

Wenzhou Model

Wēnzhōu Móshì 温州模式

Since the 1980s, business activity in and around the city of Wenzhou in Jiangsu Province has served as national model for economic development in China. The success of the model is due in large part to the traditions and spirit of the local people.

During the early stages of China's economic reforms (from 1979 to the mid-1980s), two distinctive regional development models emerged: the Wenzhou model and the Sunan model. The former is based on Wenzhou, a medium-sized coastal city in Zhejiang Province, where a market economy led by rapidly growing and vigorous private enterprises has helped the Wenzhou region to flourish economically. The latter is centered in Suzhou, a cultural and business center in the rich and populous Jiangsu Province, where collectively owned township enterprises with strong government backing has successfully generated business development.

Socialism versus Capitalism

The term *Wenzhou model* was first adopted in a special report by the *Jiefang Daily*, 12 May 1985, on Wenzhou's family industries. The report praised the Wenzhou model as an "eye-catching economic miracle" and "a

model that leads to the prosperity of vast rural areas." However, from the beginning, this model attracted severe criticism from many Communist Party and government leaders at the national and provincial levels. As such, it became a focal point of a heated political debate. According to these critics, the Sunan model followed the socialist development road, whereas the Wenzhou model tried to restore capitalism, which the government then tried to repress. The socialism versus capitalism (*xing she* or *xing zi*) dispute between these two models echoed the broader debate between continuing the state-planned economy or permitting market economy and private enterprises.

One of the main elements of this debate, as demonstrated in Wenzhou, was the problem of managing and regulating private enterprises. Wenzhou people refer to the 1980s and even the early 1990s as the period of primitive accumulation of capital. During this period Wenzhou businesses would do almost anything to turn a profit, leaving quality by the wayside. The lack of sufficient supervision and regulation of private businesses led to chaotic, fraudulent practices and suicidal competition, resulting in devastating damage to the private economy. For a long time, Wenzhou was synonymous with forgery and poor quality (*jia, mao, wei, lue*). At the same time, the government worried about social control and the political consequences of a flourishing private economy. The debate lasted until Deng Xiaoping's famous tour to several southern cities in 1992, which brought a new momentum to Wenzhou's private businesses.

Entrepreneurial Roots

Unlike other regions where the collectively owned village and township economy boomed before private enterprises developed, Wenzhou's economic development grew immediately in the late 1970s from an explosion of private enterprises. These small family-based operations, in small towns in the Wenzhou region, became the foundation of Wenzhou businesses. Around the late 1970s, Wenzhou had only 6,477 businesses: 302 state owned, 4,801 collectively owned, and 1,372 private enterprises (or 21 percent) at the village and township levels. By 1996 the total number had increased to 117,829 and, of these, 112,232 (or 95 percent) were private businesses. From 1979 to 2000, Wenzhou's economy grew at an average rate of 15 percent a year, and the total industrial output increased from ¥1.12 billion (about \$164 million) in 1978 to ¥203 billion (about \$20 billion) in 2001. By 2007 the private sector made up 99.5 percent of Wenzhou's total number of firms, 95.5 percent of its industrial value, 95 percent of its foreign trade revenue, and 80 percent of its tax revenue.

The distinctiveness of the Wenzhou model owes much to its unique historical tradition and to more recent economic developments that shaped its culture and the traits of its people. Today, Wenzhou spans over 11,784 square kilometers (about 4,550 square miles, slightly smaller than Connecticut) and is home to 7.7 million people (2007 estimate). Surrounded by mountains, it has very limited arable land. In 1978 one-third of the land was agricultural, and the per capita land tenure was only 0.53 mu (one-tenth of an acre). As a result, on the eve of Deng Xiaoping's reforms Wenzhou had a surplus of more than a million agricultural laborers. In addition, as Wenzhou is situated on the Taiwan Straits, the prereform government considered it a military front against Taiwan and thus too risky for infrastructural investments. Between 1949 and 1978, total state investment in building Wenzhou's infrastructure was less than ¥60 million (about \$9 million), only 15 percent the average national state investment in comparable cities. Thus, before 1978, the state-owned economy contributed only 36 percent to Wenzhou's industrial output value, far below the national average of 78 percent.

Wenzhou was called an ocean culture. Frequent migrations since ancient times, its dependence on ocean trade, and the lack of strong ties to any inland cultural centers nurtured an independent, diligent, creative, practical, and

adventurous society. Its cultural uniqueness dates back as early as the Tang (618–907 CE) and Song (960–1279) dynasties, when Wenzhou—then known as Ou or Yongjia—was a prosperous manufacturing and commercial port in southeast China. Far from the capitals of imperial dynasties, Wenzhou enjoyed a relatively isolated cultural environment. Against the mainstream of Confucianism, the Yongjia School during the Southern Song (1127–1279) and the Three Scholars of East Ou during the late Qing (1644–1912) were well known for their advocacy of business and economic development.

Since the late 1980s, the Wenzhou model has been characterized by family-operated, low-tech, low-capital, and labor-intensive enterprises. Products have been heavily concentrated in light industries, such as lighters, glasses, garments, shoes, and small electrical appliances. The products of these hundreds and thousands of crude workshops go on to national and international markets. The phrase “small products, big market” has become the trademark of the Wenzhou model. Millions of surplus agriculture laborers entered the nonagricultural production market, and the economic conditions of their families and the region as a whole have improved profoundly. In 1980 the average income of Wenzhou villagers was 15 percent below the national level. By the beginning of the twenty-first century, the average income of Wenzhou villagers had risen to twice that of the national level. During the early stages of China's economic reforms, the Wenzhou model helped break down old conceptions of economic development and demonstrated to other regions, especially lower Yangzi (Chang) delta regions, the potential gains of a market economy. Through the Wenzhou model, Zhejiang Province has become the “headquarters of the private economy” in China. In 2007 the total industrial output, retail value, and income from foreign trade of its private businesses ranked first in the nation.

Future Challenges

Yet this model faces serious challenges from economic globalization and China's membership in the World Trade Organization. Certain innate weaknesses of family-operated businesses, from leadership to managerial mechanisms, have hindered the model's advantages. Since the late 1990s, to thrive in the increasingly



A woman weaves blankets to sell. The increase of small, local enterprises exemplifies the Wenzhou model of economic growth. PHOTO BY JOAN LEBOLD COHEN.

competitive domestic and international markets, Wenzhou's private enterprises have reorganized swiftly into large limited liability corporations and shareholding corporations. The size of individual enterprises has enlarged significantly, and the industrial structure, capital composition, and managerial model have been substantially transformed.

The question arises whether these new developments, as promoted by the corporations and valued at ¥1 billion (about \$146 million), still represent the Wenzhou model. Wenzhou people believe it should. They consider the true spirit of the Wenzhou model to be people's creativity, sense of adventure and independence, diligence, and vision.

Qiusha MA

Further Reading

- Yuan Peng, Sun Boyuan, & Zhang Min. (2004). *Zhiu du zhuan xing, tou zi huan jing gai shan yu jian shao pin kung: Weng zhou mo shi he sun an mo shi de fa zhan jing yan* [The system transformation, improvement of invest environment and poverty alleviation: Development experience of Wenzhou model and Sunan model]. Retrieved January 10, 2007, from <http://www.worldbank.org.cn/Chinese/SME-case.pdf>
- Chen Junxian and Zhou Zengxing. (2003). *Weng zhou tan mi* [Understanding Wenzhou]. Beijing: People's Daily Publishing House.
- Ma, Quisha. (2006). *Corporatism vs. civil society. Non-governmental organizations in contemporary China*. London: Routledge.

