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## Business Associations in China: Two Regional Experiences

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**ABSTRACT** *This article compares different practices of business associations in two localities in China – Wuxi and Wenzhou – and examines the internal linkage between associational practices and patterns of economic development. In Wuxi, business associations are organised and run by government in a top-down approach, and serve as state corporatist instruments; while in Wenzhou, there emerged many grass-roots business associations initiated and governed by entrepreneurs from bottom-up, working for societal purposes. The distinctive associational practices in the two localities are linked with their local economic development patterns: government-led development in Wuxi versus entrepreneur-initiated development in Wenzhou. The article concludes that the growth of private entrepreneurship and the spread of market relations, together with the willingness of government to leave space to societal actors, are the primary conditions for autonomous, vibrant business associations to occur.*

**KEY WORDS:** Business associations, local development, China, civil society, state-society relations

In the past quarter of a century, scholars in the China field have paid much attention to business associations, expecting to find signs of new state-society relations resulting from market reform. The questions that arise about business associations revolve around where the initiative for their formation comes from; how much autonomy associations have from the state; to what extent they can represent the interest of their constituents; and so on (White et al., 1996). Answers to these questions fall into two basic views: statist perspectives that emphasise state initiative and see associations as instruments of the state, versus a societal view that highlights societal initiative and sees associations as new social organisations with the potential for expanding democracy.<sup>1</sup>

The statist view found the dominant role that the state played in establishing and running business associations represented a new instrument of control in the environment of market economies (see Pearson, 1994; Nevitt, 1996; Unger, 1996; and Foster, 2002). As Unger and Chan (1996: 107) argue, “The more the economy decentralizes, the more corporatist associations get established as substitute control mechanisms.” This view sees either no or very limited autonomy

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for these associations in representing the interests of their constituents. Considering the fact that associations are embedded in state agencies, Foster (2002: 42) thus calls them “appendages of government or Party Organizations.” Hence, it is considered naive to imagine any conflict between business associations and the state.

By contrast, the societal view captures business initiative in organising associations and predicts more positive roles for them in changing state-society relations that are favourable for future democracy. The search for civil society in contemporary China is driven by an expected link between civil society and democratisation (see White, 1993). As Whyte (1992: 79-80) observes, “To the extent that a civil society develops within a Leninist system, it will produce pressure on elites for democratic reforms.” Business associations are frequently identified as candidates to fulfil the function of civil society, because their constituents represent “new social forces” created by market reform. Business associations and their constituents are also seen to have resources that the state needs, and thus have special leverage in promoting political change (Pearson, 1997). Empirically, some scholars have found evidence that associations exhibit some societal initiative, enjoy certain autonomy, voice the interest of their members, and try to influence state policy (see White, 1993; Pearson, 1994). But few scholars are particularly assertive when they embrace the societal view of business associations.

There are a number of problems with existing studies. First, they are not comparative geographically. Most studies choose one site to observe and thus fail to capture any regional variation. This is particularly problematic for a country as heterogeneous as China. A case study might be able to identify underlying factors that cause the emergence and evolution of particular business associations, but it is difficult for a case study to prove causal linkages. Second, although some studies examine associations in a broader context (e.g., Foster, 2002), very few link them with the pattern of local economic development. This shortcoming is striking since local economic development denotes and also shapes state-society relations, and the strength and nature of entrepreneurial class, and thus constitutes an important context within which associations emerge and operate. Mills (1959: 6-7) suggests that only when we locate things in the “intersections of biography and history within society” can we better understand them. The same logic applies to business associations. Only when we adequately situate and contextualise business associations, can we comprehend their emergence, nature and functions.

My research, by contrast, compares strikingly different practices of business associations in two localities in China, and examines the internal linkage between associational practices and patterns of economic development. In one locale (Wuxi), business associations are organised and run by government in a top-down manner, and have shied away from allowing entrepreneurs a major role. In the other locale – Wenzhou – many grass-roots business associations initiated and governed by entrepreneurs emerged. The associations in Wenzhou are playing active roles in both the economic and political arenas. Put simply, business associations exemplify the statist scenario in Wuxi but the societal scenario in Wenzhou. The reason why the practices of business associations are so different in the two localities is linked with their patterns of development: government-led development in Wuxi versus

entrepreneur-initiated development in Wenzhou. This article argues that the growth of private entrepreneurship and the spread of market relations, together with the willingness of government to leave space to societal actors, are the primary conditions for autonomous business associations to develop.

As mentioned above, the criteria for judging associations include founding, governance, and function. Concretely, where did the initiative for associations to organise come from? How are the associations staffed and funded? How are they governed and who makes decisions? Does an association mainly serve the interests of state actors or the interests of societal actors? It is necessary to point out that in contemporary China, it is impossible to envision associations totally independent of government. According to the Management Regulations on the Registration of Social Organisations decreed in 1989, every social organisation is required to register through the Civil Affairs Bureau and to affiliate to a supervisory body, which is supposed to be responsible for the day-to-day affairs of its affiliated organisations. This is called the "dual management system." The regulation excludes the possibility of totally independent associations, if associations want to be legal. Therefore, the criteria of autonomy have to be modified. In this study, associations are regarded as autonomous if they are founded, funded and governed mainly by societal actors, and represent the interests of their constituents.

The article is organised as follows: it first compares different development patterns the two regions adopted after reform, setting the background for the development of associations; then it details the kind of association in each region (top-down associations in Wuxi and bottom-up associations in Wenzhou); finally, it draws conclusions about the social conditions under which bottom-up associations emerge. I spend more time on bottom-up associations in Wenzhou since this finding differs from most previous studies.

### **Wuxi and Wenzhou Compared**

In the late 1970s and early 1980s, decentralisation in China created opportunity for localities to take different paths based on resource endowments, government capacity and the like (Oi, 1992). There thus appeared many different local development patterns, among which Sunan (to which Wuxi belongs<sup>2</sup>) and Wenzhou are two prominent ones.

Both Wuxi and Wenzhou witnessed fast industrialisation and rapid development in the last two and half decades. Yet, the two regions followed strikingly different paths. Wuxi was characterised by the predominance of collectively owned enterprises (so-called township-village enterprises, or TVEs) and the active involvement of local governments in economic development until the late 1990s. In Wenzhou, private business has been prevalent from the beginning of the reform and private entrepreneurs have been the driving force for development. The agents of development were local governments in Wuxi and private entrepreneurs in Wenzhou. So Wuxi's pattern can be seen as government-led development while the Wenzhou development pattern is entrepreneur-initiated. In other words, Wuxi's early development was characterised by marketisation without privatisation, whilst Wenzhou's development witnesses both marketisation and privatisation.

*Government-led Development in Wuxi*

In Wuxi's government-led development pattern, also known as a local state corporatist pattern (see Oi, 1992), local governments aggressively acted as entrepreneurs in establishing and running enterprises in the 1980s and early 1990s. Oi (1992: 100) explains that "local governments have taken on many characteristics of a business corporation, with officials acting as the equivalent of a board of directors ..." adding that this "merger of state and economy characterizes a new institutional development" that Oi labels "local state corporatism."

The initial conditions for this arrangement include its high rate of collective accumulation from agriculture and relatively advanced industrial base in the socialist period, and a historical legacy of government involvement in economic and other spheres (see Whiting, 2001). The region was wealthy historically. With advanced agriculture and as one of the cradles of modern industry in China, together with its proximity to big industrial centres (especially Shanghai), Wuxi was in an advantageous position to industrialise. At the same time, resource concentration in the hands of governments meant that the state was always active in economic and other spheres. Such historical legacies, together with the new incentive created by the fiscal reform that pushed local governments to get revenues from local development, and the particular political-ideological atmosphere at the early stage of reform, drove rapid development of TVEs (Walder, 1995; Li, 2005).

The basic feature of this pattern is the merger of politics and economy (Oi, 1992). In other words, TVEs were not separate and autonomous economic entities from local governments. As de facto owners of enterprises, local governments had a say in decision making about resource allocation, investment, distribution of profits, management, and most critically, selection and appointment of managers (Byrd and Lin, 1990; Chen, 2000). Local governments also behave as coordinators between different enterprises under their supervision, transferring managerial personnel from one enterprise to another, and sometimes cross-subsidising each other. Meanwhile, local governments protected TVEs against the predation from upper levels of government. Under these circumstances, TVEs and their managers had limited autonomy and incentive to take initiatives in running enterprises and shaping their political environment (including organising associations).

At the same time, local governments in this region took various measures to restrict the development of private business. Barriers to private business included an inability to get necessary factor inputs such as land and bank loans and nor could they get licences.<sup>3</sup> The motives of local governments in restricting private business not only included their political and ideological traditionalism (since private business was not sanctioned by state policy at the time), but were also out of practical concerns, among which their fear of competition from private business was prominent. Simply, when private entrepreneurs get much higher income than TVE managers, few capable people would work for TVEs. Such policy restriction impeded the emergence and development of private entrepreneurs.

With deepening marketisation and competition nationwide, however, TVEs ran into difficulties in the middle 1990s (Li and Rozelle, 2003; Ho et al., 2000). Local governments then decided to privatise TVEs (Shi and Zhao, 2001; Zhang, 2005), beginning the process of separating TVEs from government. But with the strong

legacy of government involvement, local governments and officials still attempted to maintain their influence. And it also takes time for the entrepreneurial class to grow and to form its own interest groups.

Government-led development in Wuxi resulted in social conditions that are unfavourable to bottom-up, autonomous associations. First, a dominant government left little room for societal actors to organise. Second, the dominance of collective ownership and restriction of private economy hampered the growth of entrepreneurial class. Such a weak class has neither strong intention nor necessary capacity to act collectively.

### *Entrepreneur-initiated Development in Wenzhou*

By contrast, the Wenzhou pattern incorporates a prominent role for private business and entrepreneur-initiated development (see Nolan and Dong, 1990; Forster, 1990; Liu, 1992; Liu, 1992; Parris, 1993; Whiting, 2001; Yuan, 1987; Zhang and Li, 1990; Shi et al., 2002). Compared with Wuxi, this was a remote and poor region. As a frontline province on the Taiwan Strait, Wenzhou received negligible state investment after the CCP took power in 1949 due to possible war (Shan, 2000). Consequently, the state sector was small and the collective economy was weak. Local government thus had limited opportunity to extract and control surplus resources from society. According to official statistics, fiscal income per capita in Wenzhou in 1980 was only 30 yuan, about one-tenth of the 286 yuan in Wuxi (Wenzhou Statistic Yearbook, 2001; Wuxi Statistics Yearbook, 2000). Local governments could barely maintain their basic functions, let alone develop collectively-owned enterprises.

Under such circumstances, Wenzhou was forced to rely on people's initiatives for development. From the late Cultural Revolution period, Wenzhouese started to go out to seek opportunities or engage in underground industrial or commercial activities at home. Using Alan Liu's (1992) phrase, Wenzhou's success can be summarised by "three Ms" – mass initiatives, mobility, and markets. Mass initiatives – initiatives from the people or entrepreneurs – are the essential feature of Wenzhou's development. Governments only played supportive or supplementary roles such as issuing official documents, helping entrepreneurs to get licences, and so on.

Despite twists and turns due to political and ideological shifts, private business developed rapidly in Wenzhou. The number of private business grew significantly and the importance of the private sector in the local economy increased dramatically. In 2000, 120,555 out of 122,775 (98.2%) industrial enterprises were private.<sup>4</sup> In terms of total industrial output, the private sector accounted for 92.1%. In contrast with TVEs in Wuxi, private businesses in Wenzhou are independent and autonomous economic entities, and private entrepreneurs are emerging as an independent and autonomous social force.

Market orientation is another important feature of Wenzhou's development. Wenzhou's business and industry all grew out of a market environment. Market competition is the primary mechanism that guides production. Due to Wenzhou's limited industrial base, it developed its labour-intensive consumer products including shoes, garments, cigarette lighters, and glasses (spectacles) as the main industries. Success in such areas has seen others mimic them, and similar enterprises spring up. Consequently, there was a proliferation of hundreds or even thousands of firms

producing similar products within each industry. Small and medium enterprises are prevalent. Among 122,755 industrial firms in 2000, only 2,105 (about 1.7%) had sales exceeding five million yuan (Wenzhou Statistics Yearbook, 2001: 223-4). Such features, combined with imperfect market institutions and ineffective regulations at the early stage of market reform, caused intensive and even chaotic competition. Cut-throat competition, pirating, producing fake or low quality commodities (the so-called market failure problem) plagued Wenzhou's early development. All these conditions called for new organisations and new mechanisms to coordinate and manage production and competition.

Compared to Wuxi, entrepreneur-initiated development in Wenzhou created favourable social conditions for autonomous associations to develop. First, its vibrant private business and once chaotic competition called for new organisations. Second, its independent and strong business class had the capacity to take initiatives to organise collectively. Third, the historical legacy of "hands-off" government created space for these actors.

### **Top-down and Bottom-up Associations**

Different development patterns created different social space and imperatives for business associations to emerge. In Wuxi, associations manifest both state initiative and state will, while in Wenzhou they reflect a pattern of more independent and private initiatives where associations try to meet the needs of their constituents.

#### *Top-down Business Associations in Wuxi*

In Wuxi, the dominant type of business association is that organised in a top-down manner by various government offices and representing the will of government to incorporate societal forces. These associations are essentially government organised non-governmental organisations (GONGOs). While deepening market reform has seen a few entrepreneur-organised associations emerge in recent years (discussed below), they have been overshadowed by GONGOs. Government agencies organised these associations not on their own initiative or from local necessity, but mainly out of bureaucratic necessity; if the upper-levels of government have a particular organisational arrangement, then each subordinate level must have a similar arrangement.

Therefore, Wuxi has all of the main associations, including the Private Enterprises Association (PEA) and Self-Employed Labourers' Association (SELA), organised by Industry and Commerce Administration Bureau; trade associations within some industrial sectors (*hangye xiehui*), organised by Economic Commission; various levels of Chambers of Commerce, organised by the Federation of Industry and Commerce (FIC); recent Entrepreneurs' Associations, organised by local governments. PEA and SELA are government-organised associations nationwide and are thus rather homogeneous (Unger, 1996), but the other associations are more variable across regions, as we will see in Wenzhou case.

In Wuxi, although the functions of various business associations may differ, all share similar characteristics: they are government organised, funded and run organisations. When asked if there were any business associations initiated from below, a staff member in a county Industry and Commerce Administration Bureau

frankly expressed his surprise, stating that “associations must be organised by the government. Otherwise, how can the people organise associations?” (Interview in Wuxi, May 2002). Apparently, government officials consider grass-roots initiative unimaginable.

In addition, the heads and staff of associations are state officials, appointed and remunerated by the government. Take Wutao town as an example – not the real name of the town – where the director of the PEA is also the deputy director of the town’s Industry and Commerce Administration Bureau and the director of SELA is a low-ranking town government official. The Town Entrepreneurs’ Association, like other associations here, indicates government’s dominance. The town government organised the Association in 2003, and formed the governing body. A deputy town head was appointed as the director of the Association, and a town government employee was responsible for the day-to-day operation as its general secretary (*mishuzhang*). Some prominent entrepreneurs serve in the standing committee of the Association, but they regard it more as an honour rather than a real commitment to an association that represents their interests. The Association currently serves as an elite club without substantial functions. Its funds are derived from both the town government and membership fees. Like other associations, its establishment was a response to higher-level government’s requirement: “the district government asked us to do so,” said the deputy party secretary of the town. “In places like ours, it is still impossible for entrepreneurs to organise since they are used to following government. Government has to take initiatives” (Telephone interview, August 2004).

The official purpose of setting up these organisations involves corporatist intentions such as incorporating the new social forces into the existing system; mobilising business people to fulfil local development targets;<sup>5</sup> listening to their members’ concerns and solving problems for them; creating a channel through which members can communicate; and the like. But in reality, such purposes are not achieved effectively. As a matter of fact, local governments pay little attention to associations in Wuxi. Many officials see associations as secondary departments (*erbumen*), subordinated and inferior to other government departments or branches. Downplayed by government officials, even those heads and staff working in associations see their positions as marginal and try to move to more powerful and resourceful departments. Or more often, they were transferred from other government departments as surplus personnel during rounds of bureaucratic reform.

Entrepreneurs in Wuxi evidence an apathetic attitude toward associations. Almost all entrepreneurs I interviewed considered Wuxi’s business associations useless, and had little interest in participating. One entrepreneur expressed his view, “associations are useless. I would rather spend time playing mahjong than attending their activities” (interviews, September 2001 and May 2002). But close scrutiny does find different attitudes. Big and influential businessmen – most of them were former TVE managers – usually looked down upon associations since they have their personal means to reach officials and achieve their purposes. Such personal means came from their close relations with government officials and are a historical legacy of the merger of state and economy, and the current mutual interest between the two groups – businessmen need support from officials for stable social order, public security, and protection from predation of upper-level governments; officials need businessmen to help them realise the target of economic development (Wank, 1999).

By contrast, small and less influential businessmen do exhibit an intention to work with associations, hoping to get help and protection from them. But current official associations do not often meet their expectation.

In sum, predominant associations in Wuxi were organised by various government branches in a top-down process, following the administrative hierarchy. They are overlooked by government and turned away from entrepreneurs. Most of them have no vitality. Using Foster's word, those associations are embedded in government and serve as appendages to government.

#### *Bottom-up Business Associations in Wenzhou*

In contrast to Wuxi's government-organised associations, Wenzhou has a full spectrum of associations: from official government-organised associations such as SELA and PEA,<sup>6</sup> to semi-official associations, and independent associations (for a classification, see White, 1993). Compared to official associations, these semi-official and independent business associations are new types of organisation in China: they highlight societal initiative and serve their members' interests. Besides various economic functions, they have gradually begun to play some political roles. Their active role has even attracted national and international attention, as I will show below.

Semi-official business associations mainly include those trade associations within industry (*hangye xiehui*) that were originally organised by government with the support of entrepreneurs. Despite their semi-official status at the outset, these associations became more autonomous over time. For example, *Hangye xiehui* emerged around 1988 when both entrepreneurs and government recognised the necessity for Wenzhou to take action over its low-quality products. As mentioned above, the early stages of Wenzhou's development revealed serious problems with product quality and counterfeiting due to Wenzhou's poor industrial base and ineffective regulation. This led to consumer resistance. For example, Hangzhou publicly burned Wenzhou-made shoes in 1987; Wenzhou produced low-voltage power appliances that caused a number of accidents, resulting in a central government investigation of all enterprises in the industry in 1990 (Hu and Wu, 2002). Such problems hurt Wenzhou's reputation and damaged all enterprises. Some enterprises and entrepreneurs thus solicited government action. But government felt ill-prepared to act alone in dealing with numerous private businesses. It was under these circumstances that industry associations came into being. Economic regulative agencies, such as the Economic Commission, Industry and Commerce Administration Bureau, with the support of leading companies, organised associations to regulate the relevant industry. Some associations were granted certain regulatory rights. Entrepreneurs took an active part in running associations. The emergence and evolution of this type of association will be discussed below in the context of the Lighter Producers' Association.

Independent business associations mainly include trade associations within an industry, and entrepreneurs' associations based on locality across an industry (such as enterprises located in the same town or same county), that were organised and governed by entrepreneurs. Such trade associations were identified as *tongye gonghui* at the beginning changing to *tongye shanghui* (chambers of commerce) later on.



*Tongye gonghui* appeared around the same time period as *hangye xiehui* and out of similar motives. The Federation of Industry and Commerce (FIC) played a role in encouraging, assisting, and supervising the emergence and activities of such associations. But more often it was entrepreneurs who took initiatives to organise and then seek support and legitimacy from the FIC. As they have no official status, these associations do not have regulatory functions like semi-official associations. Their main function thus focuses on serving their member enterprises. In the discussion below, the Wenzhou Garment Chamber of Commerce will be used to illustrate this type of association.

As independent organisations, some entrepreneurs' associations have gained increased social recognition in recent years. In contrast with trade associations which focus on economic functions, entrepreneurs' associations have political roles, such as defending members' interests against government predation and the abuse of power and seeking group advantage. The Longgang Entrepreneurs' Association is an example that will be discussed further.<sup>7</sup>

In August 2002, there were 104 trade associations at the city level in Wenzhou (Chen et al., 2004). This number does not include those associations organised at county and township level.<sup>8</sup> Among the 104 associations, 22 were affiliated with the FIC; 31 were with the Economic Commission; others were affiliated with the organisations such as the Construction Bureau, the Science Commission and the Transportation Bureau. In general, associations affiliated with the FIC are all independent associations (*tongye gonghui*), while associations affiliated with other government branches were originally official or semi-official associations (*hangye xiehui*). Based on the research conducted by Chen and associates (2004: 142), among the 64 trade associations they studied, 24 were organised by private entrepreneurs, 15 were organised by leading firms in related industries, 24 were organised by the FIC or other government agencies with the involvement of entrepreneurs; only two were completely organised by government.

*The Lighter Producers' Association: a semi-official association.* The Lighter Producers' Association (*yanju xiehui*) was originally a semi-official association. Wenzhou's lighter industry started from the late 1980s. At the beginning, there were only four small enterprises in the industry. But soon after, numerous lighter factories were established and competition soared, resulting in ruthless price cutting, and product quality remained low. Some entrepreneurs were afraid that the industry would lose its market if these problems persisted, and they asked government to take action. The Lucheng district government was persuaded to launch a campaign to bring order to the industry. The Lighter Producers' Association was established to assist government remedial action and regulation of the industry. It is clear that the formation of the Association reflected the "dual impetus" of business and government. Due to its semi-official status, membership of the Association was made compulsory.

After the government's initial campaign, the Association continued to exist to regulate the industry and coordinate competition. To make the Association more effective, the government (suggested by the district government and approved by the city government) granted four administrative rights to the Association: pre-screening licence applications (effectively, acting as a gate keeper), quality control, setting the lowest price in the industry, and protecting the intellectual property rights of

member enterprises. Among these functions, the last is the most effective and most interesting. The main intellectual property rights in this industry are about the exterior design of the lighter, which is easy for others to pirate. The Association worked out an efficient and effective way to pursue such a patent-like task. According to the Association's "Code of Conduct" and "Measures to Protect Members' Rights," any member enterprise that wants to apply for protection must submit a sample of a new design to the Association. If the design is accepted as a new design, the Association will post an advertisement in the local *Wenzhou Evening News* newspaper, with the enterprise receiving a certificate at the same time. Then the enterprise has the exclusive right to use the design for six months. If other enterprises are found to have copied the design, their models and equipment will be destroyed, and copied products confiscated. For those who violate seriously or frequently, the Association will request the Industry and Commerce Administration Bureau to suspend or even invalidate their licences. In the ten years to November 2001, the Association granted 887 exclusive rights to member enterprises. State officials at the Patent Bureau appraised this innovation, viewing it as "an effective complement to the Patent Law," since it saves both time and money (interview in Wenzhou, November 2001).

The Association has also played an important role in winning a trade dispute with the EU, thus gaining a nationwide reputation thereafter. In June 2002, the EU decided to investigate dumping charges against Chinese-made cigarette lighters. The impact on Wenzhou was potentially most serious since the city was the main lighter exporter – at the time, the city exported more than 500 million lighters to the EU annually. Confronted by this issue, the Lighter Producers' Association and several leading entrepreneurs in the industry went to the city government for assistance. But the city government declined their request bluntly, "It is inappropriate for government to be involved. Those who benefit should be those who contribute [money to counter the EU action]." The Lighter Producers' Association and leading companies therefore had to shoulder the whole responsibility, such as collecting contributions from member enterprises, finding lawyers, lobbying the EU, and so on. The director of the Association, Li Jian, himself a well-known entrepreneur in the industry, went to Hangzhou and Beijing many times to consult experts and state officials. Together with their legal experts, Li Jian and other association leaders went to the EU to lobby relevant organisations and officials. The EU also sent officials to Wenzhou in late 2002 to investigate Wenzhou companies, their trade practices and the role of government subsidies. According to Association leaders, these EU officials were impressed by Wenzhou companies. In July 2003, the European Lighter Producers' Federation, which had accused China of unfair trade, withdrew its litigation and the EU terminated the investigation. The Association had thus enhanced its reputation on the international stage. In all subsequent trade disputes, the Association played a critical role.

Though the Association was originally a semi-official organisation, it has become more autonomous over time (see also Zhu, 2003). The Association proclaims that it practises the principles of "self discipline, self governance, and self funding" to fulfil its purposes of "self service, self coordination, and self supervision." Its response to the EU anti-dumping case demonstrates its relatively independent character especially when the overwhelming involvement of government in economic life in

China is considered. Though the secretary-general of the Association was from Lucheng District Economic Commission, he receives his salary from the Association. All of the directors and deputy directors are entrepreneurs in the industry, and the Association raises all its own funds and makes its own decisions. There appear to be three reasons for the Association's autonomy. First, the government does not have the administrative capacity to undertake this regulatory work, and views the Association as shouldering the cost of the regulatory burden. Second, the Wenzhou state is situated in a highly marketised environment and is used to taking a hands-off approach in economic development. Third, officials view the Association as a helping hand rather than a challenge to government.

*Wenzhou Garment Chamber of Commerce: an independent business association.* The Wenzhou Garment Chamber of Commerce (*Wenzhou fuzhang shanghui*) is a purely independent organisation, initiated by private entrepreneurs, although it has been affiliated with the official Wenzhou Chamber of Commerce/Federation of Industry and Commerce as this is a requirement under the current state regulation of social organisations.<sup>9</sup>

The Chamber was founded in 1994. According to Liu Songfu, one of the initial organisers and who served two terms as the director of the Chamber, the main motivation for organising the Chamber, was to raise the quality of the garment industry in Wenzhou (interview in Wenzhou, October 2001). The garment industry in Wenzhou started with primitive technology and could only produce low-quality garments. This worried some entrepreneurs who were concerned that Wenzhou's garment industry would be seriously damaged if quality could not be improved. This led them to consider establishing an organisation to promote improvements for the whole industry and to self-regulate the industry. Since Liu's enterprise was relatively famous at that time and he was also a standing member of the FIC, he became the first head of the Association. The Garment Chamber of Commerce was thus born.

As expected, raising product quality became the priority of the Chamber. The measures they took included setting up a quality-testing centre, training, distributing information, seeking cooperation with manufacturers outside Wenzhou and developing research institutes. In cooperation with some government agencies, the Chamber received the right to grant technical certificates to fashion designers and technical workers in the industry. It organised several sub-committees, offering technical assistance and expert advice to member enterprises. The Chamber did attempt to regulate the mobility of skilled workers in the industry, but this had little effect.

With the growth of the industry, the Chamber became more ambitious, and as well as serving its member enterprises, it aims to promote Wenzhou's garment industry as a national brand. The Chamber has organised several garment exhibitions both in Wenzhou and nationwide and aggressively encourages members to attend national and international garment exhibitions. In the past several years, the Chamber, working closely with the city government, has been lobbying national authorities to have Wenzhou recognised as "China's Garment Capital." These activities raised the reputation of Wenzhou garments and promoted the local garment industry. The total sales of the industry rose from less than two billion yuan in 1993 (before the Association appeared) to more than 30 billion in 2002.

As a private business organisation, the Chamber enjoys full autonomy: members join voluntarily, leaders are elected, staff are all hired by the Chamber, it is self-funding, and enjoys self-governance. The Chamber has established fairly democratic rules to choose its governing body: members elect the board of directors; then the board of directors elects standing members; and then standing members elect the director and deputy directors. The heads of its ten sub-committees are all chosen by election. These rules are borne out in practice. For example, the election in 2000 was very competitive. Three candidates, including the incumbent director and two prominent entrepreneurs in the industry, joined the race competing to lead the Chamber. Each candidate gave a speech in the member convention. One candidate, who promised to contribute much of his time, money and energy to the Chamber, won the race.

All staff members, including the secretary-general, are hired on contracts. In 2002, the Chamber hired seven full-time staff who took charge of various work such as organising exhibitions, collecting and distributing information and so on. The Chamber rented three rooms in the building of Wenzhou Chamber of Commerce as its office space.

The Wenzhou Garment Chamber of Commerce receives its funding from non-governmental sources. In 2001, for example, the Chamber got about 500,000 yuan from member fees, 500,000 yuan from donations (among which the director donated 200,000) and 1,080,000 yuan from organising the Wenzhou garment fair. It became the wealthiest and most influential association in Wenzhou.

*Longgang Entrepreneurs' Association: increasing political influence.* Unlike trade associations within a certain sector or industry, entrepreneurs' associations are organised by prominent entrepreneurs in one locale. Due to their cross-sectoral and elite features, entrepreneurs' associations assume more political functions, resembling interest groups and pressure groups in the West. Because of the economic importance of their members, the status of entrepreneurs' associations has gained wide recognition in recent years. Some informants told me that in some places, entrepreneurs' associations have been playing such important roles that they are like the "fifth branch of government," after the Party, government, People's Congress, and People's Political Consultative Conference. In Wenzhou, these associations are well represented: at the town – the Longgang Entrepreneurs' Association (*Longgang qiyejia xiehui*); the county – the Pingyang Entrepreneurs' Association; and the city – the Wenzhou Entrepreneurs' Association. Here I will take the first as an example for discussion.

The Longgang Entrepreneurs' Association was established in 1996 by several prominent entrepreneurs in Longgang Town. By mid-2001 it had 122 members, all of whom were relatively big businessmen in the town. The Association originally set a high bar to maintain an elite status: only those enterprises whose total annual sales exceeded five million yuan were eligible for membership. But, as increasing numbers of enterprises wanted to join, the Association loosened this restriction.

The Association is a voluntary, self-funded and self-governing organisation of entrepreneurs. It has made it clear that it would be for entrepreneurs, to serve their interests, address their concerns, and protect their rights. Due to the transitional feature of China's economy, entrepreneurs still depend on various levels of

government in many ways, including access to critical resources such as land, accessing business opportunities, and so on. On the other hand, government is not always accountable and the abuse of power by government officials is not uncommon. This situation creates uncertainty for businesses (Zhang and Zhang, 2005). Entrepreneurs thus have a strong interest in collectively pushing for better government service and to seek advantages. This is the purpose of the clientelist practices identified by Wank (1999). Longgang Entrepreneurs' association serves such needs. To achieve these purposes, the Association has attempted to bring government officials and entrepreneurs together. The Association invited key local government officials to be its honorary directors, deputy directors, and consultants. In 1999, 27 officials, including the town party secretary, the town head, the director of the Tax Bureau, the director of the Industry and Commerce Administration Bureau, and heads of other important government branches, were all invited to sit on its advisory board.

The Association also routinely brought government officials to participate in the Association's activities. Since late 1999, member enterprises have been taking turns to host monthly banquets, inviting government officials to address their concerns and solve their problems. This close relationship between the Association's member enterprises and government officials has brought benefits. For example, it was through the effort of the Association that the Public Security Bureau assigned its middle-ranking officials as liaison persons to 36 key enterprises on a one-to-one basis. These liaison persons were responsible for solving problems and responding to the needs of their contacted enterprises. These practices have caused government officials to address many of the concerns of member enterprises. Of course, this also furthers the group advantage of member enterprises and consolidated their elite status through perceived collusion with officials.

In the past several years, the Association built its reputation on solving problems and defending the interests of its member enterprises. Such problems ranged from collective concerns to individual troubles. For instance, the Association voiced its members' dissatisfaction to the town government about construction delays on a new industry park and successfully pressed the town government to lower the land price of the new industry park; it petitioned the Tax Bureau to avoid repetitive tax investigation; and it complained about the inactive Environment Protection Bureau that only collected fees without protecting the environment. The following two examples highlight its role in defending its members' interests.

The Association worked to press the county authorities to return overcharged fees. The county Finance Bureau had regularly charged local enterprises a management fee. Though higher authorities had several times ordered this rate be reduced, the county Finance Bureau continued to collect fees based at higher rates. The Association, led by a deputy director, brought the relevant documents on state regulations and ordinances to the county government and requested that the county government return the overcharged fees. Persuaded by the evidence of the association, the county government finally accepted the request. The Association also negotiated with the Tax Bureau to lower the tax rate for the textile industry from 3% to 2% of profits.

The Association has also assisted member enterprises in dealing with the government on issues of justice. A telling example occurred in October 2000, when

a worker from a printing company went to Longgang to conduct business and was intercepted by government employees of Bacaos (town) Industry and Commerce Administration Agency, who demanded to see relevant documents and permits. It happened that the worker did not bring those documents and the two sides argued, resulting in the worker being beaten badly. This incident irritated entrepreneurs and the leaders of the Association immediately went to investigate. In an action that looked like a protest, they drove 12 cars to demonstrate their strength and solidarity. Later, they petitioned the relevant government authorities. Under this pressure, the government employees were detained and punished.

From 2002, the Association took further steps to promote its members' interests, with the director and deputy directors taking turns to be on duty to answer members' calls and help them to solve problems. The secretary-general of the Association, previously a head of the town People's Congress and a delegate to Wenzhou People's Congress, spent most of his time dealing with members' complaints and negotiating with various government agencies.

The work of the Association has been effective and this has won it recognition. Seeing the great influence of the Association and the solidarity of its members, some government departments became very cautious when taking actions against member enterprises. Sometimes they will consult the Association beforehand. The result is that the Association can be seen as becoming a potential interest and pressure group in local politics.

#### *General Features and Functions of Business Associations in Wenzhou*

The examples cited indicate that business associations in Wenzhou share three characteristics. First, non-governmental initiative, organised from the bottom-up, played a critical role in the emergence and evolution of the associations. Even semi-official associations involved initiatives by entrepreneurs, as in the case of the Lighter Producers' Association.

Second, these associations were organised according to market principles (contractual and horizontal) rather than hierarchical, administrative principles. Membership is voluntary, and members are free to join or quit; this results in great pressure for associations to serve their members' interests.<sup>10</sup>

Third, the associations are self-funded and self-governed entities, enjoying considerable autonomy. Using Hirst's (1994) concept, these associations are, to certain extent, practising "associative democracy." Their self-governance can be demonstrated in their sources of funding, the way they choose leaders, and their decision making. In terms of funding, a large proportion comes from associations themselves rather than government, as illustrated by the case of the Wenzhou Garment Chamber of Commerce. In the survey by Chen and colleagues (2004: 150) it was shown that only 4% of funding was from government, with the rest from membership fees (63%), donations by association leaders (17%), service income (1%), and other sources (15%). A spirit of self-governance is demonstrated when choosing leaders. Most associations choose their leaders by elections. Among the 64 associations Chen and colleagues (2004: 146) studied, only one stated that its director was appointed by a supervisory government unit; 19 associations answered that their leaders were nominated by supervisory government unit, but elected by

member enterprises or standing committees; and 44 associations answered that their leaders were elected by member enterprises without government intervention. Most associations make decisions autonomously. Most associations establish their own rules for, and their areas of, decision-making and usually government does not meddle with the internal affairs of associations. Indeed, even when an association seeks government help, government may be reluctant to become involved.

As intermediate organisations, these business associations function as bridges between member enterprises, the market and government. Associations play a number of roles. The first is to serve their members. Most associations hire legal consultants, offer legal advice, hold training programmes, help members improve their technical and marketing skills; organise technical consultant committees, providing technical and managerial assistance; and collect and distribute information. Almost all associations have their own journals or newspapers, keeping their members abreast of policies, market and technological information, and sharing experience in business management.

Second, associations self-regulate and encourage cooperation among members. Atomised enterprises are vulnerable to unfair competition. This is especially true in Wenzhou because of its concentrated industrial structure and intense competition. Thus, seeking ways to manage the collective interest of all enterprises becomes necessary. Associations attempt to satisfy this need by initiating ways to protect intellectual property rights, monitor product quality, and arbitrate disputes among members. The Lighter Producers' Association is an excellent example of protecting members' intellectual property rights. Other associations including the Wenzhou Lights Producers' Association, the Yongjia Button Manufacturers' Association, and many others have played similar roles. Third, all associations engage in quality control activities. Like the Wenzhou Garment Chamber of Commerce, many associations try to raise standards. For example, the Lighter Producers' Association, Light Producers' Association, and Glasses Producers' Association, together with relevant government agencies and other technical institutions, have established quality testing centres, offering testing services to member enterprises. The Garment Chamber of Commerce, Furniture Manufacturers' Association invites experts from national or provincial institutes to give guidance to member enterprises.

Third, the arbitration of disputes among members is another important role taken on by associations. Because of their technical specialism and intermediate status, associations usually successfully mediate disputes. For instance, the Ouhai Leather Suppliers' Association has established two arbitration committees, one for disputes in transactions and the other for disputes in production. In the past several years, it has resolved hundreds of disputes independently or by providing assistance to the courts. In 1996 alone, it resolved 112 disputes. Its successes not only helped it win an excellent reputation among enterprises, but the state recognised it, with the Ouhai District court inviting two deputy directors to act as consultants.

Fourth, the associations promote the industries they represent. As shown in the case of the Garment Chamber of Commerce, many associations work hard to promote their industries. This involves organising exhibitions, leading their members to participate in national or international events, fostering international exchange, and gaining access to foreign markets. This developmental role has gained enthusiastic support from the government.

Fifth, the associations assist the government to regulate business. In contemporary China, governments are still the major regulatory bodies in the economy. But governments often feel incapable of regulating effectively due to the increasingly marketised environment and the growing private sector. Therefore, governments are often happy if associations can offer help. And associations are also willing to offer such help as this enhances their reputation and grants them access to the administrative resources of the government. Many associations in Wenzhou, especially official and semi-official associations, have assumed a number of regulatory and informational functions that have previously been the prerogative of government agencies. At the same time, due to the increasing influence of associations, many government agencies now seek the assistance of associations in carrying out regulatory responsibilities and improving policy implementation. Examples include: the Tax Bureau asking associations to help evaluate appropriate tax liabilities of enterprises (especially small businesses); the Statistics Bureau consulting associations to gain a clearer picture of the real situation of the industries they represent; the Environmental Protection Bureau asking associations to participate in environmental monitoring. This function supplements the capacity of public authorities to solve public problems.

Finally, the associations defend members' interests and consult with government on policy making. Compared with the functions noted above, this is a political function, and associations do act as intermediaries between their members and the government, voicing their members' concerns and defending their members' rights and interests. In 2000, Lucheng district's Bureau of Industry and Commerce Administration investigated, searched, and fined a number of glasses factories, accusing them of not having the CE certificates.<sup>11</sup> The Bureau ordered the factories to stop production and obtain certificates, thus seriously disrupting production. The Glasses Producers' Association, led by the leading entrepreneurs in the industry, visited the Wenzhou city government, the Lucheng district government and other relevant government agencies seeking help. Since the glasses industry is one of the most important industries contributing to exports, the Wenzhou city government finally brought pressure on the Industry and Commerce Administration Bureau. The Bureau, though carrying out its own duty by investigating, had to heed the city government. The investigation ended quietly. The different stances of the Bureau and the city government actually reflect their different bureaucratic positions and interests; the former is supervised vertically and is supposed to represent the central government; while the latter is more concerned about local economic development. However, except for a few associations – and most especially the powerful entrepreneurs' associations – defending members' rights is still a minor and difficult element of most associations' work. In contrast, policy consultation with government has no such embarrassing complexity. The Food Suppliers' Association carried out an investigation about the grain market in 1999, and wrote a report to the city government. The report received attention from the mayor, and problems outlined were solved quickly. With increasing numbers of association leaders serving in the People's Congress or People's Political Consultative Conference, it has become common for associations to voice concerns to government.

Overall, the main function of trade associations remains economic, and the "market dynamic" remains dominant (White et al., 1996). By contrast,



entrepreneurs' associations manifest an increasingly political dynamic, coming to resemble interest and pressure groups and are becoming significant in the local economy and politics.

### **Relationships between Associations and Government**

As explained above, Wenzhou's associations are voluntary, representative, and autonomous. At the same time, relationships between associations and government are intricate. In general, a two-fold relationship can be observed. At one level, both sides have mutual interests and thus share an intention to come closer to each other. This develops collusion between the emerging entrepreneurial class and the state. Such collusion is understandable given the overwhelming state power and China's gradualist approach to reform. Entrepreneurs are more likely to engage with government officials to seek to protect their interests, and/or try to seek individual or group advantages rather than to challenge government. At the same time, as some scholars have observed, confrontation and conflict between business and government also occurs (see Ostergaard, 1989; Gold, 1990). Some associations have begun to put pressure on government, both directly and indirectly. In brief, both mutual attraction/collusion and conflict exist between associations and government.

In examining shared interests and mutual attraction, as already observed, both government and business associations are motivated to cooperate to manage the market. The proliferation of private enterprises and the intensification of market competition created crucial problems of economic coordination and government regulation. Old forms of coordination and regulation under command economy have proved inappropriate and ineffective. Thus, both state actors and market actors need to find new and effective ways of regulation and coordination. It is under these circumstances that associations (especially trade associations) became a collective response and institutional answer for both sets of actors.

Occupying the niche between enterprises, market and government, associations serve as bridges that link the three entities. Associations transmit government policies and rules to members and pass on grass-roots business opinion to assist the government to regulate enterprises and to help members to gain access to the state. As explained, they also regulate their sector of the market, manage competition, and unite members to respond to market challenges.

With shared interests, associations and government attempt to attract each other. Government agencies and officials find associations useful as an instrument to regulate and control the market economy, to promote the Wenzhou economy, and as a means to gain access to the wealth and power of the new entrepreneurs who are members of business associations.<sup>12</sup> Associations also want a powerful government patron in order to have access to political and administrative resources. For example, the Wenzhou Economic Commission wanted to use associations as a means to control relevant industries, and attempted to persuade some associations to shift their affiliation to the Commission. Some associations did try to switch affiliation, seeing the Commission as more powerful and resourceful than the FIC. This effort failed largely because the head of the FIC had a higher political status as the vice chairman of the city's People's Political Consultative Conference and he successfully prevented such a move (interview, FIC, Wenzhou, June 2002).

Association leaders mention that it is important to keep good relations with government, since government is still the most important source of power, resources and legitimacy in today's China.

At the same time, associations pose some challenges for the state. As representative of business interests, associations attempt to defend the rights and interests of members against government predation and the abuse of power. They also push for improved government performance and urge officials to abide by the law. This has an impact. According to an informant in the Longgang Local Tax Bureau, the Bureau had to be cautious when investigating enterprises that are members of the Entrepreneurs' Association. If the Bureau's officials did not have solid evidence or behaved improperly, there would be complaints from the Association (interview in Wenzhou, June 2002). Such pressures directly demand that government rationalise its bureaucracy and operations, and encourage the development of the rule of law.

Associations in Wenzhou may indirectly come into conflict with government and even promote future democratisation. In a recent review article, Fung (2003) summarises the contributions associations make to democracy, including: the intrinsic value of associative life; fostering civil virtues and teaching political skills; offering resistance to power and checking government; improving the quality and equality of representation; facilitating public deliberation; and creating opportunities for citizens and groups to participate directly in governance. In Wenzhou, associations more or less fulfil the functions noted by Fung. Here, however, I summarise these into three categories drawn directly from Wenzhou's experience and the words of some informants.

First, the emergence of autonomous associations challenges the current organisational principle of government. Associations, being self-organised, self-funded, and self-governed entities, establish an autonomous arena in which entrepreneurs govern their own collective affairs. This phenomenon directs people's attention to an intermediate realm of organisational growth outside the realm of state-organised politics (see White et al., 1996). Due to different organisational principles and working styles, clashes between associations and their official supervisory bodies are seen. Staff in several associations expressed their frustration with their supervisory body, the Federation of Industry and Commerce. Accustomed to a new marketised way of working, the associations are increasingly dissatisfied with the inefficiency, bureaucratism, and arrogance of government supervisors. This clash is particularly acute when they work in the same building.

Second, associations are identified as "schools for democracy, at least for business people."<sup>13</sup> Leaders of associations are elected through a democratic procedure, and some elections have been highly competitive, as the case of Wenzhou Garment of Chamber. This way of choosing leaders provides important learning opportunities for entrepreneurs, teaching them necessary skills for political action (organising, running meetings, making speeches, lobbying, and so on). These practices are significant for a country such as China that does not have a history of democratic experience and they may help to lay a foundation for future democratisation. Of course, business associations are an arena of elite experience and also permit some entrepreneurs to pursue personal power and reputations. But this does not negate the argument that associations can be an incubator for democratisation.

Third, associations have the potential to evolve into interest and pressure groups. Associations provide channels of communication, foster horizontal links between entrepreneurs, improve flows of information, cultivate bonds of commonality, nurture a sense of group interest and identity, and sharpen the awareness of business people as tax payers. For example, one leader of the Longgang Entrepreneurs' Association expressed a members' perspective, stating, "We are tax-payers. We are not criminals. We deserve better treatment from government" (interview, Wenzhou, June 2002). Recognising the strength of collective action in defending interests, entrepreneurs indicate solidarity, which reinforces associations as interest and pressure groups.

### **Concluding Remarks**

The differing practices of business associations in Wuxi and Wenzhou are the social-political consequences of different development patterns over several decades. The development of TVEs in Wuxi, with the dominant role of local governments, hindered the growth of independent entrepreneurship and the deepening of market relations, and thus limited the space for, and deterred the emergence of, societal organisations. By contrast, Wenzhou's development, underpinned by the initiative of private entrepreneurs and the rapid growth of private business gave rise to the appearance of a new social force and changing state-society relations. By comparing the different socio-economic contexts and analysing the development of business associations in the two localities, we can conclude that the growth of the private sector and the spread of market relations, together with the willingness of government to leave space to societal actors, are critical structural requisites for bottom-up organisations.

Concretely, this development requires the following four conditions. First, the state has to be willing to allow space for entrepreneurs to organise. This space has been created everywhere in China following the economic reforms, but there is immense variation across regions, dependent on the role local government has chosen to play in economic development and the space it allows societal actors (Baum and Shevchenko, 1999). In a similar vein, an interventionist and dominant government is more likely to seek to control associations, resulting in corporatist practices or downplaying the role of associations. Where local governments play a limited role in local economic development and other affairs, grass-roots initiatives are more likely. Of course, what kind of role local governments played in economic development is often not a matter of choice, but an outcome of historical legacies and resource endowments.

Second, and related to the first condition, the quality of the entrepreneurial class is significant. If entrepreneurs are not independent from government, or if they continuously rely on the government for coordination and help, they have neither capacity nor the motivation to adopt new ways to govern and coordinate business communities. Evidently, the development of TVEs did not create an independent entrepreneurial class that could act independently. Even so, as private business develops further, entrepreneurs appear to develop some capacity for relatively independent action. Wenzhou's self-reliant development nurtured an independent entrepreneurial class with both the capacity and the motivation to organise.

Third, the critical space required for the emergence and operation of associations appears to expand as market relations take root. Over time, individual enterprises become aware of collective needs to deal with the challenges of market and state. Trade associations sprang up and became strong in Wenzhou where the market economy developed earlier and more deeply than elsewhere. Further, Wenzhou's concentrated industrial structure and intense competition also contributed.

Fourth, leadership is important. If the above three conditions are structural, then leadership is a relatively random factor. The evidence seems to be that a strong and committed leadership is a necessary condition for associations to emerge and operate effectively. Almost all industries in Wenzhou are highly competitive, but it appears to be leadership that differentiates the effectiveness of associations across industries. The Wenzhou Garment Chamber of Commerce is a good example, with its founder devoting so much time and energy to the Chamber that his own business failed (interview in Wenzhou, November 2001). The leader who replaced him in 2000, through a competitive election, was also a prominent and successful entrepreneur, and highly committed to the Chamber. Among the many qualities required of leaders are a good reputation in the industry and locality and a willingness to serve.

Is Wenzhou's experience too special to be generalisable? It is true that Wenzhou's experience is special in China, but it is nonetheless not unique. Many places in Zhejiang, Fujian and Guangdong provinces have also witnessed similar development of business associations, though they are not as prominent as Wenzhou. The common features these provinces share are that they have relatively developed private business with well-developed market relations.

Thus, we may predict that the further growth of the entrepreneurial class and the deepening of market relations will increase opportunities for the development of business associations. This may well mean a loosening of government control and regulation, at least for business. In fact, recent developments in Wuxi tend to offer support for this prediction. From the mid-1990s, Wuxi's economy changed dramatically. TVEs were privatised, private business was encouraged, and the reform of SOEs accelerated. As a result, the previous bond between government and enterprises has loosened and a relatively autonomous entrepreneurial class is growing, with intensifying market competition. Under such conditions, some business-organised associations have emerged since 1998, and by 2002, there were 18 business associations in Wuxi citywide, among which most are trade associations within industry (interviews with FIC officials, Wuxi, May 2002). They now function similarly to trade associations in Wenzhou, mainly managing competition within their industries.

We can also suggest that business associations will play a more significant political role in China's future while the current conditions remain. Wenzhou's experience suggests that the entrepreneurial class will become more assertive over time, seeking to protect its own interests, and thus making associations potential vehicles for interest and pressure group politics. Of course, these processes do not necessarily presage a clash or conflict between business elites and government. Instead, the relationship between these two sides will go forward characterised by mutual attraction, accommodation, interest and, perhaps, sporadic conflict.

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## Notes

- <sup>1</sup> I use "statist" versus "societal" instead of "corporatist" versus "civil society," because some scholars doubt the appropriateness of using the latter framework in the Chinese context (see Forster, 1990).
- <sup>2</sup> Sunan, literally southern Jiangsu province, includes Suzhou, Wuxi, and Changzhou. These three prefectures follow the similar pattern of development in the last several decades. Sunan was very famous for its TVE miracle in the 1980s and early 1990s (Zhou and Zhou, 1996). Only Wuxi was a site for my work.
- <sup>3</sup> Of course, some private businesses did emerge in this region, but they had to get approval from local government and register as collective enterprises. These enterprises were called "red-hats" or "fake collectives" (Zhou, 1996).
- <sup>4</sup> Several categories in the official statistics are essentially private, including shareholder cooperatives, limited liability companies, shareholder companies, private business, and self-employed industrial and commercial households.
- <sup>5</sup> The cadre evaluation system is a strong institution in this region. Each level of government is subject to certain development targets every year, issued from its upper-level government. Such institution affects the behaviour of local cadres (Whiting, 2001).
- <sup>6</sup> According to Parris's (1993) documentation, official associations in Wenzhou are not so different from other places. When conducting fieldwork I heard considerable criticism of SELA and PEA from entrepreneurs, and some entrepreneurs even publicly called for their abolition. However, it is clear that official associations do not have the significance of the private associations; this is why I pay more attention to the latter.
- <sup>7</sup> In total, since 1995, Wenzhou business people have organised 102 Wenzhou Chambers of Commerce in other cities, such as Kunming and Chengdu, to protect their interests (Chen et al., 2004). It is well known that, even before reform began, Wenzhou people have migrated all over China seeking opportunities. Nowadays, Wenzhou business people are numerous and influential in many cities. These associations are apparently independent. I do not discuss them in this article, since the focus is the link between the pattern of local economic development and the practices of business associations.
- <sup>8</sup> There is a hierarchy among associations based on the level of government organisations with which they are affiliated. In Wenzhou, there are city-level associations, county-level associations, and town-level associations. The number here only gives city-level associations.
- <sup>9</sup> The Chamber of Commerce and the Federation of Industry and Commerce were actually one organisation with two titles. The former name reflects its non-governmental character, while the latter reflects its official status as a united front organisation. Recently, the two have started to separate. A well-known entrepreneur replaced the previous government official to become the head of the Chamber of Commerce.
- <sup>10</sup> The semi-official associations began with compulsory membership. But it was difficult to achieve complete coverage of the industry since there were numerous enterprises and most of them were small. And governments did not have effective ways to punish those enterprises that did not participate. Under such circumstances, membership later became voluntary. Of course, low coverage of membership in industries causes difficulty for effective regulation and coordination since non-members do not obey the rules set by associations.
- <sup>11</sup> CE (*Conformité Européenne*) certificates are a security measure required by the European Union and applies to products regulated by certain European health, safety and environmental protection legislation.

<sup>12</sup> In interviews, some officials frankly expressed the idea that associations are a good way to get to know entrepreneurs.

<sup>13</sup> The term used – “school for democracy” – comes from a conversation with Zhang Renshou, a Wenzhou expert. He used this term when discussing the functions of business associations in Wenzhou. Others have recognised the role of associations in promoting democracy (see Chen et al., 2004).

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