



Corruption, Guanxi, Family and Favors – An Intercultural Approach to Doing Business in Asia

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Executive Summary

Everybody knows you have to be corrupt in order to do business in Asia. Or at least this what you can hear from so-called experts, who will tell you the Western way of keeping in mind compliance rules won't work over there. This paper tries to separate corruption from Asian ways of doing business, which is not the same. What about Chinese Guanxi, Indian family ties? Not everything we do is good and everything they do is bad. Try to understand Asian way of doing business and you will be more successful. Without being corrupt!

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ANALYSIS

“No, Sir. You can’t pass through”, the pot-bellied Indian police officer told me, swaying his wooden stick. We were somewhere near Pune, Western India, hub of many – especially German – companies, on our way to a German supplier. My driver had to halt his car, and we got out. A “street security fee” had been imposed on us, let’s say 2000 rupees. Not being willing to pay (and not being able, either), my driver refused, only to learn that we would have to turn back then. After a short discussion we succeeded in negotiating the sum down to 200 rupees, but only after the officer had let the two hundred rupees notes disappear in his pockets could we continue our journey. Bribery yes, from the Indian side – but what about us? Had we been corrupted because we participated? What would have been the alternative? Refuse and wait for some miracle to happen? The police officer surely didn’t have any further plans for the rest of the day (or this reincarnation, anyway). Wait for his superior to inform us that he would like to have 5000 rupees to solve the problem?

Corruption is one of the main issues we face in doing business in Asia (not only there, of course, but because I have been doing business in China, India and South-East-Asia for 30 years, the focus of this paper will be put on this region). Interestingly enough, there appear to be different forms and levels of corruption, and of course the underlying question always is: Who defines corruption? What about the Chinese Guanxi system, roughly and inadequately to be translated as “relationship networking”? What about Indian family ties? Why should our wrongly so-called “Western” approach and definition be applied to other cultures and make them the ones who have to change? Soon we’ll have three billion people in China and India alone; why should our values and compliance rules prevail? Could there be advantages in the way they conduct business? Maybe we should accept their style, even adopt it?

To clarify all these questions, let’s first define the relevant terms. I will not go into the details of Western compliance rules or the British Bribery Act. Definitely more unfamiliar and therefore more interesting is the Chinese Guanxi system. Much has been published about Guanxi, still most non-Chinese haven’t grasped the essence of the idea behind it. Guanxi goes way beyond our personal or business relationships, for the simple fact that it doesn’t differentiate between the two areas but, on the contrary, combines business and private life. Whomever you know from your work activities, you might need him/her for very personal favors; whomever you came to know in a private environment, you might need them for a business deal. Guanxi means you do someone a favor, help them in a difficult situation, connect them to another friend (Guanxi) of yours, etc. This favor given requires a favor taken, of course, but this can be months, even years later, on a total different occasion. Guanxi is about trust in a potential future favor. Guanxi is an asset you can trade.

Decades ago, a Chinese studying in my home town of Heidelberg came into serious difficulties with the local authorities, as some of his papers somehow didn’t fulfill the requirements. His German was not too good, Chinese-speaking Germans were a rare species in the 1980s, so when we met by chance we stayed in contact. One day, sitting over a cup of tea, he mentioned his problem, without even specifically asking for help, and then changed the subject. A Chinese way of saying: could you help? So I took care and managed to solve his problem. Our friendship had reached a new level; a certain relationship, Guanxi had been established. We lost contact, I haven’t seen him for more than two decades now. Should I meet him tomorrow or should he appear on TV as the next Vice-Mayor of Shanghai: He still owes me a favor. Of course we should try to stay in contact with our network (I’m not talking about social networks on the Internet, but real people you have met in real life), writing a card for Christmas or Chinese New Year or inviting them for a dinner from time to time; but even without this, the relationship stays more reliable and long-lasting than it would in our cultural environment.



So when you come back from China, with all these name cards you collected, don't just stack them away to be lost forever. Even after receiving them (not in front of the Chinese, of course, but in the hotel room), write some information on the card, date, occasion, perhaps personal information you got about the person. Put them in your database. Stay in touch, call them when in China, have a beer or a tea (dinner is better), bring some presents. You might need these people one day. And vice versa, of course. Guanxi refer to the person, not to the company, so even after meeting them in a different context, connections help. You might say we have this in Western countries too; people who help and relationships and so on. There is a significant difference, however:

In Central Europe, e.g., we do have a very reliable system as far as governmental institutions and law enforcement are concerned. The police are not corrupt, they will help me, I do have rights in court, I can claim certain rights as a citizen, etc. Having travelled extensively for several decades, I have come to value our own system more and more, despite the problems we might have. This (reliable civil rights situation) is not the case in China; so in absence of a reliable state and reliable legal institutions, people have developed their own system of security to protect themselves. Not only does the Guanxi system help in difficult situations; it gives protection.

This is not to be confused with corruption. Corruption is illegal even in China, might lead to the death penalty, and of course you should not bribe a policeman or customs officer. Yes, of course there is corruption in China. But doing favors for friends, enhancing friendship through small gifts, introducing friends to other friends – this is Guanxi. Not corruption. Non-Chinese often confuse the two and see corruption everywhere in China or refrain from keeping in touch with their Chinese counterparts because either they can't differentiate between corruption and Guanxi or, worse even, because they simply don't think it worthwhile investing time in an uncertain future, when they do not even know now whether they might need someone one day. But when you need someone in China, when you don't get your business license in time, when your containers are not being cleared by the customs office, then Guanxi might be the only way to miraculously smoothen the way. Not by bribing the guy in charge, but by asking a friend who has a grandmother playing cards with a lady whose son-in-law has a brother who is married to a woman who knows the relevant guy at the customs office. No money is needed, just a call. So now someone is obliged to someone else, and this favor surely will be recalled one day. But your problem has been solved, and this is what really counts. And again: as we have reliable legal institutions, we don't need Guanxi in the way Chinese need them. So what's wrong? Nobody is propagating corruption just by simply playing along the rules specifically applicable in this country.

So while in Europe e.g. we keep track of a few close friends and many more not-so-close acquaintances, but just as well lose contact with them and forget about them, the Chinese traditionally and typically would keep a record stating who owns a favor to whom and who is next in giving a present to somebody else and so on. And then, one day, when you need a Guanxi – not a friend – you make the call. It's important to note that the Guanxi system doesn't only work with friends or people you at least like (which normally is the case in our culture), but solely depends on the mutual understanding that one day we might be in need of somebody else. Guanxi works between people who don't even like but still rely on each other. I have been keeping up relations with the Chinese for decades, I hardly know now how and where we met, but still I know: If in need, I can call them. And they will call me, of course ... an occasional mail, a meeting, a dinner perhaps – enough to keep in touch. Sometimes gifts help. Not too big, as it works reciprocally and is not intended to be considered a bribe. That's not Guanxi. We'll come to that later. Guanxi and gifts mean: I have not forgotten you. You can call me, and I will definitely call you. Even years later.



Imagine you are a foreign HR executive, coming to China to hire the new company CFO. Potential problems with the tax authorities are troublesome and even dangerous to your business. Good relations with these institutions would be helpful. So of course you might ask the applicants whether they know somebody at the local tax bureau! Is this allowed? Not forbidden. Is it a criterion for hiring the person? Definitely! Being able to call the guy in charge and have a chat over your specific issue can't do any harm. This is nothing special in China, and it is not corruption or bribery or illegal or whatever you might come up with; this is using your Guanxi in favor of the company. So a person with good Guanxi would be the preferred candidate.

A foreign company wanted to enter the Chinese market; in order to obtain the license required a meeting with an important high-level cadre from the ministry in charge was necessary. Now in China you can't just call the ministry and let them put you through to the person in charge and arrange a meeting. This simply doesn't work. Why should he take the trouble to come? Why talk to you at all? Who are you to call him? So first thing of course would be to check your Guanxi: Whom do I know who could know somebody related to the relevant person or ministry? Now normal *lao wai* (lit. old foreigner, old being positive in the Chinese context), i.e. normal newcomers to the Chinese market, obviously don't have any Guanxi. Exactly because they are new. So you need someone with this Guanxi, a Chinese person you can trust or – better – a foreigner, because most people tend to trust somebody from their own culture more. So this is where I take over, check my database and see whom I know who could know someone who ... and then, if we are lucky, we get into contact with somebody in the ministry who is willing to call his colleague or subordinate and ask him to get in touch with us. So a lot of Guanxi might be necessary, some small presents might be involved, perhaps a dinner followed by Karaoke, but of course nothing illegal. Dinner used to be in a very nice restaurant, sometimes even a very, very nice place. This is what many restaurants and other places for entertainment have been making their living on for years. This is difficult now.

Now since autumn of 2012, more visibly since March 2013, a new government has been in place in Zhongnanhai, the heart of the Chinese government, next to the old Forbidden City north of Tiananmen Square in Beijing. Xi Jinping, President of the PR of China and Secretary-General of the Chinese Communist Party and the most powerful man in China (some say on earth) has launched a severe anti-corruption campaign, involving stripping the cadres of many privileges such as luxurious dinners, red carpets, five-star treatment and so on. So thanks to President Xi, many restaurants have had to close down because they relied entirely on business generated by high-level cadres being taken out to lunch or dinner with business friends. Guanxi or corruption? This new campaign, which some even compare to Mao's campaigns during the Cultural Revolution in the 1960s, has created significant headaches in the political caste, where at the moment (Chinese New Year 2014) nobody really knows whether their boss will be there tomorrow still and – worse –, if the person himself will be on his chair tomorrow.

So better admit everything you did in the past in order to escape punishment? Better keep a low profile, better not meet people out at a massage parlor, better not meet them at all. China is facing the biggest anti-corruption movement it has seen so far in its history. But is it really anti-corruption? Is it not a simple and intelligent way of getting rid of all the problems (i.e. the persons who create problems) on your way to consolidating power? Perhaps the best thing is to apply the old Chinese attitude, behaving like the bamboo does: Bend when the wind comes, bend down to the ground if possible, and then, when the wind has passed, you'll be upright again. Safer than resisting as a German oak does, but in the end falling down, never to stand up again.



So corruption is a manifold thing, even in China. Bo Xilai and his case were on every news channel. But the fine dividing line between corruption and Guanxi or favors given and taken is never defined. So of course my advice can only be to keep out of all this, of course never take or give a bribe, that's obvious. But then, as we all know, many deals just won't work without favors, without pulling some strings (*la guanxi* in Chinese), without knowing the right people. According to Western compliance standards, this already might be unacceptable. In China it is a must. So advice also has to be to at least try to understand the system, to be able to judge what is usual business behavior in China and what really is corruption even there. Only then can you decide whether to out-source the problem to your consultant or Chinese employee or to simply refuse to be involved altogether and maybe forget about your China business.

So while most foreign companies in China (and elsewhere) would, when asked, insist on sticking strictly to Western compliance rules, in fact what most are doing is closing their eyes to the reality and preferring (or pretending) not to know. But again: Could the adage "when in Rome do as the Romans do" be justified? Business in China has worked perfectly for centuries, and more so in the past 30 years in which I have been doing business over there. Yes, success has been achieved by sacrificing people and values, moral standards and individual rights. Nevertheless, the average Chinese is better off than the average Indian in terms of food, clothing, and housing.

It's obviously not as though they desperately need our advice or our system. It's different, yes, maybe we don't like it, no, but then we have different institutions, different legal systems, we don't Guanxi as much as a people. Being secure and protected as we are by our laws and the possibilities to implement them, we wouldn't really need personal relations to feel safe.

Talking about corruption, India springs to mind. I don't really think India is more corrupt than China; the only difference is that corruption in India is more visible. In India you might have to bribe the police officer (see above), simply because he won't let you go otherwise. You might not get the government stamp needed without the clerk in charge patiently waiting for the right motivation to take your case from the pile next to him and start working on it. Have you ever wondered where the term "red tape" as a synonym for bureaucracy came from? Look at the heaps of files in any Indian government office, enwrapped in red ribbons, and you know. Of course, we have been doing a lot of business in India without any corruption and strictly according to "our" rules and values. This mostly holds true for the typical family-owned small and medium-sized enterprise; they often prefer to do business with Westerners just because we are said not to be corrupt and to tend to stick to the law and to ethical behavior. But as soon as government is involved, corruption is hardly avoidable. And government is ubiquitous, due to the decision to pursue a development that was to be less market economy oriented, but more like a command economy, more like a state heavily regulating the economy. This decision dates back to India's first Prime Minister, Sri Jawaharlal Nehru, after independence in 1947. So for the first 50 years, the infamous "Hindu rate of growth" prevailed, only to be changed in the 1990s by then Finance minister Dr. Manmohandas Singh.

Malfunctioning legal institutions, corrupt police – India combines the problems of a command economy with the (disadvantageous) freedom of democracy. Where the Chinese dictatorship forcefully regulates governmental behavior and trains the police, thereby making corruption less visible and more subtle, India loses more and more credibility (and foreign investments) due to the complex and for non-Indians hardly comprehensible way of doing business. But we don't have Guanxi in the Chinese sense in India; what really counts in India are family ties. This wouldn't make much sense in a one-child-policy China, but in a typical Indian environment, where



only the rich can afford to have only two children, families of more than five or ten people living under one roof are quite common; and even in megacities like Mumbai, where the well-to-do live in smaller units, family ties still are significantly tighter than in the West. Grown-up men, handing all their income to their fathers or fathers-in-law as the family head, who decides over the total family expenditures – no exception. Marrying someone you have hardly met – arranged marriages are the rule rather than the exception.

So doing business is to a large extent either through family ties or at least with their help. We would call this nepotism – but again, who else but a family is reliable in a system where the police is corrupt, the courts are unreliable (to say the least), the government itself can't be trusted? So relying on the family is a must, not an option to be considered and discarded as non-ethical as in the West. And, therefore, in any given family it's not unusual to lend money, to jointly invest in buying a piece of land (the HUF, Hindu Undivided Family, might consist of 40 family members owning a plot of land, one of them selling it to a foreign investor, then after the signing some distant uncle claiming his share in the deal materializes), or to own a multi-million dollar company, where the directors are all brothers but the real decision is taken by their old father, who has no seat on the board, no vote, but after all, he is the father! How can we condemn this as "not in accordance with our standards"? Of course the whole of India is not in accordance with our standards, but the pre-conditions can't be compared.

So family ties are not Guanxi and neither is equivalent to corruption. Corruption is unacceptable, wherever we might come across it. Leave it to the locals, never get involved as a foreigner, simple. But Guanxi you have to establish, to learn, you do have to keep and to cultivate your Guanxi, otherwise you will never be successful in China (and elsewhere where Chinese are involved, which holds true for many parts of South East Asia).

India is more difficult. I would not dare recommend marrying into an Indian family just in order to do business over there (although it would be helpful indeed!). So you have to rely on agents, middlemen (see my earlier paper on this¹) on people who have the relevant connections in India. And don't be too critical towards the Indian way of doing business. Keep your values, because this is what they like about us. Corruption is not an option. But local habits and necessities cannot be contrasted with our way of solving similar problems – society doesn't allow this, neither in China nor in India. Most Indians would prefer our way of doing business – but living in India, you often don't have this option. It is not fair to condemn everybody for behaving in a way we often just don't understand. In our society, we don't have to do these things; we are secure and are protected by the state. This is not the case in China or even India.

I wanted to buy a train ticket in India and reserve a seat, of course. So I asked my hotel to take care of this and the manager, smilingly wagging his head, confirmed "no problem". Next day, presenting the ticket, he added: "It was not possible to reserve a seat; just go to the ticket collector and give him 200 Rupees and you'll have a seat!" So he officially asked me to bribe the railway official! Unthinkable in China, but nothing special in India. Of course I don't have to do this, but then I'll have to stand for three hours on the train. My choice. This is nothing Indians like to do, but they have to. Or stand.

This is not an excuse for corruption in doing business. It's only a kind of explanation, and this paper might help in doing business in these countries. Don't bribe, never, but try to understand how things work in different surroundings. Only if you understand the culture of the country you are working with do you stand a chance of being successful. Yes, they envy us for not having to bribe, for being able to rely on the police and the relevant

¹ ISPSW Strategic Series, „The Middleman – The Asian Way of Solving Conflicts“, no. 179, March 2012



governmental institutions. But instead of blaming our partners in India or China for being corrupt, we should at least try to understand the background, then decide on how to solve the problem. The Western attitude of moral superiority is not justified, nor does it help. The trick lies in adjusting to local characteristics without losing your own values. This is not easy to accomplish. But it's worth trying.

Remarks: Opinions expressed in this contribution are those of the author.

About the Author of this Issue

Dr. Manuel Vermeer, born from a German father and an Indian mother, lived and studied in China as early as 1982. Since more than 25 years he has been one of Germany's leading consultants for doing business in China and India. He published several articles and three books on the topic. He teaches Business Chinese and Intercultural Management at the East Asia Institute, Ludwigshafen (Germany). His extensive experience as a middleman for foreign companies in China and India has helped many clients in solving their problems. Several guest lectures at universities in Germany, Austria, Switzerland, Spain, Denmark, India, China. Interviews in leading German radio stations and newspapers; TV report in Spiegel TV (Germany) and on Deutsche Welle (broadcast worldwide in 2007). Languages: German, English, Chinese, Spanish, French.
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