



The Role of Trading Cities in the Development of Chinese Business Cluster

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Abstract

Purpose-designed trading cities are a unique but under-researched feature of many of China's business clusters. Trading cities have evolved as an outcome of the larger reform of China's distribution system. During the reform process economic planners have managed the evolution of market relationships. In this context, trading cities have also become a deliberate strategy for enhancing enterprise clusters. In China, as in other low income countries, attachment to international supply chains is a double-edged process: initial opportunities for business growth are balanced against challenges to upgrade business capacity. Developing trading cities as focal points within enterprise clusters has been viewed as one way of strengthening the position of Chinese producers in value chains controlled by buyers in high income countries. This paper draws on existing literature to examine trading city linked to a number of different business clusters. We identify four types of trading cities: real-estate, cluster-induced, hub and spoke and incubator. Four case studies highlight the differences and similarities of each type of trading city and provides guidance on the potential future of trading cities.

Key words: clusters, China, distribution, economic reform, trading city, enterprise cluster

Introduction

An enterprise cluster is generally understood to be a 'geographically proximate group of interconnected companies and associated institutions in a particular field, linked by commonalities and complementarities' (Porter, 1998, p.199). In China, it is possible to find such business clusters that have existed for many centuries. A pottery and porcelain cluster, for example, has existed in Jingdezhen for more than 1400 years (P. Qian, 2003). A silk cluster has existed in Shengze Town, Wujiang in Jiangsu Province for 800 years (D. Qian, 2004). Despite their capacity for survival, it is generally not these historical accumulations of industry expertise that excite contemporary interest in China's business clusters. Rather, it is the clusters that have taken shape in the last two or three decades that are of most interest (Wang, 2001). This interest stems from the exceptional levels of business concentration. In some cases a recently formed cluster has grown to account for a substantial share of the world industry as well as within China's economy. Wenzhou, for example, accounts for over 70% of the world's production of cigarette lighters (FRC, 2006); Datang town produces over 60% of the world's socks (Sheng & Zheng, 2004; Wang, Zhu, & Tong, 2005); and Shengzhou makes more than 30% of the world's neckties (FRC, 2006).

A feature of many of China's recently developed mega clusters is the presence of a trading city to facilitate the distribution of the cluster's products to domestic and international markets. These trading cities function as a form of wholesale market but their significance is more than simply being a place where buyers and sellers can interact. Trading cities provide a managed market place that requires suppliers to abide by rules and conventions overseen by a trading city management committee that includes local government representative. In this way, trading city contribute to the more orderly development of industries than might otherwise occur. In addition to rules governing the conditions of sale and supply contracts, trading cities may provide services more usually delivered by municipal authorities or utility companies such as security, policing, waste collection and disposal. At the same time they provide a way for small enterprises to reach distant markets and to this extent can slow the consolidation of industry ownership and enable a

wide range of enterprises to survive in the content of rapid market expansion.

Trading cities typically provide space for hundreds if not thousands of shop fronts or booths at which individual producers are represented, either directly or through a trader. Haining China Leather Market in Zhejiang province, for example, has a floor space of 160,000 square meters with more than 1,300 booths at which 8,000 trading firms are represented (J. Yang & Chen, 2006). Individual booths can be rented by anything from a sales office to large wholesale operations. The physical infrastructure is usually funded by local government or private enterprise firms or a combination of both (Cheng, 2003). They facilitate the entry into international business by small scale enterprise. In 2003, within Zhejiang province's trading cities alone there were estimated to be 20,328 booth keepers engaging in international business with an export value of US\$27.27 billion (Xu, 2004). Trade shows organized by trading city managers are a particularly important mechanism for encouraging international connections. It is estimated, for example, that 10,000 international buyers visited the seventh Sock City (2006) trading show in Datang and that 50 investment projects with a value of \$US357 million were agreed at the show (www.dtsocks.com).

Trading cities are a unique phenomenon of interest in their own right but in this paper we are primarily concerned with what they indicate about the emergence of business clusters in China. There is an interactive process in which trading cities arise to support the agglomeration of enterprise activity but increasingly they have been deliberately planned as mechanisms to encourage industry cooperation. In this way trading cities raise the question as to what extent enterprise clustering in China is simply another manifestation of the advantages of agglomeration or whether they are better viewed as a reflection of distinctive development constraints and opportunities. In this regard, the paper commences by first explaining how trading cities are part of the larger reform of the distribution system in China designed to manage the transition from centrally planned to market economy.

1. Reform of China's distribution system

The emergence of trading cities can be understood partly in terms of the larger reform of China's distribution system (Y. Chen & Zeng, 2005; Ding, 2006; Luk, 1998). From 1949-1978, the distribution and production of manufactured goods was governed by a centrally planned economy in which the institutions associated with market economies were largely absent. The centrally planned economy relied on two types of institution (Koziara & Yan, 1983; Luk, 1998; Taylor, 2003) (See Figure 1):

(1) Planning and management organizations from departments of the central government and various levels of local governments. Such organizations were in charge of offering production inputs to the formulation of the national economy plan as well as being involved in co-ordinating the relevant business functions. Such kinds of organizations included the Commercial Bureau, the Commercial Office, the Municipal Commercial Official and the County Commercial Office;

(2) Wholesale functional organizations were in charge of the implementation of the state's economic plan. Within every ministerial system, this distribution network was divided into Level I wholesale stations (Beijing, Guangzhou, Shanghai and Tianjin), Level II wholesale stations (provincial capitals), Level III wholesale stations (medium-sized cities) and Level IV wholesale stations (smaller cities and towns).

The distribution system serving the centrally planned economy was a top-down hierarchy operating according to predetermined production targets and geographically constrained marketing channels (Luk, 1998; Taylor, 2003). The operation of this distribution system suffered from various shortcomings associated with the need for a massive bureaucracy that was frequently ineffective at balancing supply and demand in individual regions (Ding, 2006; Holton & Sicular, 1991; B. Jiang & Prater, 2002; Luk, 1998; Taylor, 2003). At the same time, factories were deprived of direct access to markets for raw materials and other production inputs and had little scope to satisfy differences in consumer preferences. Overseas suppliers had to work through international business agents affiliated with the various government ministries. The shift from planned to market economy has required a fundamental reorganisation of the mechanisms for distributing products to buyers. The reform process occurred in two stages.

In 1986, the central government took the first steps to creating a market distribution system by permitting manufacturers to sell directly to retailers (Luk, 1998; Taylor, 2003). With the exception of strategic goods like agricultural commodities, manufacturers were partly freed from the state controlled system. After supplying a certain quantity of goods to the state as specified in the production plan, they could determine a supplementary plan according to their estimate of market demands leading to a dual distribution system (Luk, 1998; Taylor, 2003). Further transformation occurred after 1989 when the former Chinese President, Jiang Zemin declared a need to reform the economic order particularly in terms of the distribution of goods and services (Z. Jiang, 1989). This led first to a decentralization of price controls to regional governments. During the 1990s reforms went further and allowed some commercial firms and large scale firms to have greater autonomy in the handling of import and export transactions (P. Li, 1995).

Reform of the distribution system gave local governments the authority to intervene in the development of market relationships (Cheng, 2003). In the context of economic reform encouraging the expansion of agricultural production

and emergence new industrial enterprise, local governments were attracted to the development of trading cities (Q. Yang, 2005; Yu, 2006). Trading cities were typically attractive to them as projects that would assist in meeting local economic targets and construction plans as well as in facilitating the imposition of market regulations to ensure the orderly development of an enterprise economy (Cheng, 2003).

The reform of the distribution system provides one context explaining the origins of trading cities. As well they responded to the limited capacity of China's fledging private enterprise economy. Much private enterprise has only recently been established and is lacking in the experience to engage in marketing as well as production activities. Enterprise clusters frequently started in poor rural areas focussing on basic consumer goods whose competitiveness was determined solely by price. The initial marketing mechanism employed included the recruitment of farmers as 'peasant troops' to act as travelling salespersons (Cheng, 2003). Due to a lack of marketing experience and mature marketing regulation, the transaction costs were frequently very high. Trading cities provided a commonly shared marketing network that offered a more effective distribution system that was able to exploit a locality's reputation as a producer of particular commodity. Cheng (2003) estimated that the transaction costs in trading cities could be 30% lower than those faced by enterprises without access to such a market place.

Equally significant, trading cities have been viewed as a mechanism through which the prices of locally consumed goods can be kept within reach of China's own population which remains predominantly on low incomes consumers (See Table 1).

2. Relationship between trading city and cluster

Two main types of trading city are the cluster-embedded and multi-cluster trading city (See Figure 2). A cluster-embedded trading city serves an individual cluster whereas a multi-cluster trading city handles produce from several clusters that typically encompass a wider range of products than in a cluster-embedded trading city. This can be a range of unconnected products. For example, in Yiwu China Commodity City, according to the types of products sold, the trading city is divided into: 17 Grade I trading divisions; 68 Grade II trading divisions; over 100 Grade III trading divisions and 1066 Grade IV trading divisions (Sun, Gu, & Xu, 2004). Such a classification represents 2443 various products which are sold in the trading city.

An embedded trading city may be established before or after the emergence of a cluster. The former are referred to as a 'real-estate' trading city and are typically established to support the formation of a cluster. For example, regional governments may identify an emerging agglomeration of enterprises and sponsor or approve other investors to establish a trading city with the aim of attracting enterprises to that locality. The trading city is then designed as a platform to enhance the emergence and growth of local clusters. In Zhejiang province, such government policies mean that, "an establishment of one trading city is to prosper one industry or a cluster, then enrich local people" (Cheng, 2003; Q. Yang, 2005). In Wenling City, under the advocacy of *Yiwun yipin, yizhen yi ye* (every village specialized in one product, every township specialized in one industry), the local government cooperated with private firms and households to establish specialized markets (a kind of trading city) to foster and development of clusters (Guanmin, 2004).

A cluster-induced trading city, on the other hand, is established after a cluster is already well established. This form of trading city can arise through one of three processes. It may be formed spontaneously as cluster producers 'naturally' congregate together around a physical location that becomes informally or formally recognised as a market place. Alternatively, a local government agency or the cluster enterprises themselves may sponsor the building of a trading city once they have become aware of the emergence of an enterprise cluster. The electronic trading city in Zhuangguancun Hi-tech cluster is one formed after the local government became aware of the spontaneous growth of electronic enterprise (R. Lu, 2002). Ironically, the emergence of some spontaneous trading cities occurred because of a want to avoid institutional intervention. In Shaoxing textile cluster, a spontaneous textile disposal trading city grew in the Dudaoshan Community, Kyan Sub-district (M. Wei, 2007). The emergence of this trading city was because the booth-keepers wanted to reduce the transaction costs and to avoid paying higher rent fees in a separate government sponsored trading city.

Another distinction is between a trading city serving a single cluster and ones serving multiple clusters, with further distinctions possible among the latter type. A multi-cluster trading city can be either a hub and spoke trading city or an incubator trading city. The hub and spoke trading city acts as a cross-region distribution centre by having connections to suppliers in widely dispersed locations. This type of trading city is one where the reputation of the market is used to attract suppliers so that the trading city rather than any individual cluster is the main focus of development. In contrast, an incubator trading city is linked to a local economy that contains multiple relatively small scale enterprise clusters. Incubator trading cities arise in regions where multiple clusters consume the same types of raw materials or production inputs. Haining Leather City and Yongkang China Science & Technology City are two examples of incubator trading cities in which a range of enterprises are found united by a common raw material (leather or metal). Through the trading cities local governments in both regions seek to enhance their region's association with the particular commodity (A. Wu & Zhang, 2006; Q. Wu, 2004).

3. Case studies

The case studies are all selected from Zhejiang Province as this is the province with the most pronounced enterprise clusters and where trading cities first emerged. A wide range of literature shows that the development of Zhejiang's economy can be characterized as 'xiao qiye, da jiqun' (small firms, big clusters) (Hendrischke, 2003; Sin, 2004; Sonobe, Hu, & Otsuka, 2004; Sonobe, Hu, & Otsuka, 2002; Y. D. Wei & Ye, 2004; R. Zhang & Cha, 2002). Around 85% of the individual private industrial and commercial enterprises and private run enterprises in Zhejiang are concentrated in 110 business clusters. In turn, the province's almost 4,000 trading cities are concentrated within these clusters (Yang 2005). In 2003, the number of trading cities with sales of over \$US120,000, \$US1.2 million and \$US12 million was 463; 93 and 9 respectively (Q, Yu, 2006). Of this revenue, 4% direct came from export sales (Yu, 2006).

The growth path of Zhejiang trading cities can be divided into four phases (Yu, 2006).

(1) Emergence phase (1978-1984): with the success of rural reform, a large number of 'street markets' occurred in rural areas of Zhejiang in which peasants sold their produce.

(2) Growth phase (1985-1995): over this period trading cities obtained more scope to grow with the reform of the distribution system. With the rapid industrialization of rural regions, rural trading cities grew quickly while urban trading cities also began to grow as demand for manufactured products expanded.

(3) Mature and transition phase (1996-2002): during this period a large number of trading markets were established with competition between them. Rationalisation occurred with the closure of some small and medium-sized markets. As a consequence, the number of trading cities and the total value of transactions decreased while the capacity of surviving cities frequently improved.

(4) Internationalization process (2002-): after access to the WTO, Zhejiang trading cities have made great efforts to explore international markets. Some local governments have established new markets to service international markets and in the process were developed as multi-functional locations, for example, including entertainment centres, warehousing and other functions to attract foreign visitors. At the same time, some Zhejiang enterprises have invested in trading cities outside China.

The cases selected give representation to different types of trading city as defined by the typology presented above. In addition, active, large scale and well documented cases were sought that could give representation to cities linked to a variety of markets and industrial sectors (See Table 2). Through the case studies we seek to investigate under what conditions a trading city is able to reinforce the growth of its associated business cluster or clusters and thus when investment in them might be considered a viable local economic development strategy. First, a brief summary of each of the cases is given to draw out some of the differences in origin, scale and growth path.

4. Yuyao Plastic City

Yuyao Plastic City in Ningbo Municipal region is China's largest centre for trading in plastic consumer goods. The original cluster of plastic-using enterprise formed spontaneously with the accumulation of plastic product makers in Yuyao during the 1980s when the number of predominantly small private firms in the sector reached about 1000. With the increasing demand for raw materials, raw material suppliers (of which there were around 100 enterprises) clustered to form a specialized street in 1991. Yuyao government recognizing this emerging industry used the emerging cluster as a platform to further encourage the concentration of plastic firms in their region. Plastic model manufacturing grew especially strongly and in 1997 the China Light Industry (Yuyao) Moulds City was established. In the same year, Taiwanese investment funded the establishment of the Zhejiang Far East Industrial City in which over 50 foreign firms have since established operations. Beyond, the original plastic city Yuyao government has established other trading cities as a strategy for deepening the plastic industry value chain in their region. This is reflected in the establishment of the China Light Industry (Yuyao) Moulds City. The Yuyao Plastic City is an example of the real-estate trading city arising from the Yuyao government's development strategy. Government policy continues to emphasise support to trading cities, as in the 2006 report *Some Policy Suggestion on Enhancing Development of Yuyao Plastic City*.

5. Datang Sock City

Datang Sock City is embedded into the Datang sock cluster city which is located in Zhuji county-level City. This locality experienced a rapid expansion of capacity over a number of locations, originally giving rise to a number of trading centres that took on different specializations. These included a textile raw materials market, a sock manufacturing equipment market and a logistics service market. The Datang township government believed that market duplication was obstructing information communication and adding to logistic costs and so it sought to encourage the consolidation of trading activity at one location. Four specialized trading cities were brought together to create Datang Sock City as a comprehensive pan-industry trading city. In this way, the development of Sock City followed the growth of the local sock cluster and played an important role in facilitating the expansion of the cluster as a whole (Feng, 2006) (See Table 3).

6. Yiwu China Commodity City

Yiwu China Commodity City is located in Jinhua municipal city. The establishment of this trading city continues the local long tradition of peddling low value consumer goods. Initially, this trading city was an informal periodic market. With Yiwu government support, the market developed through three phases from the initial street market, to a shed market and now as a daily, indoor market. Since 1991, this market has been China's largest industrial products market. Compared with the other case study trading cities, Yiwu trading city is relatively independent of any local industry clusters although this is starting to occur as booth keepers in the city recognise opportunities to establish manufacturing operations to support their trading activity. Clusters based on keys, printing, socks, shirts, wool, accessories, toys and zippers are among the emerging clusters (Ding, 2007). Nonetheless, this trading city is mainly a product of enterprise growth elsewhere in Zhejiang (Ding, 2006). In this way, Yiwu is an example of a "hub & spoke" trading city with it now a significant channel for selling commodities nationwide (See Table 4).

It has been argued that because many of the booth keepers in the city originally came from outside of Yiwu they have had opportunity to establish cooperation more widely than is the case with most other cities. In turn, a diverse marketing network has increased the flow of marketing information to the city and helped it expand within China and internationally (L. Chen & Bai, 2000). Export sales are now made to all regions of the world through a network of over 600 overseas trading agents using the city.

Since its establishment, Yiwu China Commodity City has become the centre of a trading-city cluster now comprising three separate cities each with their own niche (See Table 5). Recognising the success of the original trading city, the Yiwu government successively built Huangyuan Market of China Commodities City and Bingwang Market of China Commodity City in the 1990s (Sun et al., 2004). This expansion partly reflected the Yiwu government's optimism that WTO accession would facilitate more international marketing linkages to be capitalized upon of which the latest manifestation is the Yiwu International Trading City established in 2002. As well, the original trading city has built linkages with foreign distribution cities and trading markets, such as China Trading City in Cambodia; China Trading City in Brazil; China Town in Italy; Exchange Centre of Chinese products in United Arab Emirates; China Door in South Africa.

7. Yongkang China Science & Technology Hardware City

Yongkang China Science & Technology Hardware City was established in 1992. The history of metal processing and manufacturing in Yongkang dates from over 1000 years ago. With the post 1980s economic reform, several hardware clusters developed rapidly as private enterprise increased. In order to extend the market share and raw material supply for the groups of clusters, the local government has sought to reinforce Yongkang as the "China Hardware Capital" with the Yongkang China Science & Technology Hardware City being one of its projects to this end.

The Yongkang China Science & Technology Hardware city serves multiple enterprise clusters with different specializations in the hardware sector (See Table 6) (F. Lu, 2002; Q. Wu, 2004). The project has differed from other trading cities in seeking to become a centre for industry expertise and innovation rather than simply being a trading centre. This is reflected in two features of the city.

(1) A concentration on technology innovation. Having identified a need to support technology innovation, in 1995 the Yongkang government formed an alliance with China Science & Technology Association of the Financial Risk Investment Profession Committee, China Venture Technology Development centre and China Rural Technology Development Centre (X. Zhu, 2004; Q. Wu, 2004.) In 1999, the Yongkang Hardware Technology Innovation Service Centre was set with the support of these agencies and it now offers technology support for 95% of locally clustered SMEs in the hardware sector (Dong & Ye, 2001).

(2) Celebrating and promoting industrial heritage. The trading city also focuses on exploring culture and history, such as, the establishment of the China hardware museum; exhibition halls of well-known Yongkang hardware products; exhibition halls of foreign hardware products; newspapers titled China technology hardware city ; and other cultural activities (X. Zhu, 2004). Through these activities, the city seeks to reinforce Yongkang marketing reputation a "hardware city" (Z. Zhu, 2004).

8. Conditions for successful trading cities

Based on the experience of trading cities such as the four just examined, trading city complexes have been established in numerous locations to capitalise on emerging enterprise clusters or to further stimulate fledgling clusters or both. Whether this strategy will prove effective is the key question to consider. In this regard it is important to recognise three conditions that have shaped the success of the first trading cities.

First, trading cities emerged against the context of a comparative lack of intervention by central government agencies. This allowed local governments to develop projects that high level government agencies may have questioned. For example,

prior to the establishment of the Datang sock machinery market Datang's producers purchased machinery through the Yiwu market (Zhou, 2006). If central government had taken interest in this trade the likely strategy would have been to enhance the trading relationship rather than facilitate establishment of a separate trading complex in Datang. Such a decision would have been consistent with the general approach of conserving resources and exploiting economies of scale.

Second, local government involvement in the establishment of trading cities and interaction with clusters was part of the legacy of the planned economy era. Generally, people were prohibited from engaging in commercial activities so that 'flexible' attitudes by local governments could be critical in allowing the formation of incipient trading cities. The Yiwu government especially was flexible in deregulating such private businesses allowing trading in products such as chicken feathers where it was possible to find some particular community advantage (in this case solving a waste problem). By 1980, the Yiwu government had issued over 7000 trading licenses (Ding, 2006). In 1982 when economic reform was gathering pace, the Yiwu government announced a policy called *sige yunxu* (four permissions) to enhance the development of the private sector. These permissions effectively allowed peasants to engage in commerce, permitted in long-distance exchange, allowed the opening of urban markets and permitted private enterprise competition with publicly owned firms. It was against this reform context that an informal periodic market transferred to a daily commodity market and fledging trading city. With what may be called a 'first-mover' advantage, the market expanded rapidly. Similarly, in Yuyao while the central government was constraining raw material supply the local government issued business licences under the justification of waste material recycling (Liu, 2006).

Third, the early trading cities would not have happened without particular local cultures favouring individual enterprise. In one sense, for example, the emergence of the sock cluster in Datang was an accident. During a visit to Shanghai, one staff member from a township firm in Datang met a factory manager from a Shanghai sock plant. Through the meeting, this person realized that sock manufacturing was profitable and required only a small amount of investment. Once this idea was taken back, Datang's entrepreneurial ethos meant that the industry rapidly took root (Wang et al., 2005). In Yuyao, the entrepreneurial culture was reflected in the methods used by the first wave of modern entrepreneurs to obtain raw plastic materials that variously made use of *Pitiaozhi* (government officials issued introduction letters to people to obtain state controlled materials), personal relations with people from state-owned enterprises and smuggling (Liu, 2006). Yiwu is known for its long tradition of peddling dating back to the Qing dynasty in the late 1800s and that by the 1920s saw memberships of *Qiaotang Bang* (Note 1) reach 7000-8000. This traditional exchange was closed down but it only rendered the entrepreneurial spirit dormant (Ding, 2006). As noted in the case study, Yongkang draws on several centuries of association with hardware (Q. Wu, 2004).

Trading cities that follow the early examples are emerging without these 'natural' advantages and so are less well placed to face up to challenges emerging for all trading cities. Chinese manufacturing as a whole must make the transition from the 'low road' to the 'high road' of international competition and move into market niches based on high quality and high value (Q. Yang & Yao, 2005). In contrast, most trading cities continue to rely on low quality products and the counterfeiting of well known brands (Liu, 2006; Q. Yang & Yao, 2005). Within China advantage has shifted from some of the original trading cities in Zhejiang to those in western China where labour costs are lower (Q. Yang & Yao, 2005). It is also becoming clear that the entrepreneurial capacity to survive relies on individuals with the capacity to develop their own marketing networks rather than relying on location in a trading city (Q. Yang, 2005). For the present, trading cities are challenged to offer a high level of marketing support when there remains a shortage of experienced international marketing personnel. The major purpose of the Yiwu International Trading City, for example, was to serve the international market but there remain only a limited number of foreign traders in this market, so the ambition has yet to be realized (Zhi & Liu, 2003).

Conclusions

The emergence and development of trading cities reflects the distinctive character of China's economic transition from a planned to a market economy. To some extent, trading cities are a method of product exchange that fits the primary phase of industrialization. During the Tang Dynasty, a lot of trading cities existed, such as the silk market in southern China and the grain market in central China. Similarly, in Europe trading markets existed during the period of the industrial revolution that have long since disappeared as the capacity of individual enterprise to organize trade increased. Dominance by small private firms means there is a low degree of the industrial concentration, short value chains and small production capacities. Such conditions explain why trading cities exist.

The demise of trading cities has been potentially hastened by China's entry to the WTO. In fact, the 'wolves' have already arrived in China. The Japanese investor, Dailei, for example, opened supermarkets in Beijing and Tianjing, while the American giant, Walmart has started its operations in a number of markets (Taylor, 2003). These foreign investments have certain advantages over Chinese competitors and the wherewithal, superior managerial and technological skills to compete without engaging directly with trading cities. With the reform of the state-owned sector and the entry of international supermarkets after WTO accession, the position of trading cities will be further challenged

as more modern and advanced exchange methods grow.

While it seems likely that there will be significant challenges to overcome, trading city managers are pursuing strategies to maintain their relevance in a changing marketplace. It may, therefore, be wrong to expect their sudden demise. Based on the four case studies, it is possible to identify two transitions that may help to maintain the role of trading city complexes. The first involves a shift from 'quantitative' growth to 'qualitative growth' where the emphasis is on using the trading centre to promote the sharing of industry knowledge in the hope that this will stimulate innovation and enterprise upgrading. To this extent, trading cities are evolving into a new model of industrial districts with the trading city serving a geographically expanding region. For example, the Datang sock cluster now comprises of enterprise in 11 neighbouring towns as well as Datang (Feng, 2006). One of the main purposes of the establishment of the Datang Sock City is to encourage clustering supporting services as well as the sock producers. Feng (2006) argues that such action has greatly contributed to the sock cluster through the linkages between the trading city and clustered firms from 11 neighbouring towns. This requires trading cities to transcend the constraints of local political jurisdictions and build cooperation across government boundaries. Ultimately this may see the creation of more government sponsored industrial parks or districts.

The development of enterprise clusters is clearly related to the strong support that has been given to trading cities in Zhejiang. Such a phenomenon has been called the, "Zhejiang cluster growth model" (Liu, 2006; Q. Yang, 2005; Q. Yang & Yao, 2005). As a result, some local governments are interested in copying the Zhejiang model by building trading cities as a platform to enhance or foster their own local clusters. This has not all always succeeded as in the case of the Haikou government project to replicate the Yiwu Commodity City by constructing the Yiwu commodity Southern Ocean City with an investment of US\$24 million. By the end of 2006, over 90% of booths in this trading city were empty (Su, 2007). The Zhejiang model is associated with a number of issues such as a special historical period and deeply embedded local culture supporting entrepreneurial activity. With the development of economies and changed circumstance, the Zhejiang model has been challenge, and it may be questioned whether there is merit in trying to further replicate the trading city model. A possible exception are the new cities developed in western regions to capitalize on labour cost advantages over the costal regions but their reliance on low quality and cheap price means that they too will ultimately be exposed to competition form other low cost locations.

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Notes

Note 1. Qiaotang Bang can be regarded as a kind of embryonic trade association. Qiaotang means chicken feather exchanges for sugar (dealing method). Bang means club or association. Qiaotang Bang can be explained as Chicken feather for sugar peddles from Yiwu did business across the whole China. They spontaneously organized a townee club with the functions of trade association in order to help each other in an unfamiliar business circumstance.

Note 2. In the cases of Datang and Yongkang, data is collected from the year of 2005; in other twos cases, data is collected from the year of 2004.

Table 1. Per capita annual income (US\$) of urban and rural areas by regions in 2005

| | Urban areas | Rural areas |
|------------------|-------------|-------------|
| Eastern region | 1,763.55 | 752.91 |
| Central region | 1,135.81 | 489.93 |
| Western region | 1,138.85 | 440.87 |
| Northeast region | 1,124.01 | 699.35 |

Source: *China Statistical Yearbook* (2006).

Table 2. Four cases by type in this research

| Item | Cluster-embedded | | Multi-cluster | |
|--|---|---|---|--|
| | “Real-estate” | Cluster-induced | Hub and Spoke | Incubator |
| | Yuyao plastic City | Datang Sock City | Yiwu China Commodity City | Yongkang China Science & Technology Hardware City |
| Location (Municipal) | Ningbo | Shaoxing | Jinhua | Jinhua |
| Growth pattern | From an individual trading city to a trading city group | From a trading city to an individual trading city | From an individual trading city to a trading city group | ‘Quality’ focus, not ‘quantitative’ (infrastructure expansion) |
| Construction area (square meter) | 168,000 | 53,000 | Over 800,000 | 45,000 |
| Number of booth | About 1300 | 5,238 | 34,000 | 4,500 |
| Total investment (\$US million) | 78.5 | 24.1 | N/A | 40.2 |
| Total transaction value (\$US billion) | 2.5 | 2.3 | 3.4 | 0.7 |
| Daily visitors | 20,000 | 70,000 | 200,000 | 100,000 |

Source: Data collected from the government official websites of cases and authors’ summarized

Table 3. The impacts of trading cities on the sock cluster

| Cluster developing phase | The establishment of trading city | Addressed issues |
|--------------------------|---|---|
| Expanding | Datang textile raw material market | Raw material supply |
| Adjusting | Datang Sock-making market; Consign market | Technology upgrading; Marketing expansion |
| Upgrading | Datang sock City | Further inserting international market |

Source: based on *Feng* (2006).

Table 4. Domestic linkages between Yiwu China Commodities City and Chinese trading cities (outside of Zhejiang Province) in 2004

| Item | Number |
|---|--------|
| Number of provinces | 25 |
| Number of trading cities or wholesale markets | 49 |
| Number of trading cities with over 50% merchandise from Yiwu China commodity City | 40 |

Source: Yiwu New, (2005), <http://www.ywnews.cn>

Table 5. Main indicators of three divisions of Yiwu Trading City in 2006

| Market Clusters | Yiwu International Trading City | Huangyuan Market of China Commodities City | Bingwang Market of China Commodities City |
|--|---|---|---|
| Departmental store | Over 9000 | 15000 | 9000 |
| Daily guests | 40,000 | 30000 | |
| Markets | 140 overseas nations and regions | 162 overseas nations and regions | N/A |
| Construction Area | 340,000 square meters | 160,000 square meters | 320,000 |
| Total Investment (\$US million) | 72.5 | N/A | 50.7 |
| Percent of overseas trading | 60 | N/A | N/A |
| Main products | Craftwork; Decorations; Toys; and flowers | 100, 000 kinds of products, including wool, stationery, textile, shoes, buttons, glasses) | 17 industrial sectors, such as furniture, textile and food. |
| Percent of departmental stores involved exporting activities | 90 | N/A | N/A |
| Establishment | 2002 | 1992 | 1995 |

Source: Yiwu News. From www.eyiwu.gov.cn

Table 6. Hardware clusters in Yongkang in 2006

| Cluster | Number of enterprises | GDP (US\$ 10,000) | Cluster Scale |
|----------------------------|-----------------------|-------------------|---|
| Power tool | 83 | 40151 | 25% domestic total share |
| Weighting apparatus | 12 | 2218 | 60 domestic market share |
| Metal smelting and rolling | 40 | 63977 | 70% domestic sales (copper sheets, copper bars and copper belts) |
| Small home appliances | 50 | 10230 | 60% domestic market share (heating pans); 50% domestic share (electric roasting pans) |
| Stainless steel products | 45 | 17360 | NA |
| Security doors | 30 | 19932 | 70% domestic output |
| Electric bike | 73 | 38602 | Major producer and exporter |
| Auto and Motor parts | 73 | 37997 | National production base |

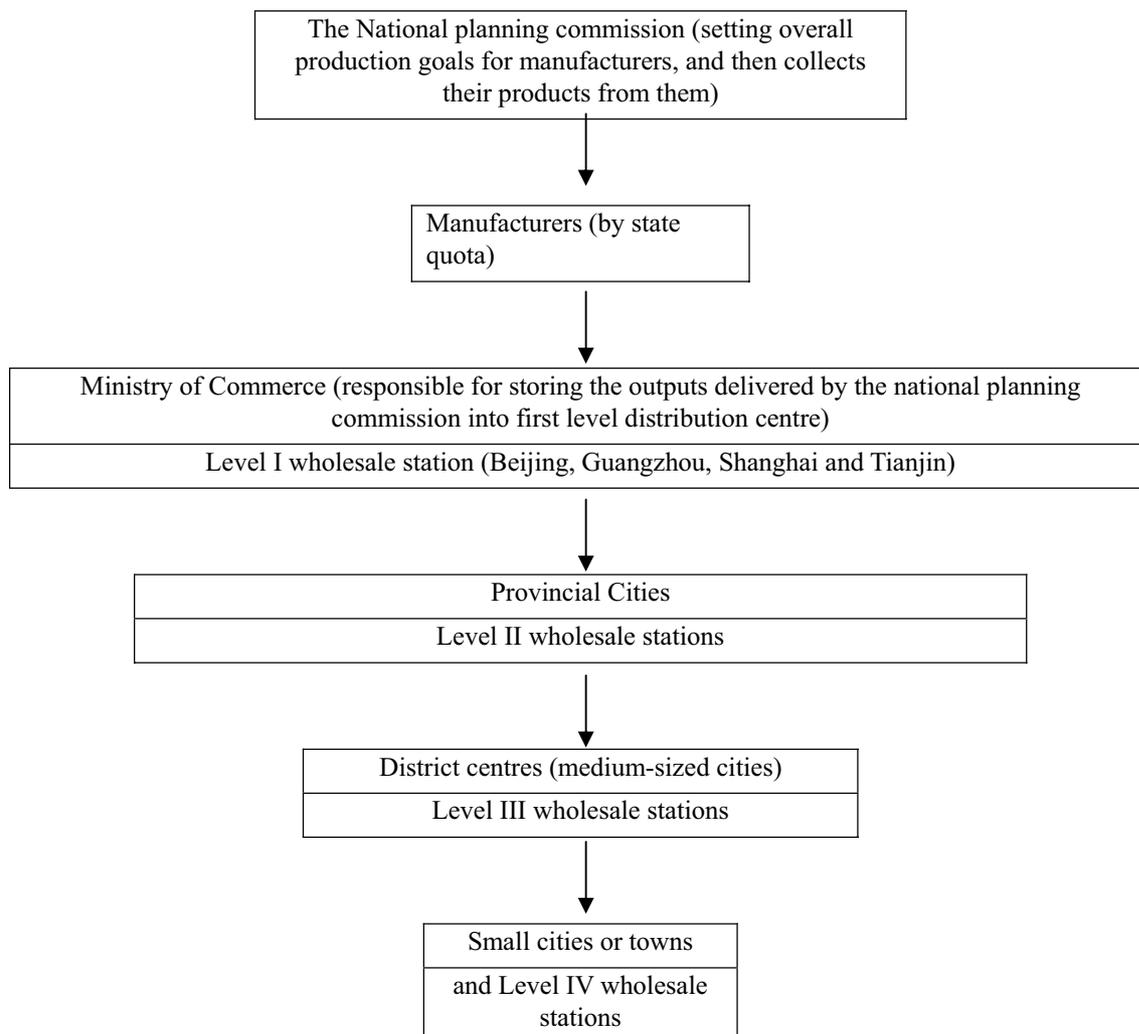


Figure 1. Distribution in China's centrally planned economy (from 1949-1978)

Source: based on *Luk* (1998) and *Taylor* (2003).

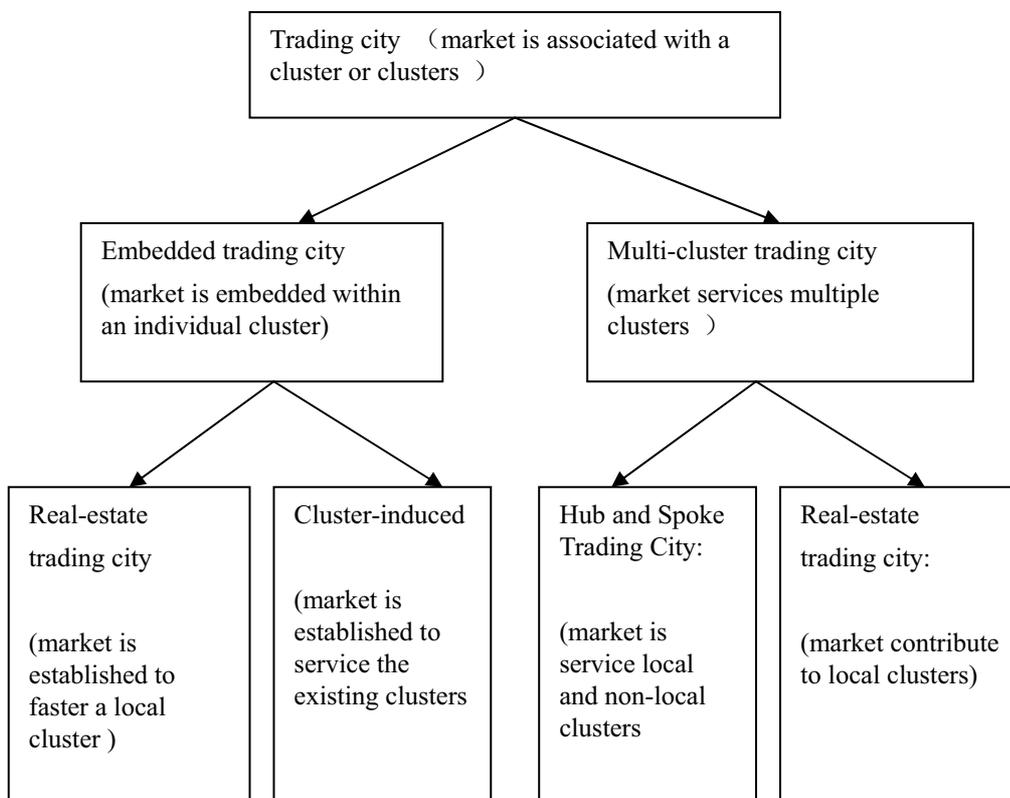


Figure 2. The types of trading cities

Source: Authors' design