Social Inclusion: the Chinese and Italian Communities in Prato
Monash University Prato Centre

The Wenzhou Model of Development through the lenses of Industrial Districts

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Outline

1. Introduction on private sector dynamism in Zhejiang province and Wenzhou prefecture.

2. Key points of the Wenzhou model of development through concept categories from the literature on industrial districts.

3. Identification of industrial clusters in Wenzhou.

4. A comparison between China and Italy on similar organizations of production.

5. Conclusions.
1. The private sector in Zhejiang province and Wenzhou

Zhejiang was the pioneering province for private sector development since 1978

- SOEs contribution lower than national average
- Deviating practices of “red hat” TVEs as private enterprises
- Non interventionist style of government policy

- Wenzhou is the most populated prefecture of the Province.
- **Secondary sector** is the main source of GDP (which is the third highest in Zhejiang) (ZSY 2007).
- Domestic private firms contributed for 88.9% to gross industrial output value at the end of 2006.
- Over half of employment is absorbed in manufacturing sectors
2. The Wenzhou model of development

(2.1) Basis of the model

• Wenzhou is geographically isolated by mountains which cover 78% of the territory → historical busy port and centre for long distance trade supported by out-migration

• Rural economy traditionally based on complementarities among agricultural, handcraft and commercial activities


→ during the planning system: survival of private sector’s activities;
→ after late 1970s: cadres’ involvement into business activities and tolerance towards “deviant practices” (Liu 1992)
(2.2) **Stylized facts about the Wenzhou model**

- Organization of production based on **family workshops** specialized in **one part or component** of final good (traditional as well as newly introduced product) and clustered around towns.

- Access to market through **specialized markets** supported by social networks of migrants → powerful source of demand and product information and highly integrated within Chinese marketing hierarchy.

- Local labour market:
  - rural labor surplus absorbed by the proliferation of private enterprises (Liu 1992; Parris 1993);
  - skilled local labor market in traditional productions and marketing (Zheng 1995).

- Financial resources: in the lack of official financial sources for private enterprises, **informal microcredit system** emerged.
3. Identification of industrial clusters in Wenzhou

The lack of official surveys of industrial clusters requires a summary and cross checking of official sources and international literature on industrial specialization at town and county level.

Results identify thirteen specializations of industrial clusters located in urban and rural areas at county and city level, with specific concentrations of specialized firms into towns.

Detected sectors specialization involve light industry sectors:
• Apparel; shoes; plastic shoes; shoe adorning material
• Valves and pumps; low-voltage electrical equipment; screen printing
• Spectacle frame; toy.
• Buttons; cigarette lighter; pen.

Started at the end of the planning system by disassembling second hand parts of SOEs products

Rooted in the past (1930s)
Geographical distribution of industrial clusters

- Qiaoxia town: toy cluster
- Oubei town: shoes cluster; valves and pumps cluster
- Qiaotou town: buttons cluster
- Cigarette lighters
- Shoes
- Apparel
- Spectacle frame
- Lamps
- Tingtian town: valves and pumps cluster; car accessories cluster
- Xiaojiang town: plastics cluster
- Lingxi town: woven plastics cluster
- Jinxiang town: screen printing cluster
- Longgang town: screen printing cluster
- Qianku town: screen printing cluster
- Mechanical cluster (auto parts)
- Spectacle frame
- Plastics
- Apparel
- Shoes
- Huangtian town: shoe adorning material cluster
- Baishi town: shoes cluster
- Beixiang town: low-voltage equipment cluster
- Liushu town: low-voltage equipment cluster
- Puzhou town: pen cluster
- Xinqiao town: plastic shoes cluster
- Wuting town: plastic shoes cluster
- Yongzhong town: valves and pumps cluster
- Shacheng town: valves and pumps cluster
- Tangxia town: valves and pumps cluster
- Mechanical cluster (auto parts)
- Spectacle frame
- Plastics
- Apparel
- Shoes

Original source of the geographical map: Ye and Wei 2005
4. A comparison between China and Italy on similar organizations of production

**Object of comparison**: the stylized model of industrial districts as discussed in studies on Prato textile industrial district and the Wenzhou Model of development.

**Basic similarity**: role of extra-local demand in creating incentives for people to start their businesses AND the local productive environment

In terms of supply microstructure:
- High division of labour among small family-run businesses;
- Family workshops rely:
  1. on Marshallian (1919) “cottage industry” according subcontracting;
  2. “on peasants traders who organize production through subcontracting” (Liu J. 1992:297) and market production in Wenzhou;
  3. on “impannatori” who “do not own a plant, but specialize in conceiving the business ideas and marketing the final product” in Prato (Becattini 1990:42).
• Extra-local traders connect local production with distant demand → buying offices in the Italian case (Becattini 1986); → extra-local sales man in Wenzhou.

However in Wenzhou entrepreneurs are familiar with extra-local market networks given social networks supported by out-migration

In terms of process of industrialization: similarities occur between Wenzhou and Italian light industrialization (rural productive base rich in handicraft and commerce traditions, use of extra-local workforce, presence of a strong political culture) but in the latter shows innovation capabilities generated by introduction of new technologies in small firms.

In terms of market relations among economic agents in Wenzhou:
• Property rights uncertainty determined PERSONALIZED TRANSACTIONS → “‘untouched net’ made by public power and the non-state economy” (Shi 2004: 49);
• Territorial culture is enhanced by social networks whose ties are based on blood and common origins of members.
Conclusions

• The socio economic paradigm of Italian industrial districts (Becattini 2000) applied to Wenzhou shows common factors which go beyond the uniqueness of socio-economic history of localities.

• The overall similarity lies in the entrepreneurial spirit of the local communities and their effort to respond to an historical chance.

• Industrial clusters in Wenzhou faces the key challenge of reconnection of socio-economic relations based on native-place and productive relations on the basis of innovation processes in order to upgrade along the value chain.