

**Social Capital, Entrepreneur Network and Small City  
Development in Central and Western China: A Case Study of Xixia  
City**

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**By Chi Zhang**

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## **Abstract**

Reducing the regional economic gap and better developing the currently underdeveloped small cities in Central and Western China are two challenges confronting many Chinese and international scholars. This thesis chooses Xixia City, a small mountainous city in the Central China region as a successful case in economic development to explore whether and how local entrepreneur networks function as social capital stocks to help these small cities overcome their common disadvantages (e.g., location, transportation, industry foundation and material capital) and catalyze the local economic development. By interviewing the members of the Xixia local entrepreneur network and the officials, this thesis seeks to understand the history and the structure of the Xixia local entrepreneur network and identify the social capital stocks in Xixia City. Based on these data, this thesis also summarizes the benefits of the local entrepreneur network, and uncovers the positive lessons we can learn from the Xixia's local network in order to encourage the local economic development and industry innovation throughout China's underdeveloped small cities.

**Key Words: China's Urbanization; Economic Development; Network Theories; Social Capital; Industry Innovation**

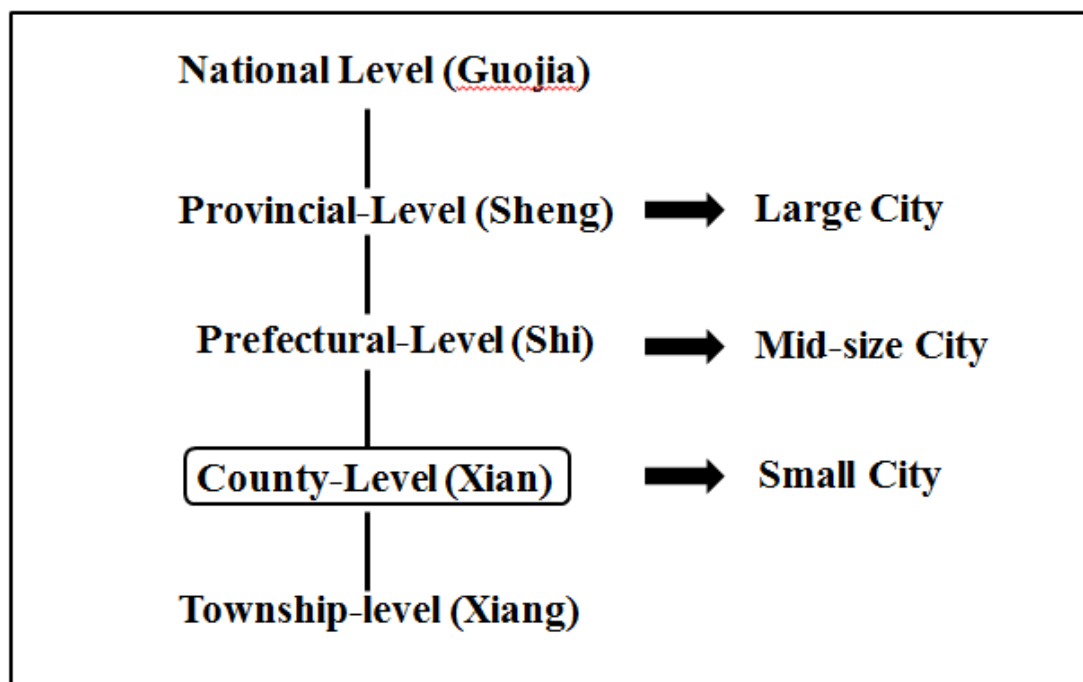
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## **I. Introduction**

China is experiencing one of the most rapid urbanization in the world. Each year, tens of millions of people move from rural areas to cities, and there is still a great potential for future growth. However, China's urbanization is unbalanced. On one hand, large cities in China are overcrowded and facing serious problems such as traffic congestions, unaffordable housing price, and pollution; on the other hand, many small cities are still underdeveloped, especially in Central and Western China.

China has a very unique urban hierarchy system. To be specific, small cities in this thesis refer to "county-level" cities in this system (Figure 1). In China, county-level cities are within the jurisdiction of higher, "prefectural-level" cities and the county-level governments are under the command of prefectural-level governments. So in the regional development, county-level cities are often under unfavorable situations when competing with prefectural-level cities. They are usually considered as relatively small and underdeveloped cities and the "periphery" of the prefectural-level region.



*Figure.1: Hierarchy of China's Administrative Division*

As the “periphery” of regional development, these small cities often find it very hard to develop their economy because of their remote location to the “development core”, weak industry foundation, shortage of capital, etc. Poverty issues remain serious in these small cities. Infrastructure, education, health care and social services are also in a very low level. This situation has created a vicious circle for urban economic development in small cities. In addition, this unbalanced development makes large number of people migrate from small cities and rural areas to big cities and causes many social problems, such as social exclusion of newcomers (Liu and Xu, 2008), educational discrimination against migrants (Huang and Huang, 2005), and insufficient social and health care facilities for the “left-behind elderly” in small cities and rural areas (Cai, 2006).

In order to improve the unbalanced situation, China's central government has provided large amount of inter-governmental transfer to small cities, and poverty alleviation funds to the poor regions. Local governments have developed some development strategies, such as "infrastructure oriented development" and "industry park strategy". Although effective in supplying physical assets for development, these approaches failed to creating or utilizing the endogenous power of small cities' development. In the long run, these approaches are often unsustainable. Thus, some effective development approaches should be discovered for the large population that has been "left behind" in these small cities.

Despite the fact that most of the small cities in Central and Western China are underdeveloped and have suffered from poverty, there are some good examples, implying that good approaches can be found to overcome the disadvantages and lead small cities to more sustainable development models. In this research, I choose Xixia, a small mountainous county-level city close to the southwest border of Henan Province in Central China as a case study to explore how a small city can develop its economy and what are the important factors to overcome the disadvantages in terms of location, industry foundation, technology and material capital. I will argue that the well-organized local entrepreneur network and the good local environment for industry development can be the social capitals and the key to small cities' economic growth. Through field investigations, interviews and analysis of Xixia's case, I will demonstrate how social networks catalyze the development of Xixia, and what makes

Xixia City become a good place for the development of a good local entrepreneur network.

There are four reasons that make Xixia a good case to examine my hypothesis of the linkage between entrepreneur network and urban development:

- (1) Like many of the underdeveloped small cities in Central and Western China, Xixia is a remote mountainous city, far away from the regional core cities and important economic corridors. Over 85% of its county area is mountain area, which means, according to the conventional location and development theories, Xixia does not have the locational advantage for development. I believe that there must be something else, other than the location factors, fosters its development.
  
- (2) Xixia's development is a remarkable success in its region. In 2013, the industry cluster area in Xixia is ranked as the 22<sup>nd</sup> most competitive industry cluster out of the 180 industry cluster areas in Henan Province (Henan Census Bureau, 2013). According to 2010 data (Table 1), GDP per capita and disposable income of urban residents in Xixia County are also much higher than the Nanyang Prefecture, the prefecture where Xixia is located, and Henan Province (Figure 2).

	Xixia County	Nanyang Prefecture	Henan Province
GDP Per Capita	34,754	19,000	21,073
Disposable Income of Urban Residents Per Capita	14,360	12,235	11,275

Table 1. 2010 Economic performance data of Xixia, Nanyang and Henan Province

(Unit: RMB, Source from: 2010 Annual Government Working Report of Xixia and  
Census Bureau of Henan Province)



Figure.2: Map of Nanyang Prefecture

(3) Unlike some of the small but well developed cities in Central and Western China which have rich resource endowments or well-developed industry foundation before China's economic reforms, Xixia developed its economy from the ground



up. So Xixia's experience is more applicable for many other underdeveloped small cities in China. In addition, Xixia's industry is not highly resource dependent. Instead, its competitiveness mainly comes from technology innovations and modern management, which implies a more sustainable development approach than resourced dependent approaches.

(4) Xixia has a good visible social network among entrepreneurs, and good communications between entrepreneurs and local government officials. According to previous research, interviews and government reports, Xixia's success is considered as "A success of People" or "A success of cooperation".

## **II. Literature Review**

Many scholars have studied urban economic development, and the relationship between networks and economic development, both in theory development and in methodology. The following are the most relevant knowledge I have drawn from the literature.

### **1. Urban economic development theories, strategies and the conventional approaches in China**

For a long time and till now, most scholars believe "economic base" or the activities which export goods and services to other regions or market their goods

and services to persons from outside (Andrews, 1953) is the origin of local economic growth (Klosterman, 1990) (rephrase. Make your own sentences. It's not necessary to quote directly). According to this model, money is earned by economic base from outside and then is redistributed to non-basic or local consuming or service sectors and creates more jobs through a multiplier effect and the general economy will grow (Gibson and Worden, 1981). Thus, how to find and foster competitive export industries is the key issue in planning for urban economic development. According to this principal, many theories and strategies has been developed and applied in China's urban economic development based on economics, trade theories, and economic geography.

**(1) Factor endowment theory and factor-dependent development strategies:**

Factor endowment theory or the Heckscher-Ohlin theory (H-O theory) as an international trading theory emphasizes that, given the difference of factor endowment in each country, countries will export commodities produced from their affluent and cheap factors of production because these commodities are more competitive in price (Blaug, 1992). This theory is also applied in urban economic development in China which suggests a city should development industries based on the factors of production that are abundant in the city. For example, poor cities with large population may have comparative advantages in labor, so they should develop labor-intensive industries, and cities with natural resources should develop industries based on the natural resources

(Zhang, Wang, and Li, 2009). However, H-O theory is a 2-country model, so it predicts that through trade the price of identical factors of production will be equalized in the two countries (Samuelson, 1948). In reality, as the competitor is far more than two in regional, national or international competition, the developing countries who reach the middle-income level may face the “Middle Income Trap”: “On the one hand, they can no longer compete with low-wage countries” in standardized, labor-intensive products. “On the other, they cannot compete with countries with greater capabilities in more technology-intensive goods and services.” (Paus, 2011, p.71). What’s more, the resource-dependent approach will face resource exhaustion and pollution (Zhang, 2005). Thus the development merely dependent on local factor endowments is not sustainable.

## **(2) Unbalanced development theories and strategies:**

The statement that “Firms did not industrialize because there was no market for their goods, and there was no market for their goods because income was low” depicts a vicious circle often present in underdeveloped areas (Krishna and Perez, 2005, p.832). Realizing this circle and the fact that regional economic development is always unbalanced, many models were developed to explain the phenomenon and suggested unbalanced development strategies should be applied to regional development policies. Myrdal (1953) believes economic development will first appear in some places with location

advantages, and former success will be “cumulative causation” for the future development and enlarge the unbalanced development (Fujita, 2004). Perroux and Boundeville (Perroux, 1955; Boundeville, 1966) point out that balanced development in all industries and in the whole region at the same time is not possible, and the best way for regional development is to find a “growth pole” first, that is, identifying the leading industries and leading cities and encouraging their development first (Darwent, 1969). Friedmann considers metropolitan areas as the core for development, with a high potential for innovation and growth, and the less-developed areas as the periphery, the development of which relies on the core regions (Friedmann, 1966). All these theories agreed that, first, the “polarization effect” will take a dominant role in regional development, and then, with the development and by some social and political interventions, there will be a strong “diffusion effect” to reduce the regional differences. China’s regional development is deeply influenced by these unbalanced development theories. However, it seems that small cities in Central and Western China have waited too long for the “diffusion effect” to arrive. These theories obviously cannot be applied actively in urban developments in these cities.

### **(3) Investment invitation strategies in China and “race to the bottom”**

Since China's economic reform, inviting outward investments, especially foreign capitals, has been considered as an important strategy to overcome the

local capital shortage in underdeveloped areas and a learning-by-doing method to improve the abilities of local industries (Zu and Zhao, 2006). However, fierce inter-city competition may cause a lot of troubles and lead to a “race to the bottom” for government policies, just like what has happened in the US (Meisel, 2004). Zhang and Tang’s study about cut-throat competition among cities in Northeast China (Zhang & Tang, 2007) and Xiong’s study about inter-county competition for outside investments in Chongqing, Southwest China (Xiong, 2008), both proved that when inter-city competition is keen, some common strategies to attract investments, for example tax abatement, land rent relief, and industry park, will do harm to the local tax base and encourage the growth of less-competitive companies rather than competitive ones.

Thus, all the conventional theories and strategies listed above may not be good choices for the small cities in Central and Western China. Instead, recently many scholars argues social networks, social capital can be new development engines to those cities.

## **2. Social network, social capital and economic development.**

Compared with location, resource endowments, and transportation factors, social network and social capital are newly discovered factors which contribute to the urban economic growth. However, as the former factors are the disadvantages of

many small cities in Central and Western China, social networks and social capital may play a more important role in their development. Lots of literatures showed the strong linkage between social network, social capital and urban economic development and the possibility of social network based development.

“Social networks are nodes of individuals, groups, organizations, and related systems that tie in one or more types of interdependencies, which included kinship, social contact, conflict, financial exchanges, membership in organizations, and group participation events, among numerous other aspects of human relationships” (Serrat, 2009, p.3). The studies of social network started early in sociology and anthropology when Jacob Moreno developed the first sociogram to study interpersonal relationships in 1930s (Wasserman and Katherine, 1994). And the concept of “social network” was first introduced by John Barnes in 1954 which, in Martino and Spoto’s words, “gave life to the development of the formal analysis of social structures” (Martino and Spoto, 2006).

However, for a long time, the concept of social network were not really applied in economic development issues, until Mark Granovetter introduced social networks and social ties into economics in the 1970s and 1980s. He emphasizes the strength of "weak ties" by stating that weak ties "will function as the crucial bridge between any two densely knit clumps of close friends (i.e. between two highly exclusive networks)” in finding jobs or other economic activities (Granovetter,

1983). He also points out that “economic actions are embedded in structures of social relations.” When analyzing economic models, one should consider the instrumental behavior and efficiency in economics as well as the social structure and the social networks where the economic activities are embedded (Granovetter, 1985).

After Granovetter, many other scholars emphasize the importance of entrepreneur network to local economic development and innovation as well. For example, the studies of the “Third-Italy” show a strong relationship between entrepreneurs’ collaboration and local development (Kumar, 1995). Kolvereid and Obloj find that entrepreneurs in Poland, England, and Norway face similar resource constraints and get comparable help from other actors within the local networks (Kolvereid and Obloj, 1994). Squazzoni explored the benefits of “social entrepreneurs” and their network through a case study of Silicon Valley (Squazzoni, 2009).

Some other economists combined social network and the economic development in another approach, using the concept of “Social Capital”. They believe that “human” can be a special type of capital in investment and creates increasing returns. However the realization of the human capital is influenced greatly by social structures and social networks. There are many studies showing the influence of social capitals: Social capital existing in family relation and communities organizations is one of the most important resources which lead to

income differences (Loury, 1977). The study of Narayan and Prichett on Tanzania villages also showed a positive correlation between social capital stock and the increase of family incomes (Narayan and Prichett, 2000) which indicates that increasing the stocks of social capitals and building good social networks can be good solutions to reduce poverty. In industry development, the stocks of social capital such as trust, norms, and networks improve the collaboration, lead to higher efficiency and increase the return of both material capital and human capital. The northern part of Italy developed better than the south part is good evidence to show how social capital help to foster local economy (Putnam, 1993). The community development based on social capital in Guatemala City also supports the importance of social capital in urban development (Grant, 2002).

### **3. Social network and social capital studies on China economic development issues**

According to the literature, social networks and social capitals also play very important roles in China:

Social network and social capital can be used to explain the macro economy growth of China. For example, Boisot and Child consider Chinese economic system as “Network Capitalism” where networks based on clans and other close - relation communities enhanced the trust, reduce the transaction cost, accelerate the information exchange and fostered the innovation (Boisot and Child, 1997).



Social networks also have great influences on local economic development, industry clusters growth and the technology innovations in China, which is my research topic. For example, economic development of Xinhui City in Guangdong Province benefits much from networks between local residents and overseas Chinese, both in money and in information (Meng, Zhao and Maimaiti, 2007). Networks among firms, networks of entrepreneurs, trust and local cooperation atmosphere will have significant influence on the maintenance of competitiveness and the improvement of the innovation abilities of industry clusters (Lin, 2005). Lu and Lu (2004) viewed the competitiveness of companies as the ability to integrate the internal and external resources, and the cooperation and alliance with other companies are based on good social capital stocks. Also, social network plays a very important role in the process for sci-tech entrepreneurs to start their career both in China and in the U.S. (Lu and Nie, 2010).

However, there are two things we should be careful of when applying social network and social capital theories in China: (1) social networks and social capital may also have negative effects on economic development, for example in “Wenzhou Development Model” the social networks and social capitals once initiating the development of local economy has become an obstacle for the industry innovation because the Wenzhou network is highly exclusive for the outsiders and the benefits from social capital weaken the incentives of innovation

in cost reduction (Yao, 2007); (2) there are some notable differences between Chinese context and Western world context in social relations and social networks; for example, Bian argues that the “strong ties” work as the crucial bridge instead of the weak ties in the Granovetter’s theory. (Bian, 1997).

### **III. Theoretical framework**

The main hypothesis of this thesis is that a “well” organized local entrepreneur network, or at least Xixia’s type of local entrepreneur network can help small cities in Central and Western China overcome their common disadvantages (e.g. location, transportation, industry foundation and material capital) and catalyze the economic development, especially the local industry development. In this thesis, high level of trust, cooperation and collaboration activities, and improvements of entrepreneurship through Xixia’s local entrepreneur network are all regarded as social capital stocks. I use these actual influences of local entrepreneur network on different firms, the advantages that the network provides to its members to overcome the previous disadvantages of Xixia as indicators to evaluate the effects of the social capitals. After finding out how the local network benefits Xixia’s development, I further analyze the characteristics of Xixia’s entrepreneur network to find out what is a “well” organized local entrepreneur network for local industry development and what are the key factors to establish such a well-organized network.

For the first step, this thesis focuses on the impacts and benefits of the local entrepreneur network. There are mainly three most important benefits: (1) through a well-connected local network and communications, entrepreneurs avoid low-level and cut-throat competition among each other, and build a mutual – help mechanism in financing via different methods to overcome the shortage of capital in a small city; (2) Mutual learning, information and network sharing, peer pressure within local entrepreneur network creates a better environment for innovation. (3) The communications within local entrepreneur network educate its members and help to improve the entrepreneurship; (4) Local network enhance the social belonging of the entrepreneurs to the local society and help to create an atmosphere of “respect entrepreneurs”, thus provide extra incentives, other than monetary incentives, for entrepreneurs to make their business successful.

After finding out the impact of local entrepreneur network in Xixia, the next step of this thesis is to find out what are the unique and the most important characteristics of the local network which make the benefits mentioned above possible. The main argument of this part is the uniqueness of Xixia’s local entrepreneur network: this network is not an entrepreneur network created through business linkages within certain supply chains, but a network based on the common social identification of the entrepreneurs which identified themselves as “local”, and as “entrepreneurs”.

In addition, I added government as a key factor that facilitates the local entrepreneur

network. The local government's role and its successful efforts which create a better environment for the development of entrepreneur network will be summarized in this part.

Finally, I will discuss the special situation of the small cities in Central and Western China, and their influence on local entrepreneur network development and on the government's policy in further discussion section. I will argue that Xixia model is not an individual case. Instead, it can be applied to many small cities in this region and the small cities can even transfer their disadvantages into advantages when applying this model.

#### **IV. Research Methodologies**

In order to find out what are the social networks, how they are formed and fostered in Xixia, and what are their roles in Xixia's economic development. I apply two main methodologies in my research: interviews and field investigation.

##### **1. Interviews:**

Interview is the main method of this research. I conducted 14 in-depth interviews to study the history and the structure of networks in Xixia and what are the key factors that fostered the networks in the past. Four types of interviewees were covered in the interviews:

**(1) Five of the most successful local entrepreneurs:** I interviewed five of the most successful local entrepreneurs during the field study. They are the leaders from Wanxi Medicine Group (WMG), Xixia Intake & Exhaust Manifold Group (XIEMG), Xixia Baohucailiao Group of Companies (XBGC), Xixia Automobile Water Pump Group of Companies (XAWPGC), and Long Cheng Group (LCG). These five enterprises alone provide about 28,000 job positions, which accommodating over 40% of the total employment of the city. They have the “Five-star entrepreneur” title honored by the local government and they are the de facto leader and the initiator of the local entrepreneur network. By interviewing them, I understand the history of the entrepreneurs’ network, who established this network, for what reason, and how it changed over time. The five “core entrepreneurs” also talked about current organization of the local entrepreneur network, the local policies important to them, and other local factors that facilitate the network in their mind. I also asked the five core entrepreneurs’ attitude toward other core entrepreneurs and toward the normal members of the local entrepreneur network to examine the relationship among the members of the local entrepreneur network.

**(2) Four relatively newly start-up entrepreneurs:** This four newly start-up entrepreneurs represent the “normal member” of the local entrepreneur network. Through the interviews with them, this thesis examines the influence

on relatively newly start-up firms and businesses and the normal members' point of view about the network. I also asked them their attitude toward other members of the network. Through a comparison between the attitude of core entrepreneurs and the normal members, I get a new perspective of evaluating the organization, typology of the local entrepreneur network. I also examine the trust and social ties which connect all members and whether and how social network among entrepreneurs changed the social ties (e.g. from "weak ties" to "strong ties").

**(3) Two retired former officials of the local government:** Through my interviews with the entrepreneurs, it is clear that the local government also play a very important role in establishing and maintaining the local entrepreneur network. Thus, I added local officials to my interviewee list. The two retired local officials were two of the important participants of the former policy making process. They know well about the role local government played in the past when entrepreneur network was establishing and the reason why government made certain decision. Through their stories and the way they described the stories, this article also evaluates the relationship between local officials and entrepreneurs and how did it has changed over time.

**(4) Three current local officials in industry and economic development affairs:**

Current officials represent the current government's attitude toward local

entrepreneur network and its members. They are also the best source of information about current policies and economic development strategies. Through these interviews, this article also tries to find out the interaction mechanism between local government and the entrepreneurs.

## **2. Field investigations**

In this research, field investigations work as supplementary to the interviews. By seeing the real activities and activities photos of “entrepreneurs’ group”, the level of trust, the organization and interaction among the group members are better evaluated. Also by seeing the real achievement of the firms, the influence and benefit of the entrepreneur network toward local development are better judged. Similarly, detailed information may reveal through the observation of the interaction between entrepreneurs, government officials.

In addition, as some of the local companies have their own history museums about their development history. During field study, I visited these museums, tried to understand the development history of local industry and collect the information about the influence of the entrepreneur network from another angle.

## **V. Local Entrepreneur Network in Xixia: History, Structure and Benefits**

### **5.1 Three Phases of Local Entrepreneur Network Development in Xixia**

**Phase I, a small group of friends:** The history of the local entrepreneur network in Xixia started from a small group of friends among the leaders of Xixia county-owned enterprises in the late 1980s. The core members of this small group of friends are the leaders of the Wanxi Medicine Factory (Which later became the Wanxi Medicine Group), the Xixia Maria Glass Factory, the Xixia Hunting Rifle Factory and the Xixia Flourmill Factory. These people shared a common social status: They were employees of the government while at the same time, were the leaders of factories. Also, they were required to participate in many common activities organized by the local government. In addition, as county-owned enterprises, they faced similar fiscal pressure of “profit turned-over” to the county government. Thus, they became close friends. They organized entertainment activities such as playing cards, Mahjong, having dinner, or socializing at a frequency of once or twice a month. From the late 1980s to the early 1990s, the local entrepreneur network was more like an exclusive club for a small group of entrepreneurs to relax and showed “no significant influence on the operation of the members’ firms or factories” according to one of the retired government official. However, “it did set a tradition and organization foundation of the interaction among local entrepreneurs”. So I consider this small friend group during the late 1980s to the early 1990s as the Phase I of the local entrepreneur



network in Xixia.

**Phase II, the starting-stage of the industry development initiative:** The local entrepreneur network in Xixia entered a new phase when one of its core members, Sun, Yaozhi, the leader of Wanxi Medicine Factory started to realize the potential benefits of expanding the small friend group to a more inclusive, mutually-beneficial entrepreneur network in 1994. According to Sun, he realized three main benefits of building such a network: (1) a larger entrepreneur network would provide more opportunities for the members to improve their management abilities through experience sharing; (2) When more entrepreneurs start up and develop their businesses, local government would have more tax revenue thus easing the financial burden of County and township owned enterprises; (3) When entrepreneurs organize as a whole, and perform well in developing the local economy, they will gain more bargaining power with local government and create a better “social environment” for local industry development. Sun discussed his idea with other members of the friend group and they all agreed. In this phase, the scale of the local entrepreneur network was dramatically enlarged from 5-8 people to more than 30 people. And it also became more inclusive, to attract entrepreneurs from township-owned enterprises and privately-owned companies. The other four core leaders of the current local entrepreneur network, the leaders of Xixia Intake & Exhaust Manifold Factory (Township-owned enterprise, the predecessor of XIEMG), Xixia Refractory Factory (Township-owned enterprise, the predecessor of XBGC), Xixia Automobile Water

Pump Factory (Township-owned enterprise, the predecessor of XAWPGC) and Xixia Metallurgical Material Factory (Privately-owned enterprise, the predecessor of LCG) joined the network in this phase. Thus, the network started to play a more important role in improving the local industry development by organizing “experience sharing gatherings” for all its members and setting up inter-member low interest borrowing mechanism. Since the “social entrepreneurs are skilled persons, they share time, competencies, expertise, knowledge, skill, money, and social and relational capital with others, by directly participating in challenging initiatives” (Squazzoni, 2009: page number). Therefore, in this phase, the members of the local entrepreneur network started to become social entrepreneurs and therefore transformed the network from an exclusive entrepreneur club to a more open social initiative which assisted the improvement of the local industries.

**Phase III, a broader network for various kinds of resources sharing and a new focus on philanthropic activities:** In 1999, Xixia started its state owned enterprises reform implementation, aimed at transforming state-owned enterprises into joint-stock companies and introducing modern enterprise management models to the local industries. After this “state owned enterprises reform” wave, the local entrepreneur network in Xixia reached a new phase in around 2003. As almost all former County-owned and township-owned enterprises transformed themselves into joint-stock companies, the entrepreneurs from these enterprises started to own the stocks, meaning that they had more freedom to take part in the mutual-benefit system

in the local entrepreneur network, and gained more incentives to improve their own entrepreneurship. The concept of learning “modern enterprise management model” became more popular among the local entrepreneurs. In this phase, various kinds of information and resources are shared within the network: the “experience-sharing gatherings” which mainly focused on an individual entrepreneur’s trial and error experience in Phase II were replaced by multi-platform information sharing on the modernization of enterprise management, innovation, market information and the share of entrepreneurs’ relational capital. At this point, the mutual-financial assistance mechanism remains strong but becomes more focused on a mutual credit guarantee method. Another important shift of the network in this phase is that entrepreneurs as a whole start to regard their social reputation and respect as import “benefits” to them and then the network starts to play an active role in philanthropic activities and charities.

## **5.2 The Positive Influences of the Local Entrepreneur Network**

Most of the interviewees believe the local entrepreneur network has provided them “concrete benefits” for the development of their own enterprises. These benefits help their business overcome the disadvantages of being located in a small mountainous city, bring them long-term strategic advantages and make the general local industry more competitive. These benefits make the most successful entrepreneurs willing to stay in Xixia even after their companies have grown larger. The benefits can be attributed to the following four aspects:

**(1) Avoid low-level cut-throat competition and encourage mutual financial assistance.**

The frequent communication and good relationship among the local entrepreneurs make it possible for firms to negotiate and avoid low level cut-throat competition. This negotiation tradition started from the “staggered development” between LCG and XBGC. LCG and XBGC both started from small metallurgy material companies which produced low-end graphite refractory and mould fluxes. However, in 1998 as the two companies grew larger and many other competitors came into the market, their profit seriously declined. Noticing that the market space for future development of both companies was limited, and fierce competition would be inevitable, the leaders of the two companies, who had developed a very close relationship within the local entrepreneur network decided to negotiate in order to find a solution. As LCG had a breakthrough in the new promising product of mould plates and XBGC had relatively high capability in producing mould fluxes, the result of the negotiation was that LCG would gradually retreat from mould fluxes production while XBGC would help LCG’s new product transformation and avoiding mould plate market in the future. They also decided that in the future they would be careful not to develop similar products because they “value their friendship”. This decision helped XBGC gain more market share to collect money for its future technology upgrading and later becomes the dominant company in the national mould fluxes market with over 53

percent of the market share. Meanwhile, LCG also benefited from its new mould plates project. Today, LCG has become the largest copper mould plate manufacturing and researching base in the world and holds the national standard of copper mould plate (Standardization Administration of the People's Republic of China, 2011). After that, this win-win negotiation mechanism became a well-accepted model of “staggered development” for local entrepreneurs. The market is now segmented into more detailed parts and each company concentrates in the area where it has the most advantages. This mechanism also encourages the local entrepreneurs to discover new market opportunities and makes the local industry more diversified.

***“If you always fight with your neighbor firms on one product, you also narrow your horizon and your future development down to this mere product.” –Zhu Shucheng, the president of Long Cheng Group***

On the other hand, no fierce competition is the prerequisite of maintaining a good relationship among the local entrepreneurs in order to build a strong mutual-assistance mechanism. Like their counterparts in Poland, England, and Norway (Kolvereid and Obloj, 1994) and those in Xinhui City, Guangdong Province in China (Meng, Zhao and Maimaiti, 2007), the entrepreneurs in Xixia benefit from the network when facing capital constraints. With a relatively good relationship and high level of trust within the network, the local entrepreneurs are

able to establish mutual-assistance financing mechanisms to overcome the shortage of capitals in small cities like Xixia. As mentioned above, in different phases of the network, Xixia local entrepreneur network developed different methods to help finance its members:

At the beginning of Phase II, an inter-member volunteering low interest borrowing mechanism was established. The network provided each member a platform to borrow money from other entrepreneurs at a low or even zero interest rate. Lending in this system was considered as a respectful behavior and would strengthen the credit and reputation of the lender within the network. The current five core leaders gained much of their influential power through these behaviors. Meanwhile, many small or start-up enterprises, such as Jinxin Cast-Steel Company and Xixia Fuying metallurgical Material LLC collected money to support their further development. In some extreme cases, there were even donations organized to address unexpected risks. For example, in 1993, when Xixia Paper Mill caught fire, “more than 20 other entrepreneurs came to the plant and decided to make donation to the leader of Xixia Paper Mill. The donation from them even overpassed the loss of that fire so the leader of the Paper Mill had to return part of the money to other entrepreneurs” (Interviewee No.4, a retired local official).

The inter-member volunteering low interest borrowing mechanism remains in

Phase III to support relatively small firms. However, as the local enterprises have profoundly developed, the amount of money from inter-member borrowing becomes far less than the need of larger enterprises. Therefore, mutual credit guarantee method emerged. Large firms benefit the most from this mechanism because they all have good bank credit records and good reputation within the local entrepreneur network. As they may start huge investment in different periods, it is possible for them to share their bank credit through mutual- credit guarantee. If an entrepreneur needs a huge amount of bank loan which beyond the amount his own credit permitted, he can find another entrepreneur who currently does not need much bank loans to guarantee for him with the local entrepreneur network. Even the five leaders of the Local Entrepreneur Network are the beneficiaries of this system: WMG guaranteed 100,000,000 RMB bank mortgage for the new steel rolling project of LCG in 2003. And LCG also guaranteed 65,000,000 RMB bank loan for XAWPGC in 2007.

*“It is just like ‘bank credit pooling’, in order to get guarantee from other companies, you need to contribute your extra credit as well and keep good bank records. Those who fail to do so will be marginalized from the local entrepreneur circle.” – A government official from Xixia Industry and Information Technology Bureau.*

**(2) Facilitate industry development and innovation through mutual learning, information and network sharing, peer pressures, and the spread of**

**"innovation preference":**

The local entrepreneur network also provides all its members a platform and opportunities to share their information and expand their own business network through the references of other entrepreneurs. As mentioned before, the local entrepreneur network organizes regular and irregular gatherings and events. These events are good sources of information and also work as bridges for entrepreneurs to find and join other useful business networks. Strong relationships which are established and maintained through network activities also encourage resource and information sharing among the entrepreneurs outside the network-organized events. Many local enterprises benefit from this mechanism. Two of the most remarkable and successful examples are the local metallurgy material cluster and the local automotive cluster, which are two of “the three pillars of Xixia local industry” (Annual Government Working Report of Xixia, 2010).

In the local metallurgy material cluster, market information is shared within the network. As a dominant company holding 53 percent of the national market occupancy rate, XBGC has rich market information resources from its clients and from its own sales network. Though generally known as metallurgy materials, metallurgy companies actually need various types of metallurgy materials and this is far beyond one firm’s ability to produce. Therefore, XBGC shares the market demand information with other local metallurgy material companies when the



demand is out its reach. Based on this, most of the local metallurgy material companies have also reached an agreement that their sales people will introduce the other companies' product to their clients when there is a demand. With the help of this market information and client sharing mechanism, the total market occupancy rate of Xixia's metallurgy material is now more than 85 percent. Moreover, this mechanism creates a de facto famous regional brand of "Xixia metallurgy materials" and every firm benefits from it.

The development of the local automotive cluster on the other hand, is a vivid example of how inter-member sharing and cooperating mechanisms facilitate technology upgrading and innovations. The local automotive cluster includes 14 automotive parts manufacturing companies with an annual product of more than 500,000,000 RMB. Knowledge is frequently and actively shared within this cluster. Its two core companies are XIEMG and XAWPC. They are also the most important nodes of inner-cluster information and network sharing. As the automotive parts manufacturing companies often share some similarity in their production process, when the two core companies bring in outside experts to train their workers, they will also inform the leaders of other companies and welcome them to send their workers to the training courses too, if they think the training is helpful. XIEMG also plays a role of "reference" for other smaller firms when they need to contact banks and research institutions in order to initiate a new innovation project. Because XIEMG has a good relationship and pleasant

cooperation experience with the Agricultural Bank of China (ABC), the leader of XIEMG often recommends ABC to other companies. Currently eight of the 14 companies regard ABC as their priority bank partner. They also gain additional trust from the bank thanks to the reference of XIEMG. Similarly, many companies have established partnerships with part-casting research institutions located in Wuhan, Hubei Province through the introduction of XIEMG.

Besides knowledge and network sharing, peer pressures and the spread of an “innovation preference” within the local entrepreneur network also encourages innovation. Through good communications and interactions within the local network, the information regarding the members’ performance will be spread rapidly within the network. Just as Kandel and Lazear point out, peer pressure can “improve the performance of groups of agents who can observe each other’s actions”. (Kandel and Lazear, 1992). In Xixia, this effect plays a significant role in encouraging local innovation. According to my interviews, most of the entrepreneurs are familiar with and think highly of the innovation stories of the five network leaders. They would be very proud to have their own innovations. On the other hand, if they fail to make some innovative achievements, “it will be a little embarrassed” upon meeting their friends at the gatherings. Because of this peer pressure, a preference for innovation is spread from the most successful and innovative entrepreneurs to others. Following the most successful entrepreneurs, currently, the common development strategy for nearly all companies within the

local entrepreneur network is to “try to make the products blank filling or import substitution” through technology and facility upgrading and innovations. Even the newly start-up, relatively small firms pay much attention to research and innovation. While these start-up companies may only produce one product, but they will try to make its product “the best in the nation”.

Zhongde Automotive Cooperation is such a start-up company. The leader of Zhongde Automotive Cooperation started his business only three years ago. Currently his company is relatively small and only produces turbochargers for cars. However, encouraged by the “hardworking story of LGC when researching the copper mould plate from the ground up”, he spends much of his time working with the research staffs to improve the quality of his turbochargers. Due to these efforts in innovation and research, though still small in scale, Zhongde Automotive is currently one of the leading turbocharger producers in technology and provide high-end turbochargers to some of most famous automobile manufacturers such as BMW and Porsche. His company also enjoys a rapid growth rate of more than 40% per year because of this strategy.

The innovation preference also catalyzes total inventions in Xixia. In year 2012, the number of patent authorization in Xixia County is the highest among 89 counties in Henan Province.

**(3) Entrepreneurship fostering through mutual-learning process:** The mutual learning process not only encourage the innovation and technology upgrading, but fostering the entrepreneurs as well. The communication and interaction between entrepreneurs through “experience sharing” events organized by local entrepreneur network give them more chance to learn from each other and improve their entrepreneurship. As mentioned before, the “experience sharing gathering” events give them platforms to share their experience and skills of running a firm. Meanwhile, as the entrepreneurs are also learning by themselves, the gatherings also make it possible to share some of the management knowledge they learned from outside. This learning process not only happens within one industry, but also happens across industries.

One notable across-industry learning example which contains both the learning of other entrepreneur’ experience and sharing knowledge they learned from outside is the learning and reverse learning of “Workshop Management Standardization” (WMS) between XIEMC and Long Cheng Group (LGC): In 2006, the leader of LGC learned the concept of WMS and started to apply WMS process in LGC’s producing activities. Through local entrepreneur network, the leader of XIEMC knew LGC’s effort and became very interested in this “new concept”. He organized his workshop managers to visit LGC’s workshops and learned the concept and the guidelines from LGC. Because of the mutual-help tradition within the local entrepreneur network in Xixia and the close relation between the two

leaders, LGC spared little effort to introduce their experience to the visitors from XIEMC. With the help of LGC, XIEMC set up its own WMS process in 2007. However, after two years, XIEMC developed its standardized workshop management system even better than LGC. Knowing this, this time the leader of LGC send his workshop managers visiting the plants of XIEMC to learn more standardized workshop management details from XIEMC. This learning and reverse learning process also happens among other firms and all the participants enjoy the improvement of their entrepreneurship through this process.

**(4) Improve the social belonging and social respect, and provide extra incentives**

**for entrepreneurs:** When being asked “why you still choose to stay in such a remote county rather than moving to the regional or provincial core city”, most of the entrepreneurs considered local atmosphere and social respect as one of the most important reasons. Through communication with other entrepreneurs who share similar challenges and difficulties, local entrepreneur network provides an ideal channel to relieve their working pressure and thus improve the social belonging of the entrepreneurs. Also, when they are closely connected with each other in the same network, the entrepreneurs become more aware of the “honor” and reputation within the network. Good performance in their career will not only bring them more revenue, but will also win more respect from other entrepreneurs in the local entrepreneur network and improve their influence within the network. The more social belonging they have to the network, the more fulfillments they

will have when they receive respect from other members of the Network. And the more fulfillments they have, the more sense of belonging they will have towards the local network. Thus, extra incentives, other than monetary incentives, are provided for the entrepreneurs.

One common phenomenon in other places in China is that when entrepreneurs are somewhat successful and rich, some of them would stop endeavoring and choose to squander their money to “enjoy life”. This often means the end of their careers. However, it is rarely seen in Xixia. On one hand, the network provides hardworking stories of local top entrepreneurs and makes all the other entrepreneurs be more modest. On the other hand, hardworking and excellent enterprise performance will win respect from other entrepreneurs while sloth may lead to being marginalized in the network. In this way, local entrepreneur network provides extra incentives for entrepreneurs to be diligent and rise what they called a “competition of careers” rather than the “competition of products” which finally benefits the development of local economy.

## **VI. Analysis of Local Entrepreneur Network in Xixia: Characteristics and the Local Government’s Role**

### **6.1 The unique characteristics of Local Entrepreneur Network in Xixia**

There are some unique characteristics of Xixia local entrepreneur network which

make the network function well and bring all benefits mentioned above to its members. As we can see, the entrepreneurs within the local entrepreneur network are from all kinds of industries such as pharmaceutical, automotive, metallurgy and metallurgy materials. Thus, this network is not an entrepreneur network created by business linkages within a supply chain. Instead, it is a network based on the common social identification among the entrepreneurs which identified themselves as “local”, and as “entrepreneurs”.

“Local” is the most important common social identification which connected all the entrepreneurs within the network. From the very beginning, the Network has been created for entrepreneurs who was born or at least grew up in Xixia County. “Local” factor helps to connect the network members in many ways:

First of all, making contribution to the development of the hometown and make the hometown of Xixia a more prosperous place for business is one of the major motivations of the Network. This target can easily get consensus among the entrepreneurs who was born or grew up in Xixia. And this consensus in return strengthens the relation between the entrepreneurs and the whole network.

Second, “Local” always means the entrepreneurs have large group of relatives and friends in Xixia and the entrepreneurs’ past behaviors can be traced. The relationship between two entrepreneurs is more likely to become closer when they know they have

some friends in common or their relatives know each other. These common friends and relatives can be relatively reliable sources of information to know each other better. Also, the more relatives and friends live locally, the less the entrepreneur will violate the common virtue because they care more about the local public opinion. In sum, “local” means trust can be more easily built among the entrepreneurs within the Network. And high level of trust is the most important prerequisite of all the mutual-benefit and information sharing activities mentioned above.

Third, the concept of “Laoxiang”, which means the people from the same place, is a very unique concept in interpersonal relationship in Chinese culture. In Chinese culture, “Laoxiang” is quasi-kinsfolk when being out of the home place. Large numbers of entrepreneurs were introduced to the local entrepreneur network because they are the “Laoxiang” of the present members who are from the same township or village. Similarly, when the entrepreneurs want to introduce other local entrepreneurs to get into his own business networks outside Xixia County, “Laoxiang” of Xixia County is also a good introduction.

“Entrepreneurs” factor, on the other hand, is also a very important common social identification which connects local entrepreneurs together, but its effects are highly dependent on the “local” factor. To be more specific, all members of the local entrepreneur network are connected together because they are all successful people who have started respectable businesses. The honor of being a successful people holds



them together, the common social status makes them realize they are facing similar challenges and there is a great possibility for them to work together to address the challenges. However, as I mentioned earlier, local entrepreneurs care more of the local public opinion, in other word, the honor of being a successful entrepreneur is more valuable for local entrepreneurs. Also, the local factor provides relatively closer relationship and higher level of trust among the entrepreneurs. This catalyzes the coordination and cooperation among the local entrepreneurs.

Therefore, besides the mutual-benefit mechanisms mentioned above, the local entrepreneur network also organized a series of philanthropic and charitable activities to strengthen these two social identification factors. After the flood in 2010, following the suggestion of the leader of WMG, the local entrepreneur network worked as a group donating money for the after-flood reconstruction. The entrepreneurs also set scholarships in local high schools in supporting of the poor students and established a fund for local orphan caring. Through coordination in these philanthropic activities, the local entrepreneurs as a whole gain a very good reputation and win more social respect from the society. The improvement of reputation and social respect in return strengthen the social identity of the members of the network as “local entrepreneurs” and attract more start-up entrepreneurs to join the network.

Because of the members are connected through common social identification of “local” and “entrepreneurs”, the social ties among the local entrepreneurs are quite unique.

Granovetter used “amount of time spend on interaction”, “emotional intensity”, “intimacy”, and “reciprocal services” to evaluate the strength of social ties and divided the social ties into strong ties and weak ties. (Granovetter, 1973) In his theory, weak ties work as the bridges across the networks and provide more information. On the other hand, though it has the highest level of trust and is most likely to build collaboration between the actors, the strong ties limit people into an more exclusive network; thus it is harder for people to get new information from strong ties. The collaboration between the people who have strong ties may become useless because of the highly similarity of the social resources they have. Yao’s research of Wenzhou development Model supports this argument. Though at the very beginning the strong ties among relatives and neighbors helped a lot in initiating the development of Wenzhou industry, the highly exclusive network to the outside information finally became the obstacle of innovation. (Yao, 2007) However, in Xixia’s case, we see a type of social tie that is neither the Grannovetter’s weak tie nor the strong tie shown in Wenzhou development model. In Xixia case, the frequency of interaction is about 1 or 2 times per month, much less than “at least 1 time per week” criteria of the strong ties. However, the trust among the local entrepreneurs in Xixia is improved by the common social identification factors of “local” and “entrepreneurs”. Thus high levels of reciprocal services are made possible without spending too much time together and being too exclusive to the outside information. The type of social tie among local entrepreneurs in Xixia represent a possibility that can both enjoyed the benefits of weak ties and strong ties. Table 2 shows a summary of the different combinations of

social ties represented by the three development models mentioned above.

		Level of Trust	
		High	Low
Frequency of interaction	High	<p><b>Wenzhou Model</b></p> <p>(Good for collaboration, Bad for getting new information)</p>	Rarely Happen
	Low	<p><b>Xixia Model</b></p> <p>(Good for collaboration, Good for getting new information)</p>	<p><b>Grannovetter's Weak Ties</b></p> <p>(Good for getting new information, Bad for close collaboration)</p>

Table 2. Different types of social ties

Source: created by author.

## 6.2 The Local Government's Role: Participating and Atmosphere Creating

The local government also plays an important role in making the local entrepreneur network function well. Generally speaking, local government makes two major contributions to the development of local entrepreneur network:

### **(1) Improving the communication and information sharing among local entrepreneurs**

Besides the effort of local entrepreneur network itself, local government also works as platforms and channels for local entrepreneurs to communicate and sharing information. As mentioned ahead, the members of the prototype of today's local entrepreneur network got to know each other through common activities organized by local government. Even after the phase I of the development of local entrepreneur network, the activities and meetings organized by local government still make a considerable component of the interactions among local entrepreneurs. At first, government didn't really realize the importance of enhancing the communication and only did this unconsciously. For example, each year local government holds a meeting to honor all "outstanding tax payers" who make great contribution of local budget. According to the five leaders of the local entrepreneur network, this meeting is also a good opportunity for them to know some of the newly start-up excellent entrepreneurs and meet many old friends. After some time, local government started have the concept of the local entrepreneur network and intentionally improve the communication and information sharing among local entrepreneurs through its own communication with local firms. One way is to directly share good experience and information of well performed companies to other companies. For example, the leader of LCG once gave "a very outstanding" speech to its staffs of employee motivation, and the scripts were seen by the mayor of Xixia County. He was very excited about the

experience of LCG, forwarded the scripts to Xixia Industry and Information Technology Bureau (XIITB) and the entrepreneurs he knew, and recommended them to read this inspiring article. Thus the entrepreneurs got extra information of other entrepreneurs from XIITB and the mayor. Such information sharing between local officials and entrepreneurs happened very frequently. In fact, the local government can be treated as a member of a broader network and improves the information share and level of trust among local entrepreneurs.

**(2) Helping to create the social atmosphere of “respect entrepreneurs” and strengthen the social identification factors of the local entrepreneurs**

Local government helps a lot in creating a good local atmosphere of respect industry and respect of firms. Paying attention to industry development and respecting the entrepreneurs are two of the fundamental policies of Xixia County since 1980s. As mentioned in the previous paragraph, each year local government holds a meeting to honor all “outstanding tax payers” who make great contribution of local fiscal budget. In fact, there is a “5 star rating and honoring system” for the local entrepreneurs to honor their great contribution to their hometown. Besides top tax payers, the outstanding newly startup companies and innovative companies will be honored as well. These honoring systems also help to strengthen the social identification of the members of local entrepreneur network as “local” people and “entrepreneurs” because they treated local entrepreneurs

from different industries as single “entrepreneur” group and make them be proud of their effort on making their hometown more prosperous. In addition, local government actively invites local mass media to report the successful stories and their contributions to the local economy development and job creation of the outstanding entrepreneurs and make these stories well-known to the local people. Through these methods, the government assists to establish a positive image of local entrepreneurs and the entrepreneur friendly atmosphere of the whole local society. For most of the local people, the entrepreneurs are just like the neighbors they know well of their talent and efforts rather than some “rich strangers”. These efforts also attract more talented young people to start their own business and become younger generation of entrepreneurs.

The government officials also show their respect towards local industry and entrepreneurs through coming to the entrepreneurs and asking their needs every now and then when they think the enterprises may facing troubles. These efforts reduce transaction cost of local firms communicating with government. Also, the local administrative processes have been simplified to the best according to the suggestions of the local entrepreneurs. These efforts significantly reduce the time cost for investments in Xixia. A recent cross-county natural gas conveying and supplying project between Xichuan County and Xixia County can indicate how important of these efforts are. This project is invested by LCG and its partner Xichuan local company. The part of the project within Xixia municipality get the

permits in a relatively short time and almost finished after more than 1 year of construction when I visited Xixia, however, the other part located in Xichuan municipality is still under endless administrative reviewing processes.

In sum, the good experience we can learn from Xixia government is that: In order to help the development of local entrepreneur network, the local government makes itself become an active facilitator rather than a commander of the local network. The participation of local government improves the communication and information sharing among the network actors and also builds trust and partnerships with local entrepreneurs. Meanwhile few concrete policy interventions toward local entrepreneur network leave much space of freedom for the entrepreneurs to organize themselves according to their own needs.

## **VII Further Discussion**

### **The Transformation between Disadvantages and Advantages in Small County-level Cities**

Of course, larger cities in China can also get the benefits from local entrepreneur networks just as Xixia does. However, for small cities, they are no longer facing many significant disadvantages when using this “Xixia Model” to develop their economy. On the contrary, “Xixia Model” may provide some advantages to small cities over the large cities.

During my interviews, there is an interesting idea among the local officials: “The relatively well developed local industries and the good local atmosphere for the industry development is actually ‘forced’ by constrains and difficulties the county faced before”. Back to the 1980s, Xixia was one of the poorest counties in Nanyang municipality and in Henan Province. On one hand, the mountainous county had little arable land. On the other hand, “unfortunately”, the income per capital was 0.2 RMB higher than the national extreme poverty line, meaning no large sum of poverty alleviation fund would come to the local government from the central government. Under this situation, “there were no other choices but to strongly support the local secondary industry”. This made Xixia a first mover of industrialization within the region. Similarly, the network started largely because of the heavy fiscal pressure of profit turned-over to the county government and it developed largely because the enterprises needed more partners to share the fiscal pressure and financial risks. It seems the pervious constrains turned out to be the incentives of the development of the local entrepreneur network in Xixia, because it “forces” the government to make pro-industry decisions and drive the entrepreneurs to unite. Currently, China’s Central Government decided to deepen the national economic and political reform. However, the beneficiaries of the “old institutional structure” in local level may be great obstacles to this policy. However, for small and poor cities, the economic difficulties can be a pressure to force the entrepreneurs and local government agency to reform more rapidly, just like what Xixia City did in the late 1980s through early 2000s.



In addition, some disadvantages in conventional development theories can be the “advantages” for small cities like Xixia to develop their local social networks. The insufficient transportation situation seems to be an obstacle for local development. However, at the beginning stages of regional development, the “polarization effect” will take a dominant role and attracts most of the regional resources to the regional cores. The bad transportation may be the “dam” preventing the outflows of local talented people, capitals and resources and leave more resources for the development of small cities.

Also, as a smaller society, the distance between people in small cities is much closer than in large cities. As I mentioned before, the entrepreneurs who have common friends or relatives can build a high level of trust more easily within the entrepreneur networks. This would be more likely to happen in small and close cities and facilitate the development of local entrepreneur networks.

## **VIII. Conclusion**

In Xixia case, the well-developed local entrepreneur network significantly improves the communication and interaction among the local entrepreneurs and finally helps the development of local economy. The local entrepreneur network promotes the local industry development in mainly four aspects: (1) avoiding cut-throat competition and

encourage the mutual-assistant financing mechanism to overcome the capital shortage; (2) facilitating innovation through information and network sharing; (3) educating local entrepreneurs and improve their entrepreneurship; (4) enhancing the social belonging of the entrepreneurs to the local society and help to create an atmosphere good for industry development.

In order to enjoy these four benefits at the same time, the local entrepreneur network should have unique characteristics: Common social identification factors of “local” and of “entrepreneur” are the key factors which connected the local entrepreneurs together, rather than the linkages of production. This characteristic makes the social tie within the local entrepreneur network quite different from the “weak tie” and the “strong tie” and thus helps the members of the network enjoy the advantages of both the strong ties the weak ties.

Thus, it will be helpful if planners and local governments in small cities in Central and Western China can help to build a Xixia type well-connect local entrepreneur network. However, according to Xixia’s experience, to create pro-industry atmosphere and provide opportunities for entrepreneurs to organize themselves may be a much better way than to start a government leading “formal entrepreneur association”. Meanwhile, when governments and planners consider using the local entrepreneur network to facilitate local development, much of the “disadvantages” of small cities may be transformed into advantages from another aspect.

However, there are also some limitations for my thesis. First, although the linkage between local entrepreneur network and local development is clearly supported by concrete cases, it is hard to quantify the benefits of certain inter-network mechanism. Therefore, it is difficult to make further quantitative analysis about the benefits to establish a local entrepreneur network.

Second, as the local entrepreneur network has close connection and a good relationship with local government, interviews of local officials and entrepreneurs can only provide me one side of the story. In the future, I plan to do further researches and get more comprehensive information from other groups of people, such as workers, local residents to understand the whole story.

Third, another big concern of the local network in Xixia is about the sustainability. At present, the local entrepreneur network is centered around the 5 core leaders and functions well. However, when the 5 leaders and other entrepreneurs getting older and retired, would their successors also play an active role in the local entrepreneur network and maintain all kinds of partnerships? This is also one of the key issues for the next step research. However, I have found some positive evidence during my field study. On one hand, as now the local atmosphere for the entrepreneurs is “Friendship & Collaboration”, local entrepreneurs want their successors to participate in the network. For example, Mr. Sun Yaozhong, the CEO of Wanxi Medicine Group and

the son of Mr. Sun Yaozhi, are very active in the local entrepreneur network now. On the other hand, the local entrepreneur network is an open and dynamic organization. Each year many new local entrepreneurs come into the network. Through taking part in network activities and increase their influence, normal members may also become new core leaders in the future to organize the local entrepreneur network.

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## **Appendix: Interview questions**

*(For Entrepreneurs)*

1. Can you tell me the history of the Xixia local entrepreneur network (the network)? Who established this network, for what reason, what was the threshold to enter Xixia local entrepreneur network at that time and how it changed over time as far as you know.
2. How is the network organized? Is there a hierarchy in this network?
3. Through what activities are the members connected in the group, and how often are these activities?
4. Why you decided to join the network?
5. As a member of Xixia Entrepreneurs’ Group, in general how do you describe other members in the network (e.g. Stranger, acquaintance, Friends, or close friends’)? How did you describe them before you entered the group?

6. Do you think this network is helpful for you own firms and on what aspects is it helpful?

7. Are there any communications between the network and local government? Do you think the network helps you to negotiate with the local government?

*(For local government officials)*

1. Can you tell me the history of the entrepreneurs' network? Who established this network, for what reason, what was the threshold to enter Xixia local entrepreneur network (the network) at that time and how it changed over time?

2. What were the government role in the establishment and the development of the network?

3. What are the policies you think best support the local economic development?

4. Do you think the policies you just mentioned create an atmosphere for cooperation between firms, or help to strengthen the trust between the firms?

5. Are the policies adopted by you? Why you made this decision to apply such policies?

6. Dose the network in a whole played an important role in the local government's decision making process?