

# Burgeons of Social Governance: Case Studies of the Industry Association of Industry Cluster

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## Abstract

On the basis of function descriptions of Guangdong industrial cluster associations, This article tries to make an analysis of the development differences and causes for industry associations of industry cluster, exploring social governance institutional environment and foundations in economic field Then we find that development of industry associations of industrial clusters is still in the primary stage, but they can capture and satisfy the requests of their members promptly and they can expand industrial development space properly, having outstanding performances in the fields like organizing mutually beneficial collective actions, building guild regulations, maintaining economic order, reducing transaction costs and risks etc. We think exploring the consistent interests between government and industry associations and the privatization and the marketization of the development of industry associations could constitute parts of social governance institutional environment and foundations in economic field.

**Key words:** social governance, industrial cluster, industry association

## I

Governance of industrial clusters is made up of market, government and society. In different areas, different development stages, different cultures and systems the industrial cluster governance will be changeable. After the Second World War, the Italian industrial clusters were vigorous. In the trend of anti -state-despotism and defending society, the Italian industrial clusters have obvious social governance features, industry associations in cluster governance playing important roles. By comparison, after the Reform and Opening-up China has been in the transition from a planned economy to a market

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economy and local governments under the stimulation of The Fiscal Separation Policy actively participate in development of economy by cultivating industrial clusters. However, China has had a long history of “strong government and weak society” and meanwhile the foundation of folk autonomy is poor. Generally, the governance of industrial clusters is the mode of government-led mixed with little social governance. In our early visits, one time one President from an industry association sighed, “industrial clusters become characteristic industrial expositions and the government’s motto is ‘government constructing arenas, enterprises playacting’. But the role of the trade association is not mentioned, even there is no chances for industry associations to ‘sell ticket’ (go-between)”.

Our findings show that generally, although force of social governance of industrial clusters around the Pearl River Delta is weak and the function of the trade association is very limited, social governance abilities of some industry associations of the industrial cluster are increasing gradually with the development of market economy and the growth of industrial clusters,. By some typical cases, this paper tries to discuss the formation system of the industrial cluster governance and its functions around the Pearl River Delta in Guangdong Province.

Industrial cluster means in a particular space area, enterprises are aggregated in the same industry under the support of the relevant institutions for an existence of cooperation. It is a kind of production organization or an enterprise system (institution). Industry association is an important part of the institutionalization of network. In the cluster development it plays an indispensable role.

After the Reform and Opening-up, various industrial clusters around the Pearl River Delta in Guangdong Province sprang up. For example, Guzhen Town in Zhongshan city is characterised by the industry of light-fixture and Xiqiao Town in Nanhai City is characterised by the industry of textile and Lecong Town in shunde City is characterised by the industry of furniture and Shilong Town in Dongguan City is characterised by the industry of electronic products and Anbu Town in Chaozhou City is characterised by the industry of food, etc. Many industries in the characteristic industrial clusters have an annual industrial output over 10 billion, accounting for near half of the domestic market share for a time. In our nearly 10 years of research we have found social governance has been forming and some industry associations function better like the food industry association in Anbu Town of Chaozhou City, the rosewood furniture industry association in Dachong Town of Zhonshan City, the jade industry association in Pingzhou Town of Foshan City, etc. In the following they will be described and analysed one by one.

## II

The first two cases are omitted.

### (3) Nanhai Pingzhou Jade Article Industry Association

Nanhai Pingzhou is one of the four Jade Article Markets of China. There are more than 500 Jade Article Manufacturers here, producing an output of 2,500 tons approximately with their main products on shining articles such as bracelet, ear clip, pearl necklet and ring.

Nanhai Pingzhou Jade Article Industry Association was founded in 2001, granting its supreme right and decision institution to The General Meeting and with a council. The president is elected by The General Meeting. No government officials except entrepreneurs are admitted. The main function of the association lies in hosting jade article fair, mediating and arbitrating business disputes, disciplining the industry. There were over 1,500 corporate members in 2003 on our first visit, and one year later the number rose to nearly 4,000 on our second visit. Half of the corporate members doing business with Pingzhou enterprises are not located in Pingzhou, and some of them come from South East Asia, Hongkong, Maocow and Taiwan.

The rapid development of the association mainly lies in its function direction, playing a leading role in regulating trade order. The trade of jade articles, emerald in particular is full of uncertainties. As it is difficult to estimate the quantity and quality of raw emeralds, both experience and luck are involved in trading emerald. Businessmen from Pingzhou used to be bullied by local distributors while purchasing jade articles in Yingjian of Yunnan province. The first thing is the lack of credibility. When they found other buyers willing to pay higher price, local sellers often broke their promise with various excuses. The second thing is cheating in terms of weight, meanwhile demanding many unreasonable fees after a deal. The third thing is selling fake materials, causing the buyers huge loss. Those Pingzhou buyers have once organized buyers' strike and its organizers have been enlisted in blacklist by local distributors.

Some Yunnan distributors of jade article have tried to sell their products in Pingzhou. Likewise, some local buyers have bullied those sellers, getting on the truck of sellers early in the morning with their hip sitting, both right foot and left foot stamping treading on articles to drive other buyers away and force price down.

The lack of order leads to the high risk and cost in trading jade article, restricting the development of jade industry. Hence, the Jade Article Trading System was established by Nanhai Pingzhou Jade Article Industry Association.

The Jade Article Trade Fair is hosted in Pingzhou, trading in the form of auction organized by the organization. Only members are granted with permission. Our

examiners have once observed a whole auction----members are allowed to check the products and blind bidding in advance is accepted. The bidding will proceed in accordance with the number of the articles. After the association staff pronounce the number, weight and base price and then each member are entitled to bid. The names of the successful bidders will be pronounced and confirmed with their signature. If the bidder fails to pick up the goods before the deadline without proper explanation, he will be punished and denied the membership. There are three trade fair every month. The trade fair provides a fair, transparent and just environment for all parties to do business.

Another function of the Association is to mediate and arbitrate business disputes in the jade ware market for the view of "gold valuable, jade priceless" in the line jade ware is popular and it is very difficult to unify standards the value of jade. There are about 500 dealers in Pingzhou Jade Article Fair and disputes are made frequently in the process of transaction. The Association has eight function teams, including a dedicated one to be responsible for processing business disputes. President of the Association often personally participate in arbitration. Association established "The Transaction Guild Regulations of Pingzhou Jewelry and Jade Article Fare" as a yardstick of settling disputes. When the disputes happen, the association as a middleman to mediate and arbitrate. One case concerned both parties who always had business relations and were acquaintance and friends,. This time, an oral agreement had been reached for a trade of jade materials without deposit settlement. But the second party always delayed in payment to the first party. So the first party gave a complaint to the Association to apply for the arbitration. Then the President and arbitration panel learned that both sides admitted there was a verbal agreement and confirmed the second party should bear the responsibility of breach of contract. The result was to clinch the deal or the second party pay 1,500 yuan as penalty to the first party. Finally both agreed to accept the compensation way The mediation ended successfully. Until we ended our investigation, the Association has mediate total 117 disputes and only one conciliation was a failure.

### III

The above introduces Guangdong industrial cluster development process as economic organizations within the territory of the role of trade associations. The State Economic and Trade Commission once defined industry associations as social intermediary organizations and self-discipline industry management organizations, linking government and enterprises and playing roles of services, self-discipline, coordination, supervision etc. in the industry. In academic circles, although there are different expressions about definitions of industry association, the key ideas are similar. They can

## Burgeons of Social Governance

be summed up as a kind of self-discipline of socio-economic non-governmental organizations or non-profitable organizations which are established on voluntary basis and to promote common interests and to maintain legal rights among specific industries.

According to the general theory of civil society, we divide governance in economic field into three spheres (macro, middle, and micro levels), that's the public sphere (political governance), the third sphere (social governance) and the private sphere (market governance).

With reference to ideal economic governance mode, each performs its own functions and they are tripartite cooperatively with each other for co-governance among the three spheres. As a main body of the action of the third sphere, the industry association is empowered by the enterprises of a kind line and the industry association is on behalf of collective interests from the same industry abiding by principles of self-regulation, mutual benefit, self-discipline and so on, their functions are organizing collective action, sharing resources and achieving group consensus, coordination, etc. According to the domestic and international experience, the general functions of industry associations can be summarized as service, coordination, communication three parts.

Before the reform and opening-up policy, the only public ownership system and the planned economy were executed in our country, government played an almighty role in economic field and enterprises are not independent actors. Correspondingly, the function of non-governmental organizations in economic field was replaced by the state. So there was only single political governance. After the reform and opening-up policy, non-governmental organizations in economic field have had the space of survival and development with the property right reform and a transition from a planned economy to a market economy. Compared with other non-governmental organizations, more flexible policies are done on non-governmental organizations in economic field to encourage and support their development, for example, in the mid of 1990's experimental work of establishing industry association has been done in four cities. However, on the whole, the development of industry associations in our country is insufficient and most industry associations have too much close associations with government. They are obviously lack of autonomy and belong to branches of GONGO (the government leading non-governmental organizations). Their functions are not sufficient too. Surely, the coverage of industry associations is low and the representativeness is low, wanting in management personnels.

According to our many years experience of investigation about Guangdong industry association, we have found that on the one hand, the development of Guangdong's industry association is better than the one in other most areas in China. On the other hand, the development among Guangdong industry associations is different too. The

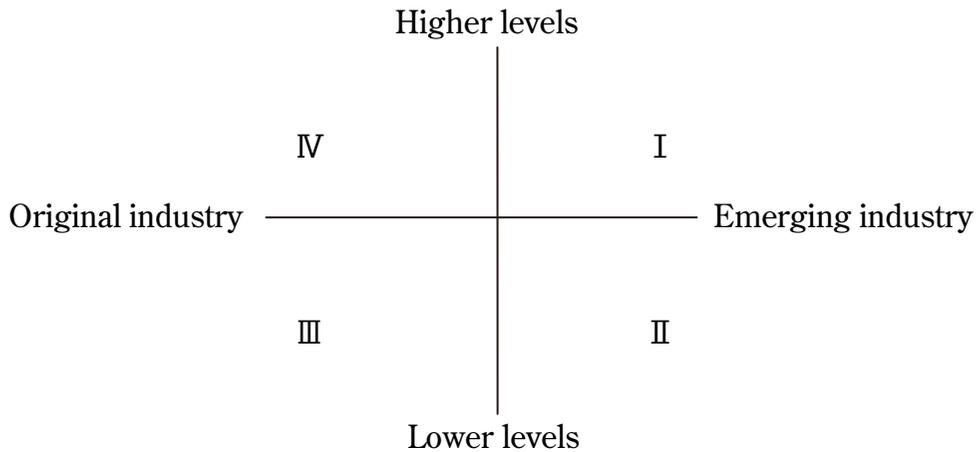


Fig.3-3 levels and industrial traditions of industry associations

differences among Guangdong industry associations can be distinguished through two dimensions. Firstly, it is the level, that is, the development of industry association in the higher level (the provincial and municipal level) is not as good as the one in a lower level (town, area, county); Secondly, it is the industrial tradition, that is, the development of industry associations which have existed in a region in planned economy and have been responsible for corresponding industrial supervisors in their industries (such as metallurgical, textile) is lower than the one of industry associations of the emergence of new industries (such as securities, hairdressing) after the Reform and Opening and is lower than the one of industry associations of traditional industries which were not developed enough (that is no cluster industries) in local areas before Reform and Opening.

Considering the above two dimensions, generally speaking, the development of II type is the best one and the IV type is the worst one. In academic circles, as for the development of non-governmental organization they are divided into two paths, that is, the government choice and social choice or the two types, that is, dissection out of system and new emerging out of system. The two classification of dimensions in essence are interrelated. Non-governmental organizations of dissection out of system are basically fruits of governmental selection, government playing a leading role and many of them are GONGO; The new nongovernmental organization of new emerging out of system is basically the fruit of social choice, relatively independent, which is close to ideal types of Ngos. In terms of theory of institutional changes, the former is the type of supply, where the government is the first action group, the latter is the type of demand, where non-governmental organization is the first action group. The above classification framework

can be not only for suitable for all non-governmental organization classification, but also can be used to subdivide industry associations. If the above classification is employed for industry association to be analyzed and idealized, we can call the former characteristics of industry association dependent form of industry associations and with the latter characteristics of the industry association independent form of industry association.

Combined with our experience of observation in Guangdong, we find the II type of industry association is with a relatively autonomy and the IV type of industry association is with a relatively dependence. Back to analysis of the industry association of industry cluster, we think that they are basically the II type industry association. Guangdong industry clusters sprung up basically in town first, even within the scope of the village of administrative. they are characterized by “one village one products, one town one known product”. In the 1990s, the industrial clusters in Guangdong are called “professional towns,” because many of these industry associations belong to the level of township. The majority of Guangdong industrial clusters are located in areas where agriculture is the most important one in planned economy. At that time, modern industry didn't exist. Even there are some industries, they are not mature. majority of modern industrial clusters were established by the local farmers who captured market demands or were established by private or foreign enterprises as the main bodies. So the II type of industry association is basically the fruit of marketing choice.

Why can the lower and emerging ones among Guangdong industry associations function well and get a fast development? In the process of probing reasons of economic growth of China and actions changing of local governments in economy transitions, we have proposed the concept of “Post Local Corporatism” to explain functions of local governments to promote economic growth in the regions where market reforms have been done well and faster. In academic circles, the concept of corporatism was once used to summarize the fiscal reform before the 1990s and the reform was described as “one stove one meal between various levels of government” where local basic governments work as both officials and entrepreneurs to actively promote the development of local economy. We have found that after the 1990s, in the areas where are characterised by private economy and property right reform has been done well, one aspect, the institutional incentive factors of local grassroots government to promote the development of local economy doesn't change another aspect, the ownership form is transforming mainly from a public economy to a private economy in the areas and under the new institutional constraints, the local grassroots forms of local basic government to promote the development of local economy changed from directly involved in the enterprise internal management to actively attracting foreign investment, creating the good investment environment and promoting the development of local economy from the

enterprise external environment. Because there are close relationship between the local economic growth and local grassroots government's economic and political interests, once they realize that industry associations can effectively promote the development of local economy, the local grassroots government will give strong support to these associations, where the interests and functions between local grassroots governments and industry associations do not conflict. For example, Zhongshan Dachong township government regularly treat persons who are in charge of corresponding industry associations to listen to their opinions, even has transferred land to the industry association. In the investigation of cluster we have observed that local grassroots government officials usually will respect those guild directors (themselves are entrepreneurs too) and a equal and harmonious relationship has been built between both parties.

Compared with the township levels of ones, the status of industry associations of provincial and is relatively low. For example, one time, in a provincial industry association symposium, we saw a young section chief from a supervising department reprimanded an industry association secretary-general relentlessly just because his presentation time is slightly long. Of course, some relevant responsible official departments sometimes will invite industry associations to participate in some decisions, but many of the participation is just some formalistic. One of the difficulties for higher levels of industry association is lack of functioning space. In the process of investigation, We have noticed some functions which would be transferred from government departments to industry associations just because governments thinks the functions are to be unprofitable to turn, however, once governments think some functions are to be profitable to turn, they are not willing to transfer the functions to industry associations. What's more, in a large area, there are relatively low interests correlation between the economy development and the high-level government officials. The initiatives of high-level government officials who will support development of industry associations and promote the economic development are relatively low. Academics use terms like "limited transfer", "edge competing" to describes the phenomenon. With regard to the present relationship between governments and industry associations, we think the descriptions are just appropriate between governments and industry association of higher levels. However, as for the relationship between the industry associations of industrial cluster with local grassroots governments, the above descriptions are not accurate and relations of the latter are more like "active transfer" and "beneficially complementary". For new industries, because corresponding industry associations are not generated from existing systems there are no path dependence to be responsible for those administrative sectors on personnel, organization and other resources originally. The new industry associations are fruits of market competing and demand drive. Usually they will not passively be waiting for external functions shifting by

administrative sectors. These industry association's survival and growth depends on its own functions giving and membership's recognition and they will actively expand living space and they are capable to capture and meet members needs. From the above provided several cases, we can see considering functions of the industry association of industrial clusters, some will organize collective action to reduce the production and management costs and some will help establish guild regulations in the industry to solve problems of IPR (intellectual property rights) and to guarantee product quality by the means besides law and some will help establish transaction institutions to reduce transaction costs and risks. All these functions are timeliness and pertinence. Relatively speaking, for traditional industries, corresponding industry associations which are from the existing system, their members are usually from state-owned or collective-owned enterprises. These enterprises are also responsible for their "mother-in-law" and many things have to be decided by their "mother-in-law". For these enterprises, there are relatively weak demand for industry associations. In the late 1990s, nine new group companies were rebuilt in Guangzhou industrial field. Some industry association functions correspondingly in the fields were transferred to these group companies too. Correspondingly, the positivity of the above group branches (municipal levels, for example) to join in industry associations are reduced generally. However, compared with the above state-owned or collective-owned, with reference to industry associations produced from industrial clusters, the members are mainly from private enterprises and there are no "mother-in-law" originally for these associations. There are relatively large demand to industry associations for these private enterprises. If industry associations of industrial clusters were called "mother-in-law" for these private enterprises, the "mother-in-law" are not assigned but natural, whom are chosen by these private enterprises themselves voluntarily.

## Conclusion

On the basis of case studies of the association of industrial clusters, the paper makes use of some research concepts of non-governmental organization research to analyze some specific cases existed in the industry associations of industry cluster in Guangdong Province by comparing various levels and different industries of trade associations and points out the interest relationship between associations of different levels and government is changeable, and the constitutions of membership system in different sectors of industry associations are various. So exploring the consistent interests between government and industry associations is very important for the development of industry associations and the privatization and the marketization of industry associations could constitute social governance institutional environment and foundations in economic field.

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