The Round Table: A Reconsideration of Chinese Business Networks

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Please Note: This paper is a revision of a chapter of the book on which we are both currently working, and which we have entitled "Making Money". Do not quote or cite without our permission.

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Tiensha wu bu san de yenhsi.
(There are no unending banquets.)

The successive waves of the global financial crisis, which started in Thailand in the summer of 1997 and which crescendoed its way through the rest of the world's financial markets in the following year, broke, like a tsunami, over the hyperbole built up to explain Asia's economic miracle. Until the crisis, explaining Asia's amazing post World War II economic growth had been the preoccupation of a generation of scholars and journalists specializing in Asian societies. The longer the economic expansion continued the more diverse and grandiose the explanations became. Everything from the ancient writings of Confucius to the dexterity that Asians gained from using chopsticks was put forward to explain their economic successes, and somehow, in the flush of prosperity, they all seemed to make sense. But as the crisis undermined one Asian economy after another, the theories used to characterize Asian accomplishments crumbled away. For most observers, the only explanation left standing – the so-called "Asian development model" – was the only one that seemed both to explain the success and to expose the causes of the Asian business collapse. At the core of this model was a characterization of Asian business networks as non-competitive, sub-rosa collusions among Asian businesses linked in cozy relationships with the state, a characterization collectively known as “crony capitalism”.

Since the Asian business crisis, therefore, the spectre of crony capitalism hovers over anyone who tries to deploy or to redeploy a concept of business networks in order to explain any part of Asian business practices, past or present and in whatever location. This is especially true with those trying to explain Chinese business practices.

In the past decade, the concept of Chinese business networks has come under attack from all sides. Economists interpret the rise of widely diversified business networks as an outcome of market failure and inefficiencies. If the economy worked “properly,” there would be no need for collusive business groups. Development state theorists, such as Alice Amsden (Amsden & Chu 2003), not only discount the importance of trust bearing networks in explaining economic development in Asia, but also question whether trust-bearing sub-contracting networks play significant role at all. Sociologists (Wilkinson 1996; cf. Lowe 1998) have also criticized the concept of Chinese business networks as misrepresenting the political economy foundations of Chinese business practice and of being overly cultural and naively institutionalist. Finally, even anthropologists (Greenhalgh 1994) have gotten into the act, by delivering a post-modern critique that the discussion of Chinese family firms and business networks is “a stereotype-filed discourse that constructs the Orient in terms of timeless essences and stresses the Orient’s separation from and opposition to the West.” An Orientalist view of the Chinese family and the family firm essentializes the traditional, collectivist, and mutually beneficial nature of the Chinese family and is an example of what she calls “armchair Sinology” (1994:749).

Coming on top of these critiques, the interpretive fallout from Asian business crisis has left no unencumbered theoretical space to talk about Chinese business practices without acknowledging these criticisms and dealing with them. In fact, in the current climate of opinion, it would seem that there is nothing Chinese about Chinese business networks that is worth discussing. Instead, it would appear that all "successful" business activities, including those undertaken by Chinese, can be universally interpreted in terms of political fundamentalism and market fundamentalism, in other words, in terms of power and greed.

Although willing to acknowledge the universality of power and greed, we still believe that these critiques are largely misplaced and misinformed and that there are aspects of Chinese business networks that can be fruitfully identified as Chinese. To address these critiques and to restore some interpretive validity to Chinese business networks, we will, first, briefly explain what we mean by use of the Chinese business networks through a little deconstructing of our own. The most important point here is that we need to make a distinction between the concept of network as found in social science discourse today and the business activities that we, and others, call networks. Then having specified our use of the term, we then devote the bulk of our essay to explaining what we think are, ethnographically and then historically, the most significant aspects of modern Chinese business practices. By "most significant," we mean those aspects that help us understand and interpret not only the organization of Chinese economies, but also the dynamic and ongoing transformations these economies have encountered in the past century.

Entrepreneurial Networks in Theory and Practice

The discovery of networks in social science today is more a product of shifts in theory than a product of historical changes in business practices. The shifts we are referring to are the theoretical moves away from neoclassical economies both within economics and outside of it. Within economics, the most prominent movers are called the new institutionalists. Inspired by an early provocative essay by Nobel Laureate Ronald Coase (1937), Oliver Williamson (1975, 1985), among others, argued that market transactions are not costless, and on many occasions entrepreneurs are economically better off internalizing some of the more costly market activities inside the firm where they subject to the entrepreneur's authority. This theoretical observation concerning the "agency" of economic actors led to Williamson's famous distinction between markets and hierarchies, a distinction that opened a wide theoretical space between authoritative actions within the firms and impersonal, arms length transactions in the marketplace. Williamson (1991, 1994) soon filled this space with a notion of hybrid firms, by which he meant various types of business networks.

Williamson was encouraged to create a theoretical space for business networks by suggestions and critiques from sociologists and his fellow economists (e.g., Goto 1982; Piore and Sabel 1984). The most spirited and influential critique came from sociologist Mark Granovetter (1985), who persuasively argued that market activities are founded on trust, and trust is "embedded" in social networks. Granovetter's observation came out of his association with a methodological/theoretical tradition know as network theory, and his critique of Williamson was his attempt to move networks into a theoretically central position in the analysis of economic activities. He not only wildly succeeded, but his 1985 article became the seminal document in the founding of economic sociology. Suddenly, networks provided a path for sociologists to analyze economies in a way that economists seemed unable to do. As Powell (1990) argued, “network forms of organization” were “neither market nor hierarchy”.

With this theoretical breakthrough, networks became a structural form, became a thing, in a world of other things, such as firms and markets. Networks became reified as particular types of configurations representing more or less stable forms of arranging inter-firm and interpersonal relationships. As more or less stable structural forms, networks could be analyzed with the appropriate network methodology (Wasserman & Faust 1994) and the conclusions could be generalized across all societies.

It was in this context that an interest in Chinese business networks emerged. These networks were seen as archetypical networks, the best case examples of trust-bearing networks found anywhere in the world. The elevation of Chinese business networks to this exalted status came with the “discovery” and use of *guanxi,* not only as a Chinese term for a type of close interpersonal relationship, but more importantly as evidence for the empirical reality of a theoretically predicted condition: the social embeddedness of economic activity. I think it is fair to say that we (e.g., Hamilton & Kao 1990; Hamilton & Biggart 1988; Hamilton 1991) have played a role in creating this linkage between sociological theory and the empirical reality of Chinese economic activities. We plead guilty, but in our own defence, we (Hamilton & Kao 1990; Kao 1991; Hamilton 1991) have always maintained that social relationships in modern Chinese society are diverse and complex, that a calculus of relationships forms the framework for social action in Chinese societies, and that these diverse and changing relationships should be understood in a historical, comparative context. In this sense, we have been maintaining all along that Chinese business networks are not archetypical networks in the Western sense and that we should always make a distinction between networks in theory and Chinese business networks in practice. It has always seemed to us (e.g., Hamilton 1991; Biggart & Hamilton 1992), that Chinese business networks were expressions of relational ties. They are dynamic and not static forms of organizing. They are processes more than things, ways of organizing more than the organizations themselves.

On reflection, it seems to us that the critiques of Chinese business networks that we mentioned above have largely been criticisms of general theory as applied to Chinese society, rather than as empirical assessments of Chinese business activities in practice. Accordingly, it is possible to reopen the debate and to refocus it on "networks in practice" rather than on "networks in theory," and to guide this inquiry, it makes sense to ask what is Chinese about Chinese ways of organizing their business activities.

To motivate our answer to this question, let us begin with an ethnographic example of Chinese business networks in practice.

The *Weiya* Banquet

It was on our second visit to Xingfu, a company making hydraulic jacks, that we joined the banquet. The day of our visit was in January of 1992, several weeks before the Chinese Lunar New Year. Mr. Chung, the vice-president of the company, had invited us for a return visit, partly to hear the conversation between the owner of the firm and his 400 subcontractors and partly to eat. The loading dock, where the trucks normally are loaded with crates full of jacks, had been cleared for the day, and in their place there was more than a hundred round tables, each large enough to seat 10 to 12 people. At the time of our visit, Xingfu employed about 400 persons. This number made it the largest of the six major jack companies located in Chaiyi, a modest sized city in southern Taiwan of a little over 300,000 people. The production of these six companies in 1992, we were told, accounted for over 70 percent of the world market in hydraulic jacks, which, when one considers that every car and truck in the world has at least one in the trunk, amounts to a huge number of jacks

On this particular day, Chairman Hong, the owner of Xingfu, met with his key employees and subcontractors, mostly owners of small independent firms making component parts for his jacks, as well as the hydraulic exercise machines that Chairman Hong was just beginning to manufacture when we visited. Stating at 4 p.m., the meeting lasted about an hour and contained no hints of negotiation, bargaining, or arm twisting of any kind. Chairman Hong extolled the quality of everyone's work. A few subcontractors spoke up, offering their suggestions. It was abundantly clear, however, that the reason for the gathering was not the meeting itself, but the banquet. At 5 p.m., the meeting then adjourned, everyone gathered in the loading docks for the *weiya*, the yearly banquet occurring just before New Year, in which *laoban* (bosses) throughout Chinese societies express their thanks to all those joining together in common economic endeavour. By everyone in this case, we mean not only all the employees who work directly for Xingfu, but also all the employees who work for all the subcontractors as well. On that day, Chairman Hong fed more than a thousand people.

Everyone sat at round tables; Hong and his top managers went from table to table talking to many people at each table, and downing a glass of

Chinese wine as a toast. We joined the procession, listening to the conversation and downing our glasses of wine in unison with the others. After ten or so tables, the two of us sat down while we were still able. But Chairman Hong and his staff continued on until every table had been visited and every person had been toasted. We marvelled not only at his capacity for Chinese wine, but also at the obvious importance of the occasion for bringing all the workers together and making them feel part of one common endeavour, as part of one family.

Many of the 400 subcontractors were also part of other family firms and this *weiya* was only one of several they would attend this year. In fact some of the subcontractors work for all the jack firms in Chiayi. One such person is Mr. Wei, whose firm we visited several times. Mr. Wei is the owner of a 12-person firm that does high-precision drilling for 12 different companies in Chiayi, including the top six jack manufacturers. Although Mr. Wei does not attend all the *weiya* to which he is invited, he does eat regularly throughout the year at many round tables hosted by the owners of many different firms.

Mr. Wei owns a key firm in a very dense network of independent firms that constitute the manufacturing industries of Chiayi. The work of all the firms rises and falls with the OEM contracts they receive. In those years, when the orders were many, the network of each firm expands to include other firms, but when the orders fall, the networks shrink. Most of the major manufacturers, however, maintain a core group of subcontractors that would mainly, if not solely, work for them.

The *weiya* banquets, as well as other banquets that occur throughout the year, symbolize the contingencies of building and maintaining good relationships among people and firms that work closely together in a common endeavour, which is more or less what we mean by networks in Chinese society. Owners of all such firms, however large, devote considerable time, effort, and money to eating together, to hosting and being hosting by others. When they eat together, they, like everyone else in Chinese society, eat at a round table.

The round table is both symbolic of Chinese society and is a part of daily life. Chinese meals are always shared by those seated around the table. Common dishes are placed in the middle and starting with the eldest or the person with the highest prestige or the guest, everyone, using chopsticks, helps themselves to a proportionate share of the dish, a bite or two at a time. It is improper to be aggressive, to take more than your share at any one moment. Everyone around the table trusts that they will get their share of the food, whatever that share may be. In this context, food is not divided equally, each portion being allotted to individual plates, as is often the case in Western meals. Instead, eating at the round table is a way of sharing food, not a way the food is shared. The round table is not a method of allocation, but rather a way of serving others as well as yourself. This pattern also applies to drinking. Alcoholic beverages are not consumed individually, but rather together, as part of toasting. Sharing food and drink, eating from a common bowl, makes commensality in Chinese societies a relation among intimates.

In this sense, the round table is a closed circle. Who eats at the same table and who does not is an important social indicator in Chinese societies. Understanding who can join this circle and when, and who cannot, and under what circumstances, is a key to understanding Chinese social and economic life.

A closed circle, however, does not mean a fixed circle. Rather one should think of intimate circles as a set of concentric rings, each wider and more encompassing than the next. The ring closest to the centre, the one represented by the smallest round table is that of the household, consisting of the nuclear family, extended to include three generations, children, parents, and grandparents. In Chinese society, the nuclear family is the most exclusive segment of a lineage, and is defined by two hierarchal axes, one based on generation, between father and son, and the other based on gender, between husband and wife (e.g., Baker 1979). Within this group of intimates, the normative sentiments are ones of duty and respect. From this core, the larger rings extend out, connecting relatives, friends, classmates, colleagues, and on to anyone with whom one has a bond of similarity. In the rings beyond the nuclear family, however, the relationship become less hierarchical and based more on friendship and affection. Norms of reciprocation and mutual obligation among friends and colleagues replace obedience that exists between parent and children and between husband and wife. Who is included in each widening ring depends on social circumstances. The arrangement at a wedding banquet (cf. Yan 1996) would be different than at a *weiya* banquet, but the subtle demarcations are no less present.

The seating arrangement for the *weiya* banquet at Xingfu was carefully thought out. The core managers and exclusive subcontractors sat near the center. Other subcontractors and their employees sat further away. Our own table was close but not too close to the core tables, befitting our rank as visiting but honoured guests. Regardless of where one's own round table was placed, symbolically, everyone ate together, as if the entire loading dock was one big round table. The food was the same, the drink was the same, the host was the same, and the occasion was shared by all.

On the surface, a wedding party and a *weiya* banquet shares the same social logic and many of the same social rules, but in the end they turn out to be quite different. This difference is essentially the difference between a family and a family firm. A family exists for many purposes, including reproduction, social status, and emotional fulfilment. Whatever other purposes may be combined, the family firm exists primarily for making money.

The *Laoban* and the Family Firm

Most firms in Chinese societies are family firms. If we define family firms as a family's principal ownership and control of business, then family firms are certainly one, if not the most common form of business organization throughout the world. We do not want to claim that Chinese societies are unusual in this regard. But there are some important features of so-called family firms in Chinese societies that distinguish them from family firms elsewhere. We might think of these differences in the following way: In the United States, for instance, however the ownership and control of a firm is put together, the firm insofar as it is a formal organization is incorporated. It is a corporation. Insofar they are part of the economic institutions, then family-owned businesses are corporations as well.

In Chinese societies, the reverse is true. However the firm is formally organized, whether as a partnership, a corporation, a joint stock company, the firm is integrated in a social framework in which their owners must act in a way that makes them recognizably a family firm. Put more simply, "familization" is a mutually recognized way of organizing business.

Using the organizational principles of families as the principles to run business does not, however, make a household and a firm synonymous. While is it true that it is often ambiguous to tell where the household ends and the firm begins, no one confuses the two, for the simple reason that at the head of every family is a *chiajang* (family head), but at the head of every firm is a *laoban*.

The *laoban* is a term identifying the person in charge of a business. No *laoban*, no business. The word is often translated as "boss," but the use of the word is restricted. A farmer raising crops and making money on family-owned land would be called a landowner (*dichu*), but not a *laoban*. Only the person in charge of a business is called a *laoban*. The size of the business is unimportant. A peddler selling "rotten doufu" would be called *laoban*. Likewise Li Kashing, one of the richest Chinese businessmen in the world, if not the richest, would be called by the same title. Doing business and being in charge of it is the crucial distinction.

Laoban, however, is not a formal title. No man or woman on his or her business card would put *laoban* as his or her title. Nor would the wife of a businessman put *laobanniang* (the boss's wife) on hers. And yet every business has a *laoban*, a person in charge, and every business only has one *laoban*. As the Chinese saying goes, there is only one tiger per mountain (*yishan nanshang liang hu*). Formal titles, such as *dongshihchang* (chairman of the board) and *chongjingli* (general manager), are the titles appearing on business cards and quite often one or the other would be the *laoban*, but in a few firms the *laoban* would have no formal title whatsoever. For instance, in a number of firms the sons hold the titles, but the father, who has no formal position, is the *laoban* and makes all the crucial decisions himself.

The *laoban* is, therefore, a social term denoting the person who has the acknowledged position of authority in the firm. It is a personalized position, a role that defines all the relationship both within and outside of the firm. The *laoban* role, however is not merely social, but has actual economic substance as well. First, and foremost, the term denotes what Weber (1978) calls "the power of control and disposal". The *laoban* typically, but not universally, has the majority ownership of the firm. As is common in most Chinese-dominated economies, where investment capital is often raised through family and friends, the *laoban* controls the majority of the shares, even it he does not actually own them himself. With this ownership comes the right to make the decisions regarding budget, personnel, and management decisions. In small firms, the *laoban* and often his wife, who typically has the title *laobanniang*, combines all these functions. As firms grow larger, or as they become diversified and sited in different locations, the *laoban* often delegates the management, but closely retains control over the allocation of resources and the hiring of key personnel.

We found repeatedly in our interviews that in both small and large firms that the *laoban*'s wife assumes extremely important roles. She often takes care of the books. It is customary in Chinese households that the wife takes case of household finances. In many firms, the wife also assumes a similar role, but also she typically manages labor, especially when the workers are female. In quite a few cases, the wife, being the most proficient in English, also handles the primary contacts with buyers. This sort of division of labour makes sense in very small firms where the profits are insufficient to hire others, but it is very common in the largest business groups as well. Regardless of the type or size of firm, the wife of the *laoban* has a recognized and legitimate role to play, if she wishes to assume it, a role that continues even after her husband dies.

There are many examples showing the crucial roles of the *laobanniang*, but perhaps none so clearly as the case of Jungxing Textile Group in Taiwan. Late in his life Bao Chaoyun, the owner and *laoban* of the many firms in his group, worked closely with his mistress, Chou Yinxi, in running the affairs of the business, and while Bao was alive, Chou was acknowledged to be the *laobanniang*. When Mr. Bao died, Ms. Chou continued to run the group, even over the objections of his son by his only wife. Recognizing Ms. Chou as the successor to the owner meant in effect that she was not only the legitimate holder of authority within the group, but also that she was capable of running the business and thus able to make money.

This example, like so many others we could give, illustrates another feature of the *laoban* role, namely business competence. *Laoban*, as well as the *laobanniang*, are recognized by their technical and professional competence. They must earn the respect of those with whom they work, which includes both their employees, as well as independent subcontractors. This competence extends in every direction. The *laoban*, even of very large firms, knows the technical details of their business. Nearly every independent owner has to become an expert, albeit in a very narrow field of expertise. They obtain this knowledge and expertise through many different channels, including their networks of colleagues and friends, working with buyers, going to tradeshows, and reading extensively in trade publications. For the owners of most small and medium firms, they do not need the most advanced technology, but they do need a level of technology that can be commercialized, that allows them in other words, to make money. Therefore, as products go through cycles of boom and bust, as buyers' orders shift, the *laoban* tries to keep one step ahead of the changing markets.

The central role of the *laoban* is what makes firms into family firms. This role is equivalent and structurally very similar to the role of family head. Firms metaphorically become families and family rules apply, even though everyone knows the difference between the two. In Chinese society, fictive kinship is extremely important. People are brought into sets of relationships by identifying their position through kinship terminology, as brothers, cousins, sisters, and uncles, and act accordingly. Similarly, the firm is socially constituted as a fictive family – with the *laoban* and the *laobanniang* as real (to some) and fictive (to others) heads of an organization in which the logic and roles of families serve as a model of operation. In this sense all firms having a *laoban* in charge is a family firm, regardless of its formal constitution.

***Bandi*: The Inner Core of the Firm**

When firms are small, a husband and wife perform all the roles of ownership, management and accounting themselves. But as the firms grow larger, these role become more specialized and complex, and move beyond the capability of any one or two persons to do them all. When this expansion occurs, the *laoban* typically develops a core group of people to help him run the business. This group of personnel is called the "*bandi*". The term means literally the foundation of the group. Because the role of *laoban* is individualized and personal, the *bandi* involves personal relationships with the *laoban*. The *bandi*, in effect, constitutes the *laoban*'s personal staff.

In our interviews, we always ask about firms' key personnel and over the years it has become clear that using an inner core of trusted people as a way of organizing business has become increasingly important and increasingly more common way of running family firms as they expand in size and complexity. The logic of *bandi* is precisely the logic of personal staff. It extends the power of the person in charge. In this sense, *bandi* is based, in the first instance, on the ties of personal loyalty to the *laoban*. Without trust, there can be no *bandi*, and when businesses are in their infancy, and technology is relatively simple, personal trust between the owner and the employees was often enough. But as industry in Taiwan has grown more complex, both in terms of technology and being spread out in numerous geographical locations, the technical and professional competence of *bandi* has become increasingly important. In medium to large businesses nowadays, most technological sophisticated operation, the *laoban* nurtures a close relationship with a small number of key people who knows the production processes inside and out, the special techniques, and the key financial matter of the firm. With this group, the *laoban* runs the business, no matter what the formal organization.

The group itself is usually informal and contains a range of people. Because *bandi* are extensions of the *laoban*'s control over the business, the composition of the group typically reflects those aspects inside the firm that most need control: the management of labour, production quality and financial resources. The general manager is usually a member, as is the *laoban*'s personal secretary. Family members, such as a son or brother, may or may not be members depending on the circumstances, the competence of the individual, and the feelings and trust between them and the *laoban*. In one firm, we recall that one brother was included in the *bandi*, but the others were not.

Many owners told us that the *bandi* increased their flexibility whenever serious problems would arise. The *laoban* would call the *bandi* together, and they would collectively and quickly solve the problem. The intimate knowledge that each member of the staff possesses about the firm, as well about each other, allows for frank discussions and rapid decision making, all from the *laoban*'s point of view. Because everyone in the firms knows who is in the inner circle, who is close to the *laoban*, the implementation of these decisions is relatively uncomplicated.

The personal staff organization of Chinese family firms is not without its persistent problems. Some firms are troubled by the personal animosities and petty jealousies between staff members who compete for closeness to the *laoban*. The tension becomes so bad that on occasion some key members of the *bandi* simply leave and start their own firms. Therefore, the most able *laoban* are those who pay close attention to the needs of their *bandi*. The owner of one medium-sized firm that manufactured bicycle frames told us: "If I drive a Bentley, then I had better make sure my general manager drives a Mercedes," and as a matter of fact he did. Together, the *laoban*, the *laobanniang*, and the *bandi* control the internal aspects of family firms. These internal matters fall under the direct authority of the *laoban*, and require the obedience of all those working in the firm.

The personal nature of this authority is often onerous. People may find that *laoban* less than fully competent, they may not like his personality, they may object to having his son promoted while they are not. Any matter of conflict or unease may undermine their willingness to continue in the firm. This is particularly true, if they have an opportunity to start their own firms and become *laoban* themselves. This occurred in the early years of industrialization when the Hong Kong and Taiwanese economies were booming. In those years, labour turnover was extremely high, and the number of firms as a proportion to the total population was also extremely high. It was very difficult to retain workers and very difficult to expand firms beyond a certain size. However, with the economic slowdown and rising unemployment, independent entrepreneurial opportunities have declined, employment has stabilized, and firms have consolidated their economic position and grown larger accordingly.

Although the social distance between *laoban* and employees have increased with the increasing size of firms, it is not unusual to find that *laoban* and *laobanniang* eat together with their employees, sharing a common eating location and often the same round table. The *laoban*, his family, the *bandi*, and the employees represent concentric rings. Each ring out from the center requires a distinctive type of relationship to the household in which the father/*laoban* has duties and responsibilities to everyone in the household/firm, and they all have the responsibility to follow the decision of the father/*laoban*. The rules of family life and the rules of family firms, though different, still talk to each other. But without the family firm being able to make money, there is not conversation between family and firm.

The Round-Table Etiquette of *Laoban* Networks

The key to making money, however, is not simply the family firm. Rather, the key is the integration of family firms in a group of firms in which each *laoban* is an independent player in the group. Throughout our work, we have called such groups networks, and we have viewed each *laoban* as nodes in the network. Leaving the question of terminology aside for the moment, most products made in Hong Kong and Taiwan – including textile and garments, shoes, bicycles, sporting gear, computed related products, even semiconductors chip sets – are manufactured by groups of independent firms working together to make the products. Such interlinked groups are ubiquitous, and large, medium-sized, and small firms can all participate in the same group. What determine the composition of the group are more the product and the quantity of the product being made than some particularistic feature of the people making the product. All the groups, therefore, differ according to what and how a product is being manufactured. All the groups, however, resemble one another in terms of what holds them together.

These production groupings or business networks are often referred to in Chinese as *weixing gongchang* or satellite assembly systems. The term itself connotes roundness, a circle, like a round table. In fact, we have come to understand that the round table is not merely a metaphor for how these business networks operate, but is, more properly, a real aspect of the daily life of Chinese entrepreneurs. The round table is a "lived-in" metaphor, a part of the tacit knowledge that guides how subcontracting networks are organized and operate. In this sense, we can speak of a "round-table etiquette" that informs participants in how they cooperate in making money.

This etiquette is, more or less, as follows: Like every round-table meal, every *weixing gongchan* has an implicit hierarchy. This is a hierarchy without command and obedience. There is always a host, someone who calls people to this production circle. The host creates a "functional hierarchy". In business networks, the host is usually the person receiving the OEM order, the contract from the buyer. The host, as in a real round table, is not necessarily the most important person at the table. Instead he may be a trading company *laoban* who gets the order, and the most prestigious people in the circle are the skilled craftsmen who know how to execute the order and to put people together. What is the fair share varies with every order, and who is present at the table varies with every order. The subcontractors come in as independent guests. Making money is the most important goal, but individual maximization does not work if the network is to function properly. This is a circle of colleagues who share the fate of the group. The operating norm of the group is "reciprocity" (*hushing*), and individual performance is judged through this normative lens. The network is crucial for money making, and in the context of the network, individual aggressiveness at the expense of one's colleagues does not work. Nor does any attempt to get more than one's own share. Profit sharing and risk sharing are one and the same thing. Making money and reducing risk are both done through networks.

We have encountered many examples of this etiquette in action, but one of the clearest examples occurred during an interview at the second largest jack factory in Chaiyi: Mr. Lin, the *laoban* of the firm, stopped in the middle of our interview to take a phone call, which informed him about a 5 percent appreciation of the New Taiwan dollar relative to the US dollar. He immediately calculated that this level of appreciation would cause him to lose money if the order that they were currently filling would be completed as agreed. Lin told us he would have to stop the interview for a while, so that he could call several of his major subcontractors, which he proceeded to do. Only a short time later, seven or eight subcontractors came to his office, and they began to have "*laoren cha*" (old folks' tea) and to chew beetle nut. Listening to the conversation for more than an hour, we heard them talking, evaluating and renegotiating. Power in the conversation was not equally distributed: Lin owned the factory where the assembly was done, and he had gotten the order.

In a most subtle way, he bargained back and forth, inserting personal matters (*ch'ao ching*), mentioning long-term friendships, and emphasizing how manufacturing had to be lubricated with goodwill.

It was clear that everyone knew they were going to lose money on the order. The issue was how to distribute the loss. A new agreement was reached. Everyone shared a piece of the total loss. Mr. Lin felt he could not absorb the loss himself because it was so large. Finally, there was a consensus. In essence they agreed that if one fails, then they all fail. After the others had left, Lin told us "You don't like it, but you have to do it."

Eating and drinking and doing business all draw on the same etiquette. This is the etiquette of polite behaviour that acknowledges each participant's equality with the others, while at the same time placing people in a hierarchy that is functional to the activity. If one partakes in the joint activity, one is obligated to abide by the placement of people and rules of reciprocity that apply to everyone. Some act as host, some act as guests, and everyone eats for as long as the meal lasts.

This mixture of permanent fundamental equality and temporary functional inequality is a key characteristic of Chinese business networks. Although such networks may persist for some time, they are temporary. They last only as long as the contract lasts. As the Chinese maxim quoted at the first of this paper says, "there are no unending banquets." The mistake made by many analysts of Chinese society, as well as a mistake often made by their critics, is to view Chinese business networks – the people, the trust, the specific interrelationships – as being more fixed, stable, and permanent than they really are and then to reduce Chinese societies to the workings of such networks. But these networks, in truth, are not actually long term. They are short term vehicles of agents, of people wanting to make money and needing to change with changing circumstances. The products change, manufacturers change, the buyers change, everything changes, except the round-table etiquette. It is the etiquette that provides structure in the midst of rapid change, that serves as a source of continuity and predictability where otherwise there would be little or none. The round table etiquette provides a way to conduct business that is both predictable and short term, just like a banquet.

Conclusion

Given the accuracy of our description of Chinese business networks, is it correct to theorize, as many economic sociologists would (e.g., Granovetter 1985), that economic activities in Chinese societies are "embedded" in social relationships? Our answer would, of course, have to be yes. But that answer in and of itself, tells little about the changing nature of modern Chinese economies or even about the institutional structures of these economies at any one point in time. In closing, therefore, it is important to put these business networks into a historical context.

We have no special knowledge about the origin and longevity of the round table in Chinese society. We know, however, that their Asian neighbours, the Japanese and Koreans, do not prefer round tables and normally eat at rectangular ones, as do most Europeans and Americans. The round-table etiquette of Chinese society is probably not unique, but it is certainly distinctive and speaks to a mode of everyday interaction that provides a social underpinning to all institutionalized forms of activity, including economic activity.

In institutional terms, Chinese economies have changed as much as any economies have changed in the past century. Throughout the Qing dynasty, which ended in 1911, economic activity was institutionally framed by regional associations (*hui guan*), which had linkages into rural areas and which along with the state was an organizing force for much of the economy (Hamilton and Chang 2003). The normatively framed collegiality in these associations operated in much the same way as satellite assembly systems. Virtually all firms represented in these associations were independently owned either by a single family or by partners. The strong egalitarian rules of etiquette within these associations gave predictability to collective economic activities that were otherwise unregulated (Hamilton 1985).

By the end of the nineteenth century, however, Chinese entrepreneurs working along the China coast came into direct competition with Western firms. Small firms embedded in a framework of regional associations could not compete with Western firms in such areas as banking, insurance, mass distribution department stores and manufacturing plants. Chinese entrepreneurs needed larger and more highly capitalized firms to compete in the same sectors as Western firms. Hong Kong was one of the principal locations where this competition occurred. As Wai-keung Chung (2004) has described, Chinese entrepreneurs began to experiment with corporate forms borrowed from the West, especially the limited liability company. Though limited at first, by the late 1930s, nearly all the largest Chinese firms in Hong Kong, as well as many in Shanghai, had adopted this corporate form, and had raised considerable amounts of money from shareholders, who acted as silent partners to the person who served as the *laoban*. This organizational format, which relied on raising money often through interpersonal networks, removed the Chinese firm from the regionalized institutional framework of the traditional economy, and made it revolve around personal networks of entrepreneurs who operated in an environment of state-supported legal regulation. The modern Chinese firm that we described above is a direct descendant from those adopting the corporate format. Round-table etiquette persists, even though the institutional format changes.

In the second half of the twentieth century, offshore Chinese economies began rapidly to industrialize. The key driver of this industrialization was the retail revolution that occurred in the United States that in turn stimulated contact manufacturing in Asia (Feenstra & Hamilton, forthcoming). Japanese trading companies (*sogo shosha*) arranged most of the early contracts between American buyers and Hong Kong and Taiwanese manufacturers, but as the demand increased, Chinese manufacturers were able to work closely with the buyers, on one hand, and to organize effective production networks, on the other. For this purpose, the satellite production systems proved to be flexible in response to Western orders and to be able steadily to upgrade in terms of quality, speed of delivery, and costs, characteristics that in turn brought in more orders. From 1965 through most of the 1990, the emergent Hong Kong and Taiwanese economies were very much products of the capabilities of Chinese entrepreneurs to organize in response to increasing and changing demand. The advantage that their form of organization gave them was that it allowed them nearly to monopolize the production of certain types of goods that needed to be produced in limited batches and that had fairly short product cycles.

But there are no unending banquets. This price-sensitive, low-overhead, cost-cutting mode of manufacturing has its limits. If you cannot respond to the orders and still make money, then the networks disband. Rising wages, rising value of property and relentless pricing pressure from contract buyers pushed many manufacturing networks out of Hong Kong and Taiwan. If they were to keep their orders, entrepreneurs had to move, and they did move primarily to mainland China, where they reconstituted their production networks in new organizational formats, often by vertically integrating many of the operations done by independent subcontractors in their previous location.

The question for those who remain in Hong Kong and Taiwan is this: Although all banquets must come to an end, can we expect new banquets tomorrow? Will the round-table format of Chinese businesses that has proven so successful in the past survive in the future? Our interviews show us that it has been embraced and survives well in mainland China. But what about Hong Kong and Taiwan? That is a question we must leave for the future to answer.

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