

## A THEORETICAL APPROACH OF SOCIAL CAPITAL IN CHINA

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### Abstract

*Guanxi (favor and reciprocity) is known to be an important feature of Chinese society. While there are numerous important studies of this topic, the present paper examines guanxi linked to social capital, in order to illustrate the similarities and differences between these two concepts and how Chinese guanxi varies from Western conceptions on social networking. As such, there are three steps to be followed: to describe the Confucian root of the social phenomenon; to show the main types of guanxi; and to depict the similarities and differences between guanxi and social networking.*

**Keywords:** China after Deng, Confucianism, role relations, social capital, virtues.

“On your parents you can rely on at home,  
on your friends you can count on when out in the society”  
Chinese idiom

### Introduction

China emerges nowadays as one of the most important player in international relations, conducting its triumph through a different ethical code, ideology and cultural framework than the Western world. In terms of social and business ethics, *guanxi* (favor and reciprocity) are seen today, as

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always has been: one of the most important elements of Chinese everyday life. However, given the Chinese government's recent efforts to fight against corruption, to revitalize the Confucian ethics and to create a new moral code, it is noticeable that the new ethical *mélange* was able to preserve the traditional *guanxi*.

*Guanxi* – which literary means interpersonal connections or relationships – is one of the most defining features of the Chinese society<sup>1</sup>. It can be related to individuals, families, organizations or networks and it operates in different life spheres as political, social and business sphere. One of the most common features of *guanxi* is related to an extended idea of family<sup>2</sup>, a close personal connection between people and all of the interpersonal relations or networks should involve trust and cooperation between the involved ones.

*Guanxi* has its origin the Confucian thought, which includes a strong foundation on virtues as loyalty, reciprocity, good faith, diligence, kindness, benevolence, charity, politeness, trust, altruism and filial piety. As such, it has been difficult for scholars to classify *guanxi* properly within the Confucian paradigm. (1) According to current interpretations, it may be seen as a particular type of personal relationship, which has different types depending on the fundament in which *guanxi* is built, as family ties, acquaintances and strangers.<sup>3</sup> (2) Others might classify it according to its nature and purpose of interactions: socio-affective *guanxi*, as the family relationships, which involve primarily exchange of feelings in order to satisfy the need of love; instrumental *guanxi*, the market type of resources exchange relations as buyers and sellers; and the mixed *guanxi*, which refers to the combination between the socio-affective *guanxi* and the

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<sup>1</sup> The term *guanxi* (关系) refers to the personal connections between individuals in their formation and the maintenance of long-term relationship which follow given social norms. 关系 is made up by two words *guan* and *xi*. *Guan*, as noun, it can serve as a barrier or a juncture point that connects two different entities; and as a verb, it means to shut, close or turn off. *Xi* is a conjunctive word that means in relation to or linked with something or somebody. See Zhu Yuan *et al.*, *Pocket Oxford Chinese Dictionary*, Oxford: Oxford University Press, 2004.

<sup>2</sup> Liang-Hung Lin and Yu-Ling Ho, "Guanxi and OCB: The Chinese Cases", in *Journal of Business Ethics*, Vol. 96 No. 2, October 2010, pp. 285-298.

<sup>3</sup> See Jeffrey Bruce Jacobs, "The concept of *guanxi* and local politics in a rural Chinese cultural setting", in Stephen Greenblatt, R. Wilson, and A. Wilson (eds.), *Social Interaction in Chinese Society*, New York: Praeger Publisher, 1982.

instrumental *guanxi*, including both feelings and material benefits.<sup>4</sup> (3) But generally speaking, *guanxi* involves personal long-term relationships which follow implicit social norms which seem to have a local and contextual character.

“[T]he distinction between ‘primary’ and ‘extended’ *guanxi*, one ‘characterized by moral obligations and emotional attachments [...] and by the stable mutuality between people within networks over a long period’, while the other refers to a strategy for forming advantageous relationships. What both distinguish is *guanxi* as favour-seeking on the one hand and rent-seeking on the other. Each form is a network of interconnected relationships but with different applications. This distinction between favour-seeking and rent-seeking *guanxi* is fundamental and failure to recognize it may lead to serious confusion.”<sup>5</sup>

Several distinct interpretation still keep a common ground which see *guanxi* as a strong socio-cultural concept, fundamental to the understanding of Chinese community structure, often described in terms of Confucian role relations.

### **Role relations and *guanxi***

Either it is seen as an expressive or instrumental tie, *guanxi* has always been considered as a useful tool for mutual assistance for individuals and families needed to extend and to imply mutual help and self-insurance. To strengthen the family organization, the filial piety value of the Confucian thought became a belief system generally accepted by Chinese people. This core value system helps sustaining and supporting the familial institution. Consequently, *guanxi* is an extension of the familial relations. Over an evolutionary process, the five cardinal virtues of the familial relations, as well as *guanxi*, became tool-like constructions which serve functional purposes.

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<sup>4</sup> Michael Harris Bond and Kwang-Kuo Hwang, “The social psychology of Chinese people”, in Michael Harris Bond (ed.), *The Psychology of the Chinese People*, New York: Oxford University Press, 1986, pp. 213-266. Cf. *infra*.

<sup>5</sup> Xiaoying Qi, “*Guanxi*, social capital theory and beyond: toward a globalized social science”, in *The British Journal of Sociology*, Volume 64/Issue 2, 2013, p. 310.

In the Confucian philosophy, the disciples were taught to be gentlemen, and to become a gentleman one had to develop the five cardinal virtues. As Confucius noted, “the gentleman first practices what he preaches and then preaches what he practices”.<sup>6</sup> The five cardinal virtues are behavioral norms and guidelines which embedded courtesy, good faith, kindness, magnanimity and diligence. These virtues were used within the traditional Chinese family and society. According to this believe system, the family unit includes the following relations: father-son, husband-wife, elder brother-younger brother and friend-friend. There is a senior-junior and a leader-follower status of the relationship. The one who is on the lower status has to be respectful and obedient to the one who is on the higher status. Consequently, according to the structure of the five cardinal virtues, there is no equality between the interpersonal relations. The friend-friend status relationship will be differentiated according to the age and personal features or traits among the involved individuals; and the senior will address the junior as elder brother. Even more, the friend-friend status relationship between unrelated individuals becomes a pseudo elder brother – younger brother relationship and it is not seen as an independent relation, but as a family extension relation.<sup>7</sup>

*Guanxi* is described as having extreme importance within human relationships, social order and stability. The social order may be interpreted hierarchically or horizontally. Hierarchically speaking, the rights and the obligations are unequal and are enjoyed by members of each relationship, so that father, husband, elder brother or senior friend have more authority and privileges than the junior or subject, son, wife, younger brother and junior friend. In the horizontal differentiation, there is a self; centered as a middle of a circle, and the socially related others are differentiated by their closeness to the self. For example, the self centered is the family and the differentiations between the others are based on the blood ties such as family member, close relatives and the distant ones.

In the relations between the parents and their friends, children are taught to address as to these adults as uncles and aunts. The five cardinal virtues core is the family and based on the father-son, husband-wife and

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<sup>6</sup> Dorothy Hoobler and Thomas Hoobler, “Confucianism”, in *World Religions*, New York: Chelsea House, 2009, p. 12.

<sup>7</sup> Dorothy Hoobler and Thomas Hoobler, *op. cit.*, p. 14.

elder brother – younger brother, kinship ties and ethnic relations develop and expand. Therefore, the interpersonal relations in Chinese society are the familial relations, the relations inside the family, and the relations outside the family, including *guanxi*. *Guanxi* relations are seen as an extension or a modification of the familial relations, which are the core of all interpersonal relations.

Based on the Confucian thoughts and the five virtues, *guanxi* was a very important aspect in the lives of the Chinese people. The Confucian thoughts were adopted by the dynasties as guidelines for regulating the bureaucratic systems and the public. Although the connotations of *guanxi* may change over time and may differ in the Chinese society, its fundamental meanings are directly linked to the ancient Chinese philosophers, especially the writings of Confucius. *Guanxi* also refers to the moral principles between the parties involved in a relationship, so, each relationship comprises its own moral principles.

The Confucian thought and the way Confucianism influenced the social relationships and put the individual in a relation-oriented society, knowing the social status, fulfilling the social duties and obligations and following the appropriate moral standards. The Confucian individual had “considerable freedom in deciding whether to into voluntarily constructed relations”<sup>8</sup> outside the family structure.

As Confucianism has become a state philosophy, its values were deeply rooted in the most influential classes. The central government found that the moral principles of the Confucianism are more flexible, easier to be understood by the society and easier to be implemented for a better ruling. This way, the government was relying on the five cardinal virtues’ teachings and on the moral principles to create a perfect harmony in the society, and thus there will be no potential threat to the central authority.

During the Mao era, *guanxi* underwent massive change through institutional and organizational reformation and political mobilization. Friendship has been conceived as being dangerous, undermining party loyalty and the egalitarian ethic of the new revolutionary society, and was replaced with “comradeship”.

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<sup>8</sup> A. Y. King, “Kuan-his and network building: A sociological interpretation”, in *Daedalus*, Vol. 120, 1991, p. 63.

“Consequently relationships through which informal economic or other assistance provided between people outside of party relations declined greatly during the Mao era. Nevertheless, *guanxi* relations remained strong despite the Communists’ vigorous endeavours to uproot traditional elements of Chinese culture. Party members utilized and even relied on *guanxi* to win loyalty and achieve political goals, thus importance of such ties continued at all levels of the Chinese Communist polity. Given the strongly bureaucratic control over the allocation of resources and services, one means of circumventing managed scarcity is to draw on *guanxi* relations.”<sup>9</sup>

Research conducted in the post-Mao period shows that the “pre-eminent characteristic of personal relations in China today is instrumentalism. The principle that underlies it is *guanxi*”.<sup>10</sup> The shift in emphasis, from favour-seeking to rent-seeking *guanxi*, reflects changes in broader social transformations. Favor-seeking *guanxi* signifies social contacts and interpersonal exchange of resources in a collectivistic society. Rent-seeking *guanxi* reflects on institutional norms signifying social agreement based on power exchange in a hybrid Chinese socialist market economy<sup>11</sup>. Rent-seeking *guanxi* has grown massively – the real source of corruption in today’s China. The confusion of the two types of *guanxi* relationships leads to the belief that *guanxi* is ripe with ethical abuse.<sup>12</sup> The underlying fact is that *guanxi* remains an important element of relationships in Chinese society.<sup>13</sup>

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<sup>9</sup> Xiaoying Qi, *op. cit.*, pp. 310-311.

<sup>10</sup> Thomas B. Gold, “After Comradship: Personal Relations in China since the Cultural Revolution”, in *China Quarterly*, Volume 104, 1985, p. 659.

<sup>11</sup> See Ana Pantea, “Market and State Power in contemporary China. Is there a neoliberal shift in the post-Mao era?”, in *Studia Europaea*, Volume 1, 2015.

<sup>12</sup> See Chenting Su and J.E. Littlefield, “Entering *Guanxi*: A Business Ethical Dilemma in Mainland China?”, in *Journal of Business Ethics* Volume 33/Issue 3, 2001, pp. 97–110.

<sup>13</sup> See Xiaoying Qi, *op. cit.*, p. 311.

## Guanxi and social capital

Theories on the similarities between *guanxi* and social capital reveal that both concepts are based on trust, reciprocity of favors and reputation. Social capital is defined by Bourdieu as:

“the aggregate of the actual or potential resources which are linked to possession of a durable network of more or less institutionalized relationships of mutual acquaintance and recognition – or in other words, to membership in a group – which provides each of its members with the backing of the collectivity-owned capital, a ‘credential’ which entitles them to credit, in the various senses of the word.”<sup>14</sup>

*Guanxi* can be approached as a variant of Bourdieu’s concept of social capital as he identified three forms of social resource: economic, cultural and social capital. Social resources in *guanxi* convey an interlocutor’s social position and the contacts available to him through networking. As such, the Western meaning of social capital and *guanxi* share the same principle of being a collective asset which has value only within the group. But in a more accurate sense, both are different from other social assets as their meaning is to gain access to resources. Trustworthiness (*xinyong*) is also important as it arises unavoidably through *guanxi* relations and it is a main element of social capital.

As Beinhocker sees, the social capital is “the norms of reciprocity and trustworthiness”.<sup>15</sup> Both *guanxi* and bonding social capital help communities develop a unity, sharing resources, information and doing business. Relating bridging social capital, *guanxi* comprise the same idea of cultivating new people and developing a relationship network, sharing social ideas and do business together. Related to the linking social capital, *guanxi* is also about establishing relations with government officials and institutions. The *guanxi* is established with a long-term objective in order to have a future network for getting resources or information when needed.

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<sup>14</sup> Pierre Bourdieu, “The Forms of Capital”, in John Richardson (ed.), *Handbook of Theory and Research for the Sociology of Education*, New York: Greenwood Press, 1986, pp. 249-250.

<sup>15</sup> Eric Beinhocker, *The Origin of Wealth: Evolution, Complexity, and the Radical Remarking of Economics*, Cambridge: Harvard Business School Press, 2006, p. 435.

As the economy develops, *guanxi* is going through some transformations as well. Based on several case studies, Snell and Tseng detailed the changes of *guanxi* as such:

“*Guanxi* now is permeated by instrumentally, self-seeking opportunism, and dishonourability rather than by trust relationships based on mutual warmth, loyalty and respect. Given the absence of civic traditions and the networked nature of Chinese society, relative deprivation appears to have found expression in egoistic, acquisitive forms, rather than, as Party ideologues would urge, altruistic rallying to improve both material and spiritual civilization among mainland compatriots”.<sup>16</sup>

Despite these changes, the close interpersonal relationships are still critical in China to conduct business activities. For example, *guanxi* contracts arise organically within an ongoing set of connected exchanges and therefore tend to reduce uncertainty in the business sector.

“Informal or implicit contracts of this type also reduce transaction costs associated with uncertainties in the organizational and market environment, such as formally communicating, negotiating and coordinating transactions, as well as dealing with the contingencies of maladaptation or a failure to adapt, a finding supported by [...] reports that business operated through *guanxi* incur low bureaucratic and transaction costs.”<sup>17</sup>

Therefore, Chinese social capital can be characterized in terms of long-term relationships which operate through trust, reciprocity and mutual obligation. These are general and not specifically Chinese attributes of social life and community practices and can be incorporated into social explanatory accounts which are not necessarily focused only on Chinese life, but can be regarded more universally.

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<sup>16</sup> Robin Snell and Choo-sin Tseng, “Ethical Dilemmas of Relationship Building in China”, in *Thunderbird International Business Review*, Volume 43/Issue 2, March-April 2001, p. 196.

<sup>17</sup> Xiaoying Qi, *op. cit.*, p. 318.

## ***Guanxi* and the organizational framework of the business environment**

Generally speaking, there are four main differences between Chinese and Western management practices: the desire for risk reduction; the need to take a long-term relationship; a consensus oriented decision making approach; and the importance of *guanxi* or personal relationships. *Guanxi* is about continuing reciprocal relationship with reciprocal favors, building a large network, and being individual-oriented, social-oriented, status-oriented, and not firm-oriented.<sup>18</sup>

In China, the tightened relationships and the establishment of *guanxi* help in obtaining successful transactions and business deals, while in the Western world, relationships come only after the successful transactions, as the businesspeople are too transactional-oriented, focusing first achieving the required task in the business process, and afterward on the benefits that may come from the established relationship.

*Guanxi*, as interpersonal interaction, includes three important objects. The *minzi*, which refers to fitting in the society expectation and gaining respect; *the affect*, which refers to maintaining a long relationship by giving gifts to business partners in important days as birthdays or festivals; and the *reciprocal favor*, which refers to mutual help between persons.<sup>19</sup>

Since reputation has a great impact on future business opportunities, Chinese businessmen are very protective of it<sup>20</sup>. *Guanxi* refers to building a relationship based on trust and credibility as the establishment of trust between people is the most important characteristic of *guanxi* in the business environment. Trust is the willingness to rely on another with confidence because they are reliable, are consistent, competent, honest, fair, responsible, benevolent, have integrity and are helpful.<sup>21</sup>

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<sup>18</sup> See Jose Tomas Gomez Arias, "A relationship marketing approach to *guanxi*", in *European Journal of Marketing*, Volume 32/Issue 1-2, 1998, pp.145 –156; John L. Graham and N. Mark Lam, "The Chinese Negotiation", in *Harvard Business Review*, October 2003, pp. 1-10.

<sup>19</sup> Don Y. Lee and Philip L. Dawes, "Guanxi, Trust, and Long-Term Orientation in Chinese Business Markets", in *Journal of International Marketing*, Vol. 13 No. 2, June 2005, pp. 28-56.

<sup>20</sup> Brian Combric, "Is *guanxi* social capital?", in *The ISM Journal of International Business*, Volume 1/Issue 2, March 2011, pp. 6-19.

<sup>21</sup> Henry Y. Wong, "The Dynamics of *Guanxi* in China", in *Singapore Management Review*, Volume 20/Issue 2, 1998, pp. 25-42.

*Guanxi* is a critical factor in business environments as the stronger the relationship of trust is, the higher the performance of the firm. There is a strong correlation between *guanxi* and the sales growth in a firm, suggesting that *guanxi* helps a firm in positioning it in its market, establishing external relations, acquiring resources and establishing legitimacy. It provides an opportunity to improve market share through advanced competitive position and other applications of collaboration with competitors.<sup>22</sup>

The social capital refers to the economic transactions where all the political, technical, financial ties an actor has, work together in determining the economic outcomes. Decisions are influenced by non-economic factors as status, power, sociability and approvals, thus, the economic actions occur within the social networks and the institutions are socially constructed.<sup>23</sup> Social capital encourages collaboration, forms social credentials to increase the social unity and accelerates information flow.<sup>24</sup> According to Adler and Kwon, social capital is the “goodwill that is engendered by the fabric of social relations and that can be mobilized to facilitate action”.<sup>25</sup>

Human resources play a very important role in enterprises, but dealing with people is not such an easy task. The organizational behavior has been linked with the mutual help, performance, achievement, suggestions to the organization, progression and effectiveness between the members of an organization. In the multinational corporations (MNCs), it is critical for their members to understand the cultures and the values of other countries for a better communication and co-working with the people who have different cultural backgrounds.

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<sup>22</sup> Seung Ho Park and Yadong Luo, “Guanxi and Organizational Dynamics: Organizational Networking in Chinese Firms”, in *Strategic Management Journal*, Volume 22/Issue 5, May 2001, pp. 455-477.

<sup>23</sup> Mark Granoveter, “Economic Institutions as Social Constructions: A Framework for Analysis”, in *Acta Sociologica*, Volume 35/Issue. 1, January 1992, pp. 3-11.

<sup>24</sup> See Miao-Que Lin and Jyh-Huei Kuo, “The Influence of Social Capital on Cluster-Based Knowledge Sharing and Value Creation: An Empirical Analysis of the Hsinchu Science-based Industrial Park in Taiwan”, Volume 13/Issue 3, September 2006, pp. 1-38.

<sup>25</sup> Paul S. Adler and Seok-Woo Kwon, “Social Capital: Prospects for a New Concept”, in *The Academy of Management Review*, Volume 27/Issue 1, January 2002, p. 17.

The organizational citizenship behavior (OCB)<sup>26</sup> also refers to the individual behaviors that are embedded in a formal reward or punishment system that brings a better performance and efficiency within the organization. It focuses on the personal willingness of the employees to perform the tasks, not on the organizational requirements. Human resource management, organizational citizenship behavior and cultural management gained a greater importance for the multinational enterprises and in the international markets. The national culture comprises peoples' values, convictions and beliefs. It is knowledge and behavior or attitude that can be shared among the citizens of different nationalities and cultures. National culture can be a shared perspective, attitude and way of thinking between people. It may include stereotypes, values and life style which deeply influence citizens' behaviors. In such extend, internal organizational culture of *guanxi* focused on cooperation and trust-building ensures efficiency and productivity.

To conclude, *gunaxi* and social capital are similar, but different in their social function to achieve individual goals. As such, the terms do not cover the same social reality and the two are not interchangeable. They are distinguished as social capital refers to the individuals and *guanxi* applies to interpersonal relationships. But both terms result from investment by individuals who want to form social relations, but with the focus on their own benefit.

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