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Business Networks in China: Legacies and Practice[1]

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Key words: Chinese business networks, Chinese entrepreneurship, *guanxi*, *kongsi*, South-east Asian business history

INTRODUCTION

Business Networks in China is a topic that attracts arguments both from historic and from contemporary point of view. This chapter will delve both into the past and the present of business network relationships in China. We aim to review some of the historical assumptions about the fundamental principles of collaborative business relationships in South-East Asia and particularly different types of Chinese business network relationships. We also aim to challenge and contrast these assumptions with some evidence of business networking under the 'open-door' policy framework.

A wide variety of family controlled business networks in Asia emerged over the history of the region. Most of them have been scrutinised as inefficient non-market institutions that have been involved in economic activities as a substitute to proper market interactions. The literature on Chinese family and community business networks is populated with uncritical use of journalistic assumptions regarding the business relationships between Chinese immigrants in foreign countries or business network ties in mainland China. Often it is not possible to determine the boundaries between historical accounts, myths and popular narratives, and some documented practices. The field has huge definitional gaps and a lack of clear theoretical framework.

As a result, the concept of Chinese business partnerships has been applied to countries such as Taiwan, Hong Kong, Singapore, Indonesia, and Thailand, where the family head remains a head only as long as the family is undivided, and partners outside the family are widely accepted (Numazaki, 2000). There is also an overarching assumption that Chinese business networks are very similar and closely related to other Asian business networks (such

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as Japanese *zaibatsu* and *keiretsu*, the Korean *chaebol*), but very distinct from European and North-American collaborative business relationships.

In-spite of the numerous attacks on business networks in Asia, their adaptability and comparative advantages stemming from robust family bonds and the accumulation of relational value have become more evident to analysts. As these networks are based on fundamentally different relationships and business practices, generalisations across different countries and different types of network formations is not a promising intellectual path.

For example, the Japanese family business networks *zaibatsu* resembled a closed intra-family corporation, where family investors could not take back their own investments, and some family businesses have remained undivided for more than 300 years. As an institution, according to Numazaki (2000), *zaibatsu* was controlled by a family council, and the change of the number of partners took place only through family adoption, by marriage, or by birth and death. On the contrary, Chinese business networks have always been portrait as community networks where multiple families coordinate their business and investment activities through informal associations and community relationships. The difference in inheritance law in Japan and China, is perhaps one of the most influential factors historically that has led to the consolidation of economic power in Japan, and its relative fragmentation in China. The comparison between Chinese family networks *guanxi*, with the Japanese networks *keiretsu* highlights also differences such as government support and centralised leadership in Japan, openness, partnership and mutual benefits in China (Liben, 2000: 193, Numazaki, 2000: 152, Todeva, 2006). The differences between Asian business networks become evident only after a closer look at their context and operations.

Chinese business networks also show significant variations and the literature has developed three main streams of argumentation related to different regional phenomena – business networks formed by overseas Chinese immigrants; business networks in the mainland China, and Chinese business networks across the region that connect overseas with mainland Chinese communities. Different practices of collaboration and mutual support (favouritism) exist amongst these networks and a more precise analysis of these practices is essential to our understanding of business practices in the region. This paper aims to review some of the historical accounts of Chinese business collaborations and networking and to investigate how these practices have transcended from the past to the present Chinese business culture. The chapter draws on some research evidence of contemporary inter-firm relationships in the private sector in mainland China.

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The empirical results reported in this chapter are a result of a survey which was designed and administered from The University of Surrey, and the results were produced by an international team comprising of Dr. Emanuela Todeva, The University of Surrey, Tao Meng, Dongbei University of Finance and Economics (DUFE), China, Donka Keskinova, Plovdiv University, Bulgaria.

HISTORICAL ACCOUNTS OF CHINESE BUSINESS NETWORKS

Each of the three types of Chinese business networks has different history and legacies. The history of the overseas Chinese business networks has been more documented and has generated more references in the literature. The literature acknowledges some form of Chinese business networks since the 12th century when the Chinese immigration and migration to other nations started. The reliance on personal trust in cash-handling is traced back in the literature to the Song Dynasty (1254-1323) with its decline in the management of currency, when money became vulnerable to forgery, depreciation, and loss of function (Bun, 2000).

In the context of the development of the region at that time, the Chinese immigrants represented the most advanced group, bringing initially advanced commodity relationships, and later on high technical skills of mining and trading. These socio-economic developments were brought to different populations in the region subjected to fragmented political power and an absolute subordination to traditional authority (Gribb, 2000). In the context of these underdeveloped societies in the region and the lack of institutional environment, the Chinese community initiatives of these early years of migration had all the necessary conditions to flourish. During the early period of European colonisation of South-East Asia after 1511, the Chinese landlords controlled vast areas of the sugar industry in Malaisia, including estates and mills, keeping a mixed Malay and Chinese workforce. This fact by itself indicates that during the 16th century there was a deeper social and economic integration between the Malay and the overseas Chinese communities.

The most dominant power in the region in the 17th century was the Dutch East Indies Company (VOC), whose policy had been to leave the people as much as possible under the control of their own rulers. At this time the Chinese communities were used to separate the Islamic population from the Christians, and particularly to tamper the religious antagonism. At that time the Chinese immigrant communities of traders and miners have had established quasi-autonomous republics under the local rulers in Western Borneo and Malaysia. These community associations have been dominated by ‘patron-seeking’ relational practices that have been tapping into communal resources. These communities were known also as Chinese 'revenue farms' in the 17th to 19th century as they were used by the Dutch East Indies Company as fiscal institutions encouraged for tax purposes to act as a source of revenue (Gribb, 2000: 176).

The severe downturn in the world sugar market in the 1720s, has stired a range of new developments in the Asia-Pacific region, which affected the behaviour and the myth of the Chinese business networks. The appearance of *gangs* of Chinese bandits, and the subsequent company policy of VOC to limit the Chinese immigration instigated much corruption of the regional administration of that policy, and was followed by a Chinese revolt and the subsequent massacre of Chinese by the Dutch authorities (Gribb, 2000). These historical events of the 18th century demonstrate the creation of a number of myths about business network of Chinese immigrants, including the strength of their ethnic communities, their corrupt business practices and crony relationships with the indigenous rulers and with the power holders.

A different myth about the Chinese business networks in the 18th century is related to the commercial complexity of the gold mining industry, developed in the region and the leading role played by the Chinese immigrant networks. The Chinese entrepreneurs have often being accused of using corrupt practices in their efforts to collaborate and to adapt to various shifts in power in different host countries.

Overall the myths of the Chinese business networks that have affected political judgements and scientific research have assumed similarities between various communal and business practices and trading activities from the colonial period (16th - 19th century) to the present. Comparing different historical accounts has confirmed that assimilating all relationships and communal organisations with Chinese involvement in the regions under the category of Chinese Business Networks produces numerous misleading assumptions and does not produce conceptual clarity. The next part of this chapter aims to highlight the variety of collaborative business relationships in mainland China and overseas.

Variety of Chinese Business Network Practices - *Guanxi, Hegu, Hui, Bangs, Clans*

In order to identify some of the fundamental principles that apply to Chinese business networks, we need first of all to look at what have been the practices in mainland China and what has been the institutional environment that has nurtured these practices. Some of the historical accounts refer to the traditional nepotism of the Chinese emperors, the corruption and particularism of the Chinese dynastic bureaucracy through the centuries, the lack of institutional support and government legal protection for business transactions and private property, the lack of sound legal system, or the distrust in it (Schak, 2000). In this context, the Chinese networks known as *guanxi,* appear to be established to facilitate exchange of personal and knowledge based resources, for mutual aid and for protection. The need to deal with institutional insecurity has stimulated the evolution of an alternative form of social organisation that provides with this security – or business networks.

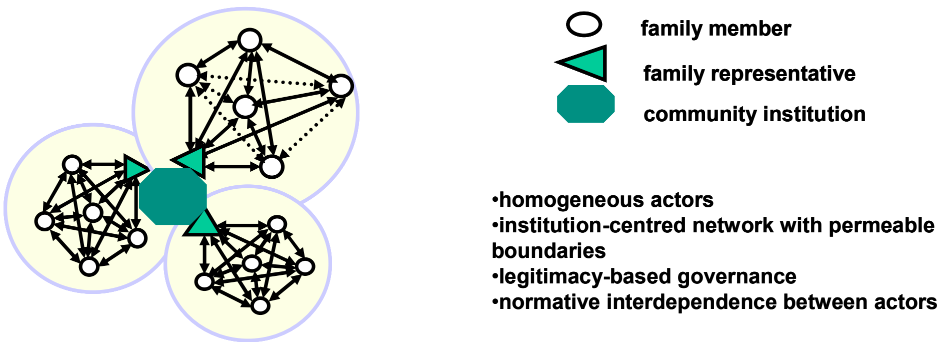
Guanxi means relationships that bind people through the exchange of favours. It also refers to reliance on informal business agreements. While some authors attempt to link the strength of the Chinese business networks to some fundamental religious attitudes, others argue that the normative basis of *guanxi* – as the development of particularistic and individualised relations with instrumental value does not come from Confucianism. The values of interpersonal trust and affinal reciprocity are universal, and many other people and nations have recognised the practical advantage of reciprocal obligations, against fears of reprisal and of losing functional ties. In addition to that, the merchant class in China itself has adopted Confucian rhetoric only as part of its flexible adaptation and search for legitimacy (Li, 2000).

G*uanxi* networks are based on reciprocity of favours which facilitates social exchanges supported by a mutual belief in reciprocity. *Guanxi* resemble a set of affective ties between people, linked through kinship, native place, dialect, school, work-mate, or sworn brotherhood. G*uanxi* are established to facilitate exchange of personal and knowledge based resources, for mutual benefits and for protection (Bun, 2000). A main distinction of *Guanxi* networks is their ability to grow beyond the family, and to expand into economic activities within the wider community (Fig. 1).

The Chinese family and community business networks although known as *guanxi* networks in the literature, encompass a number of other social practices. One of the early types of highly sophisticated business network institutions that has emerged in China and their activities were recorded by the Qing Dynasty (1644-1911), were *hegu* - based on investment contracts, shareholders, and the use of a general manager (Numazaki, 2000). These were inter-family partnerships established between rich families as a joint venture for investing their family wealth and for making more money. Selected family members, entrusted by each family to act as representatives, could sign agreements as shareholders in the *hegu*. They bring the family capital to the *hegu* partnership and participate in strategic investment decisions for the appropriation of the collective pool of money. *Hegu* network is a proto-type of the modern investment funds with appointed fund managers.

Another type of network formation in China described in the literature is the voluntary financial associations *hui* (Wu-Beyen, 2000: 129). This type of networks has been recorded both in China and in Taiwan and can be traced back to the Buddhist temple practices from the 7th century onwards that provided loan money to the poor. As an institution *hui* represents a charity or a cooperative social organisation that facilitates the establishment of a pool of money for communal borrowing with no interest, and brings mutual benefits to its participants. The practice of *hui* is that an initiator establishes a committee, and defines the rules of participation. The purpose is to establish a rotating savings and credit association. In this association all participants make financial contributions according to the rules. The collective pool of money goes to selected participants again according to the rules. The participation agreement is bonded by trust in the initiator and in the other participants. As a financial institution *hui* reduces the costs of financial capital, and extends the purchasing power of poor individuals and families, providing them with new social and economic opportunities. Hence the actors in this network are bounded simultaneously by economic interests and by trust.

Fig. 1. Chinese Family and Community Business Networks – *guanxi, hegu, hui, bangs, clans, kongsi*



Two other types of network formations with business purpose that have been recorded within the mainland China are the *bangs* (or network organisations based on linguistic similarities and a common dialect, with strong feudal patriarchal authority structure), and the *clans* (or family business networks based on extended family linkages, facilitating entrepreneurial access to resources such as labour, capital, information, credit, and markets). Family business networks of the type of *clans* enable individual members to utilise the benefits of family trust and family welfare. Network formations of the type of *bangs* also utilise the social resource of trust but trust is accumulated through business dealings, rather then through family bonds and derives from interpersonal relationships.

Clans are primarily based on paternalistic relationships with full confidence in the family head who owns and manages all the businesses under the *clan*. The business leader usually exhibits modesty, unrivalled experience, and moral authority. Strategic business decisions are made on the basis of experience, intuition, and informal exchanges of information, rather than detailed reports, or expensive advice by external consultants. Modesty in consumption, high rates of savings, and community financing is accounted as the main source of capital that finance the business activities of the *clan* (Weidenbaum, 1996).

There is a tendency of *bangs* and *clans* to engage in as many business relationships as they can with people of similar culture - those from the same *clan* or village, or those who speak the same dialect. The growth of these business networks is based not on economic efficiency, but on strong preference for cultural proximity, risk sharing, and optimising of business returns.

All these types of business networks within Chinese communities are represented in Fig.1, where family relationships transcend into community interactions. The essential characteristic of these networks s that families entrust family representatives, who at community level form a more permanent institution that absorbs decision-making power. In general, there is cultural homogeneity within these networks, the membership boundaries are permeable, and the entire network configuration exhibits legitimacy-based governance through legitimate representatives. There is no formal division of labour and different individuals are collectively entrusted to engage in different operations. The network develops its own rules and norms which generates normative interdependence. These networks nurture institutional authority which is established with rules and traditional practices that coordinate the collective efforts of the network members (Todeva, 2006).

There are some efforts in the literature to transpose the principles of reciprocity in favours to contemporary Chinese business networks. Li Cheng (2000: 86) puts an emphasis on the *technocrats* and the *entrepreneurs* in the mainland China, without an attempt to explain the institutional background of these two elite groups. The author defines the technocrats as individuals with specialised training, who hold professional occupations and have a leadership position with political influence. The entrepreneurs are defined as business people who assume the risks of bringing together the means of production – capital, labour and materials – and who receive rewards from the profit in market value of the product. Both groups form extensive relationship networks. Li Cheng describes the Chinese entrepreneurs as ‘peasants-turned-industrialists’ (Cheng, 2000: 96), who in pursue of non-agricultural career, and of new market opportunities, utilise the availability of cheap labour in rural areas and as a result generate private wealth (Zhang, 1995). These self-employed industrial and commercial entrepreneurs, stemming from ‘jobless youths’ and ‘landless peasants’ (Cheng, 2000: 99) are interlinked with all lairs of the technocrats, generating much of the corruption among officials. In spite of the educational credentials and the technical expertise of the technocrats, the upward mobility of the entrepreneurs is seen as the dominant force in the societal transformation of modern China. This is another example of articulation of myths based on accidental observations underpinned by an attitude to discredit the achievements of genuine entrepreneurs that take risks and operate in the buffer zone between the formal economy and the abundance of labour.

Kongsi and the Chinese Overseas Business Networks

The Chinese business networks claim also their popularity from the overseas Chinese communities, including different communal and business practices in the wider Asia-Pacific region. Such historical examples of Chinese community business networks discussed in the literature are: the trading activities during the colonial period of the 16th - 19th century; the quasi-autonomous communities in the Malay world in the 18th century; the smuggling activities of Chinese entrepreneurs during the Opium War with France and Britain (1839-1842); and much of the entrepreneurial activities of the 20th century (Bun, 2000). The family enterprise nested in a wider set of community relationships is the basic economic unit in these business practices. Numerous historical accounts clearly demonstrate the wide variety of ties among these overseas Chinese businesses, as well as their relationships with the indigenous local communities and ruling elites in the region.

The Chinese *revenue farms* recorded by the Dutch East Indies Company were called *kongsi*, or Chinese communal business organisations. *Kongsi* maintained their own armed forces, health and education systems, and currencies. They developed essentially in the 18th century in the gold mining industry, where the Chinese immigrants possessed superior extractive technology. The subsequent campaigns of the colonial forces in 1850-54 to defeat these semi-autonomous communities articulated a number of myths of strong Chinese business networks who have the capacity to adapt and to make their way through various types of relationships that penetrate through legal boundaries. These myths have reaffirmed the complex image of Chinese business networks.

Particularly interesting are the cases of Chinese business relationships in the Philippines (Shaolian, 2000: 224), in Singapore (Bun & Kiong, 2000: 71), and in Taiwan (Schak, 2000: 112). Shaolian discribes the natives in the Philippines at the turn of the last century as living largely in a subsistence economy, while the poor at that time Chinese immigrants have brought with them commodity relationships established in a traditional market system. The advancement of the Chinese traders after they settled in the Philippines therefore, is not surprising. In recent history the post-war Philipinisation campaign in the 1950s and the liberalized investment laws in the 1970s have led to changes in the economic position of the Chinese immigrants and has put a substantial constraint on their status. In spite of the presence of Chinese businesses in all sectors of the economy including manufacturing and finance, their strength, according to Shaolian (2000), is still in the commercial sector. The author brings evidence of the integration of the Chinese businesses into the Philippine economy and society, including close links of their manufacturing production (such as textiles and leather) with the local market, and employment of predominantly Philipino professionals as high and middle ranking managers in Chinese owned businesses.

The cases of mutually lucrative ties between Chinese businesses and Malay politicians presented by Gomez (2000) include co-optation of civil servants and politicians through interlocking directorship, expansion of patronage networks in order to secure state contracts and to access the distribution of state rents, and negotiated acquisition deals in order to consolidate financial power, or market presence. The author explains these cases with the systematic discrimination and distrust of Chinese immigrants which had constrained them from exploring a number of professions, and have forced them to move to commerce and trade with the need to cultivate government connections and mutual benefit ties (Gomez, 2000). Li also suggests that the Chinese minorities in the region have faced racial discrimination, which has left them being peripheral to the legal system and other social institutions, and has forced them to mobilise social, cultural, and financial capital within their own communities acting as a safeguard and protection for their interests (Li, 2000). Their businesses usually perform subassembly work, and make components that supply to others. They are also heavily involved in shipping, transporting, wholesaling, financing, sourcing, and more recently providing other services, such as real estate, hotels, and entertainment. Most of their operations are behind the scenes, minimizing the need for a public appearance and very often in the grey economy (Weidenbaum, 1996).

A number of authors emphasise also that overseas Chinese networks are triggered by hostility, racial scape-goating, lack of institutional safeguards, and distrust (Bun, 2000, Holbig, 2000). Their interpersonal relationships have evolved in a variety of institutional forms, facilitating social exchange based on a mutual belief in reciprocity and facilitating financial transactions.

One of the controversial explorations of Chinese business networks most recently has been related to business practices in Taiwan. The change in the business environment in Taiwan after the Second World War has provided incentives and access to financial resources mainly for large enterprises. This, according to Schak (2000), has enforced the need for social and economic help and assistance for small businesses, which they sought to satisfy through informal networks. The trust relationships, established among small businesses, were important for raising capital, for obtaining technical advice, for subcontracting orders, and as alternative access to raw materials, or shared use of emergency equipment. It is clear from Schak's analysis, that the level of co-operation between small businesses in Taiwan is very similar to the utilitarian by nature Western small business networks, established to share information, contacts and resources. The main differences appear to be the strong emphasis on establishing social relationships and more personal and affectionate ties among the Chinese businessmen. The driver behind network formation, according to Schak, is the division of labour between the large firms and the satellites, and the extensive subcontracting system, evolved around the efforts to incorporate former employees as business partners. Schak (2000) describes how large corporations extend their control over labour through assisting certain employees to establish their own factory, and then subcontracting to them – a mechanism also described in the context of western economies as spin-offs or externalising costs via outsourcing and extending control over suppliers and subcontractors, or acquiring access to intangible assets.

Schak (2000) also makes the extremely valuable comment that the strong export-oriented industrial growth in Taiwan in the 1980s, and the associated with it rising wages, scarcity of workers, government assistance to labour intensive industries to upgrade technology levels, the appreciation of the local currency, and the strictly enforced environmental protection law, have lead to relocation of manufacturing facilities and other businesses to China. His analysis does not reject the fact that until the 1970s personalised business deals were predominant, compared with business contracts. However, the spread of Chinese capital from Taiwan to main-land China is more due to regional economic and political factors, rather then to an expansion of Chinese business networks. The setting up of offices in China and Hong Kong in the 1980s is explained by the author with the insistence by the Taiwanese government on formal contracts for tax purposes, and by the need of Taiwanese firms operating in mainland China to handle foreign exchange, to coordinate shipping, and to deal with higher level of organisational complexity while reducing dependency on outsider trading companies. The growth of the recent Chinese / Taiwanese business networks is associated with the general conditions of economic growth in the region, the liberalisation of the economic environment in China, and the language and cultural affinity between the two countries.

An attempt is made by Li (2000) to analyse the overall economic impact of Chinese capital within the region. The relocation of manufacturing firms from Hong Kong to mainland Chinese provinces attracted by low land and labour costs and the open-door policy of China explains strong trends of regional trade and foreign investment. Here we see also an example of the move of global capital through Hong Kong to China, where Chinese entrepreneurs and capitalists from the region are the main facilitators in this process.

FUNDAMENTAL MISREPRESENTATIONS OF CHINESE BUSINESS NETWORKS IN THE LITERATURE

There are at least five key stereotypic generalisations and misrepresentations used in the literature regarding Chinese business networks (Bun, 2000: 285). First, this is the assumption that the Chinese immigrants in the region are a homogeneous group. Such an assumption does not take into account any regional or social variations amongst the immigrants that have left mainland China to seek prosperity and wellbeing abroad. It also does not distinguish between the status of the Chinese in China and in foreign countries, and how it affects business operations.

Second, the stereotype of Chinese business entrepreneurs abroad assumes that their trading and investment relationships as overseas immigrants resemble coherent social and business practices. Although the interdependency and self-reliance of communities of immigrants produce social network type of response to difficult situations, such a broad generalisation does not take into account the historical, political and economic context in which such communities operate.

The Third assumption is that there is a consistency between the business practices of the Chinese Diaspora from the period of the Ming Dynasty (1368-1644), when their dispersion as merchants started, and throughout the entire history after. During the Qing Dynasty (1644-1911) the immigration was led by labourers and workers and the most recent immigration wave after the Second World War was led by commercial entrepreneurs embedded in all sectors of the economy of mainland China.

The fourth assumption is about the impact that the business activities of Chinese immigrants in the region have made on the national economies particularly in the 20th century.

In fact, the cases of Indonesia, Malaysia, Thailand, and Philippines show the variety in occupational presence and relationships with the local power elites.

The fifth assumption is related to the impact of Confucian cultural values on business relationships within Chinese overseas communities. Among the key cultural attitudes associated with Confucian ethics are: communitarianism, the emphasis on familism and obligation, paternalism, loyalty and commitment, frugality, diligence and pragmatism. This superficial treatment of culture is criticised by a number of authors. Peter Li (2000) explains that Confucian values in fact were not particularly sympathetic to merchant activities, and the merchant class itself has adopted Confucian rhetoric only as part of its flexible adaptation and search for an effective way of doing business in Southeast Asia. He also argues that the normative basis of *guanxi* as the development of particularistic relations with instrumental value does not come from Confucianism. The values of interpersonal trust and affinal reciprocity are universal, and many other people and nations have recognised the practical advantage of reciprocal obligations, against fears of reprisal and of losing functional ties.

Such an account of Confucian values in the literature is not sufficient to position correctly the cultural heritage factor, and to incorporate the role of institutions, political power, and economic interests, as driving forces for the emergence and evolution of Chinese business networks – an intellectual project still in its making. Our contribution to these efforts is that we attempted to investigate empirically what business relationships emerge within dynamic Chinese communities where rapid economic growth creates multiple business opportunities for small firms to link to each other.

Overall the historical accounts and myths of Chinese business networks have brought a large set of assumptions that continue to dominate the literature. As part of our long-term interest in business networks and their Chinese variant, and our strong interest in business network relationships within regional and industrial clusters we undertook an empirical investigation that aimed to illuminate more contemporary features of business networking in China and to test some of the existing assumptions. The empirical investigation was coordinated by an international team at the University of Surrey in the UK and was conducted in Liushi Town, Wengzhou City, Zhe Jiang Province in China, where we were able to observe the overlap between the rural and the industrialised China, and between the local economy and the Chinese export engine in the field of electrical appliance and component manufacturing.

Overall the purpose of the empirical investigation was to test domineering assumptions in the literature outlined above such as that: Chinese business networks are embedded into family bonds and kinship ties; Chinese network members are connected by informal relationships; there is high interdependency within business networks; and finally that favouritism prevails over economic rationale. Our empirical findings examined each of these assumptions.

The main research objectives for the survey were: a) to investigate the resource relationships between firms within the group, within the industry, and within the region; b) to analyse the motives for collaboration between firms; c) to explore the content of the inter-firm interactions and business relationships; d) to evaluate the impact of traditional relational drivers such family bonds, educational links and kinship relationships; e) to investigate the role of trust and friendship (personal ties) in inter-firm relationships.

We conducted a survey with 41 firms that are associated with two large business groups operating in the same industry and in the same region. These were the Chint Group (22 firms) – which is number one by turnover for 2003, and the Tengen Group (19 firms), which is number three by turnover in the Liushi town list of business groups. Our representative samples for the two groups comprised of the headquarters, selected subsidiaries and subcontractors. Both surveyed groups are registered as shareholding companies, where the main shareholders come from one main family. However, at the level of subsidiaries we observe more distributed shareholding interests, and at the level of subcontractors, the shareholding link is very week.

A questionnaire was administered with all respondent firms (in total 41 respondents including two headquarters, seven subsidiaries, and 32 subcontractors as formal members of the groups). Information was collected from each respondent on their six most important relationships with suppliers, six most important relationships with clients and distributors, six most important relationships with banks and financial institutions, and two of the most important relationships with research institutes, government agencies and other public organisations (respectively for each type of institution). Some of the results from the empirical investigation are presented in Table 1 and are discussed in the context of the wider cluster developments in the Liushi town in Zhe Jiang Province.

SOURCES AND IMPLICATIONS OF TRUST IN CHINESE BUSINESS NETWORKS – THE LIUSHI TOWN CLUSTER

In our empirical investigation we explored the two fundamental concepts of business networks and clusters, and we aimed to investigate how business enterprises in a local proximity interact with each other, and how their business relationships transcend organisational and regional boundaries, and to what extend this is determined by past legacies (i.e. traditional and family bonds), or present and pragmatic economic realities.

The example of Liushi town was chosen for three main reasons. Firstly, it represents a new administrative and organisational form, that has been introduced since 1981, called 'Chinese Township Enterprise', located in the mainland China and outside of one of the free economic zones, hence representing the fringe between the rural and the industrial economy of mainland China.

Second, Liushi town has earn the reputation of being the Chinese capital of electrical appliances industry, and without being on the formal political and administrative map of China it is the tenth richest city in the Zhe Jiang province. It is located in one of the fastest growing provinces in China – Zhe Jiang - ranked the fourth province in terms of GDP, and the first in terms of GDP per capita disposable income, as well as hosting the highest number of Top 500 largest Chinese private companies (for 2004).

Third, Liuishi town is in a close proximity to one of the first free economic zones established in 1992 in the Yueqing city - Yueqing Economic Development Zone. The authorities in Yueching have established 57 industrial sub-zones in close proximity and have stirred the development of 15 industrial satellites, among which is Liushi town. Both Yueqing city and Liushi town are located within the jurisdiction of Wenzhou city, managing the 'Wenzhou Economic & Technological Development Zone' since 1992. Hence Liushi town represents the spill-over effect from the Chinese open-door policies, and this is where we would expect that Chinese business networks will be most active.

Before we show some of the results from our investigation of the business networks relationships in Liushi town, we need to introduce the environmental context that has nurtured these relationships. Liushi town represents one of the Chinese township enterprises (CTE) that have developed rapidly since 1981. These CTEs are very similar to the revenue farms described during the 17^{th}-19^{th} century in the South-east Asia. The CTEs are established as self-sustained and self-financing enterprise systems, run by individuals that act as industrialisation mechanism in rural areas. They have employed labour from rural areas and by the mid 90s have accounted for 47% of the entire Chinese industrial output and one third of the exports (China Township Enterprises Daily, Sept. 29, 1995, 30: 1). Naturally these CTEs comprise of hundreds of small firms that produce similar products and learn from each other, and hence the association with the cluster concept as geographic agglomeration of interconnected firms. Li (1997) reports that by 1995 there have been over 1400 township enterprises in Liushi town itself famous for their competitiveness – all producing low-voltage switch gears and breakers.

Now, these businesses produce over 5000 different products in the field of low and high-voltage electrical apparatus, power transmission and distribution equipment, measuring instruments and electrical products for construction – some of which products represent 60% of the total Chinese output for 2004. This output comes from over 3000 registered firms and 34 registered business groups in this micro-region.

Another factor driving the developments in Liushi town is the introduction of a new form of ownership which was piloted at a wider regional level of the Wenzhou Economic Development Zone since 1992. This is the 'joint stock cooperative' – a mixture of employee-management and cooperative ownership – well suited in the context of the CTE administration.

In this context we focused on the top business groups that have emerged out of this rich small business environment. For our empirical investigation we selected the top Chint Electric Group and the third - Tengen Electric Group. Five of the six approved Chinese trademarks in low-voltage electric appliances come from the Liushi town and both of our selected groups have been awarded their own trademarks. Both groups have evolved in the context of demand driven low quality production of fake products, where only 1% of the output in 1990 was licensed. During the massive government-led 'cleaning' of the region from unlicensed manufacturing in the 1990s only 24 firms were awarded licences and they evolved into some of the current groups – pooling out resources from the rest of the unlicensed and bankrupt small businesses. This is an example where the licensed private firms have undertaken partially government functions to monitor quality and licensing.

This rich institutional embeddedness of the groups was another factor that suggested an expectation for a lot of non-market ties. The inter-firm relationships in the Liushi town were expected to represent the metamorphoses of the modern Chinese business networks formed around nepotistic ties and dominated by informal business relationships. The results in Table 1 are very indicative in this respect that the transformation of the practice of business networking in modern China requires a revision of our traditional concept for Chinese business networks.

Table 1. Overview of survey results

	Question	**Leading response**
1	Distance of suppliers	86 % - from the same city
2	Distance of clients	62 % - outside of the province
3	Distance of banks	100 % - from the same city
4	Distance of research institutions	89 % - from the same city
5	Distance of government organisations	100 % - from the same city
6	Distance of other public organisations	100 % - from the same city
7	Importance of suppliers	78 % - important

8	Importance of clients	81 % - important
9	Importance of banks	85 % - important
10	Importance of research institutions	97 % - important
11	Importance of government organisations	90 % - important
12	Importance of other public organisations	71 % - important
13	Dependence on the top 6 suppliers	55 % - moderately dependent
14	Dependence on the top 6 clients	72 % - moderately dependent
15	Dependence on the top 6 banks	75 % - moderately dependent
16	Dependence on the top 2 research institutes	86 % - moderately dependent
17	Dependence on the top 2 government organisations	80 % - moderately dependent
18	Dependence on the top other public organisations	61 % - moderately dependent
19	Shared knowledge with suppliers	37 %
20	Shared knowledge with clients	49 %
21	Shared knowledge with banks	49 %
22	Shared technology with suppliers	66 %
23	Shared technology with clients	24 %
24	Shared management with suppliers	47 %
25	Shared management with clients	59 %
26	Acquired knowledge & technology from research institutes	92 %
27	Acquired knowledge & technology from government organisations	56 %
28	Acquired knowledge & technology from other public organisations	78 %
29	Acquired consulting services from research institutes	87 %
30	Acquired consulting services from government organisation	81 %
31	Acquired consulting services from other public organisations	87 %
32	Shared trust with suppliers	65 %
33	How much do you trust suppliers	91 %
34	How well do you know your suppliers	53 % - very well
35	Shared trust with clients	69 %
36	How much do you trust clients	90 %
37	How well do you know your clients	62 % - very well
38	Shared trust with banks	97 %
39	How much do you trust banks	99 %
40	How well do you know your banks	67 % - very well
41	Shared trust with research institutes	82 %
42	How much do you trust the research institutes	91 %
43	How well do you know the research institute	63 % - very well
44	Shared trust with government agencies	89 %
45	How much do you trust the government agencies	100 %
46	How well do you know the government agencies	18 % - very well

47	Shared trust with other public organisations	96 %
48	How much do you trust the other public organisations	100 %
49	How well do you know the other public organisations	26 % - very well
50	Shared friendship with suppliers	54 % (Only 5% share family ties, 5 %-from the same school, and 3 % have common interests)
51	Shared friendship with clients	63 % (Only 2 % share family ties, 8%-from the same school, and 4 % have common interests)
52	Shared friendship with banks	62 % (Only 1 % share family ties, 6%-from the same school, and 22 % have common interests)
53	Shared friendship with research institutes	63 % (Only 10 % have common interests)
54	Shared friendship with government organisations	24 % (Only 6%-from the same school, and 2 % have common interests)
55	Shared friendship with other public organisations	41 %
56	Are your suppliers in the same group?	94% - no
57	Are your clients in the same group?	66 % - no
58	Are your suppliers in the same industry?	71% - yes
59	Are your clients in the same industry?	76 % - yes
60	Payments with suppliers	40 % - bank transactions 20 % - cash transactions 14 % - credit
61	Payments with clients	66 % - bank transactions 22 % - cash transactions 2 % - credit

The data from the survey clearly indicates that firms select all of their banks, government organisations and other public organisations from the same city (100%), and a very large proportion of their suppliers (86%). However, the business network is pragmatically opened outwards regarding clients and distributors (62% of clients are located outside the province). At the same time there is no significant difference in the importance of different types of business partners (variables 7-12), and a moderate dependence from them (variables 13-18). Most of the suppliers (94%) are not from the same group, which shows very low intra-group trading, and also the shared knowledge with suppliers is fairly low (37%), compared with banks and clients (49%). The sharing of technology is reverse – where sharing with suppliers is higher (66%) compared with the sharing of technology with clients (24%).

The results show also a very strong institutional impact from research institutes - 92% of the firms acquire technology and knowledge and 87% acquire consulting services from local research institutes. The category of other public organisations also emerges strongly as a source of innovation - 78% of the firms acquire knowledge and technology and 87% acquire consulting services from other public non-governmental organisations.

An interesting fact is that very high percentage of firms share management with suppliers (47%) and with clients (59%). This might be due to a specific ownership structure that has emerged as part of the institutionalisation of the joint stock firm, or with some other specific features to the transactions that take place within the business network.

The results on trust are also very interesting. In general, firms trust all of their business partners (between 90% for clients and 99% for banks). At the same time, they indicate that this trust is a little bit less shared (between 65% for suppliers and 97% for banks). Firms also indicate that the trust is not strongly associated with knowing the partner (18% for government agencies and 67% for banks). The trust is not based also on common interests, family bond or being from the same school - very low for all partners. It is not correlated with business group membership either, as most suppliers and clients are not from the same group, while they are from the same industry - indicating a value-chain resource linkages. These results can be contrasted with the practices of payments and handling money - 40 % of the relationships with suppliers use bank payments, another 20 % handle transactions with cash payments and only 14 % use credit. The figures for clients are – 66% bank transactions, 22% cash payments, and only 2% credit. Clearly firms prefer more formal and on-the-spot payment relationships, which would assume mistrust rather then trust. All these figures suggests that the high level of trust is more associated with the friendship (54% with suppliers and 63% with clients and research institutes), rather then with the money exchange, or any other stereotypical assumptions in the literature such as family bonds or common interests.

CONCLUSIONS

The empirical investigation which we undertook in the Zhe Jiang Province in China challenges a number of assumptions about Chinese business networks historically. The firms in our sample show very high level of trust to business network partners including government agencies. At the same time they show quite a significant distance from official government agencies. This challenges one of the main historical assumptions that a weak legal and institutional framework instigates bonding and networking. On the contrary, our empirical results reveal that strong legal and institutional framework can co-exist with business network relationships based on trust and friendship. The fact that high trust can co-exist with different levels of friendship (Table 1, variables 50-55) is very indicative in this respect and requires much further investigation.

An interesting relationship is observed between high personal trust, and high use of banking institutions for monetary transactions. Holbig (2000) has argued that the institution of money as impersonal and generalised medium of communication allows system trust to be built in a society, replacing personal trust. Our survey shows that the two are complementary and can coexist rather then acting as a substitute to one another. It is true that trust employs cultural resources and reduces uncertainty of business transactions, as well as transaction and information costs. This however should not be attributed to being triggered by uncertainty, but rather to be a cultural attribute within the community of firms, or an intrinsic feature of the business networks in China.

From the historical overview of the literature it is clear that there is no clear framework what set of social relationships are employed for business purposes and how these emerge as business practices which represent the collective efforts of interlinked individuals and families. None of the historical accounts makes a reference to the notion of friendship, which is a special encounter in our empirical research, and represents a fact that needs further investigation.

Our empirical analysis of the contemporary Chinese business networks addresses some of these concerns in the literature regarding the causal relation between socio-economic conditions that lead to commercial success and the entrepreneurial qualities and relational values. All respondents in our survey showed a high level of pragmatism and openness to relationships that bring simultaneously monetary value and friendship. These are observed in a situation of local competition and local institutional support. Although family bonds still might be playing strong role at the level of network governance within the joint-stock companies and business groups, the dynamics of the business relationships is strongly driven by trust, friendship and institutional support from banks, government agencies, research and other organisations in the region.

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