

## **Entrepreneurship, small family business and Yiwu's historical development**

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### **Abstract**

Yiwu has transformed from one of the poorest rural counties until 1970s to one of the richest modern cities in China in the 2010s. This paper examines this significant historical transformation and its key contributing factors. It demonstrates how Yiwu transformed along the five dimensions of marketization, industrialization, urbanization, internationalization and digitalization. It also identifies what historical and contemporary factors stimulated the rapid growth of Yiwu and how Yiwu is a special case in comparison to other Chinese localities. The paper also argued that business entrepreneurship and family business, local government and their supportive interaction have played particular roles in promoting Yiwu's transformation. This study builds on and contributes to literature across the fields of development, entrepreneurship, small and family business, demonstrating how entrepreneurship can promote small family business and economic development even if a region is lacking in what are often assumed to be necessary resources, but that for this to be the case there is the need for a supportive and risk-taking government.

Key words: entrepreneurship, small family business, government, development, Yiwu,

## **Introduction**

Yiwu is an exceptional case. Its transformation from one of the poorest rural counties until 1970s to one of the richest modern cities in China in the 2010s is widely described as a miracle (e.g. State Council 2014; Chen 2011; Wang 2009; Lu et al. 2014). Yiwu grows much faster than other regions in China mainly after the economic reform in 1978. According to Yiwu Statistic Bureau in 2017, in 1949, the per capita GDP in China was about 90 yuan while the per capita GDP in Zhejiang Province was 72 yuan, both higher than the 63.5 yuan of Yiwu. By 1978, the per capita GDP of China was 381 yuan, while per capita GDP of Zhejiang Province was 331 yuan, both still higher than the 235 yuan of Yiwu. In 2008, however, the per capita GDP of Yiwu reached 68,508 yuan, three times that of the whole country and 1.6 times that of Zhejiang Province. The per capita GDP approached US\$ 10,000, reaching the level of economic development in medium level developed countries. In 2016, Yiwu's GDP rose to 112 billion yuan, making it the 14<sup>th</sup> richest among 2100 counties in China. Yiwu's per capita GDP was 88,823 yuan, much higher than the national average of 53,817 yuan. During this transformation more than 80 percent of the population were turned from farmers to traders and from rural to urban-based. A historical agriculture county is now best known for its large wholesale market of small commodities, or any small items, materials, products, articles and objects that are "relatively inexpensive, non-technical, mass-market" (Bryant 2016). Yiwu produces, sells and exports its goods to more than 200 countries and attracted thousands of foreign traders travel or settle locally to source and transport goods, making it a highly internalized county.

This paper examines this significant historical transformation and its attributors. As demonstrated below, Yiwu transformed itself through five dimensions of marketization, industrialization, urbanization, internationalization and digitalization. This combination involves particular characteristics in Yiwu and forms a special case as it is unlikely that the very same categories as a combination can be applied to many other cities in China and beyond. I analyse this case along the five dimensions highlighting what 'Yiwu factors' can be identified in history and contemporary in stimulating the rapid growth of Yiwu, how special Yiwu case is versus other Chinese locality, and especially the role that local entrepreneurs and policy makers play.

The article builds on and seeks to contribute towards several bodies of literature that cross the boundaries of development, management, entrepreneurship, small family business and anthropology. Early development studies have examined numerous causes for poverty, including family effects (Aldrich & Cliff, 2003), capital markets (Leff 1976), technological development (Mokyr, 1992), institutions (North 1990) or geography (de Blij, 2012; Diamond, 1997). More recently, management scholars have started to link poverty reduction to the establishment of new ventures. It is recognized that the poor as a prodigious potential market could be the source for firms' profit. Prahalad (2004) argues that doing business with the poorest could help solve their poverty problems through innovative efforts to adapt products and services for the poor. Porter (1990) finds that cluster can promote development. A cluster refers to groups of closely-related industries co-located in a region. Some characteristics or embeddedness are necessary for a cluster to form, e.g. a high-quality, powerful research university, skilled labor pool, funding, favorable policies; favorable city characteristics and historical luck (Braunerhjelm and Feldman 2006; Bresnahan et al. 2001). The importance of industrial clusters and economic agglomeration has long been recognised through Alfred Marshall's analysis on the rapid and sustained growth

of British industry in the nineteenth century (Marshall [1890] 1920). The embeddedness of a cluster creates economic value through three mechanisms: trust, fine-grained information transfer and joint problem-solving (Polanyi, 2001; Porter, 1990), leading to better collective learning and action (Abrahamson and Rosenkopf 1997). However, this body of study lacks the explanation as to how a cluster can be developed rapidly without any significant local resources such as power research university and funding which are deemed essential for cluster development.

Entrepreneurship literature could offer answers for this as it has long been recognised as an important factor to promote development as it fosters innovation, enhances employment creation and ensures more equitable income distribution (Hirschman 1958; Acs 2006). An entrepreneur is willing and able to convert a new idea or invention into a successful innovation. Entrepreneurship employs "the gale of creative destruction" to replace, in whole or in part, inferior offerings across markets and industries, simultaneously creating new products and new business models (Schumpeter 1942). In detail, entrepreneurial orientation (EO) including entrepreneur's vision, risk taking and leadership are critical to the success of clusters (Covin and Slevin 1989). Small and family enterprises are agents of entrepreneurship catalyzing the benefits through the commercialization of business ideas (Klapper et al., 2010). An important aspects of small family businesses that distinguishes them from large and other SMEs is the difference in their social networks, which can act as bridges to outside sources of knowledge and expertise and hence to better exploitation of opportunities and innovation and the development or creation of new businesses (Gronum et al., 2012; Fayolle et al., 2016).

Entrepreneurship and small family business's entry contribute to economic growth through fostering innovation, enhancing employment creation and ensuring more equitable income distribution (Hirschman 1958). This is especially true in rural areas. However, entrepreneurship and their SMEs can be promoted or depressed by the institutional environment, of which policy is a critical element. Existing literature lacks clear recognition of how entrepreneurs and policy makers work hand in hand to promote a region's development. We are unclear about how government affects business entrepreneurship through the making policies and establishment of institutions.

My approach to the study of Yiwu has also been informed by work in anthropology. In particular I have been influenced by work that has emphasised how in order for researchers to understand the forms of economic globalisation which are central for the dynamics of cities such as Yiwu it is necessary to trace traders and commodities across space, as well as to give analytical space to considerations of the meaning that traders attach to their activities in the particular contexts in which they work (e.g. Matthews et. al 2013). Hence, the material on which this article is based arises out of extensive fieldwork in China, UAE, USA and UK. Building on anthropological studies that have deployed life history as a medium into understanding the dynamics of being a trader (e.g. Marsden 2016), I have also gathered the life histories of over 100 Yiwu entrepreneurs, policy makers and foreign traders. Interview questions were tailored to individuals in order to explore the specific knowledge they could offer. The most common topics discussed in the interviews with local entrepreneurs in Yiwu were: (1) When did you begin your business? Why? (2) What were the key stages of your business development? What caused the stage shift? (3) What were your most

memorable successful and unsuccessful business experiences? What were your reflections on these successes or failures? (4) Where are your main customers located? How different of the customers in different countries in terms of demanding for price, quality and product/service features? Do they advise you with innovative or cooperate with you to improve your product/service? Are you able to meet the customer demand? Why? (5) How are you able to improve/innovate product/service, e.g. where do your innovative ideas come from and how do you commercialize those ideas? (6) Among international, national, local and your personal factors, which ones contribute mostly to your success or failure? (7) what are the challenges for the sustainable development of your business and how you will deal with them?

The most common topics discussed in the interviews with local entrepreneurs in Yiwu were policy makers were: (1) key stages and scopes of Yiwu's development; (2) key policies and institutional changes in each stage. The focuses were why these policies were issued and how they reinforced or restricted Yiwu's development; (3) key policy makers and their characteristics and how they made significant contributions to Yiwu's development; (4) identify the most important contributors to Yiwu's development; and (5) identify the key challenges for Yiwu's sustainable development and ask for advice on dealing with the challenges. [These in green can be deleted to fit the journal requirement].

These fieldwork findings and interviews indicate strongly that Yiwu's development is reflected in its marketization, industrialization, urbanization, internationalization and digitalization. Marketization records Yiwu's transition from a small rural free market to China's, and eventually the world's, largest small commodity trading hub. Industrialization refers to the shift that Yiwu has undergone from a purely trading center to one in which goods are also produced. Urbanization refers to the dramatic change of Yiwu from a rural county to a modern city. Internationalization indicates the extent to which traders in Yiwu have increasingly turned their attention away from domestic trading and towards international markets and forms of investment. Finally, digitalization demonstrates the ways in which Yiwu has refocused from physical shop floor trading to a mixed economy of both physical shop and online trading. This section demonstrates key policies promoting Yiwu's development in these five aspects based on both archival and interview data. While the former is referenced in usual style, the latter is recorded as the order of interviewee, his or her position and interview date, for example: "IV1, CEO of Shangchen Group, 20 April 2017)". In this way, we kept the interviewees anonymous as promised to them before conducting the interviews.

### **Marketization**

Yiwu's market as a whole (hereafter "Market" unless specified) has experienced the development of five generations (Table 1). As of 2017, it consists of Yiwu International Business & Trade Mansion (*Yiwu guoji shangmao cheng*, also called Futian market) and a dozen specialized wholesale markets, including the Huangyuan Market for clothing, furniture and others. This is the outcome of Yiwu's marketization across five stages, each initiated by traders' practice but with support from municipal governments which further lobbied and obtained support from provincial and national policy makers.

***1<sup>st</sup> stage (1950s-1970s): “Walking Traders” and spontaneous trading market laid the foundation for the future Yiwu market***

I first came across Yiwu as a child in my hometown in Jiangsu province, the neighbor of Zhejiang Province where Yiwu locates. That was in middle 1970s when everything was in short supply. As a child my happiest moment was to see the person who shouldered the burden of commodity (*huo lang dan*) came to our village. My mother would buy a candy for me using chicken feather or empty toothpaste to exchange. Gradually I heard from adults that these people were from Zhejiang and they traded because they were much poorer than us in Jiangsu Province. If we showed admiration to these traders for their rich travel experience and having money, our parents would warn us that study was the most important thing while trading was a shameless business. As a child I was unaware that such trading activity was illegal and that those involved in it were discriminated by the wider society.

After having formally researched Yiwu, I learnt that those traders were from Yiwu, they were called walking traders (*xing shang*) and their activity was called “exchanging candy with chicken feathers” (*ji mao huan tang*). Astonishingly, I discovered that Yiwu’s “exchanging candy with chicken feathers” dated back to the 16<sup>th</sup> century (Chen 2011) and through this activity local people made additional income to supplement limited gain from agriculture on hilly land. However, from the 1950s until the 1970s, China held a planned economic growth model. The government carried out a thorough cleanup of private capital around 1952. Since then until 1978, all enterprises in China were state-owned or collectively owned. The country suffered from a severe shortage of commodities. Yiwu suffered more given its owning of hilly land. But local farmers were not allowed to trade as the “three No rule” (*san bu gui ding*) was strictly applied by the central government, which is “No farmers were allowed to give up agriculture and do business, no industrial products were allowed to trade in free market, and no self-employed person is allowed to engage in wholesale business” (Wang 2009,15). As a result, “During the 20 years between 1958 and 1978, per capita income growth of Chinese urban and rural residents was less than 4 yuan and 2.6 yuan respectively. All the goods were severely shortage, while corporate vitality did not exist” (Wu 2008).

However, this would not stop Yiwu people for traing. As one early walking trader recalled:

“Despite the illegal status of trading, I still took great risks and found excuses to leave hometown for trading, because otherwise I would not have money to buy food and clothes for the family. I often claimed that I needed to travel far for our community’s business so must obtain certificate from local government authority. ... Sometimes we forged certificate or amended old certificate in order to leave for train. Without a valid certificate we would not be able to buy tickets or find an accommodation, and instead could be arrested at any time” (Chen Hongcai, quoted in Liu and Yao 2014).

Local government was not allowed to publicly support farmers’ trading but did not investigate the truth behind and simply issued certificates. Archival data presented in the museum inside Yiwu’s Futian Market shows that the original certificates issued by township and municipal governments were dated back to early 1970s, long before the

nation's economic reform starting in 1978. "This was unique as governments in neighboring counties or the entire China did not approve trading" (CCTV 2009).

Many local traders believed their early experience as a *xing shang* laid a solid foundation for them to conduct large-scale trading business after the establishment of Yiwu market. This was related to walking traders' unique trading method and consequent suffering and learning. Ms Zhou is in her 50s and has actively been involved in trade since turning 16 years old. She was a walking trader between 1979 and 1985 who brought small goods such as embroidery needles from Yiwu to sell to a dozen of provinces including the far northeastern Heilongjiang province. She is now the chair of Xinguang Group, one of the top accessory companies in China and agent of Swarovski. She still held the fresh memory on her early trading experience:

"Life was very harsh at that time. Information was unavailable and communication tool was almost none except for telegraph and limited public telephone. We had to explore every potential market by travelling to the place. Train tickets were so difficult to get. Once getting on a train, we often slept under the chair of other passengers; and even had to stay in toilet to avoid official's check because trading was illegal. Once arriving at a place, we sought a popular location as a temporary market to sell goods, and were frequently driven away by local officers. If the local demand was low, we moved to another place. In this way, we accumulated the most valuable market experience which benefits us for life" (4 Aug 2017).

Her husband, Mr Yu Yunxin in his 50s, was also a walking trader at that time. He introduced: "When discovering a promising market [as a walking trader], I communicated with her [Ms Zhou] and other traders to exchange market information so as to make more money from a more promising market" (4 Aug 2017). The two got married after both had made huge contributions to improving their family living standard.

At the end of 1978, Yiwu traders attempted to break through the policy restrictions on trade. They formed many temporary markets in Yiwu by simply placing their trading baskets together on the roads of villages and towns. This was the earliest market form of Yiwu. Local authority was "very headache" on how to deal with the issue that "traders flee if you drive them off but come back if not". New policies must be made to deal with the issue (Wang 2009,15).

### ***2<sup>nd</sup> stage (1981- 85): officially approve trading.***

In April 1981, the spontaneous market was moved to Bei Men Street after 200 temporary licenses were issued to individual traders by Yiwu County Industrial and Commercial Bureau, which began to allow a limited degree of private economy. This was a risk-taking action because no clear permission was given by the central government (Wang 2009). More certificates were issued to allow chicken feather for sugar trading, reaching 12,000 by the end of 1981. Farmers holding the certificate were allowed to buy small commodities from state-owned enterprises or stores and then sell them at the market. This was a significant moment as Yiwu traders were allowed to trade although Yiwu government did not publicly announce its permission.

In April 1982, Mr Xie Gaohua became the General Secretary of CCP of Yiwu County (*xian wei shu ji*). He recalled: "I am not a native resident of Yiwu, When being appointed to the party secretary of Yiwu County, my mother was upset, asking why I

was allocated to such a poor county, but I felt strongly about how to eradicate the poverty of Yiwu as the prime responsible person for this county” (Liu and Yao 2014). At that time, national government policy on free private trade had not been relaxed. Although Yiwu’s government permitted farmers to trade, tax officers still regarded many goods sold at the market as not allowed or requiring more tax paid on them. They continued their game of cat and mouse with traders. One female trader Feng Aiqian was frequently driven away by a tax officer. She was angry, so she came to the Municipal Government building to seek justice. Xie recalled how this female trader reinforced his determination to allow local people to trade:

“I asked her to calm down and explain why she should be supported. Feng stated that she had no job but four kids; she conducted small trading to supplement her family living and her behavior did not harm anyone. I was impressed and had a deep thought. As central government did not switch the green light to trading by farmers, I went to rural areas to investigate the truth. I witnessed the hardship of local people and realized that trading was indeed a major income supplement to farmers. On my return I abruptly promoted the idea that ‘small commodity trading is Yiwu’s major advantage’ and supported market development. I claimed that I will take full responsibility if provincial and central governments criticize this decision. I am determined to open the small commodity market even though I will lose my official hat (*wu sha mao*) because of this. But other members in Yiwu Municipal Government said they would support the decision too so all of us take the responsibility for deciding to support the market” (Xie Gaohua, quoted in Liu and Yao 2014, 111).

But critics highlighted the negative impact of farmers’ trade, such as tax evasion and disrupting public order. Xie realized that he must regulate the market first in order to support it (Liu and Yao 2014). On 25 Aug 1982, the government of Chou Cheng Town, the current location of Yiwu CBD, issued the file of “Strengthening the Management of Small Commodity Market”. This was officially No.1 file on the Market. It announced the opening of a small commodity market in Hu Qing Men on 5<sup>th</sup> Sep 1982. Traders needed to have completed certificates of trading, tax and booth. By the end of 1982, Yiwu had a total of 833 registered traders, including 800 peasants, 33 jobless and youth.

Following this No. 1 file, Xie Gaohua announced a revolutionary “four allows” (*si ge yun xu*) on 26 Nov 1982, which was further formalized on 4 Dec 1982 as No. 172 file of Yiwu Municipal Government. “Four allows” was comprised of the following provisions for farmers to do business: allow long-distance trafficking, allow urban and rural markets’ operation, and allow multi-channel competition. Once again, these ideas were “ahead of the central government policy” (Liu et al. 2015, 126).

In 1983, the earliest tax policy was issued for Yiwu’s trading. Before this point tax officers charged tax in a very casual way, e.g. charged one yuan per person per day for those who sold at the market. With the issued tax policy, traders had to register for trading and pay tax based on their revenue. This was a simplified tax policy that allowed traders to pay tax based on their total revenue, thereby avoiding the complex and difficult process of categorizing ‘small commodities’ and paying different tax for different category. In addition, Yiwu’s tax was perceived as “always low” which was further interpreted as “local officials support market” (IV3, CEO of Yilingnuo Bathroom Equipment Ltd, a leading water tap producer and trader, 15 Dec 2016) or

“reasonable – not too high or too low” (CEO of Yiwu Toy Ltd, 7 Aug 2017). Hence, Yiwu’s tax policy not only sped up tax payment but also offered great incentive to traders given the low tax and less strict enforcement. The wholesale market was promoted based on such simple and “friendly” tax policy.

On 5 Oct 1984, Xie Gaohua announced the government strategy of “Promoting commerce to develop the county” (*yi shang jian xian*). This placed commerce at the center of the local government policymaking. Yiwu market was rapidly developed with the focus of domestic customers. Traders in the market were called “siting trader” (*zuo shang*), compared with the earlier category of ‘walking trader’ (*xing shang*).

Ms Zhou transformed into a “siting trader” (*zuo shang*) at Yiwu market in 1985 after giving birth to her son, while her husband continued his walking trader journey. Although not a native Yiwu person, she was allocated a booth in Yiwu market, for which she was grateful, stating that “Yiwu people do not discriminate non Yiwu traders”. She successfully transferred from a walking to siting trader (*cong xing shang biancheng zuo shang*) with the reason that:

“I was always able to make more money than other traders because I fully understood the different character of people from different regions of China due to my trading experience around China; and I was able to meet their demand in their favorite way. ... More importantly, *xing shang* were among the earliest entrepreneurs of China who explored potential customer demands and understood how to source supply from one region to meet the demand of another. China’s market was created by our feet” (4 Aug 2017).

### ***3<sup>rd</sup> Stage (1986-1992): question Yiwu model and its resolution***

In 1986 the Chinese had a nationwide discussion about the merits of socialism and capitalism. Many asked if the Yiwu model was attached to capitalism or socialism by picking out problems existing in Yiwu, such as fake goods and low quality. Yiwu’s success was questioned. The debate triggered a shock in Yiwu. Business people were very concerned about their fate. Some considered stopping trade as they already accumulated a good fortune. Many rushed into banks to withdraw their deposit. Banks were closed, and the market was at risk. Some subsequently left to search for opportunities in other cities. It was a period of anxiety and confusion. Trading volume was reduced due to the doubt and uncertainty (Wang 2009, 20; CCTV 2009).

Yiwu Municipal Government foresaw the danger that the market would collapse overnight, despite the years of painstaking promotion. It made its position of supporting the market and private economy clear, arguing that private economy was an important part of a socialist economy and must be encouraged and guided unwaveringly. This standpoint was announced to business people through media, publicity and officers’ personal contact and explanation. By the end of 1990, business people’s confidence seemed to be restored as the demand for booth was increased to 10,500 (Wang 2009, 20).

The questioning was ended eventually in 1992 when Deng Xiaoping made the Southern Tour to announce that Chinese reform would continue. Yiwu returned to normal. It was in the same year of 1992 the National Industry and Commerce Bureau renamed “Yiwu Small Commodity Market” to be “Zhejiang China Small Commodity

City.” Yiwu itself also made various efforts to restore its reputation. For example, they invited the most well known CCTV host to visit and report Yiwu positively (CCTV 2009).

#### ***4<sup>th</sup> Stage (1992-2014): rapid development and institutionalization***

Yiwu learnt lessons from the debate and decided to improve market operation so as to avoid unnecessary further debate. In 1992, the Municipal Government implemented a massive reform - categorize commodity location in Futian market. It was widely agreed by interviewees that this reform was among the most important contributors to Yiwu’s success. Prior to this, buyers had to travel the entire market to find their demanded goods, which were located in all of the market mixed with various categories. The local office of the Administration of Industry and Commerce built a new market structure and then, to encourage specialization, required market participants to deal exclusively in a single category of product (rather than trading several of the 16 categories). After the policy implementation, Futian market was divided into five “districts” (*qu*) that held a total of 70,000 shops selling 1,700,000 different types of small commodities. Arts and crafts, textile accessories, ornaments, hardware, stationery, toys, electric appliance, garments and so on were all sorted out and concentrated in one or few zones of one district.

This reform significantly saved traders’ time. According to Sina, an Iranian trader who has been trading and acting as agent for Yiwu goods for more than 15 years, “In this way, traders did not need to walk around the entire market but just one or two concentrated districts of the market. More importantly, in this way the price of the goods in same category were all listed clearly. It saved buyers the time of walking towards every location of the same goods to search for lower prices. More importantly, the price was transparent and traders could reduce the possibility of being cheated on price and quality” (31 July 2017). This reform was initially resisted strongly by shopkeepers because merchants must be specialized in one or two categories and it was difficult to ask for a higher price. But they soon shared the benefits of the reform: price and goods were both transparent, which won customers’ trust and led to more business (CEO of Yiwu Toy Ltd, 7 Aug 2017).

Before 1993, the local government guided and helped develop the Market through forming a management committee by a group of small producers, buyers, government officials and administrators. In 1993, Yiwu Municipal government established Zhejiang China Small Commodities Market Group (Shangcheng Group) which, on behalf of the government, owns and manages the Futian, Huangyuan, and Production Material Markets with a total operation size of 5.5 million square meters and 200,000 employees (CCP General Secretary of Shangcheng Group, 23 Sep 2017). It holds the responsibility to protect and increase the value of state assets, i.e. the Market. It soon became a listed shareholding company, with 54% owned by the state and 46% by the public. The Chairman of the Shang Cheng Group (16 Dec 2016) introduced how the Yiwu government empowered its governance and market functions:

After ten years’ development, Yiwu government felt more urgent to understand regular pattern of Yiwu’s development. It realized the necessity to establish an entity to follow the objective law of market economy and to promote market’s prosper. It expected our Group to promote the cluster and build our brand and promote information and communication. At the early

time of its establishment, the Group played a double role with both market and governance functions. The governance function is reflected in its quality control towards the goods sold in the market, market restructuring, financing, and everything related to traders, goods and logistics. As time goes on, the governance function is weakened but market function is strengthened. Our role as a platform becomes more evident. We need to meet the demands of marketing, branding, internationalization of our traders. That is why currently we attach great importance to identify the 20% best performing traders and help them to internationalize, including negotiating with online platforms in Russia, Kazakhstan, Spain, Germany and others so that their goods can be sold on the online platforms in these countries.

According to the market operation size, categories of displayed and sold goods, and numbers of booths, Yiwu Market can be considered the world's largest small commodity wholesale center. It reached the peak of its development by 2014. Futian market alone held a total of 70,000 booth keepers selling 1,700,000 different types of Chinese-made small commodities for the wholesale market. Huangyuan Market hosts another 5,700 booths selling jeans, sportswear, and other types of garments. There were about 10 professional markets and 30 professional streets with shops that specialize in trading particular commodities (State Council 2015).

***5<sup>th</sup> Stage (2014-present): seek new growth model***

All the interviewees pointed out that Yiwu's trading business has declined since 2014. The party secretary of Shangcheng Group introduced the situation: "It is true that our trading business is affected by the recessionary global economy. Our market kept the 20% annual increase rate on its trading business between 2008 and 2014. It was much higher before 2008. At present [in 2016] the annual increase rate is 10%" (22 May 2016). Analysing what causes the market to decline, the Chair of Shangcheng Group elaborated to me during an interview that: "2014 was the turning point of China's economy from rapid to slow growth. While domestic demand was demolished, global economy is entirely under recession. Salary of domestic workers rises considerably. Industrial transformation is inevitable. The phenomenon of China being the world factory will not appear again. This demands our operators [in the Market] to carry out technology upgrading. Those unable to do so have to transfer capacity".

The local government continued its lobby to provincial and central governments to strengthen Yiwu's position. On the 4<sup>th</sup> March 2011, Yiwu was formally nominated by the State Development Reform Commission (SDRC) as "the international trade comprehensive pilot city" but Yiwu did not benefit from this position until the end of 2013 when Yiwu was granted a special tax claim code by China's Custom Authority (*haiguan zongshu*) for its traded goods. Since 2014, exporters with a large quantity and volume but a total value less than 300,000 Yuan RMB are entitled to claim from this code. With this special code the goods enjoy a speedy and simplified procedure when claiming exported goods at custom and inspection bureau. This new system not only sped up custom claiming but more importantly regulated the trading goods and enhanced quality control of the goods (Zhejiang Provincial Department of Commerce, 6 April 2017). Over the years, "the Yiwu trading system was established in a bottom-up, spontaneous manner. The tax system was not regulated" (Director of Division of Promotion, Department of Foreign Trade, Ministry of Commerce, 31 March 2017).

Traders encountered problems and ineffectiveness when claiming tax due to the difficulty of categorizing small commodities precisely, as they needed to claim different categories of goods at different prices, place them in different containers and so on. With the new policy, traders only need to claim one code which is unified for Yiwu small commodity (Deputy Director, Dept. of Institutional Reform, State Development Reform Commission, 29 March 2017). In addition to speeding up and simplifying the tax payment system, the new tax code also allowed customers to trace original producers in case there was an issue on the goods they sold. It achieved its goals as “risk can be controlled, original producer can be found, and the responsibility can be investigated” (31 March 2017).

Yiwu Land and Port Administration introduced how Yiwu government made efforts to improve Yiwu’s logistic services during this period of time:

“The good results included to allow Yiwu-exported goods to be process export claim at Yiwu Port. Exporters and agents got their goods inspected at Yiwu while filling another form to transfer their claims from Yiwu Port to Ningbo Port. While Ningbo Port still occasionally inspects goods from Yiwu Port, the overall efficiency has improved considerably. With more efforts, now Yiwu Port and Ningbo Port are both subsidiaries of Zhen Jiang Provincial Seaport Group. We are hoping that this will pave the way for Yiwu goods to be exported at Yiwu Port. The goods with completed procedures will be transported to Ningbo Port. The under construction Yi Yong Zhou (Yiwu-Ningbo and Zhoushan) Pathway and especially its Ningbo to Jinghua Railway, expected to be completed by 2020, will vastly increase the transportation capacity” (Office Director, Yiwu Railway Port, 23 September 2017). Foreign traders and agents welcome such improvements: “The most mature and effective logistic service ensured the lowest price of Yiwu goods” (31 July 2017).

Yiwu government also intended to diversify Yiwu business from export to both export and import. It thus grasped the timely opportunity to connect its business to the nation’s major “one belt one road” (*yi dai yi lu*) strategy (Nolan 2015). With the strategy, China lunched 9 railway routes between November 2014 and 2017, connecting Yiwu and others to cities alongside the New Silk Road including Madrid, Tehran, Chelybinsk, Mazare Sharif, Riga, Minsk, London and Prague. It eventually made possible the operation of Yiwu-Xinjiang-Madrid railway line. Yiwu Land and Port Administration and the cargo operator - Tian Meng Company – both revealed why these routes were still not operated frequently. The Deputy Director of Yiwu Land Port Authority introduced:

“Cargo operators lack interests on these rail routes for the concern of making loss as traders have not got use of these routes and new transportation method as they have been using shipping all the time. So around China local governments all subsidize these routes a good amount of finance as they have realized the importance to have this new logistic capacity. Yiwu government also subsidies the rail line from Yiwu to Madrid, while searching for potential customers such as overseas Chinese traders to use this line. Hence, the private firm Tian Meng is willing to operate the line. As the result, Yiwu’s export to the countries along with the route increased by 4.86 percent to US\$17.95 billion, accounting for 51.78 percent of the city’s total export (12 April 2017).

Many of my correspondents believe Yiwu will largely benefit from the central government initiative of “Belt and Road” and some noted that their trading activities have performed better since 2017 thanks to improved trade with Belt and Road countries. This claim was supported by Yiwu Custom statistics. Taking the example of the first quarter of 2017, Yiwu’s total import and export 49 billion yuan, an increase of 24% of which export was 48 billion yuan. Among this 48 billion yuan of export, 25 billion yuan was exported to the countries along the "Belt and Road" route, up 19% over the same period of the previous year and accounting for 51% of the total exports of Yiwu. Among the top 10 exporting destination countries, 8 were "Belt and Road" countries. As Yiwu Research Institute analyse why the high export to Belt and Road countries can be realised (Yang and Lu 2015): “Along the Belt and Road, especially Central Asia and Central and Eastern European countries, the demand for daily consumer goods is extremely great but their own production and supply capacity is weak. Yiwu’s small commodity production and markets are well-developed. Hence, Yiwu has a good complementarity with these regions. At the same time, these countries are rich in natural resources and have low priced raw materials, which is needed by Yiwu”. In addition, establishing an overseas cooperation zone is also an important vehicle for Yiwu to participate in the "Belt and Road" project. China Yiwu (Tanzania) Economic and Trade Cooperation Zone is one of China’s four national-level foreign economic and trade cooperation zones oriented toward Belt and Road project. For example, a multi-functional economic and trade cooperation zone was established in Tanzania in 2012. Also, Yiwu’s dry port is now integrated with Ningbo sea port and traders have already enjoyed the convenient and speedy service.

### **Industrialization**

The foundation of industrialization in Yiwu (by large Zhejiang) was weak. By 1980 there were 502 township-owned enterprises, which rose to 7618, plus 1658 village and individual-owned enterprises by 1993 (Chen 2011, 126). There were no large backbone state-owned firms in Yiwu. In 1992-93 the Market had almost 10,000 merchants. Traders desired industrial development in Yiwu to increase supplied goods and reduce supply time, giving them advantages in intense competition. Local production can also facilitate traders to control the quality of goods and understand the potential benefit and challenge on innovation (Yan Gaowen, former CCP secretary of Yiwu, quoted in Liu and Yao 2014).

On the other hand, it was a popular perception in Yiwu that “manufacturing enables less profit than distribution business [or trading business]” (former Yiwu government officer allocated by Ministry of Commerce, 31 March 2017). To improve the local traders’ understanding of the importance of developing industries, the municipal government held an exhibition entitled “Famous, Superb and New” on the 28 Sep 1994. It stipulated that the exhibited goods must be “famous, superb or new” so that it attracted the best producers from all over China. Precisely as planned, “Yiwu traders were very clever. They soon negotiated with the exhibited producers and became their agents. However, they did not wish to be controlled. Some entrepreneurs therefore had their ideas to operate factories” (CCTV 2009). Yiwu is now the venue for several nationwide and internal exhibitions. Yiwu’s top producer and trader of water tap in Futian market, stated, “I was educated to middle school only. I did not have any profession on water tap. However, I went to all the exhibitions to observe and learn. Now I ‘design’ water taps in my mind before instructing my young designers in the factories. They turned my ideas into designing papers. My factories would then

produce” (15 Dec 2016). Female entrepreneur Zhou Xiaoguang opened a hair accessory factory, where here talented employees later left Xinguang and opened their own hair accessory factories and shops. Tao Haidi opened a zipper factory. Every three days the produced zipper is equivalent to several laps around the earth.

While more and more entrepreneurs began to produce the goods for Yiwu market, Yiwu turned itself from “buy China and sell China” (*mai zhong guo mai zhong guo*) to “small commodities, made in Yiwu” (*xiao shang ping, yi wu zao*). More capital flew from commerce to industry. In 1998, Yiwu government announced a new policy of “mutual reinforcement of industry and trade” (*gong mao lian dong*) (Liu and Yao, 2014, 553). It initiated ownership reform by enabling firms to implement shareholding enterprise systems. It also subsidized those who intend to open factories through issuing policies on tax, land and loan. According to Mr Zhang, Deputy Director of National Land and Resources Bureau of Yiwu, local government made abundant industrial land available at preferential rates starting in the 1990s, offering local traders a direct incentive to move into the industrial zone (14 March 2017). This was further confirmed by Ms Zhou of Xinguang Group who recalled: “We initially wanted to build our factory and invest in Zhuji, as that is our home county. But Zhuji government was not interested in a small firm like ours. Hearing that there was a piece of land in Yiwu, I called Yiwu government to try our luck. Unexpectedly, they warmly welcomed us and cleared up all the obstacles for building factory in a very short period of time” (4 Aug 2017). Yiwu government also offered more favorable policies to attract foreign direct investment (FDI) to Yiwu to promote industry. By 2014, the government had set up two economic zones at provincial level, 12 industrial bases at national level, 26,700 industrial enterprises, 131 high tech firms including 6 national key enterprise, and 135 R&D centers (Ma et al. 2014, 263). These were key supportive mechanisms for Yiwu to develop its industry.

In result, a number of competitive industries including textile, clothing, craft and printing emerged, leading to the rapid growth of Yiwu’s industrial economy. Seamless underclothes accounted for 20% of the global market share (80% of national share). By the end of 2016, “there are over 1 million suppliers for Yiwu, but less than one third were in Yiwu. Roughly provincial products and another third supplied another one third by national products (Director, Department of Marketing, Shang Cheng Group, 15 Dec 2016).

### **Urbanization**

Yiwu’s urbanization was driven by the development of marketization and industrialization, according to the Deputy Director of Yiwu Development and Reform Commission (13 April 2016). It was also the prerequisite condition for developing everything else in Yiwu. As the Deputy Director of National Land and Resources Bureau of Yiwu put it: “Land is the mother of wealth. All the development of Yiwu is related to land. Without land, market cannot be expanded and factory cannot be constructed. Foreign investment would also be restricted if no land is allocated to the invested projects” (15 April 2017).

Yiwu’s urbanization was guided by the principle that “ensures the development, and protects the land”. Ensuring development indicated, “all the projects and constructions need to use land to materialize” (15 April 2017). “When using land, three red lines were not allowed to cross: urban and rural expansion, permanent agriculture land, and

ecosystem. Warned by these red lines, the National Land and Resource Bureau of Yiwu had plan in advance on year allocation and rehabilitation” (I15 April 2017). Yiwu’s urbanization experienced the following stages.

1<sup>st</sup>: 1978—1988: Urbanization level, i.e. the percentage of permanent urban residents to total population increased from 8% to 12%. The construction and development of Yiwu Market helped the formation of the commercial center of Yiwu. Transportation, catering and other tertiary industries and traditional light industries began to develop. The suburb towns surrounding Yiwu with convenient transportation benefited firstly from the spillover effect of urban economy, and their handicraft industry was soon developed” (Director, Yiwu Research Institute of Reform, 11 April 2017). In 1988, Yiwu became a city.

During this period, there were many profit making or bribery opportunities during the land allocations, householder relocations and market constructions. As the former head of Chou Cheng town (IV20, 16 Dec 2016) recalled his own experience: “we had many occasions to allocate newly constructed houses to those who were relocated due to market construction and others who wished to live in the houses which were modern compared to old fashioned traditional residential houses in Yiwu. Those houses were in high demand. All the officials in the five political streams including the CCP, the National People's Congress and the Political Consultative Conference all wanted a house from me. In the end I had to let everyone draw lots and invite notary office to witness the process”.

2<sup>nd</sup>: 1988—1998: Urbanization level rose from 12% to 41%. On 19<sup>th</sup> May 1990, the State Council issued the “The Provisional Regulations of People's Republic of China on renting and transferring the use right of state-owned land ”. Yiwu became a pilot city to experiment with these regulations. Local entrepreneur Gong Pingzhong intended to expand his business by establishing his own factories. He purchased 10 acres at 1.26 million yuan in 1994, then 30 acres and 300 acres so that his company became the leader in the industry. The basic reason that he purchased this large amount of land was that the local government encouraged merchants to transform from trading to producing and trading; hence the price of the land was very low (CCTV 2009).

3<sup>rd</sup>: 1998 to 2014. Urbanization rate of Yiwu rose to 71.22% by 2010. It accelerated following the process of industrialization outlined above. By the end of 2014, the urban area of Yiwu comprised 1,105 square kilometers, under the jurisdiction of 6 towns and 8 streets. The registered local population (native Yiwu) was 770,000, with a migrated population of 1.3 million, mainly from Jiangxi, Henan and Anhui reached which had 252,000, 167,000 and 150,000 respectively, together with 126,000 from the rest of Zhejiang. Urbanization took industrial development as the foundation, which “promotes employment agglomeration, followed by the move of rural population to the premise of urban agglomeration” (IV21, Deputy head of Marketing Department, Shang Cheng Group, 13 Dec 2016).

4<sup>th</sup>: 2015- present. By the end of 2014, the State Development and Reform Commission (SDRC) issued a comprehensive national new urbanization pilot program. Yiwu was among the first batch of 62 pilot cities. In light of this, Yiwu is aiming for completing urbanization. The current 281 villages will be gathered to 55 new communities with high-floor, multi-village gathering community construction. 600,000

of population will be accommodated. According to the Deputy Head of Department of National Land and Resources, “This reform will solve out three issues: where does the land come from, money from and talent from. After this reform, land will be available as rural people are moved to concentrated urban areas. The newly available land can be developed for multiple purposes, which will sort out the issue of money. Finally, the reform will turn rural and migrant population to urban residents of Yiwu. This will attract migrates talents” (15 April 2017).

### **Internationalization**

By 1997 less than 20% of Yiwu goods were exported, “because the domestic market was so good and no one considered overseas market” (Operator in Futian Market, 12 December 2016). In 2015, 65% of Yiwu goods were exported. Despite Yiwu merchants’ heavy focus on domestic market in the 1980s and 1990s, very few entrepreneurs began to internationalize before 1990s. Tong Changmao was one of the pioneers who embarked on a thrilling adventure to Dubai in 1995 when he was 27. He described his adventure as “full of the ups and downs” (09 Aug 2017).

I followed a middleman to the UAE; assuming that I was in Dubai but later spotted that I was actually in Sharjah. The middleman already disappeared. Without any language skill, I managed to come to Dubai through body language. I began to investigate the market. I discovered that almost everything in this market was much expensive than those in Yiwu, thinking that all of them could be replaced by Yiwu goods. I imported a container of shirts to Dubai, only finding that none of the shirts could be sold, as the Arabic man size was much bigger than that of the Chinese. I lost everything. But with a friend’s help, I imported a container of shoes to Dubai. Before making any money, I had to pay a great deal because the custom officers discovered the plastic smell from the shoe container. I did not come back to Yiwu for the spring festival for several years. After many such failures, I did not give up but investigated the market in greater detail. I eventually made a breakthrough after an Indian trader made a small order from me. I transported the ordered goods from Yiwu to Dubai, which were sold so well that more orders followed. For the first time I withdrew US\$150,000 from bank, bought me a first class ticket and back to Yiwu with a bag full of cash. I became the household name in Yiwu. Many Yiwu people followed me to Dubai.. ... I was late called as “copy boy” by the local traders in Dubai as I basically replaced most of the goods in Dubai market by using similar or imitated goods from Yiwu. Long existing local traders were driven away from the market.

Shi Zhongmou, another Yiwu entrepreneur, was arrested in Xinjiang for selling electric watches, which were mainly smuggled from Hong Kong in early 1980s. After being released from prison, he continued trading while also initiating an idea to construct a Yiwu market in Xinjiang to sell Yiwu goods locally while also targeting Russian markets, as well as those connected to Muslim-majority Central Asia, Pakistan and Afghanistan. He recalled, “I ran out of money while the construction went on half way. I became sick due to concern and anxiety, while hearing rumors that I would run away without completing the project and paying back debts. I begged all my relatives and friends in Yiwu to lend money to me. I eventually completed the construction of Xinjiang Business Trade City in 1993. I subsequently constructed more than 10

markets inside and outside China” (CCTV 2009). Xinjiang Yiwu market played a significant role in attracting Muslim traders to China and promoting Yiwu goods in the Islamic world (One operator in Futian Market, 13 December 2016; Anderson 2017; Marsden 2017b, 2017c).

The internationalization was accelerated after 1997 when China turned from a shortage to a surplus economy. “The 1997 Asian Financial Crisis enhanced Yiwu goods’ advantage due to its low cost feature, because overseas customers favored cheaper goods more. By the end of 1990s, the central government removed the restriction on import and export. This was reinforced after 2001 when China joined WTO” (Officer of Ministry of Commerce and a former native Yiwu resident, 5 August 2016). Internationalization transformed Yiwu from being domestic to international market orientated. Yiwu entrepreneurs, together with entrepreneurs from other regions including Wenzhou, have duplicated dozens of Yiwu wholesale market both at home and abroad, enabling an massive international wholesale market distribution networks.

However, according to the Director of Marketing Department at Shang Cheng group who was making effort to establish overseas Yiwu market in east Europe and central Asian countries, Yiwu’s internationalization was “very limited” despite about 60 percent of its goods being exported. He explained, “The green investment is limited, mainly in the fashion of constructing a trading mall or an Yiwu-like markets” (15 Dec 2016).

### **Digitalization**

Since 2000, with the effect of national electric (E) commerce booming in China, E commerce was also rapidly developed in Yiwu, which made considerable impact on Yiwu’s traditional wholesale market. The CCP General Secretary of Shangcheng Group admitted: “A few years ago we had a large debate on if we should have E commerce. We did not significantly promote E business until now. Physical trading was our advantage and our merchants were good at that. Hence we did not cooperate with Ma Yun by then” (22 May 2016). Inevitably, however, Yiwu’s market was extended into two – a physical one and an online one. To ensure Yiwu’s position in online business, the municipal government held the World Digital Business Conference annually in Yiwu. It also held exhibitions every year for products of small and medium E business companies. Ms Chen revealed that these events were expected to improve performance and ensure leading position of Yiwu’s E business. There were also some measurements to support those with limited finance and education to operate their E business, e.g. offering training courses (22 May 2016).

On 21st December 2012, Yiwu Gou, that is, Yiwu’s online sale platform, was established, 13 years after Ma Yun set up his online platform Alibaba in 1999. Even as a latecomer, Yiwu’s online business rose rapidly. The party secretary of Shangchen Group introduced: “In 2015 our physical trading revenue was over US\$100 billion, while online trading revenue was also over US\$ 100 billion. 40% of our merchants are trading both online and offline. Of course, we need to integrate online and offline trading. Alibaba and Jing Dong are both looking for us to form partnership as they have online but not offline. We are confident, as we are the largest offline trading body. Online business has huge issues in terms of lack of supervision on selling defective goods and poor management on online stores. Still, we need to ‘dance with the wolfs’” (22 May 2016).

Despite this achievement, most locals believed that Yiwu municipal government made a mistake in promoting E business. As Zhang Jian, the former visiting deputy mayor of Yiwu observed: “Local government was not prepared for danger in times of peace and lacked vision. That they did not accept Ma Yun’s proposal to form a partnership was the evidence. In this way Yiwu lost the best timing to establish an online platform (7 Aug 2016). Without being strong on “two legs”, i.e. both physical and online business, Yiwu faced greater pressure when global trading was in recession (15 April 2017). There was also a criticism of Yiwu Gou that it was not well-designed and not easily monitored. Many Yiwu business people preferred to register on other online platforms. Some commentators were pessimistic: “It is impossible to produce a great Yiwu Gou under the current management system” (IV15, 31 March 2017). The implication was that a state-owned agency like Shangcheng Group would never be an effective manager of Yiwu Gou, compared with Ma Yun and his platform Alibaba. An agent could not have more interest and commitment than a private owner when managing their business.

### **Discussion and conclusion**

Yiwu’s market and its related businesses have fostered a rapidly growing cluster consisting of traders, producers, suppliers, agents and other service firms who facilitated trading and transporting. Yiwu’s significant transformation is summarised in the introduction and enriched empirically in the above sections. Below I present what are claimed by my respondents to be that “Yiwu factors” that have contributed to these transformation.

As the Chair of Shangcheng Group put it, correct self-positioning is the key for Yiwu’s transformation and achievement. Since China began the reform in 1978, three major rural industrialization and regional development models have emerged: "Wenzhou model", "Pearl River model" and "Sunan [South East China] model". Yiwu did not pursue the "Sunan model" that started with collective industry, nor the "Pearl River model" that was promoted by FDI and its related export-oriented economy. Yiwu did benefit from the "Wenzhou model" in many ways given their geographical proximity. Both Yiwu and Wenzhou were founded on "specialized markets plus rural industrialization". However, while Yiwu copied Wenzhou model in the early stage by emphasizing the market, it departs from Wenzhou model as it continues to focus on the market while Wenzhou has transformed its focus from light industry to heavy industry. This may be related to that Wenzhou began with family production and then promoted market to sell family made products. In other words, the market is not the key strength and hence the focus of Wenzhou model. However, Yiwu began with trading goods from the entire China and trading is its strength. While it is yet clear which model is better, the fact is that Yiwu continues to grow steadily whereas Wenzhou’s growth has declined considerably.

Entrepreneurship has been found as being critical in Yiwu’s transformation. Local informants do not use the term entrepreneurship but instead “Yiwu spirit” to describe the vision and risk taking of local businessmen and women. “Yiwu spirit” is described with 12 Chinese words: “*qin geng hao xue, gang zheng yong wei, cheng xin bao rong*”, meaning “diligent and studious, upright and brave, integrity and tolerance” (Chen 2011). Such entrepreneurship was nurtured by local culture respecting business and motivated by the desire to deal with poverty. Mr Zhu Xiaoliang, a native Yiwu and

official in Ministry of Commerce, summarized: "Everyone's common mentality [in Yiwu] is to be killed rather than starve to death. Those brave ones began to trade regardless of its legal status". The Director of Division of Comprehensive Reform, Zhejiang Provincial Development and Reform Commission, further expanded on the meaning of Yiwu spirit: "Yiwu people were not satisfied by the status quo – poverty - so they were determined to change the status. However, they were more wise than brave. They searched tirelessly and eventually discovered a development model suitable for Yiwu" (6 April 2017). Entrepreneurship is reflected not only in the motivation but also means of eradicating poverty. That requires innovation including new ways of doing business and products with new features and prices. My findings concur with the existing literature on Yiwu (e.g. Si et al. 2015): Yiwu entrepreneurs are ceaseless in their attempts to test out new way of doing things from trading to producing and E commerce; as a result, their products and prices are changing continuously. Meanwhile, their SMEs benefited from local network built on close family or relative relationships. All the entrepreneurs in this paper have more or less benefited from receiving information, idea and financial assistance of family and local members.

Of course, rapid development in Wenzhou and other areas also benefited from local people's entrepreneurship and small family business, but Yiwu entrepreneurs are more realistic by concentrating on business they are most familiar with, i.e. trading. They are probably also more successful entrepreneurs in terms of their broader and globalized vision. For example, it is widely claimed that Wenzhou business people favour the business model of doing business with other Wenzhou natives in order to reduce transaction cost and enhance trust; by contrast, Yiwu entrepreneurs embrace the entire world to do business.

A supportive and capable local government is another widely claimed factor. As many business entrepreneurs expressed, they need a favorable institutional environment to shine and they have got it in Yiwu. As put it by the researcher in Zhejiang Provincial Department of Commerce, Yiwu cluster would not have developed "without local government's risk taking in permitting the chicken feather trading well before the national economic reform and challenging existing policies consistently after the reform" (6 April 2017). One recent media report showed relevant evidence. Early in 2017 when Mr Xie Gaohua, the former CCP general secretary who supported Yiwu market by risking his official position, visited Yiwu, hundreds of local business people drove and parked on the road, waiting to welcome his visit. One said, "Xie Shuji [CCP general secretary] is our benefactor. We cannot forget about our benefactor". At the same time, as claimed by research in Zhejiang Provincial Department of Commerce, "several generations of Zhejiang provincial government were all very reasonable and cautions in guiding the market and did not intervene market excessively. On the other hand, they actively helped local entrepreneurs who faced difficulties. ... This might be related to the fact that Zhejiang was not an industrial-strong province. The provincial government was very supportive to business, and this was why Zhejiang nurtured not only Yiwu but also Wenzhou and many other clusters. The support was even stronger after Minister Zhong Shan became the governor of our province. He directly removed barriers to international trade. He offered many concrete supports to Yiwu" (6 April 2017).

The well-balanced government role was considered extremely beneficial for Yiwu's development. A former visiting officer allocated by Ministry of Commerce to Yiwu observed, "Yiwu has not been controlled to death" (31 March 2017). The research in Zhejiang Provincial Department of Commerce extended this argument: "Yiwu's unique area is that the Market has never been privatized. It has always been in the hands of the government. At the same time, the local government is wise. It did not excessively control neither lose control the Market. Jinjiang in Fujian, Hanzhenjie in Wuhan and other specialized markets were largely privatized and controlled by one or a few individuals. Pursing maximum profit and minimum social responsibility was the consequence. Somehow Wenzhou also lacked a wise government as Yiwu has. In Yiwu, government controls the market through implementing policies to improve quality of goods and service of trading, as well as establishing more institutions and building infrastructure to ensure the best service and lower cost" (IV8, 6 April 2017). In sum, entrepreneurship and policy makers interactively promote Yiwu's transformation. Both business people and policy makers "took risk to leverage resources to create new institutions or to transform existing ones" (Maguire et al. 2004, 657).

While Yiwu has made significant transformation, local entrepreneurs and policy makers are fully aware of significant challenges. Yiwu benefited considerably from a large domestic market with an insatiable demand for lower cost small commodities, especially in its early development stage. However, with rising living standards in China, such demand will inevitably reduce. Yiwu also benefited from the mass production capability in China which ensured the seemingly unlimited supply of affordable Yiwu goods. However, with the rising wage, material and environment protection costs, it is becoming more and more difficult to maintain the lower price of Yiwu goods. Above all, the rapidly growing field of E-commerce has begun to source supply from producers rather than Yiwu wholesalers, posing challenges to traditional Yiwu traders who are slow in mastering E commerce methods.

This study contributes to development, management, entrepreneurship and anthropology literature. It explains how Yiwu can be developed rapidly as a cluster without any significant local resources such as a powerful research university and associated funding which are often deemed essential for cluster development. It demonstrates how entrepreneurship promotes development through cluster, being fostered by a strong incentive to eradicate poverty using innovative means and novel products while also being supported by a risk-taking government.

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Table 1 Market evolution in Yiwu

Market generation	Time	Location	Market capacity and government role
1 <sup>st</sup>	1982-1984	Hu Qing Men & Nian San li. On road.	Allowed to operate on the 5 <sup>th</sup> Sep 1982. A spontaneous commodity market; 700 non-fixed booth. Walking traders brought goods for the market to trade. Limited types of goods for trade. Government attitude was changed from acquiescence to support.
2 <sup>nd</sup>	1984-1986	Xin Ma Lu. On road.	Opened in Dec 1984. Government invested 570,000 yuan, built an area of 350,000 square mete with fixed booth 1800. More than 2740 types of goods for trade. From road-based market to a closed field-based. The market already involved traders beyond Yiwu and even Zhejiang province.
3rd	1986-1992	Cheng Shi Road. In a closed field.	Constructed from November 1985, a total investment of 4.4 million yuan, completed in 1986 with 4096 fixed booths, covering 44,000 square meters. Expanded to 57,000 square meters and 8503 fixed booths and 1, 500 temporary booths by 1990. Also built a building inside the market to offer comprehensive business services. Having seized the opportunity to meet the shortage of goods caused by planned economy, market size, merchandise types, annual turnover were all steady developed. Became the largest small commodity wholesale market in China.
4th	1992-2002	Huangyuan, Binwang. Large indoor.	Huang Yuan market was constructed from 1991 and put into use in 1992 with 7100 booths. another 7000 booth were added after the second phase by 1993, operating area increased to 460,000 square meters. By Nov 1995 Bin Wang market was opened with operating area of 280,000 square meters and 8900 booth. Diversification and formalization were the major features. It became “buy [from] the whole China and sell [to] the whole China” ( <i>mai quanguo mai quanguo</i> ).
5th	2002-present	Futian. Large modern indoor with air condition, automatic elevator and broadband.	Yiwu Municipal government announced its goal to promote Yiwu to be international trading city. In Oct 2010 the Phase 1 of International Trading City was completed with 310,000 square meters with 6800 booth. In Oct 2004 Phase 2 was completed with 600,000 square meters, 8000 booth and over 10,000 operators. In Oct 2008 Phase 3 was completed with 1.8 million square meters and 16,000 booth. In May 2011 Phase 3 was expanded with additional 640,000 square meters and 7000 booth. One of the largest modern markets in China.