



**CENTRE FOR THE STUDY  
OF ECONOMIC & SOCIAL  
CHANGE IN EUROPE**

**SCHOOL OF SLAVONIC & EAST  
EUROPEAN STUDIES**

**Informal Practices in Changing Societies:  
Comparing Chinese *Guanxi* and Russian *Blat***

**Alena Ledeneva**  
**Department of Social Sciences**  
**School of Slavonic and East European Studies, University College London**  
**Email: [a.ledeneva@ssees.ucl.ac.uk](mailto:a.ledeneva@ssees.ucl.ac.uk)**

**Working Paper No. 45**

**University College London**  
**Centre for the Study of Economic and Social Change in Europe**  
**Senate House, Malet Street, London, WC1E 7HU**  
**Tel: 44(020) 7863 8517**  
**Fax :44(020) 7862 8641**  
**Email: [csesce@ssees.ucl.ac.uk](mailto:csesce@ssees.ucl.ac.uk)**

# Informal Practices in Changing Societies: Comparing Chinese *Guanxi* and Russian *Blat*

Alena V. Ledeneva  
Department of Social Sciences  
School of Slavonic and East European Studies, University College London,  
e-mail: a.ledeneva@ssees.ucl.ac.uk

September 2003

## Abstract:

The paper defines the key features of Chinese *guanxi* and Russian *blat* networks, explores similarities and differences in the use of these networks both in communist and post-communist economies, and discovers their ambiguous relationship with the formal institutions. Having compared *guanxixue* and *blat* in detail, one should conclude that people tend to develop similar responses (as well idioms) in order to survive in state centralised economies characterized by shortages, state distribution system and ideological predicaments. *Guanxi* and *blat* networks in pre-reform China and Russia played a similarly ambiguous role in these economies: on the one hand, they compensated for the defects of the formal rules thus enabling the declared principles of the economy to exist; on the other hand, they subverted them. There are also common trends in the transformation of informal practices in post-reform China and Russia. Before the reforms, both *guanxixue* and *blat* were often beneficial to ordinary people in allowing them to satisfy their personal needs and in organising their own lives, whereas now their shift into corruption benefits the official-business classes and hurts the bulk of society. Trust and social networks are vital components of both economies and will continue to exist (as elsewhere) but their implications for the transformation may differ. The post-Soviet reforms have changed the Soviet-type *blat* practices so much that *blat* has almost ceased to be a relevant term for the use of personal networks both in the state and in the new sectors of the economy. Being more culturally and historically grounded, the term *guanxi* has sustained and found its new use in contemporary China. There is much more discussion of *guanxi* and *guanxi* capitalism in China than ever has been on *blat* in Russia. The partiality of reforms in China and the communist rulership does not prevent foreign investment and economic success, and corruption is estimated as not as damaging in China as it is in Russia.

## Key words:

Informal practices, networks, *guanxi*, *blat*, *tolkachi*, formal institutions, post-communist transformation, change and continuity, ethics, use of networks in market economy.

## Acknowledgements:

I am grateful to Mayfair Yang for her help with the '*guanxi*' side of the paper and her most valuable comments. I also thank my students in the MA class 2001-2002, who explored these informal practices in comparative dimension with me. Erika Burkle and Yulia Shirokova have helped with this paper.

## I INTRODUCTION

Pervasiveness of informal practices in the Soviet economy and society was notorious. It is well documented in the studies of second economy and the first hand data.<sup>1</sup> In the massive literature on the 'second economy', many informal practices pervading the Soviet command system were identified and thoroughly examined.<sup>2</sup> In the economic analysis of the Soviet system Grossman and others conclude that shortage accounts for a large part of informal activities in Soviet economic system whereas Shleifer and Vishny's conclude that shortage was reproduced as a way for the party and government officials to extract monopoly rents.<sup>3</sup> It should be noted, however, that the characterisation of these practices as 'informal' testified to the Soviet regime's ability to ensure that they mostly contributed to rather than subverted the formal targets and activities of society. The informal economy took care of many needs that were not met by the command economy, and thus contributed to the functioning of the Soviet system. Informal practices were also seen as balancing off an extremely centralised and monopolistic power. According to Ken Jowitt, however, at some stage informal practices subverted more than contributed to the party's formal goals and general interests.<sup>4</sup> The predominant role of the informal practices in subverting the Soviet system has been reflected in a well-known anecdote of the Soviet period formulating the six paradoxes of socialism (in fact, a folk definition of socialism):

No unemployment but nobody works. [Absenteeism]  
Nobody works but productivity increases. [False reporting]  
Productivity increases but the shops are empty. [Shortages]  
The shops are empty but fridges are full. [*Blat*]  
Fridges are full but nobody is satisfied. [Privileges of others]  
Nobody is satisfied but all vote unanimously. [Cynicism]

The informal practices hidden in these paradoxes - I named them in square brackets – are the best indicator of the self-contradictory and self-subversive nature of the Soviet 'socialist' system.

First, the so-called 'socialist' economy could not have worked according to its acclaimed principles. The planned economy would not have worked if it was not for *tolkachi* (from *tolkat'* – to push, to jostle), who 'pushed' for the interests of their enterprise in such matters as the procurement of supplies or the reduction of plan tasks. Their 'professional' role was to support the Soviet 'command' economy and to enable it to work, which paradoxically could only be done by violation of its declared principles of allocation.

Parallel to the state enterprises, individual households had to be involved in practices lubricating the rigid constraints of a state centralised economy. For example, *blat* practices cushioned the discrepancies between the institutional and the personal in the authoritarian state:

---

1 Harvard Interview Project

2 Grossman, G. (1977) 'The Second Economy of the USSR', *The Problems of Communism*, Vol. 26, No. 5, pp. 25-40; Grossman, G. (1992) 'The Second Economy in the USSR and Eastern Europe: A Bibliography'. Berkeley-Duke Occasional Papers on the Second Economy in the USSR. Paper No. 21, July 1990.

3 Shleifer, A. and Vishny, R. (1993), "The Politics of Market Socialism," Working Paper, Department of Economics, Harvard University.

4 Jowitt, K. 'Soviet Neotraditionalism: The Political Corruption of a Leninist Regime'. *Soviet Studies*, Vol. XXXV, no. 3, July 1983, pp. 275-297, p.275.

between conditions of shortages and, even if repressed, consumerism; between the rigid ideological framework and human needs; between the public and the private.

Highly exploitative nature of the Soviet state has resulted in an extreme parasitism inherent in the popular attitudes towards the state itself, which had to put up with such attitudes in exchange for its own legitimacy. The *blat* system of exchange was grounded in the possibility of extending favors at the expense of state property or of the society at large. The dubious nature of state property and the repressive nature of the Soviet state have contributed to the spread of all-pervasive practices of cheating and outwitting the state: *blat* and other forms of diversion of state property, smuggling out (*vynos*), false reporting (*pripiski*), stealing, etc. There was a mutually exploitative dependence between the formal institutions and informal practices within the Soviet system: *blat* practices have exploited state resources whereas the state could not address the issue openly, lacking the alternative solutions for the distribution of scarce resources within the existing ideological frame. Thus *blat* has become an open secret of Soviet socialism banned from the political or academic discourse.

Western research into *blat* has been impeded by the awkwardness of the term, lack of written sources and reluctance of both authorities and individuals to admit the practice. As Joseph Berliner, one of the earliest observers of *blat*, has remarked, "is we were reliant on written sources we wouldn't have guessed ..."<sup>5</sup> Even then, the ubiquity of *blat* was obvious to every citizen of the ex-Soviet Union<sup>6</sup> and was also reported by Western researchers, who first described the phenomenon in the 1950s.<sup>7</sup> Edward Crankshaw referred to it as "an extremely elaborate and all-pervading 'old-boy' network.... Everyone, including the most ardent Party members, deals in it".<sup>8</sup>

Yet although *blat* has been recognized for a long time there has been little attempt to explore and to define its place within the Soviet system.<sup>9</sup> I suggested that *blat* should be viewed as the 'reverse side' of an over-controlling centre, a reaction of ordinary people to the rigid constraints of the socialist system of distribution – an indispensable set of practices which enabled the Soviet system to function, made it tolerable, but also subverted it. In other words, the existence of informal practices allowed the declared political and economic principles to be 'observed' and sustained as legitimate. At the same time, informal practices also subverted the formal order, especially its ideological and moral foundations, thus producing a specific mutually exploitative dependence between the formal and the informal within the system.

The theoretical account of *blat* offered in *Russia's Economy of Favours: Blat, Networking and Informal Exchange*<sup>10</sup> is concerned with the institutional characteristics of Soviet society which necessitated a gradual expansion of *blat* networks; with the ways in which these networks were interwoven with other forms of power (though not with political power and patron-client

---

5 Berliner, J.S. (1957) *Factory and Manager in the USSR*. Cambridge: Harvard University Press, 1957, p. 182

6 According to Berliner, anecdotes such as 'Blat is higher than Stalin' and 'You've got to have ZIS (*znakomstvo i svyazi*)' were a common knowledge. See Berliner, J. (1954), 'Blat is higher than Stalin', *Problems of Communism*, 3, 1.

7 Crankshaw, E. *Russia Without Stalin*. London: Michael Joseph, 1956; Dallin, D.J. *The New Soviet Empire*. London: Hollis & Carter, 1951; Berliner, J. 'Blat is higher than Stalin', *Problems of Communism*, 3, 1, 1954.

8 Crankshaw, E. *Russia Without Stalin*. London: Michael Joseph, 1956, p. 74.

9 Fitzpatrick, 'Blat in Stalin's time', in Lovell, S., Ledeneva, A. and A. Rogatchevsii (eds.), *Bribery and Blat in Russia*. London: Macmillan, 2000. pp. 166-182, p.179.

10 Ledeneva, A. *Russia's Economy of Favours: Blat, Networking and Informal Exchange*. Cambridge University Press, 1998.

relationship<sup>11</sup>); and with the ways networks have been used by actors in pursuing their aims and interests.

To summarise the role that *blat* practices played in a state centralised economy.

- *Blat* was a form of sociability that allowed the use of personal networks (kin, friends and acquaintances) for obtaining goods and services in the economy of shortage;
- *Blat* was a parallel currency in an economy where money played little role and served a particular type of informal exchange – exchange of ‘favours of access’ given at the expense of the institutional resources;
- *Blat* satisfied needs of personal consumption and provided niches of co-operation against the system, thus being instrumental for people.
- *Blat* was a ‘know-how’, an unwritten rule, needed to operate a system that could not work according to its own proclaimed principles and to cope with the extreme centralisation of the Soviet system, thus being instrumental for the state.

To be able to speak about the role of informal practices under socialism in more generic terms one has to view other forms that informal practices assume in other societies. In my comparative analysis of Soviet *blat* and Chinese *guanxi*<sup>12</sup> I focus on the social significance of these practices in the context of a state centralised economy (that was still very strong in China in the 1980s and predominated in Russia until 1991) and on their contemporary developments. The *guanxi-blat* comparison will allow us to distinguish both universal and specific features of the use of networks in communist societies and to assess the dynamics of these practices in the course of the market reforms.

## II CHINESE *GUANXIXUE* AND SOVIET *BLAT*: SIMILARITIES.

In order to make a balanced comparison, I analyse differences and similarities of *guanxixue* and *blat*,<sup>13</sup> presenting their characteristics in parallel in the tables where appropriate.

The most obvious but striking similarity between the Chinese and Soviet cases is the very existence of similar idioms – *guanxixue* and *blat* – to define the use of personal networks for getting things done (see table 1). Both definitions emphasise the following:

- both terms are associated communist/ state centralised systems;
- the ‘co-dependency’ of *guanxixue* and *blat* with the condition of shortage;
- their re-distributive functions in a state centralised economy – functions of obtaining access to the state resources through personal channels;
- ambiguous nature of *guanxi* and *blat* networks that is both social and calculating; moral obligation to engage in such social relationships is practically inseparable from the instrumental use of personal networks under the pressure of shortages.

---

11 For analysis of patronage see Hosking, G. ‘Patronage and the Russian State’. *The Slavonic and East European Review*, 2000, Vol. 78, No. 2, April; Fitzpatrick S. On patronage

12 I rely mainly but not exclusively on Mayfair Yang’s *Gifts, Favors and Banquets: The Art of Social Relationships in China*, Ithaca and London, Cornell University Press, 1995, p. 3. In further footnotes mentioned as ‘Yang’.

13 It is useful to distinguish *guanxi* (the actual networks) and its associated practice *guanxixue* (utilising those networks) in the Chinese context, whereas in Russia *blat* stands for both.

- *guanxi* and *blat* are highly flexible idioms in which boundaries are context-specific (Yang 1994, Wank 1996 (p.96); Ledeneva 1998).

**Table 1. Defining features of Chinese *GUANXIXUE* and Russian *BLAT***

<b>Chinese <i>GUANXIXUE</i></b>	<b>Russian <i>BLAT</i></b>
<p><i>Guanxixue</i> - the ‘art of <i>guanxi</i>’ - ‘involves the exchange of gifts, favors and banquets; the cultivation of personal relationships and networks of mutual dependence; and the manufacturing of obligation and indebtedness. What informs these practices and their native descriptions is the conception of the primacy and binding power of personal relationships and their importance in meeting the needs and desires of everyday life’ (Yang 1994 p.6)</p> <ul style="list-style-type: none"> <li>• Such a network is very important if the goods and services needed are scarce or difficult to obtain;</li> <li>• Thus this phenomenon can be defined as a network of personal relationships which can be used in order to obtain goods or services by asking friends;</li> <li>• Furthermore, the mutual obligation of this relationships seems to be so strong that one would feel obliged to do everything and to use one own <i>guanxi</i> network in order to help a friend.</li> </ul>	<p><i>Blat</i> is ‘the use of personal networks and informal contacts to obtain goods and services in short supply and to find a way around formal procedures’ (Ledeneva 1998, p.1) As a system of informal exchange, <i>blat</i> is characterised by the following features:</p> <ul style="list-style-type: none"> <li>• <i>Blat</i> was an exchange of ‘favors of access’ in conditions of shortages and a state system of privileges;</li> <li>• A ‘favor of access’ was provided at the public expense;</li> <li>• <i>Blat</i> served the needs of personal consumption and reorganised the official distribution of material welfare;</li> <li>• <i>Blat</i> exchange was often mediated and covered by the rhetoric of friendship or acquaintance: ‘sharing’, ‘helping-out’, ‘friendly support’, ‘mutual care’ etc. Intertwined with personal networks <i>blat</i> provided access to public resources through personal channels. (Ledeneva 1998, p.37)</li> </ul>

Further similarities stem from the parallel concepts of ‘smooth operators’ in both systems: *you* and *blatmeisters* in the individual household context and *caigouyuan* and *tolkach* in the institutional context (see table 2). In both contexts the terms refer to personalities who socialize easily and nurture the relationships with everyone because one day they might need these people. Yang draws parallels between a *tolkach* and an industrial-supply agent *caigouyuan* by underlining their talents for ‘pulling strings’ and their importance for the command economy (p.103). In both cultures there is also a similar ambiguity in attitude towards these people. They are viewed as calculating and manipulating but are also appreciated and envied because of their cleverness and well-connectedness.

**Table 2. Brokers and gatekeepers of *GUANXI* and *BLAT* networks**

<b><i>YOU</i></b>	<b><i>BLATMEISTER</i></b>
<p>‘The adjective <i>you</i> means “oily” or “greasy”, is sometimes applied to people who are especially adept at the art of <i>guanxixue</i>. It describes people who are sly and cunning, possessed of wily social</p>	<p><i>Blatmeisters</i> are people naturally endowed with a certain talent to be successful in <i>blat</i> transactions. Such characters solved problems and arranged things for others were also called ‘useful people’ (<i>nuzhnye</i></p>

<p>skills, and versed in the arts and guiles of impression management and social persuasion.’ Such people are bound to have wide <i>guanxi</i> networks because:</p> <ul style="list-style-type: none"> <li>• they know how to negotiate their way in social relationships; and also</li> <li>• possess <i>shili yan</i>, an “eye for power,” cultivating relationships only after astutely gauging the other’s social position and influence;</li> <li>• maintain harmony and smoothness of relationships with everyone.</li> </ul> <p>‘Having command of the rhetorical aspects of speech and possessing an acute sense of when, how, and with whom to exercise tact, apply flattery, or feign meekness and humility are essential to being <i>you</i>. Thus, favors are extracted from people without evoking resentment and sometimes even without the other being aware of being manipulated’ (Yang 1994, p.65). They also serve as gatekeepers (Yang 1994, p. 99)</p>	<p><i>lyudi</i>), who were in demand when something was needed:</p> <ul style="list-style-type: none"> <li>• they were people with lots of contacts;</li> <li>• not necessarily pleasant to everyone;</li> <li>• but energetic, jolly and cheerful – a demeanour that allowed them to acquire new contacts as well to sustain <i>blat</i> networks (Ledeneva 1998, p.115).</li> </ul> <p>Blatmeisters had the most widespread needs because they served to satisfy the needs of entire network and therefore the most intensive use of contacts. Blatmeisters engaged in fixing those daily problems of others would match the function of ‘brokers’ in network analysis’ (<i>Ibid.</i>, p.114). It was often the case that they were in professions to do with personal services – doctors, saunas, hair and beauty salons – and with access to goods – shop assistants, supply and storage employees etc.</p> <p>They operate as gatekeepers (<i>Ibid.</i>, p. 125)</p>
<b>CAIGOUYUAN</b>	<b>TOLKACH</b>
<p>‘Like their counterparts in the command economy of the old Soviet Union, the <i>tolkachi</i> [...], Chinese supply agents - are also assigned to the procurement of supplies for their factories and enterprises. And just as <i>tolkachi</i> possessed the talent for <i>blat</i> [...], <i>caigouyuan</i> must also be adept at cementing <i>guanxi</i> with significant persons in units that are potential suppliers and also find ways to induce suppliers to sell to <i>them</i> instead of other competing buyers. A skillful supply agent can also ensure that supplies are of good quality and that they will be shipped on time’ (Yang 1994, pp.103-104).</p>	<p>In an institutional context, it was a <i>tolkach</i> of the Soviet times, who used the skills of a <i>blatmeister</i> in the interests of the planned economy. Being skilled in manipulating people, procedures and paperwork, having the <i>blat</i> needed to ‘push’ the interests of their enterprise in such matters as the procurement of supplies, they were paid by the chiefs of the factories (Ledeneva 1998, p.25).</p>

The notions of ‘*shouren*’ and ‘*svoi*’ and their identical connotations highlight the fact that in both societies people are divided into those belonging to the ‘inner circle’ and those who are not part of it. Despite a fairly universal division into us and them in all human societies, it is remarkable to discover that the nature of inclusion or exclusion in so-called socialist societies – designed to be based on equality of access to the public resources – is in fact defined according to the

provided or denied the access to the pool of resources available to a certain network. To be ‘*shouren*’ or ‘*svoi*’ becomes even more important in those political regimes in which it is crucial to know who one can count on and who one can trust.

**Table 3. Belonging to *GUANXI* and *BLAT* networks**

<b><i>SHOUREN</i></b>	<b><i>SVOI</i></b>
The ‘ <i>shouren</i> ’ or ‘familiar person’ is part of a circle of friends, relatives and acquaintances in this broader sense. The circle of the Chinese <i>shouren</i> consists of people in a <i>guanxi</i> network who one can ask for a favor and who are in a position to influence the allocation of desirable resources. ‘Because of preexisting relationship such as friendship, kinship, or <i>guanxi</i> indebtedness, [they] can be relied on to help obtain that desirable object or to “get things done” ( <i>banshi</i> )’ (Yang 1994, p.64).	Citizens of the Soviet Union relied only on their closest relatives and friends (‘ <i>svoi</i> ’), using the broader net of acquaintances (e.g. ‘ <i>nuzhnyie liudi</i> ’, which is ‘useful people’) as a supplement of this inner circle (Ledeneva 1998, p.121). The notion of ‘ <i>svoi</i> ’ in Russian denotes an affiliation with a particular social circle of trusted people. The proverb ‘ <i>Svoi svoemu ponevole drug</i> ’ ( <i>Svoi</i> people are forced into friendship as they belong to the same circle) – emphasises a forced nature of such social relationship.

Apart from similarities in terminology, there are further similarities between the two practices. According to my classification of needs for the satisfaction of which *blat* was used for in Soviet Russia, the following four types of needs can be distinguished: *regular needs* such as foodstuffs, clothes, household, housework and hobby, *periodical needs* such as holidays, health resorts and travel tickets, *life cycle needs* (birth clinic, kindergarten, school, military service, high school, job, flat, hospital and funeral) and *the needs of others* (Ledeneva 1998, p.118). By applying the same classification to the use of *guanxi*, we can conclude that *regular needs* that Chinese people could satisfy by ‘pulling *guanxi*’ included obtaining of goods in short supply, goods of better quality or at lower prices. *Periodical needs* included industrial consumer products such as bicycles, colour televisions, refrigerators, travel tickets, access to recreational activities. *Life cycle needs* in Chinese context were jobs and promotions, permissions to move into bigger cities, admission to good hospitals, procurement of housing and obtaining of better education. *The needs of others* were to be served as well (deducted from Yang 1994, pp.91-99). Thus, similarities between *guanxixue* and *blat* could be determined in contrast to the market economies:

- *Guanxi* and *blat* practices in state centralised economies were required to satisfy *all four types of needs* whereas in market-based societies only certain *life cycle needs* are likely to require ‘pulling strings’;
- Pervasive use of these practices for all types of needs and especially their use as ‘safety-net’ or ‘survival kit’ made an engagement in these practices more compulsory than voluntary;
- Essential for the nature of *guanxi* and *blat* practices was that the needs satisfied with help of these practices did not exceed the level of modest, by western standards, personal consumption.



### III FUNCTIONS OF *GUANXIXUE* & *BLAT* IN STATE CENTRALISED ECONOMIES

Against their own backgrounds, *guanxixue* and *blat* had similar functionality in respective economies as shown in the table 4. To sum up this argument:

- *guanxi* and *blat* practices in pre-reform China and Russia played a similarly ambiguous role in these economies: on the one hand, they compensated for the defects of the formal rules thus enabling the declared principles of the economy to exist; on the other hand, they subverted them.
- Apart from subverting the formal institutions and principles, *guanxixue* and *blat* have produced a similar bearing on personal relationships – people were forced to use their personal networks instrumentally. Thus, the instrumental use of personal relationships has not only had a major impact on all aspects of society, economy and political regime, but also on the nature of personal relationships.

**Table 4. Functions of *GUANXIXUE* and *BLAT* in centralised economies**

COMPENSATORY	SUBVERSIVE
POLITICAL REGIME	
<ul style="list-style-type: none"> <li>• <i>Guanxixue</i> and <i>blat</i> are the people's response to the overregulation and rigid constraints that the state centralised regimes imposed on everyday life.</li> <li>• In combination with the politicisation of all aspects of life, people were forced to drive back into their closest entourage. Hence, the inner circle of family and friends became very important because it was seen as politically 'secure' (Shlapentokh 1989, p.11).</li> <li>• Chinese people tend to think that <i>guanxi</i> can ensure political security for themselves and 'people are less likely to report on someone who has done them a lot of favors' (Yang 1994, p. 96). According to Yang's data 'People are still always suspicious of informants or those who "make small reports" [...] to get them into trouble, and they are still alert not to offend anyone around them. Such considerations lead people to cultivate good <i>guanxi</i> with anyone who could potentially do them harm, establishing relationships of debt as a form of</li> </ul>	<ul style="list-style-type: none"> <li>• Just as the political regime parasites on non-critical attitudes of its people, people parasite on the state. The attitude of parasitism towards the state is subversive.</li> <li>• By providing each other with considerable assistance in 'beating the system', '[t]he family had become a symbol of the institutions opposing the state, a development commonly found in non-democratic societies.' (Shlapentokh 1989, p.11.)</li> <li>• Involvement into <i>blat</i> relationships in Soviet Russia could make one rather vulnerable for denunciations, unless one's <i>blat</i> contact is also a patron who can provide protection if necessary<sup>14</sup> - thus relatively 'open' <i>blat</i> channels can be conducive of political clientelism.</li> </ul>

<sup>14</sup> See, for example, Natalia's case in Ledeneva, p.106. For analysis of patronage see Hosking, G. 'Patronage and the Russian State'. The Slavonic and East European Review, 2000, Vol. 78, No. 2, April.

<p>political security (Yang 1994, p.97).</p> <ul style="list-style-type: none"> <li>• Inadvertently, <i>guanxi</i> and <i>blat</i> helped to preserve the ideological tenets of state socialism and to adopt them to reality: ethics of '<i>familiar person</i>' and '<i>svoi liudi</i>' came to adjust and co-exist with ideological notions of equality, brotherhood and comradeship.</li> </ul>	<ul style="list-style-type: none"> <li>• Such co-existence and the use of personal networks for individual benefit <i>de facto</i> subverts the ideology of a socialist state.</li> </ul>
<b>ECONOMY</b>	
<ul style="list-style-type: none"> <li>• <i>Guanxi</i> and <i>blat</i> were needed to operate a system that could not work according to its own proclaimed principles and to cope with the extreme centralisation - they have contributed towards the sustainability of the economies.</li> <li>• The gift economy and the economy of favours have provided a parallel currency in societies where money played only a little role - in many ways, these were the substitutes for market relations.</li> <li>• <i>Caigouyuan</i> and <i>tolkachi</i>, quite literally, allowed the planned economy and socialist distribution system to continue to exist as communist enterprises could not rely on ineffectual contract law to settle disputes and enforce obligations. Nor could they obtain needed goods and services from the bureaucratic, prodigal and expensive state organizations.</li> </ul>	<ul style="list-style-type: none"> <li>• This way, command economy was subverted and goods were redistributed according to different rules, one part of which was the idea of competition related to the market economy (Yang 1994, p.188-208).</li> <li>• <i>Caigouyuan</i> and <i>tolkachi</i> operated by using methods that contradicted and subverted the principles and procedures of the planned economy.</li> </ul>
<b>SOCIETY</b>	
<ul style="list-style-type: none"> <li>• <i>Guanxi</i> and <i>blat</i> played an important role as form of sociability as well as performed a function of social cohesion, by providing a safety net, a sense of trust and certainty.</li> <li>• <i>Guanxi</i> created a microcosm in which hierarchical relations are reversed: 'Donors become the moral superiors of recipients, who now owe favors to</li> </ul>	<ul style="list-style-type: none"> <li>• 'By constraining the exercise of power to the principles of the gift economy', non-officeholders constrain the effectiveness of political positions and 'are able to gain a certain leverage against official power' (Yang 1994, p.207).</li> <li>• The instrumental use of personal</li> </ul>

<p>their donors. Symbolic capital compensates for the lack of material, office, or political capital. Thus face and the morality of reciprocity, obligation, and indebtedness become in a sense the ammunition of the weak (Yang 1994, p.206).</p>	<p>relationship should be regarded not only as a social, economic and cultural phenomenon, but also a feature of a political regime.</p>
--	--

To draw some conclusions on the similarities between *guanxie* and *blat* outlined above, it can be noted that people tend to develop similar strategies and tactics (as well key words and concepts) in order to survive in state centralised economies characterized by shortages, state distribution system and ideological predicaments. Moreover, the role of these practices was essential for the existence of the planned economies and political regimes in question to an extent that it is possible to argue that these ‘informal’ practices are as definitive for the economy and political regime as their formal principles.

At the same time, it would be naïve to suggest that an apparently universal response to oppressive regimes would not be specific at least in some ways in different societies. To follow up the argument of the ‘definitive’ nature of informal practices, it can be suggested that the nature of the regime is best reflected in people’s informal response to it. This is why an insight into informal practices is a key to the understanding of the formal economies, and most importantly, an indicator of how fundamental the change of the formal economies has been. Before we address the ways in which *guanxixue* and *blat* have changed in response to the reforms in China and Russia, let us explicate their differences in their pre-reform state.

#### IV CHINESE *GUANXIXUE* AND SOVIET *BLAT*: DIFFERENCES.

Apart from differences in contexts of the use of personal networks, generic difference between *guanxi* and *blat* can be measured by the degree of pressure to engage in such practices: from the forced by circumstances situations of extreme need to a consumerist drive to improve one’s lifestyle; from an unreflected tactic to a carefully-planned strategy. For example, would it be fair to say that even if *guanxi* and *blat* were equally important for Chinese and Russian state centralised economies, using *blat* was not so vital for Russians as *guanxixue* was for the Chinese, who seem to consider it a custom and tradition in much stronger language? These questions can only be answered after a careful analysis of the differences between the two.

**Table 5. Differences in genesis of *GUANXIXUE* and *BLAT***

<b>Chinese <i>GUANXIXUE</i></b>	<b>Russian <i>BLAT</i></b>
<b>Origins in Confucian tradition</b>	<b>Origins in criminal jargon</b>
<p>The code of <i>guanxi</i> derived from kinship ethics and popular Confucianism that makes a gift a ritual object that serves a ritualised relationship and imposes duties of moral and proper reciprocity.</p>	<p>The term <i>blat</i> originates in a <i>blatnoi</i> (criminal) jargon and has a rather negative connotation associated with the anti-state codes of the underworld.</p>
<p>Not to return a gift or a favour would be</p>	<p><i>Blat</i> is lacking such a compelling moral aspect as <i>guanxi</i>: although it makes use of</p>

<p>unthinkable. The notions associated with <i>guanxi</i> such as <i>renqing</i> (the observance of proper social form), <i>yiqi</i> (loyalty) and <i>ganqing</i> (emotional feelings) carry a pronounced ethical dimension.</p>	<p>the ethics of friendship and mutual help it also manipulates the state order and carries a connotation of ‘cheating the system’.<sup>15</sup></p> <p><i>Blat</i> is a term used less universally than <i>guanxi</i>; more in urban contexts</p>
<p><b>Imposed reciprocity</b></p>	<p><b>Voluntary reciprocity</b></p>
<p>The moral force of reciprocity is so strong that it is very difficult for a person to decline the request of a friend or ‘fail to repay a debt of <i>renqing</i>’ because such a behaviour would mean that this person lacks “human feelings” and does not know how to conduct oneself.<sup>16</sup> The failure to help close relatives is even worse. Such failure may also lead to his/her ‘ostracism by friends and relatives alike’ (Yang 1994, p.69). Using such moral force of reciprocity, <i>guanxi</i> transactions can include cunning, compelling and aggressive tactics, whereas favours tend to be asked for or given as ‘help’.</p> <p><i>Guanxi</i> includes banquets and favours but mainly is based on gift-giving – gifts are identifiable.</p>	<p>In <i>blat</i> exchanges, there is a certain ambiguity about reciprocity. Although one known one has to repay favours, reciprocity is often disguised by the time delay (sometimes very long term) and by the intermediation by a third party. To keep a positive self-image, participants have to perceive a <i>blat</i> favour as ‘help’ given altruistically, out of friendship rather than in expectation of a return. Even if the ‘help’ is given at the expense of the public resources (the public/private distinction used to be very confusing). Social ostracism is caused by the solidarity in a group rather than a resort to the higher ethical principles.</p> <p>The favours are more difficult to trace especially in case of a redistributive favour.</p>

15 Indicative of this paradox, a witness’ statement from 1940 suggests that to have *blat* means a "close connection with a swindler, speculator, fiddler, thief, flatterer and the like... Though to have no *blat* is equal to having no civil rights, for it means that everywhere you are deprived of everything. You can obtain nothing in the shops. In response to your legitimate demands you will get a simple and clear answer 'no'. If you appeal, they are deaf and mute. (From the letter of a citizen of Novgorod found in the correspondence of Vyshinsky, the head of the People's Deputies Soviet. The State Archive of Russian Federation, f. 5446, op. 81a, file 24, p.49. I am grateful to Professor Sheila Fitzpatrick for recommending this document to me).

16 ‘A worker wanted to get a few authorized days off from work to attend to some personal business. He first tried to give presents in private to the factory manager, but the latter declined. So he cunningly worked out a way to make the manager accept. He waited for an opportunity when the manager was in presence of many other workers to give the gift to him. This time he offered the gift in a different way. He said to the manager, “Here is the gift which my father, your old comrade-in-arms [...], asked me to deliver to you. Please accept it so his feelings are not hurt.” [...] In front of so many people, however, the manager was in danger of losing face if he refused to accept the gift unless he could immediately come up with a good reason. [...] So all he could do was to accept. Later when the resourceful worker made the inevitable request for authorized days off from work, the manager would have to honor it because so many people had seen him accept the gift. Should he refuse the request, the worker could tell all those people that the manager had accepted a gift without feeling any compunction to repay, then all over the factory people would be talking about how the manager lacked *renqing*’ [observance of proper social form –AL](Yang 1994, pp.133-134).

**Table 6. Ethical and gender dimensions of *GUANXIXUE* and *BLAT***

<b>Ethical principles</b>	
<p>Chinese ethics of <i>guanxi</i> are better codified as they follow from and correspond to the tradition, hospitality etc. (Wank, p.95) Yeung and Tung distinguish features that define cultural differences of the Chinese society and are vital for understanding of <i>guanxi</i>:</p> <ul style="list-style-type: none"> <li>• Chinese values view the individual as part of a bigger system rather than isolated and working for self-interest as in the West;</li> <li>• Individuals are encouraged to be righteous and to repay favours;</li> <li>• Long term relationships are stock to be kept and nurtured rather than for short term individual benefit;</li> <li>• Each person must strive to help the disadvantaged and to keep up a good reputation;</li> <li>• Governance by flexible ethical standards rather than strict rule of law; and</li> <li>• The primary deterrent against immoral or illegal behaviour is shame and a loss of face rather than feelings of guilt and isolation.</li> </ul>	<p>Ethics of <i>blat</i> are confusing as it is anti-social to get things by <i>blat</i> (when formulated abstractly) but at the same time it is a matter of honour to help a friend as a matter of exception (in concrete circumstances). One has to be selective with rules to follow. According to my respondents, the ethics of <i>blat</i> are the same as ethics of friendship involving:</p> <ul style="list-style-type: none"> <li>• The obligation to help – help your friends unselfishly and they will come to your help when you are in need</li> <li>• Do not expect gratitude but be grateful yourself</li> <li>• Orientation towards indefinite future – long term reciprocity</li> <li>• Keep within limits – ask within the limits</li> <li>• In most contexts, the informal friendship code has priority over the formal legal codes</li> <li>• Social ostracism for those following the letter of law.</li> </ul>
<b>Gender dimensions of ethics</b>	
<p>Chinese women tend to be not very active in <i>guanxi</i> transactions - most of them disapprove the art of <i>guanxi</i> as an ‘antisocial, manipulative, and morally rejected because it is based on self-interest and make one treat people depending how much the person is of use to you’ (most of the men questioned, on the other hand, had ‘accepting attitude’) (Yang 1994, p.51-52). ‘Pulling <i>guanxi</i>’ means going around a lot in order to initiate and to cultivate personal relationships, whereas it is proper for women to stay close to the home. Thus women would exchange favours and goods mainly with neighbours and relatives, and they would get engaged in <i>guanxi</i></p>	<p>In the Soviet society, women were very active – ‘generally more attentive to the obligations, debts, warmth and reciprocities involved in interpersonal relationship (Ledeneva 1998, p.121). Besides, they have to deal with the daily concerns of life and this stimulates them to networking because they are more interested in the material well-being of the family, whereas <i>tolkachi</i> were mainly men. Although it is difficult to determine whether <i>blat</i> was practised more often by men or by women for the purposes of individual households, it is likely that in every extended family there was one person who would assume a ‘supplier’ role because of her or his occupational position,</p>

<p>transactions only to a small extent. ‘Most women tend to use <i>guanxixue</i> for ‘small things:’... to get a few days off from work, buying foodstuffs not readily available in store through friends or trying to enter their child in a nursery with a good reputation’ (Yang 1994, p. 79)</p> <p>“Smart women” would not provoke the rumours about them having relationships with different men or ‘<i>run around a lot</i>’ which can be one of the interpretations of a woman having a huge <i>guanxi</i> network. So they would prefer to be less active and to ask a male relative or co-worker to arrange it for them (Yang 1994, pp. 78-85).</p>	<p>social talent or type of character (Ledeneva pp.119-120). Widows and divorced women were often forced into <i>blat</i> because they had to deal with the outer world to maintain their well-being to a larger extent than married women.</p>
---	---

A general comment should be made about reciprocity at this point with reference to the idea of misrecognition. In his *Outline of a Theory of Practice* Pierre Bourdieu pointed out that ‘...the operation of gift exchange presupposes (individual and collective) misrecognition [...] of the reality of the objective “mechanism” of the exchange, a reality which an immediate response brutally exposes: the *interval* between gift and counter-gift is what allows a pattern of exchange that is always liable to strike the observer and also the participants as *reversible*, i.e. both forced and interested, to be experienced as irreversible’ (Bourdieu 1999, pp.5-6). This means that every exchange of gifts (or favours) is grounded in mutual misrecognition of the fact that this gift (or favour) will have to be returned after a certain lapse of time interposed. In this sense, *guanxi* and *blat* are based on such misrecognition on the part of the participants. On the part of the observers, however, *guanxi* and *blat* differ a lot.

**Table 7. Differences in misrecognition of GUANXIXUE and BLAT**

<b>Collective misrecognition</b>	<b>Partial misrecognition</b>
<p>A Chinese gift donor expects his gift to be returned in the future, although he misrecognises the enforcement power of this gift. For him, it is part of moral and proper behaviour expected from him and is meant to express his affection and ‘human feelings’. For the donee, on the other hand, this gift is only one part of the exchange transaction, with his part to be fulfilled at a future occasion. Both participants believe this exchange to be part of their tradition and culture and do not recognise the economic aspect of it. Nor do most of the observers of the transaction, despite the fact that some may disapprove of it and</p>	<p>In case of <i>blat</i>, misrecognition is not collective in the same sense. As in the gift-exchange, misrecognition of <i>blat</i> is normal for participants, who often practice <i>blat</i> while recognising it as ‘helping out’ or an act of friendship. For any observer, the transaction is seen as a <i>blat</i> deal. The fact, that <i>blat</i> was condemned as antisocial and unfair when practiced by others, but seen as necessary and logical in one’s own case, account for the elusiveness of this form of exchange and its wide spread. Perpetual switching of the participant/ observer perspectives enables one to engage in <i>blat</i> practices but also distance oneself from it.</p>

<p>gifts are often given in secrecy. As a result, <i>guanxi</i> can be seen a product of what Bourdieu calls ‘collective misrecognition.’ Chinese <i>guanxi</i> could be seen as adherence to traditional ethics and culturally rooted practices.</p>	<p>Blat practices are perceived as opportunistic and manipulative practices, divisive in their nature and instrumental in their use of cultural and economic features of the system.</p>
---	--

Taking into account both similarities and differences between *guanxi* and *blat* practices, one should conclude that these practices are not only the response to the economy of shortages and to the rigid regulation of everyday life (as their similarities would imply) but are also culture-specific (as differences in tables 5-7 emphasise). The cultural tradition defines the ways in which the economy operates. The economy shapes the ways in which cultural legacy reveals itself. In the context of a political and economic regime in which for various reasons people cannot rely on either market or state to serve their needs, social networks are initiated to fulfil the corresponding functions.

The fact that two different cultures and languages have parallel keywords and concepts suggests that the over-controlling state is doomed to be challenged through the individuals’ subversive tactics. Accepting this universal stance is not to argue that the use of personal networks to one’s own advantage is not culturally defined. The scrutiny of the use-contexts and the tactics of the Russian and the Chinese version of networking highlight the differences. For example, because of its embeddedness in the popular Confucian culture, gift-giving has become pervasive and effective in the art of *guanxi*, whereas *blat* seems to have received its spread due to its elusive nature. Different cultural backgrounds have instructed different forms these practices take, and somewhat more positive connotations of *guanxi* in comparison to *blat* but they don’t seem to affect their functional similarity. An interesting test to apply is to see how the changed formal frameworks in Chinese and Russian economies have affected *guanxi* and *blat*.

## V THE POST-SOVIET TRANSFORMATION OF INFORMAL PRACTICES

*Guanxi* and *blat* were used in response to the bureaucratisation of the state and shortages of goods and services created by deficiencies in the planned economy. One can assume therefore that the reforms of the planned economy in China and Russia,<sup>17</sup> and the different pathways they took, will be reflected in the (r)evolution of these practices. Whereas in Russia reforms were quick in implementation and covered both political and economic institutions, in China the reforms have been partial and relatively slow.

The speed of change in Russia radicalised the trends of evolution of *blat* practices. The *blat* practices were adjusted to the Soviet regime in that it both allowed *blat* to exist and kept it within limits. Once the Soviet formal political and economic framework collapsed, informal

---

<sup>17</sup> It should be noted that Mao’s socialist system was substantially different from the Soviet style socialist system. As the 1996 World Development Report on the transition economies indicates, “The (Chinese) economy was far less centrally planned and administered than the Soviet economy. Local governments had greater power and developed considerable management capacity, preparing them for a more decentralized economy. Chinese industry also received subsidies, but cross-subsidization was less pervasive (than in the Soviet Union)”. But Deng’s reform era shares two fundamental elements of Stalin and Mao’s socialism: the party’s monopoly of political power and the dominance of state owned firms. Quoted from Sachs et al., 2000, pp. 9-11,12.

practices went out of control. The post-Soviet reforms which resulted in the following three fundamental changes:

- establishing markets for goods and capital, replacing the economy of shortage,
  - a speedy privatisation of state property,
  - disruption of the system of socialist guarantees,
- have undermined the economic foundations on which *blat* practices rested.

Besides, both political and ideological pressures have gone almost overnight. The 1990s tendencies outlined below have been so powerful that they have resulted in a radical change of *blat* as a phenomenon.

First, a certain 'monetarisation' of *blat* practices took place. As one of my respondents put it, 'What used to be a matter of morals and ethics based on modest norms of Soviet society and notions of kinship, friendship and other social ties, in the transitional stage of 'wild' capitalism involves material and financial capital. Now if some questions are to be solved 'by *blat*', via acquaintances, they imply, hint or even tell you directly how much it is going to cost. Therefore, favours which used to be received by *blat* now de facto take the form of bribery. Because bribery sounds unacceptable, it takes the form of presents, gifts, payments for children's education, payments for holidays and 'business' trips abroad, offering engagement in commercial firms, banks etc., that is, all forms of corruption.'<sup>18</sup> In other words, with the expansion of the areas of monetary exchange and lack of shortage of items of personal consumption, money has become a 'shortage' and an overall need to which *blat* connections became re-oriented. Such 're-orientation' has undermined the non-monetary nature of the *blat* exchange of favours.

Second, the post-Soviet privatization of the state property has revolutionized the *blat* 'means of exchange' - a favour of access. Official 'gatekeepers' in a centralized state economy provided favours of access on two conditions: 1) the 'gate' itself was not alienable (it belonged to the state); 2) gatekeepers had certainty in staying in charge of re-distribution. In an economy where money played a little role, non-monetary returns - loyalties, obligations, and potential favours of access to another distribution system - made a lot of sense. This created what is sometimes referred to as 'bureaucratic market' (Naishul'; Klyamkin - add ref). In the 1990s, most 'favours of access' demanded from officials by the protagonists of business were about privatising resources or converting them into capital by means of licenses, permissions, tax privileges etc. For officials providing such favours effectively meant cutting the branch on which they were sitting - it violated both conditions on which 'gatekeepers' used to operate and have now been 'forced' to become players on a commercial field. It is surprising therefore that a collusion of representatives of state and market sectors and the phenomenon called 'nomenclatura business' became the major trend of corruption. Lump-sum corruption gave way to more sophisticated arrangements by which state officials exchanged their now alienable access to the state resources for the 'inalienable access' to private resources.<sup>19</sup> Commissions, percentages, securities and shares in businesses have become common forms of repayment for the 'favours of access'.

Third, the scale of *blat* exchange in the post-Soviet economy has changed. On the one hand, *blat* exchanges have expanded over the private sector (on top of the state sector): personal businesses are set up with help of *blat* connections, state property is privatised, the state budget

---

<sup>18</sup> Interview with a member of the Anti-Corruption Committee in Duma, Autumn 1996 (check use in Bribery and Blat?).

<sup>19</sup> See H. Pleines, 'Large-Scale Corruption in the Russian Banking Sector' in A.Ledeneva & M.Kurkchiyan, *Economic Crime in Russia*. Kluwer Law International, 2000.



funds are re-routed in the interests of private businesses and went far beyond the level of personal consumption. In other words, where once *blat* was functional as a way to make the rigid state command economy more tolerable for ordinary people, where it was based on personal ethic, and where *blat*'s damage to society was limited by its modest goals of personal consumption, in a market context the profit motives and monetary calculations in *blat*-turned-corrupt practice, and its linking of the business and official worlds and the criminal underworld are associated with destructive impact. On the other hand, *blat* practices have become less pervasive and universally used. While contained by the communist restrictive framework implications of *blat* practices were pervasive but petty, in the market context they are more substantial in scale but less pervasive. It is possible to speak of the tendency of 'professionalisation' in the use of manipulative practices both in the sense that it is used for professional rather than personal purposes and in the sense that its use is reserved to the 'professionals.' The constituency of *blat* practices have shrunk: from society where the *blat* know-how (or how Soviet system really worked) was available to more or less everybody to the society whereas in the post-Soviet order the know-how belongs to a selected few (self-selected or authorised).

To sum up, the post-Soviet reforms have changed the Soviet-type *blat* practices so much that *blat* has almost ceased to be a relevant term for the use of personal networks both in the state and in the new sectors of the economy<sup>20</sup>. The forms *blat* assumed in the 1990s certainly exceeded the areas to which the term was applied before. Already in the mid 1990s the younger respondents have remarked that *blat* is an out-of-date term. Moreover, the word '*blatnoi*' has lost its Soviet meaning and returned to its original association with the criminal world.<sup>21</sup>

To claim the decline of the term however is not the same as to claim the decline of practice.<sup>22</sup> It is important to consider the above changes in nature and forms, domain and application of *blat* practices but it is also important to see the continuity of *blat* and the ways in which non-monetary forms of exchange sustain or adapt to new conditions.<sup>23</sup> For example, the fact that *blat* was no longer used to obtain commodities for personal consumption but was used to satisfy the needs of business in their dealings with authorities in charge of 'tax, customs, banking and regional administration' (Ledeneva 2000 p.189) is indicative of a radical change. At the same time, this change can be formulated in terms of continuity as 'colonising' new territories by means of the same acquaintances and the same techniques - using friendly contacts, sauna companions, 'constructive' drinking. As one respondent put it, 'In this sense we are not new Russians, we are old Soviets.'<sup>24</sup>

Such dual perspective on the change and continuity of the practices of exchange has also been reflected in the debates about the role of *guanxi* in the course of the Chinese reforms. The

---

20 In the state sector *blat* survived in its previous forms or transformed not so radically.

21 For more details see Ledeneva 1998, p. 175.

22 The January 2001 poll shows that 70% of respondent answered negatively when asked if 'they used any state institution or organisation for anything in the last year' (45% of those who chose to use state institution did not manage to obtain what they wanted, whereas 18% did 'manage and without any problem.' Most of those who did manage to solve their problems through the state institutions did so after numerous visits, queuing, finding contacts and people who could help or with resort to gift or bribe). Those who chose not to use the state institutions but had problems to solve, mostly used the customary ways: informal channels - friends, relatives, i.e. those quasi-personal networks (*blat*, mutual help, acquaintance) that used to compensate for the rigidity of the repressive distributional mechanisms and those semiformal institutions - persons (specialists, experts) who used their specialized expertise, opportunities and competence for private purposes. Overall, 29% of respondents reported the plugging into such networks, three times the percentage of those who did go through purely formal channels and organizations. Gudkov, L., Dubin, B., "Necessary acquaintances: peculiarities of social organisation in the conditions of institutional deficits", published in Polit.ru, <http://www.polit.ru/documents/490769.html>, date of access: 20.06.2002 13:25

23 Ledeneva 2000, 187.

24 See Ledeneva 1998, p. 182.

emphasis on one or another perspective, enhanced by the method and the disciplinary assumptions, creates certain divisions around the subject. Whereas some emphasise the change in *guanxi* by registering the increase or decrease in frequency of *guanxi* usage, others claim continuity and analyse changes in the institution of *guanxi*. For example, some recent literature has dismissed the role of *guanxi* as China moves towards more market based economy and the role of *guanxi* in the absence of socialist planning is disputed. Guthrie (1998) argues that the role of *guanxi* practice as institutionally defined system is diminishing in the urban-industrial sector in China as formal law is increasingly respected. Guthrie acknowledges *guanxi* as a cultural fact shaping the mutual exchange and the manufacture of indebtedness and obligation in Chinese society but his overall conclusion is that *guanxixue* is in conflict with rational legal systems and is not accelerating in commercial economies and that *guanxixue* is in fact fading and becoming increasingly irrelevant.

David Wank's primarily ethnographic book *Commodifying Communism* (1999) argues quite the opposite: that the revival of private business does not lead to the decline of patron-client ties but rather to the emergence of new commercialised forms of clientelism. Rather than speaking of the decline of the role of *guanxi*, he shows how entrepreneurs draw on pre-existing ties and create new ones to influence local state agents. And generally, rather than talking about enhanced entrepreneurial autonomy from the state, Wank describes new patterns of bargaining and alliance across the local boundaries of state and society.

Yang argues (also from an ethnographic perspective) that there is a lot of evidence to suggest that with the consolidation of the new consumer economy, *guanxi* practices has moved out of the area of the acquisition of consumer goods and provision of everyday needs, and into a more restricted domain, exactly the area that Gurthrie claims it is declining (Yang 2002, p. 463). That is, *guanxi* now flourishes in the realm of business and the urban-industrial sphere, whether in dealings among private entrepreneurs and state managers, or between entrepreneurs and officials. As previously scarce items such as television, train tickets, restaurant seats, lean meat and nursery school space are now easily available through the market; ordinary people have less need to practice *guanxi*. As in the case of Russia, it is the world of business where Chinese entrepreneurs and managers still need to engage with what remains of the state economy, with 'official controls over state contracts, access to imports, bank loans, favourable tax incentives, access to valuable market information and to influential persons, and exemptions from troublesome laws and regulations. It is here that *guanxixue* finds nurture in the new economy' (Yang 2002, p.464).

My own views<sup>25</sup> are similar to the Yang's position reiterated in her '*Critique of Some New Guanxi Scholarship*': she both accepts that 'impersonal money has begun to replace some of the affectively charged relationships created by gifts and reciprocal favors (Yang 1994, p.171) and claims that *guanxixue* has also 'found new territory to colonise' (Yang 1994, p.167, quoted from Yang 2002), indicating their co-existence and certain trends of 'professionalisation' which I have emphasised above.

Much more faithful to the complex social realities of China today would be an approach which seeks to assess the ways that *guanxi* practices have changed and adapted to new conditions, and analyses its changing significance for the new social order. Whereas in the Maoist years and 1980s, *guanxixue* was often beneficial to ordinary people in allowing them more manoeuvring room in ordering their own lives, *guanxixue*'s shift into corruption

---

<sup>25</sup> See also Ledeneva, A. (2000) 'Continuity and change of blat practices in Soviet and Post-Soviet Russia', in Lovell, S., Ledeneva, A. and A. Rogatchevsii (eds.), *Bribery and Blat in Russia*. London: Macmillan, pp.183-205.

now benefits the official- business classes and hurts the bulk of society as a small social segment quietly amasses public wealth (p.465-6).

While *guanxi* may lose their significance in many aspects of business if the Chinese state decides to implement further market reforms and to privatise large state enterprises, it will remain an important indicator of changes in the economy: *guanxi* is unlikely to loosen the grip in those areas in which *guanxi* is still effective (see Table 8). As in the case of *blat*, where the division between markets and official power is not clear *guanxi* will be used as an efficient tool for decision makers at all levels.

At the same time, Wang (2000, p??) highlights the weaknesses of *guanxi* in the business world: networks can be difficult to sustain and costly to build. Often they depend on key individuals who might lose position of power increasing the cost of establishing connection. The lack of transparency in networks means that phoney players can increase the cost. Furthermore, Kiong and Kee (1998) confirm that firms using *guanxi* can increase market size using their *guanxixue* but not their net profits. And that those specialising in highly technical or skill-laden sectors do not have as much use for *guanxi*.

**Table 8. New use *GUANXI* and *BLAT***

<b><i>GUANXI</i></b>	<b><i>BLAT</i></b>
<b>Providing opportunities to earn money</b>	
<ul style="list-style-type: none"> <li>• Finding job opportunities with the decline of the state job assignments and unemployment.</li> </ul>	<ul style="list-style-type: none"> <li>• Arranging jobs in the context of unemployment or jobs in good companies.</li> </ul>
<b>Providing opportunities to borrow money</b>	
<ul style="list-style-type: none"> <li>• Locating sources for loans to finance a new economic venture or purchase a home.</li> </ul>	<ul style="list-style-type: none"> <li>• People use their contacts to borrow money for both personal and business purposes.</li> </ul>
<b>Providing opportunities to save money</b>	
<ul style="list-style-type: none"> <li>• Organising business banquets at a cheaper rate;</li> <li>• Reducing hotel rates for conferences and personal holidays through <i>guanxi</i></li> </ul>	<ul style="list-style-type: none"> <li>• To reduce risk of keeping deposits in a bank – good contacts can ensure their safety;</li> <li>• To get access to unpaid or discounted access to the medical services which are provided on a paid basis;</li> <li>• To enter university or prestigious school on a non-paid basis with insufficient exam results (often in order to get exemption or delay for service in the army)<sup>26</sup></li> </ul>
<b>Accessing ‘administrative resources’ to make money by</b>	

<sup>26</sup> Gudkov, L., Dubin, B., “Necessary acquaintances: peculiarities of social organisation in the conditions of institutional deficits”, published in Polit.ru, <http://www.polit.ru/documents/490769.html>, date of access: 20.06.2002 13:25

<ul style="list-style-type: none"> <li>• The reliance on <i>guanxi</i> to launch business and to locate and maintain supply sources for new commercial ventures (Yang 2002);</li> <li>• engaging with what remains of the state economy;</li> <li>• influencing official controls over state contracts;</li> <li>• accessing export-import possibilities;</li> <li>• negotiating favorable tax incentives;</li> <li>• patterns of clientelist transactions with tax officials, customs, public security (Wank, p. 73)</li> <li>• accessing valuable market information;</li> <li>• accessing influential persons, and engage with government officials who control the means to favorable business opportunities;</li> <li>• gaining access to customers and keeping clients Dunfee and Warren (2001).</li> <li>• cultivating useful officials or business contacts by enjoying nightlife together – <i>goudui</i>.<sup>27</sup></li> </ul>	<ul style="list-style-type: none"> <li>• providing the basis for business and trading activities (capital, premises, business opportunities);</li> <li>• accessing the state budget funds or other resources that could be used for private business;</li> <li>• using the framework of privatisation to collect money to cover a lack of government funding for maintaining the state services (collection of money from parents for “needs of the school or gymnasium”, renting out state property for the use of private businesses);</li> <li>• getting access to bureaucratic decision-making for business purposes (export licenses; tax exemptions, using state resources and property for private business, etc.);</li> <li>• negotiating favourable conditions with tax authorities, customs, regional and local administrations or imposing additional tax for newly introduced services such as special or VIP treatment – medical services, airport services, special classes and programmes in schools and universities;<sup>28</sup></li> <li>• accessing business information;</li> <li>• establishing relationship with business patrons, partners and clients;</li> <li>• bonding rituals in saunas and nightclubs, creating trust by providing a discrediting information about oneself;<sup>29</sup></li> </ul>
<b>Use of <i>guanxi</i> and <i>blat</i> to protect business and capital</b>	
<ul style="list-style-type: none"> <li>• Avoiding government investigations (Dunfee and Warren, 2001).</li> </ul>	<ul style="list-style-type: none"> <li>• Accessing ‘roofs’ and protection services for one’s capital, business or interests;</li> </ul>

27 One new form of *guanxi* practices emerging in the reform period which is, not surprisingly, found in the business world, is the provision of women’s sexual services for those who are objects of *guanxi* overtures. The reform period has produced a highly visible male business culture in large cities, complete with cultural inputs from overseas Chinese and Japanese male entertainment cultures and their business-entertainment institutions such as karaoke bars, dance halls, nightclubs, saunas, KTV suits, restaurants, hotels and massage parlours. 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. (Yang 2002).

28 Gudkov, L., Dubin, B., “Necessary acquaintances: peculiarities of social organisation in the conditions of institutional deficits”, published in Polit.ru, <http://www.polit.ru/documents/490769.html>, date of access: 20.06.2002 13:25

29 Reference to Gambetta. **ADD KOVALEV AND SHKURATOV CASES**

<ul style="list-style-type: none"> <li>• Gaining exemptions from troublesome laws and regulations.</li> </ul>	<ul style="list-style-type: none"> <li>• Intervening with legal decision-making (influencing the decisions of the Arbitrage court regarding the business disputes and ownership related conflicts).</li> </ul>
<b>Providing opportunities to invest money</b>	
<ul style="list-style-type: none"> <li>• Attracting overseas Chinese investors, to name just a few in urban contexts (Yang 2002);</li> <li>• Linking up with relatives overseas for business and emigration;</li> <li>• Obtaining passports and exit permissions to leave the country;</li> <li>• Transnational use of <i>guanxi</i>.</li> </ul>	<ul style="list-style-type: none"> <li>• Use of contact abroad.</li> </ul>

The theme of continuity should also be addressed in the context of ‘socialist’ mentality. Due to the omnipresence of state ownership in the Soviet era, public resources were widely interpreted as quasi-private as grasped in the Soviet saying ‘*public* means that part of it is mine’. Practices of ‘petty privatisation’ of the state, that is, the trickle-down of state property through ‘carrying out’ (*vynos*), minor theft and siphoning resources from the official into the second economy, have not only been widespread, they have embodied an exploitative attitude to the state resources. The pattern of such routine parasitism on the state endures and even expands in the context of the market reforms when ‘to get away with a bigger piece of the common pie’ becomes a core business strategy. The 1990s’ state policies and the example of political leadership have played a role in the spread of such strategies. The first Yeltsin’s government of ‘young reformers’ initiated policies of liberalisation, privatisation and financial deregulation thus undermining the ‘socialist’ doctrine and openly disregarding the social cost of the so-called ‘shock therapy’ reforms in Russia. The subsequent process of privatisation in combination with the severe economic trends of 1990s, such as decline of industrial production, the investment crisis and the crisis of mutual arrears, resulted in the collapse of the local systems of socialist guarantees. This ruled out previously dominant forms of solidarity and mutual help between industrial enterprises and destroyed a social security system centred on care for collectives in organisations. People felt betrayed by the state and left to their own devices to help themselves to whatever they could in the new system. A speedy enrichment of the political and economic elite provided certain legitimacy to the use of state resources. For the Chinese case, Yang (2002) similarly argues that ‘in the marriage between the developmental state with capitalism, a *guanxi* culture has given rise to increased corruption in business-government realms, which is a strong development as the much announced state rational-legal measures’.

To use a zoological metaphor, the change in the nature of the host causes a change in the nature of the parasite. The Soviet system has endured patterns of exploitative attitudes towards the state resources because they operated in a ‘saprophytic’ (siphoning resources little by little without major damage to the system) fashion and even somewhat ‘symbiotic’ relationship (i.e. *blat*). The expectations of the ‘socialist protection’ undermined by the ‘host’ have transformed

the symbiotic and saprophytic patterns into outright parasitism.<sup>30</sup> At the same time the exploitative attitudes to the state, expectations of support and a sense of 'entitlement' to a share of state resources have sustained, especially among the older generations.

Another line of continuity that is often discussed in connection to 'mentality' refers to the culture and tradition beyond the socialist period suggesting that China, as well as Russia, is innately corrupt and cannot sustain any rational-legal values. Empirical data confirm the strength of corrupt tendencies in both post-Socialist Russian and China today.<sup>31</sup> I would suggest that it is important to emphasise not only the historical and cultural continuity in mentality that facilitates corruption, though it is a relevant and an interesting line of analysis, but also the functionality of the corrupt practices for the economic-political systems and the continuity of those structural aspects that make such patterns of dependence persistent features Russian and Chinese civilisations. Such continuity can be found in the functional ambiguity in the relationship between the formal order and the informal practices in the context of the market reforms. In the same way *blat* practices operated to protect people from the rigidities of the Soviet regime, a post-Soviet economy of favours, it could be argued, counteracts the exigencies of the Russia's 'market democracy'. As formal institutions help define and limit choices and reduce risks and uncertainties in human interaction in the rule-of-law market democracies, so does the informal institution of *guanxi* in the Chinese economy where the rule-of-law does not operate as it should. Managers use *guanxi* not only to compensate for the lack of legal institutions and to manipulate the hybrid economy in China combining both state and market elements, they also use them to substitute for other underdeveloped market mechanisms. *Guanxi* operates as a set of constraints to enhance a particular actor's ability to deal with uncertainty in business and as support in the face of incomplete or insufficient market mechanisms offered by state and non-state actors.

It is characteristic that China has managed to attract foreign direct investments on unprecedented scale and to provide considerable growth. The role of informal institutions in these developments is hard to deny. Standifird and Marshall (2000) argue that the use of *guanxi* in business is a structural alternative to formal contract and can provide structural advantages over competitors. They analyse the role of *guanxi* in reducing transaction costs and argue that it offers an efficient alternative to formal contract law. At the same time, as already mentioned above, the institution of *guanxi* is changing in response to changes in the context, which might eventually transform the nature of the informal institution as it happened to the Soviet *blat*. There is some irony in the logic of subversion and mutual dependency: as *blat* has subverted the Soviet system, its collapse has undermined *blat*. The post-Soviet system has brought into being a different set of informal practices. The same could be said about China. Whereas in the Maoist

---

30 The worst parasite takes so much it kills the host and the parasite dies together with it, the best parasite leaves the dying host and finds another.

31 In aggregate, estimates of the magnitude of corruption range from 3.5 to 5 per cent of gross domestic product. Kick-backs from government purchase and construction projects account for a large share (about 1.5 per cent of GDP). Another principal source of corruption is illegal use of public funds. In 2001, for example, China's national auditing agency uncovered illegal spending of more than 1.7 per cent of GDP (160bn yuan). Because 8-13 per cent of GDP in government revenues is not spent according to budget rules, huge misuse of public funds is inevitable. 'The long march against graft' by Minxin Pei at <http://news.ft.com>, on 9 December 2002. Although *guanxi* appears to be pervasive in contemporary China - according to the Hong Kong Independent Commission on Corruption estimates the gift-giving in establishing *guanxi* in China cost an average of 3-5 % of operating costs or US\$3-5 billion of FDI. Ref????Add date from a Chinese source and the INDEM data. Or EBRD corruption percentages?

years and 1980s, *guanxixue* was often beneficial to ordinary people in allowing them more manoeuvring room in ordering their own lives, *guanxixue*'s shift into corruption now benefits the official-business classes and hurts the bulk of society as a small social segment quietly amasses public wealth (Yang, 2002, p.465-6). Trust and social capital are vital components of the Chinese economy and will continue to exist as elsewhere but due to its 'professionalisation' and an increasing integration into the exploitative practices the *guanxi* ethics sore and undermine traditional values.

To sum up, let us outline the changes in those factors that made informal practices systemic in state centralised economies – systemic in a sense that the governments facing the dilemma of either acknowledging the ideological and economic deficiencies of a communist regime or accepting the existence of informal practices pampering the regime consistently chose the latter. Governments tolerated and even stimulated informal practices as a way to resolve potential social conflicts or to promote political patronage. In communist political frameworks, informal practices are not marginal but integral to the functioning of the formal economy – their role is at once symbiotic and parasitic. The informal practices are both an economic necessity and a way of life receiving its legitimacy from people's distrust of the state and of the government. It is perhaps the shift from symbiotic towards more parasitic forms that defines the main tendency in the change of informal practices in the market conditions.

**Table 9. Factors that make informal practices systemic in state centralised economies and their transformation in China and Russia**

State Centralised Economy	Chinese 'Hybrid' Economy	Russian 'Market' Economy
<b>Insufficiently defined property rights</b>		
The ubiquitous presence of state property which is regarded as "up for grabs" and is easily abused and exploited for private gain. 'Absence of ownership', <sup>32</sup> or division of different components of ownership between separate institutions to create a system "without a real boss" along with substantial privileges for the top officials. <sup>33</sup>	China's 'hybrid' economy: large enterprises are not privatised, communist party owns Still no clear distinction between private and public, new forms of association between state and private capital. Ownership is extremely murky but everything works.	State property has been privatised in Russia Ownership is murky Institutions supporting the public/private division do not operate as they should. The lack of a comprehensive corporate law at the outset of privatization had detrimental consequences for the development of property rights for the development of property rights and corporate governance post-privatization <sup>34</sup> .
<b>Shortages</b>		
The ineffectiveness and slowness of the state centralised production and	Partial privatisation No economy of arrears and barter in	Speedy and 'oligarchic' privatisation Non-payments of wages and taxes

<sup>32</sup> Several papers by Hua Sheng, Zhang Xuejuen, and Lo Xiaopen (1988), Yi Gang (1988), Ping Xinqiao (1988), and Men Qinguo (1988) almost simultaneously proposed a theory of absence of ownership. This theory states that the state ownership system is used to purposely divide different components of ownership of the same property between separate institutions. According to the definition of ownership in the economics of property rights, ownership consists of two components: exclusive rights to disposal of property and exclusive rights to bearing (positive or negative) earnings from property (see Furubotn and Pejovich, 1974). In a socialist economy, rights to disposal of property are divided among the planning committee, the price bureau, the labor bureau, the government industrial departments, and managers of enterprises. The planning committee has a say on long-run investment and related resource allocation; the price bureau has a say on pricing; the labor bureau has a say on the assignment of personnel; the government industrial departments have a say on intermediate term investments and the allocation of crucial goods and input factors; the managers have a say on daily managerial decisions. Rights to collecting revenue or enduring losses, another component of ownership, are divided between the finance ministry and the industrial ministries. Hence, no single individual or institution has complete ownership of a single piece of state-owned property. The Chinese call this "a system without a real boss," or "a system with an absence of ownership." It was argued that any decentralization and liberalization reform of such a system in the absence of any substantive change in property right structure will create more problems than it solves. Quoted from Jeffrey D. Sachs, Wing Thye Woo and Xiaokai Yang, *Economic Reforms and Constitutional Transition*, CID Working Paper No. 43, April 2000, pp. 4-5.

<sup>33</sup> Men Qinguo (1988), "On the Ownership Structure of Modern Corporation," *Young Economists Forum*, No 4, Tianjin, quoted from Jeffrey D. Sachs, Wing Thye Woo and Xiaokai Yang, *Economic Reforms and Constitutional Transition*, CID Working Paper No. 43, April 2000, p. 5.

<sup>34</sup> Pistor (1997) discusses the implications of the lack of a comprehensive corporate law at the outset of privatization for the development of property rights and corporate governance post-privatization. She traces the nature and quality of legal rules issued in post-socialist Russia, not only to Russia's legal tradition, but also to policy choices made by reformers during the course of economic reform. She argues that comprehensive legal reform was delayed in favor of speedy economic reforms based on ad hoc decision making and decrees with detrimental consequences for the development of property rights and governance structures. Pistor, K. (1997), "Company Law and Corporate Governance in Russia," in J. Sachs and K. Pistor eds. *The Rule of Law and Economic Reform in Russia*, Westview Press, quoted from Jeffrey D. Sachs, Wing Thye Woo and Xiaokai Yang, *Economic Reforms and Constitutional Transition*, CID Working Paper No. 43, April 2000, pp. 17. Add ref to K Hendley.



distribution mechanism. 'Shortage is a way for government officials to extract monopoly rents', or 'monopoly power in a hierarchical social structure' <sup>35</sup> .	China Non-payments of wages are on the increase in China.	have resulted in an economy of arrears or non-payments operated on the basis of barter schemes (see Chapter Econ 1) Reforms in Russia have been conducted at severe social costs
Chronic shortages and physical allocation and rationing of goods, Generally growing excess of savings, which, together with all the above, helps stimulate private informal demand and, hence, illegal economic activity and the generation of private informal income.		Overall, in Russia shortages have given place to markets in goods, services and capital. Poverty is an issue. Savings are lost in inflation, short-term patterns in business and consumption predominate. Generation of private income becomes the utter objective.
<b>Overregulation</b>		
Prohibition of all but a very narrow range of productive activity on private account.	Large enterprises are not privatised in China. 'Government controls the entry of private firms into the important sectors and state predation of private firms... Also, China has a very stiff government approval system of founding firms' <sup>36</sup> . Gap between corporate legislation and the communist rules <sup>37</sup> .	The rules of the game are overregulated. <sup>38</sup> During the first stage of transition (1992-1993) 'decision making was not guided by general legal norms evenly applied, but was rather individualized to particular enterprises and pressure groups' <sup>39</sup> Private sector is undeveloped in Russia (especially small and medium size business).

---

35 Shleifer, A. and Vishny, R. (1993), "The Politics of Market Socialism," Working Paper, Department of Economics, Harvard University.

36 The list of sectors in which domestic private firms are not allowed to operate includes "the banking sector, post and telecommunications, railroads, airlines, insurance, the space industry, petroleum chemistry, steel and iron, publications, wholesale business, news, and others. In addition to the thirty sectors, private firms are restricted from operating in another dozen sectors, including automobile manufacturing, electronic appliances, and travel agencies (Huang, Z. (1993), "Current Development of the Private Firms in the Mainland China," Economic Outlook, Vol. 8. No. 32, p. 88). In addition, a stiff licensing system for international trade, wholesale and retail distribution networks, publication, and many other businesses eliminates many lucrative opportunities for private business, generating trade conflict with the US and other developed countries. In particular, all government institutions which have power to issue licenses have vested interests in the sector where licensees operate. For instance, the license for international trade is issued by the Trade Ministry, which is the largest owner of trade companies in China. The license for the wholesale and retail distribution network is issued by the local government committee which owns local state distribution networks. Of course, the principle for issuing a license is to promote the monopoly interest of the government institutions." Quoted from Jeffrey D. Sachs, Wing Thy Woo and Xiaokai Yang, Economic Reforms and Constitutional Transition, CID Working Paper No. 43, April 2000, p. 20.

37 The laws, such as the Corporation Law passed in 1994, and the Anti-Unfair Competition Law passed in 1993, cannot be implemented. The incompatibility between Corporation Law and the communist constitutional rules and that between the state monopoly in the telecommunications sector and Anti-unfair Competition Law is noted by Mueller. For more details see Yang, X. (1998). Dangdai Jingjixue He Zhongguo Jingji (Contemporary Economics and Chinese Economy), Beijing, Publishing House of China's Social Sciences, p. 200, quoted from Jeffrey D. Sachs, Wing Thy Woo and Xiaokai Yang, Economic Reforms and Constitutional Transition, CID Working Paper No. 43, April 2000, p. 21.

<p>Virtually universal price controls (hence, black markets and other kinds of official regulation. Their violation is profitable and ipso facto criminalising. ‘Price control used to create rents, which are the difference between the official price and the market equilibrium price. That shortage is purposely created (perhaps in the subconscious of officials) to justify a hierarchical social order’<sup>40</sup></p>	<p>With the end of the central plan and the devolution of financial decision-making power to the state owned enterprises (SOEs), the key source of information to the industrial bureaus regarding the SOEs were reports submitted by the SOEs themselves. This reduction in the monitoring ability of the state in a situation of continued soft budget constraints meant that there was little incentive for state-enterprise managers to resist wage demands, because their future promotion to larger SOEs was determined in part by the increases in workers' welfare during their tenure.<sup>41</sup></p>	<p>Prices are liberalised, black markets in legal goods have disappeared</p>
<p>Industrial standardization, mass production, the lack of fair competition, the outright banning of a wide range of consumer articles and services, for example those pertaining to Western youth culture, religion etc.</p>	<p>‘Consumer communism’ in China China’s membership in the WTO since 2001 (check date)</p>	<p>The Criminal Code is adjusted to exclude ‘speculation’ articles and to adjust to the new forms of economic crime  Russia is recognised as market economy by the European Union in 2002 (?????) date, source</p>
<b>Taxation</b>		
<p>Very heavy taxation of legal private income, which is therefore not usually declared. Prohibition and taxation, as well as need to obtain supplies in the black market, drive</p>	<p>Governments of different levels tended to impose various kinds of taxes and fees in order to grab as much of the observable revenue from their business</p>	<p>Lack of background in paying taxes, lack of respect of public institutions, and tax policy mistakes made it difficult to enforce tax paying patterns.</p>

38 According to Igor Klyamkin, in contemporary Russia there are 25,000 state standards (construction, sanitary-epidemiologic norms etc.). More than 80% of commodities are subject to the state certification before they go into retail. It used to be the way in state centralized economy but has not been changed since. The certification procedures are impossible to follow and the state standards often contradict one another or are mutually exclusive (because they are produced by different ministries). Moreover not everybody can acquire them. Say, the State Committee of Standardisation sells its volume of norms and procedures at 230,000 roubles (more than 7,000 USD). Most entrepreneurs cannot afford it and do not know what is in it, opting for paying for inevitable violations to the officials once caught. The anti-corruption programmes in this context is a utopia. The government aims at substituting these 25,000 non-transparent regulations with 400 federal laws, but it is a long-term target. Quoted from Klyamkin, *Burokratia i biznes v Rossii*. (Details from Klyamkin)

39 Jeffrey D. Sachs, Wing Thye Woo and Xiaokai Yang, *Economic Reforms and Constitutional Transition*, CID Working Paper No. 43, April 2000, p. 16.

40 Cheung, S. (1974), "A Theory of Price Control," *Journal of Law and Economics*, 17, 53-71.

41 Jeffrey D. Sachs, Wing Thye Woo and Xiaokai Yang, *Economic Reforms and Constitutional Transition*, CID Working Paper No. 43, April 2000, p. 29.

42 A 1988 study of private firms in Liaoning Province found that taxes and subcharges alone would take away 63 % of the observed enterprise profits. When the scores of different fees were also taken into account, the tax burden was even higher. Such a tax burden made it hard for private firms to survive, unless they evaded taxes and fees by hiding their transactions and revenue (*China economic Almanac*, 1989, p. 107). Ten years later, a 1998 study of private firms in the Anhui Province reported that gross profits for many products was about 10% of total revenue,

private activities underground. High taxes and monopoly profits derived by the state from some of its products, which invite private competition (as in the case alcohol).	jurisdiction as possible <sup>42</sup> .	Taxation of business profits is heavy. <sup>43</sup> Use Tanzi from corruption
<b>Corruption</b>		
The support, protection, and often deliberate promotion of illegal activity by corrupt authorities at various levels. <sup>44</sup>	The large scale of corruption caused by the dual track approach to the land market, state firm reforms, and price reforms. Case-studies indicate that corruption has been so pervasive that immorality and opportunism have	During the first stage of transition (1992-1993) there was 'absence of rule of law in government decision making and executive authority. Procedures were ad hoc, non-transparent, and often corrupt' <sup>47</sup> .

whereas total taxes and fees added up to more than 10%. There were more than 50 types of fees imposed on a private business, and some types of these fees are prohibited by the government's own publicized regulations and rules. This study reached the conclusion that "owners who do not want to close down their businesses had no choice but to evade taxes" by hiding revenue (Jilin Daily, May 30, 1998). Jeffrey D. Sachs, Wing Thye Woo and Xiaokai Yang, Economic Reforms and Constitutional Transition, CID Working Paper No. 43, April 2000, p. 20.

43 Similar studies have shown similar results in Russia. Add Fn on more than 100 % of profits taken of 78% of the production – Radaev, Lawyer

44 Shleifer (1994, 1998) has made an argument in support of Russia's shock therapy. According to him, 'corruption, which is associated with evolutionary approach to reforms, is a way to buy out the monopoly power of the privileged class'. Shleifer, A. and Vishny, R. (1992), "Pervasive Shortages Under Socialism," RAND Journal of Economics, 23, 237-46; Shleifer, Andrei (1998), "State versus Private Ownership," Journal of Economic Perspectives, 12, 133- 50.

45 He, Qinglian (1997), The Primary Capital Accumulation in Contemporary China, Mirror Book, Hong Kong, pp. 71 – 240, quoted from Jeffrey D. Sachs, Wing Thye Woo and Xiaokai Yang, Economic Reforms and Constitutional Transition, CID Working Paper No. 43, April 2000, p.31.

46 Jeffrey D. Sachs, Wing Thye Woo and Xiaokai Yang, Economic Reforms and Constitutional Transition, CID Working Paper No. 43, April 2000, p. 12. In 1992 when many government institutions were short of revenue, they were encouraged to found lucrative businesses to subsidy their expenses. Many new government enterprises and businesses were founded at very high speedy, so that 60-90% of government institutions run commercial businesses (Wen, 1999, pp. 319-27). The government institutions use their dual positions as regulation makers and enforcers and players in economic arena to pursue state opportunism.

47 Jeffrey D. Sachs, Wing Thye Woo and Xiaokai Yang, Economic Reforms and Constitutional Transition, CID Working Paper No. 43, April 2000, p. 16. During 1992 and 1993, the Russian Central Bank transferred a very large proportion of national income (perhaps as much as 40% of GDP in 1992, and 20% of GDP in 1993) to key pressure groups, political favourites of the government and the Bank, and various cronies of leading officials, with the transfers being financed by the inflation tax imposed on the society at large. The Bank's books were unauditale, with large flows of untraceable money.

	<p>spread into every aspects of society<sup>45</sup>.  ‘The absence of constitutional order and the rule of law imply institutionalized state opportunism, self-dealing of the ruling class, and rampant corruption’<sup>46</sup>.  Nevertheless, corruption is seen to be less in China than in Russia, mainly due to the following factors:  Death penalty sentence for corruption (5,000 people executed in the 1990s - <b>check</b>)  No Russian type ‘mafia’ in China  Impact of the overseas Chinese.</p>	<p>"Special" laws designed for a particular person or entity, as opposed to general laws addressed to an anonymous or only generally defined target group, have been rampant in Russia. They provide the legal basis for tax exemptions, special privatization rules, and allocation of rights to those with the best access to the President's decree power<sup>48</sup>.</p>
<b>Existence of networks and informal codes regulating them</b>		
<p>Personal connections, a spread of horizontal informal social networks and vertical patron-client links which enables informal practices.</p>	<p>China: the move to Asian developmental state: personal networks are seen to be functional to new capitalism – <i>guanxi</i> capitalism (Yang 2002: 473)</p>	<p>Personal connections became re-oriented on business and ‘professionalised.’  Traditional ethics of social networks are undermined by the ‘monetisation’ and ‘consumerisation’ of Russian and Chinese cultures.</p>
<p>Informal codes that supported the command economy but also subverted it</p>	<p>Confucian tradition (tables 5-6)</p>	<p>Ethics of friendship and mutual help (tables 5-6)</p>

The fact that the informal practices make use of social networks<sup>49</sup> based on non-contractual but binding relationships, such as kinship, friendships and other trust-centred relationships, makes the existence of personal networks a factor alongside the others in the sense that by engaging in informal practices, by self-provisioning, and by the skilful use of social networks and families, people avoided entrapment in the political regime. They became actors who engage in relations with others to get what they can out of the existing system. On the other hand, unlike other factors in the table, the existence of social networks is a universal feature of human societies, and the question as to why social networks play such a central role in state centralised economies and serve as channels for the exploitative practices can be answered with reference to the rest of the more specific factors presented in the table. The implications of the use of networks go beyond the focus of this chapter and are given special attention in Part 1. Here let us summarise briefly the arguments of this chapter.

48 Jeffrey D. Sachs, Wing Thye Woo and Xiaokai Yang, Economic Reforms and Constitutional Transition, CID Working Paper No. 43, April 2000, p. 17.

49 The role of networks in the market economies deserves a serious consideration. Thus, Wank argues that the emergence of China’s market economy in the late twentieth century challenges fundamental Western beliefs on the link between markets and politics. It is a basic tenet that markets – economic activity driven by capital interests in competition with each other – and democracy – political freedom and popular participation in government – go hand in hand. Rueschemeyer, Stephens, and Stephens (1992); and Lipset (1993) – quoted from Wank, p.23.

## VI CONCLUSION

### Universality - particularity

Having compared *guanxixue* and *blat* in detail, one should conclude that people tend to develop similar responses (as well idioms) in order to survive in state centralised economies characterized by shortages, state distribution system and ideological predicaments. Such responses can be viewed as universal across societies with state centralised regimes. At the same time, it would be naïve to suggest that an apparently universal response to oppressive regimes would not be culture-specific. The cultural differences became even more obvious in the context of the demise of those regimes.

The post-Soviet reforms have changed the Soviet-type *blat* practices so much that *blat* has almost ceased to be a relevant term for the use of personal networks both in the state and in the new sectors of the economy. Being more culturally and historically grounded, the term *guanxi* has sustained and found its new use in contemporary China. There is much more awareness and debate on *guanxi* in China than ever has been on *blat* in Russia.<sup>50</sup> The partiality of reforms in China and the communist rulership does not prevent foreign investment and economic success, and corruption is estimated as not as damaging in China as it is in Russia.

Some common trends in the transformation of informal practices in post-reform China and Russia can be seen. Before the reforms, both *guanxixue* and *blat* were often beneficial to ordinary people in allowing them to satisfy their personal needs and in organising their own lives, whereas now their shift into corruption benefits the official-business classes and hurts the bulk of society. Trust and social networks are vital components of both economies and will continue to exist (as elsewhere) but due to their exclusive nature and their monetary targets the ethics and traditional values that once have been the foundations of *guanxixue* and *blat* go.

### Ambiguity of networks

*Guanxi* and *blat* networks in pre-reform China and Russia played a similarly ambiguous role in these economies: on the one hand, they compensated for the defects of the formal rules thus enabling the declared principles of the economy to exist; on the other hand, they subverted them.

Apart from subverting the formal institutions and principles, *guanxixue* and *blat* have produced a similar bearing on personal relationships – people were forced to use their personal networks instrumentally. Thus, the instrumental use of personal relationships has not only had a major impact on all aspects of society, economy and political regime, but also on the nature of personal relationships.

Such continuity can be found in the functional ambiguity in the relationship between the formal order and the informal practices in the context of the market reforms. In the same way *blat* practices operated to protect people from the rigidities of the Soviet regime, a post-Soviet economy of favours, it could be argued, counteracts the exigencies of the Russia's 'market democracy'. As formal institutions help define and limit choices and reduce risks and uncertainties in human interaction in the rule-of-law market democracies, so does the informal institution of *guanxi* in the Chinese economy in which the rule-of-law does not operate as it should.

### The relationship between the formal and informal

---

<sup>50</sup> The related themes presenting an obstacle to the market reforms, investment climate and the successful future of Russia are usually formulated in terms of corruption (Reference to 2015).

In general terms, the formal systems allow for informal practices to bend some of the formal rules as by doing so they sustain the existence of the formal system itself, especially when the formal rules cannot be enforced by the formal institutions (either because of the rules, or because of the institutions). Where this is the case, it is essential to accept that these 'informal' practices are as definitive for the economy and political regime as the proclaimed formal principles. It could be said that the formal and the informal coexist in a self-adjusting balance in any society:

- The more efficient the formal institutions, the less subversive the informal practices are. This is not to say that a good formal system has no loopholes, rather it has good filters (the rule of law, civic culture, etc.).
- The more realistic and consistent the formal principles of the system are, the less room is there for informal practices. The more abstract the formal claims, the more elaborate are the informal codes and practices.
- The more stable the formal order, the more established and 'institutionalised' the informal practices are.
- The more widespread are informal practices, the more ineffective the formal order becomes.
- In this sense the informal practices are an important indicator of the formal order and its changes.

To follow up the argument of the 'definitive' nature of informal practices, it has also been suggested that the scale of changes in societies is best reflected by the change of people's informal responses to them. This is why an insight into informal practices is a key to the understanding of economies and political regimes, and most importantly, an indicator of the depth of their changes.

### ***Literature:***

Bourdieu, P. *Outline of a Theory of Practice*, trans. Richard Nice, Cambridge, Cambridge University Press, 1999.

Dunfee, T.W. and D.E. Warren, 'Is guanxi ethical? A normative analysis of doing business in China', *Journal of Business Ethics*, 2001, 32(3), pp.191-204.

Guthrie, D. 'The Declining Significance of Guanxi in China's Economic Transition', *China Quarterly*, 154, pp. 254-282.

Kandiyoti, Deniz 'Pol v Neformal'noi Ekonomike: Problemy i Napravleniia Analiza' in Teodor Shanin (ed.), *Neformal'naia Ekonomika: Rossiia i Mir*, Moskva, Logos, 1999, pp. 356-371.

Ledeneva, Alena V. *Russia's Economy of Favours: Blat, Networking and Informal Exchange*, Cambridge, Cambridge University Press, 1998.

Lovett, S., L.C.Simmons and R.Kali (1999) 'Guanxi versus the market: ethics and efficiency', *Journal of International Business Studies*, 1999, 20 (2), pp. 231-247.

Shlapentokh, Vladimir, *Public, and Private Life of the Soviet People: Changing Values in Post-Stalin Russia*, New York, Oxford, Oxford University Press, 1989.

Shlapentokh, V., *Love, Marriage, and Friendship in the Soviet Union: Ideals and Practices*, New York, Praeger Publishers, 1984.

Standifird, S.S. and R.S. Marshall, 'The transaction cost advantage of guanxi-based business practices', *Journal of World Business*, 2000, 35(1), pp. 21-42.

Tung, R.L. and V. Worm, 'Network capitalism: the role of human resources in penetrating the China market', *International Journal of Human Resource Management*, 2001, 12 (4), pp. 517-534.

- Wang, W.Y. 'Informal institutions and foreign investment in China', *Pacific Review*, 2000, 13(4), pp. 525-556.
- Wank, D.L. *Commodifying Communism: Business, Trust, and Politics in a Chinese City*. Cambridge University Press, 1999.
- Wank, D.L. 'The institutional process of market clientelism: guanxi and private business in a South China city', *China Quarterly*, 1996, 147, pp. 820-838.
- Wu, J.M. 'State policy and guanxi network adaptation in China: Local bureaucratic rent-seeking', *Issues and Studies*, 2001, 37 (1) pp. 20-48. – check relevance
- Xin, K.R. and J.L. Pearce, 'Guanxi: connections as substitutes for formal institutional support', *Academy of Management Journal*, 1996, 39 (6), pp.1641-1658.
- Yan, Yunxiang, *The Flow of Gifts: Reciprocity and Social Networks in a Chinese Village*, Stanford, Stanford University Press, 1996.
- Yang, Mayfair Mei-hui, 'The Resilience of Guanxi and its New Deployments: A Critique of Some New Guanxi Scholarship,' *The China Quarterly*, 170, June 2002.
- Yang, Mayfair Mei-hui *Gifts, Favors and Banquets: The Art of Social Relationships in China*, Ithaca and London, Cornell University Press, 1995.
- Yeung, I.Y.M and R.L.Tung 'Achieving business success in Confucian societies: the importance of guanxi (connections),' *Organisational Dynamics*, 1996, 25(2), pp.54-65. – check title