

**A comparative analysis between  
models of local development in Italy and Zhejiang province (China)**

Marco Bellandi

*Full Professor of Applied Economics, Faculty of Economics, University of Florence*

[marco.bellandi@unifi.it](mailto:marco.bellandi@unifi.it)

Silvia Lombardi

*PhD, Faculty of Economics, University of Florence*

[silvia.lombardi@unifi.it](mailto:silvia.lombardi@unifi.it)

*Abstract*

Recent studies on development models followed in some industrial areas of coastal China as in Zhejiang province highlight deep similarities with the Italian model of Industrial Districts. The process of rural industrialization occurred since the late 1970s evokes the presence of local factors of development which constituted the basis for the light industrialization process of some Italian areas during the post-World War II period. In particular, historical and political reasons determined the dynamism of the private sector in Zhejiang province, which was supported by the unconventional local government's behaviour devoted to support the development of private business. On the basis of fieldwork in local production systems of Zhejiang province, the present paper elaborates a comparative analysis between the Italian and the Zhejiang models of development within the general process of China's institutional transition. The specific focus is constituted by the institutional foundations driving the growth of market relations since the reform era in detected areas of China, and the formation of industrial clusters which recall specific features of Italian Industrial Districts.

Keywords: Zhejiang model, Chinese industrial districts, market relations

## 1. Introduction

The emergence of Chinese industrial clusters witnesses the new season of organization of production which is characterizing new and old industries at the international level, defined as the ‘third wave’ of industrialization (Bellandi 2007a). In fact, recent advances in studies on industrial districts identify three waves of industrialization within an historical frame in which industrial districts have played a prominent role (Bellandi 2007a). Namely, the frame refers to, firstly, the industrial revolution of the XIXth century, secondly, to the re-emergence of industrial districts during the second half of the XXth century and, finally, the ongoing wave of emerging new industries in old industrialized countries and in new regions, alongside with the re-organization of international division of labour within global value chains (Gereffi, Humphrey, Sturgeon 2003).

In the third wave of industrialization, industrializing regions as in China show new forms of industrial organization which involve also, among several typologies, proto-districtual forms which are the result of powerful public policies applied to localities endowed by a rich pool of entrepreneurship and economic traditions, and generate a tough competitive challenge to industrial districts in older industrialized countries (Bellandi and Caloffi 2008). As the global tendency moves towards growing inter-connections among local production systems within networks of global productions (De Propriis, Menghinello, Sugden 2008), the analysis of the involved local development models and their organization modes of production becomes more and more crucial since it provides insights on the potential outcomes for production systems’ interactions, as well as on industrial policy implications.

In this paper, we focus on the comparison between the model of Italian industrial districts and a specific Chinese model of local development originated in a province of the coastal area, the Zhejiang province. Its fast growing development has attracted much interest from international and Chinese economic literature on regional development. As part of the Yangtze River Delta, a powerful Chinese engine of industrial growth which includes also the municipality of Shanghai and Jiangsu province, Zhejiang province is among the top five richest provinces of China and accounts 12.05% of national GDP and shows a high population density with its 46.6 millions people (NBS 2008). Indeed, the integration of this province with Shanghai and its financial, logistic and educational facilities have contributed greatly to the fast growth undergone since the late 1970s. However, what raises the attention of international researchers is that Zhejiang province has followed a distinguished pattern of rural industrialization with respect to the neighbouring provinces, and in particular the private sector has played a crucial role in the process of economic

development undergone after the fall of the planning system (Wang 2008). Furthermore, what attracts even more research interest into economic booming of this province is the prevalence, within its provincial boundaries, of a model of local development based on a wide variety of industrial clusters specialized in 'light industry' sectors. Actually, the coincidence of manufacturing sectors of specialization of Made in Italy productions realized by Italian industrial districts and Made in China productions, as those realized by Zhejiang industrial clusters, may justify a product-focused comparison (Di Tommaso and Baradel 2008). However, we will carry out a comparative analysis in terms of models of local development devoted at improving the understandings of the above mentioned sector similarities (and quality product differences), yet considering as unit of analysis the local system and its socio-economic roots. In particular, in order to carry out the comparative analysis of the two models, institutional factors driving the growth of market relations since the end of the planning system in this dynamic area of China will be firstly introduced as part of the process of formation of industrial clusters within the Zhejiang model of development. Then, some development factors will be analyzed in a comparative perspective, with a specific focus on market and non-market relations in the two models.

An underlying motivation of such a focus is also the provision of further interpretation on crucial factors which play a role in the re-organization of production on an international scale, considering in particular the interaction among Italian industrial districts and the Chinese systems localized in Zhejiang province.

The paper proceeds as follows. Section 2 will contextualize the growth of market relations in Zhejiang province within the institutional transition of China, while providing the basic features of the Zhejiang model of development as premise of the comparative analysis with Italian industrial districts. Section 3 will explain methodological issues related to empirical analysis on Chinese industrial clusters. Section 4 will elaborate a comparative analysis between the Italian and the Zhejiang models of development and will show points of similarities and some reflections on differences associated to socio-cultural aspects. Finally, conclusions will be drawn in an attempt to locate the Italian and Chinese comparison in terms of new theoretical and empirical research issues.

## **2.The growth of market relations in Zhejiang province**

The growth of market relations occurred in Zhejiang province since the end of the planned system is part of the broader process of institutional transformation (Qian, 1999) that China has

undergone since the late 1970s. At the same time, though, it differentiates from the national tendencies and it constitutes a distinctive case of development of the ‘private sector’<sup>1</sup> accompanied by specific institutional innovations (Wang 2008).

International economic literature analyses the emergence of pillar institutions of a market economy in China departing from the planned system, by studying the transformations undertaken in China on together with the decentralization of the government powers on fiscal, financial and price matters occurred during the eighties and the early nineties. In other words, it focuses on the “institutional infrastructure that the market transactions are founded upon” (Sato, 2003: 197) and on the consequent growth of the set of ties between demand and supply of input resources and final goods, that is, the set of socio-economic relations which determine the access to economic exchanges so far intermediated by state agencies. The legacy of the planned economy has been widely highlighted by economic literature. In particular, Gore (1999) points out that the institutional framework of China’s reform era has retained the political order of the planning system. The highlighted ‘institutional mechanisms’ which have shaped China’s reform era are firstly the political exercise of allocated private property rights during the decentralization process, secondly the strict relation between dominant economic actors and the party state which gave rise to the ‘bureaucratic entrepreneurs’, and, thirdly, the retain from the planning system of bureaucratic (sectoral and local) structures of the government at the various levels of administration. Studies on institutional organization of post reform China confirm the State playing a role in entrepreneurial activities of the private sector, especially nurturing a form of commercial clientelism where private entrepreneurs depend on local state agencies in order to access to economic and financial resources (Wank 2003). Therefore, patron-client relations have featured the reform era as the allocation of economic resources and political power were strictly close. While studying the growth of private business in China during the reform era, Wank (1999) explains that “the institutionalization of clientelist networks was idiomatically expressed as *guanxi* in China” (Wank 1999: 6) and describes the rise of a *new* form of clientelism emerging in those years, featured by relations of power asymmetry between local state members and the emerging class of entrepreneurs given the control of the former over resources. In particular, the transformation of the recalled relations among entrepreneurs and local state members during the process of allocation of resources, so far administered by the state, is defined ‘institutional commodification’. Such relations have also been examined from the point of view of the developmental role played by local governments in rural

---

<sup>1</sup> We refer to ‘private sector’ in its internationally accepted meaning as derived from progressive revisions of official statistics. Private sector involves the domestic enterprises privately owned, therefore it may be thought as the whole set of enterprises in China minus State Owned Enterprises, Collective Owned Enterprises and Foreign Invested Enterprises (Wholly Foreign Owned Enterprises and Joint Ventures).

industrialization, given the autonomy they have been granted in the light of the fiscal decentralization process (Oi 1999). Consequently, the national tendency can be summed up as a diffuse local state involvement into allocation of resources and their management, which attributes a clientelist nature to the growth of market relations and, most importantly, to the entrepreneurial attitude towards new businesses which were overall tied to local party members.

However, despite central tendencies, many practices deviated at the local level. Zhejiang province is an example of such deviating practices, both in terms of policy and business activities, given historical and political reasons which ensued political (as well as resource allocation) discrimination of this province against the rest of China. In particular, a certain degree of autonomy of provincial cadres from the central state was granted, and, therefore deviating practices were tolerated. The ‘Zhejiang model’ of development (Sonobe *et al* 2004, Wang Z. 2006, Huang and Di 2004) is the result of the combination of local policy and economic traditions which gave rise to peculiar systemic conditions and the strong dynamism of the private sector. The model of development is based on a heavy reliance on the private initiative of Zhejiang people organized in family businesses, whose entrepreneurial attitude is well known as the ‘Zhejiang Spirit’<sup>2</sup>. It is the result of deep-rooted traditions in commercial activities and of a non-interventionist policy on the part of local governments in the management of private firms. As recalled above, this government style has historical, political and geographical roots since local governments in Zhejiang province, and in the very dynamic prefecture of Wenzhou in particular (Liu 1992), have conducted policy lines aimed at ‘favouring’ the private sector despite the central policy direction during the communist era.<sup>3</sup> This policy line is a very distinguishing feature with respect to the neighbouring province of Jiangsu, whose attitude was instead towards the protection of the public sector and ‘intrusive micro-management’ (Huang and Di, 2004; Yuan, Sun, e Zhang, 2004; Zhang, To and Cao, 2004). The involvement of local political agents in business activities in Zhejiang province took the form of the so called red hat Township and Village Enterprises (TVEs) which enabled firms to be registered as TVEs but actually they were managed and owned by private entrepreneurs who used to wear a red hat (Parris 2003). In addition, the business environment has been favoured by a developed informal micro-credit system directed towards private firms, even if deemed as

---

<sup>2</sup> For a more in-depth description of the Zhejiang Model and Wenzhou Model of development, see Liu A. 1996 The Wenzhou Model of Development and China’s Modernization, *Asian Survey*, 32(8): 696-711; Parris K. 1993 Local Initiative and National Reform: The Wenzhou Model of Development, *The China Quarterly*, 134: 242-263.

<sup>3</sup> For explanations of the Wenzhou policy line and its historical explanations, which date back to the Japanese war in the 1930s see Liu (1992) while for more details about the ownership structure of Zhejiang firms, see Krug B. and Hendrieschke H. 2001 The Emergence of a Private Business Sector in China: The Case of Zhejiang, *ERIM Reports*.

illegal.<sup>4</sup> Such a combination of private and public energies, as well as interests, generated both a proactive local collective action determinant for the formation of specialized industrial clusters at the local level, and the provision of public goods necessary for industrial take off, as local specialized markets, infrastructures, business rules. These factors are at the core of the quick emergence of entrepreneurial activities in an environment where private property rights were not formally recognized. Hence, local factors of development constitute a rich terrain of comparison between this model of local development and the Italian industrial districts.

### **3. Methodology and issues on the empirical comparative analysis**

International economic literature has not put so much efforts in investigating the Chinese models of development in a comparative way, with the remarkable exceptions of studies on the general phenomenon of industrial districts in China and the so called “Third China” (Christenson and Lever Tracy 1997; Shi and Ganne 2006). The present work is an exploratory attempt to investigate a set of differences and similarities between models of organization of production. Although a proper and complete comparison would benefit from a quantitative analysis of Chinese industrial clusters, it is not possible at the moment to conduct a consistent identification of them by utilizing official statistics. In fact, the lack of surveys aimed at systematically identifying and mapping Chinese industrial clusters explains why an application of the Italian methodology for the identification of industrial districts based on local labour systems (ISTAT 1997) to a nation-wide quantitative analysis is not possible, although it would benefit in terms of research and industrial policy at the various government levels in China. Moreover, mapping of industrial clusters at the lowest level of administrative division consistently is not an easy task either. A *township level* analysis, in line with the administrative system identified by the Ministry of Commerce of the People’s Republic of China<sup>5</sup> by utilizing spatial analysis theoretical tools and software, presents some issues related to trade off between the necessity to link town level agglomeration of enterprises and the availability of GIS maps at that territorial level on the whole country.

---

<sup>4</sup> For an in-depth study about traditional rural credit, farm and handcraft production, see Ming-te Pan, 1996, Rural Credit in Ming-Qing Jiangnan and the Concept of Peasant Petty Commodity Production, *The Journal of Asian Studies*, 55: 94-117.

<sup>5</sup> The Local Administrative System (2005) states the three fundamental levels of division. “*The entire country is divided into provinces, autonomous regions and municipalities directly under the Central Government; the provinces and autonomous regions are divided into autonomous prefectures, counties, autonomous counties and cities; the counties and autonomous counties are divided into townships, ethnic townships and towns*”.

At the provincial level, the survey conducted by the Policy Research Department of Zhejiang province<sup>6</sup> mentioned in Marukawa (2006) suggested there were 360 industrial clusters at the end of 2005, but no clear and unique definition of industrial cluster was adopted, hence compromising the overall results.<sup>7</sup> More recently, Wang and Mei (2008) have identified 536 industrial clusters concentrated in the richest 15 provinces of China, with Zhejiang, Guangdong and Jiangsu hosting the highest number. Among them, 136 are localized in the Zhejiang province. It is noteworthy that the lack of an official identification of industrial clusters and their concentration in Zhejiang province, marks a significant difference with other Chinese industrialized provinces as Guangdong, where an official recognition of “specialized towns” has been promoted by the provincial government (Bellandi and Di Tommaso, 2005).

The present work is a qualitative comparison between, on the one hand, Italian industrial districts and the model of light industrialization, that is the role played by small firms in Italian manufacturing industry (Sforzi 2002), and on the other hand industrial clusters following the “Zhejiang model” of development. This model involves a sub set of industrial clusters localized in Zhejiang province whose development shows systematically local factors of development highlighted by the international economic literature. Preliminary analysis on the development model of Zhejiang province and research fieldwork in the Province during the year 2007 provided empirical evidence supporting the analysis which will be presented in the following section. In particular, fieldwork has been carried out in selected industrial clusters which have been recognized by economic literature as belonging to the Zhejiang model of development<sup>8</sup>. Given the comparison on the basis of two similar models of local development, systemic conditions which characterize systematically the two models will be analyzed.

Essential tools for the analysis are the concepts of industrial clusters and local production system, and of industrial districts as well. We refer to industrial clusters as the geographical concentration of complementary economic activities carried out by firms in strict proximity among each other. Thus, an industrial cluster has a systemic character in its organization of exchanges,

---

<sup>6</sup> Project Unit 2003, Policy Research Department, Zhejiang Committee of Chinese Communist Party, “*Kuaisu zengzhang de zhejiang quyu kuaizhuang jingji*” (Rapidly Growing Cluster Economies in Zhejiang District), Nanfang wang website. Project Unit 2006, Commission of Economy and Trade of Zhejiang Provincial Government, “*Fu zhejiang tese quyu jingji: Zhejiang kuaizhuang jingji fazhan baogao*” (Regional Economy with Rich Zhejiang Characteristics: A Report on the Development of Cluster Economy in Zhejiang), Commission of Economy and Trade of Zhejiang Provincial Government website. Source: Marukawa (2006).

<sup>7</sup> As reported in Marukawa (2006): “The definition adopted in the Zhejiang Provincial government survey (...) was “more than ten enterprises engaging in the same or related industries, and the annual output exceeded 100 million yuan”. Marukawa (2006: 4).

<sup>8</sup> It is important to underline that international economic literature stresses the Zhejiang model of development as the main feature of this province, but industrial clusters involved in it do not cover the whole set of industrial clusters of Zhejiang province. In particular, industrial clusters formed through FDI are diffuse, as well as high tech industrial clusters formed through industry-university linkages (Jiang 2003, (Wu, Yue, Sim 2006, LI&FUNG, 2006).

which relies on a contractual nexus (Bellandi, 2007b). If the systemic character of the productive environment is based on a social, institutional and cultural nexus, a local production system is identified (Bellandi, 2007b). Further qualifications are added to productive relations: trust, cooperation and shared values are at the core of such systemic conditions of a local production system, and make the difference with a generic cluster. In other words, a local production system is a type of cluster where the systemic character has also social, institutional and cultural foundations. An industrial district is a typical locality of industry featured by the embeddedness of a local production system (Bellandi 2007b:18), and “*a socio-territorial entity which is characterised by the active presence of both a community of people and a population of firms in one naturally and historically bounded area*” (Becattini, 1990: 38). It is thus clear the co-existence of productive and social environments in the ideal-type industrial district, where reciprocal co-operation among a set of independent producers is connected to the social culture of the district (Dei Ottati, 1994). Hence, the analysis of industrial districts requires particular attention to the social core of the cluster that qualifies it as embedded locally in the industrial district, where, as Marshall said, “*The mysteries of trade (...) are as it were in the air*” (Marshall, 1920: 201). By contrast, the simple identification of a set of economic activities territorially concentrated is enough to assert the existence of an industrial cluster, and the set of market relations that drive the exchanges are enough to detect its peculiarities.

#### **4. The comparative analysis**

The comparison between the “Zhejiang model” of development and the model of Italian industrial districts reveals a set of general similarities in both the development model as well as the industrialization process. In fact, the process of rural industrialization occurred since the late 1970s in Zhejiang province evokes the presence of local factors of development which constituted the basis for the light industrialization process of some Italian areas during the post-World War II period. In Italy, regional competencies related to the core of modern industry and historical factors explains Italy’s primacy in the second wave of industrialization. Italian regions retained the vestiges of artisan urban systems, with local governments oriented towards the provision of specific public goods and rural inhabitants involved in small light-industrial firms (Bellandi 2007). The post-World War II provided windows of opportunity in national and international markets as the “(...) increasing demand for variation in many consumer goods by growing numbers of well-off households” (...) “demanded that capitalist production exit from the ‘factory’ and return to



‘workshops’ (...) to acquire artisanship, customised services, and ties with historical-cultural and environmental sources of distinctive experiences (Becattini 2004)” (Bellandi 2007:15).

Similarly, the change in the demand side faced by local contexts with intrinsic competences, and the relative production side response, is at the core of rural industrialization process in Zhejiang province. The basic facts of this development model occurred in many areas of this province have already been mentioned in the above paragraph. What we want to stress here in comparative terms are the essential results obtained by fieldwork in Zhejiang province, during which it was possible to come in contact with personal experiences of business life and political activity told during interviews to local officials, and young and old entrepreneurs in particular.

As explained in Lombardi (2007), in the late 1970s many rural areas faced the problem of poverty due to the scarcity of arable land, being Zhejiang a mountainous province. However, these poor areas showed deep traditions in commerce and handcraft productions which were conducted by farm households during off-farm seasons. In particular, traditions in commerce were founded on organization of exchanges in the form of *merchants guilds* and *peddlers*, which were active before (and in some cases even during) the planned era, while handicraft traditions were based on the archetype of ‘mobile firm’ in China (Skinner 1968) defined *travelling craftsman*. Once extra-local demand increased, the intensification of exchanges went alongside with the emergence of new small local businesses and the provision of specialized markets for local products. Many businesses proliferated by starting productions, both new or traditional ones, which required little investment and technical knowledge and tools. The organization of production was based on family workshops, which clustered around townships endowed by specialized markets (Wang 2006; Sonobe et al, 2004). In some cases, local market provision was private, that is, granted by traditional merchants associations whose exchanges were highly intensified after the late 1970s. Specialized markets provided access to information on demand changes and product information (giving rise to imitation); therefore, it was a diffuse practice for merchants to become producers of high demanded goods. In some other cases, where private trade was not organized, market provision was public and it helped to overcome bottleneck problems in production and specialized markets provided access to demand for small local producers.

The intervention of local government in either providing the physical infrastructure of the specialized market, or in formally instituting it *ex novo*, is a key point in this development model, since it underlined the role of local public and private collective action in the provision of specific public goods (Bellandi, 2006). It is clear that in Zhejiang province the growth of market relations after the end of planned system is strongly shaped by the interplay between private and public actors within the local context: the differential trait of this development model is the intervention of

the public sector, which regulates the entry of (extra-local) market forces according to the potential and the needs of local private sector.

Alongside the set of similarities highlighted so far, some differences arise in terms of the prevailing forces under the modes of organization of production and the industrialization processes. As fieldwork in Zhejiang province has revealed, the deep tradition in commerce in Zhejiang industrial areas, which used to be even more organized and embedded to the local context than the handicraft one, finds different precedents in the Italian case which is featured by the strong local artisan tradition and by the presence of 'international buyers' and 'buying offices' of light industrialization that occurred in the post World War II period (Becattini and Burroni 2005). The industrialization phase, at least in one of the core regions in this process, that is Tuscany, was characterized by the allocation of final products on extra-local markets through *international* buyers as opposed to the crucial role played by *local* traders in the Zhejiang model. In this case, local traders were strictly connected to an international network composed of Chinese migrants originating from Zhejiang province and working abroad by trading local (Chinese) products. The social network supporting extra-local trade is therefore featured by the common origin of its members. In organization terms, both models show the presence of intermediaries between the local supply microstructure and the local and extra-local market demand (domestic and overseas). We focus now on this specific trait of the two similar development models in order to explore more fully the general similarity and point out the intrinsic diversity.

To the extent that clusters development was stimulated by the increasing domestic and international demand since the late 1970s, specialized markets and social networks supporting the extra-local trade conveyed on such local markets were a means for stimulating the productive potential and a local factor supporting the realization of such potential. In fact, the influence of extra-local demand is strictly tied to the role of 'local traders' in rural industrialization of Zhejiang. The role of local traders, who perform the functions of import and export merchants (in functional terms they were both wholesalers and retailers) within the market system, was and still is, determinant for development and supply response to market change. These economic agents, located at the intersection of the commercial and industrial spheres, are at the core of the mechanism that prompts the reduction of transaction costs, based especially on information sharing within entrepreneurial networks (Casson 2002), which in this case were based on kinship and native place ties. Therefore, it was the social network of merchants who came from the same province and city the key which supported the regular flows of goods within the rural marketing hierarchy. Finally, in both cases agents dealing with extra-local demand are essential, but in the Chinese case the ethnic component is determinant.

Summing up, the structure and the organization of market relations show the following differences: in the Italian case: i) distinctive intermediaries and coordinators of production which act on the basis of subcontracting relations ('impannatori') for market making activities (Casson, 1997), and ii) allocation on international markets is realized through international commercial figures. In the Zhejiang case, i) local traders are at the core of market making activities even in areas with a few trade traditions, and ii) the allocation of final products on international markets occurs through local social networks composed by people with same origins, that is, the native-based networks.

Keeping on analyzing in pure organization terms, it is well known that the nature of the organization of production process, that is, the presence of small firms specialized in one phase or component of the final product or in some complementary activities to the principal industry, requires the presence of local markets. In particular, 'phase markets' arise as a consequence of the organization of the division of labour similar in the two investigated models. However, in Italian industrial districts 'phase markets' refer to socio economics relations among firms within the district, whose governance is founded on social elements of the production system defined the 'community market' (Dei Ottati 1994). In the Zhejiang model, instead, local phase markets, defined 'specialized markets', are physical facilities formally instituted by local governments, in some cases formerly provided by the private sector (merchants associations) in order to increase efficiency in transactions. This point makes it clear the difference in terms of the institutional framework in place at the time of industrial take off, which in the Chinese case had, as main characters, local collective action members, both public and private, devoted to build the "*institutional infrastructure that the market transactions are founded upon*" (Sato, 2003: 197). Moreover, the institutional framework leads to some reflections on how it has affected behaviours of economic agents who needed market institutions in order to perform their exchanges.

## **5. Some reflections on socio-cultural aspects associated to similar organization models**

It is well known the relevance of social relations in a market economy. After the above points related to organization aspects and featuring economic agents, we need to focus on some aspects of social relations associated to economic transactions at the core of the two development models. This is not a new fact in economic literature. Scott and Storper (1992:10) claim that "*capitalist relations of production and exchange are always embedded in wider sets of social relations and cultural norms*". Moreover, Kreps (1990: 771-772) states that "(...) *important pieces of transaction costs*

*economics depend on the society in which the transaction is embedded - on the framework of laws and customs in particular*', highlighting that patterns of economic relations are linked to the social and political frameworks.

Literature on Italian industrial districts stresses the widespread presence of trust which helps cooperative relations among districtual firms (Dei Ottati 2004). Inter-firm cooperation within the district is based on a common as well as implicit behavioural code which is shared among districtual agents. The implicit character of the conduct code implies that it is respected by district agents even if not explicitly specified in contractual terms. Trust is also the result of personal contacts and personal reputation, which is accumulated by single agents through a process of repeated transactions. What highlights the distinctive character of industrial districts if compared to the Zhejiang case is that reputation, personal positive experiences obtained in previous relations, as well as membership of the same community and therefore sharing the same implicit code of conduct are determinant for trust relations. These elements determine cooperative attitude among districtual firms while, kinship or friendship do not play a crucial role, making the difference with the Zhejiang case. Here, family ties and same origins are at the core of the social networks of merchants supporting the flow of local productions of industrial clusters, and, through such a flow, assure exchanges of local products on specialized markets. Therefore the value of family ties in economic relations constitutes a point of difference. Instead, it is not yet clear whether we can assume a coincidence between the concept of 'native place' and 'common origins' which also are at the base of Zhejiang social networks, and the concept of 'membership to the same community' which features trust relations within Italian industrial districts. There would be coincidence to the extent to which the meaning is confined, for both concepts, to the sharing of a common culture and values typically nurtured in a locality; actually, though, the issue seems much more complex and it has to be explored more fully in terms of Chinese social relations, extending therefore the field of analysis which so far has been strictly focused on a specific area and the tools.

However, it has been already mentioned that, in a very broad sense, the basis of social relations in China is *guanxi*. It is the cultural aspect of Chinese societies based on a normative feeling internalized in norms and values of everyday life, and is very tight (Wellman *et al* 2001). The relational view offers a strong framework within which *guanxi* relationships affect the relationships of members of patterned organizations and trade relations as well (Keister 2001). In particular, the outcome is a clientelist relations which reflects asymmetry in power among parties involved (Wank 1999). Moreover, *guanxi* "is composed of interpersonal linkages with the implication of a continued exchange of favours" (Michailova and Worm 2003: 510). Specific ties feature the interplay between the structure of relations of a network of economic actors and the social strands

supplementing economic structure of above mentioned relations. Respectively, they show structural embeddedness and substantive embeddedness (Johannisson *et al* 2002) and give rise to different degrees of networking within local contexts. What is relevant here is the interplay between the economic and the social sphere of relations enforced by Chinese culture, that increases net benefits from transactions not only through efficiency, that is, the reduction of transaction costs, but also through patterned and trust-based personal relations that open to the creation of new potentials. Such patterned relations connect economic actors within network structures, on the one hand because “ethnic and family ties” (Cristenson and Lever Tracy 1997) are a substantial component of Chinese family-centred society (Michailova and Worm 2003: 510), and on the other hand because they also provide a supportive “infrastructure” given the absence of clear market institutions (Krug 2008).

## **6. Conclusions**

The comparison between the two development models of development reveals strong similarities in terms of local factors of development, although they are influenced by cultural distance, specificities of localities in terms of traditions as well as different timing in take off. However, the main similarity lays in the developmental combination of regional competencies and domestic and international historic factors. Moreover, social relations associated to economic transactions highlight the different role played by trust in inter-firm cooperation within industrial districts, and the role played by *guanxi* in the Chinese case, which in Zhejiang province is also strengthened by family ties and the same origins. In the first case, the effect of embeddedness of transactions in local society in terms of inter-firm relations is reflected into cooperative relations based on trust, determined by reputation and personal contacts. In the second case, the social network which connects the economic agents, and supports the association of traders in particular, is based on blood and origins, and it constitutes an alternative as well as complementary way to carry out transactions in an institutional environment which do not provides definite infrastructures to exchanges.

However, this is not a surprise, if we consider that the transformation of a planned economy into a market economy requires a process of institutional transition through which market institutions are introduced within the economic system, and social relations develop in the interstices of lacking institutionalized market relations. Beyond considering personal networking as a supportive way to carry out market relations during the reform era, and the clientelist features we have recalled so far,

in Zhejiang market and non-market relations are not only the result of the price system, still at the core, but are also the result of a behavioural principle deeply linked to the set of rules shared by local agents with common origins within the *guanxi* set of relations. Furthermore, when trans-local relations occur, on the one hand possibly similar price system-based relations can match each other; on the other hand, non market-based relations encounter each other and they may not match because of cultural differences, resulting in a reciprocal cultural impact on specific sets of entrepreneurial and community rules. As Coase pointed out in 1937, as long as transactions are not completely regulated and contracts may be incomplete for parties, private collective action enforcement may not be sufficient; in these cases, a set of legal rules is necessary at above the local and national level, governing the rights and duties of those carrying out transactions in those markets.

## References

- Becattini G., 1990. "The Marshallian Industrial District as a Socioeconomic Notion". In Pyke F, Becattini G and Sengenberger W (Eds.), *Industrial Districts and Inter-Firm Cooperation in Italy*, Geneva: International Institute for Labour Studies. pp. 37-51.
- Becattini G. and Burroni L. 2005. *Istituzioni e sviluppo locale in Toscana dalla guerra all'istituzione della Regione*. In Ballini P.L, Degl'Innocenti M., and Rossi M.G. (eds) *Il Tempo della Regione. La Toscana*, pp.13-45. Florence, Giunti.
- Bellandi M., Caloffi A., 2008. District internationalisation and trans-local development *Entrepreneurship & Regional Development*, pp. 517–532.
- Bellandi M., 2007a. Industrial Districts and Waves of Industrialization: A Rich and Contested Terrain, *Scienze Regionali, Italian Journal of Regional Science*, Vol. 6-N.2/2007.
- Bellandi M., 2007b. *Sistemi di produzione locale e organizzazione*, in Martino G., Perugini C., Sediari T. (a cura di), *La sicurezza degli alimenti. Contributi all'analisi economica*, pp. 17-37, Roma, Donzelli.
- Bellandi, M. 2006. A perspective on clusters, localities, and specific public goods, in Pitelis, C., Sugden, R. and Wilson, J. R. (eds), *Clusters and Globalisation. The Development of Urban and Regional Economies* (Cheltenham: Edward Elgar) pp. 96–113.
- Bellandi, M. and Di Tommaso, M. R. 2005. The case of specialized towns in Guangdong, China, *European Planning Studies*, 13: 707–729.
- Casson M. 1997. Entrepreneurial Networks in international Business, *Business and Economic History*, 26: 811- 823.
- Casson M. 2002. *Analysing Regional Business Networks: An Economic Perspective*, University of Reading, Department of Economics Working Paper.
- Christerson, B. and Lever Tracy, C. 1997 The third China? Emerging industrial districts in rural China, *International Journal of Urban and Regional Research*, 21: 569–588.

Coase R. H. 1937. The Nature of the Firm, *Economica*, 4: 386–405. Reprinted in Coase, R.H. 1988 *The Firm The Market and The Law* (Chicago, Chicago Press) 33-55.

De Propris, L. Menghinello, S. and Sugden, 2008. “The internationalisation of local production systems: embeddedness, openness and governance”, *Entrepreneurship and regional development*, 20: 493-515

Dei Ottati, G., 1994. The industrial district. Transaction problems and the ‘community market’. *Cambridge Journal of Economics*, 18(2): 529-46.

Di Tommaso M.R., Baradel A., 2008. Manifattura italiana e manifattura cinese. Analisi empirica e implicazioni per la politica industriale *L’industria*, pp. 405-432.

Gereffi, G., Humphrey, J., Sturgeon, T., 2005. "The governance of global value chains", *Review of International Political Economy*, Vol. 12 No.1, pp.1-27

Gore L.P., 1999. The Communist Legacy in Post-Mao Economic Growth. *The China Journal*, No. 41 (Jan., 1999), pp. 25-54. Published by: Contemporary China Center, Australian National University

Huang, Y. and W. Di, 2004. “A Tale of Two Provinces: The Institutional Environment and Foreign Ownership in China.” *William Davidson Institute Working Paper Number 667* Retrieved on January 2006, from [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=529142#PaperDownload](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=529142#PaperDownload).

Johannisson B., Ramírez-Pasillas M., Karlsson G., 2002. The institutional embeddedness of local inter-firm networks: a leverage for business creation, *Entrepreneurship & Regional Development*, 14: 297 – 315.

ISTAT, 1997. *I sistemi locali del lavoro*, Argomenti, 10.



Keister L.A. 2001. Guanxi in business groups: social ties and the formation of economic relations, in Gold T., Guthrie D. and Wank D. (edited by) *Social Networks in China: Institutions, Culture, and the Changing Nature of Guanxi* (Cambridge: Cambridge University Press), 77-96.

Kreps D. 1990. Corporate Culture and Economic Theory, in Alt J. and Shepsle K. (edited by) *Perspectives on Positive Political Economy* (Cambridge: Cambridge University Press), 90-133.

Krug B., Hendrichske H., 2008. China's Institutional Architecture: A New Institutional Economics and Organization Theory Perspective on the Links between Local Governance and Local Enterprises. ERIM REPORT SERIES *RESEARCH IN MANAGEMENT*

Liu Y. 1992. Reform from below: The Private Economy and Local Politics in the Rural Industrialization of Wenzhou, *The China Quarterly*, 130: 293-316.

Lombardi S., 2007. "Specialized markets in local production systems: theoretical and empirical results from Zhejiang province, China". Paper presented at the European Network on Industrial Policy (EUNIP) Conference (12-14 September 2007).

Marshall A., 1920. *Principles of Economics*. London, UK: MacMillan.

Marukawa T., 2004. Marketing and Social Networks in Inland China, paper Presented at the Kobe University and Sichuan Academy of Social Science Conference on the Development of Inland China.

Marukawa T., 2006. The Geography and History of Industrial Clusters in Zhejiang Province, China, paper presented at the International Workshop "Asian Industrial Clusters" Lyon, 29<sup>th</sup>-30<sup>th</sup> November, 1<sup>st</sup> December.

Michailova S., Worm V., 2003. Personal networking in Russia and China: Blat and Guanxi. *European Management Journal* Vol. 21, No. 4, pp 509-519.

National Bureau of Statistics 2008. *China Statistical Yearbook*, China Statistics Press.

- Oi J., 1999. *Rural China takes off: Institutional foundations of Economic Reform*, University of California Press.
- Parris K. 1993. Local Initiative and National Reform: the Wenzhou Model of Development. *China Quarterly* 134: 242-263.
- Qian, Y., 1999. "The institutional foundations of China's market transition." *World Bank's Annual Conference on Development Economics* Retrieved from <http://wwwecon.stanford.edu/faculty/workp/swp99011.pdf>
- Sato H. 2003. *The Growth of Market Relations in Post-Reform Rural China: A Micro-Analysis of Peasants, Migrants and Peasant Entrepreneurs*, (New York: Routledge Curzon).
- Scott and Storper M. (edited by,) 1992. *Pathways to industrialization and regional development*. Routledge.
- Sforzi F., 2002. Industrial districts and the 'new' Italian economic geography, *European Planning Studies*, Volume 10, Number 4, 1 June 2002 , pp. 439-447(9).
- Shi L., Ganne B., 2006. Understanding the Zhejiang industrial clusters: Questions and re evaluations International Workshop Asian industrial Clusters Lyon, 29th-30th November, 1st December
- Sonobe T., Hu D. and Otsuke K. 2004. From inferior to superior products: an inquiry into the Wenzhou model of industrial development in China, *Journal of Comparative Economics*, 32: 542–563.
- Skinner W. 1964. Marketing and Social Structure in Rural China, Part I and II, *The Journal of Asian Studies*, 24 (1): 3-43.
- Wang Z. 2006. The Economic Growth of China's Private Sector: A case of Study of Zhejiang Province, *China and World Economy*, 3(4): 109-120.

Wang Z., 2008. *The Private Sector and China's Market Development*, Chandos Asian Studies Series, Chandos Publishing.

Wang J., and Mei L., 2008. "Dynamics of Labour-Intensive Clusters in China: Relying Exclusively on Labour Costs or Cultivating Innovation?" ILO Working Papers, forthcoming.

Wank D. 1999. *Commodifying Communism*. Cambridge, Cambridge University Press.

Wellman B., Chen W. and Weizhen D. 2001. Networking guanxi, in Gold T., Guthrie D. and Wank D., *Social Networks in China: Institutions, Culture, and the Changing Nature of Guanxi*, (Cambridge: Cambridge University Press).

Yuan, P., B. Sun, and M. Zhang, 2004. "Institutional Transition, Improvement of Investment Environment, and Poverty Reduction: The Models of Sunan and Wenzhou." *Scaling Up Poverty Reduction: A Global Learning Process and Conference*. Retrieved from <http://info.worldbank.org/etools/docs/reducingpoverty/doc/48/file/GD%20Feb%203%20Mr.%20Yuan%20Presentation.ppt>.

Zhang, Z., C. To, and N. Cao, 2004. "How do Industry Cluster Success: A Case of Study in China's Textile and Apparel Industries." *Journal of Textile and Apparel, Technology and Management (JTATM)* 4 (2): 1-10.