Introduction

As a huge transitional economy, China has her unique development experiences. The **Specialized Market** that is the subject of this book is a typical example of this uniqueness. Specialized markets (Zhuanye Shichang) are generally marketplaces located in industrial clusters, specializing in the wholesale supply of local commodities and their related goods. Their sellers and buyers are the countless number of small and medium enterprises (SMEs). In developed countries, such marketplaces appeared on the eve of the industrial revolution and gradually disappeared. In developing countries, most marketplaces have tended to be part of a large informal sector. In contemporary China, however, specialized markets have
Market platforms, industrial clusters and small business dynamics

appeared in many of the modern industrial sectors, such as daily necessities, apparel, metalworking, molds, eyewear and cell phones, and were paradoxically upgraded and expanded along with the development of the industrial clusters (Ding 2010; Ding and Pan 2011).

The specialized markets on the one hand linked with the industrial clusters, and on the other hand, have extended their tentacles to distant markets. Various smaller markets with names such as Commodity City, Apparel City, Cell Phone City, and Auto Parts City are grouped together in the cities and towns in China. Most of these markets have tight links with specialized markets. Some were even established by the manager of a specialized market itself. It is now difficult for ordinary Chinese consumers to survive without these markets.

In accordance with advances in communications and logistics technology, specialized markets further began to form links with emerging overseas markets. There are a number of marketplaces opened by Chinese merchants in Dubai, Johannesburg and Sao Paulo. Merchants from developing countries also come to the marketplaces in Guangzhou or Yiwu, in China, for purchasing.

The specialized markets in the industrial clusters, the markets in China’s cities and towns, and in the emerging economies, have thus joined to form a powerful Specialized Market System. With a seeminglly primitive, but in fact brand-new form, the specialized market system is constantly circulating products from China’s industrial clusters to emerging markets, and through this significantly strengthening the competitiveness of Chinese SMEs.

As a result of the emergence of the specialized market system, China has dramatically become the most market-oriented country in the world. During the period 1978 to 2003, the total number of marketplaces in China increased from 33,302 to 81,017. In a mere ten years from 1990 to 2000, the share of the transaction volume of consumer goods traded in marketplaces accounted for between 26.1 percent and 62.1 percent of China’s “Total Retail Sales of Social Consumer Goods” (NSTGMSS 1991–2001).

In spite of the importance of the specialized market in the real world, its academic significance has not as yet been sufficiently clarified. Based on Western experiences, most Chinese scholars treat the specialized market as merely a primitive institution appropriate for the initial and middle stages of industrialization, considering that sooner or later it will be substituted by more modern distribution systems. On the other hand, researchers in other countries lack perceptual knowledge of such marketplaces, and have shown almost no interest in this unique economic system thus far.

The precise purpose of this book is to systematically summarize, for the first time, the experience of the specialized markets, the distribution system
that has the specialized market as its hub, the industrial clusters that have developed on the basis of the specialized markets, and the numerous dynamic small businesses fostered within the specialized markets.

A brief summary of the contents of the following 11 chapters is given here. Chapter 1 first points out how the appearance of the specialized market is revolutionary through a thorough literature review of SME development.

Chapter 2 presents the framework of the market platform for analyzing specialized markets, distinguishing between the market platform mode clusters and the merchant mode clusters. Basic concepts for specialized market and industrial cluster analysis, including critical mass, indirect network effects, platform governance, and platform competition, are explained. The difference between physical market platforms and virtual market platforms is also discussed.

Chapter 3 overviews the general situation in the specialized markets, using data from 68 markets in 53 industrial clusters in Zhejiang Province. Both the static quantitative characteristics of the specialized markets, and the dynamic process concerning the manner in which the specialized market as a factor of the Wenzhou Model spread to the whole of Zhejiang Province, are clarified in this chapter.

Chapters 4, 5, 6 and 7 form a case study of Yiwu China Commodity City (Yiwu Market). This market is not only the largest daily necessities specialized market in the world, but also the most important innovator in the specialized market system. By focusing on this market, it has been possible to clarify the evolutionary mechanism of the specialized markets in the whole of China.

The fundamental difference between the specialized market and the traditional marketplace is whether the market is being effectively managed and maintained by a platform manager. Chapter 4 points out that the local government has played such a role. The Yiwu government has not only constantly created and fostered new buyers and new sellers for the market, but has also unceasingly established and maintained the transaction infrastructure. As a result, Yiwu Market has overcome various problems that have often occurred in the physical market platform, and has thus become a pioneer market in China’s specialized market system.

Chapter 5 investigates the domestic linkages of the Yiwu Market. Based on the data of a large-scale survey carried out by a local newspaper in Yiwu, this chapter demonstrates that a powerful distribution system for daily necessities has been formed between the industrial clusters, the Yiwu Market, and the markets in China’s main cities. The role of Yiwu merchants in the formation of this system is also discussed in depth.

Chapter 6 discusses the overseas linkages of the specialized markets. On
the one hand, a large number of foreign buyers have come to make pur-
chases in China’s specialized markets, such as Yiwu. On the other hand, a
large number of Chinese merchants have begun to open marketplaces in
overseas markets, such as in African countries. As a result, a new global
distribution system that differs greatly from the well-known global value
chains is emerging.

Traditional marketplaces in developing countries are generally domi-
nated by merchants. In Yiwu Market, however, merchants actively take
part in the production process and producers are easily able to develop
their own marketing means. Chapter 7 describes this unique change in the
producer–distributor relationship, and clarifies the factors that caused this
change.

Chapters 8, 9 and 10 form a case study of China Changshu Zhaoshang
City (Zhaoshang City). This is a latecomer market, and the Changshu
apparel cluster where the market is located has no tradition of long-
distance trade. In spite of these poor initial conditions, Zhaoshang City
has been successful in competition with other platforms and has grown
into the largest specialized apparel market in China. The Changshu cluster
has also become a leading apparel cluster. Based on the case study of this
market, we discuss the mechanism of competition and the logic of upgrad-
ing in a market platform mode cluster.

Chapter 8 studies the role of local government in platform competi-
tion by tracing in detail the initial stage of the development process of
Zhaoshang City. At this time, the local government not only learned a
great deal from the pioneer markets in Zhejiang Province, but also devised
various measures that were suited to the initial conditions of Changshu.
Consequently, this latecomer market was able to become a leading special-
ized apparel market.

Chapter 9 analyzes the logic of quantitative expansion and qualitative
upgrading in the market platform mode cluster. Zhaoshang City has
revived and broadened the Landsmann network of its booth-keepers.
This network has, on the one hand, attracted a large number of small
producers and buyers to the market, and has also, on the other hand,
sustained their vitality under great competitive pressure. Consequently,
an increasing number of apparel factories appeared in the Changshu
cluster, and many leading brand apparel makers have been fostered
simultaneously.

Chapter 10 attempts to classify industrial clusters from the perspective
of market intermediaries. By analyzing data from 65 apparel clusters in
China, we distinguished between three different types of clusters, namely,
the specialized-market-based industrial cluster, the export-oriented cluster,
and the big-company-dominated cluster.
The Conclusion summarizes the fundamental differences between the specialized market and traditional market, and analyzes the reasons why it was possible for specialized markets to appear in China during the economic transition period. We further discuss the significance of the specialized market in developing economies, and the factors that affect the future of specialized markets.

NOTE

1. Before 2005, “Total Retail Sales of Social Consumer Goods” was the sole indicator reflecting the total transaction scale of goods in China’s domestic market. However, this indicator has two limitations. First, it only includes data from so-called “enterprises above a designated size.” Second, it only reflects the situation in retail sectors.