* transactions engage in two different kinds of relations, with a very narrowly defined group of friends (in Russian “people of the circle”) and “useful people”. Relations with the latter are more complicated to set up and thus the extension of *blat* networks is more challenging and demanding as it is only possible via the introduction of a common friend. Consequently, they mostly remained considerably smaller than their Chinese counterpart as people tend to mistrust each other.¹¹⁹⁹ *Blat* is a more closed concept than Guanxi and only a subset of friendship, although it is also possible to use *blat* with friends of friends. It is still considered as antisocial.¹²⁰⁰ The Russian society seems to be characterized by an “excess of community” caused by a concept named “amoral familism” that is build on strong and particularistic loyalty to the family and is characterized by “the presence of social integration but the absence of linkage” and limited group-morality.¹²⁰¹ Under amoral familism, wealth is accumulated by “trafficking, racketeering, plundering, looting, or favoritism” within “various factions, cliques, or groups fighting for power”.¹²⁰²

Blat transactions were also more difficult to enforce as the monitoring of the practices by the members of the network often did not happen due to mislabeling the action as mere ‘helping out’, which meant that favors did not have to be returned.¹²⁰³ *Blat* has a less thorough moral background than the Confucian origins of Guanxi and thus is more prone to corruption and is more easily monetarized.

As the level of trust decreased during reforms from an already low level, people turned away from *blat* practices. Instead, they were replaced by an institution named “*kryshi*”. Originally, a *krysha*¹²⁰⁴ is part of the mafiya¹²⁰⁵, later also other criminal gangs and even government officials acted as *kryshi*. However, they provided private security ‘services’,

¹¹⁹⁸ Hsu, 2005, p. 311.

¹¹⁹⁹ Kiess, 2007, p. ix, 52.

¹²⁰⁰ Hsu, 2005, p. 314f., 321f.

¹²⁰¹ Banfield, 1965, Woolcock, 1998, p. 171f.

¹²⁰² Platteau, 1994, p. 799.

¹²⁰³ Hsu, 2005, p. 316, Kiess, 2007, p. 53.

¹²⁰⁴ *Krysha*, pl. *kryshi*, literally: roof.

¹²⁰⁵ *Mafiya* is the transcribed term for the Russian mafia.

enforcing contracts also by intimidating the contracting party which again led to a decrease of trust in other people and towards the state. *Kryshi* served as facilitator of business transactions but also as replacement for the state in enforcing contracts, ensuring the safety of their costumers (or their business), settling legal issues, protecting property rights, acting as creditor. As often even members of the police or the government appeared as *kryshi*, they were regarded as quasi or 'private' state, often being in the position of mediator between businessmen and 'real' state. For these 'services' they charged at least ten per cent of profits as 'taxes' or rather protection money. They had their heyday in the 1990s without completely disappearing thereafter.¹²⁰⁶

In Russia the distrust in the government and the violation of laws is widely morally accepted and has a long tradition, which goes back before communist times and can be summarized with the Russian saying "*nel'zya, no mozno*" (prohibited but possible).¹²⁰⁷ As a consequence, the whole state apparatus became prone to corruption and even the Kremlin was considered as *krysha* for the Russian oligarchs. The *kryshi* can be blamed to not a small part to be responsible of the sinking level of trust and the resulting reluctance for cooperation within the Russian society which ultimately also led to a decline of the significance of the *kryshi*.¹²⁰⁸

Apart from that, the small *blat* networks were also less well equipped for entrepreneurship, as for that many connections also to less well known people would be necessary which with the "relatively static population" of a Russian network was much more difficult to achieve. This made it also very hard for newcomers to break into a market and thus entrepreneurship was confined to those with a lot of social capital, which included mostly political elites and their offspring, whereas in China it were especially the former peasants that had entrepreneurial motivation.¹²⁰⁹ Generally, *blat* lost its central role for (economic) transactions in post-reform Russia as it is a transaction that requires trust in the future in the sense that it has to be trust that the other party will reciprocate. Russians rather resort to 'spot' transactions with the help of money or barter. Thus money replaced favors, although

¹²⁰⁶ Kiess, 2007, p. ix, 97ff., 106ff., 112f. It is interesting to note that the norms of a criminal gang like the *kryshi*, whose authority stems from their experience in prison, pervaded the entire post-soviet society. An explanation for that might be that a large fraction of the population had experiences with camp and prison life. The *kryshi* had their own set of rules and behavior and interacted within informal but structured networks with each other, having conflicts solved by 'arbitrators'. During the 1990s other gangs joined 'business', without having such an ethical code, only being interested in short term profits. This deteriorated the overall 'morals' of the *kryshi* which ultimately led to the replacement of the *kryshi* by institutions with similar function but set up by the state.

¹²⁰⁷ Kiess, 2007, p. 99f., Ledeneva, 1998, p. 1.

¹²⁰⁸ Kiess, 2007, p. 110, 115f., 136.

¹²⁰⁹ Hsu, 2005, p. 322.

large sections of the private sector operated in the informal economy.¹²¹⁰ On the other hand, *blat* is still used to obtain information, only that the type of information changed in post-soviet Russia. Before, it was information to overcome the shortcomings of a planned economy, whereas today it is information on money, business and tax evasion.¹²¹¹

Even if Russian people started a business, it was typically less growth-oriented and more geographically confined than small businesses in China as Russian entrepreneurs value consumption over investment and expansion and thus reveal a more predatory behavior. In the literature this is referred to as the Russian enterprise being a worm and the Chinese a caterpillar (which has the ability to develop into a butterfly).¹²¹²

6.4.4. Guanxi networks versus Western forms of networks

“Receive a droplet of generosity; repay like a gushing spring”.
(di shui zhi en dang yi yong quan xiang bao)
Chinese Saying

In China, networks are seen as long-term strategic alliances to access information and resources like bank loans or supplies from unofficial sources, even in unstable political and economic surroundings, therefore supporting the flexibility of small firms. They are based on the long-term oriented reciprocity that is aimed towards the other not the self. This means that empathy and knowledge for the needs of the other are necessary which includes that anything reciprocated has to be of great value to the receiver and has to be of greater value than that received. Which means nothing else than that Guanxi always consists of unequal exchange, the “generalized reciprocity” described above. This helps to sustain Guanxi in showing the veracity and well meaning of the giver. It also causes indebtedness and gratitude towards the giver which will secure that the favor will be returned sometime in the future, keeping the relationship dynamic and lasting.¹²¹³ Networks also complement the legal framework in guaranteeing the enforcement of contracts and serving as supporting entity in case of bankruptcies, by postponing or even preventing it. Moral principles are regarded as more influential than legality.¹²¹⁴ Additionally, they act “as a form of collective memory, ensuring that a single failure need not be constituted simply as one individu-

¹²¹⁰ Kiess, 2007, p. 72f., 144f.

¹²¹¹ Ledeneva, 1998, p. 209.

¹²¹² Hsu, 2005, p. 323f.

¹²¹³ Chen and Chen, 2004, p. 317f.

¹²¹⁴ Hu, 2007, p. 54.

al's loss of investment but as an experience which others can learn from".¹²¹⁵ Guanxi "is a connection between people, not firms. Even if an individual is running a number of separate companies, the counter-party considers itself as still trading with the same entity, the person with whom he has Guanxi. He could not have different relationships with each company".¹²¹⁶

As has been mentioned before, negotiations often take place at more informal locations like nightclubs or restaurants.¹²¹⁷ This process does not rely on legal contracts but involves dinner banquets and gifts to ensure the mutual *Gǎnqíng* which differentiates this process from corruption, as stated in the chapter on Guanxi and corruption above. In contrast to the often difficult negotiations in joint ventures between Chinese state enterprises and foreign companies, investments based on Guanxi are established much faster.¹²¹⁸ "It's all Guanxi. But they form a sort of group which no one else knows about. [...] The members do not publicly announce that they have formed a group. They have no charter, and they pay no membership fees, nevertheless, these networks are very important".¹²¹⁹

In the West, markets depend on an elaborate legal system to enforce contracts, whereas the Chinese system depends on reputation and trust. Contrary to Western expectations, this does not increase transaction costs, but rather reduce them due to transactions taking place within flexible, but permanent networks within long-term relationships. It takes time to build up these networks but once established, they facilitate business although admittedly also limit the system's capacity to grow.¹²²⁰ They exercise a strong incentive for fair and non-opportunistic behavior as cheating would lead to the exclusion from the network. Networks therefore have strong regulating and sanctioning power.¹²²¹ "In the past, we didn't have contracts in black-and-white; no legal documents were involved. A gentlemen's agreement will do. [...] For the Chinese traders, the main thing is integrity, credibility".¹²²²

Concluding transactions is more flexible when done with the help of Guanxi and favors smaller groups of people over more complex organizational structures: "When there are problems, we can always talk it through. With Europeans, it's quite different. We work with many multinational companies...They are not flexible. They won't compromise and

¹²¹⁵ Krug and Mehta, 2004, p. 60f.

¹²¹⁶ So and Walker, 2006, p. 7.

¹²¹⁷ Yang, 2002, p. 461f.

¹²¹⁸ Granovetter, 1985, p. 490 and Yang, 1999, p. 104f.

¹²¹⁹ Yang, 1994, p. 301.

¹²²⁰ Lovett; Simmons and Kali, 1999, p. 232.

¹²²¹ Lesger, 1997, p. 269ff.

¹²²² Kiong and Kee, 1998, p. 84.

let you go [if you need to make adjustments]. They don't share our mutual understanding. The Europeans go according to the books and rules".¹²²³ Informal ways of securing contracts based on mutual trust is preferred to contracting and "chatting among firm owners is the main channel for a firm to collect information on market conditions [and] technology".¹²²⁴ Pragmatism and uncertainty acceptance is an important feature of Chinese culture.¹²²⁵ This tolerance toward ambiguity is an important Chinese virtue and a fuzzy chaotic status is interpreted as something from where "creativity can emerge".¹²²⁶ It is in contrast to the Western urge to regulate every detail.

For similar reasons as within business connections, ties to local cadres are created (see also chapter 8). Having to maintain strong ties to local officials can be interpreted "as evidence of poorly enforced legal property rights and an obstacle to the formation of a more complete market economy", which is the view mostly found in mainstream economics approaches.¹²²⁷ As opposed to that it can also be understood as "reasonably coherent strategies of entrepreneurs designed to produce stable expectations".¹²²⁸ These networks actually seem to turn out as the most efficient and rational institutions able to deal with the specificities found in China, where "making friend and making money" is not an unfeasible contradiction.¹²²⁹

Another specific feature of Chinese networks are that in contrast to Granovetter's famous finding about the 'strength of weak ties'¹²³⁰ for job search, meaning that it is more likely to find new employment through relationships with acquaintances instead through a closer core of friends, it is different for China. Chinese people tend to gain new employment through the 'strong ties' of Guanxi networks that are built on trust.¹²³¹

However, if Guanxi connections are indeed equal to Granovetter's concept of 'strong ties' and if they are indeed crucial for finding a job, is contested in the literature. Yanjie Bian, for example, argues that the "combination of frequent interaction and reciprocal exchanges for expressive and instrumental purposes, high intimacy and mutual trust to each other, and strong 'we-group' feelings toward each other" makes it equal to strong ties, because weak ties "cannot meet many of these requirements".¹²³² Amy Hanser, on the other

¹²²³ Kiong and Kee, 1998, p. 82, 86.

¹²²⁴ Li and Li, 2007, p. 40f.

¹²²⁵ China Reform Foundation, 2001, quoted in Zhu, 2007, p. 1508.

¹²²⁶ Zhu, 2007, p. 1508.

¹²²⁷ Wank, 1999, p. 248.

¹²²⁸ Wank, 1999, p. 249.

¹²²⁹ Souchou, 2002, p. 239ff.

¹²³⁰ Granovetter, 1973, see also chapter 3.

¹²³¹ Lo and Otis, 2003, p. 140, Bian, 2008, p. 119.

¹²³² Bian, 2008, p. 118.

hand, argues that not all relations, especially on the labor market can be called Guanxi and that instead of bridging holes of trust and information in the labor market, Guanxi networks themselves contain holes. Without explicitly saying so, she comes back to Granovetter's argument, that rather weak ties are the more essential factor to learn about new employment opportunities. In the end, she falls back on the standard argument of NIE that only a functioning labor market itself is the solution. She basically argues in Guthrie's line of thought that Guanxi is on the decline and will disappear with a complete institutional structure – Western style.¹²³³

In my view, although Guanxi requires a high level of *Rénqíng*, they still need not be equal to strong ties, as can be elucidated by the examples of Guanxi given above (see fn 1065). A shared identity can also be achieved with 'loose affiliations', hence, weak ties, it is not necessarily a matter of the frequency of interaction or spatial or emotional closeness. Thus, it is difficult to categorize Guanxi connections as either strong or weak ties. Also, looking at more typical categories that characterize network types outlined in chapter 3, Guanxi networks are multiplex in that they are not only incorporating different types of relationships, there exist no different networks for different spheres like business, politics or social life. The Chinese tolerance towards ambiguity and a high level of pragmatism results in not categorizing a specific person who consequently can take on different roles in different situations. It is also more relying on generalizing reciprocity and informal social capital, as already outlined above. Additionally, Guanxi networks not only work within the "small islands of prosperity within the sea of misery"¹²³⁴ as the European (regional and strategic) networks do.

The typical argument of NIE of having networks as organizational unit as another way of reducing transaction costs and enhancing efficiency, is also tracing cultural differences back to the Western rationality argument, which in the end leads to the all-encompassing criteria of efficiency as sole objective of a rational enterprise. This argues again in Weber's sense. History is deterministic so that rational Capitalism in the Western sense is the epiphany of modernity which denies a possible difference between cultures. The Western discourse has great difficulty in considering social systems as open or emotional and in this sense 'irrational' which includes having no clear cut boundaries between society, politics

¹²³³ Hanser, 2008, p. 160f. See also above, chapter 6.1.3. and esp. fn 1040 the debate between Mayfair Yang and Douglas Guthrie.

¹²³⁴ Piore and Sabel, 1984, p. 6.

and the economy.¹²³⁵ In contrast, the flexible production of Chinese networks is based on trust and is determined by its institutional environment.¹²³⁶

“The point is that the technology in use reflects the way the economy is socially organized, as well as the product being made. That young girls made cloth on single-spindle looms a century ago or that the women (and often men too) in households gather around the dining table to assemble computer parts today does not indicate economic involution or capitalistic ineptitude of any kind. But it does indicate that we cannot understand how economies work unless we understand how they are organized in some holistic way.”¹²³⁷

¹²³⁵ Herrmann-Pillath, 2000, p. 114f.

¹²³⁶ Herrmann-Pillath, 2000, p. 116f.

¹²³⁷ Hamilton and Chang, 2003, p. 205.

7. Capitalism, the private sector and Guanxi in the 20th century

7.1. The development of the private sector since 1978

7.1.1. The development of the Chinese private sector and the role of entrepreneurs

“Xuehui shulihua, buru you ge hao baba”.
A command of mathematics, physics, and chemistry is not worth as
much as having a good father {i.e., with connections}.
Chinese Saying¹²³⁸

The transformation of the Chinese economic system after 1978 from a planned to a market economy based on competition and the division of labor went surprisingly smoothly, especially compared to similar processes in Middle- and East Europe. The economic reforms in general were made possible by the revitalization and creation of institutions to expand, regulate, and channel economic transactions especially and foremost in the private sector. They developed in areas where State-Owned Enterprises (SOEs) were less dominant and thus complemented the institutions existing in the planned economy for the allocation of goods and services. The (re-)newed institutions were a response to the organizational problems arising in agriculture, industry, and commerce in the course of reforms. The central government gave space to local governments in finding their own way of dealing with the reform process, than choosing the most successful structures to ex post legitimize the actions in introducing legal structures and corresponding laws for enforceable rights, supporting individual autonomy.¹²³⁹ This development is enforced by the central government that gave supremacy to local officials who influenced the local development. They were often motivated to strongly support local economic growth often not complying with central state regulations. An “array of essentially private ownership forms emerged [...] with the knowledge and support of sub-provincial local officials but well ahead of the regulations and laws designed to govern them”.¹²⁴⁰ Private entrepreneurs collaborate with government officials, “creating and benefiting from a web of bureaucracy-business alliances. While this can be traced back to the pre-communist years, the reform and open policy did not eliminate but deepened this Chinese tradition”.¹²⁴¹

It can be easily argued that the Chinese transformation was only possible with the emergence of entrepreneurs and privately-owned enterprises. The particular problems

¹²³⁸ Yang, 1994, p. 8.

¹²³⁹ Holbig, 2002, p. 41.

¹²⁴⁰ Whiting, 2001, p. 145.

¹²⁴¹ Zhu, 2007, p. 1510f.

found in the Chinese economy after their entrance in the global market were most efficiently faced with the re-utilization of the Chinese family, family enterprises and personal networks as a means to do business the Chinese way. Thus, they adapted and revived past institutions, also bridging the gap left by the breakdown of social order caused after the Cultural Revolution. Those institutions based on traditional values assisted in finding a unique way of business practices, creating a specific Chinese Capitalism based on Guanxi.¹²⁴²

For the Chinese social and economic system, kinship always played an important role. During the Ming and Qing dynasties, businesses were owned by families and Chinese merchants depended to a large part on social networks.¹²⁴³ 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 which also means that individuals define themselves through the family and through relations to others.¹²⁴⁴ The majority of people traditionally lived on the countryside, where clans dominated the villages. Property rights in the Western sense were hardly known, the clan fulfilled duties like acting as juridical authority and lending money.¹²⁴⁵ From a Western point of view it could rather negatively be argued that the clan filled an institutional gap that in the West was occupied by the state.

As already been outlined in depth in chapter 5, Max Weber describes the “sib fetters of the economy” that from his point of view prevented the emergence of Capitalism in China in the 19th century.¹²⁴⁶ For him, the Confucian culture of authoritarianism, hierarchy and ethnocentrism fosters economic activity in the form of family businesses rather than large corporations.¹²⁴⁷ Weber presents Confucianism as based on conservatism and traditions instead of change and innovation and thus as impedimental to rational bourgeois Capitalism.¹²⁴⁸

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. Open positions had to be filled with family members and thus labor could not be acquired from a free labor market. Additionally, due to the fact that sons inherit equal shares of their father’s company by tradition, these family business-

¹²⁴² Krug, 2002b, p. 133 and Gold, 1985, p. 674.

¹²⁴³ Faure, 2006, p. 19.

¹²⁴⁴ Joy, 2001, Levy, 1949, p. 208f.

¹²⁴⁵ Goode, 1970, p. 297f.

¹²⁴⁶ Weber, 1968, p. 86-97, citation from p. 95.

¹²⁴⁷ Zurndorfer, 2004, p. 17.

¹²⁴⁸ Balazs, 1977 [1964], p. 18f.

es were never able to grow over a certain size.¹²⁴⁹ 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" for the inhibition of a bourgeois Capitalism.¹²⁵⁰ Weber comes to the conclusion that "Confucian rationalism meant rational adjustment to the world; Puritan rationalism meant rational mastery of the world".¹²⁵¹ In contrast to the harmony-seeking Confucianism, Protestantism was able to shatter the fetters of the sib.¹²⁵²

Weber also considered the time and effort required to establish Guanxi networks as distracting from business. For those reasons, family businesses have been replaced by professionally run bureaucratic corporations in the West which helped Capitalism and the industrial revolution thrive. Weber predicts the same for China, if Chinese people free themselves from family obligations.

Interestingly, Weber also 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.¹²⁵³ Even though the very same culture did not develop Capitalism on its own, it easily adapted it and institutional factors, such as family and networks, which previously inhibited its emergence, became essential components of its structure.¹²⁵⁴ Consequently, the pre-revolutionary institutions, which prior to 1949 supported the more impedimental features, supported the features that foster economic success in a competitive international capitalistic environment after 1978.

The revitalization of institutions regulated economic transactions in the private sector, complementing the existing institutions. Among the renewed institutions family enterprises and personal networks were the most efficient response to the particular problems of the Chinese economy after its entrance in the global market. A kind of collective memory enabled the emergence of a private sector in reviving traditional long-known institutions. The collective times seemed to have built-up urge for more autonomy which then erupted in massive entrepreneurial endeavors, especially in certain rural areas. Entrepreneurial in-

¹²⁴⁹ Parsons, 1967 [1937], p. 542, Whyte, 1995, p. 1001.

¹²⁵⁰ Weber, 1968, p. 66.

¹²⁵¹ Schluchter, 1983, p. 41 and Weber, 1968, p. 248.

¹²⁵² Weber, 1968, p. 237.

¹²⁵³ Weber, 1968, p. 248.

¹²⁵⁴ Hamilton, 1984, p. 397.

instincts were preserved and could flourish with the institutions provided by economic reforms.¹²⁵⁵ This shows the resilience of traditional business practices.¹²⁵⁶

The transformation process initiated in 1978 brought many changes to organizations, production and consumption but also to the thinking of people. In 1992, economic development received another push by Deng Xiaoping's legendary 'trip to the South', to the Special Economic Zone (SEZ) of Shenzhen, and his call for opening up and economic reforms (see also chapter 5). Beside the large SOEs of the planned economy, especially in rural areas small, privately-owned enterprises were established. These firms were mainly run by families, creating a private sector. Family enterprises 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.¹²⁵⁷ This newly created private sector was established in coexistence with the state sector. Prices instead of being planned and thus fixed were set on markets with the facilitation of market entrance and exit. There were no clear regulations determining which sector would follow the rules of the free market or continue to be led by bureaucracy.

Until the economic policies of 1978, the notion of private capitalist entrepreneurs has not existed in the CCP's ideology.¹²⁵⁸ While merchants were not well respected and did not enjoy high social status under socialism, they were able to produce and supply products of higher quality than the state grocery stores and thus rose in status together with the establishment of a market economy. Furthermore, due to monetary incentives and competition with the more flexible privately-owned small family firms, also SOEs gradually changed to a more profit-oriented production. Thus, the today's SOEs of China have not much in common with the SOEs in the beginning of reforms. Additionally, the dual-track system and a labor market were established that led to competition for better products and employees. Talented workers changed to private firms because of better payments, making those enterprises in turn even more productive. This spurred competition with the formerly plan-protected SOEs that during reforms often also lost the privilege of the 'iron rice bowl', hence did change or lose their system of social health care and pension funds.¹²⁵⁹

The attitude towards work, money and relationships was transformed due to better economic conditions and the rising importance of market forces. The emergence of private

¹²⁵⁵ Whyte, 1995, p. 1015, Krug, 2002b, p. 133, Yang, 2002, p. 466ff., Peng, 2004, p. 1059 and Gold, 1985, p. 674.

¹²⁵⁶ Faure, 2006, p. 28f.

¹²⁵⁷ Krug, 2002b, p. 131f. See below the example of Wenzhou below.

¹²⁵⁸ Baek, 2000, p. 63.

¹²⁵⁹ Shirk, 1993, p. 42.

firms created a new class of individual entrepreneurs and managers who became very quickly enormously wealthy. Most of these newly set up enterprises were run by families, producing a wide range of products, making their profit only from the market. While in the 1980s entrepreneurs were still seen with mixed feelings, their reputation aggrandized in more recent times. The Marxist view of entrepreneurs as "seeds of Capitalism" and thus exploiters slowly seized to exist.¹²⁶⁰ The slogan "Serve the people" (*wei renmin fuwu*) became "Serve the people's currency (=RMB)" (*wei remimbi fuwu*).¹²⁶¹

Although Chinese entrepreneurs as such do not form a class in the sense of a social formation like the German bourgeoisie, they are nevertheless a dynamic element of political and social change. They could seek leading positions in politics or society to influence social values, but Chinese entrepreneurs seem not to have this in common with their European counterparts.¹²⁶² They are lacking a shared identity, probably because they stem from different backgrounds (former peasants or so-called 'self-made men' alongside former state officials and other long-established elites).¹²⁶³ Other authors argue that "a newly affluent parvenu stratum of entrepreneurs and professionals has arisen to form a new class whose wealth is rooted not in the political order—as with the old state socialist redistributive era elite—but in the rise of a market capitalist economy".¹²⁶⁴ But even though they all belong to the 'new rich'¹²⁶⁵ and thus economic elite, they do not form a middle class or bourgeoisie. If they have the potential to form a strategic group is not yet clear and is viewed differently within the literature.¹²⁶⁶ "The middle class is not a simple concept but is made up of different elements and is itself often regarded as stratified: ...the middle classes are now generally seen in industrialized societies as the large, middle sectors of contemporary hierarchies of economic wealth, social status and political power, identified as much by their consumption and adherence to style as in socio-economic terms....Starting with the early nineteenth century, the bourgeoisie were a new middle class created by the process of industrialization. They were the captains of industry whose ownership of the means of production – extraction, processing and manufacturing activities – drove indu-

¹²⁶⁰ Shirk, 1993, p. 42.

¹²⁶¹ Yang, 1994, p. 161.

¹²⁶² Heberer, 2002a, p. 121f. Please refer to chapter 8.1. for a analysis for the German bourgeoisie.

¹²⁶³ Huang Ping, 1997, p. 235f.

¹²⁶⁴ Nee and Opper, 2010, p. 4.

¹²⁶⁵ Goodman, 2008a.

¹²⁶⁶ Cf. Heberer, 2002b, p. 12. Heberer argues that China's entrepreneurs are still in 'status nascendi' to form a strategic group. I follow more Kellee Tsai arguments here, see Tsai, 2005. For a more detailed discussion, please refer to chapter 8.2.1.

strialization, and they became a middle class because they were neither the landed aristocracy on the one hand, nor ordinary townspeople on the other”.¹²⁶⁷

However, in contrast to the population of most developed countries, Chinese people still adhere themselves to the working class.¹²⁶⁸ Mostly, private entrepreneurs do not strive to become interconnected over horizontal ties, be it informal or more formal ones. Not least, because collective action within an authoritarian state is still a sensitive issue and the political circumstances rather support individualism in the sense that each entrepreneur relies on his Guanxi to selected government cadres.¹²⁶⁹ Social clubs were founded but are not considered as central places for doing business and ties to local officials are considered as more important. Still, membership is regarded as status symbol and membership rates accordingly are very high to make it more exclusive. It is more a place for showing off the accumulated wealth than for engaging in business negotiations.¹²⁷⁰ Goodman draws three conclusions from his research: “The first is that the new entrepreneurs are a complex and not a simple social category, including not only owner-operators in the private sector but also managers of state-, collectively-, privately-, and foreign-owned enterprises, as well as oftentimes confusing combinations of these various sub-categories. The second relates to the wealth of the new entrepreneurs. While there were some disastrously unsuccessful entrepreneurs and others who were only of moderate wealth, many were not just comfortably well off by the standard of their local economy...but were clearly the rich and the super-rich...The third overall conclusion limits such arguments by highlighting the close institutional and associational links between the new entrepreneurs and the party-state: they are neither independent of nor excluded from the political establishment, which on the contrary seeks actively to incorporate them if there is no pre-existing relationship”.¹²⁷¹

A civil or public spirit and a sense for community in the form of individual commitment and volunteering are not yet highly developed (however, the willingness for donations rose considerably in the aftermath of the earthquake in Southwest China in May 2008). Still, volunteer work for social or public causes is still very uncommon.¹²⁷² Heberer traces that back to historical reasons. Empathy for people outside one’s network (the ‘inner circle’ of family, clan or village) is relatively low, which impedes the development of civil traditions. Modernization processes also often led to the disintegration of traditional communi-

¹²⁶⁷ Goodman, 2008b, p. 23f. See also chapters 4 and 8 for a more in-depth definition of the concept of middle class and bourgeoisie.

¹²⁶⁸ Chen, 2002, p. 410.

¹²⁶⁹ Cf. Heberer, 2002b, p. 13.

¹²⁷⁰ Pearson, 1997, p. 114f.

¹²⁷¹ Goodman, 2008b, p. 27f.

¹²⁷² Heberer, 2010, p. 4.

ties and values and to an increase of individualistic, selfish behavior. Being a citizen means to be an autonomous individual that can decide independently. The urban atomization that leads to a change of group-centered loyalty to individualism might also lead to societal individualism that is concentrated only on one's own life that make people indifferent to social commitment. Nevertheless, the institutions of a civil society are still missing in China and people doing volunteer work are often party members ordered to do so. State paternalism and socialist education rather leads to the image of a good citizen that is loyal to state and party and obeys their order without interfering or objection.¹²⁷³ The authoritarian state has great impact on the action and beliefs of its populations who believe that the measures of the state are for their own best.¹²⁷⁴

Another aspect of the specific Chinese mindset is their ethic of entrepreneurship. This can be regarded as another important reason for the extreme growth of private companies once the country opened up. An entrepreneur is defined as “small-scale capitalist who attempts to parlay small capital into big earnings”, investing “one's resources [...] in a long-term quest to improve the material well-being and security of some group to which one belongs and with which one identifies”.¹²⁷⁵ Thus, the entrepreneurial ethic is not short-term but future-oriented, neither is it merely for individual benefit. The group towards which those efforts are directed is mostly one's family and friends. To set up an enterprise during reforms was not done because of personal career considerations but first and foremost to secure long-term benefits to your network, the family in particular. So, Chinese entrepreneurs are more than capitalist ‘economic men’ just greedy for money and materialist gain but rather concerned about long-term security.¹²⁷⁶

The particular problems found in the Chinese economy after their entrance in the global market were most efficiently faced with the re-utilization of the Chinese family, family enterprises and personal networks as a means to do business the Chinese way. The achievement orientation made families strive towards a “societal marketization”¹²⁷⁷, which explains the mushrooming of private family-owned businesses and the hidden privatization of collectives. Past institutions were adapted and revived, also bridging the gap left by the breakdown of social order caused after the Cultural Revolution. This can also be interpreted as a “restoration of older Chinese relationships” which formed new institutions

¹²⁷³ Heberer, 2010, p. 5f.

¹²⁷⁴ Heberer, 2010, p. 6f.

¹²⁷⁵ Harrell, 1985, p. 216.

¹²⁷⁶ Harrell, 1985, p. 217.

¹²⁷⁷ Nee, 1996.

based on traditional values.¹²⁷⁸ These institutions assisted in finding a unique way of business practices, creating a specific Chinese Capitalism based on Guanxi. Private enterprises worked according to the principles of the market economy, but still found their own way of doing business in those instable and risky circumstances.¹²⁷⁹

Guanxi facilitated the reviving of the private sector during the economic reforms, becoming a more material exchange during the 1980s. It helped to establish small privately-owned enterprises especially in rural areas. These firms were mainly run by families, which worked according to the principles of the market economy, but at the same time giving time and space to the entrepreneurs to find their own way of doing business in those instable and risky circumstances.¹²⁸⁰

Hence, in contrast to the Western belief that secured property rights need to exist for sustained growth, the establishment of private enterprises despite unclear or stable specification proved once again the “ambiguity [that] is the imperatively important feature of Chinese mindscape”.¹²⁸¹ The obscure ownership structures of collective enterprises, specifically the TVEs, are an example that this pragmatism or uncertainty acceptance is an important feature of Chinese culture (see also below). As Casson, 1993 notes: “Some cultures emphasize the importance of theory; it is important to understand the situation before acting, they maintain, and such understanding can only be provided by a theory of some kind. Other cultures are more pragmatic; they suggest that it is sufficient to know that, on the basis of experience, a certain course of action produces good results in certain circumstances without knowing exactly why this is the case”.¹²⁸² This tolerance toward ambiguity is an important Chinese virtue and a fuzzy chaotic status is interpreted as something from where “creativity can emerge”.¹²⁸³

Family ties are creating strong loyalties that motivate each family member.¹²⁸⁴ Young Chinese study hard for the sake of the family to earn the right for a manager position in the family business. This provides the advantage of creating a ‘natural authority’ and not losing profit to external managers.¹²⁸⁵ 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.

¹²⁷⁸ Fukuyama, 1995, p. 94.

¹²⁷⁹ Krug, 2002b, p. 131ff. and Gold, 1985, p. 674.

¹²⁸⁰ Krug, 2002b, p. 131f.

¹²⁸¹ China Reform Foundation, 2001, quoted in Zhu, 2007, p. 1508.

¹²⁸² Casson, 1993

¹²⁸³ Zhu, 2007, p. 1508.

¹²⁸⁴ Yang, 1994, p. 111.

¹²⁸⁵ Wong, 1988, p. 139.

Another characteristic feature of small family enterprises is their inheritance pattern. When a firm is passed to the next generation, the sons are entrusted with a subsidiary unit for which they have the sole responsibility. This is seen as possibility to diversify the decision-making when a firm prospers and grows. This “package of individual incentives and group insurance against failure [...] encourages the emergence of highly motivated, risk-taking entrepreneurs”.¹²⁸⁶ 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.¹²⁸⁷ Although on the one hand the division of property among sons might be a weakening of economic power it also diversifies investments. This fosters the flexibility of the firms that are divided into several sub-branches in the ownership of one family, but under the command of different sons.¹²⁸⁸

Economic development was also fostered by Guanxi because it is connected these small flexible firms to facilitate access to markets and supplies with the help of personal relationships. Often they would also subcontract to larger companies. Both enabled them to change products and the overall mode of production very quickly. This contrasts 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.¹²⁸⁹ Small firms require only small start-up costs and adjust more flexible to changed market situations. This situation also produces a highly competitive market environment – if one firm collapses, new ones fill the gap quickly. In addition, the risk of so-called “ad-hoc taxation”¹²⁹⁰ is minimized (see chapter 8). However, “[d]espite official figures showing that small and medium sized firms employed 75 percent of China’s workers and produced 68 percent of the gross industrial product in 2008, private firms have been virtually excluded from direct support in the form of preferential access to low interest loans. Though private firms sought economic stimulus money, state-owned banks routinely rejected loan applications submitted by private firms. Instead the massive economic stimulus has provided a huge subsidy to local governments and large state-owned enterprises and public corporations”.¹²⁹¹

Guanxi now helped to solve the problem of distribution of scarce goods and bridge the weaknesses of instable dysfunctional institutions. The market economy evolved from a

¹²⁸⁶ Greenhalgh, 1990, p. 90.

¹²⁸⁷ Fukuyama, 1995, p. 90ff.

¹²⁸⁸ Hamilton; Zeile and Kim, 1990, p. 125.

¹²⁸⁹ Yang, 2002, p. 469ff.

¹²⁹⁰ Krug and Mehta, 2004, p. 55.

¹²⁹¹ Nee and Opper, 2010, p. 7.

vehicle to ease consumption of every day goods to a means to access a more restricted area.¹²⁹²

Kinship networks not only serve as shelter to protect private property, but through that also increase security and reduce transaction costs, additionally providing information on supplies or business opportunities. All in all, networks “lower entry barriers and raise the survival and success rates of private entrepreneurs”.¹²⁹³

At the beginning of the transition to a market economy in China, due to the yet lacking legal and institutional environment, entrepreneurs overcame those obstacles in establishing good relations with local cadres. They founded ‘red hat enterprises’, which means nothing else than to be registered as collective (hence wearing red caps, *dai hong maozi*) but being privately-run in reality. These collective enterprises, in the beginning often in form of cooperative shareholdings (*gǔfēn hézuò*, 股份合作) contained the advantages of collective ownership, such as easier access to bank loans and reduced tax rates, but at the same time allowed the entrepreneur to have control over the firm’s assets but “no guarantees of their rights as owners”.¹²⁹⁴ Still, these firms were highly dependent on the tolerance of the local government, had to share their profits with them or were else at risk that local authorities break their promise to protect the private property. The existence of red hat enterprises shows the mistrust of entrepreneurs in more formal arrangements and official government protection. At the same time, dense networks serve protective powers if cadres become too greedy and predatory.¹²⁹⁵ Having to maintain strong ties to local officials can be interpreted “as evidence of poorly enforced legal property rights and an obstacle to the formation of a more complete market economy”, which is the view mostly found in mainstream economics approaches.¹²⁹⁶ Opposed to that David L. Wank understands this as “reasonably coherent strategies of entrepreneurs designed to produce stable expectations”.¹²⁹⁷ These networks actually seem to turn out as the most efficient and rational institutions able to deal with the specificities found in China.

Efficiency when applied to Guanxi thus has a broader meaning. It is less rationalistic and “extends beyond a strictly economic consideration”.¹²⁹⁸ This promotes "organizationally diffuse" groups of collaborating firms “connected by particularistic ties of kinship"

¹²⁹² Baek, 2000, p. 63, Gold, 1985, p. 662.

¹²⁹³ Yang, 2002, p. 466ff., Peng, 2004, p. 1059.

¹²⁹⁴ Whiting, 2001, p. 121f., 145, 162.

¹²⁹⁵ Zhu, 2007, p. 1510f. and Peng, 2004, p. 1057f. See also chapter 8.

¹²⁹⁶ Wank, 1999, p. 248.

¹²⁹⁷ Wank, 1999, p. 249.

¹²⁹⁸ Kiong and Kee, 1998, p. 93.

and gives more security to the entrepreneur to reinvest.¹²⁹⁹ The reciprocal and mutual supporting relations of the co-operating businesses allow resorting to “considerable economies of scale, and the networks of both large and small firms can be extended”.¹³⁰⁰

This mode of production prevents the drain of capital and enables (but also forces) the entrepreneur to be extremely flexible. As supplies cannot always be secured on usual ways (meaning, without personal connections) this adds to the importance of investing in as many different products as possible to achieve the maximum profit. To achieve this, not only a certain organization of the enterprise is necessary, but even more so personal connections. As a consequence, the notion of core competence, one of the most important features of the Western understanding of conducting business is not really applicable to many privately-owned firms as it is not a relevant factor when considering further investments.

This again reinforced the strengths of personal ties which not only are needed but are also the most helpful tool in such an economic environment.¹³⁰¹ Having no formalized bureaucratic system, these firms connected over networks are highly flexible, low-cost producers. More than that, they thrive in a market that requires fast reactions to changes in demand. Additionally, the emergence of niche markets and the need of flexible specialization favored the small-sized Chinese family enterprises. Multinational corporations increasingly subcontracted to small and medium enterprises, therefore Chinese firms could gain market shares for low-end, labor-intensive products, trading across borders with the help of networks.¹³⁰² Instead of ‘putting all eggs in one basket’, Chinese entrepreneurs invest in diverse branches and products, thus, in economically difficult times they can move resources to activities and locations promising the most profit, being able to leverage gains and losses, thereby also discovering new markets and investments.¹³⁰³

All in all, Guanxi “is a connection between people, not firms. Even if an individual is running a number of separate companies, the counter-party considers itself as still trading with the same entity, the person with whom he has Guanxi. He could not have different relationships with each company”.¹³⁰⁴

As can be seen, this is almost the complete opposite to the Western notion of doing business. Even considered the relatively large amount of transaction or sunk costs does not prevent this system to be extremely successful. Also, “entrepreneurs [...] concentrate their

¹²⁹⁹ Wank, 1999, p. 267.

¹³⁰⁰ McNally, 2006, p. 41.

¹³⁰¹ Cf. Jinchuan, 2004, p. 51ff.

¹³⁰² Lever-Tracy, 2002, p. 512.

¹³⁰³ Lever-Tracy, 2002, p. 519.

¹³⁰⁴ So and Walker, 2006, p. 7.

investment on transferable assets. And the single most transferable asset which entrepreneurs have is themselves and their social capital in the form of the ability to mobilize allegiances". These assets cannot be confiscated by local cadres and can be applied to as many different business opportunities as necessary to be successful. "It is the ability of the entrepreneur to form alliances, and the subsequent rents from co-operation, which are crucial to the establishment and on-going profitability of firms".¹³⁰⁵

Useful in times of prosperity and growth, the flexibility to move quickly from one sector or location to another derived from the small units of production turns out to be also a valuable asset during economic crises. Having relations to people with command over financial assets or supplies and distribution possibilities saves not only 'transaction costs' but can secure survival in economically difficult times. As Barbara Krug writes, there are four aspects networks provide: first, facilitating access to insider information; second, social and political sanctioning to make up for a missing or inadequate legal system, thereby providing contractual security; third, ensuring "that an entrepreneur can fail once yet return for a second attempt, but also forming a buffer against failure in the first instance"; fourth, acting "as a form of collective memory, ensuring that a single failure need not be constituted simply as one individual's loss of investment but as an experience which others can learn from".¹³⁰⁶

Also, concluding transactions is more flexible when done with the help of Guanxi. It is more flexible than contracts because when doing business with people in one's network it is easier to find compromises or giving new chances, especially if otherwise one of the business partners would have to default. "When there are problems, we can always talk it through. With Europeans, it's quite different. We work with many multinational companies... They are not flexible. They won't compromise and let you go [if you need to make adjustments]. They don't share our mutual understanding. The Europeans go according to the books and rules".¹³⁰⁷

In other words, "risks are borne by the individuals and not absorbed by an external agency like a bank; neither is the contract between them bound by an external body, as in a legal institution".¹³⁰⁸ Still, the advantages of Guanxi in contrast to formal contracts, which

¹³⁰⁵ Krug and Mehta, 2004, p. 59.

¹³⁰⁶ Krug and Mehta, 2004, p. 60f.

¹³⁰⁷ Kiong and Kee, 1998, p. 82+86.

¹³⁰⁸ Kiong and Kee, 1998, p. 88.

in the West are considered as mandatory prerequisites for doing business because only those that can be enforced through law, are not recognized by “the West”.¹³⁰⁹

Large networks help small enterprises to get access to more resources, even in unstable political and economic surroundings, therefore supporting their flexibility and the ability to adapt.¹³¹⁰ Having Guanxi to people with command over financial assets or supplies and distribution possibilities saves not only ‘transaction costs’ but can secure survival in economically difficult times. It is 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, raise its profit and build up good connections to officials. Networks are seen as long-term strategic alliances to access information and resources over indefinite periods of time. It is therefore within the logic of this system that contracts are of less use as they are based on a “discrete transaction paradigm, which has a clear beginning when an agreement is finalized and a clear ending by performance”. Also, the identities of the transacting parties are of no relevance within this paradigm.¹³¹¹ Entrepreneurs “pay more attention to the cultivation of friendship rather than simply maximizing their profit”.¹³¹²

By and large, personal connections build on trust proved to be essential for doing business in China during economic reforms.¹³¹³ 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”.¹³¹⁴ It mobilizes cultural values such as obligation and reciprocity to pursue “both diffuse social ends and calculated instrumental ends”, substituting for the not yet existing and complementing already existing market mechanisms.¹³¹⁵ Entrepreneurs outside the state sector developed informal economic institutions that “enabled them to compete and cooperate in spite of disadvantageous or simply absent formal rules” in the decentralized markets of a newly established private sector.¹³¹⁶ This mode of production is particularly efficient in labor-intensive, quickly-changing and segmented markets such as those for textiles or the toys industries. Chinese family firms are successful because of their flexibility and ability to decide quickly. They operate less successfully in capital-

¹³⁰⁹ So and Walker, 2006, p. 17.

¹³¹⁰ Fukuyama, 1995, p. 70ff.

¹³¹¹ Lovett; Simmons and Kali, 1999, p. 236.

¹³¹² Li and Li, 2007, p. 45.

¹³¹³ Hamilton; Zeile and Kim, 1990, p. 108.

¹³¹⁴ Smart, 1993, p. 398.

¹³¹⁵ Yang, 1994, p. 35.

¹³¹⁶ Nee and Opper, 2010, p. 8f.

intensive sectors where, due to complex production processes, profits can only be made when a certain volume of production is reached.¹³¹⁷

7.1.2. Types of Chinese enterprises

7.1.2.1. Public sector

The public sector consists of collective as well as state-owned enterprises (SOEs). The difference, traditionally, was that the state sector is the planned and the collective is the unplanned part of the state economy with workers or a locality owning the company.¹³¹⁸ Especially SOEs can be of various sizes and in the course of reforms smaller SOEs were privatized under the slogan “grasp the big, release the small” (*zhuada fangxiao*).¹³¹⁹

In the collective sector, which is comprised of collectively-owned enterprises (COE) as some authors call it, a huge variety of different property rights structures can be found, namely township- (*xiāngban*), village- (*cūnban*) and team-run (*duìban*) enterprises that are owned by townships or villages, respectively. Another type of collective firm is the domestic state-collective joint venture (*liányíng qǐyè*). In Huang’s terms it is translated as ‘alliance enterprise’, *liányíng* being “a 1980s euphemism referring to larger private-sector enterprises” that was replaced by the term *sīyíng qǐyè* later. *Liányíng qǐyè* are firms that are operated with the money of two or more peasant families.¹³²⁰ Also, there is a government-run variety of shareholding co-operatives (*gǔfèn hézuò qǐyè*), which is only existent since 1992, and individually contracted collectives (*gèrén chéngbǎo jíǐ qǐyè*). The assets of the latter are originally financed by the collective.

Susan Whiting reports that for example in Yueqing the majority of privately-owned firms was granted collectives licenses as shareholding co-operative enterprises and therefore also appeared as collective in statistics. However, in government-run shareholding co-operatives the majority of the shares were held by the township and the managers were appointed by the local government, which also intervenes if the firm runs into difficulties. A major objective for local officials to run enterprises with this kind of ownership form was the possibility to acquire shares in the more successful enterprises.¹³²¹

One major type of collective enterprises are the so-called Township and Village enterprises (TVEs). TVEs have a somewhat complex structure, but often are also misinterpreted

¹³¹⁷ Fukuyama, 1995, p. 104ff.

¹³¹⁸ Goodman, 2007, p. 181.

¹³¹⁹ Dickson, 2007, p. 835.

¹³²⁰ Huang, 2008, p. 74f.

¹³²¹ Whiting, 2001, p. 35f., 159, 223.

in the literature as being mostly collective, overseeing the large fraction of private ownership among them. However, Huang traces this back to a different understanding of what a TVE is in its English and Chinese usage.¹³²²

The term TVE first appeared in 1984 to replace the ‘commune and brigade enterprise’. Already the terminology proves to be complicated as there are actually two Chinese terms that are both expressed as TVE in English. One is *xiāngzhen qǐyè*, meaning rural and urban enterprises, which includes also rural private enterprises. The second term, *xiāngcūn qǐyè*, means township and village enterprises, which refers to collective TVEs only. The English term TVE is actually a subset of *xiāngzhen qǐyè*. Huang claims that most Western economists assume that collective TVEs represent the entire TVE sector; however it subsumes also private businesses.¹³²³ In literature on the topic written in German, this confusion seems to be less widespread. Huang also maintains that these private TVEs are not to be confused with so-called ‘red hat’ enterprises, which are typically larger-scale private enterprises that are falsely registered as collective. Private TVEs in contrast are fully private with their ownership officially known. However, both types are included in official Chinese statistical data as TVE. In its Chinese usage, TVE is a locational concept, rather than a concept defining ownership.¹³²⁴ Naughton defines TVEs as having an “unusual ownership and corporate governance setup...Originating under the rural communes, most TVEs were collectively-owned”.¹³²⁵

Also in the interpretation of Markus Taube, TVEs are synonymously used for the rural productions sector that included collective and private rural enterprises, with the private forms dominating.¹³²⁶ Especially the latter were during the 1980s formally legitimated and were regarded as useful complementation of the state and collective enterprises. However, property rights structures remained intransparent and unspecific. In contrast to Huang, Taube claims that many private TVEs were actually ‘red-hat’ enterprises and registered as collective TVE as also for private TVEs access to markets, resources and loans was restricted.¹³²⁷

Naughton attributes the rapid growth of TVEs between 1978 and the 1990s to a mixture of favorable factors, namely that TVEs “faced factor prices ratios that reflected China’s true factor endowment”. Worker’s wages were less than 60 percent of works in SOEs and

¹³²² Nee and Su, 1996, p. 124-127, Huang, 2008, p. 74-76.

¹³²³ Huang, 2008, p. 74, 106. He quotes Barry Naughton as example but on p. 281 of the same book Naughton actually states that many TVEs were de facto private firms. Naughton, 2007, p. 281.

¹³²⁴ Huang, 2008, p. 75.

¹³²⁵ Naughton, 2007, p. 271.

¹³²⁶ Taube, 2007a.

¹³²⁷ Taube, 2007a, p. 154-159.

as TVEs usually did not have access to subsidized loans. Thus, they were most successful in sector with a low capital-labor ratios because then the advantage of low wages were the biggest. Also, TVEs “were able to share in the monopoly rents created for state firms” which means that rural industries were extremely profitable – on average, the rate of profit on capital was 32 percent, but declined over time. Naughton argues that the success of this type of firm can be traced back to the existence of empty niches in combination with the ‘first-mover-advantage’ of TVEs that were the first to be allowed to enter previously protected markets. Competition between TVEs gradually drove profits down. The third reason for Naughton is the institutional framework of TVEs. Specifically, he refers to the partnership with local governments that depending on locations were highly motivated to promote economic growth. Also, formal taxes were low and local governments also facilitated access to bank loans. TVEs were also geographically concentrated in coastal areas which gave them a spatial advantage also by their closeness to urban areas. As last advantage Naughton lists the organizational diversity of TVEs that resulted in their flexibility to adapt to various opportunities and environments.¹³²⁸

However, the official legal sanctioning of the TVE sector in 1997 came at a time when de facto many TVEs transformed into private enterprises because the political climate was favorable towards the private sector.¹³²⁹ By 2004, over 90 percent of all TVEs were privately owned; with the privatization being more formal than real in nature as many TVEs had been ‘red hat’ enterprises and thus already been privately-owned.¹³³⁰

In the public sector also falls a variety of hybrid forms of ownership and what David Goodman calls ‘new public sector’ that is open to market dynamics but also public equity. Ownership is “more usually mixed than the official categories of the economy into state, collective, private and foreign-funded”.¹³³¹ He identifies four different types of enterprises comprising this hybrid sector. He lists the “urban enterprise” that includes collective and share-based companies that were established by SOEs and pre-reform-type urban collective; “rural enterprises” that include collectives and stock companies established by villages or townships; “wholly or partly foreign-funded enterprises” which are often former private or state-run enterprises that have been transformed into larger firms by FDI and “public sector private enterprises” that are private enterprises that became collectives by cooperation with local governments or share-based public companies with the original indi-

¹³²⁸ Naughton, 2007, p. 271-293, similar analyses also in Hui, 1999, p. 31-37, Riskin, 1987, p. 299, Oi, 1999 and Hu, 2007.

¹³²⁹ Taube, 2007a, p. 154-159.

¹³³⁰ Dickson, 2007, p. 835.

¹³³¹ Goodman, 2007, p. 181.

vidual entrepreneur staying the head of the company.¹³³² Additionally, the Chinese Company Law defines limited liability companies as a legitimate company type. This type of enterprise needs a minimum of capital of 30,000 Yuan in either cash, industrial property or land use rights, with less than 50 shareholders. Another recognized company type is the ‘company limited by shares’ which requires a minimum share capital of 5 million Yuan. It is established by share offer but needs the approval of Chinese securities regulators.

Foreign investors can set up various forms of joint ventures. The most common form is the equity joint venture. It is a limited liability company with the joint venture parties taking responsibility for losses and profits according to the ratio of their equity stake. They are also part of the hybrid sector mentioned by Goodman.¹³³³

In sum, the non-state sector is a mixture of the most variant forms of ownership and financial structures and it differs a lot from official recordings. It also is very different spatially, so that different sets of enterprise forms exist in different localities, depending on the local institutional setting and preconditions. However, in general it seems safe to say that it is - at least in the case of actual collective and state-owned enterprises - a far less dynamic sector and less influential on the development of the Chinese economy than the private sector.

7.1.2.2. Private sector

The private sector is also defined as the non-state (opposed to ‘state’) sector. The private sector consists mainly of two types of private enterprises, namely the *sīyíng qǐyè*, which is the official Chinese term for private enterprise. It stands for enterprises with at least 90 percent privately owned assets employing more than eight people. It also is the private variant of the shareholding co-operative. The number of employees distinguishes it from the smaller *getihu* (*geti gongshanghu*) of the so-called self-employed entrepreneur who employs less than eight workers. The *getihu* is not considered a formal enterprise legally.¹³³⁴ This form of enterprise is also called household enterprise or even specialized household as they are typically family businesses that only employ (extended) family

¹³³² David Goodman: “The emerging public sector in Shanxi: Entrepreneurs and enterprise as risk under reform”. Paper prepared for UNSW-UTS Centre for Research on Provincial China, Taiyuan, October 2000, pp. 7-11 as quoted in Holbig, 2002, p. 37.

¹³³³ ten Brink, 2010, p. 21.

¹³³⁴ Holbig, 2002, p. 32f. The ideological rationale behind the eight employee limit comes from Marx’ Kapital. Marx stated that capitalist with more than eight workers are exploitative and surplus accumulating, but the other merely household production units. Tsai, 2006b, p. 128.

members.¹³³⁵ Also, there are the privately-run shareholding companies, so-called individually contracted (fake) collectives (*jia jítǐ*) which are financed by private individuals. Also Chinese-foreign joint ventures can be private, but often are also seen as rather hybrid ownership form.¹³³⁶

In Wenzhou, the *jia jítǐ* were granted collective tax rates and the same eligibility for bank loans as collectives. However, they also were operated by private investors that had no restrictions on the number of employees but had certain guidelines for the distribution of after-tax profits. This arrangement was accepted locally, but contested already on the provincial level. It led to a nation-wide discussion on the status of this form of enterprise and in the end to a legitimization of it. “In reality, there was little difference in the day-to-day management and operation of private firms before and after the transition to the shareholding cooperative form”. As will be outlined in more depth below, this demonstrates the role model function of Wenzhou for the rest of the Chinese private economy.¹³³⁷ The implications of running a private enterprise compared to collective enterprises will also analyzed in chapter 8. However, the case of Wenzhou is a particularly illuminating example of the development and difficulties of the private sector in China and will be discussed in depth below.

The methods of tax extraction employed by local governments are a major incentive to register as either private or collective firm. Depending on the ownership structure, these varied widely within and between localities (see also chapter 8).¹³³⁸ However, “[i]f one were to examine the organization of the textile industry...in China in the past decade..., it would be apparent that the economic organization in all of these sectors share organizational features of putting-out systems of productions that existed a century earlier.[...] Like a century ago, the production networks shaped by these big buyers [Walmart, Home Depot, Nike...] emphasize piecework (called batch-production system) and flexible work routines. These factors give advantages to factories with low overhead (such as small and medium-sized family-owned firms) and to flexibility in organizing production networks that can expand or contract with changing demand. The technology used in such factories must necessarily match the manufacturing jobs being done and the resources available to those

¹³³⁵ Nee and Sijin, 1990, p. 10.

¹³³⁶ Heberer, 2007, p. 20, Whiting, 2001, p. 36, 261.

¹³³⁷ Whiting, 2001, p. 159-163. Local entrepreneurs wanted their private firms to be considered as collective in nature (because this was considered as more secure). However, it also meant that local officials have control over the firm’s assets. Wenzhou’s party secretary stated: “A collective enterprise is too public; a private enterprise is too private – if too public, one fears domination; if too private, one fears having one’s ‘capitalist tail’ cut off. Shareholding cooperatives are both public and private combined and are the most appealing”.

¹³³⁸ Whiting, 2001, p. 212.

running the businesses. Inevitably, the technology used in such circumstances is simpler and less costly than that deployed in larger vertically integrated factories”.¹³³⁹

7.1.3. The Chinese private sector: definition and some data

*“Defining China’s private sector is fiendishly difficult”.*¹³⁴⁰

As already indicated in chapter 5, the Chinese data collection is far from being transparent. The same goes for a definition of the private sector and the question, which firms and ownership structures are defined to be included. Measures like ‘red hat’ entrepreneurs or nebulous ownership arrangements like in the TVEs make that a difficult task. Traditionally, Chinese statistics differentiate four ownership structures: state-owned, collective, private and foreign-funded. Among those, the ‘private’ category was always the most difficult to define. Even the terminology is complicated: the Chinese term for private sector, *sīyíng jīngjì*, is more commonly used in the eastern provinces (literally it means privately operated economy), whereas in less developed provinces, the term *mínyíng jīngjì* is preferred to avoid capitalist connotations with the word *sī* (meaning private). Even more sensitive is the expression non-state sector (or non publicly-owned economy: *fēi gōngyǒuzhì jīngjì*). It comprises all ownership forms that are not state-owned, including *sīyíng qǐyè* and *getihu*, but also foreign-invested enterprises and other very diverse ownership forms such as shareholding companies and so-called ‘red hat’ enterprises, i.e. nominally collective, but actually private enterprises. This variety of enterprise types, that includes hybrid forms of ownership structure, makes this term statistically less transparent.¹³⁴¹ Moreover, as already mentioned before, David Goodman finds that an entire new sector developed between state and privately-owned firms. He subsumes all hybrid forms of ownership in a hybrid sector he calls the ‘new public sector’. He even claims that entrepreneurs engaging in this sector are the more successful ones, which makes the notion of the dynamic private versus the inert state sector difficult to uphold.¹³⁴² A more recent terminology is to distinguish between SMEs (*zhong xiao qǐyè*, reportedly 80 to 90 percent of Chinese enterprises) and large enterprises (most of which are SOEs), which also does not reveal much about the

¹³³⁹ Hamilton and Chang, 2003, p. 204.

¹³⁴⁰ Huang, 2008, p. 13.

¹³⁴¹ Holbig, 2002, p. 32.

¹³⁴² David Goodman: “The emerging public sector in Shanxi: Entrepreneurs and enterprise as risk under reform”. Paper prepared for UNSW-UTS Centre for Research on Provincial China, Taiyuan, October 2000, pp. 7-11 as quoted in Holbig, 2002, p. 37f. See also chapter 8.2.

ownership.¹³⁴³ Since 1988, when the first amendment of the constitution and a corresponding law on the regulation of private enterprises were enacted, the official Chinese term for private enterprise is *sīyíng qǐyè*. It stands for enterprises with at least 90 percent privately owned assets employing more than eight people. The latter criterion distinguishes it from the smaller *getihu* (*geti gongshanghu*), which is the so-called self-employed entrepreneur who employs less than eight workers and is not considered a formal enterprise legally. Together, these two forms form the private sector as such, which is said to produce 20 percent of China's GDP in 2001, following data obtained from Heike Holbig.¹³⁴⁴ Data of the NBS on the private sector has the additional caveat that it is biased towards larger firms and only includes those with a sales volume over five million Yuan. Hence, an OECD study of 2005 using this data comes to the conclusion that the private economy accounted for 52.3 percent of industrial value-added in 2003, compared with 27.9 percent in 1998.¹³⁴⁵ However, in contrast to the categorization used by the NBS that defines ownership by their registration status, the OECD uses a conventional definition of firm ownership, taken from contemporary theories of the firm, namely that "ownership should be defined in terms of what shareholder controls the 'residual rights' of the firm, in the sense of who dictates unforeseen contingencies".¹³⁴⁶ Thus, they separate firms by the type of controlling shareholder. With this method they seek to overcome the usual difficulties with defining the private sector. Share capital greater than 50 percent determines which kind of firm it is: state, collective or private. They also find that "[t]he growth of the private sector has not been even across the country. An overwhelming share of private industrial output is produced in the eastern coastal region (Zhejiang, Guangdong and Jiangsu provinces), that has been at the forefront of all types of reforms. In this region the share of industrial value added from the private sector is 63 percent against only 32 percent in other regions. These other regions are about five years behind in the development of the private sector. However, the central, western, and north-eastern regions' private sectors have been growing faster than the coastal areas' over the five years to 2003, suggesting that catch-up is underway".¹³⁴⁷ By 2007, the value-added of the eastern coastal provinces had increased to 80 percent; it had also increased to almost 50 percent in the rest of country, except in the underdeveloped western provinces (and Heilongjiang in the Northeast). This is evidence of the growing

¹³⁴³ Holbig, 2002, p. 34f.

¹³⁴⁴ Holbig, 2002, p. 32f., Nee and Opper, 2010, p. 6.

¹³⁴⁵ Huang, 2008, p. 14f., Dougherty and Herd, 2005.

¹³⁴⁶ Dougherty and Herd, 2005, p. 8.

¹³⁴⁷ Dougherty and Herd, 2005, p. 8f.

convergence within the country – at least when the poorer Western provinces are excluded.¹³⁴⁸

Huang uses the same methodology than the OECD Economic Survey but comes to a far lesser percentage, namely 22 percent of industrial value-added in 2005. Throughout his book he bases his arguments on the relatively small size of private sector. His measures are so significantly smaller because he defines a certain type of ownership as collective, not private, namely the legal-person shareholding firms because he argues that these are owned by firms via cross-shareholding, which means that they are merely subsidiaries of SOEs.¹³⁴⁹ However, the “hallmarks of a market economy is the role and magnitude of the private sector...there is no straightforward answer to this seemingly direct question about the size of the Chinese private sector...deliberately vague ownership structures”.¹³⁵⁰

According to an article of BusinessWeek of 2005, the private sector already reached a share of 70 percent of the private sector in GDP.¹³⁵¹ The article does not give a source for this estimate, but it is commonly found in more recent articles on the private sector, probably extrapolating the share of Eastern provinces to the entire country. According to the OECD Economic survey of 2005, the “private sector was responsible for as much as 57 percent of the value-added produced by the non-farm business sector in 2003”. This report also regards the private sector as the driving force of development and economic growth.¹³⁵² A ADB report of 2007 finds that “[t]he PRC’s private sector now accounts for more than 40 percent of GDP, 60 percent of growth, and 75 percent of the new jobs being generated”.¹³⁵³

However, this data is difficult to verify as in official statistics small private enterprises are not registered and many private enterprises are still registered as collectives to escape predatory taxes and fees (see also chapter 8). If the *fēi gōngyǒuzhì jīngjì* was reported, it already in 1996 had a share of 31 percent of industrial output value and 53 percent of consumer goods retail sales and were growing ever since.¹³⁵⁴ In terms of absolute numbers there were 1.76 million *sīyíng qǐyè* registered in 2000 and 2.03 million in the end of 2001, employing 24.06 persons. The number of *getihu* has during that period of time officially decreased from 25.71 million at the end of 2000 to 24.23 million at the end of 2001 (from a peak of 31 million in 1999). Heike Holbig traces that back to a technical change in statis-

¹³⁴⁸ OECD, 2010, p. 106f.

¹³⁴⁹ Huang, 2008, p. 16ff.

¹³⁵⁰ Huang, 2008, p. 8.

¹³⁵¹ Gang, 2005, accessed 25 November 2010.

¹³⁵² OECD, 2005, accessed 25 November 2010

¹³⁵³ Asian Development Bank, 2007, p. 48 and similar Dougherty and Herd, 2005.

¹³⁵⁴ Holbig, 2002, p. 35.

tical recording and an overall confusion on how to count that category correctly.¹³⁵⁵ The private sector with both forms of private enterprises together employed 82.63 million people at the end of 1999 and only 74.77 a year later, due to the decrease of registered *getihu*. Another unofficial data source estimated 130 million employees in the private sector for 2000 and the China Daily cites a study that by 2005 29.3 million private businesses (*getihu* and *sīyíng qǐyè* together) employ over 200 million people and are accounting for 49.7 percent of GDP.¹³⁵⁶ However, nobody knows for sure how many people are actually working in the private sector.

This is even more the case when alternative definitions of the private sector are considered. As Heike Holbig states “[t]he more ideologically correct a term is, the more statistically vague it becomes”.¹³⁵⁷ As will be discussed in more depth in chapter 8, but has already been indicated above, the ambiguity of classification of enterprises was useful for private entrepreneurs who used it as strategy to escape regulatory restrictions and discrimination by the local governments. The most common strategies are wearing a red hat, which means that firms often were registered as collective, for example a TVE, but actually being privately owned (often known and tolerated by local officials). Another method is the leasing of collective firms for private operation and co-investing in state and collective firms. The latter serves the creation of larger mixed-ownership companies. They were mostly joint-stock or shareholding companies that enabled entrepreneurs to give shares to local officials, which ensured their co-operation and support. Yet another strategy was the so-called ‘round-tripping’ of domestic capital: the re-investment of capital through offshore companies (or sometimes relatives). This was advantageous as foreign capital was offered tax breaks and other favorable policies (this measure becoming more difficult with the admission of China to the WTO).¹³⁵⁸

As recent as in 2005, the private sector still consisted mostly of SMEs with fewer than 1000 employees (in fact, 81 percent of firms that size are privately owned, but only 36 percent with more than 1000 employees).¹³⁵⁹ However, the private sector still grows very fast and thus the share of employment, fixed assets and value added of SOEs further decreased. However, in 2007, SOEs accounted for only six percent of firms but still produced “31 percent of the value added in the industrial sector, employed 22 percent of the workforce and controlled 47 percent of the stock of fixed assets, suggesting that SOEs tend to be rela-

¹³⁵⁵ Holbig, 2002, p. 32f.

¹³⁵⁶ Tsai, 2006b, p. 117.

¹³⁵⁷ Holbig, 2002, p. 34

¹³⁵⁸ Holbig, 2002, p. 36.

¹³⁵⁹ Dougherty and Herd, 2005, p. 9.

tively large and capital intensive”.¹³⁶⁰ Today, capital intensity in the SOEs compared to the private sector is four times higher than in the late 1990s. Together with the larger decline of employment in the state sector, labor productivity growth is much faster (5.6 per year from 1999 to 2007) with the result that labor productivity in the state sector is now higher than in the private sector. However, other indicators of productivity show that overall productivity is higher in private firms.¹³⁶¹

7.2. Case Study: Wenzhou

7.2.1. A short summary on Wenzhou’s location and history

“Moonlight reaches the waterfront pavilion first”.

近水楼台先得月。¹³⁶²

Wenzhou is located in Zhejiang province, almost at the midpoint of China’s eastern coast. It is situated on the south bank of the Ou River, about 30 km from its mouth. The Ou long provided the main transport route for this south-eastern section of Zhejiang as 78 per cent of the territory is mountainous, isolating the municipality from the rest of Chinese mainland. Wenzhou consists today of an urbanized area (488 square kilometers, four per cent of the municipalities 11500 square kilometers) and a large rural region, divided into eight counties.

In 999, the Song dynasty sanctioned Wenzhou to be a foreign-trade port and the Wenzhou people became very skilled in long-distance trade (but also smuggling). Rural household industries thrived and local markets were developed. At that time it had a flourishing shipbuilding industry, and its papermaking and lacquerware craft were well known. Many people migrated out of Wenzhou. After several closings, the Wenzhou's port was again opened to foreign trade as a treaty port in 1876, and for a while there was a considerable tea trade; however, the port never played a large part in China's foreign trade, and there was no foreign settlement. Wenzhou's trade flourished again during the early part of the Sino-Japanese War, as from 1937 to 1942 it was one of the few ports left in Chinese hands; trade subsequently declined toward the end of the war, however. The Mao administration invested little in Wenzhou’s economic development. Not until 1955 was sea transport along the Zhejiang coast fully restored, after which Wenzhou rapidly recovered.

¹³⁶⁰ OECD, 2010, p. 106.

¹³⁶¹ OECD, 2010, p. 110.

¹³⁶² Whiting, 2001, p. 215, fn. 83.

The Wenzhou people never totally abandoned their way of specialized production and long-distance trade under Mao's rule. Its citizens started their own household businesses and workshops in the early 1970s, and their efforts redoubled later in the decade as China officially began to liberalize economic policy and to move toward more of a market system. By the end of Mao's era, rural Wenzhou had, by and large, gone back to pre-communist practices. This became known as the *Wenzhou model*; there are now tens of thousands of Wenzhou merchants doing business around the country and abroad.

In 1984 Wenzhou was designated one of China's "open" cities in the new policy of inviting foreign investment, and there was considerable economic growth. Local products now include ceramics, machinery, chemicals, electronics, processed foods, and wearing apparel; shipbuilding is also important. The total product of society (sum of gross output value of industry, agriculture and commerce) increased from three billion Yuan in 1980 to 13 billion in 1988. From 1978 to 1989, the industrial output rose from 1 to 8.9 billion Yuan. The average income of Wenzhou peasants, which before 1980 was among the lowest in China, was 50 percent above the national average in 1989 (924 compared to 601 Yuan).

The region's transportation infrastructure has been greatly improved. A branch rail line, completed in the late 1990s, links the city with the Zhejiang-Jiangxi trunk line at Jinhua. Expressways northeast to Ningbo and northwest to Jinhua opened for traffic in the early 21st century. Newer and larger port facilities also have been constructed, including docks near the mouth of the Ou River with berths capable of accommodating 10,000-ton ships. The city's airport, on the seacoast, provides scheduled flights to many cities in the country.¹³⁶³

7.2.2. Wenzhou's rise after 1978

Wenzhou¹³⁶⁴, the "quintessential capital of China's network Capitalism"¹³⁶⁵, was one of the first municipalities to heavily privatize and industrialize after 1978, after being impoverished and endowed with only few SOEs during the Mao era. However, it has a long tradition as a commercial city, a high population density, and a lack of arable land in the region, and thus has always attracted tradesman and merchants. The population of Wenzhou also resisted the collectivization during the 1950s and the collective sector remained weak throughout the communist era. In contrast, "private petty commerce and handicraft produc-

¹³⁶³ Encyclopædia Britannica, 2009, Liu, 1992a.

¹³⁶⁴ For more information on Wenzhou's location and history, see Liu, 1992a, as well as Whiting, 2001.

¹³⁶⁵ McNally, 2006, p. 42.

tion” prevailed underground “and were quick to emerge “above ground” in the more permissive atmosphere of the reform era”.¹³⁶⁶ The decision of the Chinese central government to give a high degree of autonomy to impoverished areas such as Wenzhou after 1978 contributed to this development. Peasants quickly established small family-run enterprises, thereby going back to pre-communist practices. Entrepreneurship has a long tradition in Wenzhou and together with the lack of state investment in communist times due to its proximity to Taiwan and weak government control due to Wenzhou's geographic isolation, this led to the creation of a “plethora of enterprises...coalescing into vast business networks”.¹³⁶⁷ This generated an economic growth that earned a nationwide reputation and was named *Wenzhou model*.¹³⁶⁸ Wenzhou is therefore a very revealing illustration for a Guanxi-based economy proper.

From 1980 to 1988, the growth of industrial output of Wenzhou increased from 1 to 41 percent and in 2002 was with 366.7 RMB (or 47.1 percent of total provincial output) higher than in most other provinces. From 2002 to 2007 the average yearly growth of GDP in Wenzhou was 13.8 percent. Its tax revenue put it among the top 5 percent of counties during the late 1980s and early 1990s.¹³⁶⁹ During the same time, the number of private firms increased from 28.430 to 50.317 and the individually-owned units from 202.458 to 559.400, not including the private firms disguised as collective enterprises. Major industrial products include: footwear, clothing, metal cigarette lighters, razors, locks and plastic products. Pens produced in Wenzhou are estimated to be 30 percent, footwear 20 percent of China's market.¹³⁷⁰ In addition, the media proudly claims, there are “about 500 factories that make almost two-thirds of the cigarette lighters on the planet”.¹³⁷¹

Reasons for the immediate success of Wenzhou's private sector was also that private rural households as primary productive unit produced goods that at the same time could be easily assembled and were commodities disregarded by the SOEs, such as plastic shoes and polyacrylic-fiber clothing. Those products could be manufactured in small-scale production and with simple labor-intensive technology, which required only small start-up capital and gave small profits but a quick turnover. Thus, Wenzhou firms used voids in the

¹³⁶⁶ Whiting, 2001, p. 31f.

¹³⁶⁷ McNally, 2006, p. 42, Herrmann-Pillath, 2002, p.161, 165.

¹³⁶⁸ Encyclopædia Britannica, 2009.

¹³⁶⁹ Whiting, 2001, p. 35.

¹³⁷⁰ Kanamori and Zhao, 2004, p.30f.

¹³⁷¹ Mavin, 2009.

Chinese economic structures, exploiting niches for selling these products, which was supported by "benign neglect" from the state.¹³⁷²

FDI has not been very important for Wenzhou because of the difficult transportation situation and firms being small in size in lower-end production.¹³⁷³ In contrast, entrepreneurs in Wenzhou reactivated commercial contacts and soon marketing agents and laborers spread all over the country, creating country-wide distribution and information networks and sending back remittances that helped to kick-start many private enterprises.¹³⁷⁴ These transnational networks stemmed from the old Wenzhou tradition of migration. Migrants thus served as important source of financing and creators of stable social networks over great distances. After 1978, "lively smuggling trade arose between Wenzhou and Taiwan fishermen...Wenzhou traders profited by marketing transistor radios and tape recorders produced in Taiwan in exchange for antiques and other valuables; [...] networks provided private resources of raw material outside plan channels. [...] Both local government official and private entrepreneur identified [smuggling] as one important early source of capital".¹³⁷⁵ These informal markets were complemented by private purchasing agents who organized scarce materials from state enterprises around the country.¹³⁷⁶ Moreover, networks on a local level enabled the cooperation between otherwise independent family enterprises, allowing for specialization and division of work and thus overcoming the limitations of a traditional family firm.¹³⁷⁷ As official loans were difficult to obtain, entrepreneurs relied on informal sources of finance and the result was "the rapid development of an underground financial market in which various forms of informal networks act as financial intermediaries...30 percent of all lending in 2003 was extended through such networks" (see also next section).¹³⁷⁸

Hence, the success of the *Wenzhou Model* can be attributed to the dynamics of private entrepreneurs and the distribution networks between producers and consumers.¹³⁷⁹ Private firms were able to flourish because of the "evolution of a symbiotic relationship between local officials and entrepreneurs. This created a "political subculture" and semi-formal collective institutions which took advantage of the gaps in the rapidly changing Chinese

¹³⁷² Zhu, 2007, p. 1512.

¹³⁷³ In 2004, it was only \$209 million. This is very low even compared to other cities in Zhejiang with Ningbo having \$2.1 billion and Hangzhou \$1.4 billion. Yehua; Li and Wang, 2007, p. 440.

¹³⁷⁴ Whiting, 2001, p. 35, 131.

¹³⁷⁵ Whiting, 2001, p. 131, fn. 14.

¹³⁷⁶ Peng, 2004, p. 1059 and Whiting, 2001, p. 140f.

¹³⁷⁷ Herrmann-Pillath, 2002, p. 166ff.

¹³⁷⁸ McNally, 2006, p. 34.

¹³⁷⁹ Hong Kong Trade Development Council, 2009, accessed 4 February 2009.

economy and society and lags in government control.¹³⁸⁰ However, this collaboration is part of an old tradition as well. Wenzhouese were known to be notoriously insubordinate: skilled in smuggling throughout their history and never willing to give up trade and household industries, even during communist times.¹³⁸¹ It is also said that the liberation by an independent local guerrilla force in 1949 created a structure of local cadres that are willing to protect local private initiatives against central government policies and discrimination. This pragmatism and the will to take risks enabled local deviation from state policies and made government control and also tax collection harder to realize. Apart from the fact that its geographical distance and thus its difficult accessibility added to the autonomy given to the private sector already, the cooperation with local authorities facilitated the rise of the private sector long before it was officially sanctioned. For example, as early as in 1986 the Wenzhou industrial and commercial bureau proposed the relaxation of policies toward the private sector, also including the limit of employees (until then a maximum of eight) allowed for individual enterprises.¹³⁸² Many of the laws concerning the private sector were also formulated with the Wenzhou model in mind. The passing of those laws was thus “a rather belated attempt to enshrine in statute practices which had been in operation for several years”.¹³⁸³ The predatory practices of local cadres described in the section above were met by giving many leading positions of the local government to natives. Hence, they were embedded into the social structure of Wenzhou through personal ties to family, friends and neighbors and were more likely to take local interests into account when implementing - or deviating from – state policies.¹³⁸⁴ Officials helped enterprises to obtain land and bank loans and reduced taxes and states fees for them.

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 labor-intensive industries with their low level of processing and low added value as it has been from its beginning in the 1970s.¹³⁸⁵ 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”.¹³⁸⁶ This obviously contradicts

¹³⁸⁰ Herrmann-Pillath, 2002, p. 168 and Liu, 1992a, p. 700ff.

¹³⁸¹ The contempt towards authorities was often also expressed with the common saying, “the mountains are high and the emperor is far away” (*shan gao huangdi yuan*, 山高皇帝远). Forster, 1990, p. 56.

¹³⁸² Whiting, 2001, p. 135.

¹³⁸³ Forster, 1990, p. 59.

¹³⁸⁴ Liu, 1992a, p. 294, 298ff. and Parris, 1993.

¹³⁸⁵ Jinchuan, 2004, p. 48.

¹³⁸⁶ Yang, 2000, p. 484.

Weber's prediction that industrialization and thus rationalization will supplant traditional feudal institutions to be successful.

Wenzhou is besides its impressive growth also known for its extravagant consumption and spending on weddings, funerals and similar occasions instead of reinvesting in their enterprises. Beside the fact that the shifting from investment to savings and consumption was a result of the high risk connected with investment over one million Yuan due to tax regulations and other legislation concerning the private sector. Entrepreneurs "preferred to dismiss workers while spending their money on extravagant homes or even ancestral tombs".¹³⁸⁷ Excessive consumption like that also displayed wealth and demonstrated the generosity towards their networks, earning prestige and 'face'. Especially local cadres who are rooted in local networks are expected to show their status by spending a lot at festive occasions in order to share and redistribute their wealth and to maintain their influence.¹³⁸⁸ 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 - they gain. This can also be a means to channel monetary means to protect them from being confiscated.¹³⁸⁹

Although Wenzhouese networks form an "untouched net" and thus impede the intrusion of people from outside Wenzhou and contacts to the "outside world", this is at the same time a protection in times of crises. They share the knowledge of the local business culture and of joint distribution and sale channels. These patterns had helped them to start privatization without the support and even against directives from the government, forcing them to invest in labor-intensive industries that only required little capital. They are able to quickly adapt products and designs and thus succeeded to become suppliers for major European brands.¹³⁹⁰

7.2.3. Wenzhou's performance since 2008

Since 1978, Wenzhou underwent several restructuring processes to be able to keep up its pace of growth and productivity. However, most enterprises are still family-controlled, small and low tech and are involved in a nexus of "local networks and gift culture".¹³⁹¹

¹³⁸⁷ China News Analysis 1989. *The privately run enterprises*, No 1382 (1 April 1989), p. 5, cited in Whiting, 2001, p. 148.

¹³⁸⁸ Yang, 2000, p. 476ff.

¹³⁸⁹ Parris, 1993, p. 259.

¹³⁹⁰ Zeng and Williamson, 2003, p. 98.

¹³⁹¹ Yehua; Li and Wang, 2007, p. 440.

Even though there were slowdowns in its development, the consistent growth of Wenzhou is often seen in its success to face economic challenges.

The global financial crisis of and since 2008 turned into a serious crisis for the Chinese real economy and specifically the export sector. The Chinese government reacted to that with implementing massive stimulus packages.¹³⁹² Thus, economic growth did only decrease from 9.6 percent in 2008 to 9.1 percent in 2009 (exceeding the goal of the Chinese government of eight percent) and (estimated) 10.2 percent in 2010, again declining in 2011 to 8.9 percent, reflecting the gradual impact of tightening economic policy.¹³⁹³ Still, this information visibly contrasts the fact that the growth rate of 2007 has been revised upward to 13 percent, from 11.9 percent previously. (In contrast, the world's GDP is assumed to grow 3.1 percent in 2010 and OECD 2.4 percent).¹³⁹⁴ After an average annual growth of 27 percent between 2003 and 2008, exports contracted by 9.1 percent in 2009, but are expected to recover to 15.1 percent in real terms in 2010 due to recovery of global demand.¹³⁹⁵

Credit quotas were widely used which disadvantaged small and medium-sized companies compared to SOEs. Small businesses were severely affected by the slowdown and approximately at least 20 percent went bankrupt, another 20 percent immensely affected by the lack of access to credit.¹³⁹⁶

To complement this data, a look into newspapers gives an impression on how the crisis impacts the Chinese economy and more specifically, the Wenzhou private sector. In Yin and Ng, 2008 the authors state:

“About 67,000 SMEs have gone belly up in the first half of this year alone, many located in southern China where many industries churned out goods for the US and the European Union. Many complain that they are starved of credit as even the cash-rich local banks turned cautious about lending”.

¹³⁹² Recently, these policies have been criticized as reinforcing the dominance of state-owned enterprises and as crowding out the private sector (China Stakes, 7 August 2009, accessed 8 June 2010, <http://www.chinastakes.com/2009/6/chinas-economy-in-turmoil-bubbles-in-a-downturn.html>). See also Schüller and Schüller-Zhou, 2009.

¹³⁹³ Economist Intelligence Unit, 2010a, p. 7f.

¹³⁹⁴ Economist Intelligence Unit, 2010a, p. 7.

¹³⁹⁵ Economist Intelligence Unit, 2010a, p. 18.

¹³⁹⁶ Economist Intelligence Unit, 2010b, p. 6ff.

The article also gives the example of Mingda Luggage, an SME based in Zhejiang province. Mingda produces Swiss Army knife bags, for example for Walmart and Kmart, with 80 per cent of its customers being from the US. Orders from the US started to decline in 2008, and instead of the planned increase of staff to 800, 200 were laid off. The owner was unable to get a loan from two local banks but had to sell a new factory building that he had built for 'a few tens of millions Yuan'.¹³⁹⁷ Other articles give similar information:

*“Feiyue Group used to be the sewing machine manufacturing leader in China, and the model of township-enterprise in Taizhou, Zhejiang province.[...]Feiyue's export value in the first quarter of this year was only \$18.48 million, down 44 percent over the same period last year[...]. The reduced loans to SMEs from banks have made the situation even worse: Feiyue had to turn to underground private lenders to maintain its cash flow, but the higher interest rates left Feiyue struggling to pay the debts. [...] In Wenzhou, China's largest manufacturer of small goods, about 20 percent the enterprises have stopped production”.*¹³⁹⁸

Well connected entrepreneurs turn to informal, underground private funding channels which will provide them with the necessary credits to bridge the time until the economy will recover. Especially small enterprises have strong difficulties in receiving loans over official sources which in a crisis situation is a particularly severe disadvantage.

*“According to an investigation by the SME bureau of Zhejiang province, during the first quarter of this year, new loans from four State-owned banks, namely the Industrial and Commercial Bank of China (ICBC), the Agricultural Bank of China, Bank of China, and the China Construction Bank, were reduced by 25 percent compared to the same period last year. During the same period, the ICBC alone reduced loans to SMEs by 87.5 percent, down from 9.8 billion Yuan last year to 1.3 billion this year”.*¹³⁹⁹

¹³⁹⁷ Yin and Ng, 2008.

¹³⁹⁸ Business Daily Update, 2008, similar example Zhang, 2008: "In Zhejiang province, Wenzhou is the bank." [...] "A prominent politician of one city in Zhejiang [...] stressed that there was no way they could clamp down because businesses had to survive and that locals had to remain employed".

¹³⁹⁹ Business Daily Update, 2008.

Still, Wenzhou recovered much faster than other regions in China: “In the first half [of 2008], Zhejiang's economy expanded 11.4 percent from a year earlier, much higher than the nation's average of 10.5 percent”.¹⁴⁰⁰

One reason might be the routine of ex-post sanctioning of practices already in use: “What's more encouraging for Zhejiang Province is that the CBRC [China Banking Regulatory Commission] is considering legitimizing its underground private lending, and setting up a limited amount of micro-credit companies to connect private capital with SMEs”.¹⁴⁰¹

“In Wenzhou, where some of the country's biggest underground lenders operate, a similar trend is being seen. Zhou Dewen, chairman of the Wenzhou SME Development Promotion Federation, estimates that 5 billion Yuan entered the underground system as investors divested plants, property and other projects recently, making about 25 billion Yuan available for loans to small and medium-sized enterprises.

*Though yet to be legitimized, underground lenders have become more integral to the operations of cash-strapped SMEs, which used to absorb 85 per cent of the 20 million people entering the job market each year”.*¹⁴⁰²

These unofficial bankers describe themselves not as underground or private bankers because unlike normal bankers they do not make money from interest payments, losing money in times of financial crisis, instead they make their “biggest profits when borrowers go bust”.¹⁴⁰³ This sector “remains the lifeblood of entrepreneurial China”. State-controlled banks tend to confine their lending to SOEs, informal bankers take great risks to supply credit to small businesses. In Wenzhou, which is said to have China's largest underground banking network, private bankers consider themselves not at risk.¹⁴⁰⁴

“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

¹⁴⁰⁰ Business Daily Update, 2008.

¹⁴⁰¹ Business Daily Update, 2008.

¹⁴⁰² Cai, 2008a.

¹⁴⁰³ Garnaut, 2008a.

¹⁴⁰⁴ Garnaut, 2008a.

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'".¹⁴⁰⁵

There is also evidence for alliances of Wenzhouese entrepreneurs with local officials:

"Juyi is a well-run enterprise, but no successful Chinese entrepreneur can display such confidence without earning the patronage of the gatekeepers of China's land, finance, labor and government largesse. These patrons are prominently exhibited throughout the elaborate corridors of Juyi's corporate headquarters. Some photos show Ms Li and her son with local government officials. [...] the company has a luxurious Communist Party Members Room, which is lined with portraits of [...] Joseph Stalin, Mao Zedong and Deng Xiaoping...The room...is a shrine of corporate loyalty to the party rather than any indication of ideological bent".¹⁴⁰⁶

Also, there is proof for the diversification strategy of Wenzhou entrepreneurs:

"Wenzhou people don't give up easily. The business climate isn't good this year and many manufacturers are struggling to survive. Some have halted operations, but they are actively seeking chances to make a change - to enter other fields".¹⁴⁰⁷

"Wenzhou is suffering less [than other export-oriented cities] as business-people are very flexible and have shifted to other industries'. [...] 'If I had stayed in machinery, I would be in difficulty because of the overall environment' [...]. "But our children's clothes business is making a significant profit now'".¹⁴⁰⁸

¹⁴⁰⁵ Garnaut, 2008a.

¹⁴⁰⁶ Garnaut, 2008b.

¹⁴⁰⁷ Cai, 2008b.

¹⁴⁰⁸ Ma, 2008.

Wenzhou's entrepreneurs seem to have survived the crises without substantial losses. Not least, because they "prefer being head of a cock than tail of a phoenix", as a Chinese saying describing a preference for decision-making power goes. One article even claims that only about two percent of businesses failed. "The figure is not significant. It would be similar at normal times"¹⁴⁰⁹.

Many companies made decisions before the most difficult time. The widely travelled Wenzhou people smelled the downtown early and the message spread quickly through their network of family, friends and business acquaintances, enabling those at home to prepare for the worst. "Because we noticed the crisis early, there was no panic or bewilderment when it really landed," says Xu. "We were very clear about what we should do. We had a strategic plan and took countermeasures.[...] At the forefront of China's development of small private enterprises, Wenzhou's economy was affected early and deeply by the global turmoil. But the city maintained growth of 8.1 per cent in gross industrial product value last year. In January, bank loans to businesses rose markedly, electricity demand rose, and employment, especially of technical skilled workers, was high. For most companies, it was business as usual.[...]" "They are signs of an upcoming economic revival. Wenzhou has stood the test. It is likely to walk out of the economic difficulty ahead of other cities in this country".¹⁴¹⁰

Firms can survive economically difficult times because "family and close friends were willing to work without salary and benefits for months, in some cases even putting up money to prevent cash flow problems"¹⁴¹¹. On the other hand, extensive political Guanxi networks are a key element for success. As one entrepreneur argues: "Guanxi are more important than capital. If you have Guanxi, you will have access to capital. However, if an entrepreneur has capital but no Guanxi, his/her business cannot survive". He adds that he spends approximately half of his time cultivating Guanxi ties, particularly with government officials.¹⁴¹²

All in all, there is evidence that Wenzhou actually uses the features that this works strives to define as typical for Guanxi Capitalism and points also to the fact that it might be a sustainable form of Capitalism.

¹⁴⁰⁹ Asia Pulse, 2009.

¹⁴¹⁰ Asia Pulse, 2009.

¹⁴¹¹ McNally; Guo and Hu, 2007, p. 14.

¹⁴¹² McNally; Guo and Hu, 2007, p. 14.

8. Guanxi, entrepreneurs and the state

*Laws control the lesser man.
Right conduct controls the greater one.
Chinese Proverb*

8.1. The bourgeois entrepreneur, networks and the state

In contrast to the rather dire experience of the former peasants and now working class, the industrial revolution has been a quite positive for the middle and upper classes. For a successful industrialization it was necessary that enough talented people had the desire to become entrepreneurs¹⁴¹³, for which plenty of economic opportunities, an absence of barriers caused by traditional (feudal) structures like the estates and the guilds and a change of the value system that tolerated profit-oriented occupations were needed. Hence, within this class, people were able to mostly gain from industrialization, especially the middle class as the bearer of business in the emerging market economy.

Beside the preconditions mentioned above, in the beginning of industrialization, personal connections also played an essential role, but those were not restricted to the family. However, the family has been particularly important during this process as it served mostly as resource for material wealth or social capital such as long-established knowledge of production methods and connections.¹⁴¹⁴ It also often financed newly established enterprises and provided support in economically difficult times.¹⁴¹⁵

If business was flourishing the entrepreneurial families were able to provide employment, but if otherwise, they did not hesitate to exploit the physical capacities of the workers without much consideration of the consequences. Polanyi depicts these early English entrepreneurs as being mostly indifferent to the fate of their workers as long as private or public matters did not add or affect their profits. The effects of the destruction of family life, the degradation and devastation of neighborhoods and existence, the deterioration of craft standards and the pollution of the environment were disregarded because for the most part the middle class merely believed in the beneficence of gain.¹⁴¹⁶ “This attitude meant a great incentive to the acquisition of wealth, and is also, perhaps, one source of the rather smug self-righteousness often thought typical of the bourgeois”.¹⁴¹⁷ In Polanyi’s presentation, in contrast to the proletarians being physically dehumanized, the members of the

¹⁴¹³ For a working definition of the entrepreneur, please refer to chapter 4, fn 443.

¹⁴¹⁴ Wehler, 1987, p. 191f.

¹⁴¹⁵ Kocka, 1976, p. 164ff.

¹⁴¹⁶ Polanyi, 1944, p. 133.

¹⁴¹⁷ Parsons, 1928, p. 43.

owning class, especially the entrepreneurs, were depicted as morally degraded. The traditional values of a Christian society with its responsibility for the poor were ignored and replaced by the sole concern of maintaining one's reputation among one's peers. "To the bewilderment of thinking minds, unheard-of wealth turned out to be inseparable from unheard-of poverty".¹⁴¹⁸ However, this attitude slightly changed during the 18th century, when labor laws came into effect (please refer also to chapter 5.2.). In Germany, which industrialized some decades later and much more slowly than Great Britain, consequences were not as extreme. Here, entrepreneurs adopted a more thoughtful and caring attitude towards their employees. Being a bourgeois entrepreneur, success and a morally upright behavior necessarily belonged together (see also below).

The advantages of the upper class were not only due to economic reasons, they were probably even more due to cultural issues developed in the environment of the bourgeois lifestyle, which was dominated and influenced by the entrepreneurs and their values. However, during the early phase of industrialization, the boundaries between public life and private sphere were not yet clearly defined and business and household were still under them same roof, which meant that family life had to be organized accordingly.¹⁴¹⁹ Roughly from the 19th century, the bourgeois household ceased to be significant as economic unit and became merely a safe place to retreat, clearly distinct from business life shaped by competition, self-interest and profit orientation. Instead of the family seizing to bind the members of the household to a set and planned future in a system determined by birth-given social status, the individuals now were freed and increasingly master of their own destiny.¹⁴²⁰ This was accompanied by a shift in regarding the family as refuge from the rigor of daily working life. When economic production shifted to factories, it led to a separation of private and public life, appreciating the moral and emotional value of family life at least for those who could afford it. This individualism and the retreat to privacy led to an emphasis of the family, here meaning the spouse and the children. Domesticity and marriage out of romantic love, instead of strategic marriages connecting families and their corporations, were quite uncommon before, but they increasingly were held in high esteem.¹⁴²¹ "The rigid separation of the private interests of the business man from those of the business unit; not necessarily a spatial separation, though this comes to be usual, but in thought and for purposes of calculation the individual is split in two. One is a producer

¹⁴¹⁸ Polanyi, 1944, p. 102.

¹⁴¹⁹ Groppe, 2010, p. 148.

¹⁴²⁰ Egner, 1985, p. 156.

¹⁴²¹ Trumbach, 1978, p. 6 and 71.

who as such is part of a great mechanistic system with no individuality of his own. The other is the consumer, who has still part of his life left to devote to his family, recreation, cultural interests etc.” (please refer to chapter 5.2.2.).¹⁴²²

The separation of the rationality of business and the sentimentality of the family went along with the polarization of gender roles in creating a female and male environment.¹⁴²³ Family happiness and domesticity implied that the bourgeois woman as mother and housewife stayed at home, which initially was impossible for the poorer working class families. This established a new ideology that defined the ‘nature-given’ characteristics and talents of women and men.¹⁴²⁴ The man had to work outside the house, whereas the woman had to administer the household, being a mother and maintaining a family life. She had to arrange a homely atmosphere where her husband could relax after work, but at the same time it was considered as ‘ladylike’ to delegate the housework to servants. Women were forced to devote their life to otiosity. Through this she lost her external contacts and her sphere of influence was diminished until she was solely dependent on her husband. Additionally, in contrast to husband and wife being together responsible for the functioning of the traditional household, the bourgeois wife merely represented an orderly household, giving soirees and obeying social obligations such as charity activities. The ‘natural’ characteristics of men were being active and rational, whereas women were considered passive and emotional ‘by nature’, predestining them for their roles in the economy and politics and the family, respectively. The household turned from a production into a consumption unit, secluded from economic activities. The family was regarded as “foundation pillar of society”.¹⁴²⁵

The entrepreneur turned into a central figure for economic and social development that had to meet demands of the now increasingly differentiating realms of business and the family.¹⁴²⁶ In the case of the German bourgeois ‘ideal-type’ entrepreneur, the status within society depended beside his social background mainly on his autonomy, talent, diligence, conscientiousness which also required a high degree of individualism, adherence to the law and an interest for politics.¹⁴²⁷ But these attributes were meaningless without economic success, which had also to be reflected in a concern for public welfare to be socially acceptable, as mentioned above. Entrepreneurial families developed a distinct attitude, which

¹⁴²² Parsons, 1928, p. 38.

¹⁴²³ Egner, 1985, p. 158f.

¹⁴²⁴ Kaschuba and Gall, 1990, p. 13.

¹⁴²⁵ Sieder, 1977, p. 158ff., Dülmen, 1995, p. 231f.

¹⁴²⁶ Schäfer, 2009, p. 116, similar Groppe, 2010, p. 59, 148, 285, 301.

¹⁴²⁷ Hettling, 2000, p. 324f., Wehler, 2000, p. 182.

separated them from the working and the upper class (the gentry), forming a new social group. Main principles of their lifestyle included honorableness, diligence, rationality and innovativeness. They had a distinct conception of the organization of society and the state and their role therein.¹⁴²⁸ Although often just newly established as elite and new ‘upper class’, they were not open for social climbing nor was economic success and achievements alone sufficient to enter their circles.¹⁴²⁹ The bourgeoisie¹⁴³⁰ as such was therefore not a social formation that defined itself by occupation or income, but more a ‘cultural structure’ for which a certain attitude and shared values were necessary.¹⁴³¹ Society described as that was an important part of reinforcing and stabilizing Weber’s “iron cage” of modern capitalism. Being a bourgeois meant to become an individual forced to forge your own destiny and develop your own value system with the family and privacy as a central instance.¹⁴³²

Together with this development, personal connections were replaced by contractual relations quite early during the process of industrialization. Contracts were conceived as far more (cost) efficient and were made possible when the state emerged as regulative authority to pass laws and legislation to secure economic transactions and thus could enforce the formal contractual arrangements through law. The Western orientation towards contracts does not consider other ways of reducing transaction costs, such as systems of trust as provided by Guanxi.¹⁴³³

The tendency towards juridification of hitherto unofficial norms was already established by Roman law, which regulated the relationships between individuals (*ius est ad alios*).¹⁴³⁴ On the one hand this involves an increase of personal freedom; on the other hand it makes relations less personal and takes away the security of traditional social formations.¹⁴³⁵ The notion of the morally upright bourgeois was quickly overcome and replaced by the conception that in a matured capitalistic system the spheres of private life and business should be and increasingly actually were separated. Before that, only the morally sound lifestyle of a ‘good citizen’ led to success in doing business in creating trust in the persona of the entrepreneur. Only a person who overall exhibited moral behavior was regarded as trustworthy in a business context.¹⁴³⁶

¹⁴²⁸ Groppe, 2010, p. 76, 300f.

¹⁴²⁹ Wehler, 1989, p. 318f., Gall, 1993, p. 7.

¹⁴³⁰ For a more detailed definition of the bourgeois, please refer to chapter 4, fn 469.

¹⁴³¹ Schäfer, 2009, p. 39.

¹⁴³² Hettling and Hoffmann, 1997, p. 341, 350, 359, Nipperdey, 1998, p. 43.

¹⁴³³ Tilly, 1995, p. 41, So and Walker, 2006, p. 17.

¹⁴³⁴ Heilbroner, 1993, p. 50, Pohl, 2002, p. 115.

¹⁴³⁵ Groppe, 2010, p. 289.

¹⁴³⁶ Sombart, 1978 [1930], p. 121f., Groppe, 2010, p. 53.

Thus, in addition to a separation of society in a political and economic realm, both spheres were also associated with separate value and behavioral systems. This created a specific set of manners for entrepreneurs which have often been described as necessary for the development of a mature Western capitalistic system. In this environment, it is not the character or the individual personality of an entrepreneur that is important for doing business, but merely his actions in the process of business transactions. The private life of businessmen is not of interest anymore; it is regarded as totally detached from the actions conducted in the role as entrepreneur and underlies different rules.¹⁴³⁷

Due to the increasing professionalization, the organization of a corporation becomes dissociated from the character of managers and entrepreneurs but is subject to other imperatives. “Commercial honesty” equals “contract morality” and thus, “status has given place to contract” and “economic relationships” lost their “personal touch”.¹⁴³⁸ Once a corporation is established, it is neither the owner and nor the manager who is recognized as important factor to evaluate a company. The success and the reputation of a firm do not depend on the personality and connections of one specific individual, which might not even be known in person, but on the quality of its products.¹⁴³⁹ This means that “business relations in the West are more technical and company orientated with early recognition of the possible need for contractual formality”.¹⁴⁴⁰ The maximization of profit does not depend on the personality and connections of one specific individual but are replaced by contractual relations. The Western way of doing business is regarded as the only efficient and (transaction) cost minimizing one.

As has already been indicated above, in the early phase of industrialization, contractual security and control were not protected by government authorities. Therefore, entrepreneurs had to rely on trust-based networks to secure the quality of their products. Over time, entrepreneurs build up a certain status within society. Being economically independent empowered them to influence the organization of society and the state, especially concerning a legal framework for economic transactions. This in turn meant gains for civil liberties, like freedom of trade, private property, equality etc. Actually, local government and leadership of local parties were often in the hand of entrepreneurs.¹⁴⁴¹ After 1848 the inter-

¹⁴³⁷ Sombart, 1909, p. 709 and Sombart, 1978 [1930], p. 187.

¹⁴³⁸ Sombart, 1978 [1930], p. 122.

¹⁴³⁹ Sombart, 1978 [1930], p. 186ff.

¹⁴⁴⁰ So and Walker, 2006, p. 7.

¹⁴⁴¹ Groppe, 2010, p. 318ff., Schäfer, 2009, p. 168, 136.

est in political participation trickled away and people felt increasingly well represented by the existing economic policy.¹⁴⁴²

When SMEs became again more relevant during the 1960s, the (German) government began to systematically subsidize the *Mittelstand* for example in expanding the German anti-trust law to improve competition policies and regulations. As has already been mentioned earlier, apart from economic reasons, the legal framework also had the aim to support the middle class, which traditionally formed the buffer between the values of the upper and the working classes (see also chapter 6).¹⁴⁴³

Political bodies and private economic associations tried to set up networks in a concerted action to promote economic growth. These networks were more based on formal and contractual relations and focused on economic functionality.¹⁴⁴⁴ Additionally, administrative and financial support is given by economic associations, and infrastructure is provided by an actively involved local government.¹⁴⁴⁵ Besides that, local trade chambers and business associations play an important role in coordinating lobby activities in favor of the (regional) network and also providing (market) information that are easily spread within a network. These organizations serve also as mediation- and sanctioning mechanisms and thus further stabilize local structures and enhance trust building.¹⁴⁴⁶ Membership in associations and other official bodies facilitates thus access to business opportunities.¹⁴⁴⁷ To be successful, entrepreneurs need to be able to navigate within these formal structures and position themselves strategically to negotiate on a political level.¹⁴⁴⁸

It is a difficult or even impossible task to construct “trust-built” networks from the ground up, without a local history of co-operation or a tradition of that kind, as “civic traditions have remarkable staying power”.¹⁴⁴⁹ Even with massive support and subsidizing efforts from the German government and also from the level of the EU administration, designing ‘artificial’ networks remains problematic.

However, in the Western case, “[i]n order to survive and thrive, capital thus must exist in a mixed state of independence from and dependence on state power...Although the state’s full economic power remains in the background during peacetime, it represents a key force shaping capitalist accumulation. Indeed, capital to thrive seeks reconstituted and

¹⁴⁴² Soénus, 2000, p. 443.

¹⁴⁴³ Berghoff, 2004, p. 122ff., 172ff.

¹⁴⁴⁴ Berghoff, 2004, p. 177ff., Lazerson, 1988, p. 331.

¹⁴⁴⁵ Putnam; Leonardi and Nanetti, 1993, p. 160.

¹⁴⁴⁶ Casson, 2001, p. 536f.

¹⁴⁴⁷ Fiedler and Lorentz, 2003, p. 54.

¹⁴⁴⁸ Kocka, 1975, p. 128.

¹⁴⁴⁹ Putnam; Leonardi and Nanetti, 1993, p. 157, similar in Dörsam and Icks, 1997, p. 44f.

expanding state power. A free economy thus requires a strong state that can effectively regulate markets, establish stable property rights and institute productive governance structures”.¹⁴⁵⁰

8.2. Entrepreneurs and the state in China

8.2.1. Entrepreneurs and the state

*“In the PRC, the bifurcation of secular authority is merely embryonic. Most individuals and groups in China at present do not seek autonomy but “rather closer embeddedness with the state”.*¹⁴⁵¹

During reforms due to the “pragmatic mindscape” of the Chinese people, a “regional decentralization and fiscal federalism” led local governments to promote economic development.¹⁴⁵² Each region had its own experiments and structural learning processes which strongly depended on the tolerance and openness of local cadres, because the central government gave time and space to local governments in finding their own way of dealing with the reform process, so many provinces created their own hand-tailored set of rules. Also, the Cultural Revolution left “a vacuum of state authority in some communities [...] [and] created an opening for private household industry”.¹⁴⁵³ Local cadres had strong incentives to promote the rural industry. Depending on the institutional environment in each locality, they supported the form of production that promised to generate the most profit and hence tax payments. Thus, either the collective sector (as for example in Wuxi) or the private sector (as in Wenzhou, see chapter 7.2.) was fostered.¹⁴⁵⁴ Thereby local officials constructed “a qualitatively new variety of developmental state”,¹⁴⁵⁵ acting more as rational economic than as political actors, responding to incentives and reacting to constraints.¹⁴⁵⁶ “Under the post-1980 incentive structure, the political ambitions of individual local officials became closely identified with the economic accomplishments of their domains. [...] Whether officials aimed to climb the ladder of success to Beijing or to become leading figures on the local scene, their reputation was enhanced by industrial growth and

¹⁴⁵⁰ McNally, 2007a, p. 183.

¹⁴⁵¹ McNally, 2007a, p. 183, quote taken from Dickson, 2003, p. 159.

¹⁴⁵² Zhu, 2007, p. 1507.

¹⁴⁵³ Whiting, 2001, p. 69.

¹⁴⁵⁴ Whiting, 2001, p. 3.

¹⁴⁵⁵ Oi, 1995, p. 1133, see also chapter 5.

¹⁴⁵⁶ Oi, 1999, p. 7.

local building projects”.¹⁴⁵⁷ Thus, the “rapid takeoff” of the Chinese rural economy can be attributed mainly to “local government entrepreneurship”.¹⁴⁵⁸

Official regulations and tax laws changed quickly and due to the decentralized character of the Chinese state, the degree of their implementation varied enormously.¹⁴⁵⁹ Thus, reforms were mostly not active actions by the government but more a permanent ‘fence-breaking’ and violating of rules by local cadres and the (rural) population. The most successful structures and ‘best practices’ of provinces were often ex-post legalized by corresponding laws and applied to the entire country. The central government in that way accepted a moderate dissent as long as it did not question the political system as such.¹⁴⁶⁰ It also found a way to react to strategic actions and even to employ them to survive the rapid changes in the economy and society. The change of state capacities by societal forces is rather seen as consolidation than as degradation.¹⁴⁶¹ As David Wank puts it: “The key value of this network between firms and government is expediency. Although they used practices that deviate from central state policies and laws, local actors legitimate them by a logic that represent their practices as actually according with state intentions. This logic makes a distinction between the spirit and the stipulations of policy. The spirit is the policy’s goal or intention, while the stipulations are the state-sanctioned behavior and procedures to attain it. According to this logic, since China is vast and has much regional variation, universal (i.e. national) stipulations often do not fit local conditions and, if rigidly adopted, might work cross-purposes with the policy’s goal. Therefore, local actors justify deviant actions as necessary adaptations of central policies not only to ameliorate the policies’ harmful effects but also achieve their goals”. It is justified by local official in referring to “the necessity of adapting to local conditions” and local history and traditions.¹⁴⁶² Even more so, rather than maintaining bilateral Guanxi connections to individual government officials, entrepreneurs are often connected to entire bureaus including their Guanxi to other government units.¹⁴⁶³ This “broad institutionalized support” is characteristic of these local network structures and often “influence officialdom across local state-society borders”.¹⁴⁶⁴

¹⁴⁵⁷ Shirk, 1993, p. 189f., taken from fn 72 in Whiting, 2001, p. 108.

¹⁴⁵⁸ Oi, 1999, p. 2.

¹⁴⁵⁹ Krug and Mehta, 2004, p. 54f.

¹⁴⁶⁰ Heberer, 2002b, p. 6, 16; similar Holbig, 2002, p. 41.

¹⁴⁶¹ Heberer, 2002b p. 26.

¹⁴⁶² Wank, 2008, p. 108.

¹⁴⁶³ Wank, 2008, p. 114.

¹⁴⁶⁴ Wank, 2008, p. 115.

Hence, entrepreneurs, in pursuing their own goals, not only can have an effect on transforming the society in changing values and the attitude in favor of the economy, but unintentionally also changing the state structure.¹⁴⁶⁵ This is possible because “state structure and institutions ...do not necessarily conform to the functional needs of a given accumulation regime. In that sense form does not follow functions, it rather problematizes function”.¹⁴⁶⁶ States thus cannot be viewed as “solid, unchangeable and almost timeless [...] monoliths animated by a single governmentality”, with a specific “essence, an immutable nature” and a clear, ‘natural’ boundary to (civil) society. The state can rather be conceived as “liquefied into incessant transformations of varying degrees and speed”.¹⁴⁶⁷ Hence, local authorities have to be seen as a unit that is separate from the central state as well society and their agendas.¹⁴⁶⁸

Consequently, the private sector developed more rapidly in areas where state-owned enterprises (SOEs) were less dominant and proceeded very differently in different regions.¹⁴⁶⁹ “[I]n 1995...entrepreneurs were referring to new relations of ‘locality’ between private firms and local state bureaus. Entrepreneurs and officials both spoke of a new aggressiveness on the part of local (city and district) government to cooperate with businesses and a new flexibility by bureaus for actions that deviated from central state policies”.¹⁴⁷⁰ Exogenous factors like the feature of global capitalism to support flexible, transnational

¹⁴⁶⁵ Heberer, 2002b, p. 24, Biebricher, 2011, p. 12 in the manuscript. I am grateful to Thomas Biebricher for making the manuscript available to me.

¹⁴⁶⁶ Biebricher, 2011, p. 14 in the manuscript.

¹⁴⁶⁷ Biebricher, 2011, p. 3, 8f., 16 in the manuscript. Critical theory of the state challenges the idea of a state standing above society and the economy, being able to regulate these spheres impartially. Less than ‘the’ state ‘act[ing]’, “it is rather warring state and non-state actors that do”. (p. 5) It defines – in line with Foucault – that “power comes from below and it is everywhere, if anything, the common sense perception of the state as a center of power is already one of its effects.” (p. 6) Thus, “... one can define the state as an ensemble of socially embedded, socially regularized and strategically selective institutions, organizations, social forces and activities organized around (or at least actively involved in) making collectively binding decisions for an imagined community”. (Jessop, 2005, p. 6) The state is understood as a “social ensemble” with a “specific, differential impact on the ability of various political forces to pursue particular interests and strategies in specific spatio-temporal contexts through their access to and/or control over given state capacities – capacities that always depend for their effectiveness on links to forces and powers that exist and operate beyond the state’s formal boundaries. It follows that to talk of state managers, let alone of the state itself, exercising power is at best to perpetrate a convenient fiction that masks a far more complex set of social relations that extend far beyond that state apparatus and its distinctive capacities”. (Jessop, 2005, p. 40.) Whiting argues similarly, coming, however, from a Weberian view. For her, the term state is only a “convenient short-hand” as the state as an entity “can[not] act in any meaningful ways apart from the individuals who populate its offices”. For her, the state is “a complex organization, staffed by individuals and composed of numerous agencies across various levels of administration that has a monopoly on the legitimate use of coercion and the authority to establish binding rules in a given territory”. Whiting, 2001, p. 1, fn 2.

¹⁴⁶⁸ Oi, 1999, p. 9.

¹⁴⁶⁹ Zhu, 2007, p. 1507ff.

¹⁴⁷⁰ Wank, 2008, p. 107.

production also favored small businesses and subcontracting over larger corporations and thus contributed to domestic development.¹⁴⁷¹

As a consequence of the distrust of more formal institutions (as for example courts, see below), the informal collaboration of private entrepreneurs with government officials over Guanxi is long-established, going back to pre-communist times and reaching new heights during reforms.¹⁴⁷² As local officials are often embedded into local networks, many feel compelled to protect the newly established private sector and vice versa individuals seek this protection to facilitate access to resources and bank loans. Most entrepreneurs aim at meeting their own needs to be successful in business in interacting with government officials without contesting the political system as such.¹⁴⁷³ Quite the contrary, political change seems not to be wanted, as long business is going well.¹⁴⁷⁴ Moreover, they discovered other, non-democratic ways to pursue their interest.¹⁴⁷⁵

This again is in line with Foucault's argument that state power is not necessarily situated in its institutions but rather is "widely dispersed throughout capillary networks" and not "localized in the state apparatus".¹⁴⁷⁶ Of course, Chinese entrepreneurs have more or less the same economic objectives in common but this proves not to be enough to bond to influence politics. Mostly, private entrepreneurs do not strive to become interconnected over horizontal ties, be it informal or more formal ones. Not least, because collective action within an authoritarian state is still a sensitive issue and the political circumstances rather support individualism in the sense that each entrepreneur relies on his Guanxi to selected government cadres.¹⁴⁷⁷ They need not rely on this as there are other possibilities to represent their interests. Their ties to local cadres have different – and more economic – reasons and therefore do not exercise pressure for political reform.¹⁴⁷⁸ They used their

¹⁴⁷¹ Dirlik, 1997.

¹⁴⁷² Zhu, 2007, p. 1510f. Decentred policy network theory argues that networks cannot be understood apart from traditions and are enacted by individuals whose beliefs and actions construct the nature of the network. See Bevir and Richards, 2009, p. 8. For the relationship of Guanxi and corruption, please refer to chapter 6.2.

¹⁴⁷³ Heberer, 2002b, p. 6.

¹⁴⁷⁴ Wank, 1995a, p. 63f. and Tsai, 2005, p. 1150, Chen, 2002, p. 412, Dickson, 2007, p. 830. "In contrast to historic kingship-based societies, modern democratic regimes are centered around an "empty place of power" and characterized by extreme social heterogeneity. The disappearance of an image of the unified body politic parallels the psychoanalytic account of the "ordeal of the division of the subject". Totalitarianism promises to heal that division, filling the empty center with the image of the leader and the party, radically simplifying social space, and restoring the unity of the community-body". Steinmetz, 1999, p. 26.

¹⁴⁷⁵ Tsai, 2005, p. 1145.

¹⁴⁷⁶ Foucault, as quoted in Steinmetz, 1999, p. 9.

¹⁴⁷⁷ Cf. Heberer, 2002b, p. 13.

¹⁴⁷⁸ Chen, 2007, p. 152f., Tsai, 2005, p. 1132 and Pearson, 1997, p. 115.

power and tried to achieve their goals outside official institutions but rather with more informal measures like Guanxi.¹⁴⁷⁹

As already discussed in chapter 7, although Chinese entrepreneurs as such do not form a class, they are nevertheless a dynamic element of political and social change. Due to their economic success and wealth they command over negotiating power to achieve their own aims. From a Western point of view, it could be assumed that those include the desire for democratization¹⁴⁸⁰ or at least a legal framework for free competition. They also could seek leading positions in politics or society to influence social values, but Chinese entrepreneurs seem not to have this in common with their European counterparts.¹⁴⁸¹ They are lacking a shared identity, probably because they stem from different backgrounds (former peasants or so-called ‘self-made men’ alongside former state officials and other long-established elites).¹⁴⁸² It is also important to note that even if entrepreneurs all belong to a class of people that in the literature is called the ‘new rich’¹⁴⁸³ and thus to an economic elite, they do not form a middle class or bourgeoisie in the Western sense. If they have the potential to form a strategic group is not yet clear and is viewed differently within the literature.¹⁴⁸⁴ Heberer argues that China’s entrepreneurs are still in ‘status nascendi’ to form a strategic group, whereas Kellee Tsai states that in the past the development of Capitalism has been associated with a parallel tendency towards democracy as only in a democratic state market forces can thrive. This has been justified by the argument that with the rise of a civil society the increase in individual liberties and related changes in economy and society a so-called ‘middle class’¹⁴⁸⁵ would develop that with increasing wealth also sought political influence. Middle classes also serve as buffer between upper and lower classes which leads to political stability. They tend on average to be conservative and less radical and they are also oriented toward consumption. Indeed this has been the case for example with the

¹⁴⁷⁹ Heberer, 2002b, p. 10.

¹⁴⁸⁰ The term ‘democracy’ has been highly ideologically indoctrinated by the CCP. For many people democracy is defined as “minority that complies the majority” and “officials bear responsibility for the people” and is also often simply associated with chaos. The democratization movement of the 1980s occurred in a time when the capitalistic economy was not yet fully developed. Since the 1990s, intellectual, economic and political elites more and more merged, led by the thought that market economy and totalitarianism actually are an advantageous combination and all that matters is economic development. Thus, a ‘marketization’ of power occurred. He and Reisner, 2006, p. 465f.

¹⁴⁸¹ Heberer, 2002a, p. 121f.

¹⁴⁸² Huang Ping, 1997, p. 235f.

¹⁴⁸³ Goodman, 2008a. See also chapter 7.1. Often these new rich are regarded as part of a new Chinese conservative middle class, see for example Unger, 2006. In contrast to the population of most developed countries, Chinese people still adhere themselves to the working class. Chen, 2002, p. 410.

¹⁴⁸⁴ Cf. Heberer, 2002b, p. 12, Tsai, 2005 and Tsai, 2007. See also Dickson, 2003, Dickson, 2007, Chen, 2002, Chen, 2007, Holbig, 2002.

¹⁴⁸⁵ For a terminological clarification and demarcation between ‘middle class’, ‘citizen’ and ‘bourgeois’, please refer to chapter 4, fn 469.

German bourgeoisie and can be summarized with the slogan “No bourgeoisie, no democracy,” coined by Barrington Moore in his book *Social Origins of Dictatorship and Democracy: Lord and peasant in the making of the modern world* of 1966. It has also been argued that paying taxes will result in the incentive to gain greater access to the political system (in a Western sense), as in the American notion of ‘no taxation without representation’. It has been expected that the late developing countries would follow this ‘concept’, in line with modernization theory that associates economic growth with political liberalization which led to the breakdown of many authoritarian regimes. However, as already outlined in chapter 4, the concept of middle class is a problematic one as it is not clear if it is defined by a certain ‘median’ income level or if it is related to a certain lifestyle. Especially in the Chinese case it has been shown that the ‘new rich’ are indeed no social group that shares an identity and also does not express the wish for political reforms. As private entrepreneurs do not belong to one class, they are not inclined to collectively engage for system change, although they are very actively involved with local governments. This again reveals the degree of fragmentation between central and local political entities.¹⁴⁸⁶ Also Dickson claims that “[s]o far, China’s private entrepreneurs have not asserted themselves as an organized or coherent interest group”.¹⁴⁸⁷

However, maintaining Guanxi connections to the local government is conceived as essential to overcome administrative obstacles and even more so, gain the support of local cadres for business. Having these bonds meant access to resources, information and other advantages but also avoiding excessive extra fees and taxes. It also enhanced doing business with collective and state enterprises. “This kind of support was of course not openly available. It required particularistic links with officials for favorable decisions and access. In fact, the more successful entrepreneurs seemed to spend as much if not more time developing these ties than credit relations with suppliers and customers of commodities”.¹⁴⁸⁸ In general, entrepreneurs have several methods for influencing the local government. They either make “financial or other contributions (in the form of gifts or privileges granted), offering real or fictional employment in their companies in high-salaried positions as consultants or managers”.¹⁴⁸⁹ Entrepreneurs are not against the idea of the rule of law as it is considered as protection from arbitrary government treatment, but they are skeptical to-

¹⁴⁸⁶ Tsai, 2005, Tsai, 2007, He and Reisner, 2006, p. 449f. and chapter 7.2. as detailed example of that.

¹⁴⁸⁷ Dickson, Bruce J.: “Economics as the central task: do entrepreneurs matter”, Paper prepared for the ‘China’s leadership transition: prospects and implications’, December 2001, p.4, quoted in Holbig, 2002, p. 47.

¹⁴⁸⁸ Wank, 2008, p. 105.

¹⁴⁸⁹ Wank, 1995b, p. 166ff.

wards democratic ideas such as free election and majority rule.¹⁴⁹⁰ Although in an authoritarian regime, local officials still have enough liberties to support economic transactions, even if they are illegal, without lobbying pressure or democratization tendencies, as long those activities generate profits.¹⁴⁹¹

To prevent the diffusion of informal links between private entrepreneurs and local governments and to gain control of the political participation of entrepreneurs, entrepreneurs were allowed to become official members of the CCP since 2001 and were strongly encouraged to join. In his speech in early 2000, Jiang Zemin - in a manipulation of party ideology – justified that because of the “requirements of the three representations”. These are the need to represent “the development trend of China’s advanced productive forces”, “the orientation of China’s advanced culture” and “the fundamental interests of the overwhelmingly majority of the people of China”. This emphasis on the “productive forces” is a shift away from Marxist-Leninist terminology. The term “relations of production” usually is associated with the contradictions between classes that determine if an economic system is regarded as capitalist and thus exploitative. However, interpreting it differently, made this notion irrelevant.¹⁴⁹² The expression “majority of people” additionally hints to the inclusion of all social classes (or rather strata). However, a hierarchy of ‘worthy’ entrepreneurs has been created. At the top are “entrepreneurs and technical personnel employed by scientific and technical enterprises of the non-public sector”, next are “managerial and technical staff employed by foreign-funded enterprises” and at the end of the hierarchy there are the self-made type of individual entrepreneurs. This emphasis on science and technology is reminiscent of the ‘mystifying power’ associated with the import of Western science and technology 100 years earlier that was supposed to lead to modernization (see also chapter 5.1.5.).¹⁴⁹³

The invitation of private entrepreneurs into the party is widely received as the “ex-post legitimization of a long-standing fact”. Unofficially, private entrepreneurs were for quite a long time already allowed to join the CCP.¹⁴⁹⁴ It is thus a decision that can be interpreted as being merely symbolic in nature as private entrepreneurs are still confronted with the same difficulties concerning access to loans, supplies and information. Regulations and

¹⁴⁹⁰ Chen, 2002, p. 421f.

¹⁴⁹¹ Tsai, 2005, p. 1153.

¹⁴⁹² The contradiction to welcome labor and capital and thus workers and entrepreneurs has been justified by the introduction of further new terminology: workers and peasants became ‘basic workers’ and entrepreneurs (the new economic elite) became ‘management workers’. Holbig, 2002, p. 44.

¹⁴⁹³ Dickson, 2007, p. 833, 837f., Holbig, 2002, p. 30, 41f. Both articles are in-depth analyses of the decision of the CCP to officially allow the admission of private entrepreneurs.

¹⁴⁹⁴ Holbig, 2002, p. 41ff..

their legal enforcement, including the incorporation of private property rights in to the constitution, remain precarious and unstable. Still, what McNally calls the “Leninist principles of political organization” influence policy decisions, even though the private sector gained some momentum within the Chinese economic system. However, the “moves towards creating effective constitutional constraints on the party-state have been highly circumscribed”.¹⁴⁹⁵ Also, the possibility to join the CCP for many ‘new rich’ entrepreneurs means not more than just having one more honorable ornament without any implication for political participation.¹⁴⁹⁶ By 2004, 35 percent of entrepreneurs had joined the party – compared to 6 percent of the entire population, which shows the growing integration of economic elites into the CCP. It has to be kept in mind that many of those entrepreneurs were former managers of SOEs that were privatized by the Chinese government, so-called *xiàhǎi* (下海, ‘plunge into the sea’). As those, they already were members of the CCP. In contrast, a 2004 party survey claims that of 2.42 million new members only 894 were private entrepreneurs. One reason of this might be that with the growing commitment of the party to the private sector, membership was not seen as necessary or desirable anymore. On the other hand, the Hu-Wen government might want to downplay the role entrepreneurs play for the CCP, fitting to their ‘harmonious society’ policies (see chapter 5).¹⁴⁹⁷

Additionally, since 1991, business associations and trade chambers are increasingly influential in the process of policy formulations in representing the interests of their members. Their importance lies also in the fact that a “leading role...is given to former cadres from high levels of the economic bureaucracy in these organizations”.¹⁴⁹⁸ The central government carefully evaluates the types of associations sanctioned and the individuals, who are selected for political posts of which some can even be entrepreneurs. Therefore, the party “controls leadership selection and interest articulation, and retains ultimate authority”.¹⁴⁹⁹ In turn, party officials are encouraged to become *xiàhǎi* entrepreneurs, so there are surely mutually dependent causalities to consider. Thus, many rural entrepreneurs are not only local residents but former local officials, even village heads, of which many were members of the CCP.¹⁵⁰⁰ This is not a very positive picture for the development of a civil society in China. Civil society associations are another element that in theory is expected to lead to democratization tendencies, as they are usually a means for the middle class to

¹⁴⁹⁵ McNally, 2007a, p. 184.

¹⁴⁹⁶ Holbig, 2002, p. 49.

¹⁴⁹⁷ Dickson, 2007, p. 837f.

¹⁴⁹⁸ Meyer-Clement, 2004, p. 79.

¹⁴⁹⁹ Pearson, 1997, p. 117, similar Dickson, 2007, p. 829f.

¹⁵⁰⁰ Goodman, 2007, p. 182.

gain political influence, for following their interests and participating in decisions in matters of public concern. Also, voluntary membership in associations is regarded as the beginning of civil society structures that organizes people outside state organizations. As outlined above, in the Chinese case associations play a different role, because they are governed by either the party or the state and also because the main actors of the middle class, which first and foremost are the entrepreneurs, are not interested in engaging for a 'greater cause'. However, in the civil society strand of literature, the emergence of civil associations is regarded as being highly correlated with Guanxi to represent group interests.¹⁵⁰¹

In 2002, 83.4 percent of private entrepreneurs were members of the various organizations of the All-China Federation of Industry and Commerce (ACFIC) (which itself focuses more on political and ideological work), 35.1 percent in the Political Consultative Conferences (PCC), 17.4 percent in the People's Congresses (PC), and 48 percent in the two associations for self-employed laborers (SELA) and private enterprises (PEA).¹⁵⁰² The latter two are often not differentiated and treated as one. Both are often under the guidance of the local Industrial and Commercial Bureaus (ICB), which are the organs of local governments for registering and administer associations.¹⁵⁰³

The membership within these associations gives the party the opportunity to develop tighter relations to an important economic power and also prevents entrepreneurs to engage in other, opponent organizations. Moreover, this can also be understood as a means to avert the emergence of a bourgeois middle class. Membership or positions in business associations are thus another way to integrate private entrepreneurs in the local state. However, as already mentioned, leading positions are on the one hand given to private entrepreneurs, but there are always also officials involved. Business associations were on the one hand established to monitor, control and educate private entrepreneurs since their resurgence in the 1980s. On the other hand, they serve as tools to communicate the demands and expectations of private entrepreneurs to (local) officials.¹⁵⁰⁴ This feedback mechanism of associ-

¹⁵⁰¹ Unger, 1996. He and Reisner, 2006, p. 445ff. On the role of corporatism in China, please refer to Unger and Chan, 2008.

¹⁵⁰² In the 1980s, membership in SELA or PEA was mandatory for self-employed and private entrepreneurs. However, in 1998, new regulations on societal associations (*shehui tuanti*) were introduced by the Ministry of Civil Affairs that required voluntary membership. ICB data states that still 80 to 100 percent of newly established private enterprises joined those associations. These high percentage rates could not be confirmed in research, for example by Alpermann, 2006, p. 44f. Also, business associations differentiate locally and sectorally. In Xiajin, for example, the Association for Private Entrepreneurs was established, administered by the Private Economy Development Bureau (formerly the Township and Village Enterprise Administration Bureau), which is a more exclusive, elitist organization. Alpermann, 2006, p. 46 and Unger, 1996 for a detailed description of the structure of individual business associations.

¹⁵⁰³ Dickson, 2007, p. 844ff., Alpermann, 2006, p. 42-45 and summarizing Meyer-Clement, 2004, p. 75.

¹⁵⁰⁴ Alpermann, 2006, p. 42f.

ations is supposed to foster “harmonious relations” among private firms and foster stabilization.¹⁵⁰⁵ In giving entrepreneurs the feeling they can influence policy outcomes, the central party tries to get rid of a societal force that could possibly endanger their own position.¹⁵⁰⁶ “China’s entrepreneurs remain willing to be co-opted by the CCP and support the formation of corporatist links between business associations and state organs, both to gain political recognition and to better access state resources”.¹⁵⁰⁷ Although private entrepreneurs could act independently from local government agencies in starting a business, they were forced to co-operate with local cadres once their business started to grow and produce profits. Often they were expected to take on local official positions or to share their profits with local officials in order to be allowed to pursue. For that reason, it is extremely helpful for entrepreneurs when at least family members join the CCP and thus are part of the party-state.¹⁵⁰⁸ However, often the entrepreneur at the same time functions as party secretary, which seems not to be conceived as contradictory but rather as a useful management tool for guaranteeing stability within the firm. For the party in turn this means to be able to reach out to ‘basic workers’ within private firms that were otherwise outside the control of party organs.¹⁵⁰⁹

Some entrepreneurs were not permitted to join the party, although they were extremely successful and party branches have been established within their companies. These entrepreneurs function as model entrepreneurs and thus have representative duties rather than real power and in a more unofficial way they are also members of the party.¹⁵¹⁰ Although especially in Wenzhou (one of experimental provinces, where the private sector accounts for 90 percent of output already as early as in 1994 (in comparison with 2.3 percent in Songjiang and mere 0.9 percent in Wuxi, see also chapter 7.2.), trade chambers and business associations became relatively independent organizations well suited for the market economy, their impact on political participation remains unsure.¹⁵¹¹ Besides that, the Chinese government also tried to regain some control over the private sector in employing mandatory membership in those associations. Although these organizations performed some services for the entrepreneurs, they are more “an arm of the local tax and industrial-commercial bureaus” and “assist local governments in combating tax evasion”.¹⁵¹² For

¹⁵⁰⁵ Li and Li, 2007, p. 46, Alpermann, 2006, p. 43. See also chapter 5, fn 785.

¹⁵⁰⁶ Holbig, 2002, p. 46f., Dickson, 2007, p. 836+852; similar Dickson, 2003, p. 81f.

¹⁵⁰⁷ McNally, 2007a, p. 183.

¹⁵⁰⁸ Goodman, 2008b, p. 34, 36.

¹⁵⁰⁹ Holbig, 2002, p. 50, 52.

¹⁵¹⁰ Goodman, 2007, p. 184.

¹⁵¹¹ Meyer-Clement, 2004, p. 79, data also taken from Whiting, 2001, p. 173.

¹⁵¹² Whiting, 2001, p. 190f.

sure, they gained influence over the local private sector, but local officials themselves doubt the ability of these associations to implement policies, whereas, depending on research studies in different localities, more optimistic private entrepreneurs do believe they can have an impact on policy making through their membership.¹⁵¹³ Other studies have opposite results. They found that entrepreneurs evaluate business associations as rather ineffective and believing that their only function is to extract fees and contributions. In one study, private entrepreneurs are interpreted as being as realistic as the local officials described above.¹⁵¹⁴

Being part of the political system, and thus enhancing their social status, is considered as contributing to the success, growth and reputation of their companies by facilitating the access to bank loans and obtaining vital information. Membership in these associations is also seen as a mean to improve Guanxi with local officials.¹⁵¹⁵ In turn, local governments hope “to improve the tax discipline of the new economic elites. [...] Although private enterprises and individually owned enterprises together account for more than 20 percent of GDP, they are reported to contribute less than 10 percent (in some places less than 5 percent) to the local coffers”. The same rationale can be found in the party’s move to allow private entrepreneurs to join the party as one prerequisite for them is not to be guilty of tax evasion.¹⁵¹⁶

It is thus doubtful if membership rates of entrepreneurs in associations are able to tell us something about the degree of (in a Western sense) institutionalizing, organizing and therefore democratizing tendencies of entrepreneurs or other straightforward causalities. However, associations for sure act as “bridges” between government and business circles.¹⁵¹⁷

One other factor is that “local state officials are first and foremost political, not economic, actors” and thus, although participating actively in local economies, “they do so in highly politicized ways”.¹⁵¹⁸ As there is no such thing as a free lunch, there is also a negative side to the co-operation between local authorities and private entrepreneurs. Local cadres discriminate against entrepreneurs in putting pressure on them to obtain shares of their firms and to partake in their profits as “backstage bosses”.¹⁵¹⁹ In return, officials would provide information on supplies and resources or enable access to state bank loans. Close

¹⁵¹³ Dickson, 2003, p. 75, 81.

¹⁵¹⁴ Alpermann, 2006, p. 49.

¹⁵¹⁵ Meyer-Clement, 2004, p. 75.

¹⁵¹⁶ Holbig, 2002, p. 43, 45. Another “delegation of socio-economic responsibilities to the ‘new rich’ is that they are supposed “to repay society out of the wealth they have accumulated”, p.45.

¹⁵¹⁷ Alpermann, 2006, p. 49, Unger, 1996.

¹⁵¹⁸ Whiting, 2001, p. 12.

¹⁵¹⁹ Liu, 1992b, p. 305f.

connections to local administration not only facilitated to start-up businesses, they also caused the entrepreneurs to anticipate the influence of the local government on their enterprise and structure the production in a way so to secure profits to their families and networks and also to minimize the impact of politicians on business. Depending on their length of service, local cadres are more inclined to support the private sector and hence, economic growth, or more interested in extracting as much as possible without considering the long-term consequences for the private sector.¹⁵²⁰ Only well-established Guanxi to an official will help entrepreneurs to influence “what are considered costs and what are considered profits”.¹⁵²¹ Ole Bruun notes that “the utterly impenetrable principles for tax collection, if principled at all, were a constant source of conflict. There were no consistent methods for assessing turnover and computing taxes, and the tax bureau’s statement that it was without the “scientific means” to determine turnover in many cases appeared to be an excuse for maintaining serious discrimination”.¹⁵²² If an entrepreneur refuses to cooperate, she is at risk to lose the support of the local authorities. A way to solve that problem is to register as collective business but in reality running it as privately-owned firm or as so-called ‘red hat enterprise’ which is often tolerated by local officials (see also chapter 7). In these companies, managers are not always managers but owners and thus ownership structures can be often more blurred than the differentiation between state, collective and private sector suggests. “Indeed, ownership and management are probably less important signifiers of activity than entrepreneurship”.¹⁵²³

Regardless of the type of registration, the risk of “ad-hoc taxation” or confiscation of profits and physical assets by local cadres remains. As a result, it encouraged entrepreneurs to diversify their product portfolio and invest in multiply sectors.¹⁵²⁴ Private entrepreneurs had no control over the amount and level of “management fees” and hardly any possibility to protest against them.¹⁵²⁵ This and other not ex ante anticipated changes in the political climate favors flexibility in production. Already during the mid-1980s, entrepreneurs reacted in creating a whole set of different production options, or producing in diverse industrial sectors or different localities. Also, they do not let their company grow over a certain size – they rather set up a new business that produces different products or in a differ-

¹⁵²⁰ Levi, 1988, p. 32, as quoted in Whiting, 2001, p. 110 fn 76.

¹⁵²¹ Whiting, 2001, p. 193.

¹⁵²² Bruun, 1993, p. 122.

¹⁵²³ Goodman, 2007, p. 181.

¹⁵²⁴ Krug and Mehta, 2004, p. 55.

¹⁵²⁵ Whiting, 2001, p. 147.

ent province. Another feature of this is to lease out part of the enterprise to subcontractors, which further confuses the ownership of an enterprise and its subunits.¹⁵²⁶

This issue becomes even more pressing once the private firm grows in size, as with increasing profits officials seek to get more influence on the enterprise and obtain part of the surplus.¹⁵²⁷ Therefore, entrepreneurs do not let their company grow over a certain size – they rather set up a new business that produces different products or in a different province. Another feature of this is to lease out part of the enterprise to subcontractors, which further confuses the ownership of an enterprise and its subunits.¹⁵²⁸ This produces organizationally fuzzy business groups of small firms connected by kinship ties based on reciprocity and mutuality (*qǐyè jítuán* 企业集团) “that embody sizeable investments and considerable economies of scale even though the size of any unit of those clusters is small”.¹⁵²⁹ They help “to pool information, finances and technological know-how”.¹⁵³⁰ The property rights of these arrangements are very ambiguous and remain diffuse, and thus help to bypass discrimination against legally private firms and give more security to the entrepreneur to reinvest.¹⁵³¹ This also demonstrates the mistrust of entrepreneurs in more formal arrangements on one hand, on the other hand the dense networks protect from overly greedy cadres.¹⁵³² Entrepreneurs will focus their investment on transferable assets, of which their network is the most valuable one. These assets cannot be confiscated by local cadres but can be applied to as many different business opportunities as necessary to be successful. The close connections to local administration are for the mutual benefit of both cadres and entrepreneurs, but the latter also need to secure profits for their families and networks and thus are forced to be extremely flexible.¹⁵³³

This contradicts the Western belief that personal relations are less efficient and more costly than contracts, leading to an "undercapitalization" and to firms being unable to grow over a certain size. Chinese entrepreneurs have a tendency to extend their networks rather than following Western corporate strategies, creating a whole set of different production

¹⁵²⁶ Wank, 1999, p. 254.

¹⁵²⁷ McNally; Guo and Hu, 2007, p. 15f.

¹⁵²⁸ Wank, 1999, p. 254.

¹⁵²⁹ Wank, 1996, p. 837, McNally, 2006, p. 41. For example, the ownership structure of Huawei Technology Corporation, which has a sales revenue of about \$5.7 billion, operating in more than 90 countries and being one of China's most successful private firms, is not known. “Huawei is a microcosm of China's private sector – we know that it is there but we do not know its actual size and its boundaries”. Huang, 2008, p. 10.

¹⁵³⁰ McNally, 2010, p. 4.

¹⁵³¹ Zhu, 2007, p. 1508 and Wank, 1999, p. 252+267.

¹⁵³² Zhu, 2007, p. 1510f. and Peng, 2004, p. 1057f.

¹⁵³³ Krug and Mehta, 2004, p. 59.

options.¹⁵³⁴ Apart from the reasons already given, setting up new businesses gives also family members or other members of one's network the chance to be manager of their own firm. Entrepreneurs formed "informal cooperatives among relatives and friends engaged in small-scale industry", allowing "individual entrepreneurs to pool capital and skills" and attenuating the exposure to discrimination and other limitations on private investment.¹⁵³⁵

Chinese entrepreneurs invest in diverse sectors and products to be able to move resources to activities and locations promising the most profit. This enables them to leverage gains and losses and to discover new markets and investments.¹⁵³⁶ This is facilitated by the fact that they have no formalized bureaucratic system, but are connected over networks. As highly flexible, low-cost producers they thrive in markets that require fast reactions to demand changes.

As a consequence, the notion of core competence, one of the most important features of the Western understanding of conducting business "turned out to be irrelevant to respondents in deciding which activities to engage in. For the most part, a firm is known, not by what it produces, but by who stands behind it, and that individual will seize on any profitable [...] opportunity which presents itself, with scant regard for any core competence the firm may, or may not, have".¹⁵³⁷ The flexibility to move quickly from one sector or location to another derived from the small units of production turns out to be a valuable asset during economic reforms (and, for that matter, has also been a major fact in the recent global crisis, see the example of Wenzhou outlined in chapter 7.2.).

To this day, the Chinese cultural tradition of Guanxi is related to a private economy which success depends mainly on small family firms based on paternal authority and personal trust rather than a legal system. Also, inside those enterprises, individual rights stand back behind the significance of personal networks and kinship relations which can be a competitive advantage in today's global economy.¹⁵³⁸ Hence, "[n]etwork capitalism' is built from the ground up and does not tend to overly rely on legal contracts and the supervisory role of the state. It rather depends on a myriad of small-scale businesses. In comparison to 'coordinated capitalism', these businesses do not tend to expand into large bureaucratic structures, but rather achieve wealth accumulation through the multiplication of small ventures. To overcome the disadvantage of small size, large numbers of firms coalesce into clusters of businesses that can display enormous flexibility in adjusting to chang-

¹⁵³⁴ Cf. Jinchuan, 2004, p. 51ff.

¹⁵³⁵ Whiting, 2001, p. 147.

¹⁵³⁶ Lever-Tracy, 2002, p. 519.

¹⁵³⁷ Krug and Mehta, 2004, p. 58f.

¹⁵³⁸ Yang, 2002, p. 467. See also Clegg, 1990, p. 105-129 and Hamilton; Zeile and Kim, 1990.

ing circumstances. These clusters are linked through horizontal networks of particularistic ties based on trust (Guanxi), which “provide the underpinning basis for a complex network-based organizational structure”¹⁵³⁹.

8.2.2. Role of jurisdiction in China

*“Like the moon, the Center’s policies differ
between the beginning and the middle of the month”
[zhongyang de zhengche xiang yueliang, chuyi shiwu bu yirang].¹⁵⁴⁰*

As a result of the close and interdependent relations of local government and private entrepreneurs, the Chinese legal system “has been characterized by policy experimentation, leading to informal and spontaneous legal developments, which then are legally clarified and codified”.¹⁵⁴¹ This meant in practice that “business involves not so much doing what is explicitly legal but rather doing what is not expressly forbidden”.¹⁵⁴²

Although impartial courts were established by the central government, legal actions are rarely taken and if so, only for supra-regional or international issues or for suing a person that is not part of one’s network.¹⁵⁴³ Courts 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, therefore solving problems within ones networks based on mutual obligations is considered far more effective.¹⁵⁴⁴ Networks are not only able to support their members but also to enforce sanctions upon them. This incorporates the fear of losing ‘face’ and evokes the feeling of shame and loss of reputation. Not only are networks considered more effective, the recourse to the formal courts are often also viewed as failure to solve the problem through the network and at the same time not be able to follow the etiquette of society. The only exception for this is if the court is geographically distant to the place where ones business is located and if the person taken to court is not part of one’s network.¹⁵⁴⁵

This mistrust towards courts can be traced back to China’s history. Over the most part, China was ruled by an emperor and his laws had to be implemented by local officials, of whom many were prone to corruption. This exposed people to official exploitation and

¹⁵³⁹ McNally, 2007a, p. 190. Quote within from Robison and Beeson, 2000, p. 13.

¹⁵⁴⁰ Zhu, 2007, p. 1510.

¹⁵⁴¹ McNally, 2006, p. 27ff.

¹⁵⁴² Wank, 1999, p. 252.

¹⁵⁴³ Wank, 1999, p. 264ff.

¹⁵⁴⁴ Peng, 2004, 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.”

¹⁵⁴⁵ Wank, 1999, p. 264ff.

caused them to distrust official institutions.¹⁵⁴⁶ Still, as Bourdieu argues, the state sought to concentrate “juridical capital”, which in his terms is “an objectified and codified form of symbolic capital [...], delegated and guaranteed by the state, in a word bureaucratized”. It is the foundation of the “specific authority of the holder of state power”.¹⁵⁴⁷

A legal culture is defined as consisting of a “pattern of reciprocal influences between parallel phenomena of law and society”. In China, the societal reaction to legal reforms, which not only are perceived as being imported from the West, but to a large part actually are, represent indeed responses to the latter fact. These laws have been designed to fit the economic and political conditions of their originating culture, whereas the reactions on the Chinese side are influenced by local culture.¹⁵⁴⁸ Usually, legal norms develop gradually in accordance to local history and traditional norms. In interaction with the economic and political development, hitherto unwritten rules are transformed into formal laws. Thus, imported law needs to be altered in accordance to local traditions. “This local acceptance of imported law norms may depend on a process by which traditional norms that are unresponsive to new realities are discarded (‘delegitimization’) and replaced by new norms as part of evolving belief system (‘transvaluation’)”.¹⁵⁴⁹

Corresponding Chinese custom, personal interactions are carried out based on relations and the unwritten rules of Guanxi which are considered far more effective for solving any kind of problem.¹⁵⁵⁰ This impedes the assertion of a bourgeois concept of freedom and a juridification of relationships in a Western sense, as personal connections are valued over contracts and law. Legal rights are not conceived as individual entitlement (in terms of being entitled to something) rather in the sense of dispensing justice (punish malfeasance), which is consistent with the Chinese notion that individuals can only exist embedded in their social environment. The Western ideals of democratic principles, civil liberty, equality and independent justice, all universal values coming from the age of enlightenment, have no corresponding tradition in China.¹⁵⁵¹

The significance of Guanxi is often seen in its coexistence with law and legal institutions, only together providing a complete legal system.¹⁵⁵² In contrast to courts, Guanxi is conceived to provide security and predictability for legal issues as formal legal institutional are still conceived as too weak to manage business relations and allocate resources, imply-

¹⁵⁴⁶ Kiong and Kee, 1998, p. 91f.

¹⁵⁴⁷ Bourdieu, 1999, p. 63-66.

¹⁵⁴⁸ Potter, 2008, p. 181.

¹⁵⁴⁹ Potter, 2008, p. 182.

¹⁵⁵⁰ Peng, 2004, p. 1050.

¹⁵⁵¹ Pohl, 2002, p. 115f.

¹⁵⁵² Potter, 2008, p. 180.

ing that once the formal legal system is complete, Guanxi will not be necessary any more.¹⁵⁵³ In contrast, other authors argue that because “China’s legal system is increasingly influenced by common law rather than codified civil law traditions, the role for Guanxi is likely to increase, pending the development of a body of law on which interpretations of general principles and norms might be based”.¹⁵⁵⁴ In this view, Guanxi is interpreted as coping mechanism. An elaborate legal system can thus diminish but never totally erase the role of Guanxi because it has little influence if not complemented by informal Guanxi relations. Potter argues that the dominant role of the state apparatus and the limited formal constraints of its actions are in favor of the persistence of Guanxi. This notion justifies the parallel existence of Guanxi and a formal legal system. As contracts are conceived as a means to deal with people who are not trusted, laws are only necessary when a relationship is not based on mutual trust. However, it might be misleading to regard Guanxi as exact opposite of a formal legal system as it is rather part of the legal system in completing and complementing the Chinese legal culture.¹⁵⁵⁵

During the last 30 years the central government created a virtually complete set of laws, covering most aspects necessary for an elaborate legal framework equal to that of a fully developed economy, including the protection of property rights and the establishment of impartial courts. As a very recent example, a document issued on 13 May 2010 by the China's State Council named *Several Opinions of the State Council on Encouraging and Guiding the Healthy Development of Private Investment* promotes the private sector. It states that private capital is allowed to establish financial institutions and encourages investments in infrastructure and basic industries. Also, it “require[s] the competent governmental departments across the nation to pay enough attention to the work on encouraging and guiding the healthy development of private capital, spare no time to work out specific measures and build favorable policy environment and public opinion atmosphere for the sound development of private investment”.¹⁵⁵⁶ As often the case with legal documents issued by the central government, it includes few specifics. The exact meaning for example of “healthy development” and how the financial institutions are supposed to be designed is not expli-

¹⁵⁵³ Xin and Pearce, 1996.

¹⁵⁵⁴ Potter, 2008, p. 194f.

¹⁵⁵⁵ Potter, 2008, p. 180. Potter adds: “The traditional Guanxi system retains its importance, but must operate alongside an increasingly formal set of largely imported rules and processes made necessary by the increased complexity of social, economic, and political relations...As an expression of social capital, Guanxi operates along with other mechanisms of economic or symbolic capital for regulating social, economic and political relationships”, p. 183.

¹⁵⁵⁶ A document issued on May, 13 2010 by the China's State Council online (<http://www.chinaipr.gov.cn/news/government/654035.shtml>). In Chinese available under http://www.gov.cn/zwggk/2010-05/13/content_1605218.htm, both accessed 8 June 2010.

cated. This leaves room for local deviations and interpretations and thus the degree to which those laws are implemented on the local level again strongly depends on the character of local cadres.¹⁵⁵⁷

As another example for the mutual influence between central state and local developments is the problem of private property rights. To sidestep the problem of ownership in a time when private property was still not officially sanctioned, villages were authorized to decide on the ownership of former state domains. The local bureaucracy of imperial China was revived to deal with the 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 Dynasty¹⁵⁵⁸ as ‘harvest splitting contracts’.¹⁵⁵⁹ The entrepreneur got a fixed wage plus a certain percentage of the profits as incentive. Within the villages, kinship networks helped to protect private property and thus facilitated growth.¹⁵⁶⁰ As in the past, family ties served as a buffer against social insecurity, fulfilling duties like acting as juridical authority and lending money, thus creating enforceable trust. The clan again filled an institutional gap in Chinese social and political structure, serving as “monitoring and sanctioning power”.¹⁵⁶¹ This scheme was finally officially legalized with the Household Responsibility System (HRS) in 1981, one example of the Chinese central government ex post legitimizing actual procedures which from then were to be uniformly followed in entire China.¹⁵⁶² Other restrictions for private enterprises were finally removed by settling the question of inheritance, rent and transfers. However, especially during the 1980s, the private sector was still officially illicit in accordance to central gov-

¹⁵⁵⁷ Krug and Mehta, 2004, p. 54f.

¹⁵⁵⁸ The Ming Dynasty was the ruling dynasty of China from 1368 to 1644.

¹⁵⁵⁹ Krug, 2002b, p. 137f. During the Ming and Qing dynasties it was common to use written contracts for the transfer of property. However, as the Chinese law code was primarily a criminal code, enforcement of these contracts could not be enforced by law. Contracts were thus dependent on mutual trust, which also means that contracts were not much more than „statements of intent“. No penalty clauses were included as there were no independent means to enforce the contract. Dispute would be solved over the network. Faure, 2006, p. 34f., 89f.

¹⁵⁶⁰ Peng, 2004, p. 1048.

¹⁵⁶¹ Goode, 1970, p. 297f., Peng, 2004, p. 1051f. Please refer to chapter 7.2 for the example of Wenzhou.

¹⁵⁶² “[Toward] the end of 1978, a small number of production teams, first secretly and later with the blessing of local authorities, began to try out the system of contracting land, other resources, and output quotas to individual households. A year later, these teams brought in yields far larger than those of other teams. The central authorities later conceded the existence of this new form of farming but required that it be restricted to poor regions. However, most teams ignored this restriction. Full official acceptance of the HRS was eventually given in late 1981, when 45 percent of the production teams in China had already been dismantled. By the end of 1983, 98 percent of production teams had adopted HRS”. It is also argued that the HRS revived the customs of traditional written contracts, so-called “*bao*”. The usage of this term in economic relationships indicates that it is a well-known institution from the past. Lin, 1992, p. 37, Faure, 2006, p. 73-75, Kelliher, 1992, p. 57.

ernment regulations which meant that private property rights were still not officially enforceable. From 1984 an official law secured the use of the land for fifteen year tenure. In 1988, private enterprises with more than seven employees (*sīyíng qǐyè*, see also chapter 7.1.) reached an official legal status, but still regarded the private sector as subordinate to the state sector and were kept that way for example by harsh credit constraints. On the NPC annual meeting in Beijing on 14 March 1999, it was decided to amend the constitution to protect private property rights, again being revised in 2004, at the Second Session of the 10th NPC.¹⁵⁶³ The *Property Law of the PRC* (*wùquán fǎ* 物权法) has been approved on the 5th meeting of 10th NPC on 16 March 2007, coming into effect on 1 October that year.¹⁵⁶⁴

A similar example can be found in the enactment of the ‘Unified Contract Law’ of 1999 which includes all basic law principles for contract law such as “offer and acceptance and good faith in the process of forming contracts”. It replaced the bureaucratic process of obtaining approvals that determined the validity of contracts in use before but still leaves a lot of room for (local) interpretation. However significant the enactment of the law was, at this point Guanxi was still ‘officially’ needed to fill the gap of contract security.¹⁵⁶⁵ Nevertheless, it meant progress in that contracts are effective when they are concluded, not when the process of approval by the local government is completed. It is counterbalanced by the fact that contracts always have to be in accordance with other administrative regulations, “respect public morality, and avoid disruption of economic order and harm to the public interest of society”. Additionally, without the procedure of government approvals no set interpretation of the requirements of the law exists which leaves room for local deviations and will result in the need to use Guanxi to secure contracts.¹⁵⁶⁶

A more problematic example would be the case of insider trading regulations, which, considering the importance of Guanxi, seem to be nearly impossible to enforce. However, the first regulation was already enacted in 1990, when the Chinese stock market just developed. The Chinese term for ‘insider trading’ (*nèimù jiāoyì*, 内幕交易) has been first used in

¹⁵⁶³ Qian, 2000, p. 161, Tsai, 2006b, p. 137, citing article 11 of the Chinese constitution: “The state protects the lawful rights and interests of the private sector of the economy, including individual and private businesses. The state encourages, supports and guides the development of the private sector, and exercises supervision and administration over the sector according to law”. Additionally, article 13 states: “The lawful private property of citizens shall not be encroached upon”. Please see also chapter 5.1.4.

¹⁵⁶⁴ Whyte, 1995, p. 1013f., Nee and Oppen, 2010, p. 6 and State Administration for Industry & Commerce of the PRC, <http://202.108.90.68/laws/070323170205-1.htm>, accessed 9 November 2010. However, even if private property is officially protected, in reality this might mean nothing. Anecdotal evidence from China reveals that local governments can still expropriate an owner if it decided that a business zone for example is rededicated as housing area.

¹⁵⁶⁵ Potter, 2008, p. 191f.

¹⁵⁶⁶ Potter, 2008, p. 193f.

Provisional Measures for Regulating Securities Companies of 1990. It comprised not many specific regulations and is thus received as being merely of symbolic and political value. It was changed again in 1993 in two separate regulations (namely the *Provisional Regulations on the Administration of Stock Issuance and Trading* and the *Provisional Measures for the Prohibition of Securities Fraud*), adding details on insider trading. Additionally, the NPC changed the criminal law so that it included insider trading in 1997. In 1999, finally the *Securities Law of the People's Republic of China* came into effect which was designed after the example of US insider trading regulations. It was hoped that together with highly developed laws, also the stock market would work effectively like in developed countries as the US. However, although insider trading seems to be a severe problem in China only very few cases are reported.¹⁵⁶⁷ Most articles on the topic criticize details of the regulation, but only in the sense that it does not imitate the US law perfectly, without giving any consideration on cultural or social issues connected with the topic. Loopholes are only seen in misspecifications of details within the law: "There are, however, some serious problems with the Chinese law, due to the uncritical implantation of overseas experience. This is strikingly illustrated by the loopholes found in the definition of insider which are inherently related to the confusion around the underlying theory of insider trading liability".¹⁵⁶⁸

Taking Guanxi relations into account and the affinity of Chinese businessmen to solve problems in an unofficial way, it seems doubtful that a reliable reporting will ever be established. More than that, insider trading might be a major and persistent problem of the Chinese stock market. Bearing in mind that the norms of Guanxi make a huge difference between people in- and outside one's circle, insider information can be seen as part of the Guanxi system of favors. Unsurprisingly, empirical research found that Chinese students are far more acceptant towards insider trade than US and even Taiwanese students.¹⁵⁶⁹

These few examples of changes to the legal system can also serve as a perspicuous illustration of institutional change. It can be argued that this process is a composition of layering and conversion of institutions. Both are types of change that do not exploit gaps between rules and their enforcement but leave it intact. However, by adding new amendments and additions to its laws, the Chinese central government gradually transformed its legal system to better fit the new economic circumstances without giving up its political principles, although also foreign practices were imported in the process. It is thus difficult

¹⁵⁶⁷ Huang, 2005, p. 283ff.

¹⁵⁶⁸ Huang, 2005, p. 322.

¹⁵⁶⁹ Statman, 2009, p.54f.

to regard this process as one that follows a certain trajectory, although ex-post it certainly does. In that, it is rather a process of cumulative causation than a path-dependent development.

These few examples show very vividly, how the Chinese legal system is not only heavily fragmented between central and local level, but that it remains also very problematic to import foreign legal arrangements (and thus foreign customs), like also the experience of post-soviet countries proved in a very obvious way. However, China manages to combine the new laws with old traditions and in accepting local differentiations; it constructed a legal system that not to a small part relies on Guanxi to be effective.

9. Concluding remarks and main findings

*“The capitalist state, though, needs to be constitutionally constrained, since a relatively autonomous economic realm can only occur with the recognition of clear ‘constitutional’ constraints on the power of the state to violate private space of the individual or to commandeer his or her property”.*¹⁵⁷⁰

9.1. China’s development process and institutional change

As has been outlined throughout this work, China’s development has been very impressive, but also very unequal in different regions and sectors - in terms of progress, but also in terms of the importance of the private sector and hence, Guanxi. Among other factors such as proximity to Hong Kong, this rather geographical pattern of growth can be explained by the uneven distribution of personal networks. Especially in the beginning of reforms, investments in the private sector often came from Overseas Chinese, and were typically directed towards their own families and thus specific communities, which mostly were in coastal regions. These investment decisions were thus often not made according to Western conceptions of industrial location that emphasize first and foremost the proximity to markets and demand, low-priced production factors and a favorable political climate.¹⁵⁷¹ Nevertheless, it was especially the last which was influential for China’s development, as the example of Wenzhou demonstrates. It has been argued that regions and sectors that are more influenced by the state sector are less influenced by Guanxi than privately organized sectors, but this work does not argue for the existence of different varieties of Capitalism within China.¹⁵⁷²

Although there is a “patchwork of local political economies”, as different sectors and regions show different patterns of Guanxi capitalism, it is possible to carve out some underlying fundamentals that permeate all areas. This dissertation aimed at presenting a holistic picture of the development path of post-reform China, focusing only on a few specific characteristics to discover the basic principles of the process. It has been proved that Guanxi Capitalism combines elements of state-led, network and global Capitalism that interact on the local level of both the political and the economic sphere.¹⁵⁷³ It has to be emphasized again that this work does not claim to present an exhaustive picture of the Chinese economic system; although it provides a synthesis of a large body of knowledge, it

¹⁵⁷⁰ Heilbroner, 1985, p. 89.

¹⁵⁷¹ Pye, 1995, p. 51.

¹⁵⁷² McNally, 2010, p. 2.

¹⁵⁷³ McNally, 2007a, p. 196.

is limited to certain societal and cultural aspects. Nevertheless, it seeks to provide some meaningful insights into the workings of a Chinese Capitalism that uses Guanxi as one main factor for its success, even with the risk of appearing overly simplistic. To put it differently, this work has tried to get one step closer by stepping back: so that the forest and not only the trees can be seen.

This dissertation has discovered that the essentials that characterize the Chinese economic system are defined by a network or Guanxi Capitalism and the driving force of development can thus be attributed to the private sector and its entrepreneurs. It has been found that since the VoC-approach does not incorporate the political and economic dynamics of a post-socialist country in transition and takes a democratic polity as given, it is less capable than other approaches of describing the type of Capitalism developing in China.¹⁵⁷⁴ The political structure of China and its developmental and transitional economy is still far from having an established institutional framework. By contrast, its institutions are still constantly changing and thus defy the possibility of being described in a ‘snapshot’ analysis like that of the VoC, or of even being compared to already existing ‘snapshots’. However, VoC and similar modern comparative approaches share the search for insights to the “dynamics and contradictions” of Capitalism.¹⁵⁷⁵

Other approaches for describing a specific type of Capitalism are the concepts of economic order and style, which also can be interpreted as geographical variations of a particular economic spirit. The method of spatially comparing different economic systems is not new, but has already been tried in previous centuries when different nations were compared according to the mode of economic activity, the structure of society and the form of government.¹⁵⁷⁶ In general, economic systems are influenced by their cultural norms, which can also explain non-economic factors in their composition.¹⁵⁷⁷ In particular, the economic style approach describes cultural transformation over time and its causal link to economic transformation, not just how specific cultures transform an economic system in a particular way.¹⁵⁷⁸

In contrast, Eucken argued that analysis of Capitalism is necessarily imprecise and vague since Capitalism is itself a formless concept. However, Eucken’s proposition of economic orders is only able to describe static systems and not the transformation from plan to market. It also fails to explain the emergence and development of institutions. Although

¹⁵⁷⁴ Wilson, 2007, p. 253f.

¹⁵⁷⁵ McNally, 2007a, p. 178.

¹⁵⁷⁶ Schefold, 2009, p. 17.

¹⁵⁷⁷ Gottschalk and Broyer, 2004, p. 63.

¹⁵⁷⁸ Schefold, 1995, p. 222f.

Eucken's dichotomous concept of economic orders has been expanded and refined, nor do these more recent approaches succeed in describing institutional change. Yet Eucken and the theory of orders, and his conception of ideal-types, paved the way for more modern approaches to comparative analyses of economic systems. In this regard it is not so far away from the VoC-approach, except that the types of this theoretical framework are defined according to a different set of characteristics.¹⁵⁷⁹

Economic styles are instead not static, but dynamic in nature, which also means that style changes can be analyzed. Whereas the system approach is better suited for broad description of epochs, but less suited to describe the qualitative change of an economy, since it is more abstract and general, seeking the unvarying element of a basic structure; the style concept by contrast can be applied to specific variations of the system. Defining a new economic style requires the interaction of various disciplines, such as sociology, political studies, history and economics.¹⁵⁸⁰ This concept enables the analysis of an economic system more holistically. However, implying that a certain era is connected to a certain economic spirit does not mean that the economic actors were necessarily aware of their own orientation. An economic style indicates the transformation of an economy by describing the change of economic thought, it does so, however, more from a long-term perspective. On the other hand, a style can also aim at different eras and indicates various systems within them. It is a concept that is both highly subjective and employs relativism in creating a painting, rather than a photograph, of an economic era.¹⁵⁸¹

Following Arthur Spiethoff an economic style can be characterized by economic spirit, natural endowment and technology, economic and social constitution and economic dynamism. It has been made clear throughout this work that China commands a very distinct set of all of these characteristics. However, this dissertation attributes the most weight to economic spirit, since it has a strong influence on the structure of an economic system and thus on creating a specific type of Capitalism. This dissertation is hesitant to claim that this type can serve as an ideal-type, but that it is sufficient in describing the real-type of Chinese Capitalism. According to Salin, the difficulty of distinguishing between real and ideal-types can be overcome by calling a type a 'model' instead.¹⁵⁸² Streeck also argues that although "Capitalism as a social order...may be an 'ideal type',... it cannot be an ideal". He adds that "[s]trictly speaking, it is a utopia, since it cannot exist outside of non-

¹⁵⁷⁹ Gottschalk and Broyer, 2004, p. 51-54, 60, Eucken, 1947, p. 14f.

¹⁵⁸⁰ Schefold, 1994c, p. 69f., Schefold, 1994b, p. 26.

¹⁵⁸¹ Schefold, 1995, p. 237, 245f., Schefold, 1994d, S. 81

¹⁵⁸² Salin, 1967, p. 186.

capitalist modes of social organization even though it continuously strives to emancipate itself from them and in fact is destructive of them. While the reality of Capitalism is always mixed, the mix is far from stable and indeed always explosive. Although its internal logic of growth makes Capitalism attempt to reorganize all social relations in its image – ‘subsume’ them under the ‘laws of capitalist accumulation’ – it can do so only at its own peril. ‘Really existing Capitalism’ depends on its being embedded in two kinds of non-capitalist social orders which it nevertheless permanently erodes: remnants of cultural traditionalism that are being undermined by institutionalized cynicism, and modern institutions of social regulation and reconstruction created by political countermovements against the marketization of society”. He calls that the contradiction of Capitalism.¹⁵⁸³

However, in creating types, the concept of the economic style can be said to be methodically not far away from the notion of the holistic pattern model. Whereas the first concentrates more on past and present, searching for underlying fundamentals that often can be better detected with (spatio)temporal distance, the pattern models focuses more on continuous updates, therefore on the immediate present, and seeks maximal closeness to its subject of analysis. Of course they differ conceptually and methodologically, but both concentrate rather on qualitative rather than quantitative elements, and so can nevertheless reveal a rather accurate painting of the Chinese economic system in taking also social, political and cultural influences in account – without neglecting its development and transformation. These theoretical approaches can be enhanced by the instruments of institutional change that argue that “the institutionalized order of Capitalism...is a historical order, i.e. one that is continuously changing because it is inherently unstable and precarious”.¹⁵⁸⁴

Hence, even if scholars like Eucken dismissed the economic style as incapable of describing the reality of economic activities and processes and sought to construct real-types instead of ideal-types, this dissertation regards the notion of economic styles to be particularly appealing for constructing types of Capitalism because of its capacity to describe the character, and therefore the reality, of an economy.

For some time now China-related research has used the concept of path-dependent and path-defining processes of institutional change and development. In the case of China, this is neither a gradual nor a radical procedure, but rather a very pragmatic one. It does not aim to replace one institutional setting by another; it rather initiates a process of institutional change by layering and converting of institutions, as in the development of legisla-

¹⁵⁸³ Streeck, 2010a, p. 25f.

¹⁵⁸⁴ Streeck, 2010a,p. 25.

tion for the private sector in China. The Chinese transformation is not founded upon the remnants of socialist institutions; instead the party-state uses the legacy of the bureaucratic planned economy to produce a capitalist system with Chinese characteristics.¹⁵⁸⁵ China's fragmented authoritarianism in which "the vertical bureaucratic entities are structurally prone to conflict with horizontal levels of territorial-based governmental administration" employed a "protracted, disjointed, and incremental" approach to transformation.¹⁵⁸⁶

In contrast to the mainstream view that informal institutions explain the gap between intended and unintended institutional outcomes, and are thus responsible for the malfunctioning of formal institutions, the approach to institutional change originating with Thelen claims that adaptive informal institutions merely extend the boundaries of formal institutions, and explore new patterns of behavior that *ex ante* have not been foreseen. They thus manage to survive for some time, although mainly in semi-legal gray areas. As the case of China has shown, this process of gradual institutional change, often consisting of responses by the central government to local developments, can also take place in an authoritarian regime where reactions of this kind are rather unexpected. In China, adaptive institutions are particularly prominent "where some local political and economic actors face incentives to promote private sector development but where formal institutions at the national level lag in adjusting to new businesses and their associated externalities".¹⁵⁸⁷ It also emphasizes the specific role of the central state in its interaction with local actors, hence the local government and in turn of local officials with private entrepreneurs. However, when the CCP regards informal practices as endangering social stability, or as questioning the political system at large, it officially censors those institutions. Still, adaptive informal institutions eased developments that led to a gradual legalization of the private sector. The case of 'red capitalists' and the use of Guanxi helped to integrate private entrepreneurs into the party, and hence towards political and societal acceptance. Informal practices were also a way for political actors to allow for changes without having to abandon ideological issues entirely, but enabled them to bend the meaning of formal rules pragmatically.¹⁵⁸⁸

Some scholars also conceive the Chinese transformation and development process as displacement, whereas others argue convincingly for a process of layering and conversion. All these concepts seem to fit to the Chinese transition towards Capitalism and hence indicate the complexity and multi-causality of the process. It also proves that even the most

¹⁵⁸⁵ ten Brink, 2010, p. 6f.

¹⁵⁸⁶ Tsai, 2006a, p. 121.

¹⁵⁸⁷ Tsai, 2006a, p. 124, 127, 140.

¹⁵⁸⁸ Tsai, 2006a, p. 126-128.

extreme and remarkable changes in institutions and incentive structures may happen gradually by the interaction of complementary institutions.¹⁵⁸⁹

Also the notion of Ellerman's parallel experimentation can explain this process of institutional change.¹⁵⁹⁰ Ellerman defines parallel experimentation as a "process of multiple experiments running concurrently with some form of common goal, with some semi-isolation between the experiments, with benchmarking comparisons made between the experiments, and with the 'migration' of discoveries between experiments wherever possible to ratchet up the performance of the group. The thesis is that parallel experimentation is a fundamental dynamic efficiency scheme to enhance and accelerate variation, innovation, and learning in contexts of genuine uncertainty or known ignorance".¹⁵⁹¹

This describes the pragmatic, although mostly implicit, policies and policy changes of the central government, most clearly visible in the development of laws concerning the private sector, accompanied by amendments of the constitution and finally the admission of private entrepreneurs into the CCP. As has been outlined in the chapters on Wenzhou and jurisdiction, many regulations were actually *ex-post* approvals of local facts. The example of the 'red hat' entrepreneurs reveals that adaptive informal institutions added to the conversion of a formal regulation, namely the collective registration status. The red hat practice added a new form of collective enterprise and by that extended the institutional space of private firms. It led to the advancement of more market-oriented institutions that competed against the existing state-controlled institutional system which, over time, dissolved in favor of the new institutional arrangement.¹⁵⁹² It can thus be interpreted as a new institutional layer of corporate organizational type that did not displace the collective sector. It generated a politically acceptable justification for establishing a more transparent registration status for private enterprises. The informal interaction of local economic and political actors created a new institutional reality that forced the central party to adjust the existing formal regulations to incorporate those informal, but successful, practices. This dynamic process accumulated in revisions of the Chinese constitution and legislative system that, over time, resulted in an increasingly beneficial environment for the private sector.¹⁵⁹³

As has also been emphasized throughout this work, the private sector, and hence private entrepreneurs together with their networks, are the driving force of (capitalist) develop-

¹⁵⁸⁹ Whiting, 2001, p. 299.

¹⁵⁹⁰ Ellerman, 2010, Ellerman, 2004.

¹⁵⁹¹ Ellerman, 2004, p. 1.

¹⁵⁹² Mahoney and Thelen, 2010, p. 20.

¹⁵⁹³ Tsai, 2006a, p. 131, 135.

ment in China. (Institutional) changes of this sector (including falsely registered enterprises) have repercussions upon the state sector and hence upon the system as a whole. Guanxi networks are the most important instrument for private entrepreneurs and hence for the private sector, but it also exists in all other spheres and sectors throughout China. The development of Guanxi Capitalism is thus driven by the private sector and is virtually independent of the institutional framework built up by the central government. Although the legal environment especially is more and more equal to Western institutional structures, it is still only complementary to specific Chinese institutions. Informal practices in the form of layers and conversion amalgamate more Western-oriented institutions to fit a unique Chinese economic system.

This theoretical approach towards institutional change, especially the case of drift, is similar to Veblen's notion of evolutionary change. In general, American Institutionalism argues "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".¹⁵⁹⁴ As has been shown with the example of China, institutions are not consciously adapted because they are most efficient, rather because they also have a political dimension.¹⁵⁹⁵ It has also been made clear that explaining Chinese economic development is impossible without taking cultural and historical issues, as well as the embeddedness of individuals within the institutional structure into account, since individuals define themselves in relation to others. The holistic perspective of American Institutionalism offered a critical insight into the dynamics of social change and human behavior within China. Its narrative approach enables the description of an economy that is still in flux without claiming to be applicable on a general level. Within this structure the Chinese type of capitalist economy was analyzed and defined as a distinct form of economic system. Thus, the definition of a Chinese type of Capitalism can in this sense be interpreted as a pattern model but also as a real-type, following the terminology of the economic style approach.

It has been shown that even without employing the VoC-approach it is still possible to construct a distinct Chinese variety of Capitalism that accounts for its transformational nature. It also overcame Weber's notion that Capitalism shapes a uniform institutional framework. I will come back to that below, but it has to be emphasized that an alternate embodiment of Capitalism in different regions with diverse cultures and history can exist. "However, as already Durkheim knew, and clearly Weber knew as well, an order of this

¹⁵⁹⁴ Kiong and Kee, 1998, p. 87.

¹⁵⁹⁵ Amable, 2003, p. 9.

kind is inevitably unstable, since interests can easily and unpredictably change at any time, especially in rapidly fluctuating self-regulating market".¹⁵⁹⁶ It is important to keep in mind that institutions "are staffed, rather than being merely a collective representation" and consequently the behavior of institutional authorities in enforcing regulations varies. In different Chinese localities different party officials with differing value systems are in power, who hence produce differing results in terms of institutional settings by bending formal, central laws. However, institutions and rituals will be particularly tenacious when they are endowed with value and deeply entrenched in the social structure, such as in the case of Guanxi.¹⁵⁹⁷

9.2. The Chinese notion of development: future and perspectives

*"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)."*¹⁵⁹⁸

9.2.1. The role of family and networks

Mainstream discourse, and particularly NIE, treats liberal, contractual institutions that present strong protection of private property rights and business freedom as the best option for economic development. The arguments of these approaches are backed by econometric studies which, however, fail to measure institutional quality, and ignore the limitations of cross-section regressions for highly heterogeneous samples.¹⁵⁹⁹ The mainstream argues "that economic development requires a rapid, radical, extensive (and even exhaustive) replacement of the current institutions, habits, and routines of the former centrally planned economies by an entirely new set of institutions and mentalities".¹⁶⁰⁰ By contrast, in the Chinese case of transformation, the process of development during the 1980s has been associated with the term 'songbang', which means 'to untie'. The radical process of decollectivization has been conceived as an untying of the peasants from former constraints, allowing them to work as individual laborers.¹⁶⁰¹

¹⁵⁹⁶ Streeck, 2010a, p. 26.

¹⁵⁹⁷ Stinchcombe, 1997, p. 9f.

¹⁵⁹⁸ Peng, 2003p. 3.

¹⁵⁹⁹ Chang, 2010, p. 22.

¹⁶⁰⁰ Stark, 1992, p. 21.

¹⁶⁰¹ Yan, 2010, p. 495.

It can thus be argued that a complex socio-economic system cannot be planned on a drawing board, and institutional frameworks cannot be replaced by newer, 'better' ones. Hence, the notion of some sort of "cookbook capitalism" does not exist.¹⁶⁰² China's central government probably intuitively, but in any case pragmatically, objected to the 'conventional wisdom' of how to develop a country correctly. By 'crossing the river by feeling the stones' and by taking into account ideological issues, it gradually transformed not only China's economy but – intentionally or not – also the attitude of its population towards Capitalism. It can also be argued that the government merely revived an already existing 'capitalist spirit' that, however, incorporated the idiosyncratic elements of the traditional Chinese culture mixed with remnants of the planned economy.

Employing Guanxi for the purpose of transforming the existing economy and designing a successful capitalist system was however not a deliberate decision of the central government. It was rather a local or grassroots development that gradually changed the economy and the legislative environment in favor of private sector activities. The concept of 'red hat' enterprises would not have been possible without the help of Guanxi. Guanxi as an institution adapted to the new circumstances rather than being actively transformed. One of its main features was and still is that "Chinese people continue to treat each other differently depending on family background, place of origin, shared experiences, educational affiliation, and other dimensions, with the nature of these affiliations determining the treatment received".¹⁶⁰³ This is often attributed to the prevalence of Confucian values.

However, Guanxi networks are different to those in Western societies, which are rather one-dimensional in the sense that they concentrate on one particular sphere and one type of connection - for example business contacts in the case of corporate networks. This implies a separation of business and private domains, and thus a separate set of behavior in each sphere. By contrast, Guanxi networks are multiplex constructs, since they include social relationships of different character and thus merge different spheres of life. The Chinese tolerance of ambiguity and a high level of pragmatism imply that one particular person can play a different role in different situations. Guanxi networks are also more reliant on generalized reciprocity instead of a balanced reciprocity, because it is never balanced but always entails the expectation that a favor given now will be repaid at an unknown time in the future.

¹⁶⁰² Phrase coined by David Stark in Stark, 1995.

¹⁶⁰³ McNally, 2010, p. 6.

All kinds of networks are long-term constructs with trust as an important component, but they differ in the form of trust they incorporate. Typically, Western networks are more based on system than on personal trust, and also more grounded on formal than on informal social capital, which means that associations and political bodies play a bigger role within networks. Thus differences in culture can result in different network structures, as has been shown in chapter 6 with the examples of German, Russian and Italian types of networks. Guanxi networks not only work within the “small islands of prosperity within the sea of misery” as the European (regional and strategic) networks do.¹⁶⁰⁴

Generally, networks function as a safety net in that they provide mutual assistance and support; in the Chinese case it is also a survival kit for hardship, since they provide support in case of bankruptcy by postponing or even preventing them. The reciprocal mechanism of Guanxi networks is aimed towards the other, not the self, which implies that empathy and knowledge for the needs of the other are necessary. Guanxi always consists of unequal exchange, which presumes that anything reciprocated has to be of great value to the receiver, and has to be of greater value than that received, so as to ensure the gratitude and further indebtedness of the recipient. This makes Guanxi networks a dynamic and lasting instrument. Guanxi is necessarily highly individual, not a public good, and cannot be accumulated by collectives, such as firms, as is social capital according to Coleman. This is a leading difference with the concept of social capital.

However, Guanxi is still often compared to the concept of social capital. Guanxi includes mutual obligations, indebtedness in a reciprocal relation. It is more than being social embedded, since it is a system of gifts and favors that do not need to be reciprocated at a particular time. It probably is most similar to Bourdieu’s concept of social capital because it needs continuous efforts to be maintained. It is however not oriented towards immediate utility in the present or future. It further differs from Putnam’s definition, who claims that social capital is manifested in civil engagement and membership in clubs, parties or other associations and thus is rather formal in nature. Guanxi in contrast consists purely of informal relations. Guanxi differs most starkly from the more economic interpretations of social capital by Coleman, Burt and Dasgupta. However, Guanxi is a form of social capital in the sense that it is a moral resource and a sum of social relations and informal rules that facilitate co-operation within society. Guanxi is also not equal to what Granovetter terms ‘strong ties’. Although *Rénqíng* is an important component, ‘loose affiliations’ can also

¹⁶⁰⁴ Piore and Sabel, 1984, p. 6.

share an identity and belong to the ‘inner circle’ of Guanxi, since a high frequency of interaction or spatial or emotional closeness are not necessarily obligatory.

The typical argument of NIE that a network is an organizational unit that is as another way of reducing transaction costs and enhancing efficiency, also traces cultural differences back to the Western rationality argument, which in the end leads to the all-encompassing criterion of efficiency as the sole objective of a rational enterprise. This argues again follows Weber. History is deterministic, so that rational Capitalism in the Western sense is the epiphany of modernity, which denies a possible difference between cultures. Western discourse has great difficulty in considering social systems as open or emotional and in this sense ‘irrational’, which includes the absence of clear-cut boundaries between society, politics and the economy.¹⁶⁰⁵ In contrast, the flexible production of Chinese networks is based on trust, and is determined by its institutional environment.¹⁶⁰⁶

9.2.2. The private sector and the state

German entrepreneurs of the 19th century were in Weber’s view „men who had grown up in the hard school of life, calculating and daring at the same time, above all temperate and reliable, shrewd and completely devoted to their business with strictly bourgeois opinions and principles”, leaving behind traditional lifestyle and principles.¹⁶⁰⁷ Weber considered entrepreneurs were essential for the development of Capitalism. A bourgeois was also a political man, feeling a responsibility for society, using his power to build up a legal and political environment helpful for a capitalist economy.

The typical entrepreneur portrayed like that retreated to relative insignificance with the upcoming bureaucratization and rationalization process. Personal connections were largely replaced by contractual relations that were regarded as more efficient. This trend was reversed with a changing global economy that put corporations under world-wide competition and the pressure of flexible production. Small firms complemented large corporations, serving as subcontractors, and in selected areas formed even very successful local industrial districts. Traditions from the preindustrial past helped these entrepreneurs to face global business. Especially the industrial districts of the *Third Italy* are clusters of small-scale businesses connected over networks.¹⁶⁰⁸ Networks however differ considerably in their significance for economic activity, and in the degree of state intervention, but in general

¹⁶⁰⁵ Herrmann-Pillath, 2000, p. 114f.

¹⁶⁰⁶ Herrmann-Pillath, 2000, p. 116f.

¹⁶⁰⁷ Weber, 1976 [1930], p. 69.

¹⁶⁰⁸ Redding and Witt, 2007, p. 211, 216.

the global economic system experienced an increasing importance of so-called flexible production and hence small firms, often organized in cluster or networks. Although Chinese networks differ from networks found elsewhere in the world, there is of course also some common ground. Although particularly in these Italian districts links between entrepreneurs are often based on informal agreements, these are only isolated phenomena. The density of relations within this milieu results in economies of scale that are similar to that of a larger corporation, but with the advantage that firms remain much more flexible. However, even if an individual entrepreneur dominates her own firm, the relevance and quality of the cluster networks differ from their Chinese counterparts not least because they are based on more formal, contractual relations and social capital, such as membership in business associations, and often also written contracts. This is even more true for the artificially built-up clusters heavily subsidized by the (German) government. However, even where they were not initialized by the state, European industrial districts needed a certain cultural tradition to thrive and often only those are also successful and sustainable in the longer run. Networks require a certain level of mutual trust, reciprocity, altruism, shared values and goals. This often contradicts economic objectives and thus endangers the durability of networks. The relationship of autonomy and dependence in co-operations is sometimes considered to be 'paradoxical'. It also means that networks are only viable in a certain context under specific conditions.¹⁶⁰⁹ Some authors even claim that networks are nothing more than huge corporations "dressed in new costumes and armed with new technology".¹⁶¹⁰ Nevertheless, the success particularly of the Italian districts lies not insignificantly on their high level of innovativeness and the high quality of their products.

By contrast, China still lags behind in the innovativeness of its firms. Even private firms are organized around one patriarch who views the workforce not as potential contributors to the firm's innovative capacity but rather as rule followers, complying with established routines. It is a tightly controlled system that gives the individual worker little room to contribute something other than physical work. As a result, China registered only 144 'triadic' patents that are simultaneously registered in Europe, Japan, United States and which can thus be assumed to be innovative. Additionally, China's share of patents registered with the World Intellectual Property Organization in 2000 was merely 1.4 percent. By contrast, Austria, with a population of 8.3 million, registered 282 patents. By 2005, 50 percent of Chinese patent applications came from foreign-owned enterprises and merely one percent

¹⁶⁰⁹ Hirsch-Kreinsen, 2002, p. 113, 120.

¹⁶¹⁰ Harrison, 1994, p. 12.

of Chinese firms had ever registered a patent at all.¹⁶¹¹ Simultaneously, the Chinese government encourages plagiarism as an innovation strategy. Recently, the vice minister of the Ministry of Industry and Information Technology has called for the protection of the intellectual property value of fake products (*shanzhai*), claiming that they also require a degree of innovativeness.¹⁶¹² In addition to the problem of lack of innovativeness, Chinese society faces the additional difficulties of an aging society, together with the consequences of the one-child policy. Some authors therefore claim that China is “growing old before growing rich”.¹⁶¹³

However, in Imperial China the family and traditional structures of society did not yet support the emergence of a Western-type Capitalism guided by a certain spirit. More than a century later, after Western-type Capitalism had taken over most of the world's countries and shaped a global economy dependent on flexible production, exactly those structures proved to be fertile soil for economic development. With globalization, markets and the production system altered; beside large-scale multi-national corporations also small firms are extremely successful in this environment of rapid changes in demands and niche products. The success of the Chinese economic system can in no small part be attributed to global tendencies that favored subcontracting to small firms. The Chinese private sector fits perfectly into this institutional framework, since its firms are able to change products and the mode of production very quickly. They gain access to markets and supplies with the help of personal relationships. The networks of privately-owned firms revived social techniques and institutions known from the past. Capable of connecting through Guanxi networks, these firms are both highly flexible and extremely successful low-cost producers. This fits with the Chinese tendency to only do business with people they know or to whom they are related. If entrepreneurs in the same business are in a dense network together, rather than competing each other they will support each other, exchanging resources and know-how. The unique Chinese culture and history enabled individuals to become entrepreneurs, and in spite of a very difficult domestic political environment they were immensely successful, first and foremost in labor-intensive sectors such as textiles or toys. Traditional institutions such as Guanxi and the accompanying social rules and restrictions added to their accomplishments. Guanxi is "a historically evolved regime of kinship and ethnic power" that has been formed during the process of change of the economic system in the Chinese society. Its dense networks allowed it to react flexibly and take on mas-

¹⁶¹¹ Redding and Witt, 2007, p. 218f.

¹⁶¹² Song, 2010, accessed 2 January 2011.

¹⁶¹³ Redding and Witt, 2007, p. 232f.

sive risks, which were buffered by the supporting and sanctioning mechanism of the networks.¹⁶¹⁴ Kinship networks not only serve as shelter to protect private property, but additionally provide information on supplies or business opportunities. All in all, networks “lower entry barriers and raise the survival and success rates of private entrepreneurs”.¹⁶¹⁵ It complements Western institutions and thus forms a specific type of Capitalism based on Guanxi. The reality of an increasingly flexible global economy favors not only mass production, but even more so subcontracting and small-business production, which is most effectively done in cities that create clusters of production for certain products, as for example in Wenzhou for shoes or lighters.

In contrast to their German counterparts, Chinese entrepreneurs do not form a class, or bourgeoisie. Besides being rich, they do not build a shared identity and hence, formal social capital (like membership in business associations) is far less important than informal social capital, not least because they come from extremely diverse backgrounds. Informal social capital manifests itself in bilateral connections to local officials, one of the most important factors for the private sector in China. This relationship is shaped by shared motivation and aims which are mutually intertwined and result in a partnership in which both sides gain. Although entrepreneurs are often seriously discriminated against by the (local) government, they still do not seem to seek political change in general. By contrast, intellectual, economic and political elites increasingly merged since the 1990s, led by the thought that market economy and a totalitarian state actually are an advantageous combination, and all that matters is economic development. Authoritarian control can thus at the same time obey the global convention of ‘rule of law’ and the logic of Guanxi. It is a means of linking the demands of the market with that of political control.¹⁶¹⁶

The ‘new rich’ found various coping strategies to evade disadvantages and thus a way to be successful in business while also achieving a reputation in their network and community. Hence, like their European equivalents, they follow a strict cultural code, in their case the rules of Guanxi. As Guanxi is not a business but societal phenomenon, this might also explain their hesitant attitude towards more formal co-operation with other entrepreneurs.

This proves again that the importance of kinship relations for individuals was not diminished by the Chinese transformation towards Capitalism. Still, individuals “find their place between a succession of ancestors and future generations”. Guanxi extended to incorporate also quasi-kinship and became thus a “more general an open-ended structure of

¹⁶¹⁴ Ong, 1999, p. 116f.

¹⁶¹⁵ Yang, 2002, p. 466ff. Quote from Peng, 2004, p. 1059.

¹⁶¹⁶ Michelson, 2007 p. 357.

Guanxi networks”, organized around the individual.¹⁶¹⁷ It has been argued that five core elements of the Chinese culture constitute the Chinese individual. These are the significance of the relationship between father and son, strong gender segregation, having a large family, a specific education system and powerful parental authority.

Although individuals are still embedded in their personal relationships and view themselves only in relations to others, be it family or the more extend social network, there is also a process of individualization within the Chinese society. The Chinese individual is divided into a small self and a great self, the first concerned with personal interest, the second directed towards national interest. Chinese individual actors define themselves not as autonomous, but in relation to a social group. In contrast to a similar process in the Western world, it is process that is led by the party-state and is not necessarily aimed towards a democracy, political liberalism, or a more advanced welfare state.¹⁶¹⁸ Still, the changes to the socio-economic system in China led towards an ‘enterprising self’ who is more calculating and pro-active, an attitude mostly found among the younger generation. They are autonomous and responsible individual actors who at the same time can also be patriotic or even nationalistic, and identify with the party-state. They are also self-controlled in the sense that for example the owners of Internet cafés support the control and censorship of the Internet users in order to stay in business, although these businesses are already privatized. Individualization in China is more equal to a re-defining of the relationship between the individual and the party-state without contesting the political system, rather than to a change in the relationship between individual and society as in Western Europe.¹⁶¹⁹

However, the strong emphasis on the family is an obstacle for the development of a civil society in the Western sense. China seems also not to head towards a middle-class, bourgeois society, but is highly polarized, which also means that it is potentially also a ‘high-risk society’.¹⁶²⁰ The articulation of legitimate interests in China was traditionally very difficult, since Chinese rulers mostly believed that different regions should not have different interests. All regions within China, no matter how diversified, were supposed to follow the same goals and have the same interests and trust their leader to act in their best interest. China in that sense did not develop a mature political economy and hence no

¹⁶¹⁷ Yan, 2009, p. 90.

¹⁶¹⁸ Western individualization theory highlights detraditionalization, institutionalized disembedding and reembedding, pursuit of a ‘life of one’s own’ and an internalization of risks due to the precarious freedoms and uncertainties that the individual is facing. Yan, 2010, p. 509.

¹⁶¹⁹ Hsu, 1948, Yan, 2010, p. 493f., 504f., 509f., Yan, 2009, p. 290.

¹⁶²⁰ He and Reisner, 2006, p. 449f.

strong civil society. Despite recent economic development, very few interest groups exist. The existing associations and organizations are part of the party-state and are not in opposition to it. This form of state corporatism is however a political culture with some tradition in China.¹⁶²¹

Although the CCP opened up towards private entrepreneurs, and also enacted private sector-friendly legislation which allowed some pluralization and institutionalization to take place, it still keeps its rules and laws opaque, giving a lot of power to local state officials. Autonomous institutions outside the party-state, such as an independent judiciary, still hardly exist. This forces private entrepreneurs to navigate semi-legal gray areas if they are to be successful in business, which in turn gives the state the opportunity to accuse a businessman of infringement at its will. This protects the state from political opposition by economic elites.

Additionally, Guanxi networks are a tool to facilitate interaction with a bureaucratic state. It is also complementary to the formal legal system established by the central government and is still better suited to guarantee the enforcement of contracts, because moral principles are regarded as more influential than legality. In China, networks are seen as long-term reciprocal alliances to access information and resources, like bank loans or supplies. They are especially a means to navigate in unstable political and economic surroundings, supporting the flexibility of small firms.

9.3. A new type of Capitalism? Towards a definition of Guanxi Capitalism

"All things are in motion and nothing remains still."

Heraclitus of Ephesus

This dissertation argued that Chinese economic system is network-based and thus differs qualitatively from Western Capitalism.¹⁶²² This work therefore focused on the private sector and the relevance of Guanxi within it. However, it was emphasized that although Guanxi is employed in the entire Chinese economic system, it is most significant for private enterprises. The private sector itself is also not homogenous, but works differently from region to region and/or sectors. Even taking this into account, some common tendencies can be found in the entire economy. Rather than being bifurcated into a state-controlled economy and a private economy, each adhering to their own set of rules, the

¹⁶²¹ Pye, 1995, p. 42.

¹⁶²² McNally, 2010, p. 2f. I am grateful to Christopher McNally for making this manuscript available to me.

Chinese economic system is more a continuum of varieties that together result in a specific Chinese type of Capitalism. However, economic data shows that the private sector is the driving force behind the development process.

Although the Chinese transformation towards Capitalism has gone a long way, it remains incomplete, and the Chinese type of Capitalism still undergoes constant change. It is a very complex, multifaceted process that works differently in China than in other capitalist countries. Its institutional framework is influenced not only by strong local cultural traditions, but also by the size and the correlating regional disparities of the country. However, Guanxi plays an important role in regulating the relations between the economy and the political system. It results in a certain pattern of 'Chinese' entrepreneurial practices that include the important role of the family firms, especially wives in internal management functions, and support by business networks, facilitating informal financing.¹⁶²³ Entrepreneurs are driven by the desire to not only provide for their family, but to enhance its reputation by money accumulation. This enabled SMEs to become very specialized producers that at the same time have access to economies of scale over flexible Guanxi networks, principally not much different than in the industrial districts of the *Third Italy* and in some other locations in Europe, as already mentioned above.

Although the private sector relies on one part of the 'standard' instruments of a capitalist economy, which are first and foremost contracts and certain corporate forms, they are more dependent on Guanxi strategies to overcome this institutional uncertainty and volatile government policies for the Chinese private sector. Rather than depending on the supervisory role of the state and on large-scale bureaucratic enterprises, private entrepreneurs rely on the multiplication of small businesses that are arranged in clusters and thus achieve maximal flexibility. Within these clusters, not the state but Guanxi is essential for economic success.¹⁶²⁴ Guanxi Capitalism relies on dynamics that are at the same time complementary and contradictory and which have their root in Chinese culture and history.¹⁶²⁵

Consequently, Guanxi supports a system of network capitalism, that rather than being dependent on trust in formal institutions such as the law; it hinges more on trust that is based on interpersonal liabilities. Some authors claim that personal networks by definition have to be quite small-scale, since individual capacities to build up and maintain social connections are limited.¹⁶²⁶ However, as connections can have varying degrees of intensity

¹⁶²³ Unger, 2002, p. 138-140.

¹⁶²⁴ McNally, 2007a, p. 190.

¹⁶²⁵ McNally, 2010, p. 3.

¹⁶²⁶ Redding and Witt, 2007, p. 211f.

and importance and also are spatially and chronologically distributed, Guanxi networks in general are of larger scale than other types of networks. This work therefore argues for the great significance that Guanxi has for Chinese Capitalism. Guanxi capitalism represents “a distinct form of business practice derived primarily from the Chinese kinship system”.¹⁶²⁷

This work has also analyzed the link between a capitalist economy and a democratic political system, since Capitalism relies to a large part on the relationship between the economy and the state.¹⁶²⁸ In theory entrepreneurs will with increasing wealth seek political influence in practice they interact with the local government, but are rather passive on a central level. They are not interested in system change, at least as long business is good and the economy grows. To that effect they seek to build up Guanxi with local government officials to achieve some embeddedness with the party-state. The Western-style legal framework, which over the course of reforms has been introduced by the central government, is neglected in favor of more powerful Guanxi relations. In turn ambiguous Guanxi relations enabled the central government to support private economic activity without having to surrender its ideology entirely. On the contrary, it allowed the government to maintain political power through economic success. Guanxi Capitalism achieves distinctive advantages for Chinese privately-owned firms by translating wealth into power, and thus manages to combine traditional with capitalist institutions.¹⁶²⁹ These connections between local economic and political actors are sometimes also called ‘clan capitalism’ and are a distinct feature of Guanxi Capitalism.¹⁶³⁰

It has been shown that there is no Chinese bourgeois class in the making, and entrepreneurs do not conceive themselves as having something in common, except maybe concrete business plans. The continuous importance of the Chinese entrepreneur contradicts Weber’s ideal-type notion of Capitalism and the role of entrepreneurs therein. In contrast to Weber’s and Sombart’s expectations concerning growing rationalization and bureaucratization, instead of entrepreneurs losing significance in the Chinese economic system they are still essential for the economic success of an enterprise. Entrepreneurs possess the necessary flexibility, the right instinct for profitable investments and the ability to mobilize connections and create alliances - valuable assets for the global production environment. Weber’s ideal-type framework has thus been contrasted with the reality of China, particularly the role of the private sector, entrepreneurs and their networks with a particular em-

¹⁶²⁷ Gold; Guthrie and Wank, 2008a, p. 13.

¹⁶²⁸ Heilbroner, 1993, p. 68.

¹⁶²⁹ McNally, 2010, p. 3f., 21.

¹⁶³⁰ Redding and Witt, 2007, p. 211f., McNally, 2010, p. 4

phasis of how their co-operation (and interaction with the state) works. Weberian ideal-types of relationship are either purposive- or value-rational, hence either highly purposive and 'commodified' or more sentimental in nature. The 'bureaucratism' of modern China that many people and especially entrepreneurs conceive to be obstacles for business, falls outside this dichotomous categorization. Guanxi, however, has both value-rational and purpose-rational elements and is able to use connections “cultivated for their intrinsic value as an instrument to achieve other ends, or even cultivates 'connections' with material gains in mind”.¹⁶³¹

Different institutional frameworks in Europe did not lead to significantly different economic developments. So it might be fair to say that Capitalism itself is grounded upon some fundamental mechanism or spirit. The difference in style can be traced back to different policy decisions or to cultural aspects, forming specific types of Capitalism.¹⁶³² This would also accommodate the fact that Capitalism is obviously able to function under diverse political systems.

It is a standard argument within mainstream economics that growing global involvement and the pressure of liberalization, particularly in finance, will even out the differences between countries and of different forms of Capitalism, and will lead to the convergence of institutions. In the same line of thought researchers like Markus Taube argue that although for example China is increasingly important for the shape of the global economy, it still needs to follow the basic rules of a market economy and therefore a ‘sinicization’ of the economy will not occur.¹⁶³³ However, diverging structural conditions result in a variety of Capitalism that is based on a different set of institutions. As has been recognized by international development agencies, there is not one ‘best practice’ for a country to follow the dynamics and regulations of a market economy, but depending on the specifics of its institutional background, there are diverse ways to efficiently implement Capitalism.¹⁶³⁴

It can also be assumed that Capitalism is a very robust mechanism. Despite the gloomy predictions of many economists that Capitalism is doomed and will be replaced by another system such as Imperialism (Lenin) or Socialism (Marx, Schumpeter) or else is anticipated to reach the end of the accumulation process (Smith, Keynes), today it is more influential than ever.¹⁶³⁵ However, as the example of Wenzhou and its survival of the financial crisis of 2008 have shown, also Guanxi Capitalism has a stable character. It was demonstrated

¹⁶³¹ Dittmer, 1995, p. 30.

¹⁶³² Amable, 2003, p. 3.

¹⁶³³ Taube, 2007b

¹⁶³⁴ Amable, 2003, p. 9, McNally, 2006, p. 17.

¹⁶³⁵ Heilbroner, 1987, p. 353.

that entrepreneurs employ their contacts to local officials to facilitate their embeddedness in dense networks and thereby maintain their business or starting afresh if failing in one specific sector. The connections to politicians proved to be extremely helpful. People utilized their ties to local cadres, which in turn due to their local embeddedness were inclined to support private enterprises. The extreme flexibility, the forgiveness and experiences of their networks, investing in a whole portfolio of products and the usage of underground banking facilities - these together help entrepreneurs survive. This is not equal to the survival of a specific enterprise whose dissolution would be tolerable, because the failure of one business is not considered to be a personal failure. It is rather the existence of networks that gives the necessary stability and security, especially in times of economic crises. Within China different strategies are at work to cope with the impact of capitalist transformation, especially in regions with a large collective sector. In the latter case, mainstream macro policies, such as the stimulus package, were also of significance for the recovery of the Chinese economy. However, this dissertation stresses the importance of the private sector and hence the influence of informal connections, and also that Guanxi is an indispensable and vital factors for the successful restoration of the Chinese economy. Although Wenzhou serves as an illuminating example and similar ones can be found throughout China, it is very important to keep in mind that “China is a continental system which contains a large number of different social and cultural practices. Its 34 provincial-level jurisdictions are most usually country-sized by the standards of the rest of the world”.¹⁶³⁶ Still, industrial clusters in rural China developed spontaneously in various places depending on local traditional culture, local resources and also “local capable persons”.¹⁶³⁷

Chinese Capitalism based on networks and small private businesses thus proves to be an alternative embodiment of Capitalism that is also sustainable. Personal relations are not separated into a private and a business sphere or exchanged for other, in Western thinking more rational, means of doing business, since they include factors like reputation and long-term benefits for their family. Guanxi is a permanent part of Chinese society and wields a strong influence on the economic system, while maintaining its core identity. Guanxi proved to be a powerful tool in its ability to adapt. Despite all the 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. It does not merely react to changes within society, with traditional forms forced

¹⁶³⁶ Goodman, 2007, p. 176f.

¹⁶³⁷ Li and Li, 2007, p. 49.

to subordinate to market forces. It complements Western institutions to meet economic demands, and thus forms a specific type of Capitalism based on Guanxi. Guanxi is not an irrational mode of economic activity that is inferior to rational-legal institutions. Chinese Capitalism uses unique Chinese elements combined with Western institutions, its history and culture forming a distinctive type of doing business, and also shapes a specific capitalistic society. Both modes will coexist in a newly defined institutional and cultural style of modernity.

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”.¹⁶³⁸ The Chinese form of rational Capitalism does not destroy long-existing culturally and historically embedded institutions, yet it still disadvantages individuals, especially women and bases its success in part on social inequalities. Hence, there are mainly two institutional changes to the Chinese economy: the introduction of a legal-rational regime by the state and the “increasing class and gendered nature or Guanxi”.¹⁶³⁹ Part of Guanxi is that it “traps women and the poor while benefiting fraternal business associations”.¹⁶⁴⁰

It is however important to emphasize that there are also sectors and enterprises that do business the Western way, but still with a Chinese turn. Western-style institutions are adapted and although contracts are used, especially in sectors with a lot of FDI and in former SOEs, personal relations are of greater importance in China than in the West since the individual is seen as part of a bigger whole (family or networks). Those features are immanent to Chinese culture and although changed and adapted, they will not wither away. By contrast, contracts have a very long tradition in the West in the regulation of relationships between individuals, whereas in China obligations to other people are derived from morality and propriety. A juridification of personal relations in this tradition is difficult to envision. In a particularistic culture such as the Chinese one, justice and rights are not understood to be an individual entitlement.

On the other hand, because Chinese family firms operate most efficiently in labor-intensive low- and medium-technology industries producing 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, Guanxi and

¹⁶³⁸ Wilson, 2007, p. 249.

¹⁶³⁹ Yang, 2002, p. 466.

¹⁶⁴⁰ Ong, 1999, p. 116f.

family ties might become an obstacle again. Indeed, small-scale enterprises will certainly not play an important role in every sector of the economy. Even within the private sector small privately owned firms concentrate on branches where they can exercise their comparative advantage of fast reactions to changes in demand and thus complement the more Western-style institutions of other sectors.

By contrast, following Weber, modern Capitalism is assuming the same form globally, wherever and whenever it arises, destroying the traditional structures of societies and unifying the cultural diversity required for its success. By contrast, in China specific cultural idiosyncrasies seem to exist which are able to produce a harmonious symbiosis with capitalistic structures, mutually assisting and enhancing the given opportunities. The Chinese economic system seems to prove that Capitalism need not override traditional social formations. It also overcomes the notion of efficiency as the most defining attribute of a successful economy. Cultures are able deal with the reality of a global capitalist system in different ways. Chinese Capitalism is based on long-lasting traditions and defines the boundaries of society and economy, of business and politics in a new way and thus rises above Weber's distinction of traditional and rational.

Additionally, personal networks proved to be extremely successful in dealing with (economic) crises in the past, and contributed to the fast recover after the 2008 financial crises. Also, by obtaining not only material but also symbolic capital, Chinese Capitalism shows that "personal trust possesses more than just a functional [economic] value. This implies that Chinese Capitalism may in fact be more sustainable than is often assumed. Instead of being destroyed, the Chinese family-based economy adapted to a capitalistic environment. The common view that Capitalism necessarily has to impoverish large fractions of the population and destroy traditional institutions to prosper might yet been proven wrong.

It might also be the case that the Chinese way of doing business will not only be sustainable, it might also be the case that the West will need to adapt its style towards one where the person of the entrepreneur and personal connection be of more importance. In contrast to the belief that only Chinese business practices need to move towards the Western style of doing business, it might be also the case that the West has to move in the direction of Guanxi-type systems. Increasingly, also in the West informal institutions develop, for example for giving loans 'from private to private' as so called P2P-loans. Also, the development of 'relationship marketing' is discovered as a way to reduce transaction

costs, facilitate future marketing efforts and retain customers through specific and continuing relationships. To accomplish these goals trust and commitment is needed.

From Weber's point of view a specific Chinese Capitalism can only be a temporary phenomenon, since in the long-run it will converge to the usual contractual relations within large-scale enterprises. This is also believed by some Chinese authors who claim that "the personalized transactional pattern [...] will continually and expediently be transformed into the non-personalized transactional pattern".¹⁶⁴¹ However, Weber's thesis of an inevitable bureaucratization cannot be upheld. The flexible accumulation of 21st century Capitalism hinges not only on huge multinational corporations but has also "achieve[d] a new competitive edge by abandoning hierarchical, capital-intensive bureaucratic enterprises for flexible smaller subcontracting firms", and thus family businesses.¹⁶⁴² For those reasons, this work, instead of constructing "Capitalism as a monolithic, all-encompassing, penetrating, seamless, and integrated total system with a predetermined and knowable teleology"¹⁶⁴³ in line with Weber's thinking, identified a different type of Capitalism that consists of its own characteristic institutions.

However, family structures and economic change 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. 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 remodeled to adapt to the conditions of the modern global economy as efficiently as possible, instrumentalizing cultural and social institutions.¹⁶⁴⁴ It has to be emphasized that this family-based system strongly depends on the exploitation of cheap labor, especially of women. Although very successful economically, Guanxi-type Capitalism is also a male dominated, patriarchal structure without being more humane or providing equality.

Guanxi-Capitalism revived authoritarian traditional institutions and made China a competitive force in the global market. Instead of regarding small family businesses as an outdated mode of production, Chinese economic success relies on the flexibility and personal networks of privately-owned firms. Thus, the rationality of Guanxi-Capitalism is based on the unique framework of China's culture and history. Personal relations were always of importance throughout the Chinese history and are deeply ingrained in the Chinese culture.

¹⁶⁴¹ Jinchuan, 2004, p. 54.

¹⁶⁴² Yang, 2000, p. 481.

¹⁶⁴³ Yang, 2000, p. 483.

¹⁶⁴⁴ Krug, 2002b, p. 141f.

So even though from a Western thinking this might be deemed inefficient, from a Chinese point of view it is not because Guanxi include not only economic considerations but also factors like reputation and long-term benefits for their family.

Market forces do not necessarily override the existing traditional features. One can argue that the Chinese type of Capitalism can be considered as a ‘hybrid Capitalism’ that has elements of both Western and Chinese Capitalism. Institutional arrangements, the historical development and cultural elements have formed different ways of doing business. It is important to recognize 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”.¹⁶⁴⁵

¹⁶⁴⁵ Yang, 2000, p. 477.

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A different Capitalism? Guanxi-Capitalism and the importance of family in modern China, in: Tagungsband zur Konferenz "Cultural Power Asia: Producing Culture, Building Identities" des Interdisziplinäres Zentrums für Ostasienstudien, 13.-15. November 2008, Campus Verlag (in Vorbereitung)

History of Economic Thought", 15.-17. Mai 2008, Universität Prag, Tschechien.

Beitrag: A different Capitalism? Guanxi-Capitalism and the Importance of the Family in Modern China

Konferenzorganisation

- Mai 2008 9. "Conference of the Parties to the Convention on Biological Diversity" in Bonn, 19-28. Mai 2008, Community Dorf der Equator Initiative, UNDP, New York City, USA
Koordination des Community Dorfs, in Kooperation mit GTZ und anderen Organisationen (Volunteer).
- Mai 2006 8. "Conference of the Parties to the Convention on Biological Diversity" in Curitiba, Brasilien, 18.-31. Mai 2006, Community Taba der Equator Initiative, UNDP, New York City, USA
Koordination des Community Taba, in Kooperation mit GTZ u.a. (Program assistant, siehe Praktika).
- April 2006 Studentenkonzferenz "Has Economics Failed the Challenge of Development?" an der New School of Social Research, New York, 20. April 2006
- Vorbereitung und Organisation der Konferenz (mit Teilnehmern der UN, IMF, Weltbank und Universitätsprofessoren): www.newschoolconference.com
 - Organisatorisches, Ablaufplanung

Besuchte Konferenzen (Auswahl)

- März 2008 2. Workshop "Institutions in the Development of East-Asia": Institutional Foundations of Innovations and Competitiveness in East Asia, zusammen mit dem Symposium "Bildungsökonomie in der Wissensgesellschaft", 5.-7. März 2008, Evangelische Akademie Tutzing.
- Dezember 2007 China in Africa: Who benefits? Interdisciplinary Perspectives on China's Involvement in Africa: International Conference, 14.-15. Dezember 2007, IZO - Interdisziplinäres Zentrum für Ostasiestudien, Goethe Universität, Frankfurt am Main.

Praktika

09 – 12/2006	American Council on Germany, New York, USA
01 – 05/2006	Equator Initiative, UNDP, New York City, USA
02/1997 – 03/1998	Senckenbergische Bibliothek in Frankfurt am Main Universitätsbibliothek für Naturwissenschaften
März/April 1998	National Library of Wales in Aberystwyth

Zusätzliche Qualifikationen

9/2005 - 12/2006	Mitherausgeber der Zeitschrift “New School Economic Research” des Wirtschaftswissenschaftlichen Fachbereichs der New School of Social Research <ul style="list-style-type: none">- Auswahl und Begutachtung der Aufsätze- Pflege der Webseite- Kontaktherstellung mit Autoren, Organisation des Ablaufs- www.newschooljournal.com
seit 12/2006	Review-Tätigkeit für “New School Economic Research”

Schulbildung

1983 - 1987	Walnusschule in Seligenstadt
1987 - 1996	Gymnasium der Einhardsschule in Seligenstadt
Abschluss:	Abitur mit der Note 1,7

Fremdsprachen

Deutsch	Muttersprache
Englisch	fließend in Wort und Schrift
Chinesisch	Grundkenntnisse in Wort und Schrift Intensivkurse seit 2007, Wirtschaftschinesisch seit 2007
Italienisch	Grundkenntnisse
Französisch	Schulkenntnisse

Ehrenwörtliche Erklärung

Ich habe die vorgelegte Dissertation selbst verfaßt und dabei nur die von mir angegebenen Quellen und Hilfsmittel benutzt. Alle Textstellen, die wörtlich oder sinngemäß aus veröffentlichten und nicht veröffentlichten Schriften entnommen sind sowie alle Angaben, die auf mündlichen Auskünften beruhen, sind als solche kenntlich gemacht.

Datum

Unterschrift