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## **Navigating power dynamics: Guanxi-capitalism and market Access for MNCs in China**

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### **ABSTRACT**

This research emphasizes the intersection between China's Guanxi principle and capitalism in shaping market access for Multinational corporations (MNC) in the country. The analysis draws upon the theories of state capitalism and transnational capitalism to examine how the guanxi principle functions as both an informal institution and a strategic business tool that serves as a mediator of the power dynamics between the state and private firms. According to this research's qualitative analysis of secondary sources and case studies, the results indicate that guanxi-capitalism serves as a hybrid mechanism that combines a traditional social networking mechanism among its people with modern economic practices, in which the purpose is to emphasize trust-building, minimize transaction costs, and streamline the MNCs to navigate within the institutional voids. This paper argues that guanxi-capitalism not only enhances formal legal frameworks but also serves as a balancer between state control and private control of the market. Unfortunately, there are numerous Western criticisms regarding the high possibility of corruption and lack of transparency, which are regarded as ethical dilemmas within guanxi capitalism, which occurred in a past MNC operational within China. This study concludes that guanxi-capitalism serves as an example of a blended model of capitalism that combines social norms, state intervention within the market, and global economic participation, which simultaneously redefines traditional Western market governance.

**Keywords:** China; guanxi-capitalism; social capital; state capitalism; transnational capitalism; multinational corporations

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## 1. INTRODUCTION

In recent years, China has been considered a pivotal actor in the global political economy, supported by the fact that its market has become increasingly attractive to multiple expansion-seeking Multinational Corporations (MNC) worldwide. According to the [World Bank \(2022\)](#), China has emerged as the world's second-best country in terms of national GDP of over US\$ 17 trillion. The figure is second only to the United States. The unique characteristics of China's business environment are also considered to play an important role in supporting the country's rapid GDP growth. The Guanxi principle, which resides within the country's principle, is characterized by a system of social networking and influential relationship building, which is considered vital to market access and business success ([Chen and Chen, 2004](#)). MNCs considering China as their destination for firm expansion must navigate these complex social dynamics to establish and maintain a foothold within the Chinese market for years to come.

The concept of guanxi principle can be considered to be aligned with a broader framework of social capital theory. The framework explains that networks or relationships are considered a valuable resource for individuals and organizations ([Bourdieu, 1986](#)). Within the context of international business, the principle of guanxi relates to a form of relational capital, which emphasizes cooperation and trust—key components needed for a smooth entry and market operations ([Nahapiet and Ghoshal, 1998](#)). The framework explains that it is considered a favorable move for MNCs to leverage the Guanxi principle to further support their competitive advantage in China.

Previous researchers have studied the important role of guanxi-capitalism in business operations within China. [Luo \(2020\)](#) emphasizes the significance of Chinese relational capitalism. The study found that the Chinese principle is a key determinant of firm performance in the country. Luo's study aligns positively with past study conducted by [Park and Luo \(2001\)](#) which highlights that Guanxi-capitalism has a significant role in influencing both decision-making processes and the allocation of resources of Chinese firms. Both studies indicate a positive correlation between the capitalism principle of guanxi and its role in firm performance in China. The gap found in these studies is mostly related to how they emphasize their focus on domestic firms, while the novelty proposed in this study is the understanding of how MNCs can effectively integrate the guanxi capitalism principle into their business operations and strategies in China. The abundance of literature related to Chinese domestic firms and Guanxi capitalism is unquestionable. However, the extensive study of domestic firms related to Guanxi capitalism has left the context of foreign entities operating within Chinese soil while navigating the country's relational capitalism underexplored ([Fan, 2002](#)). At the same time, [Yang \(1994\)](#) also mentions about the dynamic nature of the country's regulatory environment as well as the growing expectations regarding how Guanxi capitalism proceeds within the context of globalization. This further emphasizes the growing importance of studying and analyzing how MNCs can effectively navigate within the country's capitalism principles to effectively enter the market and enhance their competitive advantage. This study emphasizes the interplay between state and private firms in the Chinese market.

This paper utilizes a qualitative secondary data analysis to establish a comprehensive understanding of how MNCs navigate the power dynamics between state control of the market and private firms' market access within the Chinese market ([Yin, 2018](#)). Examination of past case studies is also conducted to analyze how MNCs engage with the state regarding the principle of guanxi-capitalism. The significance of this study lies in its ability to contribute to the evolution of theoretical and practical knowledge within the field of International Relations, specifically in the context of the inclusion of both cultural and economic factors in international business operations. This paper, by explaining the role of guanxi in the context of capitalism, aims to contribute to the literature on international business operations, especially in an emerging market economy. This study also aims to provide comprehensive details on how MNCs optimize their market entry strategy in China, one of the strongest emerging markets in the Global South.

## 2. THEORETICAL FRAMEWORK

### 2.1. State Capitalism

The state capitalism idea is employed to outline a model of an economy in which the state plays the biggest and most significant role in the ownership and management of resource production enterprises. In simple terms, state capitalism entails the active involvement of the state in a country's market. The active involvement of the state is typically characterized by the establishment of state-owned enterprises (SOEs) and their strategic investments in major industries.

State capitalism itself has been the focus of scholarly debate on whether it succeeds in achieving the economic growth and development of the state. [Bremmer \(2010\)](#) views the term as a policy that integrates efficient market principles with state strategic guidance and market regulation. This combination creates a more directed path for economic development. The model of state capitalism has been successful in some countries, such as Russia and China, where the government emphasizes their focus on driving rapid industrialization and expanding the country's economy. On a positive note, the concept of state capitalism is theoretically argued to allow strategic economic planning for the country, which will lead to an enhanced national competitive advantage and economic stability. [Bremmer \(2010\)](#) stated that the concept of state capitalism can effectively enhance market power while simultaneously maintaining control over key industries. As a result, both the country's national interest and economic growth are expected to walk in the same direction. Within the context of developing countries and emerging economies, state capitalism is argued to be beneficial as the state plays a key role in guiding the nation's industrial development and technological advancement. In addition, it is also theoretically argued that the direction of state capitalism can mitigate certain negative impacts caused by market failures. The state can maintain its significant stake(s) within various critical sectors to ensure that the distribution of public goods is managed effectively, as well as their possible externalities handled and maintained. [Musacchio and Lazzarini \(2014\)](#)'s views regarding state capitalism suggests that the existence of SOEs is considered to be crucial in order to achieve social objectives that are often missed or overlooked by a pure-profit-driven private firms. Aligning with the above-mentioned works on state capitalism, we argue that the principle can play a role as a buffer against potential global economic shocks, which relies on the government's swift action in developing counter-cyclical economic policies.

In addition, the intellectual origins of state capitalism trace their roots to the work of scholars such as Max Weber and Joseph Schumpeter, who studied the role of the state in economic development. Weber's rational-legal theory of domination provides a framework for understanding how state institutions can effectively manage economic resources, and Schumpeter's theory of creative destruction provides the potential for state-led innovation and industrial transformation. However, the model has its limitations. State capitalism can lead to inefficiencies, corruption, and limited competition, as state companies naturally prioritize political objectives over economic efficiency ([Musacchio & Lazzarini, 2014](#)). The lack of competition caused by state monopolies, especially in sectors dominated by state control, might hinder or disrupt innovation and cause stagnancy. However, the criticism does not stop the practice of state capitalism as adopted in various countries such as China and Singapore, in which they are able to effectively demonstrate state capitalism with appropriate checks and balances. It is considered that effective state capitalism implementation within the country's market might lead to a sustainable economic development.

### 2.2. Transnational Capitalism

Transnational Capitalism is a form of capitalism that transcends national boundaries, with the global movement of capital, goods, and services. It is predicated on the increasing interdependence of world economies, driven by technological and communications advancement that enables the free movement of financial resources and investments across countries. Transnational capitalism theory is also linked to the work of writers such as [Sklair \(2002\)](#), who emphasizes the role of the transnational capitalist class (TCC), which consists of those who have an interest in the ownership of the major corporations, as the ones who increasingly hold the real power in the global system.

Besides, transnational capitalism has been trailed by extended alterations in the means of production and labor markets. As insinuated by [Harvey \(2005\)](#), the mobility of capital in the system enables feasible shifts in the production locations to places with cheap labor, thereby producing a global division of labor. The outcome has been the elongation of global commodity chains, where different production phases are spread across multiple countries. These forces bear ill omen for the rights of workers and economic inequality to the extent that they will likely open a gateway to the exploitation of workers in developing countries and accumulate wealth in the hands of a privileged segment of global elites.

According to previous literatures about transnational capitalism, it is then possible to observe that this phenomenon is still far from critics. [Robinson \(2004\)](#) argued that transnational capitalism exacerbates inequalities across the world and erodes democratic governance. The contention is that financial institutions and TNCs wield economic power that may make choices based on corporate interests ahead of public interest. There is empirical support for this perspective in citing rising inequality between the poor and rich within and between countries as a consequence of neoliberal economic policy favoring deregulation and privatization. Transnational capitalist supporters, despite such negative criticism, are of the opinion that transnational capitalism has the potential to trigger economic growth and development. For them, integration of the world market guarantees most efficient resource allocation and transfer of technology and innovation. However, these benefits are not equal and invalidate the sustainability and moral legitimacy of this economic order. Currently, transnational capitalism literature must reassess critically its multi-dimensional movements and interconnections among global economic powers and local socio-political settings.

### 3. RESULT AND DISCUSSION

#### 3.1. Guanxi-Capitalism Principle in China

China guanxi doctrine is a subtle web of relations, constituting the core of the social economic and commercial activity in China. And the doctrine is based on the Confucian philosophy emphasizing relationship and duty. In enterprise, guanxi has been considered success factors by initiating negotiations, transactions and even regulatory sanction. The study reveals the importance of guanxi in influencing the behavior of Chinese firms, as contended in previous research on guanxi as a cooperation and trust prerequisite among business partners ([Chen & Chen, 2004](#)). Capitalism in the guise of guanxi-capitalism has controlled the country since economic reform ended a 20th-century transformation from a planned into an economy dependent on demand. This was not just economic, but highly social and cultural – a blend of Chinese social tradition with state-of-the-art enterprise. Networking (guanxi) underpinned doing business in China, from corporate administration to business bargaining ([Yang, 1994](#)). The development of guanxi capitalism would then be more adequately described as a reaction to China's peculiar social and economic environment where institutional and formal legal infrastructure was in its infancy stage. Guanxi was thus a dormant structure through which trade transactions could take place and uncertainty can be minimised. This is consistent with the perspective of [Peng and Luo \(2000\)](#), which argues that, in weak legal environments, firms will rely on personal networks as a vehicle for contract enforcement and resource acquisition. And also the influence of guanxi capitalism isn't just a matter of winning in particular businesses but how to shape overall economic development. For example firms that are lucky and have connections (guanxi) can have more of knowledges and the resources such as information, will prefer on relative competitive advantages. However, such overdependence on interpersonal connections may further entrench inequality and serve as a constraint on the expansion of market competition in that it could favor insiders rather than outsiders [Park & Luo, 2001](#). From a strategic perspective to multinationals, the incorporation of guanxi in organization strategy may be leveraged as to open and penetrate a market due: eradicate the institutional and cultural distance. [Chen and Chen \(2004\)](#) were also arguing the same in their article when they stated that successful international business in China is firmly based on the effectiveness of management of guanxi.

Conversely, the acknowledgement of guanxi wealth can also provide competitive advantage, in the sense that it is potentially able to allow businesses to build solid infrastructure networks, acquire important

resources and simplify the complexity of regulation. The social and cultural value of guanxi is also a store of value apart from its economic worth. It's a translation of Confucian concepts like reciprocity, loyalty and deference that run deep in Chinese culture. The research had confirmed that these cultural values were the most significant factor in maintaining and developing guanxi networks by generating enduring relationship and trust. As [Gold et al. \(2002\)](#) note guanxi is not only a business tool but also a culture that interlaced social networks in China.

### 3.2. Guanxi-Capitalism as China's Response towards Western-led Globalization

China's economy has been liberalizing slowing since the 20th century, with that re-opening up of its market to western products and brands have changed their economic environment beyond recognition. This opening involves a process of moving from the central planned economy to the market-oriented and has become one of the major factors leading to the its miraculous economic development in high speed. The process of opening-up has been one-way traffic since the state withdrew its hand from intervening in many fields, attracted foreign investment and interacted with other countries. According to [Huang \(2012\)](#), the reform has improved efficiency and competitiveness of Chinese enterprises and China today is a world's economic giant. Secondly, market integration of China has produced extensive effects on the domestic and foreign markets.

At the local level, its helped stimulate private businesses and create a more diversified and vibrant economy. This has been reinforced with policy processes such as the creation of SEZs to attract FDI and contribute technology ([Zeng, 2011](#)). At the global level it marked China's accession in 2001 to the World Trade Organization (WTO) and opening of its markets to foreign investment and trade even further. This integration has not only fostered Chinese growth on the back of exports, but made it central to global supply chains ([Lardy 2014](#)). Xi Jinping's philosophy provides for a vision of the current world economic order dominated by the West and requiring a multilateral one that recognizes China as an emerging power with no intention of dominating the world ([Kolodko, 2020](#)). This vision is based on a "community of shared future for mankind", with which he shifts the thinking paradigm from competitive global capitalism to a more cooperative and inclusive thinking paradigm, adapted to (but inspired by) the Chinese experience ([Chen 2021](#)). This coming vision, despite encouraging international economic cooperation, is intent on pinpointing and having to adopt some of the Chinese economic ways of doing things which are very different from the one that supervises West today with its economic architecture ([Cheng, 2021](#)). This line of argumentation contradicts the Western orthodox vision that global economic integration would over time push China into a liberal model of economy ([Jabbour et al., 2022](#)) as observed on the perspective of its strategic depth and innovating capability in state-owned enterprises ([Beck, 2021](#)). Guanxi-Capitalism in China is a sort of capitalism that is not universalistic, as Western economies creates. While institutional trust and legal contracts are fundamental elements of Western capitalism, guanxi capitalism is such an extreme in its emphasis on social capital and interpersonal relationships.

The unique model of Chinese's Guanxi-capitalism is considered as a challenge to the purely liberal western economic theories. While the west prefers and emphasizes the establishment of formal contracts and mutual trust between formal institutions, the guanxi model tend to highlight more on the role of personal relationships and social capital building. This difference is why there must be a contextualization of economic models within their cultural and institutional settings as stated by [North \(1990\)](#) according to his works on institutional theory. The role of guanxi within the Chinese market is ever evolving, facing the also ever-evolving nature of globalization and waves of economic reforms. However, the integration of China's market into the global economy arena is also accompanied with the increasing pressure to further strengthen their formal institutions. It is argued that the strengthening of formal institutions and reducing reliance on such informal networks not only present challenges for how market operates within the country, but also provide opportunities for business operational within the nation itself. On one side, the strengthening of state institutions is considered to provide a more secure and predictable, accompanied by adequate amount of transparency, environment for business operational within Chinese soil. On the other hand, the ever-growing importance of guanxi principle suggests that every firms that are willing to

land and operate within the Chinese soil has to develop, cultivate, and leverage the principle of building social capitals in order to succeed in the Chinese market (Chen and Chen, 2004).

### 3.3. Western Criticism Towards China's Guanxi-Capitalism

China's development has been driven by guanxi capitalism—a phenomenon where the success of business heavily depends on interpersonal relationships and reciprocal obligations. While the model has driven China's rapid growth, it has come under stern criticism from Western scholars, policymakers, and entrepreneurs. Critics argue that guanxi causes corruption, undermines the rule of law, distorts markets, and poses moral challenges for foreign firms to conduct business in China. The most prevalent Western critique is that guanxi dissolves the difference between networking and corruption. Contrary to Western business ethics of meritocracy and transparency, guanxi maximizes personal favors, presents, and backdoor deals to obtain contracts or regulatory approval (Fan, 2002). But the premise of "gifts" and "under-the-table-dealings" has been pushed to the limit in the effort to induce acts of corruption. High-profile scandals, such as the 2013 GlaxoSmithKline (GSK) corruption case, showed that corruption had been employed by pharmaceutical firms to bribe doctors and officials, causing adverse attitudes towards the way companies conduct business on China's soil (Kaiman, 2013). Critics view such practices as being against fair competition and dissuading those companies that do not engage in illicit networking (Luo, 2005).

Another major criticism is that guanxi compromises formal legal institutions by giving importance to interpersonal ties at the expense of impersonal rules. Western scholars contend that the business arena in China remains insecure because the regulations are applied selectively based on relations instead of legally (Guthrie, 1998). This discrepancy has been criticized by multinational companies (MNCs) that China's market access is discriminatory and to promote the proposition that China's economy is neither open nor rule-based (European Chamber of Commerce in China, 2022). Western economists also criticize guanxi capitalism for distorting the markets with favoritism towards state-owned enterprises (SOEs) and politically connected private businesses. Huang (2008) discovers that SOEs have access to low-interest loans, government directives, and lenient regulation from their political guanxi, providing them with an uneven playing field. Foreign businesses either disintegrate in joint ventures with politically connected associates or are barred from strategic sectors (Park & Luo, 2001). For Western MNCs, managing guanxi is both a legal and an ethical minefield. As important as relationship-building is business success in China, it can violate anti-corruption regulations such as the U.S. Foreign Corrupt Practices Act (FCPA) or the UK Bribery Act. Walmart and Rio Tinto have been investigated for reported questionable payments that are linked to guanxi, damaging their reputation and compelling them to shell out millions of dollars in legal expenses (Luo & Chen, 1997). Thus, Western businesses today have disciplined compliance programs in place to avoid guanxi-type scandals, yet in doing so put themselves in a less favorable competitive position vis-a-vis local players under less constraint (Xin & Pearce, 1996). This has created an impression that the Chinese economic system is "state capitalism" and free-market competition-based (Bremmer, 2010).

### 3.4. The Role of Guanxi in Balancing the Power Dynamics of Market Access between State and MNC in China

Guanxi plays a pivotal role in facilitating business deals, reducing transaction costs, and creating confidence between business partners. Yang (1994) underscored the significance of guanxi in the process of bridging-making during the aftermath of the Chinese market's challenges. Guanxi bridges institutional distances, an emerging economy phenomenon like China. Institutional vacuums are the absence of formal market-supporting institutions, such as the legal system and regulatory bodies, and taken for granted in mature economies. Guanxi is an informal institution that substitutes the vacuums with a framework of business exchanges and compliance guaranteed through social norms and obligations between the parties. This finding verifies Peng and Luo (2000) research that highlighted the mediating function of guanxi in managing institutional uncertainty risks.

The institutional voids in the Chinese market are generally a legal and regulatory space which leads to rampant business obstruction and obstructing economic activities. Institutional voids breed uncertainty

and raise risk levels for companies, especially foreign firms that are new to the market. Guanxi capitalism obviates this by creating a trusted contact network that can provide insider information, broker deals and muscle compliance on the unstated rules of behaviour. It is this relational business, which is not necessarily a cultural practice as much it is a strategy or means to an end, that chimes with the perceived weakness and inefficiencies of formal institutions (Peng 2003). Furthermore, guanxi capitalism does not just replace the formal institutions but also requires to supplement them in order to perform effectively. For example, legal contracts need to regulate transactions, but it's very hard to contract about such transactions in the absence of a working legal system. In this way, guanxi can be an additional commitment device for these formal contracts -guaranteeing that the parties will continue to perform their obligations even when faced with social pressure and threats of future opportunities. This joint dependence upon both formal and informal systems highlights the dual nature of Chinese market guanxi capitalism (Xin & Pearce, 1996).

A multi-tier relationship system within the realms of relationships and social networks, which is described under the label of Guanxi-Capitalism / Mechanisms have become central to firm culture and economic exchanges in "The People's (Business) Republic". Through guanxi practice MNCs can receive special treatment, bypass bureaucracy and establish favorable business environment, that is necessary to build up the entry experience in and operations in the Chinese market (Yang, 2018). The study demonstrates that guanxi-capitalism is an important means MNCs can use when navigating the complex Chinese regulatory system so that they may easily enter and grow. The reliance on guanxi permits the MNCs to establish credibility and the confidence of local partners, which is particularly a concern in what may be perceived as relatively more opaque and unpredictable official legal frameworks (Chen & Chen, 2004). It also suggests that the guanxi-capitalism does not only provides access of the MNCs to markets but also helps in managing power relationships between, on one hand, state and other with companies. The Chinese state, through its overwhelming dominance of the strategic sectors of the economy, typically make use of guanxi networks to connect foreign investment with national interest and development plans. While some critics blame that too much dependence on guanxi will raise corruption and inefficiency (Fan, 2002), it is argued here that, if well organized, guanxi can be a positive business practice that supplements formal institutional portfolios. Such dual-edged character of guanxi as facilitator as well as inhibitor is extremely reflective of the significance of guanxi in the Chinese economy. It is only these MNCs who handily can acquire better contract terms due to their own guanxi approach. They can establish their own competitive advantage within the China market.

It can be seen contrastingly from the literature that guanxi-capitalism is not merely a culture but an adaptive system which adapts according to economic and political developments within China. There has been research in the past, which has demonstrated the flexibility of guanxi to globalisation and market liberalisation, contending that it is resilient and performs a significant function in strategizing (Luo, 2020). Existentially, Mylonas' contribution is to illuminate how guanxi-capitalism works as a process trapped in a dilemma between state control and market liberalization—and with a critical examination of its role in contemporary Chinese capitalism that we normally reserve for "civilized" societies.

Overall, the concept of guanxi is a significant actor in the making of both transnational capitalism and state capitalism. As Yang eloquently states, guanxi is the grease of the Chinese economy. The reason why reducing the cost of transaction and building trust relations is tantamount to removing inefficiencies. Given the pervasive nature of government intervention and control in state capitalist economies, guanxi allows state capitalists and private enterprise to trade with each other, as in the context of socialism with Chinese characteristics. Besides, its impact is felt even at the level of transnational capitalism: Chinese business in international markets. It enables able business entry into advanced international markets, achieving alliances and opportunities that would otherwise be nonexistent without guanxi. The Belt and Road Initiative is a paradigm example wherein Chinese businesses would never have gone into cooperation with other countries without guanxi. Thus, the strategic approach to guanxi in both scenarios demonstrates that it is a competitive force in international economic challenge. Guanxi's action in this duality makes qianxi a multilateral mechanism; it helps coordinate business desires and government ambition in the sense of state power unifying. On the other hand, it propels domestic firms into the globe stage, making it another instrument of the Chinese towards world power.

## 4. CONCLUSION

The principality of guanxi capitalism has a significant role in determining how business may flow smoothly in China, whether it is for local market actors or international private actors such as MNCs. MNCs can “use” the guanxi principle in order to streamline their access into Chinese market as well as securing a room to conduct business transaction inside it. For policy makers, the principle of guanxi facilitates them into creating regulatory institutions to regulate over Chinese market, and at the same time also encourage fair competition and foster sustainable growth within the market. However, the difficulties also lies within the informal nature of the guanxi itself, where MNCs, especially new players, have to navigate themselves along the unpredictable terrain of personal relationship, culture-bound interactions, and other forms of social capital building. In short, the principle of China’s guanxi capitalism serves as a bridge that balance between the old social traditions of building connections, and the pursue of economic goals. This model of capitalism is considered as “flexible” depends on how the involved parties navigate through the terrain of gift-giving, favours, and possible under-the-table deals. Future research following this paper might consider to explore the construction of Guanxi capitalism with regards to the active dynamics of globalization in China.

### **Ethical Approval**

No applicable.

### **Informed Consent Statement**

This research involves secondary data without any involvement of primary subject of interview(s) and/or observation(s).

### **Authors' Contributions**

This article is written by single author

### **Disclosure Statement**

This paper contains no conflict of interest.

### **Data Availability Statement**

The secondary document data presented within this study is available to access via the stated URL and DOIs presented within the references list.

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