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Guanxi: The Key to Achieving Success in China

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by Jin Guan

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Introduction

What is *guanxi*? Loosely translated, the term refers to connections or relationships between people. *Guanxi* implies preferential treatment given to the partners in an exchange, in the form of easy access to limited resources, increased access to controlled information, credit grants, and protection from external competitors (Lee, 2). Western scholars have looked at *guanxi* as similar to networking, that is, a form of social capital that has the potential to be converted into economic, political, and symbolic (prestige and status) assets (Ying, 3). However, the Chinese concept of *guanxi* is actually different from this, mainly due to the notion of reciprocal obligation and indebtedness. To the Chinese people, *guanxi* is a system of *renqing* (favors), in which obligation and indebtedness are manufactured, and in which there is no time limit for repayment (Gold, 7). The Chinese always try to return any *renqing* and expect the other party to do the same when a favor is given (Zinzius, 183). Therefore, one can look at *renqing* as the exchange currency for cultivating *guanxi*. The more *renqing* one accumulates, the more likely the other party is to reciprocate when solicited later. Hence, *renqing* can be seen as a yardstick by which one can measure how strong *guanxi* is between two parties.

In this paper, I will first explore the cultural and legal factors that influence the role *guanxi* plays today in Chinese society. Then I will demonstrate the significant power of *guanxi* through a case study that shows how an ordinary Chinese laborer's outstanding ability in cultivating *guanxi* permitted him to become one of the wealthiest and most powerful people in China. Through this case study, several points about *guanxi* will be demonstrated:

- the proper understanding and application of *guanxi* can transform one's life;
- *guanxi* can be developed through personal efforts without the benefit of a powerful family background;

- the best way to cultivate *guanxi* is to identify and satisfy the other party's greatest needs and desires.

On the subject of how to develop *guanxi*, I will offer my critique of those scholars who focus too much on the ritual aspect of properly generating *renqing*, through banquets and gift-giving. In my opinion, these scholars have overlooked the importance of value creation for the party with whom one tries to develop *guanxi*. Instead, I believe that the best way to cultivate *guanxi* is to identify the other party's greatest needs and then find a way to fulfill the needs for him or her. This creates the most value for the other party and allows one to accumulate the *renqing* necessary to utilize *guanxi* later. Finally, in the last part of this paper, I will examine the outlook for *guanxi* in China's future.

The Cultural and Legal Influence on *Guanxi*

In examining the role of *guanxi* in modern China, we must recognize that there are a number of legal and cultural factors conducive to its existence. The legal structure of China is not set up in the same way as that of the West. According to the authors of "Combating Piracy through *Guanxi*," the legal system in China "is plagued by ambiguity and a lack of structure, making legal interpretation a very subjective process." Formal rules and procedures are often interpreted and applied according to the arbitrary views of powerful officials. Personal interpretation of the law promotes *guanxi* (Dayal-Gulati, 120), because *guanxi* is cultivated as a coping mechanism in the absence of a reliable and impartial government and an established rule of law (Gold, 179). Furthermore, the pervasive mentality of government corruption has made developing *guanxi* with the ruling elite essential. The Communist Party of China wanted to employ laws to prosecute offenders while keeping the party's ruling elite above the law (McGrover, 96). Through the case study, one can see clearly the subjective nature of law, since the law could easily be interpreted in any way the officials deem proper. Naturally, if someone has a good *guanxi* with the official in charge, the official could interpret the rules in the way that is favorable for that person.

Confucianism has an enormous influence on the way Chinese people perceive others in society, and the reciprocal nature of *guanxi* is deeply rooted in Confucianism. According to the

Confucian classic, *The Book of Rites*, "What the rules of propriety value is that of reciprocity. If I give a gift and nothing comes in return, that is contrary to propriety; if the thing comes to me, and I give nothing in return, which also is contrary to propriety.... Worthy bestowers of kindness will not expect gratitude, while grateful receivers of grace will certainly make a return.... All sources and roots of disaster and disorder come from failure in returning grace" (Xu, 9, 321). Confucius's teaching was given thousands of years ago, yet the Chinese people's social behavior today still reflects this belief in reciprocity.

Case Study: Lai Changxing

The case study that follows is taken primarily from Chapter 3, "Eating the Emperor's Grain," of James McGregor's book *One Billion Customers*. The author conducted several personal interviews with Lai Changxing and incorporated information from other primary sources to present the story behind the largest corruption case in modern Chinese history. However, I want to remind readers that linking *guanxi* with political cronyism is not the focus of my paper. The purpose of this paper is to illuminate the meaning of *guanxi* through the three points I outlined earlier: (1) proper understanding and application of *guanxi* can transform one's life; (2) *guanxi* can be developed through personal efforts, without the benefit of a powerful family background; and (3) the best way to establish *guanxi* is through identifying and satisfying the other party's greatest needs.

Lai Changxing was born in 1958 in Shaocuo, a farm village located in the foothills near the coast of Fujian province in Southeast China. Like most Chinese peasant entrepreneurs, he grew up ill-educated (having completed only three years of his elementary school education), hyperactive, and optimistic. He believed that if he just kept scrambling for the next opportunity, his future would certainly be better than his impoverished past. Most importantly, he understood that personal relationships with people in power were the means to open opportunities and get things done in China. When Lai was young, he worked in the family's tiny farm plot and joined his two eldest brothers in a ditch-digging brigade at a military camp. Lai hated the backbreaking work, and he hated having bosses. He was determined to live a life different from that of his ancestors, who wore out their bodies doing hard labor, ending up in hillside graves. How did Lai

realize his desire to rise from these beginnings as a poor farmer and become a self-made billionaire?

Lai's ambition coincided perfectly with the economic reforms launched by Deng Xiaoping, the paramount leader who essentially introduced capitalism into China. Looking to seize the opportunity, Lai and four of his friends put together the equivalent of US\$180 and bought forging equipment to make car lug nuts and other simple parts. His gregarious personality and indefatigable energy then persuaded some companies to appoint him as their national sales representative. Traveling around the country on their behalf fueled his ambition even further, because he saw himself on the starting line to become gloriously rich. In addition to the prospects he saw in his travels, he tried to make the best of his available opportunities by establishing a personal connection with a worker employed in a state-owned textile factory in Shandong. It was from this person that he bought textile machinery blueprints, for US\$2,500. He copied the machinery and thereby became a market leader in the garment export business. This was the first significant capital that he generated, and it was done through cultivating *guanxi* with the factory worker.

After establishing himself as a business owner, Lai began to organize his own trade fairs by inviting buyers to Fujian, because he knew that many of them wanted to enjoy the abundant sunshine and delicious seafood available in the coastal town. When the buyers arrived in Fujian, he organized banquets to wine and dine them, ensuring that each buyer had a very positive experience in the region. Most of them agreed to deals with Lai after these pleasant experiences because they felt obligated to reciprocate the host's hospitality. The positive results of identifying and satisfying his target audience's needs taught Lai how to become the master of building *guanxi*. He later attributed his success in developing *guanxi* to "looking for and satisfying other people's hobbies and needs."

By the late 1980s, Lai was intrigued by the big money to be made in the electronics business. At the time, however, nearly all electronic goods in China were imported by smugglers. Situated directly across from Taiwan, Fujian had long been a hotbed of smuggling. Because of the political tension between Taiwan and China, the Taiwan Strait was rigidly controlled by the military and police. Lai concluded that success in the electronics business required good *guanxi*

with the military and police. First, Lai set up his electronics smuggling operation in Shishi, a coastal city in Fujian known as a smuggling center. Understanding that many employees within the local authority needed to earn extra money to complement their poorly paid government salaries, Lai did not hesitate to provide extra financial incentives for these employees to help him with his business. He even provided police officers with Taiwanese cars, which could not legally be imported into China. In return, Lai was given the privilege of setting up his electronic retail stores in a hotel owned by the police. Private enterprise was not allowed during the early days of reform, and thus Lai's operations had to be housed under local government agencies. As Lai's *guanxi* with the local officials grew stronger, more government officials came asking for *renqing* from Lai in the form of money to fund their pet projects in order to score political points. In return, the government officials presented Lai with impressive awards and patriotic titles.

When everything seemed to be going well, an incident took place that would drive Lai out of the city of Shishi. Because Lai never established *guanxi* with anyone from the area's tax bureau, one night his businesses were raided by officials from the local tax office. Wishing to avoid legal battles in court, Lai swallowed his losses and left the city with the US\$4 million that he had earned from the smuggling operations. He learned a hard lesson from this incident: that he must develop a network of *guanxi* to cover all potential risks to his operations. Lai's next stop was the city of Xiamen, located in the southern part of Fujian. This city would become the headquarters of his future business empire. But before he turned Xiamen into his headquarters, Lai would strike another deal with the local police to help him emigrate to Hong Kong. In return he would cover the accommodation, food, and entertainment expenses for any police officers and intelligence operatives who visited Hong Kong.

Lai's stay in Hong Kong strengthened his *guanxi* with various officials in the Chinese military. While the military and intelligence officers enjoyed the hospitality provided by Lai, they had a greater need, that of gathering information on the activities of Taiwanese authorities in Hong Kong. Lai leveraged his Fujian ancestral origin, which was shared by eighty percent of the Taiwanese population, to gain access to a Taiwanese spy chief in Hong Kong. When Lai discovered that the Taiwanese spy wanted to defect to China, he was able to obtain a list of the names of Taiwanese agents in China and delivered the list to Chinese intelligence officers. This

act abundantly fulfilled the "greatest need" of an intelligence officer from the Chinese military, who then owed Lai a very big *renqing* to be repaid later. Not only was Lai successful in cultivating more *guanxi*, he was also able to make a huge profit from investing in the booming Hong Kong real estate market. He would return to Xiamen with US\$40 million and a very strong network of *guanxi* as a foreign investor who enjoyed tax breaks from Chinese government.

With help from a friend in the local government, Lai quickly set up a trading firm called Yuanhua International, which owned various businesses that produced car stereos and assembled computer parts. He set up his office on the top floor of the infamous Red Mansion, which was a seven-story building on land owned by the Xiamen police department. The Red Mansion was the place where Lai cultivated and maintained his network of *guanxi* with various government officials. Although it looked like any Chinese office building from the outside, the inside of the Red Mansion included a warren of private banquet rooms, a forty-seat movie theater, private karaoke lounges, sauna and massage facilities, and a half dozen guest rooms. To serve Lai's government official friends, the Red Mansion housed great cooks from Hong Kong and beautiful young women from all over China. Remembering the lesson he learned in Shishi, Lai wanted to make sure all aspects of government relations were directly under his control. He revealed that the only government officials he was afraid of were those without "hobbies," which typically referred to money or women.

Lai proved his impressive ability to identify anyone's "hobbies" when he tried to establish *guanxi* with a government official who was not interested in either money or women. Comprehensive research through his *guanxi* network led to the discovery that this government official was a connoisseur of calligraphy. Lai was able to obtain several of the most prestigious calligraphy works, worth hundreds of thousands of dollars, and presented them to this official as a gift. Through this endeavor, Lai made the government official feel indebted and obligated to reciprocate the favor. Another way in which Lai developed his *guanxi* network was through helping friends in government advance their political careers. When Zhuang Rushun had been a mere traffic cop in Shishi, Lai imported and donated satellite telephone equipment that Officer Zhuang used to set up a traffic monitoring system that became a national model. A few years

later, when Zhuang had risen to become the second-in-command of the Public Security Bureau of Fujian as a result of this innovation, he certainly remembered the *renqing* that he owed Lai.

But Lai's highest achievement in developing *guanxi* has to be his befriending Yang Qianxian and Li Jizhou. At age forty, Yang was appointed as the director of the Xiamen Department of Customs, making him the youngest customs director in China. Yang had dismissed Lai as a nobody when they first met, since Lai was then running his small textile factory. But Lai relentlessly cultivated *guanxi* with Yang, first donating money to Yang to spread gifts around the system so he could become the director of the customs department when the position became vacant. When Yang's father died, Lai offered to go to Yang's hometown, where he helped pay for the funeral arrangements. He later supplied Yang with a Lexus to drive as well as a Huanan tiger skin worth US\$100,000 to hang on his wall at home. Lai also introduced Yang to a woman who later became pregnant with Yang's son. After this series of extremely generous gestures, Yang viewed Lai as a benefactor to whom he was very much indebted.

Lai also developed *guanxi* with the highest ranking official within his network, Li Jizhou, who was the Vice Minister of the Public Security Bureau, in charge of border security and national anti-smuggling efforts, and he did this in a very creative way. When Li mentioned to Lai that his wife had retired from a government job and had nothing to do, Lai immediately invested US\$120,000 to help Mrs. Li open a restaurant. Two years later, Mrs. Li told Lai that her daughter was having financial problems in the United States; Lai wired US\$500,000 to Ms. Li's California bank account within a few days. As a result of these favors, Minister Li felt indebted to Lai and the need to reciprocate whenever possible.

With a network of *guanxi* firmly established at various levels of government, Lai was not shy about using this network to carry out his smuggling operations. When vessels carrying his contraband approached the Xiamen Port, Lai would send out small boats with fake cargo manifests to exchange for the real cargo manifests. The fake manifests usually listed the items they were carrying as transshipments to other countries, which enabled these goods to enter China duty-free. Upon reaching port, these shipments were sent to bonded storage areas that Lai and his partners in government and military controlled. With help from the government and the

military, Lai was able to accumulate approximately US\$10 billion through such smuggling schemes.

Lai's story, however, did not end happily. He was sold out by one of the hundreds of associates within his enormous smuggling operation. The associate decided to expose Lai after unsuccessfully blackmailing Lai for money. He prepared a seventy-four-page report detailing Lai's smuggling operations and the government and military involvement in them. Zhu Rongji, the premier at the time, had the personal agenda of leaving an anticorruption legacy. He was looking for a big case that would end the corrupt government and military involvement in smuggling operations. With this substantial report in hand, Premier Zhu took immediate action by sending hundreds of investigators to Xiamen to arrest Lai and his associates. In a way, Lai had performed ultimate *guanxi* garnering — his case gave Premier Zhu his greatest desire! But this time it was to Lai's cost.

Lai was forced to flee the country — but even now, it was his *guanxi* network that saved his life. To catch him, the investigators placed close surveillance on all major roads, ports, and airport. Lai received warnings from Zhuang and Yang that the investigators monitoring the highway were looking only for luxury cars. Lai was able to escape Xiamen in a plain sedan. Nonetheless, Lai fell from grace. He is currently exiled in Canada, and the majority of his assets have been seized by the Chinese government.

Critiques of Other Scholars

I feel that many scholars of *guanxi* are short-sighted in their assessment of what it means to cultivate a good *guanxi*. Many scholars focus much of their attention on the ritual features of generating *renqing*. For example, Scott Seligman and Huang Quanyu overestimate the role of proper behavior (seating arrangement and drinking, etc.) during a banquet, and how to present gifts appropriately (pieces of art are normally the best option; do not give clocks as gifts; etc.) to the Chinese. While these things are important in impressing Chinese people, they are not essential in cultivating *guanxi*. In looking at Lai's superb ability to develop *guanxi*, one must understand that Lai was so successful because of his ability to identify and satisfy the target audience's needs. By doing so, he created maximum value for them. In my opinion, this is the

best way to generate *renqing*, because the recipient will remember for a long time and feel obligated to reciprocate whenever they can, even if it means breaking the rules. Furthermore, the formal method may not be effective: if the party with whom one seeks to develop *guanxi* does not see any value in establishing a connection, he or she could easily refuse to attend the banquet one planned or refuse to accept the gift one presented. Therefore, it is much more important to focus on identifying the needs of the other party and figuring out a way to satisfy these needs for him or her.

Outlook for *Guanxi*'s Future in China

Some scholars have argued that *guanxi*'s role will decrease or fade away entirely as the legal system continues to improve. Ying Lun So and Anthony Walker cite Hong Kong as the prime example for the decline of *guanxi*: the informal system fades as the legal system improves (So and Walker 129). However, I agree with Mayfair Mei-hui Yang's argument for the resiliency of *guanxi*. Her article takes issue with approaches that treat *guanxi* as a fixed essential phenomenon that can only wither away with the onslaught of new legal and commercial regimes. The examples of Taiwan and post-socialist Russia's encounter with capitalism suggest that while *guanxi* as a practice may decline in some social domains, it will display new social forms and expressions and find new areas in which to flourish, such as business transactions. Yang found that as old contexts of *guanxi* usage declined, new ones emerged, such as the reliance on *guanxi* to locate and maintain supply sources for new commercial ventures. There have been many new uses of *guanxi*: obtaining passports and exit permits to leave the country, finding job opportunities with the decline of state job assignments, and linking up with relatives overseas for business and emigration. Financially *guanxi* has been useful in locating sources for loans to finance a new economic venture or purchase a home, and in attracting overseas Chinese investors for a business. Official controls still remain over state contracts, access to imports, bank loans, favorable tax incentives, access to valuable market information and influential persons, and exemptions from troublesome laws and regulations. It is here that *guanxi* finds new nurturing ground, and this trend will not change for a long time because *guanxi* is deeply rooted in the Chinese culture, formed by thousands of years of experience.

Conclusion

The important role that *guanxi* plays can be summarized in the Chinese expression, "one more connection offers one more road to take" (Seligman, 182). In China, if one has the right *guanxi*, there is little that cannot get accomplished, even if it is technically against the rules. On the other hand, if one does not have *guanxi*, one's life is likely to be a series of long lines, tightly closed doors, and a maze of administrative and bureaucratic hassles (Seligman, 181). In Lai's case, *guanxi* was ultimately the quality that transformed his life from that of a poor peasant to a billionaire. I hope that readers can take away from this discussion the three points I made through Lai's case: (1) proper understanding and application of *guanxi* can transform one's life; (2) *guanxi* can be developed through personal efforts, without the need for a powerful family behind one; and (3) the best way to establish *guanxi* is through identifying and satisfying the other party's greatest needs. Once a person establishes a strong *guanxi* network, it is up to the owner of the network to decide what to do with it. Seeing the power and influence of a strong network of *guanxi* in Lai's case, I would urge the owners of such networks to create a greater good for society and leave a positive legacy behind. Finally, I hope readers will also understand that in light of the cultural and political climate of China, *guanxi* will continue to play an essential role for some time.

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