

Digital Developmental Village:  
The Political Economy of China's Rural E-Commerce

by

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## ABSTRACT

This dissertation investigates how rural e-commerce survives and thrives in resource-scarce rural China in the contemporary era. Building upon literatures on developmental state, state capitalism, industrial policy, and platform economy, this dissertation proposes a new theoretical framework, termed *Digital Developmental Village*, to understand China's rural e-commerce development against rural China's broader socioeconomic and politico-institutional contexts and the evolution of China's political economy by underscoring three levels of interactions between the central government, local governments, e-commerce platform giants, and rural entrepreneurs.

This dissertation draws upon the data from in-depth interviews with different kinds of participants involved with e-commerce at different places in which e-commerce-related activities occur through multi-site fieldwork across six East China provinces, together with data from secondary data gathering, to scrutinize interactions of four parties at each level. At the national level, this dissertation investigates the coevolution of the Digital Developmental Village model and finds that the bureaucratic evolution and emergence of new economic sector initially created and subsequently developed by private actors will be eventually subjected to the influence of China's state capitalism. At the local level, in consideration of the factors of local governance approach, the pre-existing robust local economic sectors, and migration patterns, this dissertation creates a typological framework to explore the formation of e-commerce villages in varied settings of the combinations of three factors above. At the individual

level, this dissertation finds that rural e-commerce entrepreneurs may achieve economic successes through some more intense forms of embeddedness, which are deemed commercially unwise in the extant literature, within differing local socioeconomic and politico-institutional contexts in China. Lastly, this dissertation analyzes the expansion of the Communist Party of China into rural e-commerce in the business incubator role and sees such organizational expansion as the efforts to implicitly exercise control over rural e-commerce. In sum, through top-down policy directives and bottom-up party organizational expansion, the Chinese state has been gradually transforming rural e-commerce to a new form of state capitalism with potential global impacts, which can empower resource-scarce villages and infuse two kinds of industrial policies to stimulate technological advances.

To My Dearest

Regina You

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## ABBREVIATIONS

ARC: Alibaba Research Center

CCP: The Communist Party of China

FDDI: Fudan Development Institute

GM: governed market

GPW: Giant platform war

ME: Mixed Embeddedness

MNC: Multinational Corporation

MOST: Ministry of Science and Technology

RMB: Renminbi, the Chinese currency

SOE: State-owned enterprise

TVE: Township and village enterprise

ZDC: Zhejiang Department of Commerce

## Chapter 1

### Introduction

Gangqiang Wang (interviewee 42) is a multimillionaire. With a junior high education, he managed to make fortune on a single product—a karate break wooden plate—which basically is a square-shaped piece of wood. Through an e-commerce platform company, Alibaba, millions of plates are being sold to customers all over the world. When he told us his business adventure, we were not in a skyscraper office in a global city of China, such as Beijing or Shanghai, or anywhere even close to a city. Instead, we were in a dusty wood-working factory in an obscure village of Cao County, the innermost county of Shandong Province, which was plagued with poverty a decade ago. He hired dozens of workers in the factory, a larger number of subcontractors in their family workshops, and several college-educated salespersons who spoke English to do businesses with foreign buyers. Most of his employees were co-villagers.

Despite its remoteness, this village is classified as Taobao Village by Alibaba, a catchy word defined as an administrative village within which more than a hundred e-commerce seller accounts generate more than ten million RMB (roughly \$1.4 million) in yearly sales. As one of Alibaba's most popular e-commerce platforms, Taobao is a preferred choice for startup and small businesses because of its low threshold. Wang is not alone in a burgeoning class of e-commerce millionaires in Cao County, which currently is home to the second largest number of Taobao Villages in China and among

the only seven “Super-Sized Taobao Village Clusters” in 2019. A county with more than a hundred Taobao Villages classified as the super-sized cluster. Cao County has placed more than 200,000 rural residents in e-commerce and helped 20 percent of its population alleviate poverty.

Taohua Zhuang (interviewee 15), a young woman in her mid-20s, found her future in Yiwu City, Zhejiang Province, the so-called “World Capital of Small Commodities”. Previously a factory girl in Shanghai, she now is her own boss in an e-commerce village near Yiwu. Originally from Gansu Province, one of the least developed provinces in Northwest China, she has a team in one of the richest provinces in East China with the most robust private economy. She sells both small commodities and large machineries on multiple e-commerce platforms to customers around the world. Without telling us her exact wealth, she indicated she had several privileged credit cards with one million RMB (\$140,000) credits each. When we met her at the party-masses service center, she dressed so plain that no one would assume she is a millionaire.

She loved sharing her success stories with others so much that the local government of her hometown recruited her as a lecturer to teach aspiring peasants how to make fortune through e-commerce. Her contribution to the hometown was quickly acknowledged and awarded. During the interview, she presented photos of her business trip to Thailand as a member of the commerce delegation sent by the local government of her hometown. She told us she was applying for a U.S. visa for her upcoming multi-

locality trip. She only completed junior high. In order to acquire more education, she applied to online degree programs and had just completed the bachelor's degree. At the time of her interview, she was not sure if she should enroll in an online master's program to learn English to sell products to English-speaking customers.

Jinhao Lin (interviewee 52) explained his e-commerce association's operation at the Office of External Population Management in an urban village of Guangzhou, a global city which used to be the only port connecting to the outside world in the Mao era. As a domestic migrant from Hubei Province of Central China, he understood that he was not accepted as someone from Guangzhou. Therefore, his e-commerce association was registered with the Bureau of Commerce in his home city. In return, his successes in Guangzhou benefitted the development in his hometown. He did not run the factory but assisted in selling the products. He often found factories had trouble selling their products. He assisted by purchasing products for an extremely low price and selling them on e-commerce platforms, making substantial profits.

As the head of the e-commerce association, he often helped other people from his hometown people enter in this sector. He started by assigning them to entry-level positions, such as salesperson, delivery packaging, and customer service, and referred them to accountable local suppliers and partners. Many of his hometown people became e-commerce entrepreneurs as a result of his help. To my surprise, he no longer lived in this urban village near the border between a suburban district and the urban center of Guangzhou. Here, people were able to enjoy the low rent of the urban village while

remaining close to the urban center. However, as the village became an e-commerce village, more people flocked to that village, which pushed up the rent for both housing and warehousing. Mr. Lin found another urban village which was not yet overwhelmed to move his employees and products. Relocation within Guangzhou is common, he said, especially for migrants.

However, entrepreneurial failure in rural e-commerce is more common and is attributed to a variety of reasons. Some entrepreneurs did not do a thorough market investigation before joining e-commerce, failed to provide satisfactory customer service or quality products, lacked stable and profitable product supplies, or and did not have enough e-commerce knowledge and training. In many localities, small rural e-commerce entrepreneurs competed with each other in very narrow niche markets and fierce price wars, which hurt the survival of everyone. Besides personal or managerial defects, the failure of rural e-commerce entrepreneurial attempts also resulted from weak market and government infrastructures in rural areas. Some localities tried to develop rural e-commerce without identifying their market advantages and thus failed many aspiring rural people who were mobilized to test the water in this sector. Other localities used massive government funding to support rural e-commerce but did not actually develop local entrepreneurs' independence. As the governments withdrew, these government-funded businesses expired very quickly. Additional challenges were faced by entrepreneurs in the market of agricultural products because these products are hard to be standardized and transported without an end-to-end cold chain logistics

to guarantee their freshness. As an entrepreneur (interviewee 24) explained,

We should have a more flexible definition of success. If your entrepreneurship can provide for yourself, then you are successful because you do not need to ask for money from your parents. .... In some cases, earning 1,500 RMB a month is also an entrepreneurship as long as you can support yourself on your own. I call this 'survival entrepreneurship' .... Entrepreneurs are indeed rare, less than one out of a hundred. We cannot all become bosses, that is impossible. If we are all bosses, who would be the workers?..... So how about those who cannot be bosses? They can be sales, customer service, operation.

A successful e-commerce village may also lose its steam. An entrepreneur (interviewee 51) told me,

It is hard to do e-commerce in this village at present. We used to have a lot of e-commerce entrepreneurs, more than two thousand and some were very big, now the number of entrepreneurs declines sharply. The entire industry has been gradually shrinking over years. When I came here years ago, there were many. Several years later, those young people who previously were in this industry are gone entirely. They tried very hard but eventually moved to other industries. In the very beginning, e-commerce is profitable, but now the profit margin is much smaller. I do not know what they are up to, but I know they are not doing this any longer.

Another entrepreneur (interviewee 50) from the same village confirmed this, "In 2013, there were more than twenty of my friends and classmates who were doing e-commerce. Now, there are only one or two, probably three, remaining." Mr. Lin concluded that young people often fail because of the lack of self-discipline.

### **Digital Developmental Village**

The celebrated success stories of Wang, Zhuang, and Lin, along with many invisible failure stories, represents an emerging phenomenon of rural e-commerce, the focus of

the current study. China is the largest e-commerce market in the world in terms of market shares and online sales, bigger than the United States and European Union combined (Levy, 2018). In China, there are more than 800 million internet users and over 533 million online shoppers that constantly fuel the growth of this newly emerged and expanding economic sector. As a result of China's infrastructure built on broadband and wireless internet, the numbers of internet users and online shoppers continue climbing over the years, which further surge China's e-commerce industry. The total value of e-commerce transactions was over 38 trillion RMB in 2018 (\$5.61 trillion), 38 times more than in 2004 and much larger than Japan's GDP in 2018 (National Bureau of Statistics of China, 2019). The total online retail sales of consumer goods leaped from barely 100 billion RMB in 2008 to 9 trillion RMB in 2018, 90 times bigger in a decade (Davis, 2019; National Bureau of Statistics of China, 2019). The e-commerce sector becomes increasingly important to Chinese economy. The total online retail sales in China gained 24.7% shares of the overall retail spending, as the latter "contributed 76.2 percent to 2018 GDP growth in China, up 18.6 percentage points from 2017" (Melton, 2019; National Bureau of Statistics of China, 2019). Alibaba and JD.com are among the top three largest e-commerce companies in the world. Pinduoduo, a Chinese social media-based e-commerce platform founded in 2015, went public in NASDAQ and in less than three years, the company joined the top rank (Levy, 2018). With the latest technologies developed by these firms, along with the cheap labor running in the vein of this industry, Chinese online consumers are addicted to convenient e-commerce

for goods and services anytime, anywhere, and just clicks away.

Although a larger percentage of online transactions occur in richer, coastal, urban China, underdeveloped poorer, inland, rural China has also benefited by the emergence of e-commerce and shows even greater economic prospect than urban China. Records show that online retail sales increased by 39% in rural areas and by 52% in the most impoverished areas, both numbers are higher than urban areas. Consequently, the average household income of rural Chinese people increases quickly (Xinhua, 2018; Feng, 2018). In 2016, 620 million rural residents spent 894 billion RMB on e-commerce platforms and a year later they bought goods and services worth of 1.25 trillion RMB (Xinhua, 2017). Not only does e-commerce turn villagers to purchasers, e-commerce also turns them to producers who contribute to the growth of the online market. More than 9.8 million online shops were registered in rural China by 2017, which hired 28 million rural residents, representing a 20.7 percent increase from the previous year (Xinhua, 2017). The trend continues with a predicted 12 percent growth in 2018, which may lead to more migrant workers returning to their rural hometowns to start up their own e-commerce firms as an alternative to securing a blue-collar job in cities.

The purchaser side of e-commerce is not new. However, the producer side of rural e-commerce at a national scale can only be found in China. In rural America, given the vastness and low population density, retailers and delivery firms generate lower profits from the purchases due to the longer distance and fewer packages per stop. For the same reasons, producing tradeable commodities in rural America would be



impossible, especially since the Midwest manufacturing became the rust belt as factories were outsourced to elsewhere. Amazon, the largest e-commerce company in the world, also heavily relies on the overseas suppliers, particularly those in China. In China, in contrast, the government has been investing trillions of dollars in infrastructure, critical to the development of rural e-commerce. Revitalizing rural China involves 700 million residents, twice the size of the entire U.S. population. Unsurprisingly, China's e-commerce platform giants are eyeing rural China as the next frontier as their urban businesses become increasingly saturated. For example, Alibaba has been extending its reach into rural China through its rural e-commerce project since 2014 and pouring 10 billion RMB (roughly \$1.4 billion) to develop a rural e-commerce ecosystem across China in collaboration with an increasing number of development-oriented local governments (Luo, 2017). The project is a combination of a series of interrelated measures. For example, Alibaba established a two-tier service network to provide sufficient training to migrant workers and stay-home young villagers for e-commerce startup businesses on the county and village levels. They also built a village-level logistic network covering all rural areas through Alibaba's logistic network, Cai'niao, which nearly all had joined (Luo, 2017). As nearly all major e-commerce platforms eye rural China, Alibaba is not alone in rural e-commerce. As a result, numerous villages turn their businesses from agriculture to e-commerce-empowered manufacturing and craftworking. In 2009, only three villages met the definition of

Taobao Village, which requires more than 100 active seller Taobao<sup>1</sup> accounts or more than ten percent of local population in the e-commerce sector within the boundary of an administrative village to generate more than 10 million RMB online sales a year (Alibaba, 2017). In 2019, the number of Taobao Villages was over 4,000, and the number of administrative villages empowered by other e-commerce platforms, which I term *e-commerce village*, was even greater (Alibaba, 2019). As the e-commerce growth curve flattens in urban areas, fast-tracked rural e-commerce is seen as the future since rural and inland China remain largely untapped.

However, the emergence of rural e-commerce in rural China remains a puzzle. Since the mid-1990s, China's extraordinary economic growth has been largely an urban-led success story. Many factors caused the economic stagnation in rural China. The institutional rearrangements in the early 1990s, featuring a decentralized tax and revenue sharing system, tasked all local governments, especially at village level, with an increased number of unfunded public goods provision mandates and limited independent tax revenues. Township and village enterprises (TVEs), which once generated robust economic development and employment opportunities in rural areas in 1980s, quickly wound down in 1990s. The privatization and merger of TVEs, as well as the better economic opportunities in urban areas, lead to massive labor migration out of rural areas. Deprived of important human and financial resources, most villages were unable to pursue economic development on their own while dealing with increasingly

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<sup>1</sup> One of Alibaba's e-commerce platforms.

serious social ills, such as children and elderly left-behind, low quality and low availability of public education, and environmental pollution. The longstanding economic stagnation and governance challenges at the village level deterred well-trained and -educated bureaucrats from developing rural businesses. For 20 years, rural China has continuously drawn attention from the central government for many issues, such as environmental degeneration, income stagnation, and import dependence. In the extant literature, villages, as components of China's developmental state, do not have independent developmental apparatus, such as solid tax base, well-educated workforce, independent lawmaking power, merit-based bureaucracy, and authority over land resources, to pursue economic growth on their own. In this context, the appearance of rural e-commerce becomes particularly intriguing as e-commerce villages experience economic growth, personal wealth, social harmony, public welfare restoration, and return migration.

Witnessing the emergence of e-commerce businesses and villages across rural China, scholars across disciplines become fascinated with rural e-commerce as an almost China-exclusive phenomenon, which has produced a growing body of literature that consists of thousands of publications and reports. However, partly directed by profit-seeking platform giants and development-driven governments, the majority of scholars are from business schools, such as management, supply chain, information system, rural economics, and entrepreneurship. Even though the socioeconomic and politico-institutional implications of rural e-commerce call for extensive and thorough

examination, social science studies on rural e-commerce remains scarce. In addition, the extant studies narrowly focus on how this newly-emerged, technologically-driven economic sector has been reshaping, reorienting, and redefining rural businesses, rural economy, and rural governance.

This dissertation's objective is to explore the emerging and evolving China's rural e-commerce against broader socioeconomic and politico-institutional contexts of the Chinese state, and address a central question: how do rural e-commerce survive and thrive in resource-scarce rural China in the contemporary era? Building on strands of literature, including developmental state, state capitalism, industrial policy, platform capitalism and a range of subfields of China studies, this dissertation proposes a theoretical framework, termed digital developmental village, to capture three-levels of interactions between the central government, local governments, e-commerce platform giants, and rural e-commerce entrepreneurs. Digital means this social phenomenon is relating to digital empowerment; developmental means this study is centered on the literature of development; and village indicates that villages, or rural areas, are the field of observed human activities. From the surface, it appears that the mushrooming of e-commerce villages and rural entrepreneurs is the outcome of the user growth strategy of e-commerce platforms, which is driven by network effects and the monopolistic tendency to own new sources of data to fuel other innovation. For this purpose, e-commerce platforms build up a three-level policy regime to interact with other major participants involved in e-commerce development. On the national level, platforms are

lobbyists, consultants and collaborators to promote rural e-commerce with the central government; on the local level, e-commerce platforms are the partners with provincial and county governments by measures including official training and strategic agreements; on the individual level, e-commerce platforms provide financial, human and social capital to aspiring peasants for their entrepreneurial pursuit.

Also, digital developmental village means more than the revitalization of rural China through e-commerce. Given e-commerce platform giants' position in the vertical dualist structure of the Chinese state capitalism, its ambition has been strongly supported by the Chinese state. In return, the Chinese state exercises considerable control over platform giants' agenda and its global expansion for its own purposes, from the regime consolidation to the hegemonic competition. In this case, it appears that General Secretary Xi Jinping's strategy of "complete poverty alleviation" has been encompassing platform giants' rural e-commerce strategy since 2017 and redirects their resources to poverty-stricken areas in the name of "rural e-commerce poverty alleviation." Moreover, the three-level policy regime also becomes the medium of all forms of industrial policies from the Chinese government. This three-level regime is also an industrial policy system. On the one hand, it channels the traditional industrial policies, which focus on building up manufacturing capacity as the country is catching up with leading countries, to produce thousands of e-commerce villages and millions of rural entrepreneurs. On the other hand, this system exploits data that these villages and entrepreneurs generate to stimulate platform giants' technological breakthroughs,

which is the main purpose of industrial policies of economically leading countries, such as China. In addition to the takeover of the regime from the top, the Chinese state also infiltrates the policy regime from the below by expanding the Communist Party of China (CCP) into rural e-commerce enterprises. Acting like a business incubator, this communist party manages to produce a politically loyal class of capitalists in the newest economic sector, and thus strengthens its control over the entire rural e-commerce ecosystem initially structured by e-commerce platform giants.

Along with impacts at home, digital developmental village may have impacts abroad as well due to its high transferability. In recent years, platform giants experiment this developmental model on foreign soil, such as Thailand and East African countries. The evidence shows that, in the early stage of China's rural e-commerce development, despite no additional assistance from either platforms or governments, some regular villages turned to e-commerce villages when aspiring peasants successfully made good use of e-commerce technologies. This study also finds that the number of such villages can grow exponentially when e-commerce platforms and governments pour resources in developing rural e-commerce. The broader contexts of countries vary significantly, but villages in China and elsewhere may be similarly situated. Therefore, as a variant of the broader developmental state model, the model of digital developmental village may be more readily adopted at the village level in other developing countries. Also, since the economic ecosystem created by this model is successfully merged into China's state capitalism through top-down takeover and bottom-up infiltration, the "export" of

this model to other countries, especially to those targeted by China's controversial geopolitical strategy, the Belt and Road Initiative, by e-commerce platforms under the guise of private ownership may be consequential when a growing number of foreign villages and a large foreign population are connected with the China's consumer market.

### **The Plan of the Dissertation**

The aim of this dissertation is to demonstrate how digital developmental village is the new type of state capitalism that is structured through the interactions between rural entrepreneurs, platform giants, local governments, and the central government within the broader socioeconomic, politico-institutional contexts of the Chinese state. The next chapter discusses the methodology and data collection. I first describe research methods that I employ and explain why these methods are appropriate for the research questions. Subsequently, I give a detailed description of all field sites visited and further explain why I have done multi-sited fieldwork. I also explain difficulties encountered in my fieldwork. China's current political climates affected my fieldwork and resulted in additional difficulties. I took precautions and remedial measures to collect data in such difficult situations.

Chapter 3 reviews literature relevant to developing this three-level theoretical framework. The chapter demonstrates that China is a developmental state with strong state capitalist features on the national level, which adopts industrial policies regularly to invest strategic sectors critical for economic growth and national security. On the local level, the Chinese state consists of many local developmental states which

institutionally link with the central government and constitute four types of local governance models given varied historical endowment and depths of capitalist penetration. From the historical perspective, this chapter explains how contemporary rural China, the primary focus of China studies and policy experimentations, came to lack a fully-fledged developmental apparatus. This chapter also reviews the CCP's continued organizational expansion into the private economy and three institutional contradictions relating to this expansion. The organizational expansion is a major move by the CCP to take over rural e-commerce completely as explained in later chapters. The final topic is the literature on platform economy of e-commerce, which includes basic features, such as its monopolistic tendency and network effects, the global hegemonic impacts of platform economy, and the innovation-producing potential. China's presence in this new economic sector or new form of capitalism are detailed therein. Based upon these lines of literatures, this study develops the model of digital developmental village as discussed previously.

There are four chapters presenting findings. Chapter 4 analyzes the coevolutionary path of the development of the policy regime on rural e-commerce, which was initiated by rural entrepreneurs, developed by e-commerce platforms, and eventually taken over by the Chinese state. This chapter breaks such development into three stages: the initiation stage, the development stage, and the takeover stage. Rural entrepreneurs played the major role in the initiation stage and created the market of rural e-commerce when most local governments did not have any idea of the existence



of such sector. The central government did not fully understand the economic potential of this sector, and platforms did not develop strategies targeting rural markets. In the development stage, e-commerce platforms created a three-level policy regime to interact with the central government, local governments and rural entrepreneurs respectively. Since this regime facilitates economic development through industrial policies, central and local governments across the nation could easily adopt it in line of the developmental state model. In the takeover stage, the CCP redirected the entire bureaucracy toward the strategic goal of complete poverty alleviation and thus reprioritized the development of rural e-commerce. In this way, the CCP increasingly got back the control over the regime and made the entire rural e-commerce ecosystem serve its own purposes.

Chapter 5 looks at the mechanisms behind the formation of e-commerce villages. This chapter brings together the distinct strands of literature on world systems theory and the local developmental state and builds on the Coevolutionary Framework of Digital Developmental Village. The extant literature previously identified three local governance models, namely, Wenzhou Model, Suzhou Model, and Dongguan Model. Given the uneven economic development in China resulting from varied depths of global capitalist expansion, this study suggests four models of state-market relations in China—the Yangtze River Delta Model, the Pearl River Delta Model, the Coastal Province Interiors Model, and the Peripheral China Model—which represent four kinds of combinations of economic strengths and regulatory interventions. In the interiors of

coastal provinces, most villages are producer-based villages that usually manufacture small commodities; in the Pearl River Delta area, villages are merchant-based villages in which rural entrepreneurs act like the sales department for the existing local factories. Two kinds of villages can be found in the Yangtze River Delta area, and none in the peripheral areas where rural people take advantage of live-stream apps to directly reach out to their customers.

Chapter 6 focuses on rural entrepreneurs' embeddedness strategies adopted in varied contexts of different kinds of e-commerce villages. This chapter's findings are based on the theories of entrepreneurship studies, especially mixed embeddedness. In this model, entrepreneurs are embedded within a three-rung sphere of influence, namely, the micro-level personal social networks, the meso-level opportunity structure, and the macro-level politico-institutional context. The extant literature suggests that both over-embeddedness—in which entrepreneurs are too tightly attached to their personal social networks—and under-embeddedness—in which entrepreneurs cannot fully translate their mainstream resources to business successes—are undesirable. However, this study finds that in the case of producer-based villages in the coastal province interiors, hyper-embeddedness is an entrepreneurially wise strategy because it enables rural businesses to maximize the extraction of resources from their personal network which further links them with the meso- and macro-level institutions. Likewise, this study also shows that hypo-embeddedness enables migrant entrepreneurs in urban villages in the Pearl River Delta area to collect resources from multiple dimensions of institutions to sustain

businesses while they are under-embedded within each dimension. Since the local governments are very resourceful and economically activist in the Yangtze River Delta area, they play roles in each level of the embeddedness, hyper- or hypo-, of rural entrepreneurs, which I term “governed embeddedness”.

The last finding chapter, Chapter 7, reveals the village party organizations’ expansion in rural e-commerce in the role of business incubator. This chapter demonstrates many new inclusive measures that help regular rural people who used to be in the agricultural sector or migrant workers in urban China become rural e-commerce entrepreneurs. In so doing, the village party organizations radically readjust the state-business relationship in the rural e-commerce sector, in which the village party organizations become the motivating command center of this sector. Radical changes in organizational expansion in rural e-commerce indicates that the CCP successfully strikes a balance between the CCP’s regime consolidation and the emergence of the entrepreneurial class, the reformists and the conservatives, and the rural base and the entrepreneur base. Also, the appearance of what I call “red DNA” e-commerce businesses through bottom-up infiltration means that the CCP gradually takes over the entire policy regime initiated and developed by private actors previously from head to toe and turns it into a new type of state capitalism with external impacts.

Chapter 8 contains discussions and the conclusion. I reiterate the theoretical framework of digital developmental village, briefly explain each chapter’s analysis, and further discuss the contributions to the extant literature. I conclude with an analysis of

the potential global impacts of China's digital development villages.

## **Chapter 2**

### **Methods**

#### **Overview of Methods**

This research employs mixed methods to capture the complexity nature of China's rural e-commerce and meet the different demands at each level of analyses. To illustrate how rural e-commerce interacts with the socioeconomic and politico-institutional context of the Chinese state, I collected data from multiple sources: (1) in-depth, semi-structured, recorded interviews with 61 rural e-commerce participants of all kinds; (2) fieldnotes based on-site observations with a sociological lens on the e-commerce firms, family workshops, Taobao Villages, industrial parks and so on; (3) policies, orders, initiatives, laws, ordinances, regulations of all levels of governments relating to the rural e-commerce sector; and (4) media reports on rural e-commerce. I extensively surveyed the previous literature on rural e-commerce and e-commerce in general, which includes research articles, think tank reports, policy recommendations, and blog posts by respected researchers in English and Chinese.

#### **Multi-Site Fieldwork**

By whatever way it is measured, China is a large country. Each locality has a different set of resource endowments, business environment, development trajectories, main economic sector, governance ways, population size, and geographic characteristics.

Since these areas are located within a larger whole which is territorially vast, culturally diverse, unevenly developed, and “people, information, goods and ideas are in a constant state of displacement” (Falzon, 2016, p. 5). Thus, in examining an emerging social phenomenon, such as rural e-commerce, which cannot be accounted for by focusing on a single site, multi-site fieldwork is demanded. Also, a multi-sited study is necessary when the subject of the study of human groups is in motion and thus “invites supra-local understanding and therefore methodology” (Falzon, 2016, p. 5), such as migrant entrepreneurs and workers who contribute to the formation of e-commerce villages in certain localities (Marcus, 1995; Mintz, 1998). Although rural e-commerce development in China is spatially non-contiguous as well as substantially continuous temporally, it is important to follow practitioners and their networked connections across space. In that case, the researcher must move through a spatially dispersed field to gain a better picture of the targeted social phenomenon.

### ***Overview of the Journey***

I attended the first field trip as the charter member of the Sixth Tone Fellowship, a fieldwork fellowship co-sponsored *The Paper* (“澎湃新闻”, *Pengpai News*, the owner of its English-language channel, *Sixth Tone*), a Shanghai-based, leading online news outlets in China, and Fudan Development Institute (FDDI), one of the most prestigious university-affiliated think tanks in Shanghai. The fieldwork began in late May 2018, ending in early July 2018, and involved five East China provinces, namely Shanghai Municipality, Zhejiang Province, Jiangsu Province, Anhui Province, and Shandong

Province. In late July 2018, I was invited to join a 100-village, survey-based, research project on rural e-commerce as a lead investigator for a team of seven, which was co-sponsored by Alibaba Research Center (ARC), the World Bank, Peking University and Nankai University. We visited ten villages-in-the-city in three suburban district of Guangzhou City, Guangdong Province and concluded the fieldwork in early August. In October 2018, I attended the Sixth Summit on Taobao Village, a high-end conference hosted by Suining County, Jiangsu Province and co-sponsored by Alibaba and the World Bank. I joined researchers to conduct fieldwork in three Taobao Villages and one share economy industrial park, which included keynote speeches by a vice president of Alibaba, a World Bank economist, rural e-commerce researchers, policymakers and entrepreneurs. In 2019, I revisited some of places I had been to for additional fieldwork.

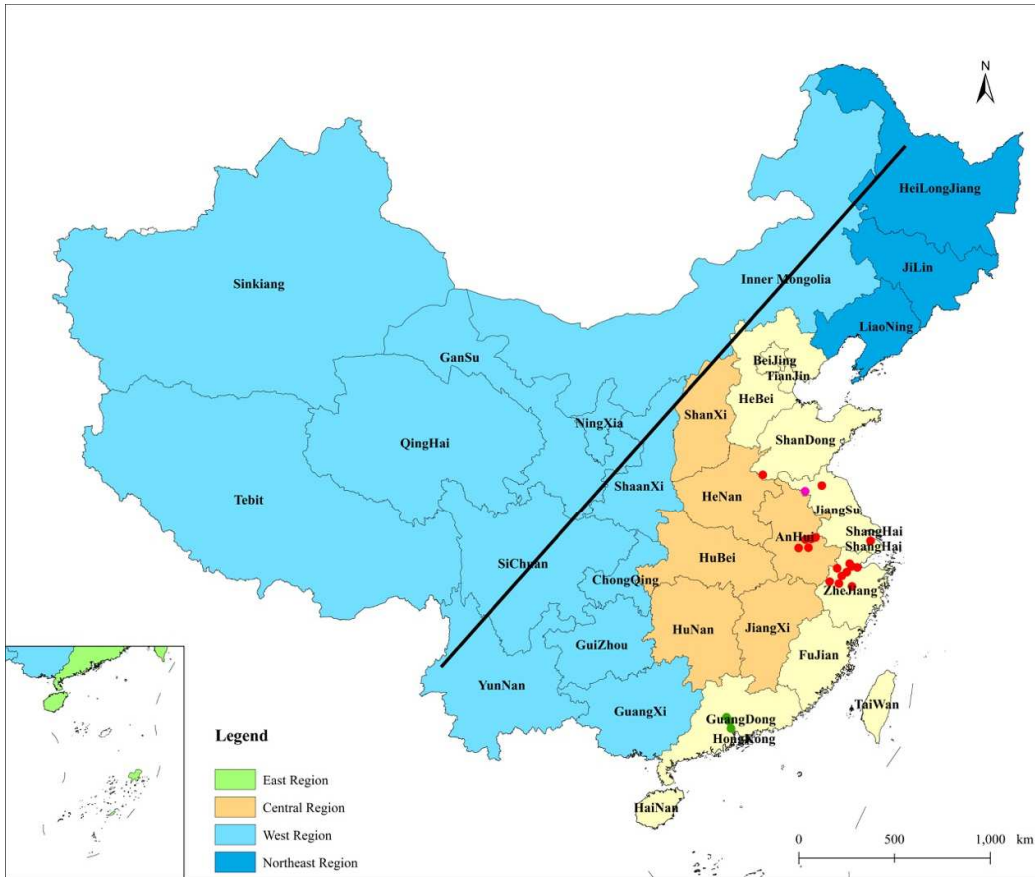


Figure 2.1 Map of Field Sites

### *Sampling of Field Sites*

In this map, China's provinces are classified into four regions: light green provinces are East China, brown provinces are Central China, sky blue provinces are West China, and dark blue provinces are Northeast China. The imaginary line is Heihe-Tengchong line, which roughly breaks China into two equal parts, but the right part has 90 percent of the population and economy. Villages I visited are also classified based on which fieldwork trip in they were visited. I visited red villages during the first trip as a Sixth Tone Fellow, green villages when I acted as the lead investigator for Taobao Villages in Guangzhou

City, Guangdong Province, during the second trip, and pink villages during the third trip arranged by the Summit on Taobao Villages. The sampling of villages is both biased and representative. It is biased because villages are mostly in East China, while a few of them are in Central China, and none are in West or Northeast China. However, according to Alibaba it is representative because only 3 percent of Taobao Villages are in non-East China. As I explain in Chapter 5, another form of rural e-commerce, live-stream rural e-commerce, predominately appears in Central and West China and does not demand as much institutional outlay as do e-commerce villages. In fact, I was once tasked with assembling a research team co-sponsored by a research center affiliated to the Ministry of Science and Technology (“MOST”), and Kuaishou Technology, one of the largest live-stream app companies in the world, to tackle live-stream rural e-commerce in Central and West China. However, the trip was postponed for reasons beyond my control. Still, the findings and analysis stand despite the lack of field data from other regions of China. The places I have been to are classified into three groups based on their economic geographical locations: the Yangtze River Delta area, the Pearl River Delta area, and interiors of the coastal area.

### **Socioeconomic Contexts of Major Field Sites**

#### ***Yangtze River Delta Area***

The first cluster of field sites is in the Yangtze River Delta and are centered around the global city of Shanghai. As one of major economic engines in China, the Yangtze River Delta area is also a major destination for global and domestic migrants who are looking



for better economic opportunities as workers and entrepreneurs. I visited three cities on the different administrative ladders—Shanghai, Hangzhou, and Yiwu.

Shanghai is a provincial administrative unit, equivalent to a province under the direct control of the central government. As China's financial center and manufacturing center, Shanghai actually has very little interest in developing rural e-commerce since its remaining rural areas are to be developed during future urban sprawls. Fortunately, I visited a village in one of Shanghai's outermost districts that is thirty-eight kilometers (23.6 miles) from the urban center. The village was awarded "exemplar new village" recently for its new rural development by using the internet to sell fruit to local markets while maintaining an old-fashioned canal village.

Hangzhou is the provincial capital of Zhejiang Province, the wealthiest province in China with the largest number of private businesses. As the economic backyard of Shanghai, Hangzhou used to receive financial investment and manufacturing sectors "outsourced" from Shanghai. Since Alibaba emerged as the largest private firm and one of the leading IT firms in China, Hangzhou, where Alibaba is headquartered, is becoming the powerhouse of China's e-commerce sector and a smart city driven by the latest technologies from Alibaba. In turn, Shanghai now is deemed as the financial backyard that funds Hangzhou's technological advances.

Yiwu is a county-level city in Zhejiang Province, known for its openness to foreign traders and locals' entrepreneurial spirit. Dubbed as "the world capital of small commodities", Yiwu is entitled to many favorable international trade policies directly

from the central government. Yiwu has been dedicated to pivoting to e-commerce for more than a decade and lately turning to cross-border e-commerce through its “buy global, sell global” policy to consolidate its international trade dominance over small commodities. In terms of e-commerce, Yiwu is ranked sixth in China, only after Chinese mainland’s four global cities and Hangzhou. Yiwu also has the largest number of Taobao Villages (164) within its city boundary.

### ***Pearl River Delta Area***

The entire Pearl River Delta is located within Guangdong Province, which is better known as Canton in the old time. Its provincial capital—Guangzhou—has been a major port city in China and the trade center for the South China Sea for thousands of years. As the southernmost province in China, Guangdong is home to three global cities—Guangzhou, Shenzhen, and Hong Kong, which respectively serves as the world’s trade center, manufacturing center, and financial center. Guangdong was the first province open to the world in the reform era and thus became the major destination for domestic migrants in 1980s and for international migrants in 2000s. Guangzhou is even dubbed “the Capital of the Third World” to which entrepreneurs from Africa, Mideast and Latin America flock for its trade and manufacturing capacities.

Like Shanghai, Guangzhou is not particularly interested in developing rural e-commerce. However, with a large number of urban villages absorbed by its urban expansion, Guangzhou becomes an ideal place for migrant e-commerce businesses that look for places with convenient transportation, a cheap labor force, affordable housing,

and close proximity to manufacturing sectors, wholesales markets and customer base. Rural e-commerce thrives in these poorly planned but highly surveilled urban villages in which you may find unpaved roads, filthy pits, stinky streams, buddha shrines, local god temples, ancestor halls and “handshake apartments,”<sup>2</sup> as well as the security system on each apartment entrance that only allows entry by registered ID card, smartphone QR code scan, or passcodes.

### *Interiors of the Coastal Provinces*

These places are not geographically close to global cities in the Yangtze River Delta and the Pearl River Delta areas but are within their broader spheres of influence. Thus, these places do not have as much economic resources as do places close to global cities, but their local governments are similarly structured since they are in the same provinces with more economically advanced coastal cities. For example, Chaohu City is in Anhui Province, an economically underdeveloped province (2018 GDP per capita ranked 21<sup>st</sup>) as opposed to other Yangtze River Delta provinces (Shanghai is 2<sup>nd</sup> and Zhejiang 5<sup>th</sup>). Suining and Shuyang used to be poverty-stricken counties in Northern Jiangsu and Cao County is one of the poorest counties in Shandong Province.

However, the first Taobao Villages was identified in Suining County and Cao County has China’s second largest cluster of Taobao Villages. Transformation occurred in places that were economically struggling. For example, before rural e-commerce development, the average disposable income in Cao County was barely 2,431 RMB

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<sup>2</sup> Apartments in urban villages are too close to each other, so people from opposite windows can shake hands.

(\$361.22) a year in 2009. A few years later, Cao County became an e-commerce boomtown with more than 50,000 online stores, 1,000 village-level e-commerce service stations, and 10 e-commerce parks hiring over 50,000 workers, engaged 200,000 locals and generated a sales volume of over 15.8 billion RMB. The disposal income spikes tenfold and reaches almost \$4,000 a year in 2017.

### **Sampling of Interviewees**

At the micro-level, this study is inclusive in order to have a complete picture of China's rural e-commerce development. I have employed several methods of sampling to select interviewees, including organization-based network sampling (Bernard, 1988), targeted sampling (Verdaguer, 2009), and dispersed referral snowball sampling (Etikan, Alkassim, & Abubakar, 2016; Mahler, 1995). First, I relied on the resources and networks of research institutions which I collaborated with, such as FDDI, Peking University, ARC, and *The Paper*, to identify possible interviewees, earn trust from local governments, and withstand an unfavorable political climate. Second, I employed the dispersed referral snowball sampling to "ensure that the initial set of respondents is sufficiently varied" (Etikan, Alkassim, & Abubakar, 2016, p.55) and the sample is "strategically built via multiple varying seeds" (Kirchherr & Charles, 2018). Third, I used targeted sampling to access hidden population to maximize variation in the interviewees critical to the phenomenon discussed (Watters & Biernacki, 1989).

I visited rural e-commerce companies, rural product farms, industrial parks, research institutes, e-commerce training firms, online marketing firms, university-

funded business labs, rural product online platforms, rural e-commerce associations, an e-commerce platform giant, village committees, county- and city-level bureaus of commerce, a cross-continental railway station, and e-commerce village or industrial park service centers. During my visits, I conducted 61 recorded face-to-face, semi-structured interviews with various participants in rural e-commerce development, which include twenty-three entrepreneurs, nine researchers, six educators, 13 village officials, four commerce officials, and nine persons in related sectors, such as industrial park management (three interviewees have two identities). The average length of an interview was approximately thirty-five minutes. The names of the interviewees, organizations, and localities have been changed to maintain their confidentiality. I also spoke informally with many participants who provided critical information to further proceed this study.

	Roles in Rural E-Commerce	Gender	Age
Interviewee 01	village official	F	40s
Interviewee 02	commercial official	M	40s
Interviewee 03	educator	M	40s
Interviewee 04	village official	M	30s
Interviewee 05	entrepreneur	M	30s
Interviewee 06	entrepreneur	F	20s
Interviewee 07	entrepreneur	M	30s
Interviewee 08	village official	M	50s
Interviewee 09	village official	M	50s
Interviewee 10	village official	M	50s
Interviewee 11	related sectors	M	30s
Interviewee 12	related sectors	M	40s
Interviewee 13	entrepreneur	M	30s
Interviewee 14	entrepreneur	F	40s
Interviewee 15	entrepreneur	F	20s

Interviewee 16	entrepreneur	M	30s
Interviewee 17	related sectors	F	40s
Interviewee 18	related sectors	F	40s
Interviewee 19	village official/educator	F	40s
Interviewee 20	educator	M	40s
Interviewee 21	educator	M	40s
Interviewee 22	educator	M	40s
Interviewee 23	entrepreneur	M	30s
Interviewee 24	entrepreneur	M	30s
Interviewee 25	commercial official	M	40s
Interviewee 26	commercial official	M	40s
Interviewee 27	researcher	M	50s
Interviewee 28	related sectors	M	40s
Interviewee 29	entrepreneur	F	20s
Interviewee 30	entrepreneur	M	40s
Interviewee 31	entrepreneur	M	30s
Interviewee 32	commercial official	M	40s
Interviewee 33	village official/entrepreneur	M	30s
Interviewee 34	entrepreneur	F	20s
Interviewee 35	village official	M	40s
Interviewee 36	village official	M	30s
Interviewee 37	entrepreneur	M	30s
Interviewee 38	entrepreneur	M	20s
Interviewee 39	entrepreneur	F	30s
Interviewee 40	village official	M	30s
Interviewee 41	related sectors	M	20s
Interviewee 42	entrepreneur	M	30s
Interviewee 43	researcher	M	30s
Interviewee 44	researcher	M	40s
Interviewee 45	related sectors	F	30s
Interviewee 46	researcher	M	30s
Interviewee 47	educator	M	30s
Interviewee 48	village official	M	40s
Interviewee 49	village official	M	40s
Interviewee 50	entrepreneur	M	30s
Interviewee 51	entrepreneur	M	20s
Interviewee 52	related sectors/entrepreneur	M	50s
Interviewee 53	entrepreneur	F	20s
Interviewee 54	related sectors	M	20s
Interviewee 55	village official	M	30s

Interviewee 56	village official	M	30s
Interviewee 57	researcher	M	40s
Interviewee 58	researcher	M	20s
Interviewee 59	researcher	F	20s
Interviewee 60	researcher	F	20s
Interviewee 61	researcher	F	20s

Table 3.1 Interviewees' Basic Biographic Information

No monetary compensation was provided to research participants. I used other ways to incentivize them to join the interviews instead. For example, when I worked as Sixth Tone Fellow, a fellowship provided by *The Paper* and the FDDI, participants were encouraged to speak with me in order to appear in news articles or policy reports I was tasked with. I wrote a news article discussing the legal issues involving cross-border e-commerce in *The Paper* and included this material in length in the policy report to the FDDI based on my fieldwork in Yiwu. Likewise, a local official proactively approached me and invited me to visit e-commerce villages within his jurisdiction after he found a report based on my think tank lecture, which helped me gain entrance to do fieldwork in that region. In some other cases, I provided non-monetary assistance in exchange for official assistance. For example, I gave a talk to introduce successful experiences of rural e-commerce development elsewhere and voluntarily agreed to share my preliminary fieldwork findings in e-commerce villages in that district with the district bureau of commerce officials. To incentivize the bureau secretary of commerce in another district, I proposed to find an oral English coach for his son, a computer science undergraduate who wanted to study in the United States.

In conducting fieldwork, I also met many difficulties. For example, I was

accompanied by officials in visiting some villages in the interiors of Shandong Province and discovered that participants were coached by these officials before the interviews and monitored during the interviews. In this case, I had to revisit participants on my own in order to get more candid responses. When I was in Guangzhou, it was near impossible to conduct interviews with people in family workshops since every apartment was guarded by the high-tech security system. I had to persuade a village official to put aside his own work and walk with me building by building in order to find suitable interviewees. In another village in the interior parts of Jiangsu, I discovered that rural e-commerce development turned to a show business as local officials forced villagers to move into a newly built community which was more like a failing movie studio than a vibrant e-commerce village. I had to drop off village officials and look around in order to uncover the truth. In some cases, I did not succeed to overcome these difficulties, so I had to modify or abandon my plan. For example, I ran into a workers' movement in some Guangzhou villages as the trade war between China and the United States intensified and hurt their jobs, so it became impossible to do fieldwork in villages in such trouble.

Political climate was another concern. I mostly completed my fieldwork in early 2019 because this was a politically sensitive year. First, this is the 30<sup>th</sup> anniversary of Tiananmen Square incident and the law enforcement apparatus is fully mobilized to prevent any suspicious activity in anywhere. Second, 2009 is also the 70<sup>th</sup> anniversary of the founding of the People's Republic of China and the CCP added another layer of



protection nationwide. Therefore, without a strong order from above, village officials did not see me as an American-trained doctoral student but rather as troublemaker and offered no meaningful access. Third, 2019 is the year before the complete poverty alleviation. I was told that the central government had sent many disguised investigative task forces to inspect the progress of poverty alleviation at the grassroots level. I might thus be seen by village officials as another investigator from the central government pretending to be a rural e-commerce researcher. For the above reasons, a proposed research field trip to West China on rural e-commerce with the Ministry of Science and Technology and Kuaishou Technology in spring 2019 was indefinitely postponed.

### **Other Methods**

I used institutional ethnography, a method commonly used to investigate the “textually-mediated social organization” (Smith, 1990), in this research to extensively scrutinizing specific texts, such as policy documents, media reports, and other text-based materials which is in consistent with the theoretical underpinnings of institutional ethnography. Thus, I explored the processes of, and uncovered the social relations that produce, rural e-commerce with explicit critical goals (Billo & Mountz, 2015; Devault, 2006). I also fell back on my legal training to analyze policies and promulgation histories to map their interrelationship.

### **Consideration of Validity**

Difficulties mentioned above do not threaten the validity of this research. Although a handful of interviewees in Shandong Province did not speak, act, or think in the same

way as they were not supervised by accompanying officials, they became candid and willing to answer questions again in the follow-up interviews when I was able to speak with them with no official presented and made multiple promises of maintaining their confidentiality. The labor dispute which occurred in south Guangzhou forced me to readjust the sequence of visits but did not affect interviewees' willingness to join my research. Since this study eventually focuses on rural e-commerce in East China where more than 90 percent of e-commerce villages are located, the abortion of the West China field trip does not affect the conclusions drawn from data. Ultimately, I paid special attention to my data interpretation so that my research findings can be tied to the national and even global context.

### **Chapter 3**

#### **Theorizing Digital Developmental Village**

Scholars have proposed many theories to explain China's economic miracle, and none of them seems perfectly applicable to China's rural e-commerce development. From the perspective of developmental state, China's villages do not have independent apparatus to pursue economic development goals. State capitalism mainly focuses on the relationship between the state and large firms, while rural e-commerce businesses are usually classified as small and medium enterprise which are beyond the reach of traditional state capitalism studies. Central and local governments do enact policies, which fall within the broad definition of industrial policies, but these policies look very

old-fashioned and do not aim at technological advances as they should be when China is in the stay-ahead stage of economic development. In addition, although platform companies become vital part of Chinese economy, very few studies have analyzed their roles in the landscape of China's political economy.

This study proposes a new theoretical framework, termed *digital developmental village*. This framework integrates elements from the literatures on developmental state, state capitalism, industrial policy, and platform economy to understand China's rural e-commerce development in a broader picture of rural China's socioeconomic and politico-institutional contexts and the evolution of China's political economy.

### **Developmental State**

Developmental state is a term that Chalmer Johnson (1982) and his disciples (Amsden, 1989; Haggard, 1990; Wade, 1990) adopt to explain remarkable economic successes of East Asian countries, such as Japan, South Korea, Taiwan, and Singapore. The generally agreed-upon definition of developmental state consists of three features: (1) a strong state with strategic growth goals; (2) institutional arrangements which create a small elitist bureaucracy relatively insulated from both political pressures and vested interests and a successful state-business cooperation; and (3) industrial policies (Evans, 1995; Haggard, 2015; Johnson, 1982; Knight, 2014; Onis, 1991; Weiss, 2000).

The political foundation of the developmental state centers on actions taken by states to safeguard the formulation and implementation of industrial policies and to create a favorable sociopolitical context for development (Haggard, 2015; Onis, 1991).

Authoritarianism, though deemed unnecessary for economic growth, is often associated with developmental states since their regime types during the developmental years are semi-democratic at best and dictatorship at worst (Cheng, 1990; Fritz & Menocal, 2006; Haggard, 1990, 2004; Przeworski, Alvarez, Cheibub, & Lemongi, 2000; White, 1998). Scholars find East Asian authoritarian states able to pursue developmental vision through long-term industrial policies in addition to taking measures unimaginable in democratic regimes. Meanwhile, under-institutionalized democratic regimes with a short cycle of election politics are deemed ill-equipped for pursuing developmental goals (Kelsall & Booth, 2010; Kohli, 2004; Leftwich, 2005; Przeworski, Alvarez, Cheibub, & Lemongi, 2000; Przeworski & Limongi, 1993; Vu, 2007; Wade, 1990; White, 1998).

Scholars are drawn to investigate the institutional foundation for effective state intervention through industrial policies, namely those advocating a high degree of bureaucratic autonomy and close and mutual beneficial state-business cooperation (Haggard, 2015; Johnson, 1982; Maxfield & Schneider, 1997; Onis, 1991). To create a high degree of bureaucratic autonomy, developmental states take two rare measures usually nonexistent in other developing states. First, they establish an extremely meritocratic form of recruitment to attract the most competent talents into the elite ranks of the bureaucratic system that is tasked with the industrial policy formulation and implementation (Root, 1996). Second, they make this small elite bureaucracy insulated from, and accountable to, pressures from inside and outside the government. Moreover,

to create a successful state-business cooperation, developmental states use financial and policy tools to ensure the cross-penetration between bureaucratic and business elites and compulsive exercises over deviating private firms (Haggard, 2015; Low, 2001; MacIntyre, 1994).

Industrial policy is the central component distinguishing developmental states from command-economy socialism and free-market capitalism. Developmental states take a much more purposive and goal-directed approach, termed “governed market” (GM), in regulating economic activities (Johnson, 1999; Wade, 1996, 2004). In GM economies, industrial policies represent a slate of market-intervening measures which late development countries adopt to reallocate resources to certain economic sectors for the greatest economic growth, including the selection of strategic industries, guaranteed investment, subsidized interest rates, and private-sector incentive structures (Amsden, 1989; Haggard, 2015). In so doing, states take a coordinator role by adopting industrial policies to overcome market failures of their agriculture-based economies, prioritize industries which can generate incomes from the world market while having potential for rapid technological progress and labor productivity growth, and eventually realize economic growth at a good equilibrium (Amsden, 1989; Onis, 1991).

These politico-institutional arrangements also form a check-and-balance system which overcomes inherent flaws of each component. On one hand, strong capacities of authoritarian states are the prerequisite for a small-sized and elite bureaucracy tasked with industrial policies. On the other hand, the existence of such bureaucracy with high

autonomy is found useful to prevent power abuse, enhance the predictability in state-business cooperation, and bound corruption at a certain level (Amsden, 1989; Evans, 1995; Haggard, 2015; Kang, 2002a, 2002b; MacIntyre, 2003; Schleifer & Vishney, 1993). By showing a willingness to protect private property and follow the rule of law, states thus can persuade the private sector to join the national building (Barzel, 1997; Grabowski, 1994, 1997; Haggard & Tiede, 2011; Huff, Dewit, & Oughton, 2001; Weingast, 1995, 1997). In the meantime, the private sector is also prevented by the elite bureaucracy from reverse penetration into states and in distorting industrial policies favorable to private interests, rather than national developmental goals (Amsden, 2001; Aoki, Kim, & Okuno-Fujiwara, 1996; World Bank, 1993).

This theory was contested for its narrow regional focus on East Asia and its relevancy to other late development countries (Evans, 2011; Evans & Heller, 2015; Herring, 1999; Kelsall & Booth, 2010; Mkandawire, 2001; Sandbrook, Edelman, Heller, & Teichman, 2007). It was deemed obsolete in the post-Cold War era since economic successes of all classic developmental states are attributed partly to their strategic importance to the United States and close proximity to two costly Asian wars in which the United States engaged during their growth years (Leftwich, 2008; Pempel, 1999; Stubbs, 1992, 2005). Also, this theory has been challenged since the 1998 Asian economic crisis in which developmental states behaved badly (Hayashi, 2010; Maswood, 2002; Pang, 2000). Critics also concluded that developmental states cannot carry out independent policies as they become less autonomous due to the acceleration

of globalization and their policies may be in conflict with multilateral international agreements (Jayasuriya, 2005; Low, 2001; Rodrik, 2007; Weiss, 1998; Wong, 2004).

Despite suffering definitional, theoretical, empirical, and practical defects, the developmental state theory has enjoyed a surprising revival as the winds of economic ideology shift in the wake of the 2008 global recession. China, another East Asian authoritarian state and a former strategic ally with the United States in the early years of its reform and opening era, survived and thrived in the aftermath of the Great Recession as both a faithful disciple to the developmental state theory and a blatant violator of its own WTO promises and trade responsibilities. This was in a time that western countries struggled with social ills relating to economic stagnation.

### **State Capitalism**

China's political economy is characterized as state capitalism, a political, social and economic system in which the state controls strategic economic sectors and adopts institutions of liberal capitalism to promote a sustained economic growth for the political gain (Bremmer, 2009; Kurlantzick, 2016; The Economist, 2012; Liou, 2017; McNally, 2013; Schweinberger, 2014; Tsai, 2015). In addition to the old-fashioned wholly-owned state-owned enterprises (SOE) in strategic industries, China has transformed this political economic model to the next level through extensive state-business networks associated with a well-developed patronage system (Ahroni, 1986; Naughton, 2008; Ramamurti & Vernon, 1991; Trebat, 1983). In order to develop strategic capacities in this new system, China extends their reach into SOEs with

majority or even minority equity positions, provides private companies with strategic support through subsidized credit and/or other informal trade protections, directs industrial policies to particular sectors and firms, and employs other market control tools (Amsden, 2001; Mazzucato, 2011; Musacchio, Lazzarini, & Aguilera, 2015).

China's state capitalism established a vertical dualistic structure in late 1990s. On the top, SOEs and private national champion firms proliferated and controlled a range of strategic upstream industries, such as defense, energy, telecommunication, and financial institutions with the cheap credits from state-own banks or through government-arranged mergers (Milhaupt & Zheng, 2015; Kong, 2017; Li, Liu, & Wang, 2015; Lin & Milhaupt, 2013; Lin, 2017). On the bottom, downstream industries, such as consumption goods manufacturing and export industries, are mostly liberated from state control and operated on market principles (Li, Liu, & Wang, 2015). Furthermore, this structure can withstand structural change and trade liberalization. As downstream industries expand due to productivity growth and factor accumulation in the new institutional environment, they will have a higher demand for goods and services monopolized by upstream industries. Therefore, upstream firms can extract more rents from downstream firms and generate higher profitability without any productivity improvement as a result of its monopoly position in China's economy (Feng, Johansson, & Wang, 2018; Huang, 2012; Li, Liu, & Wang, 2015; Naughton & Tsai, 2015).

In this institutional environment, the stark distinction of corporate ownership is



mostly blurred since SOEs and large private firms in China share many similarities, such as exclusive market access, substantial state subsidies, close association with state power, and most importantly, a role in executing policies of the ruling party (Milhaupt & Zheng, 2015). Contrary to conventional assumption that asserts large private firms in China are independent of the mechanisms of the state capitalism, they actually survive and thrive precisely because of active state intervention channeled through connections with the state power. Through taxation, regulation, subsidization, cooptation, and extralegal tools, the party-state can exercise control rights over large private firms in the absence of ownership interests. In a country plagued with a compromised rule of law, undermined property rights, and state overdominance in the economy, the party-state in many cases exercises unbridled control rights over private firms in an unscrupulous manner. Thus, more research is needed to reexamine China's state-business relationship in the context of state capitalism (Milhaupt & Zheng, 2015).

Through this hybrid state-business arrangements, the Chinese state is enabled to politicize major corporate decisions, including investment (Musacchio, Lazzarini, & Aguilera, 2015; Chiu & Lewis, 2006). In order to generate economic growth and ultimately keep the Communist Party of China (CCP) in power, China's large firms are urged to engage in global competition. In securing long-term supplies of critical resources and expanding market footholds on foreign soil, China's large firms outspend their private-sector competitors with near unlimited state funding or orchestrated foreign aid from the Chinese government (Bremmer, 2009). The Chinese state often

directs large firms to pursue other objectives in addition to, or even in conflict with, the maximization of profits or shareholder value, ranging from price control, avoidance of mass job loss, investment in geographically remote areas and less-profitable sectors, to the pursuit of a “harmonious society”, “complete poverty alleviation”, or China’s grand geopolitical strategy of Belt and Road Initiatives (Bai & Xu, 2005; Ljungqvist, Chen, Liang, Lu, & Zhou, 2015; Shirley & Nellis, 1991).

Usually the state does not force large firms to pursue projects associated with high risks or high social externalities. Instead, an incentive structure, often in the form of industrial policies, encourage firms to follow the lead of the state (Cimoli, Dosi, Nelson, & Stiglitz, 2009; London, 2009; Musacchio, Lazzarini, & Aguilera, 2015; Pack & Saggi, 2006). Researchers of state capitalism are also well acquainted with industrial policies, a subject well studied by developmental state scholars. Likewise, countries labeled state capitalism act “as a country-level catalyzer” (Musacchio, Lazzarini, & Aguilera, 2015, p. 123) of private entrepreneurship, key sectors, and economic industrialization. But unlike developmental states which usually prioritize sectors with high demands in the world market, state-capitalist states are more prone to strategically involve sectors deemed better under state control, or in infant innovation-oriented sectors that private entrepreneurship cannot fully fill with scarce financial and intellectual resources (Aldo & Lazzarini, 2012; Bortolotti & Faccio, 2009; Grossman & Helpman, 1994; Harney, 2009; Krueger, 1990; Lazzarini, 2013).

Different from the developmental state, state-capitalist governments are more

susceptible to regulatory capture, by which private firms are able to shape regulatory environment to their advantage (Baker, 2010; Pagliari, 2012; Stigler, 1971). On the one hand, the swelling size of the Chinese economy and increased state capacities in reallocating resources provide more opportunities for regulatory capture (Milhaupt & Zheng, 2015). On the other hand, China's underdeveloped political and legal institutions lead to pervasive and massive corruption across the entire bureaucracy (Milhaupt & Zheng, 2015). Therefore, as the party-state is trying to coopt private firms through formal channels, such as trade associations, membership of government organs and the CCP itself, and informal high-level political connections, private firms also actively increase lobbying for or against certain policies before the government (Kennedy, 2009b; Tsai, 2007, 2015).

The rise of state capitalism, especially in China, lead to implications not only at home but also abroad. From the perspective of the Chinese government, China's large firms, irrespective of ownership, are more than a means of competing with their foreign rivals, they are also major vehicles for the Chinese state capitalism to pursue national goals and international influence, exercise overreaching impacts under the disguise of private ownership, and propagate national values defined by the party-state (Bremmer, 2009). China's partial economic reforms and nonreciprocal market opening policies thus place foreign firms in a very disadvantaged position in global competitions. Such policies provide China access to sensitive data, technologies, and industries as its large firms expand across the world (Bremmer, 2008; 2009). As Bremmer concludes, "This

client-patron dynamic has brought politics, politicians, and bureaucrats into economic decision-making to an extent not seen since the Cold War. And it is this dynamic that raises several risks for the performance of global markets” (2009, p. 45).

### **Industrial Policy**

Industrial policy is important to both developmental state and state capitalism and has been a fixture in China’s macroeconomic governance over the last four decades. Although China is losing ground quickly in its comparative advantages in factor prices, it still heavily relies on varied traditional forms of industrial policies to create an innovation-driven economy. However, China has moved to the technological frontier and explores the unknown with no forerunner to follow in the stay-ahead stage of economic development. Its recent industrial policies, such as solar power and new energy automobile, only expand the amount of production of certain subsidized firms without stimulating meaningful scientific and technological innovations in strategic sectors. It appears that China has been stuck in the dilemma that industrial policy will lose its power when the country’s GDP per capita is above \$10,000 (Chen & Geng, 2017a; Chen & Geng, 2017b; Chen, 2019; Geng, 2019a; World Bank, 2016).

Previous developmental states usually withdraw from implementing industrial policies sooner as political and institutional foundations supporting a developmental state are gradually weakened (Chen & Geng, 2017b; Hemphill & White, 2013; Okimoto, 1989). As these authoritarian regimes, such as South Korea and Taiwan, were democratized in the late 1980s, governments no longer suppress non-developmental

demands, marginalize opposition parties, repress street movements, coopt organized labor and other social groups, or push policies disregard of popular concerns. In the meantime, developmentalist politico-institutional arrangements were dismantled during the “normalization” processes and states gradually abandoned developmental goals (Callon, 1995; Kim, 1997; Weiss, 2000). The previous state-business cooperation no longer existed when bureaucracies were disengaged from, or captured by, national champion firms previously cultivated by the state. International organizations with neoliberal agendas further dismantled the developmental apparatus as states limited leverage over market access, which also gave large firms more autonomy from state influences (Weiss, 2000; Hayashi, 2010).

But this is not the case in China. Despite forty years of rapid economic growth, the Chinese state has been successful in resisting the call for democratization. Although China’s developmental vision has become more inclusive in considering policies not directly committed to economic growth, such as environmental protection and basic social welfare system, the Chinese state remains a developmental-oriented authoritarian state (London, 2013). In contrast to classic developmental states which suffer from the decay of state capacity, China has been consolidating its economic power since the revamp of its state capitalism in the late 1990s. The two-level hybrid political economy improves the extractive capacity of the party-state over lower-level mid- and micro-private firms with fewer ties to state power or are in sectors deemed less strategic. The cooperation between the state and large firms has been strengthened through cross-

penetration. The entry into the WTO has not materially changed China's unwavering support for firms to compete globally through many prohibited policy tools, such as export subsidies, state-backed credits, and all sorts of favorable policies within the broad definition of industrial policy, which are deemed inconsistent with China's WTO promises in 2001.

As China becomes a leader in the race for scientific and technological advances, the developmental state apparatus established to catch up with the developed countries will not easily find a clear path toward continued economic growth because the state lacks three critical abilities to implement industrial policies—information screening, quantifiable assessment, and risk management (Chen & Geng, 2017a; Chen & Geng, 2017b; Chen, 2019; Geng, 2019a; Geng, 2019b; Weiss, 2000). Governments are inadequately equipped to identify useful information on scientific and technological advances when no leading country is present, thus they have to set unclear goals that are not quantifiable or are susceptible to manipulation, and then accumulate substantial risks that are irreparable (Chen & Geng, 2015; Chen & Geng, 2017a; Chen & Geng, 2017b; Chen, 2019; Geng, 2019a; Geng, 2019b; Gu, 2014; Wu & Wu, 2010; Zhu, T., 2006). As recent studies show, Chinese governments often picked wrong industries to invest, subsidized well-connected firms for nominal and inconsequential innovations, and leave these industries with overproduction and bankrupted firms as subsidies wane (Chen, 2019).

Developed states, including classic East Asian developmental states, mostly

rely on market competition to solve these three issues. In perfect competitive markets, a large number of profit-driven market participants can more efficiently process more information than any government. Firms that are able to identify useful information will have market advantages as opposed to firms that do not. With substantial amount of information, market participants are able to propose a set of quantitative indicators to be reviewed that can guide corporate behaviors such as contracting and investment. Also, financial resources can be more quickly reallocated to successful firms, controlling and eliminating risks that otherwise would have been accumulated in the case of a “wrong pick”. Theoretically, a perfect competitive market can better identify winner firms than any developmental government, which is more likely to make mistakes. However, as a Leninist party, the CCP has never fully subscribed to the free-market economic view but rather is committed to state capitalism, in which certain economic sectors are under state control for the purpose of staying in power.

Despite the overshadowing presence of the Chinese state, scholars move to “bring the enterprise back” into their analyses of industrial policies (Chen & Geng, 2015; Guo, 2019; Song & Li, 2019). Classical theoretical frameworks examine the macro-level state-business relationship and are built on abstract presumptions that contradict the reality of micro-level business operations. Enterprises in classic studies are seen as either the tool of the government interventions or the mere subjects which only passively adopt optimal economic choices, rather than independent economic actors (Guo, 2019; Lazonick, 2002; Lu, 2006; Nelson & Pack, 1999; Pack & Westphal,

1986). However, in the case of industrial policy in the stay-ahead stage of economic development, the existing literature does not reflect the historical evolution of technological upgrade at the corporate-level, nor does it depict the internal mechanism between policies and corporate competitiveness (Guo, 2019; Lu, 2006; Yan, 2015). Therefore, a paradigm shift in the study of industrial policies from government-centered to enterprise-centered is required to incorporate the entrepreneurship studies into classical industrial policy studies in order to facilitate corporate innovations and competitiveness (Guo, 2019; Nelson & Winter, 1982; Teece, Pisano, & Shuen, 1997). More important, these scholars argue that the product development platform is the driver of successful industrial policies (Guo, 2019; Zollo & Winter, 2002).

### **The Evolution of China's Political Economy**

Though a marked departure from Maoist ideology and the Maoist variant of socialism, China's economic reform was deeply rooted in the groundwork and mistakes during the Mao era or even earlier (Horesh & Lim, 2017; Naughton, 2017). Mao's Stalinist planning logic of economic development gave high priority to rapid industrialization and a Soviet-style economy, which concentrated discretionary power at the top and was built under his watch, (Chang & Zach, 2018; Horesh & Lim, 2017; Yao, 2014). Mao's administration also produced higher achievement of human development indicators than most developing countries during the same period of time (i.e., adult literacy rate, life expectancy and infant mortality), which prepared a massive and trained workforce for the reform era (Horesh & Lim, 2017; Rawski, 2011; Sugihara, 2003; Yao, 2014).



Likewise, the collectivization of land intensified the state's grip on the economy at the micro-level and enhanced the state capacity to extract surplus value (Horesh & Lim, 2017; Yao, 2014). The brutal eradication of the rural gentry class and urban capital owners, labeled as class enemies, further allowed bureaucrats to enforce growth-enhancing economic policies during the reform era in the absence of challenges from any social group (Horesh & Lim, 2017; Yao, 2014). The Cultural Revolution "successfully" disrupted the national economy and dismantled the apparatus of central planning, which paved the way for the rise of developmentalist bureaucracy and the re-ordering of developmental focus (Knight, 2014). Another lesson learned from the Mao era is that the radical, large-scale economic transition is costly and counterproductive. China's well-noted rejection of the "shock therapy" and its firm commitment to the gradualist reform primarily came from the catastrophic upshots of the Great Leap Forward and the Cultural Revolution (Horesh & Lim, 2017; Knight, 2014; Yao, 2014). The economic stagnation and political upheaval during the Mao era significantly eroded the CCP's political legitimacy and prompted the subsequent economic reform in attempt to "re-establish the hegemonic authority" on a different basis" to accelerate economic development (Knight, 2014, p. 1336).

Building upon Mao's complex legacies, the Chinese state quickly institutionally evolved towards a developmental state. The bureaucracy was modernized with merit-based recruitment and professionalism. The entire CCP became more elitist as the result of the active recruitment from top universities to fulfill positions in a monopoly of state

power (Bishop & Liu, 2008; Han, 2007; Hu & Yao, 2012; Li & Walder, 2001; Naughton, 1995; Yao, 2014). By tweaking the fiscal powers between the central and local governments, the reform continued the two previous waves of decentralization efforts from the Mao era and established a fiscally decentralized system which delegated more power and economic responsibilities to better-informed localities (Xu, 2011; Yao, 2014). In order to compete for expenditures transferred from the central government and generate revenues from local economic growth, local governments had to facilitate additional reforms and create a market-preserving, business-friendly environment for reemerged private and foreign businesses (Qian & Weigast, 1997; Qian, Gerard, & Xu, 2006a, 2006b; Yao, 2009, 2014). The “promotion tournament” system, which assembles the merit-based system and fiscally decentralized system together, allows local government officials to be promoted largely on the basis of economic performance within their jurisdictions when everything else is equal (Li & Zhou, 2005; Knight, 2014; Opper & Brehm, 2007; Xu, 2011; Yao, 2014). This system motivates the officialdom at all levels, improves the cross-region coordination, gives the central government much more top-down leverage, aligns subnational governments with national goals, and eventually interweaves the developmentalist mindset within the Chinese state. In sum, through institutional changes, the CCP transformed China into a strong developmental state with an elite and powerful bureaucracy repurposed for economic growth (Knight, 2014; Xu, 2011; Yao, 2014).

China’s growth-oriented institutions gradually and selectively adopted a mix of

activist developmentalist industrial policies, standard neoclassic economic policies, and Leninist state capitalism policies. Every five years, China formulates a national-level Five-Year Plan, a relic of command economy, which is now composed of a broad array of industrial, sectoral, regional, and national plans in the developmentalist spirit (Naughton, 2017). Local governments and ministries can propose their own plans that break down vague national objectives and multiply the number of plans enormously. In 2016 alone, more than 50 local industrial plans derived from the 13<sup>th</sup> Five-Year Plan were approved, ranging from high-tech industries to general industrial upgrading (Naughton, 2017). These inclusive and all-encompassing policies reprioritize local governments' agendas, reassess state financial institutions' loan preferences, and readjust private actors' entrepreneurial behaviors towards targeted industries and sectors in alignment with the national interests. Also, there is a layer of regional plans which "target multiple sectors, employ multiple instruments, and incentivize multiple actors" (Naughton, 2017, p. 13). Together, these plans constitute a multi-layered industrial policy regime, which has no resemblance to China's unitary East Asian counterparts during their developmentalist years (Naughton, 2017).

Another stark difference between China and other developmental states is China's acceptance of foreign direct investment (FDI) and multinational corporations (MNCs) in a gradual and selective manner (Bytheway, 2014; Horesh & Lam, 2017). On the one hand, China adopted many forms of industrial policies to cultivate domestic firms' international comparative advantages and encouraged them to integrate into the

international market and global supply chains, learn organizational capacities, and invest in research and development (R&D) (Chang & Zach, 2018). On the other hand, China leveraged the market access for MNCs' concessions "regarding local sourcing, joint venture, technology transfer, and workforce training" (Chang & Zach, 2018, p. 15), directed them to specific sectors through FDI, promoted economic growth, and protected domestic infant industries amid rapid trade liberalization (Chang & Zach, 2018; Chen, 2011; Horesh & Lim, 2017). In the meantime, the Chinese state structured a vertical dualistic economic system in which the SOEs and large private firms control strategic sectors critical to the long-term economic growth and national security on the top and other small and medium enterprises are freed to compete at home and abroad at the bottom (Li, Liu, & Wang, 2015).

China's effort to create "national champion" SOEs and large private firms is not mere imitation of other developmental state but is a disguised and repurposed approach of state capitalism (Horesh & Lam, 2017). In China, SOEs alone contribute 40% of GDP and dominate a number of key upstream sectors such as finance, energy, and telecommunication. The Chinese government possesses privileged ownership of all land and natural resources in an increasingly marketized environment (Coase & Wang, 2012; Huang, 2008; Lin, 2011; Malesky & London, 2014; Naughton, 2018; Yao, 2018). Although SOEs are remarkably unproductive in comparison with their non-state competitors and no longer vanguards of the working class, they have managed to create a high profitability alongside China's high economic growth through the upstream

monopoly (Zhu, X., 2012; Li, Liu, & Wang, 2015; Malesky & London, 2014; Pincus, Vu, Pham, Wilkinson, & Nguyen, 2012). These statist reforms consolidate SOEs' dominance over China's economy and further extend their influence across the global capitalist system (Nolan, 2012; Kowalski, Büge, Sztajerowska, & Egeland, 2013). Since the state ownership in China is actually the Party ownership, the Chinese variant of state capitalism is translated as the CCP dominance over SOEs, and the superiority of the SOEs in China's political economy effectively perpetuates the CCP rule (Bremmer & Stewart, 2010).

China bears strikingly similarities with its developmental state neighbors in terms of rural land reform, export-led economy, and proliferation of industrial policies, and appears to fit the developmental state model neatly. However, the sheer size and scale of the Chinese economy marks it as unique in the East Asian spectrum due to its multi-layered institutional apparatus and embedded incentive mechanisms; and more important, its selective adaptation of developmentalist, neoclassical and state-capitalist logics in the Chinese political-economic evolution against the backdrop of global economic integration and its own communist authoritarian past. Nevertheless, China is broadly accepted as a new and most obvious example of the broad East Asian model of developmental state with its own characteristics (Baek, 2005; Breslin, 2011; Chen & Naughton, 2016; Naughton, 2018; Stiglitz, 2006; Yao, 2014).

### **China's Local Developmental States**

As the result of sheer size and diversity, neither a single-country analysis or cross-

country comparison is sufficient in explaining the interventionist and instrumental roles of local governments in China's spectacular economic miracle. Accordingly, a line of development literature requires the analysis to include the subnational level. Scholars like Blecher and Shue extended the concept of developmental state beyond the macro-level application to explain county-level official's developmentalist actions, such as growth-promoting use of local resources and application of administrative discretion (1996). They also advanced the notion of an "entrepreneurial developmental state" in another county-level case study that involved a businessman-like local government seeking personal gain, rather than economic development through direct engagement in all sorts of economic activities (Blecher, 1991). Focusing on the particular local state formations, Oi identified "decentralized developmental state" as another variant of the developmental state module (1995). In this variation, the local government took a more laid-back approach to distributing intangible resources such as information and access to materials and technology (Oi, 1995). A subnational government of the local corporatist state, a subtype of the decentralized developmental state, is in effect a fully-fledged economic actor which can take away economic decision-making autonomy from the lowest-level administrative units, such as villages and townships, to promote economic growth. Unlike an entrepreneurial state, a corporatist-state does not prioritize the profit-seeking motive. Beside these well-known concepts, other competing, and sometimes confusing, concepts, including "local governments as firms" (Walder, 1995), "entrepreneurial state" (Duckett, 1998), "local market socialism" (Lin, 1995),

“bureaucratic entrepreneurs” (Gore, 1998, 1999), and “village conglomerates” (Chen, 1998), are used to depict local governments’ economic functioning. Nevertheless, nearly all these popular terms of local governance fall within the broad paradigm of “local developmental state” (Edin, 2003; Howell, 2006; Ong, 2012; Zhu, J.M., 2004).

Structured parallel to the central government, local governments turn to local developmental states of their own kind. Their bureaucratic workforces are built through a merit-based recruitment system. They also promulgate local industrial policies to advance national goals they have proprietary interests in and absolute power over provincial-, prefectural-, municipal-, and county-level SOEs. They are in an upstream position to nonstate economies within their jurisdictions and are permitted to exercise proprietary power over urban and rural land resources with substantial latitude to maximize revenues for future local growth. With the exceptions of a few companies in the early years of the reform era, local governments, rather than the central government, are the frontline negotiators with MNCs that seek access to Chinese markets. For national developmentalist goals, the central government links local governments by enabling institutional arrangements. The promotion tournament system links the bureaucratic promotion to the local economic performance. Regional decentralized authoritarianism gives local governments enough autonomy to participate in the national campaign for sustained and rapid economic growth through “trial-and-error” policy experimentations. Fiscal federalism allows for more flexible local policies that place local governments into a cross-nation competition for external investments that

result in economic development and additional revenues (Qian & Weingast, 1997; Qian, Gerard, & Xu, 2006a, 2006b; Yao, 2009, 2014).

Three distinguishable regional development models are widely studied and emulated by the rest of China for their exponential economic growth: Suzhou Model, Wenzhou Model, and Dongguan Model (Shen & Tsai, 2016). These models are named after three manufacturing-based cities in the most economically advanced coastal provinces which became capitalized early in time and are geographically close to China's global cities. Suzhou and other local governments in the broader Yangtze River Delta area actively spearhead the regulation of, and control over, local economic activities through the strong presence of state-owned village and township enterprises (TVEs) (Bernstein & Lu, 2003; Ma & Fan, 1994; Ong, 2012; Parris, 1993; Shen & Tsai, 2016; Tsai, 2006). Wenzhou and neighboring local governments in Zhejiang Province seem to be the disciples of minimalist governance and *laissez-faire* economic thoughts, which accommodate thriving local private economies (Ong, 2012; Shen & Tsai, 2016). Dongguan and other cities in the Pearl River Delta area take advantage of convenient locations between Guangzhou, Shenzhen, and Hong Kong, the three global cities in the area, and relatively cheaper land price to develop an export-led, manufacturing-based economy in Hong Kong's positive non-interventionist spirit (Shen & Tsai, 2016). Since the presence of the promotion tournament system determines that Suzhou Model is more institutionally transferrable to localities with more developmentalist ambition, Wenzhou Model is gradually sidelined in the Yangtze River Delta area (Ong, 2012).



Due to the uneven socioeconomic development among localities even within the same province, local governments in the interior parts of coastal provinces, such as Northern Jiangsu and Western Zhejiang, share similar institutional arrangements as their more economically prosperous peers in the same provinces, while these localities have weaker market infrastructures. Also, in Central and West China, local economies are jeopardized by both low governance capacities and weak market infrastructures. Therefore, this research currently suggests four models of state-market relations within China: the Yangtze River Delta Model, the Pearl River Delta Model, the Coastal Province Interiors Model, and the Peripheral China Model.

### **Villages in the Landscape of the Chinese State**

Villages, or rural areas, were once the places that the central power of imperial China was unable to rule and penetrate effectively due to the lack of politico-institutional infrastructures and the resistance of traditional rural organizations, such as clans and lineage-based rural households (Naughton, 2018). Void of power in rural China gave rise to the emergence of the CCP, which redistributed privately-owned land in less defended rural areas to landless peasants during the civil war and after the ascension to power. In the meantime, the CCP adopted an intrusive and transformative approach to existing rural institutions (Naughton, 2018). They again collectivized farmland and superimposed the Soviet-style collectives, People's Communes, on the traditional rural organizations. The collectives strengthened the economic extractive power of the bureaucracy over the agricultural production and enabled the Chinese state to control

the price and procure resources for industrialization. The collectives serve the political functions to regulate social and economic life in rural areas, including education, indoctrination, household registration and forced family planning (Naughton, 2018). For the first time, rural China was under tight state control.

Due to the nationwide adoption of the household registration system, collectives were disbanded in the reform era, but many of their political and social functions remain (Naughton, 2018). More importantly, the Chinese state still tries to reinvent and restructure rural institutions through less aggressive institutional reforms (Naughton, 2018). Villages, like the rest of the bureaucratic complex, are components of China's developmental state. However, in most cases, without developmental apparatus, they are only the "foot soldiers" of the county- or province-level governments that pursue economic growth. First, village governments are short of human capital. Their officials are usually not selected by the rigid meritocratic system but oftentimes are the result of the tacit agreement among large local clans or corrupt elections. They are also not part of the promotion tournament system because they are far away from the central power and thus less incentivized than county or provincial officials. Second, villages do not have enough institutional capacities to implement development policies. Villages do not have independent lawmaking power to enact growth-oriented ordinance; they are not in possession of substantial tangible resources to leverage economic development; and they do not have independent tax revenue sources to stimulate growth or attract enterprises by tax cut (Naughton, 2018). Third, the rural economy has been freed at a

much slower pace. The price control and other market restrictions over key elements of rural products were only recently broken. As the most valuable resource in rural areas, land is not at the villages' disposal as a result of blurred property rights and conflicting interests between upper-level governments, village officials, and peasants' land transactions. Except for urban expansion, farmland transfer is under heavy restrictions in rural areas (Naughton, 2018). In sum, the rural China has not completed the transition to a market economy with supporting institutions (Naughton, 2018).

As the lowest rung of China's hierarchical bureaucracy, villages have received considerable attention since the inception of the reform era is marked by the nationwide proliferation of the Xiaogang-village-style household responsibility system (Horesh & Lam, 2017). They attracted more attention for the massive upsurge of township and village enterprises (TVEs) across the country in 1980s and 1990s (Eyferth, Ho, & Vermeer, 2004; Horesh & Lam, 2017). In their heydays, the TVEs employed 140 million rural people, or one third of the rural workforce, and accelerated China's industrialization. They quickly ran out of steam in the late 1990s and mostly vanished because of privatization, overcapacities, corruption, mismanagement and competition failures (Eyferth, Ho, & Vermeer, 2004; Horesh & Lam, 2017; Oi & Walder, 1999). TVEs' collapse led to the largest size of domestic migration in the world as hundreds of millions of rural workers were pulled to coastal urban areas for better life opportunities. They fueled the largest urbanization and infrastructure upgrading but led to a number of social ills in both urban and rural China (Oi, 1995, 1999; Ong, 2012).

Since the early 2000s, the “three rurals”— “rural people, rural areas, and rural economy”—have been the staple theme of each year’s Central Document No. 1 issued by the Politburo and State Council, which are the highest organs of the CCP and the central government.

More importantly, villages have been the hotbed of institutional and policy experimentation since the Soviet-zone era in the late 1920s when the CCP chose rural China as their revolutionary foothold (Heilmann, 2008). The origin of the controlled experimentation, a sophisticated indigenous policy-making methodology, dates back to the land reform undertaken in 1928 to earn peasants’ support. These policies were formulated through a process that includes “bottom-up experimentation, gradual model dissemination, and constant revision of policy instruments” (Heilmann, 2008, p. 5; Averill, 2006). In the course of the revolution, stark policy implementation variations were accepted, unconventional measures were encouraged, and this policy-making methodology of “proceeding from point to surface” was eventually coined and Mao elevated it as a method of political leadership for all levels of the CCP (Kim, 1978; Heilmann, 2008). A refined policy experimentation consists of two parts: local officials are given room to develop innovative policy instruments for effective implementation, and the central leaders have the prerogative to define policy objectives and “ultimate control over confirming, revising, terminating and spreading model experiments” (Heilmann, 2008, p. 2).

However, the point-to-surface technique is not only a bottom-up, decentralized

method, which led to top-down catastrophes when the political and ideological climate changed drastically, such as the “Great Leap Forward” (GLF, 1958-1960) and the “Cultural Revolution” (1966-1976). As part of the GLF, rural collectives or the People’s Communes, were imposed and supported by central leaders without sufficient data collected from pioneer experimentations. One of the guiding principles of the point-to-surface technique, “taking action in accordance with local circumstances”, was replaced by the principle of “the whole country as one chessboard”, which stripped away power from local officials and caused large-scale famine (Heilmann, 2008). Other short-lived experimentations tested in rural areas during the Mao’s era provided lessons for the leadership. As the policy context became relaxed in post-Mao China, the reformist leaders redirected the country from relenting revolutions to economic development, redefined the ultimate goal from socialist transformation to improving GDP statistics, and readjusted the point-to-surface technique from a mass mobilizing tool to an administrative method. It was not surprising that the first remarkable reform, household responsibility system, emerged from the rural areas by some risk-taking peasants in Xiaogang Village.

### **The Party’s Organizational Expansion into the Private Economy**

As the sitting General Secretary Xi Jinping reaffirmed, the Communist Party of China leads everything in China, including “all sides of the government, congress, political consultative conference, and the masses organizations” (Xi, 2016). Therefore, it makes sense for this Leninist party to create direct institutional links with the most dynamic

economic sector—private economy or capitalist economy—as the CCP’s legitimacy increasingly relies upon China’s economic performance (Cao, Qian, & Weingast, 1999; Fogel, 2006; Kshetri & Dholakia, 2011; Zhao, 2017). Also, the CCP must align their interests with “class enemies” since a strengthening entrepreneurial elite class may threaten regime stability and eventually lead to the political democratization (Csanadi, 2016; Dickson, 2000; Gore, 2013; Jowitt, 1974; Pei, 2012; Pieke, 2012; Shevchenko, 2004; Tsai, 2005). Entrepreneurs are ambivalent about CCP’s cooptation because political ties could be a two-bladed sword. On one hand, political ties greatly assist them with a dynamic and uncertain institutional environment, sometimes for mere survival (Aoki, 2001; Ahlstrom & Ding, 2014; Denis, 2016; Faccio, 2006; He, Lu, & Qian, 2018; Henisz, 2000; Hsu, 2015; Hsueh, 2011; Krug, 2004; Kuhn, 2003; McNally & Wright, 2010). On the other hand, political ties often involve corruption which may damage their public legitimacy and cost their lives in political infightings (Sun, Zhu, & Wu, 2014; Wedeman, 2012).

The CCP has been highly adaptive in the last forty years in “its own ideology, organization, or ruling mode” (Yan & Huang, 2017, p.41) to coopt entrepreneurial elites with multiple inclusive measures, such as corporatist associations, institutional posts, assigned political leadership, Party membership, and Party subbranches within private firms (Ang, 2016; Chen, L., 2017; Chen, L., 2018; Goodman, 2004; Kennedy, 2009a; Lei & Nugent, 2018; Oi, 1992; Pearson, 1994; Pearson, 1997; Tsai, 2005; Yan, 2012). Through measures of open-ended and commercialized ties and mutual benefits, an

alliance of “symbiotic clientelism” has been established between the CCP and entrepreneurial elites (Chen & Dickson, 2008; Grzymala-Busse, 2008; Shieh, 2016; Wank, 1999; Wang, 2010). However, the alliance may not be as solid as it appears to be. Some scholars describe the relationship as “bedfellows lying in the same bed but with different dreams” (Yoon & Jeong, 2018, p.146). Entrepreneurs joined the CCP for very realistic, mainly commercial, purposes and some elites began actively engaging in politics (Heberer & Schubert, 2018; Schubert & Heberer, 2017; Yoon & Jeong, 2018). These measures also impeded the party unity and deviated the CCP from its own course as they embraced a class which does not share the same goals (Dickson, 2000; Han, 2015; Truex, 2016; Zhang, 2012).

Party building is the most widely adopted measure to strengthen CCP’s control over the new economic sector and social groups (Li, 2018; Yan & Huang, 2017; Zhang, 2018). Since early 1980s, the CCP has been spearheading party building in the private sector. The Central Organizational Department (COD) issued several documents to stress the significance of the party presence in the private sector (1984), give operational directives to establish party organizations even in foreign ventured firms (1993), echo the modification of the Party Code that officially offers membership to entrepreneurs (2003), and deploy the so-called “comprehensive coverage” strategy to establish party units in all private businesses (2012; Thornton, 2013; Thornton, 2015). Like other measures, party building is unwelcomed by entrepreneurs who are uncomfortable about the intervention for a variety of reasons, such as the 1950s

precedent and difficulties in labor relations. In addition, entrepreneurs are criticized by the conservative wing of the CCP because they worry that the Party is losing its vanguard characteristic, disconnecting from its revolutionary base, trivializing its grand mission, and turning to a “Western catch-all party” (Zhan & Li, 2010) in the depoliticized politics (COD, 2000; Dickson, 2000; Thornton, 2012; Yang & Huang, 2017).

Being inclusive may ultimately threaten the CCP’s survival, the very thing that the CCP is trying to avoid. First, the CCP remains skeptical of the entrepreneur class, though a small number of elite businesspersons who join the CCP are seen as “red capitalist” or “wearing a red hat” (Chen & Touve, 2011; Huang & Chen, 2016; Yang, Ma, Zhang, & Hong, 2018). Entrepreneurs were cruelly persecuted and almost eliminated in Mao’s era. They were banned from joining the Party in the wake of the Tiananmen Square incident. They were constantly treated as inferior to SOEs, suspected of political disloyalty, accused of moving wealth outside China and obtaining foreign citizenship (Dickson, 2000; Frank, 2018). Second, the CCP has been losing its rural members and presence in rural China. Due to China’s uneven development, rural people moved to cities in hundreds of millions for employment and left rural areas decaying, which significantly weakened the rural party units as few new members join (Fei, 2013; Newland, 2018; Yang, 2006). As the Party’s presence shrinks, lineage-based clans are reorganizing the rural societies and competing for influence and resources. Third, the composition of the Party membership does not represent the population



composition. The CCP is now a party of elites, with 22 percent drop in rural members but 46 percent rise in college-degree members; while half of the population still live in rural areas and less than 10 percent have received college education (COD, 2018).

### **Platform Economy**

A platform is a digital infrastructure with a series of tools on which two or more groups of users— customers, advertisers, suppliers, and subscribers—are enabled to undertake a range of activities (Srnicsek, 2017a, 2017b; Schwarz, 2017). As the intermediary on which the activities occur, the platform is privileged to sense, record, and analyze activities in the form of data, a particular kind of raw material that the 21<sup>st</sup> century advanced capitalism is centered (Sadowski, 2019; Schwarz, 2017). As the data-recording technology becomes exceedingly cheap and simple, the platform becomes a new business model equipped to extract, monopolize, analyze, and use the increasingly large amount of newly discovered data which would otherwise be lost in previous business models. Data are used to understand customer preferences, optimize productive processes, train and empower algorithms, coordinate joint projects, improve and transform the existing products and services, and provide the foundation for new ones. Thus, platforms become an extractive apparatus for this vast new resource, making their operators or platform companies extremely valuable. Currently, seven of the ten highest market-valued MNCs are platform companies that create a variety of online communities and marketplaces for transactions and interactions.

Due to network effects, platforms have a tendency towards monopolization, an inherent characteristic of capitalism (Srniczek, 2017; Schwarz, 2017). The growth of the number of platform users leads to a higher value of the platform in the eyes of non-users, who will subsequently join as new platform users (Farrell & Greig, 2016). This virtuous cycle, if present, will enable the platform to have ever-increasing access to a larger number of activities and to more data. Thus, platforms must deploy user growth tactics to generate such cycles and to attract as many users as possible. Driven by network effects, platforms build up ecosystems of goods and services to improve the reliance of users to them and extract a multitude of data from multiple groups of users on every possible areas of our life for more accurate predictive services and to generate more value (Sengupta et al., 2019). Likewise, many platforms tend to expand into new territories (i.e., Internet of Things, wearable devices, voice-recognition and -command technologies, and virtual reality systems) through investment, or simply acquire new platforms specialized in other arenas for the very reason—data extraction. Platform giants rent out infrastructural conditions, such as cloud computing services and machine learning processes, to other firms and lesser platforms for additional revenues as well as new data.

The obvious market advantages of platform that lead to a societal trend is termed platformization. Pressured by the capitalist competition, an increasing number of companies across sectors adopt this new business model, provide their own platforms, and move their operations to platform-based superstructures, such as cloud

computing (Ballon, 2014; Plantin, Lagoze, Edwards, & Sandvig, 2016). A logic emerges from the cross-sector adoption of platform, which some scholars argue should be understood as the guiding economic principle of our time, equivalent to Taylorism and Fordism in previous industrial revolutions (Schwarz, 2017). Following this shared, underlying logic, platforms are able to exercise exclusive control over their own niche markets since they are the rule makers of the digital space they create (Lessig, 1999). For example, Facebook has modified its privacy agreement hundreds of times in order to better collect data from its users and to delete accounts which are deemed in violation of community rules set by Facebook. Their avid tendency to pursue monopoly is also amplified by network effects for the purpose of improving their value-making capacities (Thiel, 2014). The automated generation of an increasing amount of data on the platforms and ever-improving algorithms employed by platforms will generate intelligence for novel products and services of platforms (Schwarz, 2017). For instance, the infoglut that Google has been extracting from our Gmail accounts, Google Maps usage, Google search history, and Android-empowered smartphones will help its parent firm—Alphabet—build a better self-driving car, a seemingly unrelated product.

This logic, “across the spectrum of their appliance and regardless the size and type of the platform actor in question” (Schwarz, 2017, p. 2), leads to the so-called “Great Platform War” (GPW, Srnicek, 2017, p. 93), in which a handful of platform giants, or MNCs that provide infrastructural services to other firms, engage in new forms of oligopolistic competition to dominate the global markets. Further, since most

of platform giants are American firms, platform capitalism constitutes a component of the U.S. global hegemony. Through the GPW, American platform giants dominate the largest share of data from users across the world and benefit from the revenues generated through data extraction, which spread symbolic American ideologies and cultures to users through rulemaking power, and thus remake the landscape of the geopolitics of information (Schiller, 2015). In this U.S.-dominated cyberworld, users around the world are captured “in an enclosed, commercialized and managed realm” (Hands, 2013, p. 1), replacing local customs and status hierarchies with a set of rules that essentially reflect U.S. values and new markets, which otherwise may not exist and are established in digital spaces through non-U.S. users’ own activities (Manjoo, 2016; Yoo, 2013). “The digital transformation is an American prerogative, and that others can only follow and whine” (Kenney & Zysman, 2015, p. 5).

As the above example shows, a platform is also an innovation surface (Kenney & Zysman, 2016; Schwarz, 2017). Innovation can be simply the new services or products provided by a smaller platform that uses infrastructural services offered by a platform giant. For example, Netflix rents the cloud computing services from Amazon. Inspired by other users in the community maintained by the platform, innovation may be the outcome that platform users develop with the series of tools provided by the platform. For example, iOS apps developed by Apple Developers. Innovation often occurs by fusing intelligence from one sector with that from another sector, or from one platform with that from another platform. For example, Amazon provides a credit card

service to its users based on their purchasing history on Amazon website. These innovations have been very disruptive to the existing industries which are sometimes overthrown entirely. Uber hit the taxi industry hard, Apple redefined the cellphone industry, Netflix faces a boycott from the Hollywood, Twitter and Facebook changes the news, Kindle lets bookstores and publishers go broke, and Amazon shuts down shopping malls. Some other platforms have been transforming healthcare, hotel, agriculture, real estate and many more. Platform giants from China develop new platform-based e-government services (Niu, Goh, Zhao, & Kaiser, 2019).

Platforms and their innovation pose a challenge to regulators (Kenney & Zysman, 2016; Yang & Ji, 2016; Yiu, 2018). First, platform expansion is usually rapid, large-scale, and undisclosed in advance. Their innovation is also high-stake, inclined to fail, and the consequences are impossible to anticipate. Under these circumstances, regulators have no access to concealed business strategies and no capacity to predict the emergence and consequences of innovation. It is preposterous to expect them to preemptively formulate and implement legislation on nonexistent issues in the field of antitrust and anticompetition (Sitaraman, 2018; Pasquale, 2016). Second, platforms operate like black boxes to outsiders, including regulators who are also denied proper access (Pasquale, 2015). Regulators thus cannot know how large the platform user data is, where the true market dominance of platforms is, and what the actual societal effects of platform self-regulating rules are at home and abroad. Third, platform companies, first appearing in the Reagan-Thatcher era, are vocal supporters for deregulation and

hire a large number of well-connected lobbyists to sway the regulatory agencies around the world. The only constraint over vast oligopolistic platforms in democratic societies is their public legitimacy, which may be damaged by “downturns in popularity, sudden populist outcries, or government overregulation” (Schwarz, 2017, p. 3), so in long run they would tend to work with regulators by giving more transparency (Stewart, 2019).

So far, Silicon Valley and Washington, D.C. remain the leaders in both innovative products and policy initiatives in the platform era (Relihan, 2018; Schwarz, 2017). However, China may challenge the U.S. dominance in digital world because it is catching up quickly with its own platform giants on par with American counterparts (Woetzel, Manyika, & Bughin, 2017). The Chinese government is the largest supporter to Chinese platform giants’ far-reaching global ambition. In the arena of Artificial Intelligence, for example, the Chinese Ministry of Science gave three main open A.I. platforms—self-driving, healthcare, and smart cities—to its three largest platform companies—Baidu, Tencent, and Alibaba. However, due to the sheer size of the market, all kinds of supportive industrial policies, and market barriers to American competitors, most Chinese platform giants cannot operate beyond the borders of China or outside the community of Chinese-language users (Kenney & Zysman, 2015). Like their American competitors, Chinese platform giants are developing a formidable power which is beginning to frame the decision-making of, and even dictate the future of, billions of people. However, their relationship with the party-state is understudied by social scientists, especially as the geopolitical rivalry between the United States and

China intensifies.

### **Digital Developmental Village**

Chinese platform giants have harvested the vast majority of data generated by urban users. Therefore, by infiltrating into the rural areas, they have been cultivating rural people's user habits in all kinds of internet services and products, such as shopping, navigating, audio and video chatting, streaming and live-streaming, and personal cloud storage services, which are presented on multiple smaller platforms affiliated with or subsidiary to them. These platform giants are driven by network effects and monopolistic tendency to colonize and converge into ever-new markets. Consequently, they are able to pull hundreds of millions more users into their respective ecosystems, extract data from this distinct and newly-discovered user group, use data-based intelligence to produce more industry-disrupting innovation, and hold their dominance in the era of platform capitalism. In essence, rural e-commerce is a user growth strategy targeting rural China, on which Alibaba and other Chinese platform companies would open up massive new expanses of potential data for a "Great Platform War" against global competitors. However, since platforms are able to frame and channel our political, economic and social lives, the platformization of rural China is much more than a mere user growth strategy serving the interests of platform giants.

As part of the largest developmental state in the world, China's villages share

the very developmental desire as the rest of the bureaucratic complex but lack a fully-grown developmental apparatus, which includes merit-based recruitment system, growth-oriented lawmaking power, independent tax revenues and critical resources for economic development. In the meantime, villages are heavily regulated by upper-level governments, especially regarding farmland transfer and environmental protection. In addition, village officials are tasked with too many assignments, ranging from social welfare to public security, and are less equipped for local economic development. Villages also have suffered the massive collapse of TVEs, the loss of adult population, and many social ills relating to economic hardship and demographic changes in the reform era. Many rural areas do not have minimum infrastructure, such as paved roads, banks, post offices, and internet; and until very recently, were given disproportionately less resources than urban areas. Since they are geographically far away from urban customers and unable to keep pace with the ever-changing market trends and important information, rural China is much less desirable for business adventure. For remaining rural people, their lives become worse as schools and clinics are eliminated. Most villages do not have internal forces to pursue economic growth without external resources coming in. The remaining resource-mobilizing mechanisms left behind by the disbanded collectives are insufficient to revitalize rural economies and societies.

As China's urban areas have completed main infrastructural projects in the 2000s, rural areas are also increasingly connected to the nationwide highway and bullet train systems that have been accelerated since 2008. The quick emergence and



expansion of China's delivery companies has been in lockstep with the development of e-commerce and has also infiltrated the vast rural areas in varied degrees. Tight regulation over farmland transfer loosened since the contracted management right became circulatable in the market in certain permissible circumstances. However, these measures may improve the living conditions of rural people and generate societal gains in rural areas, but they cannot automatically be translated to economic growth without a well-functioning market economy. To everyone's surprise, e-commerce becomes an unanticipated fix. By recording and analyzing data from both sellers and buyers, the platforms can precisely capture and even predict the market trends and thus fill the information gap between urban and rural users. As the playing field is somewhat leveled, the attractive labor and land costs in rural areas become a market advantage to people who want to make a fortune and create more job opportunities which did not exist previously. Like the household responsibility system in Xiaogang Village that marked the beginning of the reform era, rural e-commerce turns to a peasant-led policy experimentation on the feasibility of pursuing fortune in rural areas.

Unlike previous policy experimentations, e-commerce platforms, mainly Alibaba, adopt the point-to-surface technique to promote the vision of an e-commerce village, or a Taobao Village as Alibaba called. Alibaba was informed in 2008 from the intelligence extracted from data of the geographic clustering of owners of Taobao seller accounts that appeared in a handful of villages. Alibaba immediately sensed the potential of the untapped rural market. It is inevitable that a successful proliferation of

e-commerce village model must interact with the existing institutional structure of the Chinese state. A developmentalist project in nature, e-commerce village effortlessly earned support from all levels of the governments of this developmental state. On the national level, Alibaba plays the roles of lobbyist, collaborator, and consultant with the ministries of the central government; on the local level, Alibaba acts as partner to the provincial and county governments, coach to county officials, and “party convener” who mingles with government officials and e-commerce businesspersons; on the village level, Alibaba experiments with the latest techniques, sponsors the founding of e-commerce associations, funds e-commerce adventures, takes over the logistic networks in rural areas and much more. By mobilizing its own resources and the those from upper-level governments, Alibaba makes up the missing part of the developmental apparatus in the villages and helps them achieve economic growth, full employment, and return migration. At the same time, Alibaba successfully turns thousands of villages and millions of rural people to its data generators, obtains access to government data through collaborations, and gains tremendous policymaking experiences for global expansion. In this case, Alibaba has structured a unique public-private relationship in which Alibaba interacts with three levels of the bureaucracy simultaneously in different roles. This new analytic framework outlined is termed as *digital developmental village*.

As the largest Chinese private company, Alibaba is certainly situated on the upper level of the vertical dualistic structure of the Chinese state capitalism. The documents for Alibaba’s initial public offering (IPO) on the New York Stock Exchange

in 2014 revealed that children and grandchildren of the CCP highest leaders were among the largest investors handsomely rewarded from the record-breaking IPO (Forsythe, 2014). As Alibaba's relationship with the state exhibits substantial similarities as one between the large SOEs and the state, its extensive ties to politically powerful backers make its rural e-commerce strategy much more readily acceptable to the three-tiered Chinese state. Also, as a member of the "exclusive club" of privileged firms, Alibaba has been showered with formal benefits from the government, such as designated government program, cheap state-bank credits, low tax rates, and informal favors, including market barriers against its competitors, lenient law enforcement, and under-the-table lobby before foreign governments. Alibaba may be seen as the only Chinese platform giant that is able to move abroad and define economic trajectory globally. However, the party-state can still exercise control over it and retain a close relationship. For example, Alibaba developed a flagship propaganda app called *Xuexi Qiangguo* (or "study Xi to strengthen the state", 学习强国), which teaches Xi Jinping Thought and is mandated to be installed on the smartphones of 90 million Party members. Therefore, Alibaba often acts as the first responder to the CCP's calls before being urged or even hinted at. Just days after General Secretary Xi threw his political capital towards his signature national strategy on "complete alleviation of poverty", Jack Ma, the founder of Alibaba announced that Alibaba would spend 10 billion RMB (\$1.43 billion) to alleviate poverty through rural e-commerce. In this case, state power easily redirects and reprioritizes Alibaba's original rural e-commerce agenda and the

digital developmental village model towards a new policy goal. As Alibaba's role in China's state capitalism amplifies, and is augmented by, its burgeoning global presence, Alibaba, with the powerful state backings, can compete with its foreign peers and at the same time assist the Chinese government with the issues that regular SOEs cannot on foreign soil.

Chinese government's assistance is usually in the form of industrial policies and is very likely to be paid back. In the field of information technology, China moves into second place in the world, especially in A.I., Big Data, machine learning, robotic technologies, and semiconductor chips. Alibaba is the leading firm in the world in most of these fields. Therefore, helping Alibaba expand into rural China is not simply to help Alibaba win more users or grow rural economies, but also to help Alibaba break new grounds in these scientific and technological fronts that are critical to China's national security and ascension to the global hegemony currently held by the United States. Unlike the failed industrial policies in the stay-ahead stage initiated and led by the Chinese government, enterprises haven't taken charge of rural e-commerce, initially tried by aspiring peasant e-commerce entrepreneurs and later spearheaded by many Chinese platform companies. As the main platform company, Alibaba has successfully structured the digital developmental village model to channel industrial policies on rural e-commerce and successfully achieve goals of multiplying rural e-commerce entrepreneurs and villages. As the command center of rural e-commerce activities on its platforms, Alibaba is better positioned in its own online market to identify the useful

information, set clear and quantifiable goals, and alleviate investment risks than any government. Therefore, major e-commerce platforms can extract data from new sources from rural e-commerce entrepreneurs and villages for technological exploration. In sum, the digital developmental village is also a good model for future industrial policies in the stay-ahead stage.

Besides taking over Alibaba's rural e-commerce agenda, state power also intensifies its infiltration into the most minor players in the digital developmental village—rural e-commerce enterprises—through party building. Interestingly, besides organizationally expanding into well-established firms, local party units also serve as an incubator coaching aspiring peasants through multiple useful measures, such as low-interest small loans, free e-commerce trainings, simplified bureaucratic processes, one-stop service center, and so on. In so doing, the CCP addressed three conflict areas apparent in previous attempts to recruit entrepreneurs. First, since many rural e-commerce capitalists are incubated by the CCP, rather than capitalists who wear “red hats”, a common practice of joining the CCP for convenience, the Party can lower their guard against these what I called “red-DNA” capitalists. Second, these capitalists are elevated from the peasant class, the traditional base of the CCP, who remain active in rural areas as the representative of the CCP and can consolidate its presence in rural areas and its regime stability. Third, by recruiting trustworthy capitalists from the peasant class, the organizational expansion is not resisted by either wing of the Party. Like the ownership alone cannot tell the relationship with the Chinese state, the Party

membership alone cannot either. Red-DNA capitalists actively serve the Party's interests even without a formal Party membership. As Alibaba's empire stretches into foreign countries, red-DNA e-commerce enterprises can act under the disguise of private ownership on foreign soil.

The Digital developmental village is also a village-level standalone model. Even without national and provincial resources and Alibaba's rural-specific optimization, aspiring peasants' earliest attempts demonstrated the advantages in using the e-commerce platform, which included a large number of rural e-commerce entrepreneurs' unanticipated personal wealth, extraordinary economic growth, and transformative social changes to previously deserted villages known for garbage collection. Using Alibaba's own resources, along with intelligence extracted from its massive rural e-commerce project and its well-trained algorithms to better optimize tools for rural users in rural circumstances, an ordinary village can become a digital developmental village. In addition, this village-level model provides a solution to the transferability problem associated with the traditional developmental state theory. Due to the vast differences in socioeconomic and politico-institutional contexts at the national level, no successful developmental state appears outside East Asia. However, at the village level, a Chinese village may closely resemble a Somali village. As Alibaba expands into Southeast Asian and East African countries, it also penetrates their rural areas and matches these rural sellers with buyers all over the world. Thus, Alibaba's successful developmental model in China's rural e-commerce will very likely be

transferred to similar politico-institutional arrangements in the villages in different countries, which would help China's Belt and Road Initiatives.

The Digital Developmental Village model has enormous impact at home and abroad. As the national strategy takes over this strategic framework from the top and the party building moves in from the bottom, this framework gradually becomes state-dominated, though on its face the major market participants are private e-commerce platform companies and rural e-commerce entrepreneurs. This model enables Alibaba and other similarly situated platform giants to be better prepared for the "Great Platform War" in the global scale with huge amounts of additional data and can also "export" the village-level version of digital developmental village model to developing countries along the Belt and Road Initiatives as they are doing in Southeast Asia and East Africa. Even the rural e-commerce enterprises incubated by the CCP may contribute to China's geopolitical strategy as foot soldier. This may be the single largest disruption a platform could ever bring.

## **Chapter 4**

### **The Coevolutionary Path to Digital Developmental Village**

#### **Introduction**

Rural e-commerce is the latest round of development in China's rural areas, which have gone through three previous waves of development: the "household responsibility system" in the 1980s, the "township and village enterprises" in the 1990s, and the

“building a new countryside” phase in the 2000s (Long, 2014). Unlike the waves of development that have caused rural areas’ element integration, structure recombination and function optimization, the transformation driven by e-commerce is unprecedented. Rural e-commerce “embeds rural areas into the external market and alters the commodity circulation forms, commercial space structure and industrial structure, thus restructures the industry structure, employment pattern and household economy” (Zhang, et al., 2018, p. 2; Akse, 2016; Castells, 1996; Lin, Xie, & Lv, 2016; Long, Liu, Li, & Chen, 2010; Saleminck, Strijker & Bosworth, 2017). However, the extant literature mainly focuses on rural economic restructuring, while turning a blind eye to the broader politico-institutional context of the Chinese state as if such restructuring takes place in a vacuum. Also, the development is a complex process in which the growth factors will not create an economic miracle on their own (Ang, 2016; Woo, 1999; Naughton, 2015). Other scholars stress the internet aspect of e-commerce, discussing phenomena such as the use of e-commerce for rural entrepreneurship (Rhodes, 2009; Leong, Pan, Zhu, & Cui, 2016), changes in rural economic morphology (Soriano, 2007), digitally-enabled e-commerce strategies (Tim, Pan, & Cui), social and rights relations (Zhang, Qian, Chen, & Jiang, 2016), and spatial distribution (Shan & Luo, 2017). There is sparse research that focuses on the interaction between e-commerce and bureaucracies on the rural development. Further, since e-commerce is greatly concentrated on a handful of platform giants, this is a stark gap in research on how these giants exist as market actor influencing governments.



Building upon the multiple lines of inquiry in the development literature, this chapter develops the coevolution of the Digital Developmental Village framework to understand how e-commerce grows in rural China. This study examines the three-phase institutional development of rural e-commerce in which rural entrepreneurs, e-commerce platforms, local governments, and the central government interact with each other. This research finds that an emerging market sector like e-commerce can be developed by private market actors, such as rural entrepreneurs, alone when the local market and government are both normatively weak in this particular sector. The evolution of governments in this sector can further be triggered and strengthened by major private actors, such as e-commerce platforms. In the broader contexts of the Chinese state such bureaucratic evolution and emergence of new economic sector will be eventually subjected to the state capitalism system.

### **The Coevolutionary Path of the Digital Developmental Village Model**

How to achieve development in impoverished areas has been an intriguing puzzle to social scientists of many disciplines. In classic literature, this fundamental question is simplified to a question concerning which factor comes first: economic growth or good governance. Modernization scholars argue that economic growth precedes good governance (Boix & Stokes, 2003; Inglehart & Weizel, 2005). However, this theory becomes a catch-22 in poor areas, plagued with poor governance and no readily access to capital investments to build economic growth (Sachs, et al., 2004; Sachs, 2005). In addition, capital investment may not always lead to growth, as foreign aid studies

show (Burnside & Dollar; Deaton, 2013). In contrast, the World Bank (1994, 2002) and IMF (1997) claim that good governance is the precondition to economic growth. However, implementing good governance itself is proven to be a problem, since a common set of law-abiding institutions staffed with professional bureaucrats using best practices cannot appear overnight (Pritchett & Woolcock, 2004). Another school of thought concludes that differing historic roots of societies explains today's national inequalities following the path-dependent logic and claims that world inequalities will not be easily removed since forces that initially created such differences tend to persist (Acemoglu & Robinson, 2012).

Investigating China's sustained economic growth since 1978, Ang advances a coevolutionary framework to capture the process of development (2016). Building upon the complexity paradigm, Ang suggests that mutual interdependence between growth and governance, in which markets and states evolve together, is the answer to the question hovering over the development field (2016). By systematically mapping the coevolution of the state and market in a temporal sequence, a three-phase causal chain is thus created: "harness weak institutions to build markets; emerging markets stimulate strong institutions; strong institutions preserve markets" (Ang, 2016, p. 35). This coevolutionary framework explains how China has achieved development with the "wrong" bureaucracies in the first place. In her case, reformist central government directed Maoist local bureaucracies that lacked core growth capacities to develop new growth-driven bureaucratic traits. This triggered new economic traits with basic

endowments. These new economic traits created a new environment which demanded more bureaucratic changes in return as the result of different basic endowments and outcomes of bureaucratic changes. As regional variations between coastal and inland areas in developing economies appear, the coevolutionary path previously adopted in coastal areas was subsequently taken by inland areas to eventually form a so-called “flying geese pattern” of economic development. In this pattern, coastal areas are the leading goose which explores uncharted waters of the latest economic and bureaucratic reforms and also exploits the underdevelopment of inland areas, and inland areas learn from the coastal areas’ successful reforms in order to develop their own economies. This pattern may eventually uplift the whole country in the long term, as shown in the case of China (Ang, 2016).

Despite the major theoretical advance, Ang’s framework mainly discusses China’s bureaucratic reforms but neglects the market component in analyzing the state-market coevolution. Market is deemed as a passive object upon which changing bureaucratic actions are thrown, a collective of enterprises which act en masse in accordance to the local conditions, or an institution that has been consolidated with right-based pillars, such as private property rights (Ang, 2016). Another main actor in the reform era and equally important as bureaucrats, if not more, are micro-level businesses, which are starkly omitted and implicitly treated as a concept interchangeable with the concept of market (Demstz, 1988; Gindis & Hodgson, 2007; Langlois & Foss, 1999; Milgrom & Roberts, 1988). Also, in her analysis, external

resources, such as investment, are not part of interactions between the state and market. However, in reality, the providers of external resources, such as big companies, may possess and actively exercise their influences over local bureaucracies for changes in mutual interests. Moreover, her analysis fails to explain how some inland areas remain left behind and unincorporated by coastal areas into a flying geese pattern, achieve bureaucratic reform and economic development. In fact, there are still plenty of rural areas in China outside the moving train of growth.

As the lowest rung of the bureaucratic complex and micro-component of China's developmental state, villages do not have independent developmental apparatus for economic growth. Their officials are not selected through a merit-based recruitment and are less incentivized by the promotion tournament system. Further, they do not have enough institutional capacities, such as independent tax base, lawmaking power, and tangible resources, to leverage economic growth. In aftermath of the TVEs collapse in 1990s, villages also lost millions of adults who pursued economic opportunities in urban areas. For the purposes of food security and industrialization, superior governments imposed restrictions on farmland transfer and exercised price control over agricultural products, which lead to the longstanding underdevelopment of the market economy in rural China (Naughton, 2018). Therefore, villages can only be directed as "food soldiers" by superior governments in their pursuit of economic growth. Despite the fact that the "three rurals"—"rural people, rural areas, and rural economy"—have been a staple theme of the highest politics since early 2000s in the

form of each year's Central Document No. 1 jointly issued by the Politburo and State Council, most rural areas have not been heavily invested by the central government, especially as opposed to tremendous investments in urban areas.

The central government's neglect of rural areas, in relative terms, illustrates the main features of the developmental state—industrialization and urbanization—that can absorb most of the rural population by the end of the development cycle as we find in Japan, Taiwan, and South Korea. However, the sheer size of China's rural population, persistent urban-rural uneven development, and the new development phase that marked China's ascension to the second largest economy of the world in 2009, cannot rely on traditional industrial policies to achieve urbanization of the remaining rural population in the same way as classic East Asian developmental states. In the meantime, China is not ready to undergo the “normalization” process for future technological exploration and high-end industrialization (Weiss, 2000). In contrast, China retains institutional arrangements highly committed to the developmental objectives: keep engaged with national champion firms, adopt growth-driven industrial policies, and resist the pressures resulting from globalization and neoliberal agendas unfavorable to a state-led economy (Callon, 1995; Chen & Geng, 2017b; Haggard, 2004; Hayashi, 2010; Pempel, 1999; Weiss, 2000). Thus, the Chinese state feels no real pressures to massively improve rural areas.

As China turns from factor-driven to innovation-driven growth and moves to the technological frontier in the new development phase, its developmental apparatus

that are mainly industrial policies, do not achieve their purposes of technological breakthroughs in strategic sectors (Chen & Geng, 2017b; Hemphill & White, 2013). As recent studies find, policies for industries of solar power industry and the new energy car only expand the productivities of certain subsidized companies as they always did when China was catching up with lead countries (Chen & Geng, 2017a; Chen & Geng, 2017b; Chen, 2019; Geng, 2019a; Geng, 2019b). At present, China has to explore uncharted technological water as other forerunners as a leader on the technological frontier (Weiss, 2000; Yu, 2013). Thus, being in the stay-ahead stage, industrial policies are difficult, uncertain, and oftentimes fruitless to promote innovations (Chen & Geng, 2017a; Weiss, 2000). As scholars find, China has no such capacity to screen information to pick “right” industries, set quantifiable or clear goals to subordinate governments and economic sectors, and avoid substantial risks in relation to wrong investments (Chen & Geng, 2015; Chen & Geng, 2017a; Chen & Geng, 2017b; Chen, 2019; Geng, 2019a; Geng, 2019b; Gu, 2014; Wu & Wu, 2010; Zhu, 2006).

Arguments which stress market functions move further to “bring enterprises back” to the analysis of industrial policies at the stay-ahead stage (Chen & Geng, 2015; Guo, 2019; Song & Li, 2019). The classic development state studies are critiqued for their neglect of the enterprise component of public-private collaborations and many highly abstract theoretical frameworks are built on presumptions that are contradictory to the real operation of enterprises (Chan, Clark, & Lam, 1998; Doner, 1991; Evans, 1995; Fields, 1995; Guo, 2019; Kim, 1997; MacIntyre, 1994; Moon & Prasad, 1994).

However, as the subjects of industrial upgrading and the objects of industrial policies, firms are unlikely to achieve technological innovation if industrial policies do not incorporate organizational learning, technological accumulation, and competition processes (Guo, 2019; Nelson & Winter, 1982; Teece et al., 1997). Thus, a paradigm shift from government-centered to enterprise-centered in industrial policy study has been suggested by a growing number of scholars. They further suggest such policies focus on building product development platforms to accumulate and create technological knowledge which may eventually have hard-to-imitate technological edges over global competitors, while the government needs only to create a favorable policy environment for innovation (Guo, 2019; Lin, 2011; Zollo & Winter, 2002).

However, the enterprise-center industrial policy study is in essence a state-led economy study and could still underestimate transformative capacities of the largest corporations on bureaucracies in an unbalanced state-business relationship in which weak local states are overshadowed by their business partners, or in an emergent field where no widely shared norms exist, or both. In both cases, large firms can act like institutional entrepreneurs to create new and change old institutions to support their self-interest by mobilizing their own resources or resources to which they have access (DiMaggio, 1988). Institutional entrepreneurs often mobilize new actors who share benefits derived from the success of the institutionalized project to support the creation of new institutions or modification of old ones, and create an enabling environment to implement a new public policy for proposed institutional changes (DiMaggio, 1991;

Maguire, Hardy, & Lawrence, 2004; Suddaby & Greenwood, 2005). In so doing, they are exposed to institutional complexity in which multiple “interdependent and yet also contradictory” (Friedland & Alford, 1991, p. 250) institutional logics are present (Sauermann & Stephan, 2013). Multiple coexisting institutional logics are defined as links between macro-level institutions and micro-level actions and are often found in societal settings that are deemed an inter-institutional system (Fini & Lacetera, 2010; Thorton, 2004; Thorton & Ocasio, 2008).

Regardless of their ownership, impactful big companies are certainly part of China’s state capitalism, a politico-economic system in which the strategic sectors are controlled by the state and the rest of the economy is dictated by liberal capitalist principles (Bremmer, 2009; Kurlantzick, 2016; The Economist, 2012; Liou, 2017; McNally, 2013; Schweinberger, 2014; Tsai, 2015). A vertical dualist structure of the state capitalism was constructed in late 1990s as the state withdrew from the market-competitive sectors and fueled large SOEs and private national champion firms (Milhaupt & Zheng, 2015; Kong, 2017; Li, Liu, & Wang, 2015; Lin & Milhaupt, 2013; Lin, 2017). Though liberated from state control, lower-level industries are in a disadvantaged position to upper-level industries that monopolize upstream sectors (Li, Liu, & Wang, 2015). As the lower-level industries expand from growth of productivity and factor accumulation, upper-level firms can stand to gain as the result of their monopoly position (Feng, Johansson, & Wang, 2018; Huang, 2012; Li, Liu, & Wang, 2015; Naughton & Tsai, 2015). This privileged position, on the one hand, brings



tremendous state resources to boost corporate growth, usually in the form of industrial policies; on the other hand, situates themselves under state control which may direct their corporate growth to certain national goals (Bremmer, 2008; 2009).

Large platform-based companies are new members of the exclusive club of the upper-level industries of China's state capitalism. Driven by network effects and the tendency towards monopolization, platform companies will pursue constant expansion into new territories in which they extract additional data and revenues (Srniczek, 2017; Schwarz, 2017). Platforms, the digital infrastructure that two or more groups of users undertake a range of activities, becomes a surface of innovation since the platform is privileged to sense, record, and analyze activities in the form of data (Sadowski, 2019; Schwarz, 2017). Their innovations bring disruption to the existing institutions which include economic sectors and government bureaucracies (Niu, Goh, Zhao, & Kaiser, 2019). Platformization, a new business model, is increasingly adopted across sectors as some platform giants becomes superstructures on which digital economy is built (Ballon, 2014; Plantin, Lagoze, Edwards, & Sandvig, 2016). Although the United States companies and regulatory agencies lead the charge in the platform era, as part of China's state capitalism, Chinese platform companies are catching up fast in the landscape of the platform economy (Woetzel, Manyika, & Bughin, 2017). Some of them are engaging in so-called "Great Platform War" in the global competition as the U.S.-China relationship are getting worse.

This chapter chronicles the coevolutionary paths of the policy structure termed

digital developmental village in detail by stringing three moments—initiation, development, and reorientation—together systematically in a temporal sequence to explain China’s rural e-commerce development. In this framework, there are four main actors structured as follow, the central government, local governments, e-commerce platform companies, and rural e-commerce entrepreneurs. A simplified coevolutionary path is presented by mapping the development of rural e-commerce.

In the initiation phase, rural entrepreneurs were lead actors in making good use of e-commerce platforms to sell products from rural areas where they kickstarted an emerging market under the radar of village officials, the weakest bureaucracies in the Chinese state. At the same time, the superior levels of central and local governments did poorly because they did not fully apprehend the potential of the internet or e-commerce, but nevertheless pushed some pilot directives to connect rural areas to cyberworld with infrastructure building. Meanwhile, Alibaba and other e-commerce companies did not extract the intelligence about rural e-commerce from massive data until 2009. Yes, they developed online marketing tools for all e-commerce sellers which include ones from rural areas. In short, four main actors were not coordinated in promoting rural e-commerce in this phase, but they were creating a better environment for rural e-commerce development in the next phase.

The development phase is marked by Alibaba’s 2014 announcement of the strategy on rural e-commerce. In the role of institutional entrepreneur, Alibaba and fellow e-commerce platform companies created a new institution consisting of a three-

level public-private collaboration with the Chinese state to promote rural e-commerce. On the national level, they facilitated a favorable policy environment with the central government for this emergent sector through industrial policies in a broader sense. On the local level, e-commerce platform companies empowered the bureaucracies on the county and village levels, which were rather weak institutions in rural e-commerce development, through official trainings and additional measures. On the individual level, e-commerce platform companies expanded their rural markets by giving financial and other resources to rural entrepreneurs. By producing millions of rural e-commerce entrepreneurs and villages, e-commerce platform companies formed a vertical dualist extractive apparatus to harvest data. In short, these e-commerce platform companies mobilized their resources to leverage additional resources from the three-level policy regime in order to acquire more rural buyers and rural sellers and to turn these rural users and villages into their data generators. This regime successfully achieved goals of the stay-ahead industrial policies—technological innovations—by extracting data from entrepreneurs and villages produced through the catch-up industrial policies. Therefore, a private-led digital political economy was stimulated by this policy regime as the result of the simultaneous coevolution of the central government, lower bureaucracies, and rural e-commerce markets. The number of Taobao Villages alone had increased a hundredfold in between 2013 and 2017, from 20 to more than 2,000.

In his remarks to the CCP national conference in 2017, General Secretary Xi pledged to achieve “complete poverty alleviation” by the end of 2020, which marks the

beginning of the takeover phase. This political task from the supreme leader quickly mobilized the entire rural e-commerce sector and reoriented the development direction from inclusive rural e-commerce development to poverty alleviation through rural e-commerce. In other words, rural e-commerce turns from the end to the means in the new phase. Four main actors were positioned in the same policy regime and began working in pursuit of the CCP supreme leader's policy goals. In short, a private actor initiated this regime, another private actor developed this regime, and the Chinese state eventually absorbed this regime into its state capitalism because e-commerce platform companies are positioned on the privileged upper-level of the vertical dualist structure of China's state capitalism. Again, the state sat behind the wheel of the rural e-commerce development and became the vertical dualist policy regime's outer layer to determine its direction.

Figure 4.1 outlines the coevolutionary path of digital developmental village. The white block represents rural entrepreneurs, yellow block platforms, grey block local governments, mahogany block the central government. In the initiation stage, all blocks are disconnected from one another and the white block is the most proactive player, so it is the biggest block in the scheme. In the development stage, the yellow and also the largest block connects with all other three blocks in a structured manner, indicating e-commerce platforms construct a three-level policy regime for rural e-commerce. In the takeover stage, the mahogany block dyes the grey block into the same color and turns the yellow block to pink. It means that the central government redirects

local governments and deeply influences e-commerce platform toward complete poverty alleviation. I leave a question mark in the white block for the further elaboration in Chapter 7.



Figure 4.1 The Coevolutionary Path of the Digital Developmental Village Model

## Findings

### *The Initiation Phase (2006-10/2014)*

The first news report that explicitly used the term “Taobao Village” appeared in 2009, and briefly reported that Wind Village, Sand Town, Suining County, Xuzhou City, Jiangsu Province took advantage of e-commerce to establish an IKEA-like home furniture industry, which was previously non-existing. Also, in 2009, Alibaba hosted a Netpreneur<sup>3</sup> Summit and identified three villages, including Wind, as Taobao Villages, a term clearly defined for the first time (Alibaba Research Center, 2013). Since the first rural e-commerce enterprise in Wind Village was registered in 2006, and earlier in time than first enterprises in other two pioneer Taobao Villages, 2006 marks the start

<sup>3</sup> Netpreneur is the combination of “net” and “entrepreneur”.

point of this phase, and October 2014 is the end point when Alibaba announced its rural e-commerce strategy (Chen, 2015; Cui, 2015).

Early entrepreneurs usually had no prior extensive exposure to e-commerce, so they said their “pivot” to e-commerce was mostly by mere chance. Such exposure usually occurred during their stay or work in urban areas where e-commerce became ubiquitous earlier than this in rural areas in 2000s. Several basic functions of e-commerce platforms significantly empowered rural entrepreneurs. For example, Alibaba acts as a third-party trustee between buyers and sellers and withholds payments from buyers until sellers deliver satisfactory products or services. This creates a creditworthy business environment for rural sellers eliminating potential discrimination resulting from their limited credit history or other financial deficits. Alibaba has been developing new content formats, such as texts, pictures, video clips, and live stream, to create a virtual shopping environment to mitigate online shopping’s deficits and make running businesses in places geographically distant from urban centers, such as rural areas, more possible. It also provides data analysis functions in the dashboard to help sellers better know their customers, narrow information gaps, and identify unmet market demands for aspiring rural entrepreneurs to stay in rural areas but keep up with the trends instantly. TradeManager is an instant message app that makes both parties communicate with each other immediately to resolve all sorts of matters with all kinds of media formats. Although these technologies are neutral to all sellers, they matter more to rural sellers with less human, social, and financial capital.

However, the vast majority of subnational governments did not pay attention to the rural e-commerce emergence in this phase. Little exposure to rural e-commerce resulted in no action on the part of many subnational governments. Until 2014, there were only twenty Taobao Villages in China, out of 600,000 administrative villages in total. In this case, local officials did not see signs of e-commerce in their jurisdictions, needless to think about how to develop it. Moreover, rural e-commerce did not make it into most upper-level governments' agendas. Consequently, village officials felt no urge to act on it when preoccupied by other clearly articulated tasks. Also, they did not have alternative channels of information about rural e-commerce and took no action since media outlets, think tanks, and researchers all left the sprouts unattended as well in this phase. For the few subnational governments that did take actions, the texts of policies and news reports showed that they misunderstood and misestimated rural e-commerce. They either understood rural e-commerce as simply "agricultural product e-commerce" and ignored the potential of rural e-commerce in other economic sectors such as manufacturing and services. They mainly focused on the consumption side of e-commerce and enacted policies to assist rural people with paying utility bills and on-demand services through the internet. Some subnational governments enacted policies on rural area informatization, which were more about infrastructural building rather than economic development. In places where Taobao Villages were identified, local governments only took symbolic actions such as awarding the title of "e-commerce exemplar base" to recognize achievements with no substantive assistance.

Zhejiang Province where Alibaba is headquartered has been the pioneer in regulating rural e-commerce, but it did not put up a comprehensive scheme until 2013 (Zhejiang Department of Commerce, 2013a; 2013b; 2013c). Besides the consumption side of rural e-commerce, it was the first province that enacted an industrial policy on rural e-commerce, titled “e-commerce over marketplace” (ZDC, 2013c). This set very specific and quantifiable policy goals, such as internet-based sales revenues, percentage of internet-based sales to the total retail sales of consumer goods, the percentage of cross-border e-commerce to the total sales of international trade, and e-commerce adoption rate in enterprises. Zhejiang also aimed to improve the regime of e-commerce industrial policies, strengthen fiscal and taxation support, guarantee the supply of land and financial resources, lower the entry barrier to e-commerce market, and promote international collaboration in e-commerce. The policy explicitly stressed the public-private collaboration with “e-commerce platforms such as Alibaba and Taobao” to accelerate the construction of a multi-layered, multi-industry sales system for Zhejiang-originated products (ZDC, 2013c). The provincial government used “Zhejiang Hall of Featured Products”, a designated webpage for featured goods from Zhejiang Province, on Taobao to facilitate the sales of agricultural products, used “Zhejiang Industrial Belt” to promote the creation of the wholesale marketplace on Alibaba, used “T-Mall Flagship Stores” to elevate the online sales of branded Zhejiang commodities, and used Alibaba’s Group Discount tools strategically (ZDC, 2013c). This comprehensive policy scheme subsequently became a model policy on e-commerce for other subnational



governments.

The central government was also ill-informed and slow-paced in policymaking on rural e-commerce in this phase. Although the General Office of the State Council<sup>4</sup> issued Opinion on Accelerating E-Commerce Development (Opinion 1), the first official document mainly on e-commerce in general in January 2005, it is short in length and illustrates the national government's limited understanding of rural e-commerce at the moment. Many measures, such as "support small businesses' e-commerce applications", "raise the awareness of the importance of e-commerce", "improve e-commerce technology", "strengthen e-commerce education and research", and "participate in the global competition", are very generic and can be used in any "sunrise" industry the government wants to promote (General Office, 2005). In this early document, e-commerce was deemed a means to upgrade industrialization, unrelated to rural areas, rural residents, and rural-related sectors (General Office, 2005). The Opinions 1 was not picked up until December 2007 when the Ministry of Commerce, the main regulatory agency over e-commerce, put forth its own Opinions on Promoting the Development of E-Commerce Regulations (Opinions 2), which is much more specific than Opinion 1 in creating e-commerce regulations (Ministry of Commerce, 2007). Opinions 2 mainly suggests regulations on e-commerce content, information storage, transaction safety, spam prevention, online market supervision,

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<sup>4</sup> The General Office of the State Council is an administrative agency of the State Council which assists the leaders with the day-to-day administrative operations of the Chinese Government. The State Council is the chief administrative authority of the People's Republic of China, constitutionally synonymous with the Central People's Government since 1954.

fraud protection, e-payment safety, ID theft prevention, public awareness advocacy and e-commerce lawmaking and standard-setting. However, until this moment, these two official documents were advisory in nature, and thus had no mandatory power over lower-level government agencies since no quantifiable assessment by upper-level agencies is present in either document.

Alibaba's engagement with rural e-commerce was very limited as well. In the beginning, rural e-commerce was one of Alibaba's social responsibility initiatives, a pilot project in underdeveloped areas in aftermath of the 2008 Wenchuan Earthquake, for which Alibaba assigned eight permanent in-village employees to give locals free e-commerce training and help them sell rural products on Taobao. Alibaba identified the clustering of seller accounts in Wind Village and highlighted the emergence of rural e-commerce as its social responsibility contribution in 2009, but it did not give much attention to developing rural e-commerce (Alibaba Group, 2009a; 2009b; 2010; 2011; 2013). However, its firm commitment to developing an e-commerce ecosystem, which included mobile payment, platform optimization, cloud computing, database processing and many backbone technologies, benefits all e-commerce entrepreneurs universally, including those in rural areas. Likewise, Alibaba also developed many seller-assistant programs, such as small business marketing support, product matching, exporting assistance, global market promotion, Taobao partner, and other fee-based and registration-based programs, marketing tools for all sizes of e-commerce entrepreneurs, which include Discount Calendar, Taobao Share, Group Discount, Discount Addict, I

Love Price Cut, Free Trial, Taobao Pictorial, VIP Zone, Gift Purchase, Everyday Low Price, Discount Gang, Taobao Satisfied and so forth. To further lower the entry barrier to e-commerce, Alibaba developed several financial products, such as Alibaba Loan, a non-collateral, non-mortgage, pure credit-based loan product, based on its trillions of transactional data, customer review data, product quality data, logistic data, buyers' credit data, payment data, together with corporate financing and non-financing data, and on-site fieldwork data. Each approved applicant received a loan up to 1 million RMB (\$140,000). Alibaba established some programs to facilitate entrepreneurship, such as annual entrepreneur conference, college student start-up competition, and Alibaba College training program. Alibaba also created an emerging scholar program named "Huoshui ("running water") Initiative" in this stage for the purpose of promoting academic studies on e-commerce.

Alibaba's pivot to rural e-commerce did not happen overnight, but in fact gradually moved on the same pace as the central government. For the first time, e-commerce was incorporated in the 12th Five-Year Plan, the guiding national policy scheme, in December 2010, which significantly elevated the priority of e-commerce development in China's nation building during the period of 2011-2015 (Central People's Government, 2010). It also explicitly mentions that "encourage and support.....modern logistic methods such as e-commerce to connect rural areas....." (CPG, 2010), which gave authority to lower governments to invest rural e-commerce. It is not a coincidence that Alibaba Research Center and the Chinese Academy of Social

Science (CASS), the highest state think tank, co-hosted a high-level seminar to promote a model of rural e-commerce development at the Sand Model, in Sand Town in December 2010, and quickly co-hosted another seminar in Beijing in January 2011 to a much larger, more diverse, and higher-end audience (ARC, 2011). A third seminar in Beijing was again co-hosted in February 2011, and featured officials from central ministries, prominent scholars, and representatives from industrial associations (ARC & CASS Center for Informatization Study, 2011). Informed by Alibaba and CASS, the Ministry of Commerce issued Opinions on “12th Five-Year Plan” E-Commerce Development (Opinions 3) in October 2011 and enumerated “Take Advantage of E-Commerce to Service Agriculture, Rural Areas and Rural Residents” as one of several “Working Assignment” given to the subordinate government agencies (2011). In February 2013, the National Development and Reform Commission (NDRC)<sup>5</sup>, the so-called “mini-State Council” (Jing & Zuo, 2013), issued the Notice on Further Promoting Healthy Development of E-Commerce to thirteen agencies which oversee e-commerce, including the NDRC, Ministries of Finance, Agriculture, and Commerce, People’s Bank of China<sup>6</sup>, General Administration of Customs, State Administration of Taxation<sup>7</sup>, and State Administration for Industry and Commerce (2013). Although the central government still narrowly focused on the buyer side of rural e-commerce and its potential in selling agricultural products, these policies show that rural e-commerce

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<sup>5</sup> A macroeconomic management agency under the State Council, which has broadly administrative and planning power over economy.

<sup>6</sup> The central bank of the Chinese government.

<sup>7</sup> The counterpart of INS in China.

received more attention from more regulatory agencies and its priority escalated in the national agenda, which sent a stronger signal to subnational governments to do more on rural e-commerce development.

In this phase, e-commerce took hold in rural areas. Rural entrepreneurs' initiative and ever-improving e-commerce technologies created this emerging sector in a very weak institutional context in which the central government, local governments, and e-commerce platforms did not do much to help rural e-commerce in particular. All other three main actors were rather underinformed and actions were uncoordinated in promoting rural e-commerce. However, Alibaba developed and had been developing e-commerce technologies and programs for all entrepreneurs which included ones from rural China, and governments, especially the central government, laid legal and policy foundation for future e-commerce development. Alibaba, the central government and Zhejiang Province coevolved in promoting rural e-commerce. The central government "picked up" critical information from Alibaba-sponsored reports on rural e-commerce that was internally channeled through the CASS. Zhejiang Province closely worked with Alibaba in this field as well. In evolutionary terms, individuals (rural people) interacted with an economic trait (e-commerce) and led to a new economic trait (rural e-commerce); the new economic trait prompted an institutional entrepreneur (e-commerce platforms) to interact with the institution (the Chinese state) and trigger a new bureaucratic trait (prototype rural e-commerce industrial policies).

***The Development Phase (10/2014-10/2017)***

All institutional actors—central government, local governments, and e-commerce platforms—changed the course of action decisively in 2014. First, Alibaba announced rural e-commerce as one of three major strategic goals in October 2014, after its record-breaking IPO at New York Stock Exchange a month earlier. It pledged 10 billion RMB (\$1.4 billion) in five years in its “1,000 Counties 100,000 Villages” plan to create a comprehensive rural e-commerce service network (Langfitt, 2014; Thibault, 2014; Yin, 2014). Second, the central government allowed the Ministry of Agriculture to pilot the “information into villages and farmhouses” project in ten provinces, and the Ministry of Commerce to establish hundreds of “E-Commerce Exemplar Villages” in three years. More important, Premier Keqiang Li paid a symbolic visit to the so-called No.1 E-Commerce Village, Rock Village, right before the first World Internet Conference in November 2014. Third, following suit, local governments enacted numerous policies on rural e-commerce and strengthened collaboration with platform companies. The number of Taobao Villages jumped from 20 in 2013 to 212 in 2014. As an institutional entrepreneur, Alibaba created a three-level policy regime to develop rural e-commerce with rural entrepreneurs, local governments and the central government.

Heavily lobbied by Alibaba and other e-commerce platform firms, the central government underwent a transformative evolution in understanding how to develop rural e-commerce. First, Alibaba has been cultivating strong bonds with national political figures, including multiple generations of China’s highest-level party and state leaders, since their early years as local or provincial officials (Guo, 2015). As its rural

e-commerce strategy rolled out in 2014 and 2015, Jack Ma, Alibaba's co-founder and chairman, met more than twenty provincial governors and party chiefs, who are also members of the CCP Politburo, to engage in the negotiation of strategic agreements (iKanchai, 2014; People's Government of Fujian, 2015; People's Government of Henan, 2019; Wang, 2015). Some provincial leaders frankly said they had good relationships with Jack Ma and the Chinese president brought Jack Ma twice in the diplomatic delegation during his state visit to the United States and the United Kingdom (Wang, 2015). Premier Keqiang Li also made a phone call to Jack Ma to congratulate him on the big achievement of Alibaba's shopping festival (Yang, 2015). During the visit of China's incumbent vice premier Wang Yang in January 2015, Jack Ma openly declared that Alibaba positioned itself as the "national champion enterprise, representing China's youth, innovative power, and technological capacities" (Nongshijie, 2015b).

Second, by getting a privileged position in China's state capitalism, Alibaba became highly synchronized with the national economic development agenda and earned full support from the top leaders and the entire Chinese state (Yang, 2015). Jack Ma and other Alibaba executives were frequently invited to attend ministerial conferences and State Council conferences (Chen, 2013). Direct and favorable personal relationships with top leaders paved the way to central agencies which oversee rural e-commerce for Alibaba. In 2016, Alibaba entered an agreement with the Ministry of Agriculture to collaborate in the areas of rural e-commerce, rural informatization, e-

commerce poverty alleviation, e-commerce training, and important events (People's Daily, 2016). Around the same time, Alibaba also entered a rural e-commerce strategic agreement with the NDRC on return migrant entrepreneurship in February 2016, in which both parties would work together to conduct pilot projects in 300-some counties for return migrant entrepreneurship (Lin, 2016). Alibaba and the NDRC also signed a memorandum in 2016 for building up e-commerce credit system, in which both parties worked together to optimize online business environment (CCTV, 2016). The climax of the public-private collaboration is Alibaba's participation in the drafting of the 13th Five-Year Plan, the guiding national industrial policy, in which Alibaba was assigned to study information economy (Sina Finance, 2015). More important, many of these agreements authorize signing parties to share data collected individually. For example, through collaboration with the NDRC, Alibaba would have access to more than 500 million entries of public credit information, including basic information, administrative punishment information, administrative authorization information, whitelist and blacklist information and so forth (Liu, 2016).

Third, Alibaba and other e-commerce firms' participation in the policymaking process stimulated the evolution of the central government that reprioritized rural e-commerce development and unprecedentedly made rural e-commerce part of the national strategy. In October 2015, Premier Keqiang Li specifically brought up the deployment of rural e-commerce strategies in a State Council meeting (China News Network, 2015). In 2015 alone, the State Council announced five policies relating to



rural e-commerce, and Ministry of Commerce led nineteen national agencies to jointly specifically deploy the rural e-commerce strategy (Shi, 2015; Ministry of Commerce, 2015). As opposed to opinions issued in the previous phase, new policies reflected the evolution of the central agencies which adopted the similar approaches used by platform companies. They were inclined to see rural e-commerce as an economic ecosystem which covers more than agriculture, but also county and village-based manufacturing, rural tourism, and affiliated industries such as delivery, financing, wholesale, and training businesses (The General Office of the State Council, 2015). Also, these policies were not general guidance as shown in the previous phase, but clearly articulated, quantifiable new rules for local governments, such as talent training, local ordinance making, and goalsetting. In 2016, the Ministry of Commerce, the main regulatory agency over rural e-commerce, further issued a much more detailed Rural E-Commerce Services Regulations and Guidance on Rural E-Commerce Work which gave six specific suggestions to county governments on rural e-commerce development to be adjusted to the local situations. Other national agencies, such as the Ministry of Agriculture, quickly followed the State Council and issued regulations on rural e-commerce, such as the 13th Five-Year Plan on Rural Informatization (2016). President Xi's advocacy of targeted poverty alleviation urged the State Council Leading Group Office of Poverty Alleviation and Development (CPAD) to issue Opinions on Promoting E-Commerce Targeted Poverty Alleviation in November 2016, which is the early sign of the transition from the development phase to the takeover phase in the

rural e-commerce development.

At the local level, Alibaba strengthened county and village governments that were weak in promoting rural e-commerce. First, Alibaba established a national training system to elevate rural e-commerce literacy for lower-level officials. Alibaba's Taobao University (TU) hosted dozens of 36-week training sessions for county chiefs who want to develop rural e-commerce. TU lecturers include Alibaba executives, rural e-commerce platform specialists, alumni chiefs of Taobao Counties, and rural e-commerce researchers teach courses on market trend, policy analysis, case study, field study, institutional innovations, goalsetting and policymaking, and Alibaba rural e-commerce resources, such as Rural Taobao, Rural Logistics, Rural Finance, Alibaba Tourism, and China Special Goods (TU, 2016; 2019). A senior lecturer said the training is customized for each county based on industrial background, economic advantages and disadvantages. Each county chief is expected to submit and present a workable policy proposal on rural e-commerce development upon the graduation. In 2015 alone, TU headquarter trained 1,572 county officials from 598 counties in 26 provinces, which was three times the initial expectation and beyond Alibaba's training capacities at the moment when more officials were on the waiting list (Lu, 2015). By December 2018, TU trained 13,417 officials across China (China News, 2018). TU further expanded into rural areas to train county and village official who cannot afford expenses in Hangzhou. Alibaba and the government of Shuyang County, Jiangsu Province reached an agreement on the first-in-the-country "county-level training camp of TU" in

November 2016 to train high-level local e-commerce talents including local officials (Gong, 2016). By 2018, TU has erected seventeen such camps in ten provinces, thousands of training stations in 257 counties, and 1,110-plus villages (Fengqiu City, 2018; Wshang, 2018; Xinhua News Agency, 2018). Through this training system, Alibaba creates and coordinates an expanding network between thousands of villages for rural e-commerce development. Alibaba basically provides lower-level officials a near-completed rural e-commerce roadmap to be filled out by customized tweaks so that local policies across China will be homogeneous but with local characteristics.

Second, to implement its rural e-commerce strategy, Alibaba entered strategic agreements with all levels of subnational governments to leverage their contractually bounded actions through its own resources (Feng, 2019; He, 2018; Jiao, 2015; Li, 2019; Liang, 2019; Lu, 2016; Maoming Bureau of Commerce, 2019; Ministry of Commerce, 2016, 2018; Nongshijie, 2015a; Wen, 2019; Yin, 2019; Zuojiang Daily, 2016). Per agreements, Alibaba should train a certain number of rural e-commerce talents; identify and establish e-commerce “pilot counties” through joint assessment and field studies with provincial and county commerce officials; identify, grow and strengthen data-driven, market-competitive local industries; establish county-village, two-level e-commerce operation systems; design, build, and improve county-level fast-delivery logistic systems; jointly explore and promote local special agricultural products on e-commerce platforms; provide rural financing to rural residents who are interested in rural e-commerce entrepreneurship; and periodically provide free access to locality-

specific data to local governments. In exchange, local governments are required to build e-commerce business incubators, operation centers, exhibition halls, training centers, industrial parks, paved roads, and warehouses. In addition to physical infrastructure, local governments are also required to invest tremendously on virtual space, such as participation in Alibaba's semi-annual and annual discount events, and the creation of online exhibition halls for local special products. To create an enabling policy environment, they also "strengthen e-commerce advocacy, assist Alibaba with e-commerce services, reach an inter-agency understanding of the importance of rural e-commerce, improve subordinate governments' understandings and firmly implement all relating policies" (County Bureau of Industry and Commerce, 2018). Local officials admitted that "all related agencies were ordered to work with Alibaba closely."

Third, Alibaba also has been building a smart logistic network extending into vast rural China (Chen, 2019; Fast Cloud, 2018; Guo, 2015; Logistics News, 2019; SmartM, 2016; Su, 2016). The underdevelopment of logistic infrastructure is a major hurdle that constrains rural e-commerce development. Fast delivery firms usually do not provide full-range services in rural areas since many villages are remotely located and even inaccessible, rural residents are vastly scattered, and the volumes of packages are much lower. For example, in some cases fast delivery firms only deliver packages to their city-level stations and charge additional fees for moving packages to county-level and village-level destinations. China Post, the state-owned delivery company, has service stations everywhere, but their services are much slower than private firms. Since

e-commerce would not survive in rural areas without affordable fast delivery services, Alibaba partnered with dozens of private fast delivery firms and China Post to build up a nationwide county-to-village delivery network which took advantage of untapped logistic capacities, such as local delivery firms, public transportation system, individual couriers, and even mom-and-pop storekeepers. Supported by big data, Alibaba is able to build up a backbone warehouse system in the most convenient locations, incorporate and maximize logistic capacities from all sources, and eventually improve customer experiences of the Alibaba-empowered logistic network. In collaboration with 700 local partners, Alibaba's logistic network had connected nearly 30,000 village-level logistic stations in nearly 700 counties of 29 provinces by the end of 2018. By controlling the precise real-time warehouse and shipment information, Alibaba can monitor logistic status and optimize logistic routes in order to significantly minimize the transportation time and costs in rural areas.

Fourth, Alibaba created online communities through instant messaging apps to bring together e-commerce county and village officials, rural e-commerce researchers, rural e-commerce entrepreneurial leaders, TU lecturers and Alibaba researchers. They are grouped in chat groups by subjects, such as "New Village Studies" and "China's Taobao Villages", or by province, such as "Jiangxi Taobao Villages", or by adopted technology, such as "Taobao Livestream". Moderated by Alibaba employees, group members of all walks of rural e-commerce are able to receive the most recent updates on rural e-commerce development, learn the most frontier rural e-commerce studies,

receive immediate assistance and suggestions, join the pilot projects for the most cutting-edge technologies, and enjoy other group member-only benefits critical to the future development of rural e-commerce. For example, Alibaba may experiment with new technologies in group-member villages, which are more likely to be selected by Alibaba as fieldwork bases for academic research.

Fifth, Alibaba experimented with the so-called rural e-commerce “special economic zone” (SEZ) in selected counties that it had good relationships with, a term that echoes the major policy experiment in the reform era (Ouyang, 2018). In these SEZs, Alibaba created “a new form of e-commerce ecosystem” (Ouyang, 2018) which integrated strengths of its e-commerce products, such as T-Mall, Taobao, Fliggy<sup>8</sup>, Rural Taobao, Alibaba Cloud, Cainiao Network, and Ant Financial, to provide a comprehensive solution to rural e-commerce. In Heze, Alibaba provided 50 million RMB (\$7 million) logistics stipend for infrastructures, more than 60 million RMB (\$8.4 million) credit-only loans to aspiring rural residents, low-cost trainings to educate rural e-commerce talents, product standardization and branding services, and newest technologies and financial services (Ouyang, 2018).

At the local level, Alibaba’s rural e-commerce strategy was quite successful in at least numeric terms. By the end of the first year of this five-year strategy, December 31, 2015, Alibaba had penetrated 24 provinces, opened up more than 200 county service centers, and more than 13,000 village service stations (Alibaba Research Center, 2016).

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<sup>8</sup> Alibaba’s travel agency platform.

The statistics almost tripled by the end of 2016 (Alibaba Group, 2018). In this phase, the number of Taobao Villages skyrocketed, from 20 in 2013, to 212 in 2014, and eventually to 2118 in 2017 (Alibaba Research Center, 2018). Besides mere statistics, Alibaba creates a village-level model of digital development village in the spirit of developmental state across China. Alibaba helps create a well-trained class of local officials specialized in rural e-commerce, mobilize local government resources in the form of industrial policies, built up a data-driven logistic networks in rural areas, form an Alibaba-moderated public-private collaboration, and eventually impose a developmentalist desire in these villages.

Besides stimulating the coevolution of local bureaucracies, Alibaba continued their efforts in the previous phase at the personal level and facilitated the elevation of rural entrepreneurs' human, social and financial capital. First, Alibaba's training system also trains rural e-commerce entrepreneurs for this newly emerged sector (Deng, 2018). As opposed to other third-party training programs, TU conducts a pilot fieldwork to discover potential leading industries in a particular locality, design customized courses specifically for that locality, assign lecturers with ample experiences in the industries which the locality needs most, and designate permanent trainers to give follow-up assistance after the completion of trainings. TU's courses are not one-size-fit-all to all kinds of trainees. They design different courses for trainees of all situations, including start-up entrepreneurs, mid-sized businesspersons, large-sized corporate officers, and industrialists in e-commerce transition. TU also provides trainees with the first-hand e-

commerce technicalities and allows them to learn from real e-commerce transactions from Alibaba executives.

Since this training system services both local officials and rural entrepreneurs, it presents unique and rare mix of opportunities to create social networks. Officials may be exposed to the real-world difficulties of rural entrepreneurs for future policymaking and entrepreneurs may have chance to understand and influence local policies directly. As previously explained, Alibaba also sponsors the founding of local e-commerce associations and moderates hundreds of rural e-commerce chat groups in which officials and entrepreneurs are mingled together. “Classmate” becomes a shared identity of these two groups which previously never ran into each other. This identity significantly boosts entrepreneurs’ social capital for their business prospects.

The availability of financial resources makes or breaks a new business, which is extremely important for rural entrepreneurs who neither have assets or collateral to secure loans, nor have formal jobs to generate documented incomes and credit history (Ci, 2017; Liu, 2018; Lu, 2017; Zhao, 2017). They may need a much longer term to repay loans and usually need and can only afford small loans. As a result, traditional financial institutions are much more reluctant to give loans to rural residents and less likely to establish subbranches in rural areas since fewer rural residents are eligible. Banks usually set higher interest rates and additional thresholds to make it harder for rural residents to obtain loans than urban residents. In contrast, Alibaba’s data-driven financial services solve the above issues at least in part. They first identified some pilot



counties and helped them transform into “Alipay Counties” in which rural residents pay everything including utility bills, medical bills and all public services through Alipay app. Based on data collected by Alipay app, Alibaba was able to build up models to predict ordinary rural residents’ consumer behaviors and apply these models to other rural residents’ loan applications which are solely non-collateral and credit-based. Alibaba also let “village partners”, people who worked in Alibaba’s village service stations, to collect information on locals’ financial needs and provide additional information on local loan applicants that was used to further optimize and customize models. Alibaba also used bridging loans to help rural e-commerce. For example, Alibaba gave loans to well-established firms and required that the loans be used to do businesses with rural e-commerce businesses on Alibaba’s platforms. In this way, Alibaba guarantees safer repayments from the large firms and collects data from both, large firms have additional financial resources for expansion, and rural e-commerce enterprises can also develop. Alibaba provides other financial services in rural areas, such as insurance and consumer financing to benefit rural residents who may use them for rural e-commerce (Liao, 2018). In 2017 alone, Alibaba gave more than 60 million RMB (\$8.4 million) in non-mortgage, credit-based loans through Alibaba’s financing services to Shandong 1,200 some rural residents for startup funding (Ouyang, 2018). Likewise, in 2017, Alibaba gave 12 million RMB (\$1.6 million) to Hainan Province counties to cut transportation costs and approved 280 million-RMB (\$39.2 million) loans to 5,600 plus rural people for their e-commerce businesses. Until March 2017,

more than 163 million rural residents and 1.75 million rural e-commerce enterprises had received financial services worth of 26.4 billion RMB (\$3.8 billion) from Alibaba (Sina Finance, 2018).

<b>Developmental State</b>	<b>Regular Villages</b>	<b>Digital Developmental Village</b>
<b>Developmentalist Desire</b>	None	Platform-Designed Blueprint
<b>Elite Bureaucracy</b>	None	Platform-Trained Officials
<b>Public-Private Collaboration</b>	None	Platform-Mediated Collaboration
<b>Industrial Policies</b>	None	Platform-Leveraged Policies

Figure 4.2 Digital Developmental Village

In this phase, platform companies, especially Alibaba, led the charge in this four-party coevolution. As an institutional entrepreneur, Alibaba constructed a three-level regime of rural e-commerce development. This regime mobilizes all other three main actors to contribute data and turns itself into a data extractive apparatus for e-commerce platform giants. Through close ties with top leaders, Alibaba successfully entered into many strategic agreements with central agencies in exchange of their resources, reprioritized rural e-commerce in the national agenda, and influenced the changes of central agencies' understanding and policy goals at the national level. Directed by the central government, local governments also implemented many policies on rural e-commerce with the assistance from Alibaba which created thousands of digital developmental villages with trained officials, government resources, adequate infrastructures, and strong public-private collaborations. At the personal level, Alibaba

empowered millions of rural e-commerce entrepreneurs with human, social, and financial capital. This complex interactive coevolution in this case reveals that an external force may also trigger the revolution of weak bureaucracies and weak markets that rarely interacted in a productive manner in the past. This regime channels one kind of industrial policies that focus on the quantitative expansion of manufacturing capacities. In this case, the mushroom of rural e-commerce entrepreneurs and villages is to support the second kind of industrial policies aimed at technological breakthroughs in platform giants' data-driven exploration. From the perspective of developmental state, the standalone model of digital developmental village shows high transferability to foreign villages since local weak bureaucracies may be similarly reformed by e-commerce platform giants and rural entrepreneurs may transit to e-commerce easily.

***The Takeover Phase (10/2017-present)***

Although President Xi brought up the concept of “targeted poverty alleviation” as early as November 2013, “targeted poverty alleviation” was not a buzz word until June 2015 when Xi again reinforced this concept and elaborated it during his visit to one of the poorest provinces (China News Network, 2016; Wang, et al., 2013). In October, he stressed this concept again in the keynote speech at an international forum on poverty alleviation and development to show his resolve. In November, Central Committee of the CCP Working Conference on Poverty Alleviation and Development, a conference with the highest political weight which had only occurred for the second time in the history of the People’s Republic of China. At this time, the Decisions on Winning The

Poverty Alleviation Tough Battle by the Central Committee and the State Council was approved (Xinhua News Agency, 2015). Poverty alleviation also entered the 13th Five-Year Plan and the State Council immediately implemented a detailed blueprint on poverty alleviation based on the Plan in December 2016 (China News Network, 2016). Apparently, a war against poverty was on the horizon, but no one expected it would break out with the heaviest political pledge from the supreme leader.

In his address to the 19th National Congress of the Communist Party of China in October 2017, General Secretary Xi announced he would “mobilize the power of the whole party, whole nation, and whole society.....to guarantee that all rural poor population realize full poverty alleviation, all poverty counties be no longer economically-distressed, and regional poverty be solved by 2020” (Xi, 2017). In the address, “complete poverty alleviation” was among the “three tough battles” identified for the CCP to win (Xi, 2017). Although there is an overlap between the development phase and the takeover phase, this study still marks October 2017 as the transition point because from then on poverty alleviation became the highest “political duty” that encompasses the work of the whole party and entire government demands all resources.

In this changed institutional context, “e-commerce poverty alleviation” turned to be the solution from the e-commerce sector. Before 2015, this term was only used a very few times by major central agencies or platform companies. For example, in the 2014 Taobao Forum, “e-commerce poverty alleviation” was one of the panels joined by Taobao Village representatives and e-commerce experts (Alibaba Research Center,

2014). This term is also found in the conference minutes of the CPAD on December 24, 2014, as one of ten policy projects on poverty alleviation (CPAD, 2014). In a case study conducted and published by Alibaba Research Center on October 30, 2014, the principal investigator explicitly stated in the first sentence of the report that “Alibaba does not really use the word ‘poverty alleviation’, but more favorably use the word ‘empowerment’” (Zhang, 2014). People’s Daily, the official mouthpiece of the CCP, might be one of the first media outlets that sensed the policy trend in the Central Committee through their unique inside channels. It put out an article on December 26, 2014 and discussed “Taobao poverty alleviation” in length (Yin, 2014).

As Xi increasingly stressed his poverty alleviation plan in 2015, all platform companies quickly adopted Xi’s narrative, redirected rural e-commerce development towards poverty alleviation, allocated additional resources to rural e-commerce poverty alleviation, and highlighted their contribution to the winning of this “tough battle”. For example, on October 20, 2015, a year after the issuance of the case study report in which Alibaba downplayed “poverty alleviation”, the mission statement of Alibaba Foundation titled Let Rural Be Glorious, Alibaba’s E-Commerce Poverty Alleviation, literally toadied Xi as Papa Xi, a nickname officially used to show Xi’s fatherly relationship with Chinese people. The statement boasted that Alibaba “listened to Papa Xi and be obedient to his call for the complete poverty alleviation” (Alibaba Foundation, 2015). In fact, the measures adopted by Alibaba Foundation for poverty alleviation were still TU talent training, rural logistic network, and financial services,

which had been carried out with or without the poverty alleviation (Alibaba Foundation, 2015). Other platform companies basically followed Alibaba's example by taking similar measures and redirecting more resources to poverty-stricken counties (Yan, 2015). For example, Suning, the largest retailer in China, and JD, the second largest e-commerce platform company in China, also signed strategic collaborative framework agreements with national agencies to promote e-commerce poverty alleviation in 100 and 200 poverty-stricken counties respectively (Yan, 2015; Gao, 2016).

In comparison with platform companies, government agencies were relatively slower paced in responding to policy changes. In November 2016, sixteen central government agencies jointly issued Guiding Opinions on Developing E-Commerce Poverty Alleviation to subordinate governments for the first time and explicitly enacted a national-level policy entirely discussing using e-commerce to alleviate poverty (CAPD, 2016). On December 31, 2016, in a policy jointly endorsed by both the Central Committee and the State Council on cultivating new developmental forces in rural China, the section on rural e-commerce and the section on poverty alleviation were separated and nowhere did the word "e-commerce poverty alleviation" appear (Central Committee, 2016). The Ministry of Commerce launched a smartphone app called "e-commerce poverty alleviation" in September 2017, which connects 590 poverty-stricken counties across China with 21 e-commerce partners that include three major platform companies, the largest fast delivery couriers, the state-owned Agricultural Bank of China, and many popular fresh produce companies (Ministry of Commerce,

2017). Directed by the central government, all provincial governments began directing the efforts of rural e-commerce development towards poverty alleviation in rural areas, enacting countless similar local ordinances in alignment with national policies, and collecting statistics of policy outcomes in reports (Li, 2014; Liu, 2017). Despite the elevated significance of e-commerce poverty alleviation in policies and platform company strategies, it remained a part of the broader rural e-commerce development in 2015 and 2016.

The entry of “e-commerce poverty alleviation” into the 13th Five-Year Plan in the end of 2016 and the chairman address to the 19th National Congress of the CCP in the end of 2017 considerably turned the gravity of rural e-commerce development and narrowed the breadth of relating policies and measures. Right after Xi’s announcement on the complete poverty alleviation by 2020, Alibaba immediately threw out its follow-up plan: invested 10 billion RMB (\$1.4 billion) in five years to establish a poverty alleviation foundation, appointed Jack Ma as the foundation chairperson, assigned one poverty alleviation project to each independent firm within the Alibaba ecosystem, set a poverty alleviation KPI (key performance indicator) to presidents of the independent firms within the Alibaba ecosystem, hired 30 observers to monitor projects and review them semi-annually (PE Daily, 2017; Zhang, 2017). Alibaba strongly believed that the 10 billion RMB foundation would be the multiplier leading to the ultimate effect worth 1 trillion RMB (NetEase Tech, 2018). A broader poverty alleviation strategy, in which e-commerce poverty alleviation is one of five sub-strategies, emerged as the fourth

strategy of Alibaba Group, along with rural e-commerce, big data, and globalizing (Alibaba Foundation, 2018). As opposed to other sub-strategies, e-commerce poverty alleviation received the most resources since it is largely built upon the successful rural e-commerce regime Alibaba had created over the previous two phases.

As the author is writing this chapter, the current phase is still unfolding across the country. The regime still functions in the same way as in the previous phase, while all main actors gravitate their resources to alleviate poverty-stricken areas and people in order to achieve the goals explicitly set by the supreme leader by the end of 2020. A preliminary assessment is that the Chinese state, specifically the CCP, is taking over the regime of rural e-commerce since Alibaba and other e-commerce giants are part of the state capitalism. Again, rural e-commerce development turns to be a state-led economy. This change is unsurprising since large e-commerce platforms are part of China's state capitalism which has great control over them.

### **Discussion and Conclusion**

This chapter analyzes the coevolutionary path of digital developmental village in rural China, a process in which four main actors—central government, local governments, e-commerce platforms and rural entrepreneurs—jointly create a digital economy within the broader politico-institutional context of the Chinese state. This analysis reveals that the process consists of three phases: the initiation phase, in which rural entrepreneurs made their fortune through good use of e-commerce platforms when the other three actors did not fully apprehend the potential of rural e-commerce; the development phase



is when e-commerce platforms constructed a three-level policy regime to mobilize government resources, improve weak bureaucracies and markets, and empower aspiring individuals for the purpose of its own and state interests; and the takeover phase is when the CCP incorporated this regime, redirected its purposes, and reprioritized its resources for a national goal of complete poverty alleviation.

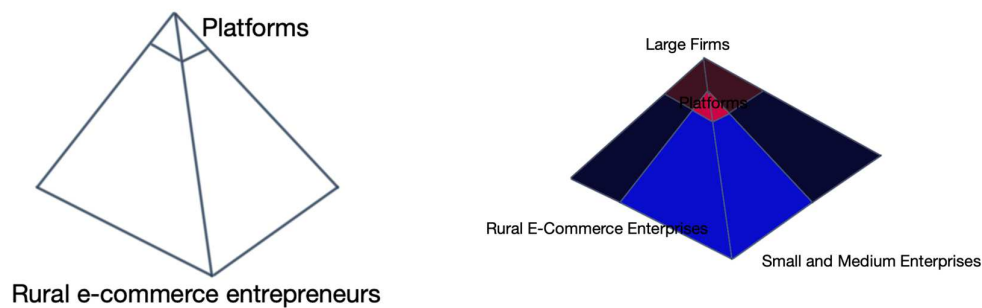


Figure 4.3 State Capitalism of Rural E-Commerce

In essence, the CCP manages to turn rural e-commerce to a new form of state capitalism, in which e-commerce platform companies on the upper level stands to gain economic benefits from rural e-commerce entrepreneurs produced by various forms of industrial policies from both central and local governments. Regardless the ultimate control, the policy regime combines two kinds of industrial policies and resolves the missteps relating to previous state-led failed attempts of achieving technological breakthroughs in strategic sectors. By mobilizing government resources in the form of traditional industrial policies, this regime has produced more than 4,000 e-commerce villages and millions of rural e-commerce entrepreneurs and turned them into new data sources to be extracted for new innovations critical to the Chinese economy and global hegemony, such as artificial intelligence, machine learning, smart city, driver-less cars,

which realize the goals of industrial policies in the stay-ahead stage of development.

	<b>Factor-driven industrial policy</b>	<b>Innovation-driven industrial policy</b>
<b>Stage</b>	catch up forerunners	stay ahead of the race
<b>Purpose</b>	improve manufacturing capacities (quantitative)	achieve technological breakthroughs (qualitative)
<b>Information screening</b>	clear developmental path from forerunner countries, smaller information pool, faster correct information identification	no forerunner country to follow, no clear developmental path, more complex situation, no capacity to screen information
<b>Quantifiable &amp; clear goals</b>	such as import/export, FDI, infrastructure investment	no idea what innovation is
<b>Accumulated risk avoidance</b>	matured technologies, proven strategies, economics of scale <b>LOW RISK</b>	technological exploration, bold strategies, sunk cost <b>HIGH RISK</b>
<b>Digital Developmental Village</b>	Factor-driven policies (creating rural e-commerce enterprises and villages) → Innovation-driven outcome (AI, driverless car, smart city, brain sciences, and any other big data-driven technologies)	

Figure 4.4 The Infusion of Two Kinds of Industrial Policies

This regime further creates a mini-developmental state at the village level, which I term the standalone model of digital developmental village. In the Chinese political economy, villages are usually part of the developmentalist bureaucratic complex but without its own developmental apparatus. In the case of rural e-commerce, e-commerce platforms create a well-trained class of bureaucrats, adequate data-driven infrastructure, upper-level government industrial policies, and strong public-private

collaborations online and offline. In so doing, the development of rural e-commerce presents a unique case of the coevolutionary path of the economic development in which the weak institutions are strengthened not as the result of upper-level directions, nor an emerging market, but by an external market force that exercises transformative power over the entire system and accelerates the development process. Moreover, this case, in which Alibaba and other e-commerce platforms empower rural entrepreneurs in terms of human, social, and financial capital, successfully fixes “the empty middle” (Krasner, 2014) that leads to the doorstep conditions for possible development (North, Wallis, & Weingast, 2009).

## **Chapter 5**

### **The Formation and Growth of E-Commerce Villages**

#### **Introduction**

Since first identified in 2006 in Suining County, Jiangsu Province, the number of Taobao Villages has grown to 4,310 (Alibaba, 2019). The number of e-commerce villages, or other global platform companies, that joined join this sector was much greater. Although e-commerce villages remain a very small fraction of 600,000 plus administrative villages across China, its unprecedented growth and tremendous economic potential raise expectations that e-commerce would alleviate poverty in rural China and further narrow the regional socioeconomic divisions caused by uneven economic development during China’s reform era.

The rise of e-commerce villages has become a fascinating social phenomenon stimulating a relatively small but quickly growing body of literature by scholars in varied disciplines. Previous studies pointed to the uneven geographic distribution of Taobao Villages (Xu, Z. Wang, Zhou, & H. Wang, 2017) and identifying the clustering of Taobao Villages to be near robust economic sectors or manufactured product marketplaces (Zhou, Yang, & Gao, 2017). Research also analyzed variables in the formation of Taobao Villages (Qi, Zheng, & Guo, 2019). However, these studies have shortcomings. For example, these studies usually are based on limited data collected from one or two provinces, which only provide a snapshot of China's rural e-commerce development and fail to explain the politico-economic mechanisms in the broader contexts of the Chinese state that lead to the formation and diversity of Taobao Villages (Li, A., 2017; Qi, Zheng, & Guo, 2019; Xu, Z. Wang, Zhou, & H. Wang, 2017; Zhou, Yang, & Gao, 2017).

Building upon the model of digital developmental village outlined in the previous chapter, along with two strands of literature on the world systems theory and China's local development models, this chapter develops a typology to trace the formation of e-commerce villages that took place against varied politico-economic contexts of the Chinese state. This chapter argues that, given a relatively uniform policy structure, the formation of various kinds of e-commerce villages depends on the interactions between three local-level factors: (1) whether local governments regulate rural e-commerce in an interventionist manner; (2) whether the localities have pre-

existing robust economic sectors that may present the agglomeration advantages to newly-emerged e-commerce sector; and (3) whether necessary resources, such as risk-taking migrant entrepreneurs, cheap labor forces, and other types of capital, are sufficient to kick start new businesses.

### **Typological Framework of E-Commerce Villages**

#### ***World Systems Theory and China's Uneven Domestic Economic Development***

In a single international capitalist system, each country is structurally characterized as center, semi-periphery, and periphery (Chirot, 1977; Wallerstein, 1974a, 1974b, 1979, 2004). Through dynamic and exploitative links, such as global finances, technological monopolies, and military prowess, centers erect and reinforce structural barriers against economic growth in semi-peripheries and peripheries (Amin, 1974, 1994; Arrighi, 1998; Chase-Dunn, 1975; Delacroix, 1977; Frank, 1967; Portes, 1978; Snyder & Kick, 1979; Wallerstein, 2000). Moreover, capital accumulation drives the world economy on a constant but uneven expansion from the centers to outlying areas. Through profit-seeking ventures, these expansions monetize and reorganize outlying economies, increase their dependence on the centers, and oftentimes lead to their coerced incorporation into the capitalist world system (Hopkins & Wallerstein, 1987; Portes, 1978; Wallerstein, 1976). In an interdependent relationship, centers continue to penetrate dominant political and economic institutions at the peripheries to create structural imbalances between sectors and institutions of the peripheries, while peripheries eventually internalize such imbalances.

World-systems scholars examined how outlying areas were incorporated into the international capitalist system (Chase-Dunn, Kawano, & Brewer, 2000), which include the Caribbean in the 17<sup>th</sup> century (Philips, 1987), Southern Africa (Martin, 1987), South Asia (Washbrook, 1990), and the Ottoman Empire (Kasaba, 1987) in the 18<sup>th</sup> century, and Japan and China in the 19<sup>th</sup> century (So, 1984). More recent studies turn their foci from states and regions to ethnic and indigenous groups encountered by western colonizers, for example Cherokee nations (Dunaway, 1996) and Surinamese Maroon nations (St-Hilaire, 2000). Baber also investigated a particular factor in such penetration—science and technology (2001), and Islamic nationalism, a cultural factor, was studied by Lubeck (1979). Some scholars conducted comparative studies from the regional inter-societal perspective, such as Moulder’s study of Japan and China (1977), to enrich our understanding of the incorporation processes (Chase-Dunn & Hall, 1993). However, since the existing world systems studies select the world capitalist system as the unit of analysis, they oftentimes mistakenly imply homogeneousness between the sub-units of the research objects.

Such an implicative and theoretical gap calls for world-systems examination at the meso level, or geographically speaking, at the subnational level (Hall, 1986). Tilly (1984) warned of the danger of misleading outcomes associated with the theoretical transition from the macroscopic view to meso-regional perspective. The division of labor creates spatial divisions at both the global and regional scales, which permits such subnational analysis. The world economy further generates world cities that are “first

and foremost centers” (Alderson & Beckfield, 2004, p. 817) and thus, creates a center/semi-periphery/periphery division above the traditional urban/rural continuum within some countries (Friedmann, 1986). In this domestic three-level hierarchy of economic power, world cities serve as the “command and control centers of the global economy” (Friedmann, 1995, p. 23). Second rank cities are those that “tie otherwise isolated regions into the world economy” (Alderson & Beckfield, 2004, p. 817). The peripheries are areas largely excluded from the world economy and thus economically irrelevant (Alderson & Beckfield, 2004; Friedmann, 1995).

### ***Labor Migration and Development***

Periphery-to-center labor migration is always triggered in the incorporation process. Capitalist expansion makes the outlying population aware of the existence of advanced societies and motivates migrant workers to the regional wealth gaps to look for economic opportunities in areas previously overlooked. Internal imbalances between peripheral institutions are induced by the external disequilibrium. This creates migratory pressures and sustain the trend for such labor migration, because the institutional penetration of the dominant societies impose constraints either to reduce the ability of outlying economies to fully provide for the costs of reproduction and maintenance of the outlying population, or cause additional costs that peripheral economies of subsistence cannot bear (Portes, 1978; 1996; 2008; 2009).

Migrant workers are often exploited as cheap labor as the result of structural economic and political vulnerability in the centers (de Hass, 2005; 2012; Lucas, 1997;

Raghuram, 2009; Taylor, et al., 1996). First, they become vulnerable because their labor market bargain power is substantially weakened by the labor overabundance and the large longstanding regional wealth gaps. Second, their political weakness, such as illegal status, unauthorized employment, informal economic activities, accentuates their vulnerability. Third, deliberate political manipulations ensure a condition of vulnerability, such limiting their entrance to illegal means and increasing the credibility of deportation threats. Therefore, centers build the cheapness into the labor migration and facilitate the effective utilization of migrant workers as the source of cheap labor.

In the meantime, peripheries, in which capitalist structures coexist with the pre-capitalist modes of production, are deliberately preserved by explicit legal measures as traditional subsistence enclaves to produce and reproduce labor power for centers and autonomous food production zones to absorb unneeded works from centers (Andrade-Eekhoff & Silva-Avalos, 2003; Geiger & Pecoud, 2013; Luova, 2011). The presence of subsistence economies in peripheries and explicit political manipulations in centers also make migrants readily excludable to peripheries on necessity. Thus, centers exploit both migrant workers and their family members left behind in peripheries since centers do not need to maintain a costly welfare system for migrant workers. Therefore, the continued institutional penetration reinforces the viability of peripheral subsistence economies, induces labor migration, sustains the regional wealth disparity and centers' dominance over semi-peripheries and peripheries.

However, migration patterns are not unidirectional since multiple displacements



and return migration are increasingly identified. Despite their high exploitability and mobility, migrant workers are not always bounded to or welcomed by the centers for various reasons. For example, the growing utilization of machinery reduces the demand for migrant workers. Also, policymakers in centers may periodically release migrant labor force for the survival of the urban lower classes or to alleviate population pressures on urban resources. Some developmental policies are antimigratory in nature, which reduces the migratory pressures and economic attractiveness of the centers. Semi-peripheral and peripheral areas may draw return migration in times of need or attract migration from even less developed areas.

### ***China's Economic Development, Local Development Models and Labor Migration***

Capitalist expansion in China has also been gradual and uneven since the beginning. Guangzhou had been the only port city to bridge the Chinese economy with the early capitalist world before 1842. As the colonial forces expanded international trade across China's coastal areas, Shanghai and Hong Kong joined the ranks as a global city in the late nineteenth century. Although China mostly withdrew from the capitalist world during the early reign of the CCP, Shanghai and Guangzhou quickly reclaimed global city status when China reopened in 1978. Led by these two cities, China's coastal areas presented multinational corporations' limited market access in the early days of the open-door policy and achieved spectacular economic development ahead of inland China, which was not opened until the early 1990s. Thus, China's global areas, interiors of coastal provinces, and inland areas consist of a three-level hierarchy of economic

power (Shi & Hamnett, 2002; Wallerstein, 2017).

Capitalist expansion not only vertically penetrates the Chinese local economies at varied paces, but also horizontally interacts with China's local development models of governance through different institutional trajectories. The extant literature identifies China's three local development models, named after three highly developed cities, Suzhou, Wenzhou, and Dongguan, which are from three most economically advanced coastal provinces capitalistically penetrated early in time and are geographically close to China's global cities—Jiangsu, Zhejiang, and Guangdong—respectively. Three local governments behave differently in regulating economic affairs but nevertheless develop robust market economies. Suzhou adopts a more interventionist approach partly due to strong presence of state-owned enterprises, Wenzhou acts in a *laissez-faire* manner to accommodate their thriving private economy, and Dongguan develops an export-led economy as the result of its convenient location between Guangzhou, Shenzhen and Hong Kong. Local governments' inclination toward a more activist local state with a strong developmentalist pulse leads to a more successful institutional diffusion of the Suzhou Model and sidelines the Wenzhou Model in the broader Yangtze River Delta; while, in Pearl River Delta, Hong Kong's positive non-interventionism heavily sways nearby local governments whose economies are encompassed by the Dongguan model. Moreover, in the interior parts of coastal provinces where market infrastructures are not as well-developed, local governments are similarly structured as in-province counterparts with stronger economies. Finally, localities in Central and West China may

have both weak local governments and economies.

China's uneven economic development triggered massive and complex internal migration (Chen & Coulson, 2002; Fan, 2008; Liang, 2001). Rural Chinese began moving to urban China for economic opportunities after many state-sanctioned legal and institutional barriers which prevented rural-to-urban migration were lifted in the reform era (Stockdale, 2006). As the capitalist expansion quickly industrialized and urbanized China's global and coastal areas, subsistence economies in rural China, such as TVEs, were compromised and regional wealth disparity widened. Thus, the rural labor force became readily available to fuel urban development, especially after the collapse of TVEs in 1990s. China's household registration system, an explicit legal measure, turns hundreds of millions of indigenous migrant workers into foreigners in their own land. This system is a politically manipulative internal citizenship mechanism that is highly discriminatory against residents from semi-peripheral or peripheral areas. They are precluded access to most public services that are exclusively available to locals with privileged registration. They are subjected to all sorts of explicit and implicit legal measures that place them in a more vulnerable position. In the meantime, rural China becomes traditional subsistence enclaves for labor reproduction and returned migrants since China preserves 300 million acres farmland for the purpose of food security. The migration patterns in China is complicated by the reduced labor supply and demand as the result of automation, one-child policy, and recently slowed economic growth. A growing number of migrant workers thus return or move to late developed

interior areas in order to take advantage of new structural imbalances.

***Typological Framework***

Bridging the literature on world-systems theory and China’s local development model, this chapter identifies two crucial dimensions of a typological model for e-commerce village—the local governance approach to e-commerce and the presence of existing robust economic sector which may be able to generate e-commerce. Analyzing them schematically in a matrix demonstrates four kinds of politico-economic contexts for e-commerce villages.

		< Local Governance Approach >	
		Noninterventionist	Interventionist
< Market Maturity >	Nonexistence of Robust Economic Sector	Peripheries in Central/West China No E-Commerce Village No Migrant Live-Stream E-Commerce	Interiors of Coastal Provinces Producer-Based Villages Return Migrants Matter
	Existence of Robust Economic Sector	Pearl River Delta Area Merchant-Based Villages Migrant Entrepreneurs	Yangtze River Delta Area Merchant-Based Villages Producer-Based Villages Migrant & Native

Figure 5.1 Typological Framework of E-Commerce Villages

## Findings

### *Merchant-Based E-Commerce Villages in the Pearl River Delta Area*

The bottom left-hand quadrant stands for very robust markets in the Pearl River Delta, which is within the same Guangdong province. Local governments in this region are influenced by Hong Kong's active noninterventionism philosophy of governance and are more inclined to take a *laissez-faire* approach in regulating local economies. Since the capitalist expansion penetrated this region much earlier than elsewhere in China, this region became home to three global cities, Guangzhou, Shenzhen and Hong Kong, which are respectively the trade center, manufacturing center and financial center in the world. Therefore, the Pearl River Delta area, with more homogeneous intraregional governance and integrated economy, is the largest destinations of domestic migration.



Figure 5.2 Pearl River Delta Area

All Taobao Villages I visited in Guangzhou area are called “villages in the city”, or urban villages, which are a type of informal settlements. As the by-product of China’s rapid urbanization and industrialization process, urban villages are with no less robust market infrastructures than urban areas (Al, 2014; Hin & Xin, 2011; Ho & Lin, 2003). Previously located in outskirts of a city, urban villages are now engulfed by modern urban infrastructures which provide rural e-commerce entrepreneurs with direct access to the nearby and distant consumer markets (Tian, 2008). All these Taobao Villages are located at or near the exits of highways or parkways and usually within the walking distance to subway or train stations, which enable village e-commerce entrepreneurs to take advantage of China’s advanced fast-delivery systems. Subbranches of fast delivery companies are readily found in urban villages and hundreds of thousands of shipments are delivered on daily basis (Liang, Yuan, Tan, & Li, 2018).

Urban villages have a unique set of resources for e-commerce development unavailable elsewhere. First, a vibrant and flexible cheap labor market is also present in urban villages which are perceived as slums for their high population density, intense housing development, and undersupplied public services. In urban villages, landlords replace former small houses with multi-story high rises to provide more affordable and well-located housing for massive migrants who flock from inner China for better economic opportunities, young college graduates who are unable to afford housing outside urban villages, and startup e-commerce entrepreneurs who want to make good use of cheap labor force (Hao, Geertman, Hooimeijer, & Sliuzas, 2013; Song, Zenou,

& Ding, 2008; Zhang, Zhao, & Tian, 2003). For example, Horn Village in Baiyun District, a regular urban village in this study, contains roughly 600 locals and 15,000 migrants from Hanchuan City, Hubei Province (Interviewee 48; Xiao, 2016). As attested by the local e-commerce association chairperson of Horn Village, nearly all e-commerce workers and entrepreneurs are migrants from Hanchuan. Locals are either landlords or are engaged in other service industries such as restaurants. Second, the cheap land value of urban villages, partly in association with physical and social problems, draws informal manufacturing sectors that look for low-cost informal workplace (Chen & Jim, 2010; Gransow, 2001; Hao, Sliuzas, & Geertman, 2011; Tian, 1998; Xia, Zhao, Ouyang, & Liu, 2012). The readily supply of cheap migrant labor further motivates the relocation of informal sectors and even large businesses sensitive to land and labor prices in urban villages (Liang, Yuan, Tan, & Li, 2018). Thus, every Taobao Village in Guangzhou houses hundreds of mom-and-pop workshops and small factories that receive side orders from large garment and accessory manufacturing firms in the Pearl River Delta to produce small quantities of low-value consumer goods. The existence of informal manufacturing sectors forms the foundation of e-commerce in urban villages. These advantages are best summarized by interviewee 48, a village official from an e-commerce urban village:

Merchants buy garments from Women's Marketplace on Shahe Street, the largest garment wholesale marketplace, which is in Tianhe District, very close to our village..... We used to have very cheap rent. When migrant merchants moved in a few years ago, the rent for a two-bedroom apartment was roughly 400-500 RMB a month (\$60-70) ..... We are close to the urban center, Tianhe

District, only seven kilometers away, very close. When they get the products from Women's Marketplace, they just shuttle them back here..... In another village which turned an e-commerce village recently, the rent is 1,000 RMB (\$140) for a three-bedroom apartment in an elevator building.

Local governments' hands-off governance also facilitates the mushrooming of e-commerce urban villages in this area. In urban villages, local governments are mainly tasked with public security, law enforcement and land redevelopment (Li, van Vliet, Ke, & Verburg, 2019). In my investigation, I found that many local officials from the bureaus of commerce, the main government organ responsible for local e-commerce development, were unfamiliar with the situation of rural e-commerce and appearance of Taobao Villages within their respective jurisdictions. I was once asked by a deputy bureau chief, puzzlingly about two Taobao Villages within the district at issue, about how to develop rural e-commerce in a highly urbanized global city. An informal meeting was convened between me and several bureau officials who wanted to learn successful experiences of rural e-commerce development in other provinces. In addition, the deputy chief asked me to let her know the preliminary findings of the fieldwork so they could understand the state of rural e-commerce in the district. Grassroots officials may not know the situation either. A village official told me he did not have any e-commerce association in the village, but I found one under his nose the same day. In another interview, a village accountant, who is in charge of the public book, could not give even an approximate figure of e-commerce in the area. Also, the village leadership of Guangdong's largest e-commerce village told me bluntly that they



did not want to develop e-commerce anymore. The following conversation with interviewee 48 is very telling:

I: Do you know your village is classified as “Taobao Village”?

48: Yes, I do.

I: How did you know it?

48: Just searched internet.

I: So, you did not get the news from Alibaba?

48: No, I didn't.

This is surprising because e-commerce villages in other areas usually have good and close ties with Alibaba since the recognition of Taobao Villages by Alibaba may be deemed as local officials' achievement and the proof of rural e-commerce development, and such recognition may also help villages obtain additional resources from superior governments. However, in the Pearl River Delta area, officials from urban e-commerce villages do not bother to maintain a working relationship with e-commerce platforms.

Consequently, the hands-off governance gives more room for e-commerce entrepreneurs to hire affordable migrant workers in flexible employment without regard to labor law and produce counterfeit and other intellectual property-infringing goods in legally impermissible workplaces, such as basement and apartment rooms. Local officials also turn a blind eye to issues detrimental to residents who are not involved with e-commerce businesses, such as nuisances relating to the night shift of shipment schedule. The *laissez-faire* approach in law enforcement results in other serious consequences including pollution in villages and the Guangzhou area.

However, despite convenient locations, affordable resources, and lax oversight,

migrant entrepreneurs remain undercapitalized and do not possess the personal and social capital to have their own factories or pipeline in an unnoticed niche sector in urban villages. Under pressure, they choose to make quick money by selling unbranded or rebranded products made by local workshops on several e-commerce platforms. On the other hand, a large number of traditional industrialists, in particular smaller ones, are not very internet-savvy and dependent upon the existing sales networks that face fierce competition with e-commerce platforms. In this case, some migrant e-commerce entrepreneurs began to work with traditional industrialists and act like their online sales department. In this win-win collaboration, entrepreneurs can have stable supplies with cheaper prices and industrialists open additional revenues from online sales. However, this business model determines that migrant enterprises cannot expand to a much larger extent. Asked about having his own brand, a common practice to elevate name recognition and expand profit margin, interviewee 51 responded:

I do not have my own brand. If I have my own brand, I will do business with T-Mall. But having my own brand indicates I should have my own design, which demands more processes and becomes more complicated. I would have to hire a designer, a fashion buyer, and a factory. A brand is a huge commitment and investment, in my opinion. I would have to get all licenses, you cannot imagine how much money I would have for a single batch of branded garments. I would rather sell unbranded products for shorter cycle.

On the contrary, as discussed below, branding is strongly recommended by local governments in other two areas, which also simplify the procedures for e-commerce entrepreneurs to have their own brands. The indifference of governments in the Pearl

River Delta area to e-commerce branding is another proof of the laissez-faire approach.

In some cases, their relationship may evolve. For example, a larger e-commerce business with a larger volume of sales can have more control, sometimes exclusive control, over manufacturers. In a unique case, an entrepreneur loaned the entire inventory from the manufacturer, sold them within an agreed-upon period, paid back the loan and made a profit for himself. Mr. Lin (Interviewee 52) told me the following story,

In 2016, I found an export-oriented doormat factory which was not in good situation because the export was difficult at that time. Its 5,000-square meter warehouse was all full of inventories. Then the owner asked me for help, I sold them out online within half a year.

Since this kind of collaboration demands fewer financial resources, a growing number of migrant entrepreneurs become middlemen between existing local manufacturers and online customers. Migrant entrepreneurs who do not need land for their own factories, thus are more inclined to have their businesses established in slum-like urban villages that have transportation access, migrant labor forces, affordable employee housing, and flexible law enforcement. This study terms this kind of rural e-commerce *merchant-based villages* because rural entrepreneurs are mostly merchants. An entrepreneur (interviewee 51) who has been in this sector since 2011 explained how he run his business in the collaboration with local manufacturers:

My firm has only ten employees. I am mainly an online wholesaler, but also have a retail seller account with Pinduoduo..... Products are made by a factory that works with us, we do not have our own factory..... We get accessories and

parts from elsewhere, take them to the factory, then factory workers assemble them together into garments according to the sample we give to them.

***Producer-Based E-Commerce Villages in Interiors of Coastal Provinces***

The top right-hand quadrant contains China's semi-peripheries in which we can find interventionist local governments and underdeveloped market infrastructures. China's semi-peripheries defined as interiors of coastal provinces in East and South China, connect the landlocked inner China and the prosperous global China.



### Figure 5.3 Interiors of Coastal Provinces<sup>9</sup>

Since semi-peripheral governments are geographically located within the same superior administrative units as fellow local governments near global cities, they share similar characteristics with their global counterparts. As discussed above, the Suzhou Model is more readily acceptable to developmentalist-spirited local governments across the country, especially to those in the outlying areas of the broader Yangtze River Delta areas, such as Anhui Province and West Zhejiang, and to those in the same Jiangsu Province with Suzhou City but outside the immediate sphere of influence of Shanghai, such as North Jiangsu. For example, Shuyang County is in North Jiangsu, so its local governments are as similarly interventionist in regulating economic affairs as ones in South Jiangsu, such as Suzhou City. However, the distance from the global city—Shanghai, is a variable of the depth of international capitalist expansion, which may determine the state of local economies. For example, Shuyang is farther located from Shanghai than Suzhou and is unable to mobilize as much economic resources or execute as many policy tools as Suzhou in developing its local economy.

The large economic gap between interior parts and global parts cause a gap in market infrastructure building between two areas within the same province or region. For example, Heze City, in West Shandong, is the most economically underdeveloped cities in Shandong Province, which is one of the top-five provinces in terms of economic development. Heze did not have a bullet train station nor a regional airport

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<sup>9</sup> Pins are places I have visited.

until 2019. It takes seven hours by train from Heze to Beijing, which is roughly 600 kilometers away, while it takes less than five hours from Hangzhou to Beijing, 1,300 kilometers away. Since Heze is not on the main route of China's railway system, a lengthy transfer is often required. Likewise, when I visited Suning County, an underdeveloped area in the North Jiangsu, for the 2018 Summit on Taobao Village, I took a coach bus from Xuzhou City, the regional center I visited first. The only reliable transportation that connects these semi-peripheral areas is the highway. Interviewee 34 told me the state of infrastructure of her village just a few years ago,

Our firm is in the village. Our village was not connected to the post route, with no paved roads. If we wanted to deliver products to customers, the fast delivery firms were not present, we had to ride motorcycles to the county seat for the delivery of even one single item.....

Due to the uneven economic development, semi-peripheries have much smaller local consumer markets and limited access to consumer markets in the global China. Also, the financial and manufacturing sectors in semi-peripheries are weaker and more primitive, which cannot give sufficient support to a new industry like e-commerce.

Their semi-peripheral position in the Chinese economy determines they are the origins of out-migration. These interiors, especially rural areas, cannot offer enough subsistent jobs given their politico-economic circumstances. During the last forty years, millions of semi-peripheral residents move to the Yangtze River Delta and Pearl River Delta areas for economic opportunities. However, since China's household registration system prevents migrants from urban settlement, they cannot bring families with them

and must leave family members behind in their home villages. In that case, they must return to home villages for social and familial purposes. Their migration leads to the depletion of working-age population and continued underdevelopment in semi-peripheries. However, the decreased population and other social problems relating to the out-migration also cause under-cultivated farmland and undervalued land prices. The rural people who remain are under-occupied and employable for only a small fraction of the urban wage. The local population cannot support a vibrant local economy and strong consumer market either. Therefore, local economic sectors are usually small.

Conventional wisdom does not see economic potential in developing rural e-commerce in semi-peripheries since all major factors seem less favorable than those in global China. Although the statistics from Alibaba shows that the majority of Taobao Villages are in the Yangtze River Delta and Pearl River Delta areas, a sizable number of Taobao Villages appear in semi-peripheries. Two of the first three Taobao Villages were identified in these areas in 2009. The kindle for rural e-commerce in these semi-peripheral villages is oftentimes lit by return migrants' successful entrepreneurial attempts. For example, the first e-commerce entrepreneur in Tower Village, Cao County was a veteran who happened to witness how urbanites used e-commerce and decided to give it a try when he returned home. Likewise, a Wind Village villager used his telecommunication employment experiences from urban areas to run his home village's first-ever e-commerce business. The successes of return migrants in e-commerce are deemed the most recent attempts of the capital expansion into China's semi-peripheries

through e-commerce, which results in structural imbalances within the home villages and leads to more return migrants. In Taobao Villages, agriculture is not the major economic sector any longer, farmland is used for industrial purposes, and stay-home villagers are employed by e-commerce businesses for varied positions. The formation of Taobao Villages attracts migrants to return since their home villages offer both competitive salaries and proximity to families. Interviewee 34, also a return migrant, shared with me her observations:

I interned for a company for half a year in elsewhere. I felt very exhausted on the construction site. My dad told me that online businesses became popular in our village, he did not know what that was but simply followed others' suit and had his own online store..... I used to believe that I would have more upward room in big cities, and I did not know about the home village quite much, but I decided to give it a try..... The government encouraged us to build our own factory, and our store was upgraded from a Taobao store to a T-Mall<sup>10</sup> store..... The government gave our returned college graduates financial assistance, we all had it..... Our returned college graduates became a good example to others who also believe there would be fewer opportunities back home than outside..... Our successes became word-of-mouth, others turned to believe that online businesses were a better option than working as migrant workers..... In their eyes, our college graduates who left now returned, so this industry might be very likely promising..... One of my friends did not want to return home in the very beginning, and firmly believed that he would have a better future in big cities. But now he returned after an investigation and found out the potential. He sells costume too, and expands into the market of baby, kids and maternity clothing. Now our village may have more upward room than big cities.

Interviewee 41 gave his insight on return migration:

Things here are getting better. Our hometown is known for rural e-commerce, people know that we can make fortune through e-commerce..... Returned

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<sup>10</sup> Another e-commerce platform of Alibaba, selling high-end products.



youth will bring something entirely different to our existing e-commerce sector. The earlier generation of rural e-commerce entrepreneurs actually do not have very deep understanding of e-commerce due to their limited education. They do not know too much about e-commerce operation. The newest form of e-commerce is more demanding. In the past, you could sell anything online with a photo. Now things are different. You have to take good photos, design your online store, and expose the attractiveness of your products in order to let customers feel your products worth of their money. You have to also join (Alibaba's) marketing programs, which involves search engine optimization. Without adequate education, they will hit the ceiling very soon. But young people come back with knowledge, they can learn things faster, earn experiences in shorter period of time, and adopt the new marketing techniques.

In the formation of e-commerce villages in semi-peripheries, local governments are more economically interventionist than their peers in the Pearl River Delta area, but less directly involved within rural e-commerce than resourceful local governments in the Yangtze River Delta area. First, the law enforcement is more flexible and assistive. For example, a former village director from Cao County, Shandong Province, told me they discovered many e-commerce costume businesses uncompliant with fire regulations during a fire department investigation. They did not simply shut down and fine those mom-and-pop businesses but ordered uninformed entrepreneurs to receive some legal compliance education and restack their flammable inventories in backyards. He stressed that undereducated entrepreneurs inevitably violate one law or another with no harmful intent or consequence, so it is important to give them an encouraging environment to do businesses rather than nipping the new sector in the bud. Second, instead of direct engagement in rural e-commerce, semi-peripheral local governments are making up the infrastructural deficits, such as paved roads, high-speed internet, and

rural area re-zoning, which strengthens the foundation for a vibrant e-commerce sector. Third, they actively recruit return migrants through “return talent” programs and door-to-door retail persuasion with migrants during their short returns. Fourth, they also give some business consulting services to rural entrepreneurs, such as urging them to apply for trademarks in order to elevate “grassroots” rural e-commerce and become eligible to high-class e-commerce platforms, such as T-Mall. Fifth, local governments bridge platform companies, fast delivery companies and other related businesses with rural e-commerce entrepreneurs. Interviewee 39 told us how she joined e-commerce with the assistance from the town government:

In the very beginning, I did not know anything about e-commerce. I just heard others were selling things online. I did not know how to search things online and choose blockbuster products. Fortunately, our town hosted a lot of free training classes, multiple sessions, for free. Then we all studied from them.

Interviewee 36, a village director, told me how he improved this sector:

We learned from the neighboring Tower Village. We invested and built up an e-commerce street. You will find around the corner a big marketplace for garment accessories. We poured all our resources into this sector. After the completion of the construction of the marketplace. We invited as many entrepreneurs as possible from neighboring villages..... to our village. The relocation of these businesses created the skyrocketing growth of e-commerce in our village..... We were chosen by member of the standing committee of the Politburo for rural e-commerce fieldwork..... The next step is to continue the pivot to e-commerce and strengthen this sector for a future upgrade. We will give more financial resources to people who want to join e-commerce or people who need additional financial resources to expand their existing e-commerce businesses by helping, coordinating, and securing loans so they can develop e-commerce as soon as possible..... We will invite experts, professors, scholars to our village and hear their suggestions, let them give lectures, participate in our development..... We will learn from Alibaba executives and researchers to

enrich our e-commerce knowledge and broaden our vision. We expect them to train a class of elites in our village and lead our e-commerce development.

The penetration of e-commerce turns the disadvantages caused by the depletion of the local population into advantages. Since there is no robust existing economic sector on which e-commerce entrepreneurs depend on in semi-peripheries, they must to identify new market opportunities or cultivate a relatively weak existing sector. Unlike e-commerce entrepreneurs in the Pearl River Delta, e-commerce entrepreneurs in semi-peripheries can build their own factories on vast and cheap farmland upon approval. They engage in labor-intensive light industries that do not need advanced machineries. Therefore, they can hire stay-home villagers to staff their businesses with lower labor costs. Some e-commerce-related jobs, such as customer services, product packaging, warehouse management, demand extremely low human capital, so children, elderlies and people with disabilities can also contribute to e-commerce businesses in their own way. Semi-peripheral e-commerce businesses usually can also eliminate housing costs since their employees can simply live in their own homes. Return workers accept a lower-than-urban wage when employed in home villages. As Interviewee 34 explained:

Our young people are running online stores, and middle-aged people making clothes in the factory. Although their incomes are less than what we earn through online businesses, they are satisfied, because their children would have to be left to their old parents should they work in urban areas. We have children and parents and we want to stay close to them. Now we can make money and stay close to them, work-life balance.

The salaries that interviewee 38 told me are extremely low:

Clothes makers earn 1,800 to 2,000 RMB (less than \$300) a month, customer service 3,000 RMB (\$430), contract workers make two to three thousand RMB depending on the number of clothes they make.

The close-knit communities also permit faster diffusion of knowledge and experiences among villagers, which is important to the emergence of new industries.

As the e-commerce businesses and e-commerce villages cluster in semi-peripheries, market-competitive manufacturing chains can uplift local economies to another level.

Rural e-commerce in semi-peripheries is thus termed *producer-based village*.

#### ***The Mix of Two Types of E-Commerce Villages in the Yangtze River Delta Area***

The bottom right-hand quadrant indicates that local governments in the Yangtze River Delta area are more activist and interventionist in regulating economic activities than ones in the Pearl River Delta areas and semi-peripheries, and the market infrastructures are well-developed, encompassing the rural e-commerce development in the Yangtze River Delta area. Broadly speaking, this delta area consists of a global city—Shanghai, the second and fourth largest provincial economies—Jiangsu Province and Zhejiang Province, and Anhui Province known for its high-tech research. If narrowly defined, this area only includes a very small number of highly developed cities located around the mouth of Yangtze River, which, unlike the Pearl River Delta area, fall within three provincial administrative units. The Yangtze River Delta area was penetrated by the capitalist expansion when Shanghai became one of the first five port cities open to

foreign trade in 1840s and was reconnected to the capitalist world in the late 1980s as China permitted Shanghai and the neighboring provinces to explore its own way to economic development. This area's economic supremacy spans three regimes—Qing Dynasty, the Republic of China, and the People's Republic of China— and has created the most robust market infrastructures: the only central government-designated free trade zone, the largest domestic financial market, the largest number of industrial parks, the largest number of Fortune 500 companies, the largest land, sea and air transportation system, the most technologically advanced manufacturing sector, and the most vibrant private economy. More important, Alibaba is headquartered in this area.

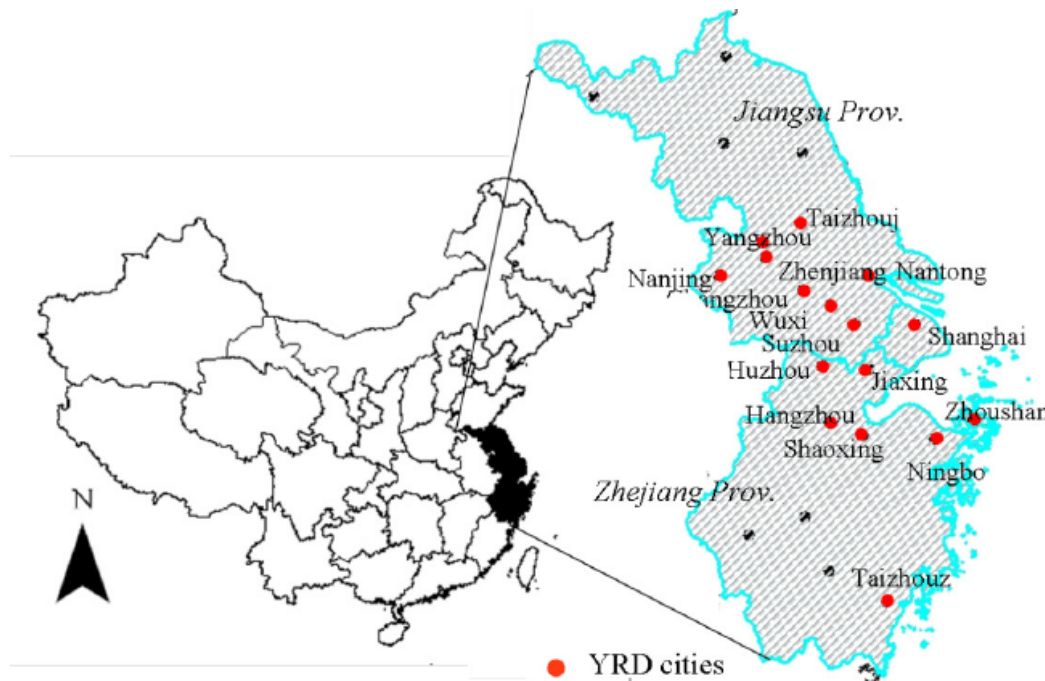


Figure 5.4 Yangtze River Delta Area

In this area, merchant-based villages are identified around major manufacturing centers, such as Yiwu City. As a major migration destination, the Yangtze River Delta area attracts millions of domestic migrants, which include entrepreneurs and workers,

for its robust market infrastructures and business-empowering policy environment. In Yiwu, the population with nonlocal registration is seven times the local population. It is well-acknowledged that domestic and global migrants fuel Yiwu's economic growth. Since most urban villages in the Yangtze River Delta area are strictly residential, many startup e-commerce entrepreneurs, also migrants, who cannot afford e-commerce parks move to well-planned and -regulated suburban villages which are geographically close to the upstream suppliers and transportation systems. A village official (Interviewee 9) told me,

We have a major bus terminal. Exiting from here, the airport is just in sight, and the highway exit is over there. Also, the train station is in this area, which is close to us..... We are the transportation hub in the region.

Since Yiwu is the world capital of small commodity, e-commerce villages are unsurprisingly merchant-based like those in the Pearl River Delta area. Rural e-commerce entrepreneurs take advantage of Yiwu's manufacturing powerhouses and existing market infrastructures, such as lowest fast delivery charges, one of only three direct China-Europe railways, and a provincial-level clearinghouse of China Post which is usually found in provincial capitals. Thus, Yiwu becomes home to the largest number of e-commerce villages in China (Interviewee 2). Yiwu's manufacturing sector often is the very reason why migrant entrepreneurs come to do business. A toy entrepreneur from Jiangxi (Interviewee 6) agreed,

We do not produce (toys), we only sell them..... We find toy manufacturers at the Yiwu International Trade Center. Yiwu is very good and convenient.

Everything you want can be found here, fast delivery, manufacturers, and so on..... We are urged by village leaders to attend training to learn knowledge about cross-border e-commerce, which we are unfamiliar with.

The mushrooming of merchant-based e-commerce villages is also the result of active government engagement. Zhejiang is an example of the first province with a vision in rural e-commerce development and had the lawmaking and regulatory powers as discussed in the previous chapter. Yiwu, a city in Zhejiang Province, engages in many measures to create a favorable environment to e-commerce and give e-commerce a very high priority in the main economic agenda. In recent years, Yiwu hosts International Exhibit of E-Commerce every year for more than 170,000 attendees, sponsors World E-Commerce Conference to bring together entrepreneurs, policymakers, and thinkers, works with e-commerce platform companies such as Alibaba and Amazon, establishes e-commerce associations to coopt successful entrepreneurs, seek Yiwu-specific policies from the central government, designs and promotes a Yiwu-only e-commerce mobile app, and provides a full spectrum of regulatory monitor over e-commerce (Interviewee 2). Some statistics from Yiwu commercial official may be very helpful to grasp the state of e-commerce in Yiwu,

Although Yiwu is only a county, but in terms of fast delivery packages we are ranked the sixth, only after Beijing, Shanghai, Guangzhou, Shenzhen, and Hangzhou..... Since 2012, our e-commerce growth rate is at least 30 percent each year..... Every day we sent 4.8 million packages domestically and 0.5 million internationally. The density of domestic e-commerce entrepreneurs is No. 1 in the country, of cross-border e-commerce entrepreneurs is No. 2, only after Shenzhen. We have more than 100,000 Taobao sellers, more than 4,000 T-Mall sellers. The number of B2B sellers on 1688 platform is more than 30,000, and the number of cross-border sellers is more than 120,000..... We have an

entire industry sector of e-commerce, online store design, product photograph studios, training firms, online marketing, Taobao modeling, e-commerce parks, e-commerce villages, everything.

Some Yiwu's village committees adopt village ordinances to attract migrant entrepreneurs and their businesses, such as rent control, traffic management, business opportunity matching, insider policy information collection, collective bargain with fast delivery firms on behalf of e-commerce entrepreneurs, one-stop licensing service and 24/7 problem-solving on-call (Interviewee 8; Interviewee 9; Interviewee 10). A village director of Rock Village, Yiwu City, often convenes meetings with heads of local agencies to discuss how to better service e-commerce businesses (Interviewee 4). For example, a village official (Interviewee 4) told me,

We have more than four hundred e-commerce entrepreneurs in our village. We thus have a WeChat<sup>11</sup> group for village officials and entrepreneurs. We invite three domestic fast delivery firms and five or six international fast delivery firms which have routes to Russia, the United States and every major route..... To help e-commerce entrepreneurs, we also provide plastic bags, cardboard boxes, and form plastics for delivery purposes.

The village party secretary showed his commitment to developing e-commerce (Interviewee 8),

Since e-commerce is the major industry in our village now, we work relentlessly for them, even in the middle of lunch or dinner at home, we would come over to help fix their issues..... We are restructuring the old ceremonial hall for e-commerce training; we are renovating it in accordance with the needs of rural e-commerce.

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<sup>11</sup> An instant messaging app.



Yiwu government also dispatches third-party service firms to help e-commerce villages with local e-commerce development (Interviewee 10),

We help rural e-commerce entrepreneurs obtain additional resources. They are small, but they would not fall too far behind from medium or large firms from the very beginning if we help them match with more resources. They have many demands, including financial resources, platform resources, human resources, but they cannot have a proper assessment individually or in small groups..... So, we hosted some meetings..... and some salons on regular basis to collect problems they run into in everyday operation. We help them connect with new platforms, open new venues..... We also help them with trademark, IP law consulting services, and some customized demands.

Although active government intervention is a plus to merchant-based villages as we see in the Pearl River Delta area, it is a must for villages without a nearby robust economic sector to attract migrants and incubate rural e-commerce. For example, Valley Village is a suburban village located in Jiading District, Shanghai City, which is known for its car industry. However, since the threshold to the car industry is too high for an ordinary migrant and its product is not readily tradable online, e-commerce in Jiading cannot rely on its car industry. Therefore, migrants in this area are more likely to engage in other existing industries as workers. Therefore, Valley Village committee introduced fruit technologies, hired agricultural specialists, mobilized local villagers, created the website and online payment system, worked with marketing firms, opened up other related industries to generate additional revenues, and eventually turned Valley into a producer-based village known for fruit. Without the active engagement of the village committee in fruit and e-commerce, Valley may more likely become another

suburban village that passively waits for Shanghai's next wave of urban expansion which will handsomely compensate relocated villagers (Interviewee 1). An opposite example is Cavern Village, previously the largest Taobao Village in Guangdong. Its village committee recently sold all collectively-owned land to a developer for 21 billion RMB (\$3 billion) and thus abandoned its booming e-commerce industry. This comparison shows that (1) local governments unopposed to e-commerce are also necessary to merchant-based villages; and (2) active government intervention is a must-have for the emergence of producer-based villages in which locals, not migrants, engage in e-commerce.

### ***Live-Stream Rural E-Commerce in Peripheral Areas in the Central and West China***

The top left-hand quadrant of the country is characterized by the presence of weak local governments and weak market infrastructures, which is often found in peripheral areas in the Central and West China. Although China's economic growth remains strong over four decades, its internal economic development is very uneven. A handful of coastal provinces generate revenues to fulfill the expenditure gaps of all other inner provinces through the revenue transfer mechanism from the central government. Therefore, most of peripheral villages remain very underdeveloped and do not even have paved roads and post stations. These peripheral areas thus have no vibrant local economic sector, support an extremely small consumer market, and have very limited or no access to consumer markets elsewhere. Local governments are often corrupt ridden, much less

sophisticated in, or capable of, regulating the economy. These places are also the origins of domestic migration, though many rural residents cannot even afford to move. Because of the extreme poverty in these areas, migrants rarely return to their home villages for potential business opportunity. Migrants from more underdeveloped places are more likely to move directly to the coastal provinces rather than the peripheries. Most locals who remain have little financial, social and human capital to run a complex modern business organization in such resource-poor areas. Therefore, only roughly 100 Taobao Villages, or less than three percent of the total number, are located in inner China provinces. The vast majority of these inner Taobao Villages have either unique natural resources, such as turquoise or jade, or very popular hand-crafted works, such as silverware (Interviewee 46).

However, e-commerce still appears in these areas. Unlike Taobao Village model which demands sufficient institutional support, live-stream e-commerce can be realized through any camera smartphone with fast internet access and a live-stream app, such as Kuaishou and Douyin (Interviewee 58). Thousands of people in peripheries use their cellphone to live stream how they plant, grow, harvest agricultural products and exhibit them in a most vivid way, such as squeezing juice out of an orange or cutting open a mango. Through live-stream apps, rural entrepreneurs can engage in face-to-face outreach to viewers and solicit businesses. They do not need to learn how to run a seller account on an e-commerce platform or calculate pros and cons of a market tool recommended by the platform. Government intervention can be minimum, and the only

market infrastructure may be a paved road connecting them to the outside world. All they need is a camera smartphone with 4G-LTE.

### **Conclusion**

This chapter develops a typological framework to address the politico-economic context behind the formation of e-commerce villages. Using this framework as a guide, this chapter illustrates that the formation of e-commerce village requires at least two of three identified driving factors. The presence of risk-taking entrepreneurs is the first and foremost. In villages near the traditional hubs of light industries in global China, the Yangtze River Delta and Pearl River Delta areas, migrant entrepreneurs usually take the lead in developing e-commerce. On the contrary, in villages far away from hubs of manufacturing centers in global China, such as semi-peripheries, locals are mobilized by proactive village committees to engage in e-commerce businesses. Return migrants may turn unfavorable conditions to the benefit of their e-commerce businesses in home villages located in interiors of the coastal provinces and other semi-peripheries. In the above three scenarios, either the existing robust economic sectors or strong government intervention must be present. In most of peripheral villages located in the Central and West China, none of three motivating factors are present, so they cannot become an e-commerce village.

This study also finds that villages near the traditional hubs of light industries in global China usually become merchant-based villages in which e-commerce businesses act like online sales departments to the existing local industries. This study also finds

that villages with appropriate government intervention outside immediate spheres of influence of global China may turn to producer-based villages as entrepreneurs produce agricultural products, crafted works, or manufactured goods and sell them online. Rural entrepreneurs in peripheral villages may try live-stream apps to sell their agricultural products to their online viewers—a new variant of e-commerce.

This study makes several contributions to the literature on rural e-commerce. First, this study finds that varied politico-economic contexts may lead to different types of e-commerce villages. Second, this study calls attention to the complex interactions between varied migration pattern and varied politico-economic contexts in forming e-commerce villages. Third, this study points out that some villages, such as those in peripheries, develop rural e-commerce through other ways, such as live-stream e-commerce. However, this study has limitations and can be improved in future research. First, the village sample should be expanded to include peripheral villages, villages that fail to become e-commerce villages, and villages that fail to keep e-commerce village status to increase the applicability and generalizability of the typology. Second, this qualitative study only considers the most significant factors in analyzing the formation of e-commerce village because data on socioeconomic factors and data on e-commerce transaction volume are unavailable.

These findings offer several important policy implications. First, in developing rural e-commerce in the Pearl River Delta area, active government intervention, though inconsistent with the longstanding noninterventionist tradition, should be considered

and exercised. Second, local governments in peripheries should explore possibilities of e-commerce through other manners in rural areas and adopt policies to attract return migrants. Third, as the manufacturing capacity grows in semi-peripheral e-commerce villages, local governments should withdraw some interventionist policies in an orderly manner and let the market forces play a larger role. The typological framework for e-commerce villages may be beneficial for future policy making and research.

## **Chapter 6**

### **Hyper-, Hypo-, and Governed Embeddedness of Rural E-Commerce**

#### **Entrepreneurs**

##### **Introduction**

Rural e-commerce entrepreneurs are the most important player in the scheme of China's rural e-commerce development. It was their successes that raised eyebrows of platform companies and governments at all levels to the economic potential of rural e-commerce. However, researchers pay little attention to these aspiring changemakers, as they mainly focus on the changes brought by rural e-commerce to the meso- and macro-level institutions and ensuing multifaceted implications. For example, a recent study shows that e-commerce catalyzes the restructuring of rural industry, employment pattern, and

household economy (Zhang, Long, Ma, Tu, Li, & Ge, 2018). Some scholars cast their eyes on e-commerce platform companies, discussing their digital enablement strategies and the intended and unintended consequences (Tim, Pan, & Cui, 2017), the digital entrepreneurial process of two kinds of digital firms (Leong, Pan, & Liu, 2016), or business-to-business adoption of e-commerce (Tan, Tyler, & Manica, 2007). Others take an even more macro-perspective, such as identifying the attendant mechanism of, as well as barriers to, e-commerce in developing countries (Kshetri, 2007; Lawrence & Tar, 2010), e-commerce integration and economic development (Couture, Faber, Gu, & Liu, 2017), or community empowerment in rural China (Yue, Pan, Tan, & Cui, 2015). Some studies do investigate rural e-commerce entrepreneurs. But they either examine a very narrowly defined class of people, such as the empowerment on rural women (Yu & Cui, 2019), or they examine rural e-commerce entrepreneurs against the context of e-commerce-driven poverty alleviation or rural development (Leong, Pan, Zhu, & Cui, 2016; Naminse & Zhuang, 2018). Very few studies center on and scrutinize rural e-commerce entrepreneurs, especially from the perspective of entrepreneurship studies.

Though a relatively new phenomenon, rural e-commerce entrepreneurs can be explained through the lens of entrepreneurship studies, an emerging inter-disciplinary field. Shifting away from the centrality of management strategy that highlights human capital of entrepreneurs, recent studies adopt the institutionalist perspective and focus on broader structural contexts within which entrepreneurs are embedded (Amine and Staub, 2009; Bathelt & Glueckler, 2014; Bruton, Ahlstrom, & Li, 2010; Granovetter,

1985, 2005; Polanyi, 2001; Welter & Smallbone, 2010). Initially developed to understand migrant entrepreneurship, the theory of “mixed embeddedness” (“ME” hereinafter; Kloosterman, 2010; Rath, 2002), is increasingly adopted in other settings of entrepreneurship (Trupp, 2015; Welter & Smallbone, 2010, 2011; Yousafzai & Saeed, & Muffatto, 2015; Zhu, Feng, & Pan, 2019). In this analytical framework, entrepreneurs are expected to take advantage of their personal ties and individual agency (micro-level) to identify and exploit opportunities in niche markets (meso-level) which are shaped and reshaped by political and institutional forces (macro-level) (Kloosterman, 2010; Kloosterman, van der Leun, & Rath, 1999). Although ME is “perhaps the greatest single theoretical leap forward” (Ram, Jones, & Villares-Varela, 2017, p. 5) in this field, it overlooks the forces of new and transformative technology, especially in the case of e-commerce, and various depths of embeddedness that entrepreneurs may strategically step into in one or several levels of contexts in their favor (Uzzi, 1996). As Uzzi explicates in his seminal paper, embeddedness is a continuum with over-embeddedness at one pole and under-embeddedness at the other. The extant literature is not agreeable to either unbalanced embeddedness. However, this strand of literature has its own shortcomings as well. In the case of China’s rural e-commerce, entrepreneurs who are even more over-embedded or more under-embedded, situations termed hyper-embeddedness and hypo-embeddedness respectively, still thrive in particular contexts.

Building on two strands of literature on mixed embeddedness and over-/under-



embeddedness, two concepts that may identify unbalanced embeddedness strategies are offered to understand China's rural e-commerce entrepreneurship: hyper-embeddedness, defined as a case when entrepreneurs maneuver to amass various forms of capital from their personal networks as well as from market and government institutions in their localities which are also interlinked with their personal networks; hypo-embeddedness, defined as entrepreneurs' exploitation of resources from institutions on multiple levels inside and outside their communities while not embedding themselves in any of them. This study argues that in some circumstances hyper-embeddedness and hypo-embeddedness are entrepreneurial rational choices for developing rural e-commerce in a developing country with vastly differing local economic governance philosophies and economic endowments such as China.

### **Hyper- and Hypo-Embeddedness**

#### ***Mixed Embeddedness of Migrant Entrepreneurship***

Bringing together the literature on institutional theory and on varieties of capitalism, Kloosterman and his associates led an institutional turn away from social capital theory, the previous dominant theory, in the studies of migrant entrepreneurship. Social capital theory was criticized as framing entrepreneurs "operating inside a sealed...bubble from which all outside influences are excluded and in which all normal economic laws are suspended" (Jones, Ram, Edwards, Kiselichev, & Muchenje, 2014, p.502; Ballard & Ballard, 1977; Campbell & Daly, 1992; Engelen, 2001; Hingley, Lindgreen, & Beverland, 2010; Ibrahim & Galt, 2003; Jones, Ram, Edwards, Kiselichev, &

Muchenje, 2014; Portes & Sensenbrenner, 1993; Thornton & Flynn, 2003; Ram, Woldesenbet, & Jones, 2011; Ram, Jones, & Villares-Varela, 2017; Szkudlarek & Wu, 2018; Ward, 1986). By including a wider context “in terms of customers, suppliers and various kinds of business organizations” (Kloosterman, van der Vuen, & Rath, 1999, p. 252), Kloosterman developed a comprehensive analytical framework termed *mixed embeddedness* to show the differing impacts of multiple institutions respectively on migrant entrepreneurs’ activities. His framework became widely adopted, especially in the European academia, in the migrant entrepreneurship studies for its breadth and depth (Bagwell, 2018; Barrett, Jones, & McEvoy, 2001; Jones, Ram, Edwards, Kiselinchev, & Muchenje, 2014; Kloosterman & Rath, 2001; Kloosterman, 2010; Moyo, 2014; Price & Chacko, 2009; Ram, Jones, & Villares-Varela, 2017).

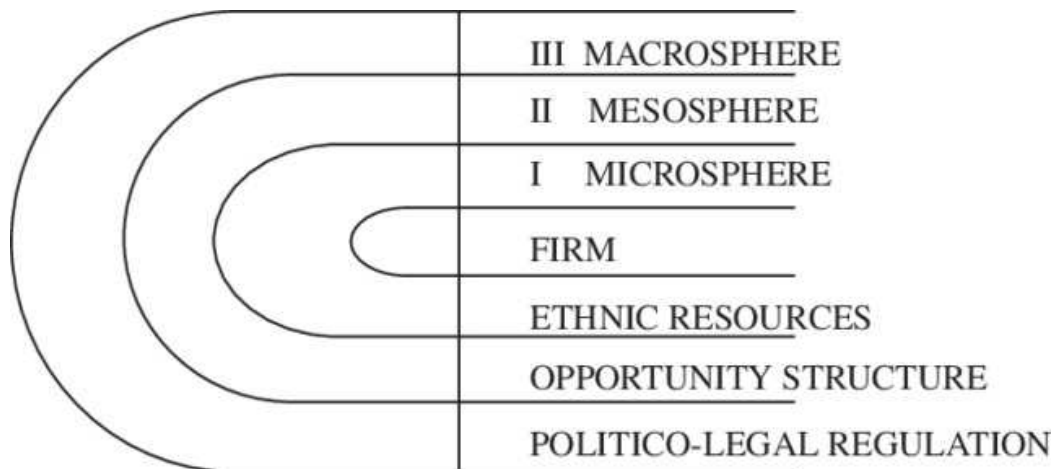


Figure 6.1 Kloosterman's Mixed Embeddedness

In the ME model, migrant entrepreneurs are centrally embedded within three-rung sphere of influence, namely the micro-sphere of the individual entrepreneur's social networks, the meso-sphere of the opportunity structure offered in local economy,

and the macro-sphere of politico-institutional context (See Figure 1; Kebede, 2017; Kloosterman, 2010; Ram, Jones, & Villares-Varela, 2017; Welter, 2011). Specifically, ME divides the meso-sphere of the opportunity structure along two dichotomic dimensions, market accessibility and market growth potential, to place a given business “schematically in a matrix that distinguish four kinds of markets” (Kloosterman, 2010, p. 30; see Figure 2). Migrant entrepreneurs are very unlikely to join the stagnating or shrinking markets with a high threshold of human and financial capital, such as energy industry. For migrants with relatively low human capital, they may choose between stagnating but still attractive vacancy-chain sectors, such as small-scale, low-skilled, labor-intensive manufacturing sectors left vacant by established local entrepreneurs who move up the economic ladder, and highly profitable post-industrial sectors, such as personal services, which are under-regulated, highly demanded, and in earlier stages of the product-lifecycle. Also, an increasing number of high-skilled migrants from non-OECD countries, such as China and India, are starting businesses in high-tech industries “where innovative Schumpeterian entrepreneurs can make fortunes within short span of time” (Kloosterman, 2010, p. 31).

ME systematically links three types of industries with migrant entrepreneurs’ social embeddedness in the micro-sphere. Vacancy-chain sectors demand stronger embeddedness in migrant communities to cope with fierce competition from coethnics. In contrast, entrepreneurs in sectors with high growth potential and high accessibility mobilize social capital from both migrant communities and the mainstream population.

Moreover, entrepreneurs who engage in high-tech industries are embedded in heterogenous transnational social networks which bridge resources of the home countries with consumer markets of the host countries (Kloosterman, 2010). ME also incorporates the broader institutional frameworks into the model as the macro-sphere, which affect the size and dynamics of the opportunity structures and further generate divergent entrepreneurial trajectories when everything else is equal (Esping-Anderson, 1990, 1999; Kloosterman, 2010). Since political and regulatory processes are extremely multi-faceted and wide-ranging, and the institutional embeddedness of entrepreneurial activities is thus intimate and complex, any state activity, such as zoning and financial incentive policies which may have intended and unintended enabling and constraining effects on businesses, should be the key element in analyzing migrant entrepreneurship (Brinton & Nee, 1998; Kloosterman, 2010; Ram, Jones, & Villares-Varela, 2016; Ram & Smallbone, 2003; Ram, Tehodoropoulos, & Jones, 2008; Langevang, Namatovu, & Dawa, 2012; Mwashalwiba, Dahles, & Wakkee, 2012).

		< Growth potential >	
		Stagnating	Expanding
< Human capital >	High thresholds		Post-industrial/ high-skilled
	Low threshold	Vacancy- chain openings	Post-industrial/ low-skilled

Figure 6.2 Kloosterman's Typology of the Opportunity Structure

With an institutional dimension, ME is able to “be used in a diachronic way (i.e. comparing different countries)” (Kloosterman, 2010, p. 37) since the institutional frameworks are diverse but the development of post-industrial societies is rather unilinear (Berwing, 2019; Fligstein & Dauter, 2007; Hall & Soskice, 2001). Moreover, in order to address the complex institutional forces at work in large countries with differing local economic development and governance, ME is geospatially structured to postulate three territorial levels that a range of institutions shape entrepreneurial activities. Institutions at the central level tilt the developmental trajectories of post-industrial economies, set the boundaries between state, market, society and other institutions where migrant entrepreneurs are embedded; at the local level, spatially localized economies and developmental apparatuses arise along differing trajectories

and create industry clusters that “increase the opportunities certain regions offer for doing business in specific sectors” (Stori, 2018, p. 25); at the neighborhood level, the concentration of the migrant population constitutes labor and consumer markets for migrant businesses (Storti, 2018). While cross-region studies may greatly enrich ME’s core insight, they remain scarce due to technical inconveniences, such as the lack of agreed definitions (Ram, Jones, & Villares-Varela, 2017; Sepulveda, Syrett, & Lyon, 2011; Yasin, 2014; Yousafzai & Saeed, & Muffatto, 2015).

ME proponents suggest that the welfare of migrant businesses rests more on impersonal and demonstrable merits, such as market conditions and regulatory regime, than on their own network and resources, which are vital to the business inception and survival, but are insufficient to support them to enter the mainstream economy (Jones, Ram, Edwards, Kiselinchev, & Muchenje, 2014; Kloosterman, 2010). At the micro-level, most migrants who choose vacancy-chain or personal services sectors do not possess substantial human and financial capital; at the meso-level, they do not have experience, market information and local knowledge to survive in a hostile market that excludes them from the profitable sectors; at the macro-level, these businesses have to cut regulatory corners to survive and are vulnerable to unfavorable economic cycles and regulatory changes (Jones, Ram, & Edwards, 2006; Kloosterman, 2010; Ram, Edwards, & Jones, 2007; Ram, Jones, & Villares-Varela, 2017). Therefore, breaking out from under-rewarded sectors to mainstream economy is rather difficult given migrant entrepreneurs’ profiles of resources, unless they are able to accumulate

financial capital through cutthroat competition, acquire additional human capital, and mobilize social capital from “weak” ties with the mainstream population (Beckers & Blumberg, 2013; Bates & Robb, 2013; Edwards, Ram, Jones, & Doldor, 2016; Harding, 2012; McEwan, Pollard, & Henry, 2005; Ram, Woldesenbet, & Jones, 2011).

### ***Over-Embeddedness and Under-Embeddedness***

Uzzi stresses that entrepreneurs’ well-balanced embeddedness within both their own communities and mainstream societies is a presupposition to a successful breaking-out from their own community markets into the mainstream markets (1997; Schnell & Sofer, 2002; Storti, 2018). Lagging in one dimension of embeddedness may lead to either over-embeddedness or under-embeddedness. If over-embedded, entrepreneurs are highly dependent upon strong social ties such as kinship and community relations, which may in turn impede them from participating into mainstream market (Schnell & Sofer, 2002; Storti, 2018; Uzzi, 1996). On the other hand, in the case of under-embeddedness, entrepreneurs cannot translate their success in developing complex social networks with main players in the mainstream markets to business growth due to the limited mobilization of relational resources (Storti, 2018; Uzzi, 1996). Without striking a balance, entrepreneurs’ over-embeddedness will be further exacerbated as the businesses are locked in the low-ordered sectors, leading to decreased returns, internationalization, information diffusion, partnership building capacity, institutional renewal, and general business performance, while their under-embeddedness leads to under-preparedness for the competition with large corporations in the mainstream

markets (Hagedoorn & Frankort, 2008; Masciarelli, Laursen, & Prencipe, 2008; Mozumdar, Hagelaar, Materia, Omta, Islam, & Velde, 2019; Storti, 2018; Uzzi, 1996; Zhang, 2014). Therefore, these two highly flexible concepts can effectively complete the analysis of ME framework, which permits a sufficient scrutiny of “the benefits and constraints that social networks, by virtue of their formal structure, hold for migrant businesspeople” (Storti, 2018, p. 28; Uzzi, 1996; See Figure 3)

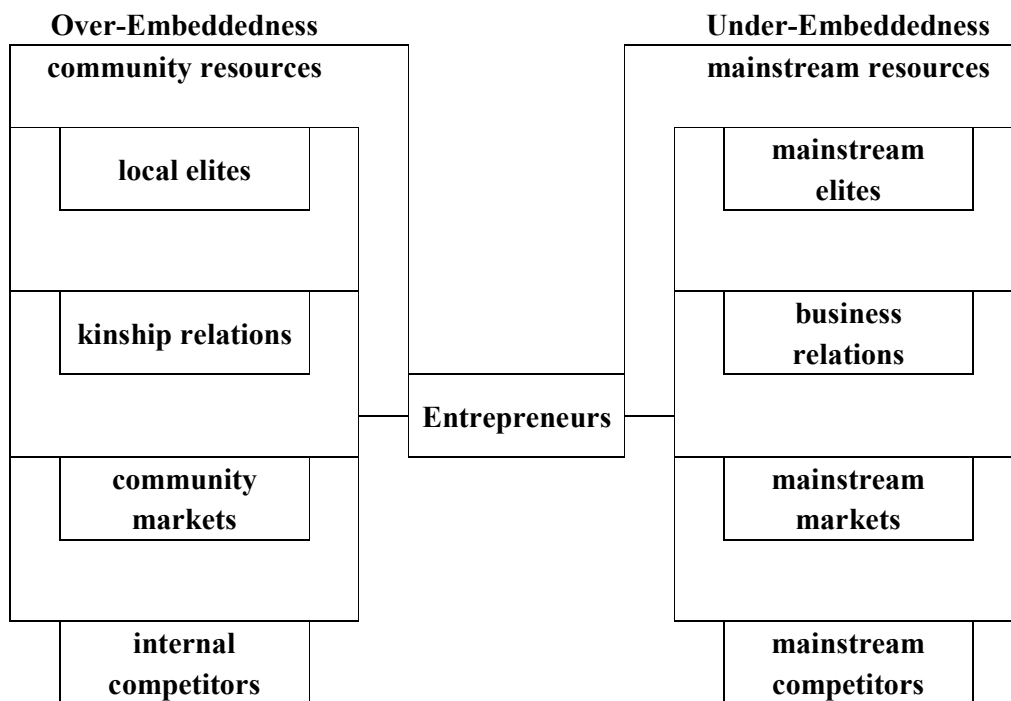


Figure 6.3 Over-Embeddedness and Under-Embeddedness

***Applying Mixed Embeddedness to China’s Rural E-Commerce Entrepreneurs***

Although ME is originally developed to explain migrant entrepreneurship on foreign soil, this *framework* is more generally applied to all kinds of entrepreneurship embedded within multiple formal and informal institutional contexts, such as rural migrant entrepreneurs in Yuhuan City, China, female entrepreneurs in former Eastern-



bloc and Soviet countries, and the Akha ethnic street vendors in Thailand (Trupp, 2015; Welter & Smallbone, 2010, 2011; Yousafzai & Saeed, & Muffatto, 2015; Zhu, Feng, & Pan, 2019). As such, ME can be apt at grasping how China's rural e-commerce entrepreneurs, some of whom are domestic migrants, are influenced by their embeddedness in the multiple societal contexts of the Chinese state. A combination of ME's emphasis on the interplay between socioeconomic and politico-institutional contexts, as well as between structure and agency, further makes ME particularly relevant in a country in transition, such as China, which has been undergoing a large scale transformation since the late 1970s. Lastly, ME is an ideal framework for a cross-region study in analyzing the differing trajectories of migrant entrepreneurs in different socioeconomic and politico-institutional contexts, since multiple types of e-commerce villages co-exist in China as discussed in the previous chapter (Kloosterman, 2010; Fligstein & Dauter, 2007; Hall & Soskice, 2001; Ram, Jones, & Villares-Varela, 2017; Yasin, 2014; Yousafzai & Saeed, & Muffatto, 2015).

In applying ME to the study of China's rural e-commerce, our analysis identifies three new ME variants in three rural e-commerce contexts respectively, termed *hyper-embeddedness*, *hypo-embeddedness* and *governed embeddedness*. In semi-peripheral, producer-based villages, this study finds that entrepreneurs are hyper-embedded within a collapsed three-rung sphere of influence, in which personal networks of the micro-sphere overlap with market institutions at the meso-sphere and government institutions at the macro-sphere to a large extent through a small number of well-connected key

persons. In merchant-based villages in the Pearl River Delta area, hypo-embeddedness means entrepreneurs are under-embedded within multiple dimensions, which include their own migrant communities, hometown networks, and local market and government institutions. Finally, in the Yangtze River Delta area, depending on what kind of villages they are in, entrepreneurs may be hyper- or hypo-embedded when local governments play various roles at each level of their embeddedness and actually govern the shape and size of their embeddedness.

		< Local Governance Approach >	
		Noninterventionist	Interventionist
< Market Maturity >	Nonexistence of Robust Economic Sector	Peripheries in Central/West China	Interiors of Coastal Provinces Producer-Based Villages <b>Hyper-embeddedness</b>
	Existence of Robust Economic Sector	Pearl River Delta Area Merchant-Based Villages <b>Hypo-embeddedness</b>	Yangtze River Delta Area Merchant-Based Villages Producer-Based Villages <b>Governed Embeddedness</b>

Figure 6.4 Hyper- & Hypo-Embeddedness

## **Findings**

### ***Hyper-Embeddedness in Semi-Peripheral, Producer-Based Villages***

Hyper-embeddedness characterizes rural e-commerce entrepreneurs' interactions with multiple contexts in semi-peripheral, producer-based villages. This research shows that hyper-embeddedness, an enhanced form of over-embeddedness, is a commercially wise strategy that maximizes the extraction of resources for entrepreneurs at the micro-level and facilitates the rise of producer-based villages at the meso-level. Hyper-embedded entrepreneurs are also under the influence of a collapsed three-rung sphere, in which their micro-level personal networks extend to the meso- and macro-level institutions in their localities. At the same time, their connections with the mainstream society are almost entirely dependent upon the internet and e-commerce platforms.

The villages in semi-peripheral China are usually close-knit communities. Thus, entrepreneurs are usually natives of these villages and are highly embedded within the kinship and community networks to help initiate and support their businesses. First, aspiring rural people in such networks can easily learn e-commerce from forerunners (i.e., family members, friends, or neighbors) who are under structural pressure to share knowledge with co-villagers. Second, they usually mobilize financial capital from their social networks in the form of no- or low-interest loans, or limited partnership consisting of one or more partners only providing funding for certain shares of ownership and profits while staying outside of the day-to-day management. Both ways become easier as profits are promising in doing e-commerce. Third, entrepreneurs of

grassroots e-commerce businesses usually hire their community members as the first employees because they are more tolerant of low wages and more exploitable than people from elsewhere. Entrepreneurs also have to experience the negative outcomes of over-embeddedness, such as keeping underqualified workers, doing businesses with community supporters for less profits, or borrowing money from certain highly situated co-villagers, which are the generally acceptable norms in close-knit communities. A businessperson's (interviewee 33) experience is representative,

A friend made quite some money through online business, then we wanted to give it a try..... e-commerce totally changed my family and hometown. In rural areas, unlike urban areas, if someone makes money, it will be known across the village very quickly, because we often hangout and chat together. Our village all quickly joined the online business..... I had a little money, low educational attainment, but e-commerce changed the fate of our family.

However, entrepreneurs' over-embeddedness is the result of unfavorable meso-level factors such as market exclusion. For example, the e-commerce entrepreneurs must learn e-commerce from successful forerunners mostly because there is no well-established training service provider existing in their villages or counties. Also, in the early stage of their businesses, entrepreneurs have no access to business loans from banks or other financial institution because they do not have stable income and high credit scores. They must hire their co-villages because they probably are the only available workers in the local tiny labor markets. Oftentimes, local governments and e-commerce platforms do not intervene before the local rural e-commerce economy becomes at least identifiable, avoiding unfavorable or failed markets.

In these villages, entrepreneurs interact with meso- and macro-institutions through direct or extended social networks, which filter through and personalize these interactions and portray them as personal favors. First, entrepreneurs in these villages use personal ties to do businesses with other market participants. Since many new industrial clusters in semi-peripheral villages start from the scratch, each part of the industrial ecosystem in which entrepreneurs are situated are all spatially located in the same area and run by co-provincials or co-villagers with personal ties. These involve raw material and part suppliers, market competitors, downstream buyers, business associations, service agencies, and other firms. Therefore, oftentimes they do not necessarily go through contractual processes but simply ask favors from other participants who they know personally, such as borrowing products they run short temporarily or simply asking co-villagers to send products to customers on their behalf.

Second, entrepreneurs also interact with public institutions through personal networks, rather than through relatively impersonal and formal procedures. They choose personal networks partly due to the inability, or even illegality, of doing so through formal processes. As the above example shows, many aspiring entrepreneurs are ineligible for bank loans. However, their loan applications were swiftly approved with documents prepared or reviewed by people they happened to know, or with guarantees from their creditworthy friends. Some of them also had asked mutual friends to broker a sit-down with local officials to fix some administrative matters within their discretionary power. Third, the overseeing agencies may also take advantage of social

networks to exercise control over individual entrepreneurs. In many villages, e-commerce association chiefs, usually the ones with the most extensive social networks, are invited to serve a semi-official role in the local bureaus of commerce and act as a bridge between entrepreneurs and the governments. Entrepreneurs in their networks will voice concerns through them to the governments, and the governments will let them intermediate issues between entrepreneurs on behalf of the government.

Hyper-embeddedness is not only a commercially wise strategy for individual entrepreneurs at the micro-level, but also provides a foundation for the emergence of a producer-based village at the meso-level. Conventional wisdom considers semi-peripheral rural areas unsuitable for light industries, because the businesses are geographically far away from major urban customer markets, and thus less responsive to quick-changing market trends. Also, rural businesses need additional financial resources to establish sales units in major urban centers as they expand their output, and additional efforts to hire workers when many rural people move to the cities. However, in the case of rural e-commerce, platforms enable entrepreneurs to be well-informed of market trends and well-connected with their customers across the country regardless of spatial distances and geographic barriers. E-commerce breaks the usual spatial restrictions that limit expansion, so entrepreneurs can expand the output with ample land resources at a much cheaper price in villages and have no need to set subbranches in major urban centers. Freed from physically engaging the mainstream economy, entrepreneurs can be fully committed to extracting resources from their own

communities. Interviewee 33 explained to us:

Now everyone can start up their own businesses with an internet cable..... Previously we only had a handful costume makers who used traditional ways of sales, they had to ride bikes or take a bus to carry their products to elsewhere across the nation.....I made the total sales of ten million RMB in 2017..... But I am not the most successful one in my village, there are more than twenty, roughly thirty, big producers like me in my village, and seven or eight of them run bigger factories.

Interviewee 34 concurred:

I have never been to a foreign country, but with e-commerce, my products can reach foreign countries..... through our agent with Amazon and Aliexpress.<sup>12</sup>

Interviewee 38, who has been doing cross-border e-commerce since 2014, said:

I sell costumes to Brazil mainly for Halloween, Carnival and Christmas.....I have a factory and hire more than sixty employees.....Now I am doing business on Alibaba, in future I want to try Amazon for international business..... The language barrier is a big issue.

Nevertheless, a startup business of manufacturing has a higher entry barrier for rural people than middleman businesses in merchant-based villages. Since over-embeddedness can only mobilize resources at the micro-level, it is insufficient to overcome early-stage difficulties. Thus, entrepreneurs must be hyper-embedded to extract resources, in terms of financial, human, and social capital, to the maximum extent from institutions at all three levels. As the number of e-commerce businesses of manufacturing survive and thrive through the strategy of hyper-embeddedness, the

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<sup>12</sup> Aliexpress is also an Alibaba's e-commerce platform for international customers.

villages in which these businesses cluster turn to producer-based villages.

In sum, hyper-embeddedness, a new variant of ME, is outlined as a collapsed, rather than hierarchically structured, three-rung sphere of influence (see Figure 4). Hyper-embedded entrepreneurs' social networks at the micro-level also connect with meso-level market institutions and macro-level regulatory institutions. Contrary to the extant literature criticisms of over-embeddedness, the analysis shows that hyper-embeddedness (characterized as over-embeddedness in multiple dimensions) is a commercially competitive strategy in the context of the semi-peripheral and producer-based villages. As e-commerce makes economic peripherality breakable, entrepreneurs can be liberated from maintaining extensive ties with urban markets spatially and geographically far away from their home villages. Since the costs of labor, land, and other resources are cheaper in semi-peripheral villages than in urban areas, hyper-embedded entrepreneurs are allowed to maximize the extraction of resources to overcome difficulties in the early stage of businesses of manufacturing sectors which demand much more resources than peddling for existing manufacturers. Therefore, these semi-peripheral villages that previously had limited economic potential are being rapidly industrialized and forming sectorial clusters of producer-based villages which permit many local entrepreneurs to adopt the strategy of hyper-embeddedness.

#### ***Hypo-Embeddedness in Merchant-Based Villages in the Pearl River Delta Area***

In merchant-based villages, migrant entrepreneurs from rural areas are under-embedded strategically to extract resources from multiple dimensions to support their businesses,



a situation termed *hypo-embeddedness*. Unlike hyper-embedded peers who are in the center of their own extended social networks, hypo-embedded entrepreneurs are found in the margin of each sphere within which they are embedded for a variety of reasons. Since they are unlikely to amass substantial financial resources and knowledge to build factories in the pricey Pearl River Delta area, hypo-embeddedness is a viable solution to run their businesses as online sales department to the local manufacturing sectors.

Entrepreneurs in the Pearl River Delta area cannot extract as many resources from migrant communities as hyper-embedded entrepreneurs can from semi-peripheral villages. As discussed in Chapter 5, domestic migrants are drawn to urban and suburban villages where they form communities for low housing expenses and convenient public transportation. Although domestic migrants earn much higher wages in urban areas, they still must pay more to sustain their urban life. Thus, aspiring migrant entrepreneurs are unable to save resources to start under-capitalized ventures. They also complain that the large-scale migrant dispersing and migrant community displacement and reformation in the process of China's massive urbanization is very unfavorable for them to accumulate social capital. Hostile policies such as household registration also deter migrants from creating strong and stable ties as they are constantly on the move. They still try to exploit their co-provincials as sources of cheap labor, but it is harder since they pay much less than ordinary jobs migrant can find in urban areas. At the same time, migrants are under a higher degree of social obligation to their families left behind in hometowns, which can have severely contradictory goals than their business

interests. The mobilization of resources from hometowns is usually futile because purported investment from hometowns are rather less substantial than remittances sent. Digital technologies permit constant connectivity between migrants and their families, such as videocall and electronic payment system, but also open fresh possibilities of remittances. At the micro-level, migrant businesspersons are more entrepreneurially disabled than hyper-embedded peers in semi-peripheral villages.

The absence of well-established migrant communities allows migrants to shrug off burdens of over-embeddedness within migrant communities. In their home villages, everyone basically knows everyone. However, urban and suburban villages in global areas bring together strange migrants from everywhere in China. In terms of place of origin, migrant entrepreneurs' social networks are more heterogeneous. They are enabled to diversify the sources of resources and become less indebted to migrant communities since they can only extract limited resources from rather weaker ties to support their businesses. Migrant entrepreneurs usually give some preference for people from their hometowns in hiring, and sometimes give additional assistance for charitable purposes, but they are unwilling to keep underqualified employees simply because they are from the same place. Low-skilled labor markets in urban and suburban villages are rarely composed of migrant workers from only one or few places, but rather "from everywhere" (Interviewee 48; Interviewee 52) across China. Migrant entrepreneurs are thus able to hire the best workers with the lowest wages with little regard to places of origin. Facing fierce competition in urban areas, migrant

entrepreneurs must put up considerable effort to create and maintain ties with existing market players, inside or outside merchant-based villages that consist of another layer of personal networks external to migrant communities. Likewise, some entrepreneurs said their most important friends who gave them critical resources, such as money, training, mentorship and work opportunities, are not their co-provincials. By extending their social networks to the mainstream societies, migrant entrepreneurs become under-embedded within their own communities. The main sign of the under-embeddedness is the difficulties to have an e-commerce association in this area. Interviewee 51 explained why:

We have circles of friends who meet privately, but we do not have a group for people from a particular place, no, we don't have that. An association is hard to be realized. For example, a garment is sold at 100 RMB, with 20 RMB profit, but others could make it cheaper by making 10 RMB profit. The market is really big here, so an association cannot control the price war between entrepreneurs. Our village does not target a particular niche market, the entire garment market is too big here.....

Since there are no existing robust local industries in semi-peripheral villages, these villages have more freedom to identify and dominate niche markets. However, since Guangzhou has many robust local industries, for example garment industry in this case, migrant entrepreneurs must rely on the existing industries to cut their own share, instead of building a sector from the scratch. As newcomers to these mature industries, migrant entrepreneurs, usually in small quantity, cannot dominate these industries with or without e-commerce associations. In comparison with rural entrepreneurs in semi-

peripheral villages, it is not always necessary to institutionalize e-commerce since migrant entrepreneurs are much less embedded within urban villages.

These meso- and macro-level institutions in the Pearl River Delta area constitute a more rule-based, impersonal market environment in which personal connections do not matter as much as in semi-peripheries, especially in the early stages. For example, migrant entrepreneurs may not know anyone in the bank when they start businesses, so it is impossible to get a favorable interest rate through personal ties. They report that they go through regular processes and banks give little flexibility in reviewing their loan applications, especially when they have no collateral. However, they also agree that transparency and a rule-based market environment are more favorable to business operation because such environment is more predictable, and they can get things done by following pre-established rules rather than seeking personal favors they have to pay back later. Nevertheless, migrant entrepreneurs still make additional efforts to develop extensive networks with meso- and macro-level institutions. First, as discussed above, they are forced to look beyond the communities for resources to extract from other institutions. Second, they must raise awareness of these meso- and macro-level institutions that often overlook and marginalize migrant entrepreneurs in urban areas. Third, under stricter scrutiny in urban areas as outsiders, migrants need ties with these institutions for protection and mitigation of potential damage. Fourth, entrepreneurs need to be better informed of policy changes or market volatility through connections.

However, their migrant status prevents them from full embeddedness within

meso- or macro-level institutions, especially when they face local governments which adopt the hands-off approach in economic management. Struggling with unfamiliar market and institutional conditions, migrant entrepreneurs call for more government interventions and support (Interviewee 52),

They (the government) only deal with public security..... But they can do e-commerce training, because e-commerce skills must be learned and practiced..... Training is the most appropriate thing they can do..... This should be non-for-profit, I think this should be the government's job..... No one is born with rural e-commerce skills..... We have an organization. We have willingness to help others. We like to help others, to be socially responsible..... We can share our experiences, encourage others..... The government can also do the resource matchmaking, which is win-win. Some businesspersons have sales skills, some industrialists have bad sales records. So, if the salespersons and industrialists without salespersonship are matched together, it is good for both of them.

Moreover, counterintuitively, some of them move closer to these institutions in order to keep them at arm's length. For example, a chairperson of an e-commerce association, in which all members are from a small city in elsewhere, explained why the association was not registered with the bureau of civil affairs in the destination city but rather in the origin city. The reason was they wanted to keep low-profile and avoid troubles from local officials who might extort "favors". Mr. Lin, the head of the e-commerce association (Interviewee 52) told me,

We do not have our office..... We do not publicize our existence or have an opening ceremony very openly. We just want to avoid attention and have no title. I have received many titles from my hometown government. I am too busy for that. I think these are meaningless. We do substantive things.

This tactic may be the result of their prior unpleasant experiences with village-level officials. One of them offer me an example that revealed the power dynamics in urban villages. A deputy village director in a big e-commerce village, a powerful local, joined one of the largest fast delivery firms in the village as a limited partner. However, without taking money from his own pocket, he provides access to public resources, such as village-owned warehouses and office spaces, and deflects inspections. His partners could not refuse his partnership offer. Migrant entrepreneurs also have weak ties with local market ecosystem since most of them are not main outputs for local manufacturers and even fewer can join the inner circle of the local business networks for long-term collaborations. Many of them purchase products from wholesale markets like regular retailers. In conclusion, migrant entrepreneurs remain under-embedded at the meso- and macro-level.

Hypo-embedded migrant entrepreneurs are also situated within the three-rung sphere of influence, while simultaneously marginalized at each level. They do not have strong ties with their own migrant communities from which they cannot extract enough resources; their hometowns contribute less than expected to their businesses; they are just minor market participants with limited connections with existing sectors in the vibrant local economies; they try to get closer to market and government institutions that still treat them as outsiders. Structurally speaking, migrant entrepreneurs are simultaneously under-embedded and simultaneously marginalized in each dimension, termed hypo-embeddedness (see Figure 5). Since no single dimension can provide

enough resources to start and maintain businesses, migrant entrepreneurs have to step into multiple dimensions, through hypo-embeddedness, to extract available resources. This is not ideal solution under the circumstances but viable one.

***Governed Embeddedness in E-Commerce Villages in the Yangtze River Delta Area***

One of the main differences between semi-peripheral areas, the Pearl River Delta areas, and the Yangtze River Delta area is the local governance. In the Pearl River Delta area, local governments take noninterventionist approaches in regulating rural e-commerce, despite grave impact of other policies relating to urban villages, such as urban villages planning, migrant registration, zoning and building usage regulations, and enforcement on labor management, fire safety, and criminal offenses. In semi-peripheral villages, local governments are more interventionist and inclined to exercise their power through local officials' personal networks interconnected with local entrepreneurs. Like peers in semi-peripheral areas, local governments in the Yangtze River Delta area also use economic leverage to incorporate e-commerce development processes. However, with more economic resources, local governments in the Yangtze River Delta area have a stronger presence in regulating affairs than local governments elsewhere. Since their overshadowing presence affects how e-commerce entrepreneurs are embedded at each level to a much greater extent, I term this scenario *governed embeddedness*.

At the micro-level, local governments strive to improve human capital of low-skilled rural people and enable them to become e-commerce entrepreneurs. In the original ME model, human capital and financial capital determine the industry an

entrepreneur will join. Low-skilled, under-capitalized entrepreneurs usually join small manufacturing sectors or private service sectors. Apparently, it is economically unwise and practically impossible for local governments to provide low-skilled rural people with financial resources to overcome the high threshold to highly compensated sectors, while funding e-commerce training is much less costly. Although e-commerce training only gives them a new skillset, not sufficient training needed to bring them into the high-tech sectors, e-commerce training enables them to use platforms to connect with a much larger customer base, or ushers them into sectors that do not exist without the internet, such as gaming live stream and power-leveling services. Contrary to the recent studies, an alternative human capital acquisition becomes the elevator that lifts low-skilled entrepreneurs' businesses to the same level of highly awarded sectors (Becker & Blumberg, 2013; Virdee, 2006).

Without government assistance, rural people have no chance to do e-commerce since they cannot afford highly segmented and expensive e-commerce training. To run a multi-platform business, an ordinary entrepreneur needs at least several median-level, skill-based courses, to be very familiar with most-used online marketing skills of major platforms, which cost 50 to 100 RMB a session and more than 20,000 RMB in total (or \$2,871.29). Not all local governments show a strong interest in funding e-commerce training, such as ones in the Pearl River Delta area, and not all local governments can afford the training, such as one in semi-peripheral areas. Local governments that are economically interventionist in the financially abundant Yangtze River Delta area have



both capacity and willingness to provide e-commerce training to aspiring rural people, which partly explain why more than two thirds of e-commerce villages are in this area. Compared with resource-scarce semi-peripheral villages, the ones in the Yangtze River Delta can provide a comprehensive skill-based education system to aspiring rural residents. Due to their proximity to Alibaba headquarter, most of them are enrolled in the first wave of rollout of Alibaba's rural e-commerce project, which includes training programs. They also work closely with local higher education institutions and hire e-commerce researchers to provide one-on-one consulting services to village e-commerce businesses. The governments themselves further provide training sessions at all levels and all skillsets to tens of thousands of aspiring villagers, startup entrepreneurs, returnee college graduates, and local officials. Some villages also outsource the task of e-commerce development, including training, to third-party specialized firms through procurement. Village governments also get involved with the creation and operation of e-commerce associations to provide e-commerce training to their member firms.

At the meso-level, local governments in the Yangtze River Delta area create a more business-friendly market environment. More importantly, they level the playing field for both local and migrant entrepreneurs to compete on the same terms. In many cases, the playing field is even tilted toward migrants. Due to the existence of vibrant economic sectors, places like Yiwu, Zhejiang attract millions of migrants across the country. In some villages, the ratio between migrants and locals is 10:1. It is thus unsurprising that villages in Yiwu often offer rent discount, subsidized fiber internet

service, supply-demand matching, postal fees negotiation, and industrial park spaces to migrant entrepreneurs. As opposed to migrants in the Pearl River Delta area, migrants in the Yangtze River Delta do not feel overlooked and excluded by market institutions. In such a favorable business environment, it is common to find migrant entrepreneurs owning factories and local entrepreneurs that peddle commodities for manufacturers. The definitional borders between producer- and merchant-based villages are to some extent blurred in the Yangtze River Delta area. Lastly, macro-level policies adopted by economically activist local governments exist as discussed in the previous chapter.

In sum, in rural e-commerce, local governments are not just part of the backdrop, and rural entrepreneurs are not the only major player on the center stage. Entrepreneurs still are hyper- or hypo-embedded within the particular contexts of each village in which they live. However, at each level of their embedded contexts, local governments are around and playing various roles to influence the size and shape of the opportunity structures for entrepreneurs. Thus, the embeddedness of entrepreneurs in this area is penetrated and somewhat governed by local governments. Nevertheless, the concept of governed-embeddedness is only a variation of the concepts of hyper- and hypo-embeddedness in a particular setting, defined as a unique case in which well-resourced and developmentalist governments in areas penetrated by, and closely synchronized with the capitalist world, which plays a larger role.

## **Conclusion**

In this chapter, two new concepts, hyper-embeddedness and hypo-embeddedness, and

their variation, governed-embeddedness, are developed to explain rural e-commerce entrepreneurs' use of various strategies in semi-peripheral producer-based villages, merchant-based villages in the Pearl River Delta area, and both types of e-commerce villages in the Yangtze River Delta area. This study finds that entrepreneurs adopt the strategy of hyper-embeddedness, an entrepreneurial approach in which entrepreneurs are over-embedded within not only micro-level social networks but also meso- and macro-level institutions in semi-peripheral producer-based villages. In such villages, market and government institutions are overlapping and interrelated with the personal connections of entrepreneurs, who are simultaneously embedded within mainstream consumer markets in cyberspace. Entrepreneurs in merchant-based villages in the Pearl River Delta area opt to be hypo-embedded in socioeconomic and politico-institutional contexts, a situation of under-embeddedness within multiple spheres of influence. In this case, entrepreneurs must expand their networks into multiple dimensions in order to extract sufficient resources. Lastly, in the Yangtze River Delta area, entrepreneurs' hyper- and hypo-embeddedness is significantly affected by local governments, which in effect dominate how entrepreneurs are embedded on all dimensions.

This study makes several contributions to the literature on entrepreneurship. First, this study shows that in certain circumstances entrepreneurs may take even more extreme strategies than ones of over- and under-embeddedness, as termed hyper- and hypo-embeddedness respectively. Second, contrary to existing literature unfavorable to over- and under-embeddedness strategies, this study shows that such strategies may

lead to favorable outcomes as shown in the case of China's rural e-commerce. Third, unlike other recent research, human capital acquisition, especially skill-based training, was found to still greatly matter in entrepreneurship.

Our findings also offer important policy implications. Since skill-based training is extremely critical to rural e-commerce entrepreneurship, local governments should take actions to alleviate financial burden and promote such training among aspiring rural residents. Also, in the process of urbanization in global areas, local governments should consider developing policies that give aspiring migrant entrepreneurs the means to accumulate social capital through more longstanding community ties. Lastly, though noninterventionist in regulating economic affairs, local governments in the Pearl River Delta area do need at the minimum to create a nondiscriminatory market environment for migrant entrepreneurship.

## **Chapter 7**

### **Party-Incubated Rural E-Commerce Entrepreneurs**

#### **Introduction**

The Communist Party of China has been rapidly permeating the private sector since 2001 when then then-Party General Secretary Jiang Zemin lifted the ban against the recruitment of private entrepreneurs (Fewsmith, 2001). In 1998, only 0.9 percent of China's private enterprises established party units, but only twenty years later official statistics reported that 73.1 percent of total private enterprises in Chinese mainland, or

roughly 1,877,000 private enterprises, established party units, which was a 20-percent jump from the 2014 figures (53.1percents) (Central Organization Department of the Communist Party of China [COD], 2018; Yan & Huang, 2017). The number of party members in the non-public sector, including private enterprises and privately-run non-profit enterprises, has also grown significantly, representing 15.1 percent of party membership, or 13.52 million party members, which is a major leap from 1.9 percent in a 2000 national survey (COD, 2018; Shambaugh, 2008). China observers suggest this trend indicates that the CCP enjoys a “symbiotic relationship with the market economy” and private entrepreneurs (Pieke, 2009, p.25).

CCP’s most recent attempts at party-building in rural e-commerce, which this study finds impactful at home and abroad, receive little scholarly notice in the extended high tide of party-building efforts in the private sector. Behind the skyrocketing growth of rural e-commerce villages that emerge across China are not only interventionist local governments, but also revitalized rural party organizations, which oftentimes play a more active role than governments in developing rural e-commerce, especially in the Party-takes-all political climate (Alibaba, 2019; Liu & Weingast 2018; Luo, 2018). By examining the CCP’s swift organizational expansion into rural e-commerce, this study answers the following questions: (1) What do local party organizations do to develop rural e-commerce; (2) How do these measures reshape state-business relationship in this sector; and (3) What are the implications of this readjusted state-business relationship. The next section reviews the existing literature on the relationship between

the CCP and private entrepreneurs. The third section examines the case of party-building campaign in rural e-commerce and analyzes the CCP's key measures for organizational expansion. The fourth section discusses the implications of these new party-building measures on the Chinese state and China's political economy. The conclusion highlights the significance of these recent for understandings of Chinese politics—in particular, the adaptation of the CCP in the digital economy era.

### **Understanding the CCP's Organizational Expansion in the Private Sector**

In Chinese politics the ruling party and the state are intertwined. As the command center within the Chinese state, the CCP has full control over “all sides of the government, congress, political consultative conference, and the masses organizations” (Xi, J.P., 2016). However, the CCP cannot consolidate its regime legitimacy without producing satisfactory economic performance for Chinese people. Therefore, the CCP has to establish institutional links with the most dynamic economic sector—the private economy—along with a particular social group that reemerges and grows in the reform era—private entrepreneurs (Cao, Qian, & Weingast, 1999; Fogel, 2006; Kshetri & Dholakia, 2011; Zhao, 2017). However, CCP's growing connection with the private entrepreneur class creates the first institutional contradiction, because as a Leninist party, the CCP must strengthen its monopoly of power and prevent any social group from threatening its authority, especially its previous “class enemies” in the pursuit of communism (Casandi, 2016; Dickson, 2000; Jowitt, 1974; Pei, 2012; Pieke, 2012; Shevchenko, 2004). To make this relationship even more questionable, is the well-

documented history of many authoritarian regimes overthrown and democratized by an emerging entrepreneurial elite class (Gore, 2013; Tsai, 2005). Liberalizing the economy but not democratizing the polity is thus a daunting task as the CCP tries to align the interests between the CCP and private entrepreneurs (Bizzarro et al., 2018; Bolesta, 2012; Cai, 2008; Dickson, 2000; Gleiss, 2017; Goldstein, 1995; Nathan, 2003; Pei, 2012; Tsai 2005, 2007; Shirk, 1993; Svolic, 2012; Wang, 2016; Yoon & Jeong, 2018).

Building strong ties with the CCP, and the Chinese state in general, is also a two-bladed sword for private entrepreneurs. These ties are very beneficial for their businesses, including financial and regulatory resources, useful internal tips, exclusive institutional endorsement, extended social networks, administrative interventions, procurement contracts, and under-the-table lobbying efforts, to navigate the dynamic and uncertain institutional environment created by the CCP (Aoki, 2001; Ahlstrom & Ding, 2014; Boubakri, Cosset, & Saffar, 2008; Chen, Sun, Newman, & Xu, 2012; Cheng, 2018; Denis, 2016; Du, Guariglia, & Newman, 2013; Faccio, 2006; Fisman, 2001; He, Lu, & Qian, 2018; Henisz, 2000; Hsu, 2015; Hsueh, 2011; Kennedy, 2009; Krug, 2004; Kuhn, 2003; McNally & Wright, 2010; Shi, Markóczy, & Stan, 2014; Sun, O., Xu, & Zhou, 2011; Wang, 2016). On the flipside, these same favors and protection also involve rampant corruption which delegitimizes their business's accomplishments. Furthermore, their lives are endangered by orthodox CCP dogma that still sees them as members of an exploitative class to be eliminated in future (Ahlstrom & Bruton, 2001; Ahlstrom, Bruton, & Yeh, 2008; Chen & Touve, forthcoming, 2011; Chen et al., 2008;

Feng and Wang, 2010; Hsu, 2010; McNally and Wright, 2010; Sun, Zhu, & Wu, 2014; Tsai, 2005; Wedeman, 2012).

The relationship is characterized as “symbiotic clientelism”, in which entrepreneurs are on relatively equal footing with their official patrons and both sides enjoy the mutual benefits derived from more open-ended and commercialized ties between them (Shieh, 2016). The CCP has been proactively adapting “its own ideology, organization, or ruling mode” (Yan & Huang, 2017, p.41) to fast transforming the private economy. They adopt many inclusive measures, such as important institutional posts, political leadership in rural societies, party membership and party subbranches in private firms, to prevent “the strengthening of horizontal ties within or between economic groups and hinder class formation” (Pearson, 1997, p.144) and increase “the stake held by the new economic elites in the existing system” (Yan & Huang, 2017, p.41; Ang, 2016; Chen, 2017; Chen, L., 2017; Chen, L., 2018; Goodman, 2004; Kennedy, 2009; Lei & Nugent, 2018; Oi, 1992; Pearson, 1994; Pearson, 1997; Tsai, 2005; Yan, 2012). However, some scholars dispute this characterization and describe the relationship as “bedfellows lying in the same bed but with different dreams” (Yoon & Jeong, 2018, p.146), because the motives of the entrepreneurs are mainly realistic. They warn the CCP that economic modernization process can produce more economic elites than the number the CCP can financially afford to coopt (Pei, 2012).

The inclusive measures arguably impede the party unity and lead to intraparty conflicts resulting from “disparate groups who do not share the same value with the



CCP” (Yoon & Jeong, 2018, p.132; Han, 2015)—or the second contradiction. During the early 1980s, the CCP’s conservatives sabotaged reforms used by entrepreneurs to thrive (Wedeman, 2003). After the Tiananmen Square incident, orthodox CCP leaders suspected entrepreneurs’ loyalty and imposed a ban against recruiting them (Dickson, 2000). In the meantime, private entrepreneurs chose to shield themselves under the disguise of collectively-owned enterprises, a practice known as “wearing red hat” (Chen, 2007; Chen & Touve, 2011; Huang & Chen, 2016; Naughton, 1994; Yang, Ma, Zhang, & Hong, 2018). Some entrepreneurs even became “red capitalists” by choosing to join the party or accept institutional posts (Appleton, Knight, Song, & Xia, 2009; Chen, Lu, & He, 2008; Dickson, 2003; Li, 2017; Tsai, 2005; Yan & Huang, 2017). Though averse to regime change, elite entrepreneurs exerted political muscles (Heberer & Schubert, 2018; Schubert & Heberer, 2017). In opposition to such measures, conservatives claimed that the CCP might be “diverted from its original mission” (Pei, 2000, p.519) and viewing entrepreneurs as ultimately threaten CCP survival, which must be avoided (Truex, 2016; Zhang, 2012).

As an active fraction that grows in both numbers and influence, conservatives point to the traditional base as the more legitimate grounds to resist the inclusion of entrepreneurs, which is the third institutional contradiction as the result of the inclusive measures (Dickson, 2000). As the CCP absorbs new economic elites across the social spectrum and disconnects from its original base, some conservative critics charge that it is becoming a “Western catch-all party” with no left-wing ideological features (Zhan

& Li, 2010). They warn that such an inclusion can trivialize the CCP's grand mission, undermine "the vanguard role with respect to Chinese society as a whole" (Thornton, 2012, p.76), marginalize the CCP inevitably, and downgrade it from a party-state to a state-party in a depoliticized politics (Wang, 2009). They are worried about the makeup of the party membership as the CCP's traditional base has been eroding over the reform era. The CCP has turned from "vanguards of proletariats" to a party of elites as the percentage of workers and peasants, the "revolutionary classes", drops from 50 to 28 percent, while the middle-class members, including managers, professionals, officials and experts, make up 42.6 percent (COD, 2017). Still, over 50 percent Chinese are in rural areas, only 10 percent have some college education, and 21 percent are classified as the middle-income (State Bureau of Statistics, 2010).

The decline in rural party members reflects the CCP's shrinking presence in rural areas, which is driven partly by China's unbalanced economic growth that motivates millions of rural people to find jobs in urban areas (Fei, Hamilton, & Wang, 1992; Fei, 2013; Jain-Chandra et al., 2018; Yang, 2006). Rural China thus has been decaying since the collapse of TVEs and suffering from the scarcity of human and other vital resources (Jain-Chandra et al., 2018; Newland, 2018). Rural party organizations have been left weakened, and in many cases, paralyzed (Dickson, 2000). Recruitment becomes extremely difficult because most young people no longer live in the villages and seniors are much less interested in joining the party (Chen, Pang, Wang, Cai, & Ye, 2018). Many rural party members in urban areas are becoming "floating" with little

institutional link with the party (Dickson, 2000). Some rural party organizations are also facing competitions for influence and resources with reemerged lineage-based clans (Dickson, 2000; Trémon, 2015). The most recent organizational expansion targeting “new economic and social organizations” (Xi, J.R., 2007) largely circumvents rural areas, because the weakened rural societies are not able to produce or attract such organizations, which include private enterprises, foreign enterprise, joint venture enterprise, hybrid-owned enterprise, sole proprietorship, social organizations, and privately-owned nonprofit organizations.

Despite three contradictions, the CCP is still committed to building institutional links with entrepreneurs, especially through the party-building measure (Li, 2018; Yan & Huang, 2017; Zhang, 2018). Systematic efforts have been made since the early 1980s when the COD issued a document to reclaim its presence in the private sector (COD, 1984). In 1993, the COD promulgated another guiding document with more operational directives, such as “all foreign ventures with more than three full party members should establish party organizations in accordance with the provisions of the party constitution” (COD, 1993). Since the ratification of then-General Secretary Jiang Zemin’s theory to the Party Code, in which Jiang claimed that the CCP represents “the overwhelming majority of the Chinese people” implicitly including the private entrepreneurs, the COD directed more resources to the party building within private businesses (Fewsmith, 2001; Jiang, 2006). In 2012, the CCP kicked off the most ambitious expansion for “comprehensive coverage” by establishing party units in all

private businesses and placing them under watch immediately (COD, 2012; Thornton, 2013; Thornton, 2015). However, entrepreneurs were worried about the worsened labor relations, the interfered operation, and the compromised private ownership caused by such expansion (Yan & Huang, 2017; Zhang, 2015).

Caught between liberating economy and democratizing the regime, the CCP created and exacerbated three contradictions by expanding into private sector: mutual trust deficits with private entrepreneurs, intra-party conflicts between reformists and conservatives, and shrinking its traditional base in rural areas both in number and influence. However, the large body of literature on the relationship between the CCP and private entrepreneurs mainly focuses on the specific party-building measures at micro-level while losing the sight of the full picture of the organizational expansion, especially the problems it may cause. In addition, since most “new economic and social organizations” are in urban areas, scholars thus largely ignore the similar relenting efforts made in rural areas to reclaim the CCP’s traditional base. In the case of rural e-commerce, rural entrepreneurs are also part of digital developmental village, the three-layered policy model structured by Alibaba and other platform giants, and the party-building efforts in rural e-commerce indicates that the CCP’s takeover of this framework from below, in addition to other top-down measures discussed previously.

### **How the CCP Develops Rural E-Commerce**

### *New Organizational Arrangements for Rural E-Commerce*

As part of the implementation of the “comprehensive coverage” strategy, local and rural CCP subbranches experimented with new organizational arrangements in the rural e-commerce sector. Since local party organizations are part of local developmental states, they are also affected by the differing governance models that local governments follow. As opposed to local party organizations in the Pearl River Delta area, their peers in the Yangtze River Delta area and coastal province interior areas are more interventionist. For example, local party organizations in Yiwu, Zhejiang, took the role of “red promoter” to extend the party organizational reach “from the physical marketplace to the virtual marketplace.” The CCP committee of Yiwu City broke the new ground by establishing a subbranch designated for e-commerce. Under this subbranch, there are more than 20 party units within e-commerce platform companies, e-commerce industrial parks, e-commerce associations, and large e-commerce firms. Through this “dot-line-plane” strategy, the party’s subbranch for e-commerce has been establishing party units in firms (dots), associations (lines), and industrial parks (planes) in e-commerce villages within Yiwu City. Village party organizations are also trying to “tag” e-commerce enterprises with party units or led by party members. In Willow Village, Yiwu City, the village party organization focuses on offline organizational expansion. They give plaques of “Party-Member Netpreneur Demonstration Business” to e-commerce businesses and encourage them hang the plaques on the exterior wall of their businesses. Party-member entrepreneurs and workers are

encouraged to show their membership to earn the trust of business partners and customers in online chats.

Village party organizations in the coastal province interior areas learned from their peers in the Yangtze River Delta area and created a subbranch for e-commerce. A township party committee strengthens its supervision role over rural e-commerce and has built a party subbranch for fruit product e-commerce and four party units for each process of the business—monitoring planting, harvesting, marketing and selling respectively. Moreover, these local party organizations are more directly involved with rural e-commerce. All eight party cadres and 111 party members in Wind Village in North Jiangsu, have joined rural e-commerce and became netpreneurs as role models for hesitated villagers. Three highest officeholders at the village level—party secretary, director and comptroller – have all made more than 10 million RMB yearly from online sales. Besides institutional links with e-commerce firms, village party secretaries in another North Jiangsu village, are proactively building personal connections with rural entrepreneurs. They provide “waiter-style” or “order-and-deliver” services to e-commerce businesses and publicly announce their cellphone numbers to e-commerce entrepreneurs and workers who can seek immediate intervention at any time. Some secretaries have joined online local e-commerce chat groups and provided instant responses to group members.



Figure 7.1 New Organizational Arrangements

***One-Stop Services for Rural E-Commerce Entrepreneurs***

The party-masses activity centers or e-commerce service centers are often seen as the center of e-commerce industrial parks or at the entrance of e-commerce villages. Village party organizations concentrate considerable organizational resources at these centers, which are the core of the “3D effective coverage” for e-commerce entrepreneurs. These centers serve multiple purposes.

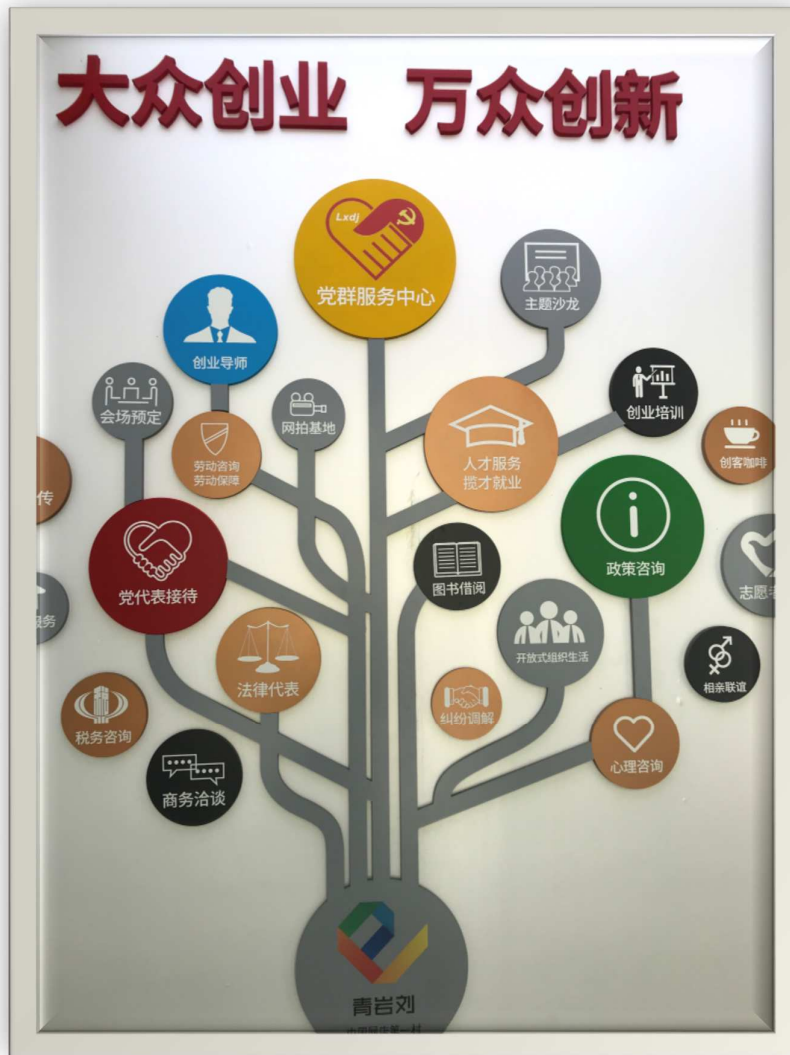


Figure 7.2 One-Stop Service Center

First, these centers provide villagers who are or want to become e-commerce entrepreneurs with one-stop services. As the picture shows, the party-masses activity center in Rock Village, Yiwu City, provides numerous party and public services, including talent services, job placement, open party organizational life, conference room reservation, labor contract consulting, business negotiation, legal representation, tax consulting, party representative reception, public library, dispute resolution, themed



social events, labor rights protection, mental health counseling, entrepreneur dorms, startup training, startup mentor lecture, marketing strategizing, government relations, policy advisory, and even matchmaking, and product photo-shooting and filming.

Second, these centers have exclusive areas for party-member entrepreneurs. For example, in Sand Town, Jiangsu Province, the center has an exclusive hall named “red entrepreneur space”, which gives them direct access to exclusive party and government resources. Party subbranches for e-commerce usually are placed in these centers and the party secretaries work closely with party-member entrepreneurs in these exclusive spaces, from bank loans to land granting. They also host party member-only events for “party-enterprise relation development”, and wealth-creating party courses given in “party spirit room” or “party loyalty growth room”. The village party organization provides the valuable economic benefit of free or low-cost services to draw floating party members and non-party members closer to the CCP and turn them into future startup e-commerce entrepreneurs.

These centers are very helpful in fulfilling its purposes as one young female e-commerce entrepreneur eager to join the CCP for years explained in an interview. In a regular party course that she took, a party-member startup mentor taught her how to “reach out to financial institutions through the local party organization for financial products designed for e-commerce.” In another social event hosted by the center, she received assistance from another party member who “make good use of his experiences and red resources to boost others’ entrepreneurial adventure” by referring her and other

startup entrepreneurs to a high-end producer.

### ***Subsidized and Party-Led E-Commerce Training Opportunities***

The e-commerce training usually is a major hurdle in the e-commerce world because of the expense involved in becoming familiar with various e-commerce platforms and their smartphone apps. First, startup entrepreneurs must learn how to select the bestseller products, obtain and analyze keywords, tweak e-commerce platform (e.g. Amazon) dashboard and connect with logistic firms, optimize the product listing for maximum customer exposure, and draw visits from a wider cyberworld. As their businesses grows, they must then learn trademark registration, tax planning, dispute resolution, Google Adwords, etc. A 10-week beginner course for Amazon seller platform costs 5,000 RMB (roughly \$750) and each entrepreneur must take multiple courses at the same time in order to run a multi-platform business. To undereducated and underfunded peasants, the entry barrier to e-commerce is high and costly.

In order to alleviate financial burdens for e-commerce startup entrepreneurs, village party organizations, along with local governments, use their own money to either subsidize business-aspiring peasants' tuition or invite short-term lecturers from e-commerce platform companies to provide training. Some party-masses service centers build up their own lecturer teams and provide customized courses in accordance with local e-commerce conditions, covering a wide range of topics, such as logistic management, corporate financing, custom and inspection, etc. Some village party organizations train their party workers to be lecturers. In a village in the Shandong

Province, the village party secretary developed professional understanding and skills for rural e-commerce through weekend classes and his subordinate party workers developed abilities to better serve rural e-commerce firms. Some county party committees also send their party workers to Alibaba to attend “Taobao University” and then dispatch these workers to villages for e-commerce training.

The format of training is varied. The training includes lecture-centered, one-on-one mentorship, follow-up business consulting, and business-to-business collaboration. Village party organizations in Suining County, Jiangsu Province host casual salon-style events in which party-member startup forerunners share their success stories, answer questions, and connect with newbies. Party-funded training sessions held in party-operated centers are a mix of both e-commerce knowledge and party propaganda. Party cadres use this opportunity to teach entrepreneurs-to-be that becoming a party member and establishing a party unit within their firms for workers and bosses to join will help their businesses. Party cadres discuss national and local policies in detail and oftentimes connect e-commerce businesses with the larger national goals like “the great rejuvenation of Chinese nation in the 21<sup>st</sup> century under the strong leadership of the CCP,” or the “Belt Road Initiative,” which is a China’s geopolitical strategy that helps cross-border e-commerce.

### ***Land and Financial Resources***

Since the village party organization became the sole organ in the village bureaucracy, they control the most important and valuable resource in the village—farmland. In

China, farmland is owned by the collectives, which consist of all villagers but are administered by village party organizations for land use and distribution. Many villages utilize land resources to build e-commerce industrial parks, which in some places are called “red bases”. The parks offer affordable rent prices, industry-level utilities, and centralized property management. Since farmland is much cheaper than industry-use and building-use land in China, industrial parks built on farmland can significantly lower the costs for rural e-commerce entrepreneurs. By clustering e-commerce businesses in one place, industrial parks make their command centers—party-led service centers—much easier to reach out to all the industries in the villages. While there is no explicit party member-only requirement, in some cases the admission to the industrial parks—is a privilege reserved for enterprises owned by a party member or one with a party unit. A successful entrepreneur in Cao County, Shandong Province, who made 20 million RMB (roughly 3 million dollars) sales online said that enterprises with party units receive more favorable terms in negotiating rent and other affairs. He also disclosed that the village gave more land to village-owned e-commerce enterprises. He believed the reason he had to move his business to the city for a fairer chance was because he is not a party member.

Another tangible resource that village party organizations can mobilize is financial resource, which is taken either from their own coffers or from state banks through their connections or credits. Village party organizations in Heze City, Shandong Province hand out 50,000 RMB no-interest loans to villagers interested in rural e-

commerce, an amount vital to start up a business In Rock Village, each “Party-Member Netrepreneur Demonstration Business” receives substantial monetary awards. Many village party organizations also assist qualified e-commerce enterprises with obtaining loans. A village secretary reported his organization has helped e-commerce businesses obtain loans of tens of million RMB in three years.

### ***“Red Vanguard” Recruitment Strategies***

The “red vanguard” project is the old inclusive measures taken by the CCP in the new digital economy. In Suining County, Jiangsu Province, the county party committee has been implementing this project, which consist of two parts: investment in a select group of existing proactive and internet-savvy rural party members and turn them into e-commerce entrepreneurs; and select a group of successful and politically loyal e-commerce entrepreneurs to join the CCP. The project targets young aspiring rural party members and refers them to earn hands-on work experience through internships at the local leading e-commerce firms. Their tuition for courses provided by top-tier e-commerce platforms is subsidized and they ae given favorable party member-only policies to boost their startup firms. Rural e-commerce entrepreneurs are encouraged to join the CCP by rural party organizations inviting them to join party meetings, participate in party activities, take part in the village affairs, and encourage them to commit to public welfare undertakings.

Likewise, in other villages, projects like “red talents” or “red netrepreneurs” are implemented for the same purposes. It is very common to select strong e-commerce

party organization leaders from successful and politically loyal netrepreneurs of good character through both mass election and upper-level assignment. In Cao County, Shandong Province, for instance, villagers elected the first entrepreneur who brought in e-commerce for village director, and several years later, a higher level of party organization assigned him to the post of village party secretary. Since many favorable policies and privileges are associated with the party membership, the CCP is successfully expanding into this new economic sector. Businesspersons who are yet party members often identify their membership of Communist Youth League of China, a CCP-affiliated youth movement, to show their loyalty to the CCP. A party-building instructor described it as a win-win strategy for both the CCP and the private businesses.

### **Readjustment of State-Business Relationship in the Sector of Rural E-Commerce**

These are radical inclusive measures that depart significantly from previous strategies deployed by the CCP for recruiting private entrepreneurs. These measures sharply readjust the state-business relationship at least in the sector of rural e-commerce. Since the CCP may promote measures proven successful in this sector to other private economy sectors as well in the spirit of “point-to-surface” methodology (see chapter 3), further analysis on such changes is necessary.

First, village party organizations’ inclusive measures are business savvy. The party-masses service centers are a one-time capital investment and can be utilized for a long period to serve multiple purposes. Policies, such as hiring lecturers out of the pocket of the party organizations, reduces the expenses of rookie entrepreneurs who

may otherwise have to personally pay the training and covering the cost increases the number of potential learners. Likewise, the intervention of village party organizations in obtaining business loans on behalf of aspiring rural people is significant because they may otherwise be disqualified for lack of credit history, stable job income, or business experiences. By turning aspiring peasants into e-commerce entrepreneurs, village party organizations expand local governments' tax base even if only a few of these enterprises manage to survive and thrive, as well as create jobs for failed entrepreneurs.

Second, by providing critical resources, the village party organizations act like business incubators, which help startup companies develop in the rural e-commerce sector. Previously, lower-level party organizations only engaged with well-established private firms in implementing the comprehensive coverage strategy, which prevented futile efforts at unpromising organizational expansion. Usually, those private firms are up and running for an extended period, a good indicator of survivability of competition and of successful party-building efforts. On the contrary, village party organizations take a proactive or even intrusive approach in implementing a comprehensive coverage strategy in rural e-commerce. They are involved with the rural e-commerce startup firms at an early stage, in many cases even before their business registration and continue to provide resources like a business incubator for an extended period of time. In this manner, they successfully stimulate rural economies by reducing the costs of entrepreneurial attempts in e-commerce.

Third, the line between state and business becomes increasingly blurred by the

deepened cross-penetration into the sector of rural e-commerce. As discussed above, many village party members and leaders are spearheading the rural e-commerce development in the role of market participant. This allows them to own and run their own enterprises and achieve business successes while serving as an officeholder in the villages. Meanwhile, successful and politically loyal rural entrepreneurs are recruited and given official positions in the lowest rung of the Chinese state. In this case, the state, or the CCP, exercises control over the newest economic sector through the micro-level state capitalism. Here we see that the reach of the state is beyond the SOEs and large private firms and incorporates small businesses too. As incubator, the CCP wins the hearts and minds of small businesses and keeps their market environment unchanged in the vertical dualist structure.

Fourth, in promoting e-commerce among peasants, village party organizations adopt a mix of capitalist and socialist narratives. Unlike the urban white-collar professionals who may be skeptical and uncomfortable to traditional rhetoric used by the CCP, undereducated peasants are very familiar with, and susceptible to, grand narratives relating to the national causes, such as the Belt and Road Initiative, which are mixed in the teaching of rural e-commerce by village party organizations. Furthermore, in the process of becoming entrepreneurs, village party organizations inject rags-to-riches capitalist narratives, such as entrepreneurial spirit, self-motivating work ethics, and taking ownership of your own work, which are more popular among urban professionals. Instead, village party organizations coat their own ideologies with



market-friendly practices and language in promoting rural e-commerce in their rural e-commerce training for aspiring peasants.

Fifth, in some cases within a dual-head bureaucratic system, party organizations outweigh their government counterparts in promoting rural e-commerce. China is often seen as a party-state, in which the ruling party is roughly equivalent to the government. However, despite the lack of division between the CCP and the state in the Chinese state, the previous division of labor between local party organizations and local governments is much clearer: the former is responsible for ideological teaching and organizational expansion, while the latter takes care of day-to-day administration, especially economic development. By using rural e-commerce promotion as the means to expand organizationally in this new economic sector, village party organizations essentially intrude into the domain of local governments through some unprecedented initiatives. In the Xi's era, party power was stressed and strengthened. The fact that the party outshines the government in developing rural e-commerce may indicate the trend that the line between the government and the party is also being blurred.

Sixth, village party organizations use their organizational forces to reinvent the market and nurture a new economic sector. Previously, local party organizations acted in the role of "cheerleader" and focused on supportive work, such as activities favorable to corporate culture, while avoiding conflicts with entrepreneurs (Davies, 2007; Hawes, 2008; Thornton, 2012). In the case of rural e-commerce, village party organizations, as investors, do not only provide supporting staff in the form of lecturers and volunteers,

but also entrepreneurs and workers from failed entrepreneurs, which constitute a rural e-commerce ecosystem eventually. As the incubator, the party becomes bolder and more assertive in defining the relationship with rural entrepreneurs they incubate. In some villages, party secretaries give directives to entrepreneurs to encourage party units within their firms to actively participate in the decision-making, require party members to take the lead in everyday work, and to set a good example for other employees.

### **Implications of the Readjusted State-Business Relationship**

These inclusive measures kill three birds with one stone. First, these measures resolve the mutual trust issue between the CCP and the entrepreneur class. Although many entrepreneurs choose to wear a “red hat” or become “red capitalist”, the CCP does not completely trust those that act out of self-interest, usually for political protection or policy favor. As the result of the anxiety over regime stability and upholding of its orthodox ideology, the CCP remains skeptical about the growth of private economy and private entrepreneurs that pose a challenge to this socialist authoritarian regime. By promoting rural e-commerce as an incubator, the CCP creates a class of entrepreneurs who are deemed politically trustworthy. Instead of wearing a “red hat” or being a “red capitalist,” party-incubated rural e-commerce entrepreneurs are carrying “red DNA” from the very beginning. Second, by turning peasants into entrepreneurs, the CCP recruits more peasant party members, strengthens its presence in rural areas and thus reclaims its traditional base. Many party-member entrepreneurs are handpicked from CCP’s traditional revolutionary classes for political reliability. Therefore, they tend to

be less resistant against, if not embracing, party-building measures. By creating wealth for these former farmers, the CCP successfully places “their guys” in the most promising economic sector driven by the most advanced technologies and consolidates the support from its traditional base in the regime. Third, these measures appease the conservative wing and the reformist wing at the same time, because they produce new party members at the intersection of the peasant base and the entrepreneur base. Again, the CCP exhibits its adaptability by using market forces to reinvent itself and not becoming a “Western catch-all party.”

The infiltration into rural e-commerce from the below enables the CCP to take over the three-level policy model, digital developmental village, which is completely structured by Alibaba and other platform giants. Xi’s announcement for a strategy to alleviate all poverty encompasses the central government and local governments and mobilizes their institutional energy for this political task with a clear deadline. Such a strategy also reprioritizes the rural e-commerce agenda for platform giants away from distributing internet resources (e.g., data analysis, frequency of exposure) in a nondiscriminatory manner but rather to give disproportionate resources to poverty-stricken villages for the purpose of rural e-commerce poverty alleviation. The last piece of this model consists of grassroots entrepreneurs who do not immediately take orders as government officials, nor do they have the political sensibility as platform giants. Thus, using organizational expansion that draws nonmember entrepreneurs closer by encouraging existing party members to join e-commerce and in turning ordinary

peasants into entrepreneurs becomes a tool to place this newly emerging class under CCP and state control.

The emergence of “red DNA” capitalists further blurs the stark distinction of corporate ownership. As previously discussed, the difference between SOEs and large private firms is mostly nominal since both have access to exclusive resources and state power. In the case of “red DNA” enterprises, many of rural entrepreneurs may not otherwise become entrepreneurs without the party’s incubation and may feel gratitude to the CCP, or the Chinese state in general. But unlike private large firms that receive government assistance, such as low-interest loans, and can be identified in the quarterly reports and other public documents, connections between party organizations and party-incubated rural e-commerce enterprises are under the radar due to their small size but remain under some state control. As e-commerce platform giants join the global competition, rural e-commerce enterprises can explore international suppliers and customers. Their concealed connections with the CCP, financially and/or ideologically, give them unfair market strengths over their competitors in and outside of countries they do business with.

Most important, the readjusted state-business relationship further consolidates the regime of the CCP. The resolutions of three problems identified in previous efforts of party building, the party-incubated rural e-commerce entrepreneurs, the fertilization of a new economic sector, and all else discussed above, contribute to the CCP’s regime stability in the era of digital economy. The intervention of village party organizations

further lay the groundwork for the mushrooming of thousands of e-commerce villages across China that by definition consist of more than a hundred rural e-commerce entrepreneurs respectively. By producing more e-commerce entrepreneurs, village party organizations nurture a growing number of data collectors for e-commerce platform giants that are tasked with technological breakthroughs critical for China's economic might and global ambition. Defying the predictions that the expansion of the market economy will squeeze the presence of the CCP and erode its power, the case of party building in rural e-commerce demonstrates that the CCP is able to take advantage of the latest advance in technologies to reinforce its power in the newest market space.

### **Discussion and Conclusion**

Dealing with China's private entrepreneurs is a daunting task for the CCP, which relies on them for economic growth and prevents them from threatening this authoritarian regime. Since the CCP took over China in 1949, the CCP has tried many measures to control private entrepreneurs: from one end of the political spectrum—eliminating them and nationalizing their properties—to the other end of the political spectrum—accepting them as its own kind and appreciating their contribution. Oftentimes, the CCP adopts a mix of various measures to rein in the political influence of private entrepreneurs while making good use of their economic power. However, a wedge remains between the CCP and private entrepreneurs, as the CCP is still a Leninist party and the entrepreneur class has repeatedly proven to be a potential threat to authoritarian regimes. Despite symbiotic clientelism between the CCP and entrepreneurs, previous

inclusive measures are deemed ineffective in earning entrepreneurs' authentic support to the CCP's ideology. This strategy is belated by the conservative fraction of the CCP partly for losing connection with rural China and the peasant class. The CCP is under pressure to redefine the relationship between the party-state and private entrepreneurs by balancing the needs of its traditional base with those of a new economic elite class, the growing voices of the reformist members with those of conservative members, and between economic growth and regime stability. Its organizational expansion in rural e-commerce represents the CCP's most recent efforts in resolving these issues, which, intentionally or not, can be the policy experimentation for more expansive adoption.

This study shows that the CCP adopts a variety of measures to infiltrate rural e-commerce, such as new organizational arrangements, one-stop e-commerce services centers, subsidized and party-led e-commerce training, utilization of land and financial resources, and ideologically- oriented recruitment projects. This study finds that these measures readjust several aspects of the state-business relationship in rural e-commerce: first, these inclusive measures are business savvy and cost-efficient; second, the party intervenes the rural e-commerce enterprises at the earliest stage like an incubator; third, the line between the state and business is blurred as successful businesspersons join the party and loyal party members are encouraged to start businesses; four, village party organizations mix socialist and capitalist narratives in rural e-commerce promotion; five, in developing rural e-commerce, the traditional division of labor between the party and the government is nonexistent as the party

becomes more activist in regulating this particular economic affair; and six, the party finds ways to use the organizational power to reinvent the market and nurture a new economic sector. The readjusted state-business relationship in rural e-commerce has implications at home and abroad. These include the resolutions to three existing contradictions in association with the organizational expansion in private economy, the full takeover of the model of digital developmental village from below, new business and legal challenges presented by the emergence of “red DNA” capitalists incubated by the CCP, and its increasingly consolidated regime capable of withstanding the challenges in the digital era.

This study makes significant contributions to several bodies of literature and deepens our understanding of the CCP. First, this is the most recent case study on the CCP’s organizational expansion in private economy, an especially new economic sector in the digital era. Second, new evidence in support of the notion of authoritarian resilience is presented. Third, the CCP once again shows its strong adaptability to new circumstances and newly emerged social groups. Fourth, this study exhibits that the CCP may create micro-level state capitalist enterprises and control private small businesses through implicit methods. Fifth, this study shows that the CCP did not hesitate to produce its class enemy, the capitalist, in a manner that maintains regime stability. Sixth, this study reveals that the CCP increasingly intensifies its control over the government and the economy, regardless the size of enterprises in the Xi’s era.

## Chapter 8

### **Conclusion: Digital Developmental Village at Home and Abroad**

Conventional wisdom would not imagine the mushrooming of e-commerce villages in China. As the CCP reoriented its grand purpose from the class struggle to the economic growth, the CCP has been increasingly pouring resources in urban economies over the last four decades. In contrast, rural China does not have a fully developed market economy with supporting institutions. As components of a developmental state, villages do not have developmental apparatus which supposedly consists of a strong developmental desire, elite bureaucracy based on a merit-based recruitment system, a powerful public-private collaboration, and industrial policies targeting strategic sectors. The reality in rural areas is cruel: Millions of rural people look for better-paid jobs in cities with little desire to develop their home villages; most rural officials are usually undereducated and not selected through merit-based recruitment system; the economy of TVEs does not recover since the 1990s collapse as the rural China has no minimum business infrastructure; and villages have no independent tax base, lawmaking power, and authority over farmland distribution and use without upper-level approval. Despite the fact that the Chinese state has tried to restructure rural institutions through top-down reforms like “build socialist new countryside,” villages, along with people remaining, namely children and elderlies, are left behind with severe social ills which resource-



scarce village governments are underequipped to solve. As the lowest rung of the bureaucratic complex of China, most villages are widely deemed very hard to pursue economic goals without external resources.

Even with adequate institutional infrastructure, villages are still not ideal for entrepreneurial adventures. Most of them are geographically far away from the urban customer markets, so it is difficult for potential rural entrepreneurs to grasp the market trends and customer preferences in a highly consumerist world. Also, a single enterprise cannot survive without the embeddedness within a mature industrial cluster that can provide everything this enterprise may need. However, most villages do not have such clusters and thus cannot afford the appearance of new businesses. Besides clusters, many villages do not have other commercial infrastructure either, such as post offices, banks, paved roads, industrial power supplies, and internet connections. These circumstances greatly deter locals from engaging in business adventures in their home villages. Sometimes, running a business in rural areas can be detrimental and dangerous when the oversight is absent. In this case, aspiring rural people must try their luck in entrepreneurship in urban areas. Under-funded rural entrepreneurs often end up with highly competitive sectors that generate meager compensation and must pay higher rent and other operational costs.

To everyone's surprise, e-commerce got a foothold in rural China fourteen years ago as a few rural people sensed the economic potential in this fast-growing sector that was underappreciated by the most. Rural entrepreneurs, empowered by ever-upgrading

e-commerce technologies, can connect to customers all around the world on platforms, keep updated with the market trends presented and analyzed by platforms, and precisely execute marketing strategies through platforms. With no spatial distance on the internet, rural entrepreneurs also are empowered to rediscover the business advantages of rural areas in e-commerce, such as cheap labor, land, and utilities that are unaffordable in cities. Also, more disposable financial resources enable rural e-commerce entrepreneurs to join highly awarded sectors, such as manufacturing. Unlike the tradition businesses which face hard spatial restrictions upon production expansion in urban areas, rural e-commerce entrepreneurs can easily expand their production while dispatching no sales offices in urban centers at all. However, even though e-commerce successfully made up some issues relating to rural areas, due to the institutional and commercial infrastructure deficits, the number of e-commerce villages only grew slowly from three to twenty between 2009 and 2013.

Driven by network effects and monopolistic tendency, e-commerce platforms, especially Alibaba, began expanding their territories in rural areas in order to colonize and extract data from new sources of users. Like an institutional entrepreneur, Alibaba successfully mobilized other major participants, including the central government, local governments, and rural entrepreneurs, together to promote rural e-commerce by playing various roles before each of them. Platforms are lobbyist, collaborator and legislative consultant at the national level to promote rural e-commerce; partner, coach and party convener at the local level to empower local bureaucracies; and researcher, sponsor,

logistic network builder and loan provider at the village level to give more chances to aspiring rural people. In so doing, Alibaba and other platform companies managed to construct a policy regime which can converge resources at all levels to promote rural e-commerce, which I term *digital developmental village*. In essence, Alibaba empowers villages with a developmental apparatus, which consists of well-trained officials, better-funded entrepreneurs, newest e-commerce technologies, exclusive marketing resource, fast delivery logistic networks, and favorable macroeconomic and policy environment, to pursue economic growth and other social goals on Alibaba's e-commerce platforms.

As China's largest private firm, Alibaba is positioned on the top level of the vertical dualist structure of the Chinese state capitalism. The policy regime created by Alibaba also becomes isomorphic to the broader socioeconomic, politico-institutional context of the Chinese state. Similarly, as in the model of digital developmental village, Alibaba is positioned on the top level and is able to exploit rural e-commerce enterprises firms on the bottom level for a larger user base, a growing number of supplies, data-extracted intelligence, additional revenue sources, and increasing economic power at home and abroad. Thus, besides the creation of thousands of digital developmental villages in the image of developmental state theory at the village level, this policy regime is also constructed into a form of state capitalism for the sector of rural e-commerce. In exchange for the strong state backings, Alibaba is also under control by the Chinese state to some extent. The policy regime that was initially designed for rural e-commerce was subsequently absorbed and revamped for the strategy of "complete

poverty alleviation”, the highest political task for the moment.

At the intersection of state capitalism and developmental state, this policy regime becomes the medium that channels industrial policies from the governments at various levels to the rural e-commerce sector, which is the major form of the state intervention. This dualist structure successfully combines two kinds of industrial policies that are supposed to be adopted at two different stages of economic development. The first kind of industrial policies is often adopted in the catch-up stage to quickly boost the manufacturing power of certain sectors, and the second are for scientific breakthroughs in the stay-ahead stage. Through this structure, the catch-up policies quickly generate millions of rural e-commerce entrepreneurs and thousands of e-commerce villages in a short span of time. The emergence of rural e-commerce across China further improves platform companies’ profitability, expands their territories in rural areas, transforms rural people and villages to data generators, and enables them to use new data to stimulate new technologies critical for global competition. By supporting this policy regime, the Chinese government achieves the outcome of stay-ahead policies eventually that nurture many globally competitive companies in IT sector, one of strategic sectors now.

The inclusiveness and adaptability of the model of digital developmental village means multiple types of rural e-commerce may be produced due to China’s uneven economic development and diversity of local governance. This study builds upon the three local governance models identified in the extant literature, considers the varied

depths of global capitalist expansion in China, and proposes four models of state-market relations—the Yangtze River Delta Model, the Pearl River Delta Model, the Coastal Province Interiors Model, and the Peripheral China Model—to represent four kinds of combinations of local economic power and regulatory activism. In the Pearl River Delta area, rural entrepreneurs in urban villages are acting as the sales department for the overshadowing local manufacturing sector as the local governments follow non-interventionist principles; in the interiors of coastal provinces, strong local governments and the absence of powerful local economic sectors give room to rural businesses that may take advantage of cheap resources for manufacturing. Merchant-based villages and producer-based villages, which terms two previous e-commerce villages respectively, can both be found in the Yangtze River Delta area with a vibrant local economy that is supported by the local governments. However, with neither strong local government nor strong local economy, rural people’s approaches to rural e-commerce are more individualistic. For instance, since they cannot develop institutionalized e-commerce villages, they use live-stream apps to sell rural products.

Different internal mechanisms consisting of four kinds of state-business relations and three kinds of village-based rural e-commerce have considerable impacts on strategic choices of rural entrepreneurs in resource mobilization. In the interiors of coastal provinces, the personal social networks often overlap with the market institutions and the regulatory institutions in close-knit communities like villages. Since rural entrepreneurs are freed from maintaining physical connections with urban

customers, they extract the resources in the maximum degree from their social networks that are extended to institutions on the other levels, which I term hyper-embeddedness. In the Pearl River Delta area, rural entrepreneurs must adopt a different strategy to extract sufficient business resources for survival, which I term hypo-embeddedness. Rural entrepreneurs are not only under-embedded within in each dimension, but also marginalized as domestic migrants in this area. Therefore, rural entrepreneurs must extract resources from as many dimensions as possible. Lastly, in the Yangtze River Delta areas, rural entrepreneurs are either hyper-embedded or hypo-embedded depending on the kind of e-commerce villages. However, since local governments in this area are more activist than ones in the Pearl River Delta area and also more resourceful than others in interiors of coastal provinces, they become another major actor in all dimensions within which entrepreneurs are embedded and thus affect the shape and size of the embeddedness.

Another important aspect of the Chinese state—the CCP—also interacts with the model of digital developmental village. More important, the CCP interacts with the micro-foundation of the model—rural entrepreneurs—in the manner of organizational expansion. Unlike its previous inclusive measures, village party organizations act like an incubator to provide aspiring rural people with critical resources for their business adventures in e-commerce. These creative and radical measures considerably modify the relationship between the state, interchangeable with the party in China, and the businesses in this sector. The CCP is not only a collaborator with the private economy,

but also the producer of a new entrepreneur class and a new economic sector. Moreover, business savvy measures further blur the line between the state and the businesses and the line between the state and the party, and eventually makes the party become the command center of this sector. In so doing, the Chinese state completely takes over the policy regime constructed by Alibaba from both above and below. By resolving three contradictions caused by previous inclusive measures relating to private economy, the CCP successfully creates a class of “red DNA” capitalists from its own traditional base to appease both intraparty factions at the same time. Therefore, by promoting rural e-commerce, the CCP shows its adaptability to the ever-changing economic situation and consolidates its regime through the infiltration into the newest economic sector that is also critical for its survival in the digital era.

Taken together, these findings explain how rural e-commerce can grow in the contemporary rural China while suffering institutional and commercial infrastructures deficits. The policy regime, termed digital developmental village, is able to combine two kinds of industrial policies to: (1) produce rural e-commerce entrepreneurs in a massive number; (2) empower villages with a new set of independent digital developmental apparatus and replicate e-commerce villages across the country; (3) allow platforms to extract intelligence from new data, generate additional revenues, and explore technological frontiers through its top-level position on this vertical dualist structure; (4) consolidate the economic power of the Chinese state at home and abroad since e-commerce platforms are privileged part of China’s state capitalism. In addition,

the Chinese state takes over this policy regime in two ways: from above, the Chinese state uses grand strategies like “complete poverty alleviation” to reprioritize the agenda of e-commerce platforms; from below, the CCP organizationally expands into rural e-commerce and turns a large number of rural people into “red DNA” entrepreneurs. Eventually, digital developmental village constitutes a new form of state capitalism.

This dissertation makes significant contribution to multiple strands of literature. First, it contributes to the developmental studies by analyzing a developmental model that was not led by the bureaucracy or the state in general but initiated by grassroots private entrepreneurs and later constructed by private platform companies. Second, it also contributes to the literature on state capitalism by describing a kind of grassroots-level state capitalism—“red DNA” e-commerce entrepreneurs—and a nationwide state capitalism in a sector of digital economy—digital developmental state. Third, this study identifies a policy regime which combines two kinds of industrial policies for multiple purposes and thus breaks new ground in the realm. Fourth, this study renews the party studies by discussing the most recent attempts of the organizational expansion into a new economic sector. Fifth, this study discovers the mechanism behind the formation of e-commerce villages at the intersection of world systems theory and the diversity of local governance models in China. Sixth, by focusing on rural entrepreneurs and their embeddedness in varied contexts, this study is the first to adopt the perspective of entrepreneurship studies to tackle issues relating to rural e-commerce development.

Digital developmental village is also a standalone model. It is noted that before



the intervention of platform companies and governments, aspiring villagers created dozens of e-commerce villages on their own through regular use of e-commerce platforms. Therefore, now with additional resources, the newest technologies, and ample experiences, e-commerce platform companies can produce e-commerce villages with no regard to the differences between the broader socioeconomic, politico-institutional contexts of countries, as Alibaba has demonstrated in Southeast Asia and East Africa. By “exporting” this micro-level model to foreign countries, platform companies can further add foreign users, extract more data, develop new technologies, and influence foreign economies on behalf of the Chinese state where the line between ownership is blurred. As reports show, platform companies are also trying to replicate the macro-level model on foreign soil through close economic and policy collaborations with other countries. These attempts may strengthen the power of both platform companies and the Chinese state in the global arena at the same time. Moreover, empowered by the policy regime, grassroots “red DNA” entrepreneurs also join global competitions through e-commerce and act in the bid of the Chinese state.

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