

Chambers of Commerce in Wenzhou Show Potential and Limits of “Civil Society” in China

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Wenzhou is famous for its thriving private economy. Less well known is the growth of chambers of commerce and other trade associations there. These organizations are changing the structures by which China is governed and policy is made. Chambers of commerce have done much to promote quality standards within industry and maintain Wenzhou’s competitiveness. Though these groups have brought about new forms of state-society accommodation, they have not challenged party rule. On the contrary, they are another manifestation of China’s new political-economic elite which has a broad consensus on many issues.

Over the past 25 years, the city of Wenzhou in southeastern Zhejiang province has become known for early and rapid development of the private enterprise model. With its high population density, lack of agricultural land, and long tradition of entrepreneurship (as well as banditry and other dubious activities), Wenzhou turned to private enterprise earlier and more fervently than any other part of China.¹ Local political authorities alternately opposed, supported, or tried to limit this growth, and occasionally even attempted to give it a more “socialist” form. Yet family-based enterprises were tenacious and grew quickly. The “Wenzhou model” soon distinguished itself from the “Sunan” (southern Jiangsu province) model of collective enterprise and the Guangdong model of foreign-invested enterprise, and became particularly controversial throughout the 1980s.² Deng Xiaoping’s trip to southern China in 1992, and the subsequent endorsement of a “socialist market economy” at the 14th Party Congress later that same year, lent new momentum and legitimacy to Wenzhou’s development.³

In December 1987 the central Secretariat defined the Association of Industry and Commerce as a non-governmental chamber of commerce engaged in united front work. The following year, the Association revised its charter to include the recruitment of collective and private industries as well as state-owned industries.⁴ This effort to develop new forms of administration adapted to China’s evolving economy matched the needs of business, which needed to seek out new forms of association. Although Wenzhou’s economic development in the 1980s and early 1990s had been impressive, it was not untroubled. Private entrepreneurs in Wenzhou used household enterprises to produce low cost goods sold both locally and nationwide. Wenzhou merchants soon found themselves competing with each other as well as enterprises in other localities. Counterfeit brands, substandard materials, and shoddy workmanship soon emerged in an effort to undercut competitors. Although such methods benefited some individual businesses, trade as a whole suffered. Soon Wenzhou gained a reputation for producing low quality goods,

which threatened the future development of the local economy. The consequences to Wenzhou's future development was vividly demonstrated in 1987, when angry citizens in Hangzhou, the capital of Zhejiang province, piled up and burned 5,000 pairs of Wenzhou-made shoes.⁵ Wenzhou's businesses, particularly larger enterprises, began to see profits erode.

Under such pressures, Wenzhou industries began to organize chambers of commerce. By the mid-1980s, the city's business leaders had developed good personal relations with Wenzhou political leaders. The groups quickly convinced local government officials that Wenzhou's continued economic development depended on improving quality control, introducing new designs and technologies quickly, and developing a core of skilled workers. In particular, Wenzhou's Alliance of Industry and Commerce (*gongshanglian*) was convinced that steps had to be taken to reform local industry. The Alliance of Industry and Commerce, which is under the CCP's United Front Work Department and charged with overseeing non-state business, took the lead in encouraging business leaders to form associations.

The shoe industry, directly affected by the 1987 incident, became one of the first industries to organize. The Lucheng District Shoe Industry Association (*Lucheng qu xieye xiehui*) was established in 1988. Meanwhile, the government, in cooperation with the new association, promulgated the "Management Regulations on the Rectification of Quality of the Lucheng District Shoe Industry" and the "Provisional Regulations on After Sales Service of the Shoe Industry." Such measures rapidly improved the quality of Wenzhou-made shoes and gave new life to the industry.⁶ This was perhaps the first example of how industry associations could bridge the concerns of business and government, enforce quality standards, and promote local economic growth.

From such modest beginnings, chambers of commerce and trade associations grew quickly. By August 2002 there were 104 such non-governmental business associations at the city level. In addition, there were another 321 associations at the county, county-level municipality, and district levels, with some 42,624 members covering most of Wenzhou's industrial enterprises.⁷ Not only has the number of associations grown quickly, the number of enterprises participating in a given association has increased apace. For instance, the Apparel Industry Chamber of Commerce, founded in 1994, originally had only 10 members. In 1998, it had 156 members, in 2000 it had 287 members, and at the beginning of 2003 it had 423 members. In the first half of 2003, its membership suddenly jumped to 1,025 enterprises. This jump was due to efforts to reach out to manufacturers of women's and children's clothing; the chamber had originally been organized around older, larger, and more established makers of men's clothing. As membership expanded, the number of leaders grew. In 1994, when the group was established, there was one chairman, 2 vice chairmen, and 7 board members; by 2003, there was one chairman, 22 vice chairmen, 45 members of the board of directors' standing committee, and 121 board members. Obviously, the expansion of the group spurred an effort to include more voices in the chamber's leadership.⁸

Wenzhou's chambers of commerce have both developed faster and played a larger role in government policy than similar organizations elsewhere in China. Wenzhou's chambers of commerce, therefore, give some sense of the state of "civil society" in contemporary China and where it might be going.

Organization and Structure

As mentioned above, trade associations and chambers of commerce in Wenzhou were originally nurtured by the Association of Industry and Commerce, also known as the Wenzhou General Chamber of Commerce, and were subordinate to the party's United Front Work Bureau. But at least some of Wenzhou's chambers of commerce—including the Lighting Chamber of Commerce, the Shoe Industry Chamber of Commerce, and the Apparel Chamber of Commerce—were initiated by the enterprises themselves. In this sense they grew up "outside the system" (*tizhiwai*), though they quickly developed good relations with the Association of Industry and Commerce.⁹ For reasons that are not clear, in February 2002, the Ministry of Civil Affairs promulgated the "Notice Re-Confirming the Management Units for Social Groups" (*Guanyu chongxin queren shehui tuanti yewu guanli danwei de tongzhi*), which gave supervisory authority to 22 departments—but not the Association of Industry and Commerce.¹⁰ This regulation caused considerable confusion in Wenzhou. To remedy the situation, local authorities decided that henceforth, newly organized industry associations would be supervised by the city's Economic and Trade Commission and other departments, but allowed those organizations already under the Association of Industry and Commerce to remain there. This has led to the odd situation in which the Association of Industry and Commerce supervises 22 "chambers of commerce," the Economic and Trade Commission supervises 31 "trade associations," and other departments supervise still other trade associations.¹¹

Although a basic corporatist structure links Wenzhou's trade associations to supervisory units, the fragmented control of industry associations by different government departments does not accord with the usual notions of corporatism. Also at variance with corporatist notions is the fact that one enterprise may belong to two or more trade associations. Indeed, over one quarter of Wenzhou's enterprises participate in more than one trade association, nearly 14% participate in three trade associations, and 17% participate in more than three trade associations.¹²

Geographic Reach

One interesting aspect of Wenzhou's trade associations is their habit of not only promoting the interests of industries in Wenzhou but also establishing branch associations to promote Wenzhou businesses throughout the country. Recently, in an imitation of China's traditional *lansmanschaften* associations, Wenzhou businesspeople have set up chambers of commerce in over 100 cities. Wenzhou's government has strongly supported these chambers, and has lobbied other cities to permit their establishment. Of course, the reason other cities have been willing and even eager to

allow Wenzhou merchants to organize is because they bring investment. Sometimes these groups can apply pressure on Wenzhou by comparing its government unfavorably to other urban administrations. For instance, the head of the Wenzhou chamber of commerce in Shenyang, Liaoning province, said at a conference in Wenzhou, “Last year [2003] people from Wenzhou invested over 6 billion rmb in Shenyang and this year the figure will reach 10 billion. Why? The government there plays the role of the nursemaid. Every day somebody specially goes to the enterprises to ask what they can do. So the CEOs can concentrate all their energies on building their businesses. In comparison, the service provided by the Wenzhou government has a ways to go....”¹³

Wenzhou chambers of commerce have not only influenced governments throughout China but also defended the interests of otherwise scattered producers against foreign actions. The most famous example occurred in 2002-2003, when the Wenzhou Tobacco Implements Trade Association (*yanju hangye xiehui*) successfully defended the interests of manufacturers of lighters against the European Union. This incident began in late 2001, when the trade association heard that the EU Commission on Standardization was drawing up regulations requiring lighters costing less than two Euros to have safety mechanisms to protect children from accidents. As the vast majority of lighters fitting this description were made in Wenzhou (the 500 or so Wenzhou industries that produce these lighters turn out some 600 million of them a year—90% of the world’s production¹⁴), this EU action posed a serious threat to the industry. This was the sort of trade requirement (or sanction) that Wenzhou manufacturers, almost all of which were small, family operated operations, could never have fought on their own. But the Wenzhou Tobacco Implements Trade Association met and decided to resist this EU action by collecting relevant materials, raising funds, and hiring a lawyer.

Wenzhou manufacturers viewed their reusable cigarette lighters encased in metal as fundamentally different than the plastic, disposable lighters that would also be affected by the regulation. Moreover, supporting materials provided by the EU to Wenzhou manufacturers indicated the sanction was based on only one recorded case of a malfunctioning Wenzhou lighter—underscoring the overwhelming safety of Wenzhou lighters. Wenzhou manufacturers realized that the EU was using safety standards to erect trade barriers in violation of WTO rules.

In March 2003, representatives from the Wenzhou Tobacco Implements Trade Association traveled to Europe with specialists from MOFTEC (Ministry of Foreign Trade and Economic Cooperation) and the lawyer they had employed. After 17 days of negotiations with various parties, the EU indicated that it would revise the regulations accordingly. The trade association became an overnight sensation.

This dispute had hardly gotten under way when the European Association of Lighter Producers accused China of dumping lighters on the European market. In response, in July 2003, the Wenzhou Tobacco Implements Trade Association took the lead in convening a meeting with its counterparts in Guangzhou and Ningbo. Again the associations decided to fight the charges, combining to raise funds to hire an international lawyer. Faced with the Chinese reaction—and dissension in their own ranks—the EU

quickly dropped its action. An association of private enterprises—with government support (but no funding)—had managed to defend the interests of an industry composed of countless small producers who could never have prevailed on their own.¹⁵

Relations between Chambers of Commerce and Government

In general the Alliance of Industry and Commerce has worked with the largest manufacturers in establishing associations. For instance, in the case of the Apparel Industry Chamber of Commerce (*Wenzhou fuzhuang shanghui*), perhaps the largest and most successful of the various industry associations in Wenzhou, began with only 10 enterprises in the early stages. The lead was taken by Liu Songfu, head of Golden Triangle Enterprise (*Jin sanjiao gongchang*). Although the Association of Industry and Commerce supported the establishment of the association, it provided no funds; the entire cost of running the association over the first years—some 100,000 rmb—was borne by Liu and a small number of other leaders.¹⁶

Like other industrial associations, the Apparel Chamber of Commerce maintained very close relationships with political leaders. The deputy head of the Alliance of Industry and Commerce, Wu Ziqin, chaired the first congress of the chamber of commerce, and a number of political leaders were named either honorary board members or senior advisors. The support of the Alliance of Industry and Commerce, which became the sponsoring unit (*guakao danwei*) of the new chamber of commerce, was necessary for the chamber's registration, its ability to secure office space, and ability to convince other enterprises to join.¹⁷ The authority of the Alliance also supported the chamber's efforts to enhance quality control.

Over time, however, relations between trade associations and government have become more (but not completely) institutionalized. Personal relations between association leaders and government leaders remain close, but there has been a tendency for government officials to be less involved in the internal affairs of trade associations. Although the government still appoints a few trade association heads, 77% report that they freely elect their chairmen in accordance with their own rules of operation.¹⁸ Moreover, the internal organization of trade associations—how many directors they have, how many committees they set up, and whether to organize training and consulting activities to raise funds for the association—seems to be free of government interference. Indeed, the fact that Wenzhou's trade associations receive no government funding makes them quite entrepreneurial. In addition to imposing membership dues, trade associations organize training classes to impart technical expertise and provide consulting services to raise funds. They also organize trade group trips abroad so members can learn about industry trends and relay the latest information and technical standards to colleagues back home.

The changing relationship between industry associations and the government may be symbolized by the Apparel Industry Chamber of Commerce. The chamber amended its charter in 2003 to specify that government officials should not be named as advisors.

The reorganized Advisory Commission was composed of five prestigious entrepreneurs who had previously served as vice chairmen of the chamber.¹⁹ This change was not an assertion of chamber independence from government supervision so much as a reflection of the government's growing trust that this NGO could run its own affairs without running afoul of government concerns. Elections for leadership roles in chambers are becoming more competitive. The Apparel Industry Chamber of Commerce was the first to introduce *cha'e* elections (in which the number of candidates exceed the number of positions), and others have emulated the practice. Some have borrowed the practice of "sea elections" (*hai xuan*) from village elections, allowing nominations for association head to be nominated freely by members. In 2000, Liu Songfu, who spearheaded the establishment of the Apparel Industry Chamber of Commerce, was defeated by Chen Min, the leader of a new generation of entrepreneurs who have expanded the scope of chamber activities as well as its membership.

Wenzhou's chambers of commerce even have a degree of influence over government policy. For instance, the regulations governing Wenzhou's shoe industry, mentioned above, were a collaborative effort between the government and industry representatives. Similarly, the "10th Five-Year Development Plan of the Wenzhou Apparel Industry" was worked out by the Wenzhou Apparel Chamber of Commerce in coordination with the city's Economic Commission. During sessions of the local people's congress and Chinese People's Political Consultative Conference, Wenzhou's chambers of commerce recommended 141 entrepreneurs to join those two bodies and raised 54 proposals. The general Chamber of Commerce (Association of Industry and Commerce) also organized members of the CPPCC to draft a proposal to create an industrial park.²⁰ Trade associations have clearly given Wenzhou entrepreneurs a voice that they would not have had individually. Nevertheless, studies indicate that the influence of trade associations remains limited.²¹

Although government officials have withdrawn, at least to some extent, from participation in trade associations, entrepreneurs are increasingly participating in politics, particularly in the people's congresses and Chinese People's Political Consultative Congresses (CPPCCs) at various levels. By 2003, a total of 421 members of 64 chambers of commerce participated in People's Congresses or CPPCCs, including 3 in the National People's Congress and 13 in the provincial people's congress.²²

Civil Society or Corporatism?

Does the growth of local business associations suggest the rise of civil society in China? And does the increasing participation of business leaders in political institutions suggest the possibility of society leading the state? While it is tempting to jump to such conclusions, it is quite premature to make such judgments even with regard to Wenzhou, much less the rest of China.²³

In a system where "development is the last word," it is not surprising that local (and national) business leaders are gaining recognition and participating more in the

political process. This was the import of Jiang's "Three Represents" and the decision to admit private entrepreneurs into the party. (Even though many "red capitalists" had already joined the party before the ban on their participation was formally lifted, reversing the ban imposed in 1989 was symbolically important.) Quite a few private entrepreneurs attended the 16th Party Congress in 2002 as delegates, and one, Zhang Ruimin, head of Haier Corporation, was named an alternate member of the Central Committee.

The increasing participation of business leaders in politics, however, suggests more of an alliance of interests than broad-based political participation. The "quasi-institutionalized" relationship between trade associations and local government that Chinese researchers speak of hints at the dubious legitimacy that clings to trade associations within China's political system. On the one hand, although there are local regulations, there is still no national law; a "chamber of commerce law" has been under discussion for some years, but none has been promulgated. Thus, policy influence is still dependent on personal relations rather than a legally based lobbying system or legislative hearing system. On the other hand, what political legitimacy chambers of commerce have attained is based on the fact that they have taken over certain government functions, such as supervising trades with regard to quality control and "excessive" competition. But defining the role of chambers of commerce administratively raises many difficult questions, not only because they are now subordinate to many administrative organs, but also because administrative regulations could easily define chambers of commerce as a "second government." Doing so would end questions of chamber political legitimacy, but could also undermine the vitality that has made them important—or define them as outside the government, enhancing their independence but eroding their political legitimacy.²⁴

China is likely, sooner or later, to generate legislation regarding chambers of commerce. When it does, such legislation is likely to follow corporatist models for organizing intermediary groups. As mentioned above, Wenzhou's practice deviates from corporatist notions in several regards, including voluntary participation. But it is difficult to imagine different trade associations competing freely to represent the same constituency, as in pluralism (though, in fact, there are some instances of precisely this sort of competition). It is also difficult to imagine legal institutions growing so rapidly that they could provide a reliable framework governing state-NGO relations anytime soon.

In the absence of such an institutional framework, personal relationships and convergence of interest are likely to govern state-NGO relations for some time. This could have several consequences. First, the convergence between government and large business interests is likely to grow. Up to now, Wenzhou's chambers of commerce have fostered a democratic atmosphere, and smaller enterprises are said to participate actively in their affairs. Whether that continues in the future remains to be seen. Certainly the heads of larger businesses are best able to cultivate relations with the political leadership. Second, it is clear that the interests of business are much better represented through associations than labor. It is possible that Zhejiang will develop better protection for

workers in the future; there are reports that some unions are being allowed to form. But worker associations will be on much shakier grounds than business associations, and their leverage will consequently be far weaker. So the bias toward business will remain strong. Third, business interests are likely to continue to prevail over other interests, such as environmental concerns. This is particularly interesting given the emphasis the Hu Jintao/Wen Jiabao government is placing on “sustainable development” and other issues that are encompassed by their notion of a “scientific development concept.” Local interests are where grand policy schemes meet reality.

Conclusion

The emergence of chambers of commerce and other trade associations in Wenzhou marks a further evolution in state-society relations in China as the growing importance of the private economy generates pressures to readjust interests. Conservatives in China feared that the emergence of the private economy and the emergence of non-governmental associations would threaten the CCP. Indeed, the growth of chambers of commerce stalled in Wenzhou after Tiananmen. Deng Xiaoping’s journey to the south in 1992 touched off a new upsurge in the private economy as well as the organization of business. Ironically, the fears of conservatives have proven misplaced. The CCP has learned to accommodate this most capitalist of institutions, using chambers of commerce to promote the local economy and bring order to an unruly sector. For their part, chambers of commerce in Wenzhou have learned how to promote their business interests without threatening the ultimate authority of the party. Indeed, for better or worse, a new ruling elite composed of both party officials and private entrepreneurs seems to be emerging in Wenzhou and Zhejiang.

Many people in China look to the emergence of chambers of commerce as one step along a long road to democracy. They reflect an increasing accommodation between the political system and the interests of an increasingly diverse society. Thanks to trade groups, policymaking is more consultative and better reflects the needs of industry. Relations between state and society are placed on at least a quasi-institutional foundation and thus regularized. Associational affairs are increasingly managed democratically and without governmental interference. But if this is a step toward democracy, it is only a very preliminary step. Indeed, political authority remains central to the operation of the system. The growth of chambers of commerce can help regularize state-society relations, but ultimately the very existence of trade associations is based on the legitimacy bestowed by government.²⁵

Indeed, to the extent that the Chinese government can develop a consultative policy making process and accommodate the interests of society, it may well delay the implementation of political democracy. The test will come when the accommodation between the state and business is challenged by other groups, ranging from environmentalists to workers.

Notes

¹ Wenzhou has drawn considerable scholarly attention. See Alan P. L. Liu, “The ‘Wenzhou Model’ of Development and China’s Modernization,” *Asian Survey*, 32, No. 8 (August 1992): 696-711; Kristen Parris, “Local Initiative and Local Reform: The Wenzhou Model of Reform,” *The China Quarterly*, 134 (June 1993): 242-263; and Yia-Ling Liu, “Reform from Below: The Private Economy and Local Politics in the Rural Industrialization of Wenzhou,” *The China Quarterly*, 130 (June 1992): 293-316.

² Peter Nolan and Dong Furen, eds., *Market Forces in China: Competition and Small Business—The Wenzhou Debate* (London: ZED Books, 1989).

³ Yu Jianxing, Huang Honghua, and Fang Liming, *Zai zhengfu yu qiye zhi jian—yi Wenzhou shanghui wei yanjiu duixiang* (Between government and enterprise—looking at Wenzhou’s chambers of commerce) (Hangzhou: Zhejiang renmin chubanshe, 2004), p. 37.

⁴ *Ibid.*, p. 59.

⁵ Chen Shengyong, Wang Jinjun, and Ma Bin, *Zuzhijhua, zizhu zhili yu minzhu* (Organized, self governance and democracy) (Beijing: Zhongguo shehui kexue chubanshe, 2004), p. 38.

⁶ *Ibid.*, p. 38.

⁷ *Ibid.*, p. 228.

⁸ *Ibid.*, p. 286.

⁹ Yu Hui, “Hangye xiehui jiqi zai Zhongguo zhuanqi de fazhan” (Trade associations and their development in China’s period of transition), retrieved from www.usc.cuhk.hk/wk_wzdetails.asp?id=4164.

¹⁰ Chen Shenggyong, et. al., *Zuzhijhua, zizhu zhili yu minzhu*, p. 301.

¹¹ See chart on p. 196 of *Ibid.*

¹² *Ibid.*, p. 206.

¹³ *Ibid.*, p. 241.

¹⁴ “Shenfang Wenzhoushi yanju xiehui” (Interview with the Tobacco Implements Trade Association of Wenzhou), retrieved from <http://www.wzgcc.cn/ReadNews.asp?NewsID=2413>.

¹⁵ Chen Shenggyong, et. al., *Zuzhijhua, zizhu zhili yu minzhu*, pp. 49-51.

¹⁶ *Ibid.*, p. 285.

¹⁷ *Ibid.*, p. 293.

¹⁸ Yu Jianxing et. al., *Zai zhengfu yu qiye zhi jian*, p. 286.

¹⁹ Chen Shenggyong, et. al., *Zuzhijhua, zizhu zhili yu minzhu*, p. 294.

²⁰ Yu Jianxing et. al., *Zai zhengfu yu qiye zhi jian*, p. 80.

²¹ Chen Shenggyong, et. al., *Zuzhijhua, zizhu zhili yu minzhu*, p. 263.

²² *Ibid.*, pp. 229-230.

²³ See, for instance, Kenneth W. Foster, “Embedded within State Agencies : Business Associations in Yantai,” in *The China Journal*, no. 47 (January 2002):41-65.

²⁴ Yu Jianxing, et al., *Zai zhengfu yu qiye zhi jian*, p. 48.

²⁵ He Zengke, *Zhongguo zhengzhi tizhi gaige yanjiu* (Study of Chin’s political structural reform) (Beijing: Zhongyang bianyiju chubanshe, 2004), p. 254.