

# Wenzhou's workshops crafted economic legend

## Small commodities meant big profits during heady days of economic reform

By HAN TIANYANG

After they began making small commodities like lighters, spectacles, shoes and buttons at the onset of China's reforms three decades ago, workshop manufacturers in the coastal city of Wenzhou in Zhejiang province became known as pacesetters for private enterprise in the nation.

To the surprise of many, such unremarkable products

created a huge market and brought wealth to the city and its people.

Last year, Wenzhou's GDP reached 253 billion yuan, almost 200 times its GDP in 1978.

The average disposable income of urban residents has increased to 28,000 yuan from 477 yuan in 1981. The net income of rural residents grew to 10,100 from 113.5 yuan 30 years ago.

The engine driving the

miracle in Wenzhou, now one of the wealthiest and most prosperous cities in China, is the private economy, unlike many other regions whose livelihood is dominated by State-owned companies.

Wenzhou's vigorous private sector has now attracted copycats trying to learn from its success — the so-called “Wenzhou model”.

Yet some say that the “Wenzhou model” actually means no model, since Wenzhou locals don't rely on any type of blueprint. The city's businessmen are known as open-minded, flexible and eager to embrace new ideas.

Ahead of most other regions in the country, Wenzhou's individual businesses

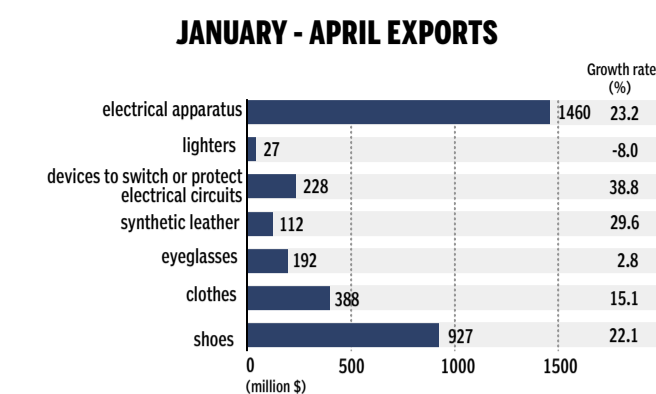
and family workshops mushroomed in the 1980s as China took its first steps toward reform and opening up.

By acting early, Wenzhou's private economy grew enormously. The segment now accounts for 80 percent of Wenzhou's total GDP, the highest ratio in the nation's average.

Wenzhou's greatest success has come in overseas markets.

In the first four months of this year, the city's foreign trade totaled 3.7 billion dollars, with shoe exports — the biggest item — valued \$927 million, followed by clothes, electrical apparatus, synthetic leather and spectacles.

In eastern European countries, shoes made in



Wenzhou virtually dominate the market.

### Lessons learned

Yet behind those achievements have been setbacks and frustration.

In the late 1980s, just as the shoe market burgeoned, some manufacturers in Wenzhou

eager for quick profit and used fake leather and even paperboard, badly damaging the reputation of Wenzhou shoes and causing in a nationwide boycott of their products.

Wenzhou businessmen learned an important lesson — sustainable profits only come from quality products and credible brands — and gradually got back on their feet.

In 2004, Wenzhou was named a National Brand Economy City. By 2007, it had 38 Chinese Famous Brand products, 80 China Well-Known Trademarks, 157 National Inspection-Free products and 210 Zhejiang

Provincial Famous products.

Government support has also played an important role in the development of the private economy in Wenzhou.

As the sector began to rise in the 1980s, the local government saw the advantages of the private economy and moved help small companies.

When businesspeople encountered the crisis in trust caused by fake goods, the government called for local companies to build prestigious brands to improve the image of Wenzhou enterprises and the city.

During the global economic downturn, local authorities put in great effort to promote modernization and restructuring to build long-term competitive strength in the private sector.

Shao Zhanwei, secretary of the Wenzhou Party committee, said he firmly believed local enterprises would lead the recovery — comparing private companies to wild grass that might wither in winter but will sprout again in spring.

## 253

billion yuan

Wenzhou's GDP last year, almost two hundred times 1978

## 28,000

yuan

Average annual disposable income of urban residents in Wenzhou. It was 477 yuan in 1981

## 10,100

yuan

Net income of Wenzhou's rural residents in 2009. It was 113.5 yuan 30 years ago

## Private wealth looks for new capital outlets

By HU YUANYUAN

Often seen as a barometer, Wenzhou's private investors have been seeking out new fields after the government tightened real estate policies.

Investors are now diversifying their portfolios into stocks, coal, gold, agriculture products and private equity funds after new policies made real estate — Wenzhou's traditional capital outlet — much more risky.

“Real estate, mining and stocks are usually the top three areas for Wenzhou's private capital,” said Zhang Zhenyu, director of the financial office of Wenzhou Municipal Government.

According to his research, real estate accounts for 20 percent of the collective portfolio, but as both central and local governments tighten real estate policies, Wenzhou's private capital has adopted a strong wait-and-see attitude toward the property market.

“More private capital has begun to flow into raw materials, metals mining and other wealth management products,” Zhang said.

A manager from a local gold investment company said monthly sales have increased 150 percent this year.

Another indicator could be the mine owner from Cangnan, a county in Wenzhou, who has invested more than 100 million yuan to enter the hospitality trade by building a five-star hotel.

According to Zhang, Wenzhou individuals and companies have about 400 billion yuan in private capital excluding bank deposits.

By the end of the first quarter of 2010, the total assets of 324 sampled enterprises in Wenzhou had risen by 19.72 percent, or 12.6 billion yuan, compared to the same period in 2009.

Zhang said the capital needs of 324 enterprises in first quarter of this year were met through 39 percent self-financing, 33 percent by bank loans and 28 percent by private lending.

More Wenzhou enterprises have also begun to invest outside their core businesses, rising from 37 percent in 2008 to 50.3 percent in the first quarter of this year.

Statistics show that Wenzhou's outstanding bank deposits hit 560.8 billion yuan at the end of the first quarter, an increase of 8 percent from beginning of the year. The growth rate in Taishun and Yueqing reached 16 percent and 20 percent, much higher than the city's average.

“That capital, which has little interest in going into the real economy, is just waiting for better investment opportunities,” said Zhang.

### Government efforts

After more than 30 years of development, how to improve the safety of private capital investment in Wenzhou and



Busy street in the electrical equipment city of Liushi. There are 34 national production centers in Wenzhou that have earned the city titles like 'Shoe Capital' and 'Capital of Electrical Equipment'.

ways to make it available to industries the government encourages is an important job for the Wenzhou municipal government, Zhang said.

“The government should encourage Wenzhou's private capital to flow into financial sectors and other programs of strategic importance such as the construction of railways, subways and freeways,” said Zhang. “A Wenzhou private equity fund should be established to better serve the development of small and medium enterprises.”

Many savvy businesspeople have scented opportunity in private equity funds and venture capital. Industry statistics show that about 30 billion yuan

in Wenzhou capital is moving into equity investment through different forms.

“After the government launched a slew of measures to curb property speculation, we could hardly make handsome gains from property investment like what we did in 2007 and 2009,” said Zhang Yuming, a Wenzhou merchant. Early this year he sold off two-thirds of his properties and is now targeting private equity projects.

He said there are more than 100 Wenzhou enterprises focusing their business on venture capital and private equity, but only three have core competitiveness.

“It is really hard for Wenzhou business people to put

their money into an account that they are not so familiar with, even though the venture capital is pretty famous,” said Zhang.

Zhou Dewen, head of the Wenzhou SME Development Association, said if private equity funds and venture capital operations are professional and bring steady income for Wenzhou investors, they will “definitely attract private capital”.

Wenzhou's municipal government is working on detailed plans to bring leading funds to the city with 6 million yuan in support and a Wenzhou Private Capital Investment Services Center that will be set up this month.

### AT A GLANCE

#### Location

Located in southeastern Zhejiang province, Wenzhou looks out to the East China Sea on its eastern coast. It lies between 27°03' and 28°36' latitude and 119°37' and 121°18' longitude.

#### Climate

Wenzhou has a subtropical climate. In winter, the weather tends to be mild and dry, while summers are hot and humid, similar to other areas of the province. Heavy rainfalls occur in early summer and typhoons are common in late summer. Average highs are 12.2 °C (54.0 °F) and 32.2 °C (90.0 °F) in January and July respectively.

#### Administration

There are three districts, two county-level cities and six counties under the prefecture-level city of Wenzhou. The districts include Lucheng, Longwan, and Ou Hai, while the cities are Ruian and Yueqing.

#### Population

The permanent population of the province is 8 million, including 2 million urban residents, divided among two county level cities and three wards.

#### Natural resources

The coast of Wenzhou is rich in natural resources

and beautiful islands. Wenzhou also has beautiful scenery. For example, the Yangdang Mountains, the Nanxi River and the Bai-zhangji Fall-Feiyun Lake are well-known scenic spots of Wenzhou. It's also famous for natural reserves such as the Wuyangling Ridge and the Nanji Islands. The scenic areas account for 25 percent of the city's land space.

#### History

Wenzhou has a history going back to about 2000 BC. It was first famous for its pottery production. It was given its current name in 675 AD under the Tang Dynasty. Wenzhou contributes to the traditional economy as a port access to the southern Zhejiang region. In 1876, Wenzhou was opened up to foreign tea trade, and it was an important port during the war with Japan in 1937 to 1945. Its economic role was well recognized after the re-establishment of Zhejiang coastal trade in 1955.

#### Culture and Arts

Wenzhou has a distinctive culture. It is the origin of China's landscape poetry. It is also associated with Mercantilism, showing the importance of business there. These cultures play an important role in creating the mindset of the local community.

### FIRSTS IN WENZHOU

**Beginning with the nation's era of reform and opening-up in 1978, the private economy of Wenzhou boomed, accelerating the city's economic development and led the way for China in several areas:**

- **1980:** Wenzhou issued the first privately or individually owned business license in China.
- **1983:** Yongjiaqiaotou Button Market was found, known as the “first button market of the East”.
- **1984:** The first joint stock enterprise Ou Hai Climbing-Shoe Factory was established by 26 peasant shareholders.
- **1987:** The first local regulation for privately operated enterprises was issued in Wenzhou.
- **1987:** The first local regulation of the joint stock system was issued, outlining the rules of joint stock cooperation in rural Wenzhou.
- **1991:** The first national chartered service company was found in Wenzhou's Cangnan county, established under the joint stock system.
- **1992:** Jinwen Railway, which is the first joint stock railway of China, was constructed in Wenzhou.
- **2004:** The first Chinese non-territorial limited financial group, Zhongrui business group, was organized and found by eight State-owned enterprises.
- **2004:** Zhengtai Enterprise won the top prize in management and operations, becoming the first private company to win this award in China.
- **2008:** The first art forum of Wenzhou was officially opened.
- **2009:** The forum focusing on Wenzhou people's characteristics opened.

## ‘Most Dynamic City’

UN organization cites favorable climate to start new business

By ZHANG ZHAO

Southeast China's Wenzhou has been named one of the “Globe's Most Dynamic Cities” by the United Nations Industrial Development Organization as a place for starting new business and industries.

Wenzhou was a prosperous foreign treaty port, and is still one of the vital ports lying between the Yangtze River Delta and the Pearl River Delta. It is also one of the most important cities in the Economic Zone on the West Coast of the Taiwan Straits and one of the three most important cities in Zhejiang province.

The Wenzhou government combined the national opening up policy with its local practices.

By leading the way in promoting market-oriented reforms and developing a private economy, the city created the “Wenzhou Economic Model”, which features a flexible system and continuous innovation, which has inspired the modernization drive in China.

The city achieved 252.8 billion yuan (\$37 billion) in GDP in 2009, an 8.5 percent year-on-year increase, with its gross fiscal revenue amounting to 36.1 billion yuan, up 6.2 percent. The annual per capita disposable income for urban residents and the net per capita income for rural residents both increased by 7.1 percent, reaching 28,021 yuan and 10,100 yuan respectively.

As the cradle of China's pri-

rate economy, Wenzhou has over 140,000 private enterprises, 11 of which have been listed among China's Top 500 Competitive Private Enterprises.

Wenzhou has developed many industries, including clothes and shoes making, low voltage electric apparatus, pumps and valves and motor parts, along with some other emerging industries, including electrical applicants and shipbuilding.

Located away from the center of the political and economic stage, the Wenzhou people are more independent, self-reliant, and generally more business-oriented than in other parts of China. Now over 1.7 million of Wenzhou's entrepreneurs are doing business in every corner of China, and another 600,000 have started businesses in more than 100 countries and regions around the world.

