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**THE ADAPTATION AND ADVANCEMENT OF THE  
INTERNATIONAL INDUSTRIAL DISTRICT MODEL IN WENZHOU  
A CASE STUDY OF THE FOOTWEAR INDUSTRY**

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## **ABSTRACT**

This case study aims to dissect the world famous Wenzhou footwear manufacturing industry in order to discover how, if at all, the case complies with an industrial organisation framework, namely the industrial district model, which is becoming more and more prevalent in less developed countries (LDCs).

In order to examine the extent to which the industrial district model may have developed and advanced in Wenzhou's footwear industry, I aim to explore whether the typical features of the international model are present in the industry's structure, and if so, to what extent. I also aim to discover whether Wenzhou's footwear industry has any peculiar characteristics, which do not pertain to the international model.

In order to do so, this case study aims to extend a similar study conducted by Professor Khalid Nadvi and Professor Hubert Schmitz entitled "Industrial Clusters in Less Developed Countries: Review of Experiences and Research Agenda", using it as a tool to investigate the extent of Wenzhou's compliance with the industrial district framework. I attempt to add the example of the Wenzhou footwear industry to this discourse, which examines the Brazilian, Indian, Peruvian, Mexican and Italian footwear industries' adaptation of the industrial district model.

**Key Words:** Industrial district, Wenzhou, Footwear industry, Marshall.

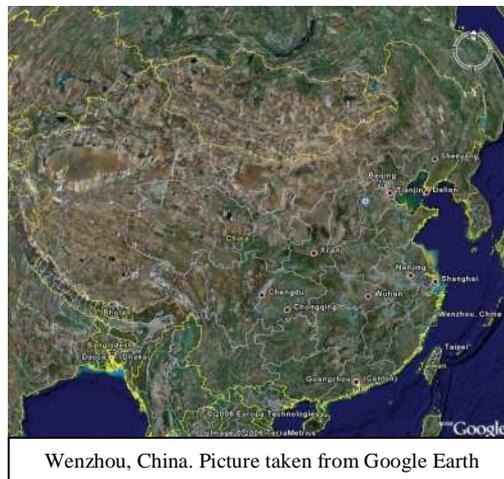
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## 1. INTRODUCTION

*Wenzhou – “The Capitalist Capital of China” (Jiang Qing, Cultural Revolution)*  
*Wenzhou – “The Shoe Capital of China” (1986 – present day)*

The municipality of Wenzhou is located in Zhejiang province almost mid-way down China’s eastern coastline about 500km south of Shanghai. The municipality is comprised of the two districts of Wenzhou City (Lucheng and Longwan) and nine outlying counties, and has a population of over 7 million. Wenzhou is isolated geographically from the rest of China due to surrounding



mountainside (78% of the entire land area), which in the past made Wenzhou more accessible by sea than by land and socially by its distinct local dialect<sup>1</sup> (Parris, 1993: 243). Historically, the city was an important port and as a traditional trading centre, Wenzhou has a strong sense of entrepreneurship embedded into the local psyche. It is said that mercantilism in Wenzhou flourished in relation to the rest of China, as Confucian thought, which discourages moneymaking activities, never truly gripped the area to the same extent as other parts of China, due to mountainous barriers around Wenzhou, preventing the spread of this ideological message. Wenzhou’s innate business mentality blossomed even as far back as the Song dynasty when commercial crops, such as coffee and pepper, were grown, compensating for the lack of natural endowments, and indigenous petty commodity goods, such as shoes, were produced to cater for the local market (Liu, 1992: 697). The commercial spirit prevailed through time, even during the Mao era (although to a lesser extent), when the city attracted scorn from the ‘Gang of Four’ culminating in Jiang Qing’s description of Wenzhou as the “capitalist capital of China”<sup>2</sup>. Liu, (ibid: 698) proclaims that despite much discrimination under Mao (Zhejiang province was the home of nationalist leader Chiang Kai-Shek), Wenzhou “resisted agricultural collectivisation and never abandoned specialised production under Mao”.

Since the onset of reforms and the dismantling of state-owned enterprises (SOEs), the city has re-emerged as an entrepreneurial centre, building upon historic expertise. Private enterprises boomed, exploiting weaknesses in the economic, social and political systems<sup>3</sup> more rapidly than many other areas in China and today “99% of the enterprises are privately owned” (Lim, 2004: <http://news.bbc.co.uk/2/hi/asia-pacific/3944723.htm>). In recent years the municipality has undergone massive change, experiencing both the benefits and pitfalls associated with development. While reforms have had a positive effect on the municipality (GDP is 75% higher than China’s average, personal incomes have generally increased and private enterprises and investment have prospered), the race to industrialisation has also left its stain on the area (urban sprawl, large inequalities and growth differentials). Amidst this flux, some very specific industries emerged and moved to the forefront of economic life in Wenzhou. Amongst these was Wenzhou’s footwear industry.

If you ask 100 Chinese “what can you tell me about Wenzhou?” I believe that 99 will inform you that Wenzhouese are “very clever businessmen”, whilst the one who fails to conform will tell you that Wenzhou is a great place to buy shoes. It is for this latter pigeonhole that Wenzhou is more internationally renowned. Wenzhou’s footwear and leather industry has literally boomed since the early 1980s, building on a long tradition of household artisan shoe manufacture in the area and inheriting industrial expertise from nearby Taiwan. Wenzhou has earned the title of ‘The Shoe Capital of China’, manufacturing over 25% of China’s total shoe output. Learning by doing, Wenzhou has developed a special style of production, which exists not only in the footwear industry, but also in light electronics, lighters and marker pens. This style has received ‘model’ status implying that it is an industrial organisation strategy, which is considered worth emulating by other communities/industries in China and around the world. But what exactly is so special about Wenzhou’s style of manufacturing? The industry’s sheer size (approximately 4,500 firms throughout the small municipality) and organisation means that it boasts some very particular characteristics. The organisational structure appears to follow an ‘industrial district’ style of specialised production seen in the famous clusters of North-central and North-eastern Italy, or the Silicon Valley in California, which boomed during the 1970s and 1980s while the rest of the world experienced recession. These examples exhibit highly flexible specialisation (as opposed to rigid mass production or Fordism), strong

interfirm production relations, a clear-cut socio-cultural environment, effective government support, strong business associations, and high quality standards, amongst other features (Nadvi & Schmitz, 1994: 49). Rong (2004: 9) describes some of the special features of Wenzhou's style of industrial production: generally low-tech, low-quality manufacture funded by individuals and propelled by local culture. Although Wenzhou's footwear industry produces a homogenous product (shoes), its composition is by no means uniform. The industry contains some large firms, dozens of medium firms and masses of small firms, all 'clustered' together in relatively close geographic proximity, or, one might say, they are located in an 'industrial district'<sup>4</sup>, most simply defined as a geographic concentration of many small manufacturing and service firms which produce a homogenous product. Service firms include suppliers and companies that generate highly specialised producer services (technology support, transport, finance, marketing etc) forming a virtual community of literally thousands of firms based around a single industry. A high degree of specialisation, a strict vertical division of labour and a lattice of vertical and horizontal production relations epitomise the organisational structure, leading to high competition, but also cooperation, either based on kinship or friendship, or aided by the presence of an industrial association (in this case the Wenzhou Leather and Footwear Association), a real service run and funded by firms which provides a single voice for the industry as a whole. This structure provides an information rich environment for manufacturers to operate. The development of a strong network of agents from Wenzhou, both within China and abroad, is unique, even in comparison to other industrial districts around the world, and is an area in which Wenzhou businessmen are particularly specialised.

My fieldwork brought me to Wenzhou where I aimed to infiltrate and explore the above characteristics within the footwear industry. Extending a previous study conducted by Nadvi and Schmitz (1994), which explores a similar industrial structure in the footwear industries of Brazil, Italy, Mexico and Peru, and using this study as a research tool, I aim to add the example of Wenzhou to the industrial district discourse. I aspire to discover how the firms within the industry communicate and organise, and how so many similar firms located in close proximity can survive, attempting to realize growth and competitiveness. In doing so, I aim to approach the questions posed by Nadvi and Schmitz (1994: 5):

1. How significant is the industrial district?
2. What is the nature of the inter-firm relationships within the district?
3. What is the nature of the “social milieu”? (ibid)
4. What role has local/central government played in the industry’s development?
5. What are the expected future outcomes for the industry?

These questions will all lead to a deeper understanding of the special nature of Wenzhou’s footwear industrial district, and direct me to my ultimate goal: Is Wenzhou’s footwear industry an example of a Marshallian industrial district?

## **2. HISTORY...EVOLUTION OF THE INDUSTRIAL DISTRICT**

*“Ten lathes under one roof are not more productive than ten lathes under ten roofs”*  
(Brusco, 1990: 13)

The concept of the industrial district is not a new one. In fact two of its key features, specialisation and division of labour, can be traced back to the founder of modern economics, Adam Smith, and his work *The Wealth of Nations* (1776). Alfred Marshall is generally recognised as the grandfather and founder of industrial district theory, conceptualising the notion of ‘external economies theory’ in his cornerstone work entitled *Principals of Economics* in 1890. The concept has drawn much attention over the years, and during its course the theory has evolved and been renamed; Alfred Weber conceptualised a similar ‘agglomeration theory’ in 1909; other fads kept industrial district theory in the limelight throughout the 20<sup>th</sup> century, until a century after Marshall’s original theory was produced, Michael Porter’s contentious ‘diamond model’, a “neo-Marshallian cluster theory” (Martin & Sunley, 2003: 7) entitled *The Competitive Advantage of Nations*, burst onto the scene in 1990, bringing industrial district theory to the forefront of economic policy in developed and developing countries. Throughout time the core concept has remained static; that many small homogenous agglomerated firms located within close geographic proximity can achieve the same economies of scale and efficiency as a single large firm.

## 2.1 Marshall's Theory of External Economies - 1890

Alfred Marshall (1842 – 1924), a leading economist of his time, originally pondered upon the idea of an industrial district whilst studying the localisation of industry in some of England, France and Germany's textile districts at the end of the 19<sup>th</sup> century. In his work *Principals of Economics* (1890), Marshall discusses the concentration of specialised industries in particular regions, i.e. industrial districts. He depicts three main features of this organisational structure: (a) a large skilled pool of local labour, (b) a myriad of supporting auxiliary industries (suppliers, technicians, financial, transport, marketing etc) and (c) firm specialisation in different processes and stages of production; i.e. each firm only completes one or two stages of the production process before passing the product onto another firms to complete more processes on the semi-assembled good. Marshall argued that the combination of these three qualities, combined with close geographical proximity, leads to improved communication and information sharing amongst and between firms and heightened efficiency as a result. Knowledge about markets, innovations, new technologies etc, is diffused at a greater speed than a single firm operating outside an industrial district. With closer industrial ties "the mysteries of the trade become no mysteries; but are as it were in the air, and children learn many of them unconsciously" (Marshall, 1895: 352). Thusly, a locality involved in an industrial district can create a comparative advantage, building on the specialisation of a single product and producing it more efficiently than other areas are capable due to intrinsic know-how and a large pool of skilled workers, e.g. the Wenzhou footwear industry.

Marshall's theory explains that many small firms working together through horizontal integration (firms working with like firms or support industries etc) and forwards and backwards vertical integration (a linkage of firms involved in different stages of the same production process working and communicating with each other, generally in a retail relationship) could achieve the same economies of scale as a single large firm, i.e. that a firm's production reaches a situation whereby producing an extra unit of output will decrease the marginal fixed cost per unit. Marshall's theory distinguishes between internal economies of scale and external economies of scale. Internal economies of scale are achieved when the above situation occurs within a single firm. External economies of scale are achieved outside of the single

firm, i.e. within an industry, and “can often be secured by the concentration of many small businesses of a similar character in particular localities: or, as is commonly said, by the localization of industry” (Marshall, 1895: 347). For example, if every firm in an industry’s transport costs are reduced as a result of an improved transport link, or every firm’s communication costs are reduced due to close proximity, an external economy of scale (of sorts) has been achieved.

These core concepts have created the foundation of all industrial district theory that has arisen from 1890 to the present day. It is said that such an organisational structure “is advantageous to the spread of information, technology, skill, technological innovation and is advantageous to the producing of auxiliary industries, and so reduces the cost of enterprises”, (Rong, 2005: 13). Information disperses quickly and easily as “if one man starts a new idea, it is taken up by others and combined with suggestions of their own; and thus it becomes the source of further new ideas” (Marshall, 1895: 352). This continual generation of ideas and strong communication (theoretically) prevents the industry from growing stale and thwarts inertia. However this industrial organisation model has many risks associated with it.

## **2.2 Weber’s Agglomeration Theory - 1909**

Alfred Weber (1868 – 1958) was an economic geographer. Building upon Marshall’s ‘theory of external economies’, Weber penned his ‘agglomeration theory’, in Germany in 1909, which analysed why and when firms should cluster together in close geographic proximity. This hypothesis encompasses merely a sub-theory of his broader ‘theory of industrial location’, aiming to find the least cost site for an industry to locate. His theories were groundbreaking at the time of their generation. With the dawn of the industrial revolution, an increased number of variables such as transport (road, rail, sea), raw materials, labour force and market had to be considered when deciding where to locate a firm or industry. Weber’s theory simplified this decision in three steps. Firstly, Weber (1929) considered what he described as a “material index”. This index was a ratio of the weight of the raw materials to the weight of the finished product. By examining these results, one could discover whether transport costs would be cheaper by locating the industry nearer to the source of the raw material or the marketplace and thus discover the optimal and least cost location for an industry.

Secondly, Weber (1929) argues that ‘least cost theory of industrial location’ is dependent on a “labour distortion” factor. The thinking behind this facet of the theory is that in a low-skilled industry, unskilled labour is widely available and is, in fact, ubiquitous. As these industries pay low wages, the firms need not be located within close geographic proximity of the workforce, as the large pool of unskilled labour in the area will always produce replacements. In a high tech industry on the other hand, skilled labour is a high requirement and is also relatively scarce (e.g. Silicon Valley). Firms must locate within easy access of the skilled labour force in order to retain their skills, and not lose them to other competitive firms. The Wenzhou example appears to concur with this factor. As 99% of labour employed comprises of Chinese migrant workers, this labour force travels far and wide to work in the footwear industry, indicating that the low-skill footwear industry is not required to locate near its labour pool to reduce costs.

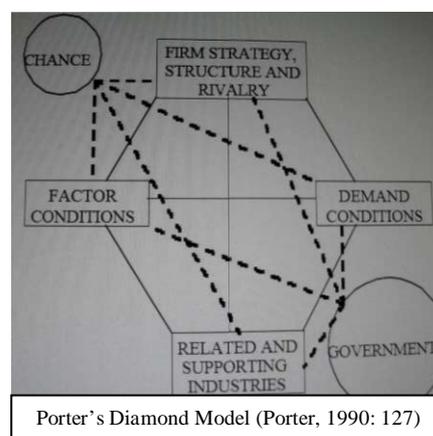
Thirdly, and most importantly for industrial district theory, Weber puts forward his ideas on agglomeration and deglomeration. He argues that agglomeration, or clustering of industries within a close geographic proximity, occurs when firms enjoy both internal and external economies of scale (concurring with Marshall’s observations). This attracts and encourages further firms to locate in the same industry. Auxiliary firms will also locate here to lower costs and also to service the growing population moving to the area due to increased industry and work opportunities (Fearon: <http://www.csiss.org/classics/content/51>). Weber also argues that after an agglomeration of industries reaches an optimal level, industrial districts can become over-populated and as a result lose the appeal that originally attracted so many similar industries (e.g. perhaps individual firms have no room for expansion, labour has diminished or become too expensive, rent has increased or raw materials have become exhausted). In these cases, firms will move away from the area and deglomeration will occur. Deglomeration can be observed in many sites around the world where industrial inertia has occurred (e.g. Baden Württemberg in Germany), but the phenomenon can also be observed in active industrial districts, such as those in Italy, which are deglomering as other areas (e.g. China) can produce high quality goods for less cost. There is also evidence of deglomeration in Wenzhou’s footwear industry where relocation is occurring due to increased costs and the introduction of more strict human rights policy in the area.

Weber's theory of least cost industrial location is still widely used today as it takes many variables into account. The idea of deglomeration is very important to highlight how fickle industrial districts can be. When conditions are good, the organisational structure can boom, but the line between optimal concentration of firms and over-concentration of firms is a thin one, and when firms begin abandoning a particular location, it can devastate entire communities, economically and socially (e.g. Sheffield, England).

### 2.3 The Porter Diamond Model - 1990

Emerging in 1990, Michael Porter's controversial theory on competition grabbed a lot of attention. The concept aims to answer the questions "Why do some nations succeed and others fail in international competition?/.../Why are firms based in a particular nation able to create and sustain competitive advantage against the world's best competitors in a particular field?" (Porter, 1990: 1-2). Here Porter ponders why, say, Japan is considered the home of consumer goods such as cameras, mobile phones and musical instruments; why the Swiss are considered the leaders in banking and watch manufacturing industries; and why America sustains its competitiveness in hardware and computers (ibid.) Porter believes that Marshall's industrial districts and his own 'diamond model' concept may provide some solutions to these questions. Whilst some economists dismiss the entire notion of the 'Porter diamond model' criticising it for its vagueness and lack of definitions, it has and still is changing state policy around the world. Developed *and* developing countries' finance leaders are wrestling for Michael Porter's advice and attention, wishing to be shown the heavenly path to clusters, comparative advantages and economic growth.

Porter's 'Diamond Model of Competitive Advantage' contains four main interconnected elements (firm strategy structure and rivalry, demand conditions, factor conditions and related and supporting industries) and two sub-elements (government interference and chance), as illustrated and arranged in the diagram opposite. According to Porter, "the diamond is a mutually



reinforcing system. The effect of one determinant is contingent on the state of others” (Porter, 1990: 72), i.e. all four of the main elements must be in place and functioning for a nation to gain or retain competitive advantage. These factors combined illustrate a Marshall-type structure; Marshall’s labour pool is incorporated into factor conditions, supporting and auxiliaries are accounted for within Marshall’s structure and Marshall’s firm specialisation is assumed within the diamond. However there is a vagueness surrounding this model. The theory comes across as less of an academic work, and more of a business strategy, using many in-vogue buzz words. The idea that the model can be applied to a small unit, such as a firm, and a large unit, such as an entire nation as indicated in the title, is quite advantageous. The extra features of this model not included in other theories seem somewhat superfluous to requirements. For example, there are numerous industrial districts that have succeeded without government support or intervention (even in Italy, where industrial districts are regarded as the strongest in the world, and are considered the ideal structure) and the element of “chance” that Porter introduces to his theory seems like a feeble attempt to explain districts which develop outside of his model. Porter also relents that “differences in national economic structures, values, cultures, institutions, and histories contribute profoundly to competitive advantage” (ibid: 19). Perhaps these factors have more influence over the competitive advantage of a nation than the features of the ‘diamond’.

However, it is suggested that it is precisely the deliberate vagueness and lack of definitions associated with Porter’s diamond model, which attracts so many followers and has made the ‘diamond model’ infamous (Martin & Sunley, 2003: 9). The ambiguity and elusiveness of the theory means that the model can be applied to any firm, district, location or nation. Steiner (1998: 1) notes “clusters have the discreet charm of obscure objects of desire”, and at the moment every financial policy maker wants a piece of the ‘Porter diamond’ pie.

Alas, many theories on industrial districts have emerged over the past century. While the majority focus on the economic facet of the organisational structure, others examine geographical or social aspects of industrial districts. Although they may seem quite diverse superficially; they may contain different aspects, diverse causes and effects or alternate definitions; at the core, they are all centred on Marshall’s

original theory of clusters and external economies. My aim is to investigate to what extent Marshall's theory is applicable to Wenzhou's footwear industry, what features they share and what features are unique.

### **3. HOW...METHODOLOGY AND DESIGN OF THE RESEARCH**

*"We can only know social reality imperfectly and probabilistically"*  
(Blaxter et al, 2002: 61)

#### **3.1 Methodology**

My empirical enquiry uses a small-scale case study format. I have chosen this method, as my research question complies with all three conditions for using a case study outlined by Yin (2004: 1), that is, my research is an exploratory "empirical inquiry that investigates a contemporary phenomenon within its real-life context especially when the boundaries between phenomenon and context are not clearly evident" (ibid: 13). My research aims to explore how industrial districts have advanced in Wenzhou. I, the investigator, have no control over actual behavioural events, and the research focuses on contemporary phenomena. On conducting my case study, I realise that my conclusions are "generalizable to theoretical propositions and not to populations or universes", (ibid: 10) and therefore no attempt will be made to extend my conclusions to apply to the whole of China or other industrial districts around the world.

My research will solely be focused on qualitative data collection although I have tried to find a common ground between qualitative and quantitative evidence. Therefore any quantitative evidence or descriptive statistics I use are all secondary sources, as I did not have the resources to collect such data myself. Evidence needs to converge in a triangulation fashion, thus I have attempted to use as many sources as possible in order to gain a thorough, accurate and reliable view of Wenzhou's industrial districts and to construct validity in my findings. It is very difficult to gain any insight of an industrial structure through observations. Therefore I needed to infiltrate the industry and ask questions. Thus my main source of primary data is

information received from a string of interviews conducted in Wenzhou between 8 October and 20 October 2006. The advantages of conducting such research are that the researcher can collect focused information directly related to the research questions and can extract exact and precise data from respondents. However these advantages can be offset by bias; leading questions or bias on either the researcher's or the respondents' behalf may lead, consciously or unconsciously, to a skewed partiality. My main source of secondary data is documents; previous research and academic works concerning industrial districts around the world and works on industrial organisation in China collected from numerous sources. While academic documents have the advantage of being stable, and one can view them repeatedly (Yin, 2002: 86), their shortcoming is their limitation in scope; previous research may not target the exact question one needs answered, and unbeknownst to the reader, may contain author's bias. One must also remember that previous research reflects a past phenomenon, and cannot explain a current reality. Despite the obvious pitfalls of these methods of data collection, one must remember that no method of data collection is ideal or perfect. Combining these sources of data, I aim to create to the best of my ability, a strong and valid chain of evidence to support my conclusions.

On conducting my research, I will take a post-positive stance. As "we can only know social reality imperfectly and probabilistically" (Blaxter et al, 2002: 61) and although I will strive for objectivity, unconscious biases creep in, adjusting partiality. As no method of research is watertight, the most attainable reality I can expect to achieve is a partially objective one. A number of factors could be accountable; my *a priori* perceptions and attitudes, my background, my "western" education, or my position as an obvious outsider looking in at the footwear industry in Wenzhou. Although my case study design is a single, embedded one (Yin, 2004: 42), taking the shoe industry of Wenzhou as my unit of analysis, I will draw attention to subunits of analysis, which in this case are the firms within that industry, but I intend to maintain a holistic view of the footwear industry in Wenzhou. This constant reflection of the individual parts (the firms) and their relationship to the whole (the industry), assumes an interpretivist, hermeneutical stance. "You start at one point and then delve further and further into the matter by alternating between part and whole, which brings a progressive understanding of both" (Alvesson & Sköldbberg, 2000: 53)

### 3.2 Design

As the aim of my thesis is to discover whether Wenzhou's footwear industry comprises a Marshallian industrial district, I will extend a previous study conducted by Nadvi and Schmitz (1994) entitled "Industrial Districts in Less Developed Countries: Review of Experiences and Research Agenda" and use this extension as a tool to achieve this objective. I have attempted to follow their patterns of research as closely as possible. While their study describes the agglomeration of the footwear industries in Brazil, Peru and Mexico, comparing them to the ideal Italian example, my study aims to add China's footwear industry in Wenzhou as a further example of an industrial district in an LDC.

As an obvious outsider in Wenzhou, with no knowledge of the Chinese language, the first obstacle I had to face while designing and conducting my research was communication; it proved quite a struggle. In order to effectively carry out my research, I had to avail of an interpreter. This was not an optimal situation, as the use of an interpreter leads to a shift in power relations during the interview, it slows down the flow of information, and there is always a risk of something being misinterpreted. However we struggled through four one hour-long interviews and up to twenty ten minute mini-interviews. Having unconsciously offended just one respondent, and experienced just three rapidly remedied misunderstandings, I was content with the clarity of both my respondents' replies and my translator's interpretations.

As access (physically, linguistically and otherwise) was a rather large obstacle, I entreated the aid of a local government official to allow me create contacts with local businessmen. Establishing links would have been impossible unaccompanied. However, by doing so, I forewent the opportunity to randomly pick firms to study, and handed an element of bias to the local official, my gatekeeper. However, she was kind enough to arrange interviews with whomever I wished. My first interview was with the vice-president of Wenzhou's Leather and Footwear Industry Association. Her response was intriguing and offered me much background information on the evolution of Wenzhou's footwear industry. Following this, I interviewed the vice-president and the PRO of two of Wenzhou's, and indeed China's, largest and most successful footwear firms; the president of one of Wenzhou's medium-sized firms

(although requesting more access to medium-sized firms, my request was ignored, perhaps as medium-sized firms are not reputed to have very high standards regarding working conditions, upon which this thesis is not reporting); and twenty owners and employees of very small manufacturing and support firms. I feel that I have interviewed quite a representative sample of the entrepreneurs and other actors involved in Wenzhou's footwear industry, and have taken advantage of my connections to the best of my ability in order to achieve this aim.

The four main interviews with central actors in the footwear industry took on a semi-structured format. While ensuring to ask the same core prepared questions to each respondent in an effort to triangulate information and gain validity, sometimes the flow of the interview veered in other directions, bringing new information to the fore. My questions revolved around eight main categories; statistical and background information of firm/industry, labour, markets, innovation, relationships with other firms in the industry (competition and cooperation), role of government, role of the Association and future plans for each firm. These questions covered all aspects of my queries and focused on my research questions.

My mini-interviews with small firm entrepreneurs, the numerical majority in the industry, were of a more ad-hoc nature and were not pre-arranged. I visited each respondent at their retail outlet at Wenzhou's Shoe Industry Material Market on 16 October 2006. As I was speaking to the respondents in their work place during their work hours, I could not disturb them for a prolonged period and solely asked them the need-to-know questions concerning my research. Their responses were intriguing and central to my findings.

#### **4. WHAT...PRESENTATION AND ANALYSIS OF THE DATA**

*"There has been a change from 'Made in China' to 'Innovation through Branding'"*  
(Adam Sun, 13 September 2006)

My research in Wenzhou has highlighted some surprising hierarchical features of the district that I had not expected to find. The firms in Wenzhou exist over a continuum

of size, productivity, features etc. Thus it is very difficult to insert each company into a rigid box with certain characteristics. However I have attempted to divide the industry into three sub-classifications of firms within what I had perceived initially as a fairly homogenous industrial district, each one behaving and organising in a different way to the next. Although it is evident into which classification the majority of firms can be categorized, many firms exist on the cusp of these categorizations. Mobility amongst firms is also evident. Also, as not every firm is a member of their local association, it is impossible to tell at any one time just how many firms are operating within the district. Therefore I use approximate estimations.

#### 4.1 Large Quality-Geared Firms



At the top of the hierarchy is what I have named the ‘large quality-g geared firms’ classification. Numerically in the minority, these are firms such as Aokang or Kangnai: the pioneers and market leaders, those who have spearheaded the industry and continue to do so through design, innovation and R&D. During the 1980s, these firms emerged producing OEM (original equipment manufacture i.e. low quality fake or copied goods). After the Hangzhou incident of 1987<sup>5</sup> the leading firms at that time together founded the Wenzhou Leather and Footwear Association, a non-governmental organisation aimed at representing the interests of the firms of the footwear industry and providing a single voice for the industry. However, the Association doesn’t *represent* the large firms; the Association *is* the large firms, sharing members of the board of directors and giving these firms a lot of bargaining power within the industry. These firms also participate in international footwear associations such as SATRA and perform to international benchmarks. Nowadays these firms produce very high quality genuine leather shoes and goods, which compete on an international stage alongside products from Italy or Spain. Each firm sells, not just shoes, but a brand name and a carefully developed brand image. These brands are innovations in themselves and are used to depict an elite high quality shoe, differentiating themselves from their competitors and shrugging off any connotations with low-quality Wenzhou produce and selling both within China and abroad.

The large firms dominate Wenzhou's footwear industry. One firm interviewed had annual revenue of RMB100 million and over 5,000 workers (99% of whom are Chinese migrant workers<sup>6</sup>). The success of the larger firms positively skews the performance statistics for the district as a whole. Their dominance means that many smaller firms within the industry (suppliers, technicians, transport) are dedicated to servicing them. They share close friendship and kinship ties with each other, and lead the industry with their ideas and supply requirements. Their innovations and ideas trickle down to the smaller firms.

One of the main features of industrial districts around the world is the sub-contracting of the low-skill, non-technical early stages of production work to smaller companies in order to cut costs. Therefore I was surprised to discover that neither of the large companies interviewed sub-contracted any work. Everything from cutting to stitching was conducted onsite and these firms have access to the final market. As the large firms compete on quality and design, producing for the higher end of the market, they are willing to forego cheaper costs in order to guarantee high quality, as the whole production process and quality control can be observed and monitored onsite. In this case the specialisation and vertical division of labour, which is synonymous with Marshall's industrial district, occurs *intrafirm* rather than *interfirm*. As a result, the large quality-gearred firms have little contact with other assembly firms, except through the means of the Association, where market information etc is shared. This information has more of a tendency to travel down the hierarchy than up. A large quality-gearred firm may have up to 300 suppliers of materials and services at any one time, and recently these relationships have become bound by yearlong contracts. Although interfirm division of labour is not as prominent as expected, competition and cooperation amongst the large quality-gearred firms is archetypal of the industrial district model. While firms such as Kangnai, Aokang and Red Dragon Fly compete fiercely for similar market shares, they freely and openly cooperate as founding members of the Association and representatives of the industry. Many of the large quality-gearred firms sell their produce in monopoly shops. China's commercial streets are flooded with such stores, and each large quality-gearred firm is aiming to expand their stores to other markets around Asia, Europe and US. Both large quality-gearred firms interviewed disclosed that future innovation would come from improving and expanding these monopoly stores, and diversifying into other leather goods.

## 4.2 Mid-Quality Firms

The second classification of firms, which I name ‘mid-quality firms’ are by no means small in size. Generally they can employ between one and two thousand workers (once again all migrant workers) and can earn revenues of millions every year. These firms may produce a final product from start to finish or may be involved in just one or two stages of the production process. The mid-quality firms do not aim for or achieve as high quality standards as the large quality-gearred firms, and compete more so on price and speed of delivery than on quality. Many of these firms manufacture OEM goods, producing under another brand name than their own (Reebok, Nike and even Walmart). As with the large quality-gearred firms, these firms (if in existence at the time) made poor quality shoes throughout the 1980s. However as China has moved away from a command economy towards a market-led one, the Chinese consumer’s tastes have become more sophisticated, and the domestic market now demand higher quality shoes. The mid-quality firms emerged from this time, displaying versatility and flexibility, changing entire production systems in order to improve standards, yet shoes produced by mid-quality firms still use cheaper materials than the ‘large quality-gearred firms’ such as P.U., a synthetic leather substitute instead of genuine leather, and glue is often substituted for stitching. Although they can learn a lot from the large quality-gearred firms (many of which have their own research institutes and design centres), they are not direct competitors. The large quality-gearred firms and the mid-quality firms vie for different customers in different market shares. Although almost all of the mid-quality firms are members of their local footwear association, the mid-quality firms do not hold as much weight as the large quality-gearred firms, and don’t have as much say in the industry decision making (such as how to react to the EU levy on shoes made in China which was imposed in September 2006).

The industrial structure of the mid-quality firms is more difficult to explain. Where some firms, such as Darson, behave like the large quality-gearred firms, performing every process of the production onsite, the majority of mid-quality firms either sub-contract low-tech phases of the production process out to other companies or order specific pre-made parts (such as the sole, the tongue, the heel etc), and piece together all the parts during the final stages of production. The majority of these firms

are members of their local footwear association, using it to avail of market information, style trends, knowledge about new policies etc. As mid-quality firms interact more with other firms through kinship and friendship ties than do large quality-gearred firms (through sub-contracting, suppliers and the Association) the features of competition and cooperation that epitomise an industrial district are much more evident amongst the mid-quality firms. These firms cooperate with local producers in areas of product development, marketing, training of workers and the purchase of inputs. Steiner (1998: 7) says that cooperation “is more than just a territorial concentration of specific firms working in the same sector but involves complex organisations with tight transsectorial relationships, implying a change from ‘industry district’ to ‘network’ forms of organisation”. In this way, relationships amongst mid-quality firms are tight and a social milieu based on trust and reciprocity and a sense of community is apparent. This said, competition is still formidable; there are many mid-quality firms competing for a market share in China, not in Wenzhou alone, or in Zhejiang for that matter, but also Guangdong and Fujian, which would be considered areas of high competition and threat to Wenzhou’s mid-quality firms. But this competition bolsters constant improvement for the firms, forcing them to stay ahead. Those firms that cannot compete will get left behind.

Mid-quality firms’ shoes also appear on the international marketplace. This is mainly done through the use of agents, a common feature to all three sub-classifications of firms described here. Agents in this sense are fairly unique feature to Wenzhou. Throughout the years, Wenzhouese have been famous for emigration to other countries. In doing so, they have promoted Wenzhou business abroad very intensively; setting up international branches of firms, attending trade fairs, conducting market research and research into shoe culture around the world, and channelling all this information back to their employees in Wenzhou. Most of Wenzhou’s mid-quality shoe sales (domestic and international) are completed through the medium of such an agent (these firms do not sell through monopoly shops as do the large quality-gearred firms). This feature of the industrial organisation of Wenzhou’s footwear industry is accountable for much of the success of the industry outside of Zhejiang province.

### 4.3 Small Highly Specialised Firms

The third category, the ‘small highly specialised firms’, comprises the numerical majority of the footwear industry in Wenzhou (approximately 3000) and can employ from 5 to 500 employees (once again, all migrant workers, except for the owner, manager and administration staff). These firms only conduct 1-2 phases of the production process, or produce a very specific element of the shoe (i.e. the tongue, the heel, the sole, etc) to be bought by assembly firms. Unlike the previous two



High heels specialist firm - Wenzhou shoe material market. 16 Oct. 2006

classifications, no single firm produces an entire shoe from start to finish. While most firms are involved in phases of production, approximately 30% of them constitute support firms to the industry or auxiliary firms (those not directly involved in the manufacture of the shoe but constituting an important part e.g. shoelace or zip manufacturers). The final products of the ‘small highly specialised firms’ aim to serve a different market to the ‘large quality-gearred firms’ and the ‘mid-quality firms’. They compete purely on price, copying designs and innovations from others in order to save on expenditure. These firms mainly do business with other Wenzhouese or Chinese companies, and hence do not have names in *pinyin*. This said, their products can appear on the international marketplace (through dumping and otherwise). As demand for higher quality goods is growing (nationally and internationally due to increased buying power, anti-dumping laws etc), quality of these goods is slowly improving.

The vertical and horizontal division of labour amongst these firms, their distinguishing feature, is extremely cost and time efficient. A continuum of work environments exists; factory, sweatshop and households. One firm interviewed explained that each of their 300 individual workers weaves shoelaces by hand in their homes, each one an expert in a different style of shoelace, and their produce is collected by the boss at the end of every week for sale at the Wenzhou Shoe Industry Material Market. Another firm interviewed manufactures high heels for ladies fashion shoes (pictured above) at a new factory and takes orders for sales at a small outlet in

the centre of the Shoe Industry Material Market. In order to create an environment where this very specialised division of labour can work effectively and smoothly, there must be strong communication and cooperation between the firms, as the process whereby ten small firms collaborate to create one final product can be an intricate one. As the small highly specialised firms also supply and service the large quality-g geared firms and the mid-quality firms, they hold the highest concentration of communication and cooperation within the district. They also compete to the highest intensity, as the small highly specialised firms have the highest amount of local competitors, each trying to vie for the same contracts from the larger firms. Price is a big factor in gaining contracts, which leads back to the question of quality, and the fact that Wenzhou is still synonymous with low-quality shoes, no matter how hard the large-quality geared firms try to shrug off that reputation.

As we have seen above, all the features typically associated with the industrial district concept, are most evident amongst the small highly specialised firms. However, out of the twenty small highly specialised firms interviewed, none of them was a member of a footwear association (and none knew of any other small highly specialised firms that were members). Perhaps this is because they believe that these associations do not represent their interests, but rather the interests of the larger firms, or perhaps they do not want to pay an association fee to avail of their services. However it is interesting to note that the segment of the industry which displays the highest levels of communication, organisation, cooperation and competition does so without any outside interference or help, but bases all its business on kinship and friendship ties (amongst the entrepreneurs and managers as the rest of the workforce consists of migrant workers), which propagate trust and reciprocity which becomes a deeply rooted element of doing business. Thus the concept of a contract, becoming more and more common amongst the large quality-g geared firms, is an alien one amongst the small highly specialised firms, as contracts incur extra costs, and after all, what influence could a contract have between brothers or neighbours?

## **5. THUS...COMMENT AND CRITIQUE OF FINDINGS**

*“The industry is the arena in which competitive advantage is won or lost”*  
(Porter, 1990: 151)

My findings have been remarkable. While some aspects of the footwear industry in Wenzhou conformed to the position of other industrial districts worldwide, Wenzhou’s footwear industry also displays some very unique and unexpected features. I asked five questions at the beginning of this study in order to “evaluate the prospects of achieving growth and competitiveness for small and medium enterprises in less developed countries using an industrial organisation framework...the industrial district model” (Nadvi and Schmitz, 1994:1) and to discover to what extent Wenzhou’s footwear industry complies to the Marshallian industrial district. I now wish to analyse and critique these questions.

### **5.1 Is clustering a significant phenomenon?**

According to Brusco (1990:10-16), an area must evolve through four phases before it is an industrial district proper. Wenzhou’s shoe industry seems to have progressed smoothly through stages one and two (the ‘traditional artisan model’ and the ‘dependent sub-contractor model’) but as Wenzhou’s shoe firms are so diverse, it is difficult to place the present district in one of the latter two distinct categories; the ‘industrial district mark I’ (a cluster of production and auxiliary firms located together producing a homogenous product without external local government intervention or an organisational figurehead, such as the Association) or the ‘industrial district mark II’ (eventually an industry reaches a certain level of technical advancement, it needs a leader to help all firms adapt to new technologies and innovations and offer real services to avoid inertia hitting the district – Brusco, 1990:16-17). While the bigger firms in the Wenzhou’s footwear district seem to have evolved beyond Brusco’s framework, working independently and concentrating on branding, the majority of the small manufacturing firms seem to operate in the penultimate stage, ‘the industrial district mark I’, suggesting that they contain all the features and operate as an industrial district, but without an organisational head, as they are not led by the Association, nor does the local government interfere with the district. Instead, the many small and extremely specialised firms operate together, acting almost like different departments of a single unit, despite their independence from each other.

They rely on each other in an interdependent manner to achieve the production of the final product. In this case, although it is the Association that introduces change, it is the hierarchical structure of the district which cements the changes, governs, organises and operates the district, allowing information, technology, ideas, styles etc to diffuse down from the most developed firms, right down to the lowest. However, this said, I was very surprised to discover the lack of a market for second-hand machinery within the industry, which should bolster and diffuse innovations at an intensified rate. One manager replied that if his machinery is not good enough for his firm, no other firm will want it either. It seems that a strong sense of pride exists between firms of differing classifications.

My research suggests that although clustering of the footwear industry in Wenzhou has not fully developed to Brusco's 'industrial district mark II' phase yet, in its 25 years of existence it has been very significant and successful. Although it is not a perfect model, it has achieved high dividends, and has resulted in Wenzhou's rapid income growth and worldwide fame. This is compounded by the fact that other regions in China are attempting to emulate this model.

"Zhejiang is number one in China...accounting for 32.9% of China's national total of market share. Wenzhou is just one city in this province and produces more than 78.12%" (Xie Rong Fang, Wenzhou, 10 October 2006). This means that Wenzhou's footwear cluster produces 25.7% of China's total footwear. That is an incredible statistic, which in itself underlines the significance of the clustering phenomenon.

## **5.2 What patterns of inter-firm division of labour are to be found?**

Smith's (1776) concepts of specialisation and division of labour are actualised in Wenzhou's footwear industry. This industry epitomises this structure as each of the various actors involved in the industry has a very precise and specific role to play. As outlined above, the patterns of inter-firm division of labour are dependent on the size, scale and aim of each individual firm. Inter-firm division of labour is most strong and clear amongst the small highly specialised firms, with each firm either dedicating their expertise to producing one part of the shoe, or one or two processes of the

manufacture of the shoe. These firms compete almost completely on price, thus division of labour to lower costs is time and cash efficient. This vertical division of labour is crystal clear amongst large quality-gearred firms also, but it takes on an *intrafirm* quality rather than an interfirm one. As these companies pride themselves on quality, originality etc, every part of the production process must be controlled and monitored to ensure that high standards are achieved. This is detrimental to building up their reputation as a high quality brand, and shedding the connotations of poor quality associated with Wenzhou. It is cheaper for them to conduct and oversee all processes onsite, than to subcontract the work to other firms and conduct quality control afterwards. Mid-quality firms cannot be generalised. Existing on the cusp of the previous two classifications, they can adopt either production style.

The 'large quality-gearred firms' tend to dominate the activities in the cluster, and many suppliers (shoe-laces, leather etc) survive from the business of these firms alone. The larger firms are also involved in training centres, design centres, some have diversified into property, and they are large stakeholders in the Association, suggesting that they carry much weight in Wenzhou's footwear cluster.

One significant feature of Wenzhou's clusters (not just the footwear cluster) is the role of the agent or trader. I believe that the Wenzhouese may have perfected this role as their agents are renowned the world over. The footwear cluster exports literally hundreds of agents to sell shoes around the globe, and trade fairs are a very important source of business. The agent creates contacts abroad and conveys important data on trends, styles and market information. The importance on the agent is often overlooked in industrial district writings, but the Wenzhou example reiterates just how fundamental this role is, and they have exploited their expertise in trading with highly beneficial results.

The role of the footwear Association is quite an interesting one. Wenzhou's Leather and Footwear Association was initiated by the enterprises themselves, rather than government during a time of threat and flux (see note 5). "In this sense they grew up 'outside the system' (*tizhiwai*), though they quickly developed good relations with the Association of Industry and Commerce" (Fewsmith, 2005: 3). Wenzhou's trade associations receive no government funding making them quite entrepreneurial. They

function instead by receiving annual subscription fees from the members (which is by no means compulsory). The Association provides one voice for the industry. Recently, Wenzhou's Shoe and Leather Association was engaged in talks with representatives from Vietnam and the EU in order to reach an agreement regarding shoe levies imposed against China and Vietnam. Talks are ongoing. Following the instalment of the levies, the Association counselled firms on ways to evade the effects of the ruling. The large quality-g geared firms also avail of the services of international associations such as SATRA for similar purposes. However many smaller firms do not see it in their best interests to join such an Association, preferring to rely on kinship ties to provide the same services. This tends to undermine the role of the Association slightly. Even so, the Association has performed its role of boosting and supporting industry successfully since its initiation in 1987.

### **5.3 What is the character of the 'social milieu'?**

Becattini (1990: 38) defines the industrial district as "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. In the districts, communities and firms tend to merge". This community shares a specific identity and a culture unique to that socio-territorial entity alone. In the case of Wenzhou, the identity and culture is defined by a strong work ethos, savings and entrepreneurship shared by the entire community based upon long-standing cultural attitudes towards doing business. This shared mentality and similar attitudes towards business "influences and is itself influenced by the process of innovation and technical change (Nadvi & Schmitz, 1993: 32) as new technologies are adopted much quicker when each actor shares the same attitudes and wants similar outcomes. Nadvi and Schmitz (ibid: 31) say that common socio-cultural identities, such as the strong work ethos, provide a basis for trust and reciprocity in inter-firm relations. This ethos must be shared on order for the industry to keep moving forward. The Wenzhou footwear industry contains lattices of friendship and familial ties and *guanxi* amongst entrepreneurs and managers. Once again, the intensity of the social milieu varies across the district. The smaller firms who do not avail of the Association seem to build relationships upon strong conditions of trust and reciprocity to interact, while the bigger firms have looser local interfirm relations, working more independently than the small firms, while availing

of international associations, such as SATRA, the largest shoe research association in the world, to achieve the same dividends, and use the medium of the local association to communicate with fellow firms in Wenzhou's industry.

Although very little is known about socio-cultural factors, and their impact is impossible to measure, their influence is generally considered positive on the industrial district community, functioning as "a common accepted set of codified knowledge and interpersonal trust relations, through which production arrangements are made, information exchanged, skills transferred and capital allocated" (ibid: 36). It is thought that the 'social milieu' is invaluable to the success of the district.

#### **5.4 What is the role of government?**

In what way have formal institutions of the state, especially local and regional government, assisted small firm clusters? This is quite a tricky question to approach. On one hand, the government has retained a stance of non-intervention since the establishment of the footwear industry (mass production of shoes) in the early 1980s, initially monitoring Wenzhou's industries in an experimental way. The government does not provide any real services to the industry, leaving these chores to the Association, which is funded by the footwear firms themselves. This stance of non-intervention throughout the 1980s and 1990s was the most beneficial one that the Wenzhouese could have hoped for. Throughout this time die-hard communists in central government did not look favourably upon Wenzhou, whose business style was propagating capitalist propensities. Interference could have been detrimental for the industry. However in 1992, the shift in Party ideology, which encouraged business and capital accumulation, benefited Wenzhou's footwear industry enormously and gave firms free reign to perform. Seeing Wenzhou's success, proponents of free trade lobbied to give Wenzhou's organisational style model status, meaning that this industrial district structure could be copied. Deng's government took a strong interest in Wenzhou from here on, carefully monitoring its performance and behaviour and encouraged other regions around to China to adopt a similar organisational style.

However, although entrepreneurs fervently deny any linkages with local government (and seem to take offence at such allegations), Fewsmith (2005: 2)

indicates that the two are inextricably linked. Many entrepreneurs in Wenzhou (including footwear entrepreneurs) are in fact representatives on local and regional governments. Therefore their combined positions as leaders of their industry and local government representatives may influence the government's stance of non-intervention, which led to the experimental 'model' status of Wenzhou. Fewsmith (ibid.) says that the formation of the industry associations "bridge the concerns of business and government, enforce quality standards, and promote local economic growth". This 'bridge' has led to individual entrepreneurs appearing on association boards and as members of local government. "The CCP has learned to accommodate this most capitalist of institutions, using chambers of commerce [associations] to promote the local economy and bring order to an unruly sector" (ibid: 8). Associations in Wenzhou have also discovered how to endorse their business interests without undermining the authority of the Party.

Recalling that Wenzhou is renowned for a special innate mercantile spirit, unique to the rest of China, it is obvious that this spirit also infiltrates local government circles in Wenzhou. Therefore local government policies move to support the development of local industry. Parris (1993: 242) says "the experience of Wenzhou shows that local individuals and groups do have the capacity to affect existing policy. They pursue their interests by 'working' the state socialist system to their own advantage, often changing the existing institutions in the process". Wenzhou's entrepreneurs seem to have exploited this advantage and "a new ruling elite composed of both party officials and private entrepreneurs seems to be emerging in Wenzhou" (Fewsmith, 2005: 8).

General policies, which are not directly targeted at Wenzhou or the footwear industry, have affected business life. The introduction of temporary work permits implies that Wenzhou will never exhaust its labour pool. Almost every worker involved in the manufacturing process of shoes in the industry is a migrant worker, and almost every entrepreneur, manager or office worker is Wenzhouese; a Wenzhou person will no longer undertake menial low-skilled, low-paid labour, such as shoe manufacturing. It is said that Wenzhou has the highest number of migrant workers per head of population than anywhere else in China. Other policies, such as those that dictate human rights and working conditions, have had an opposing effect on the

development of the industry, raising the cost of production. There is evidence of some firms defecting to Vietnam or the west of China to evade these policies. This could be a first sign of the deglomeration factor, discussed by Weber in 1909.

### **5.5 What are the growth paths of industrial clusters?**

I cannot predict the future. At this time, the EU is attempting to levy cheap leather imports from China and Vietnam (13% and 10% respectively). This threat could have a detrimental effect on the industry, although the majority of manufacturers will be unaffected, as they do not use genuine leather. Affected firms are advised to increase their quality standards (and thus prices), move some of their production to Europe to avoid the status of cheap imports, or concentrate on their markets in China. These suggestions are all very expensive. One can see a definite loss of jobs, not just from the footwear industry, but also from the chain of suppliers, exporters etc. A second threat is that from Vietnam and other developing countries, whose workforce is able to output more shoes for a cheaper price than companies in China, in a race to bottom of prices, taxes, and environmental and quality standards. This could lead companies to defect from Wenzhou.

When are there too many firms in an industrial district? There are already 4,500. Is there room for any more firms in Wenzhou's footwear industry? Respondents insisted there are now enough firms in the district, with larger firms suggesting that further small firms coming onto the scene (a process simplified due to ease of access and low regulations) undo the reputation improvements created over the last 15 to 20 years. However there is no evidence to suggest that more firms would not lead to further competition and further boost the industry, domestically and internationally. Further competition would force firms to differentiate themselves from their competitors, resulting in more firms competing on quality rather than price, aiming for international benchmarks. This could lead to a movement away from OEM and towards an increased number of new quality-gear brands. This outcome would be the best-case scenario for the consumer.

Alternatively, the industry may soon reach its optimal level. Weber suggests that if an industry continues to grow after it has reached its optimal level,

overcrowding will occur, which may lead to external diseconomies of scale and eventually deglomeration. The disadvantages associated with overcrowding could lead firms to defect to other locations. The more flexible policies and cheaper labour and location costs of, say, Vietnam are an attractive option, particularly for the mid-quality firms. My twenty-four interviews illustrated one example of defection. Perhaps there are more, but then again perhaps not.

The immediate future of the footwear industry in Wenzhou is a bright one. Most firms I spoke to are turning over higher profits with every passing year. Some are adding more production lines, or applying a multi-brand strategy. Others are diversifying into sports shoes and other leather products (wallets, handbags etc). Some are finding new markets, creating new partnerships abroad. Others are concentrating on increasing quality. However, I do believe that this is a pivotal time for the shoe industry in Wenzhou. Many companies are facing adversity head-on. It is the survival of the fittest and only the strongest will emerge as winners, while other companies will close or be assimilated by other more successful companies. It will be interesting to watch the future of this industry.

## **6. AND SO...CONCLUSIONS**

*“Wenzhou people only want to be the boss...you will never see a Wenzhou person in the factory making a shoe. They would rather be the head of a small company than a worker in a big one”.* (Wenzhou native, 14 October 2005)

The shoe and leather industry is Wenzhou’s number one industry. Employing approximately 450,000 workers, and generating RMB50 billion in revenue per annum, the economic success of Wenzhou hinges on the success of the footwear industry. The municipality is dependent on the industry. However this is a very risky strategy. All Wenzhou’s eggs are literally being placed in the one proverbial basket. Although Wenzhou has many secondary industries (light electronics, marker pens, lighters, textiles) the municipality could not sustain a crippling blow to the footwear industry.

“Clusters, it seems, have become a world-wide fad, a sort of academic and policy fashion item” (Martin & Sunley, 2003: 6). Throughout the last century, tens of theories have attempted to explain the industrial district phenomenon, but none have done so as effectively as Alfred Marshall. Wenzhou’s footwear industry is a model example of Alfred Marshall’s industrial district theory of external economies. Written in 1890, it is just as valid today as it was then. Marshall’s three factors; a large pool of labour, strong support and auxiliary firms and specialisation, are all clearly evident in Wenzhou’s industrial organisation, coupled with clear external economies of scale. Weber’s theories of agglomeration and deglomeration, and least cost industrial location can also be easily applied to Wenzhou (although the distance to labour factor is not so much of an issue here, as unskilled low-cost labour is ubiquitous). Porter’s diamond model theory is less applicable, as two of its defining factors (which do not feature in Porter’s model), chance and government, have not altered the destiny of Wenzhou’s footwear industry. There is nothing fortuitous about Wenzhou’s success. It seems that from its very foundations, the footwear industry was simply destined to grow and flourish in Wenzhou. Centuries of expertise in shoe making, entrepreneurialism and very hard work culminated into the industrialisation of this industry, borrowing technology from Taiwan. Regarding government, local officials and entrepreneurs lobbying on behalf of the industry can be seen as an intervention. However the central government’s stance of non-intervention, adopting a live and let live attitude towards Wenzhou can hardly be considered an action which boosted Wenzhou’s performance or be regarded as a factor for Wenzhou’s success. Demand conditions (also a feature of Porter’s model but omitted in Marshall’s equivalent) which are becoming more and more sophisticated have influenced the quality of goods produced in Wenzhou, but this has affected a very small proportion of the large quality geared firms, increasing their profit margins. Meanwhile the majority of the firms have continued production as always, unperturbed by these growing demands and evolving naturally, gaining expertise, ideas and quality from trickle down. I do not believe that demand conditions have interfered with the fundamental structure of Wenzhou’s footwear industry which would have expanded to the same extent producing shoes of various quality for the national and international markets due to the culture of shoe-making and the business expertise in Wenzhou. Therefore Porter’s model cannot be fully applied to Wenzhou’s situation.

The industrial district in Wenzhou is a means to an end, and every company takes a different set of needs from the structure. The buck of homogeneity stops at the final product. Each company operates in a different fashion to the next, thusly each adapts to the particular features of the industrial district that suits it most. For example, as the market leaders, the large quality-g geared firms feel they can offer more than they benefit from the industrial district. The large firms initiated the founding of the Association and the presidents and vice-presidents of some of the industries largest firms appear on the board of directors of the Association. They use the medium of the Association (rather than inter-firm relations) to share information as it is imperative to the large firm's survival that the mentality of high quality filters down even to the smallest firm, in order to completely erase Wenzhou's old reputation for low quality goods. Mid-quality firms contrast starkly. Competing on price and speed of delivery, mid-quality firms take more benefits from the industrial structure; cooperation and competition, informal associations with other firms, familial and friendship ties, information sharing etc. yet needs the Association for information and advice. The small highly specialised firms (such as the shoe-lace manufacturer or the high-heel manufacturer) alternatively are completely interdependent on the cluster structure. The close ties between their suppliers and peer firms means that cooperation and competition exist hand in hand in Wenzhou's shoe industry. Hundreds of small firms work together, behaving like a handful of large-firms. The relationships are tight but flexible, and quick adaptation to new policies or innovations is a striking aspect.

The Wenzhou example does not present as strong an industrial district as those found in Italy, which are considered the world's pioneers in industrial districts. However, considering that the Italian districts have had a 150-year head start, Wenzhou's districts are not faring too badly in comparison. But Wenzhou's district does not attempt to reproduce Italy's structures; rather it attempts to mark its own unique course. This can be clearly seen by the special use of agents.

Khalid and Nadvi (1994: 12) suggest that although there are many exceptions to the rule, industrial districts are generally synonymous with "urban arena intermediate towns". Wenzhou complies with this generalisation – hard to believe that an intermediate town can produce 25% of total shoes produced in China. Like the Sinos Valley in Brazil highlighted by Khalid and Nadvi (*ibid.*), Wenzhou was

relatively late to industrialise. It is suggested that this was a sharp advantage, avoiding the mistakes made by Fordist production lines. However, I believe the most significant factor in the success of the footwear district in Wenzhou was the innate mentality of mercantilism within this historically rooted business of shoe making. This is something that can never be replicated by a model, but has existed in the Wenzhou psyche for as long as the surrounding mountainside. A strong work ethic exists at every level of production and amongst every actor, each with the hope that hard work will lead to upward mobility and further success. It is precisely this mindset that has earned the Wenzhouese the reputation of ‘very clever businessmen’.

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## NOTES

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<sup>1</sup> “Wenzhou has historically been isolated from the rest of Zhejiang by its rugged terrain and distinct local dialect. A 1955 report stated that only 5% of the population understood Mandarin, or *putonghua*, and that the Wenzhou dialect was understood only by those living within a 34-mile radius of the city radio station...The mountainous hinterland and islands scattered along the coast provide the perfect terrain for the piracy, banditry and smuggling for which Wenzhou has historically been notorious”. (Parris, 1993: 243)

<sup>2</sup> “If you want to see capitalism, go to Wenzhou”. Jiang Qing, Chairman Mao's wife is reported to have scorned Wenzhou thusly during the Cultural Revolution in China. (Lim, 2004: <http://news.bbc.co.uk/2/hi/asia-pacific/3944723.htm> )

<sup>3</sup> Liu (1992:701-703) describes how Wenzhou took advantage of three “interstices” at the dawn of reforms; an economic interstice (“Wenzhouese households industries exceeded in producing goods that belonged to the ‘excluded middle’...simple goods neglected by large scale modern industry”), a social interstice (“Wenzhouese exploited the weakest link of a Soviet-type economic system: distribution and circulation) and a political interstice (“a control vacuum”).

<sup>4</sup> Pyke and Sengenberger (1990:2) define an industrial district as a “geographically defined productive systems, characterised by a large number of firms that are involved at various stages and in various ways in the productions of a homogenous

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product. A significant feature is that a very high proportion of these firms are small or very small”.

<sup>5</sup> As more and more footwear firms emerged in Wenzhou during the 1980s, a very competitive environment emerged. Firms soon found themselves trying to undercut each other’s prices. Goods of very low quality and shoddy workmanship were produced as a result. This situation culminated in 1987, when residents of Hangzhou, the capital of Zhejiang province, enraged at Wenzhou’s reputation for low quality output, which threatened the economy of the entire province, burned 5,000 pairs of Wenzhou made shoes in a public square, disassociating themselves from Wenzhou’s reputation. This incident could have destroyed Wenzhou’s footwear industry, but the industry organised itself and strove to improve its quality and reputation (Fewsmith, 2005: 1-2)

<sup>6</sup> Wenzhou reputedly has the largest number of migrant workers per head of population that anywhere else in China.