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Rethinking the Wenzhou Model: raising foreign capital through private businesses

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Abstract:

I. Current situation

Since reforms to open China's economy began in the late 1970's, several regionally-oriented development models have been put in place at different times, ranging from the Pearl River Delta model, the Southern Jiangsu model and the Wenzhou model. At the beginning of the 21st century, China had reached the intermediary stage of industrialisation. Its economy has changed considerably and created new challenges for the Wenzhou model, whereby private capital provides the main driving force of development. The 'shortage economy' in which this model emerged has since evolved – competition is increasingly going global, markets are more and more regulated, energy and environmental standards are becoming tougher, and the world business environment is increasingly merciless. A new, unprecedented pressure is placed on low-profit, private companies at the bottom of the industrial ladder, for whom low production costs are the sole competitive edge. The Wenzhou model functions primarily on domestic private investment in traditional manufacturing sectors that offer little risk and quick returns. Since the majority of jobs in these sectors are non-skilled, the whole industrial structure remains undeveloped. Now that China has entered the era of heavy industry, the labour-intensive, light industries of the Wenzhou model are no longer adequate, and hinder the region's continued economic development.

The strategy of "Raising foreign capital through private businesses" would update the Wenzhou model and make it a viable option in the context of current economic challenges. Local economies can be improved by innovation and "a new strategy for industrialisation that focuses on technology and profitability, on low-energy and non-polluting activities and on maximising human resources". Promoting a local economy with a highly-developed private sector thus remains the key strategy of the region, which at the same time must adapt its traditional model. In this context, "raising foreign capital through private businesses" is a viable method of bringing the local economy up to par. This strategy is based on a scientific vision of development in conjunction with a private economy that is highly developed as a result of foreign investment and partnerships between local and foreign private companies. These partnerships reinforce the private sector and provide local economies with a "double engine" for establishing a new development structure in which local and foreign private companies exist together. These changes are aimed at improving Wenzhou's industrial structure,

business potential and competitiveness as the city enters a new phase of modernisation.

II. Examples of “raising foreign capital through private businesses”:

1. ‘Soft’ resources like joint branding and network sharing
2. local values
3. value chains
4. culture
5. indirect financing
6. use of foreign expertise
7. direct investment abroad

III. Results

1. Private companies: improvement on an institutional and technical level, better philosophy and business management
2. Local economy: transformation of industrial structure, higher quality production for businesses, improved potential and competitiveness
3. Social impact in Wenzhou: improved social protection for employees, better work environments, higher income, improved production methods.

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