

China's market economy is characterized by the prevalence of "markets," or bazaars, where a large number of small shops gather and sell various types of merchandise. According to the statistics, the sales amount of consumer goods traded in such markets was equivalent to 63% of the national sales of consumer goods in 2002. Despite their importance, they received little attention in academic research. The few but important exceptions are, the work by Skinner¹, which presents a detailed description and analysis of the spatial structure of rural marketing mainly on the basis of the author's field work during 1949-50 in Sichuan, and the work by Sato², which analyzes the sales activities and risk avoidance strategies of family businesses operating at a periodic rural market in Yunnan Province on the basis of the author's interviews and questionnaire survey conducted during 1997-98. While being enlightening, these studies do not make clear the whole structure of consumer goods marketing in China, because they restricted their attention to "rural" marketing, which are situated at the end of a long chain of markets. A book written by Zheng Yongjun and others³, which presents the results of a questionnaire survey conducted in four "specialized markets" (*zhuan ye shi chang*) in Hangzhou, sheds light on the upstream of the chain.

This paper does not claim to clarify the whole structure of the marketing chain, but it tries to enrich the knowledge on Chinese marketing by focusing on an intermediate link of the chain, which is situated upstream of the rural markets studied by Skinner and Sato but perhaps downstream of the "specialized markets" in Hangzhou studied by Zheng. The purpose of this study is to clarify some basic facts about consumer goods marketing in China: where do the goods traded in the market come from and where do they go? From where and how do the shopkeepers come to the market and establish their shops? In other words, this study will clarify the marketing network and social network linked by the market. The linkage of the two networks and the effect of social network on the shop's performance are examined.

Survey areas and survey method

The sites of our study are two markets in Guangyuan City, Sichuan Province⁴. One of the two markets is Wenzhou Shopping Centre (*Wenzhou shangcheng*, hereafter to be referred as Wenzhou Centre), a six story building built at the centre of Guangyuan City

in 1999, housing approximately 300 shops. Another is Yiwu Commodity City, Guangyuan Branch (*Yiwu xiaoshangping cheng Guangyuan fenshichang*, hereafter to be referred as Yiwu Market), a two story complex located outside of the city centre, housing approximately 400 shops. As the names of the two indicate, these markets have relationship with Wenzhou and Yiwu, cities of Zhejiang Province famous as the location of several large “specialized markets.” At the Wenzhou Centre, an entrepreneur from Wenzhou provided a part of the initial investment and he owns the entire second floor of the building, which he rents to shopkeepers. The Yiwu Market, despite its name, has received no capital investment from the China Commodity City, a very large market in Yiwu which trades various consumer goods, including handicrafts, hardware, and garments. Instead, Yiwu City introduced some local merchants to Guangyuan’s Yiwu Market when it was established in 1992. But most of the merchants that came to Guangyuan from Yiwu left there in the past decade, and now only seven to eight merchants remain.

Besides some interviews with the shopkeepers of both markets, the author conducted a questionnaire survey of the shopkeepers in collaboration with Institute of Agricultural Economics, Sichuan Academy of Social Science. The survey was conducted during April to May 2003, collecting 93 questionnaires in Yiwu Market and 63 questionnaires in Wenzhou Centre. The respondents of the survey are the shopkeepers (*yezhu*) of the shops, of which 97% are family businesses. The selection of samples did not follow strict sampling methods, but rather an arbitrary snowball sampling. The reason why we sought cooperative shopkeepers rather than follow a rigorous sampling method was because the purpose of the survey is not to make correct estimates about the population, but rather to have detailed information about the marketing network and social network of each shopkeeper.

The Structure of Marketing Network

In this section and the next section, I will investigate the structure of consumer goods marketing network. The major items sold in Yiwu Market and Wenzhou Centre are shown in Table 1. Yiwu Market accommodates various shops of consumer goods, ranging from garments, shoes, housewares and detergents, while Wenzhou Centre is more concentrated on garments. Except for four shopkeepers, all of the shopkeepers purchase their merchandise outside of Guangyuan City. As Table 2 shows, the vast majority buy their merchandise at Chengdu City. Among the several markets in Chengdu, Hehuachi Market is the most popular place for Guangyuan shopkeepers to

buy garments, shoes, and other various consumer goods. Qingnianlu Market of Chengdu is a place where many shopkeepers buy garments.

Only 10% of the shopkeepers at Yiwu Market and 13% of those at Wenzhou Centre buy their merchandise directly from their makers. The low incidence of direct purchase from makers among the shopkeepers in both markets is in sharp contrast with the situation of the four “specialized markets⁵” in Hangzhou, reported by Zheng Yongjun and others, where 84% of the shops are either the direct outlets of makers, or agencies of makers, or they purchase directly from makers⁶. In Hangzhou, 56% of the shops specialize in the selling the merchandise of a single manufacturer, but in our survey only 5 out of 156 shops named a single manufacturer as their main supplier. This situation, namely that most of the shopkeepers buy their merchandise at wholesale markets in large cities resembles the situation in the rural market in Yunnan, studied by Sato, where many merchants buy their merchandise at a wholesale market in Kunming⁷. From these observations, we can guess that shopkeepers at the market in the upstream tend to buy their merchandise directly from the manufacturer, while shopkeepers in the downstream tend to buy at wholesale markets in large cities.

The direction of sales of the two markets is mostly inside of Guangyuan City. Between Yiwu Market and Wenzhou Centre, however, there is a big difference in the directions of sales. Yiwu Market functions more as a wholesale market than as a retail market, with 71 per cent of its sales directed to commercial enterprises located inside and outside of Guangyuan. Wenzhou Centre, on the other hand, functions more as a retail market than as a wholesale market, with 74 per cent of its sales directed to the consumers of Guangyuan. The distinction between retailers and wholesalers, however, is only a relative one: 83 per cent of the shopkeepers in Yiwu Market and 78 per cent of the shopkeepers in Wenzhou Centre are retailing and wholesaling at the same time. It is quite the opposite of the situation in Japan, where there is a strict division of labor between wholesalers and retailers. Wholesalers usually reject selling merchandise to consumers in Japan. While in Yiwu Market and Wenzhou Centre, no shopkeepers responded that they would reject consumers.

Skinner analyzed the structure of rural marketing as a hierarchical structure, consisted of “central market,” “intermediate market,” and “standard market.”⁸ Similarly, we can see from the above observation that Chengdu markets, Guangyuan markets, namely Yiwu Market and Wenzhou Centre, and the retailers in rural areas of Guangyuan and nearby cities to which the shopkeepers in Guangyuan markets sell their merchandise consist a hierarchy. According to the answers of the shopkeepers, I draw the flow of merchandise that goes through Yiwu Market and Wenzhou Centre as

Figure 1. The difference between our observation and that of Skinner's is that merchandise flows only in one direction, namely from Chengdu markets to Guangyuan markets, and then from Guangyuan markets to rural retailers and consumers, whereas in the rural markets observed by Skinner merchandise flows both upwards and downwards in the hierarchy.

An Analysis of Provincial Aggregate Data

In the previous section I tried to depict the structure of consumer goods marketing network by using the information from our own survey and other previous works. But the picture is far from complete, because the hierarchies above Chengdu markets are inconceivable from our survey. We did ask the shopkeepers to give the number of wholesalers that intermediate between the shopkeepers and the manufacturers of the goods⁹, but I doubt whether the shopkeepers in Guangyuan have correct understanding of the marketing network beyond the place where they buy merchandise.

In order to supplement the information from the survey, I analyze the aggregate statistics of commodity markets¹⁰. The hypothetical structure of consumer goods markets which I will examine by the data is as follows: at the upstream of the flow of merchandise, there are markets that gather locally produced products and export them to all over China and even abroad. Typical examples of such market include China Textile City (*Zhongguo Qingfangcheng*) in Shaoxing, Zhejiang Province, and the previously mentioned China Commodity City in Yiwu. As they are based on a locally specialized industry, these markets specialize in a certain category of merchandise such as fabrics, in the case of China Textile City. The average volume of each trade is large. At the downstream, there are markets that import exotic merchandise from markets in other provinces and manufacturers and export them to other smaller markets within the same province as well as to local consumers. The Yiwu Market and Wenzhou Centre of Guangyuan, and the markets in Chengdu, where Guangyuan shopkeepers buy their merchandise, fall into this latter category. As they cater for the necessities of local consumers, they tend to cover a wide range of consumer goods. The average volume of each trade is smaller compared to the upstream markets.

In the statistics of commodity markets, markets are classified into industrial general markets (*Gongye zonghe shichang*), agricultural general markets (*Nongye zonghe shichang*), and specialized markets (*Zhuanye shichang*). Industrial general market and agricultural general market are places where more than two categories of industrial consumer goods or agricultural consumer goods are traded. If the

abovementioned hypothesis on the marketing structure is correct, the general markets must be located at the downstream, whereas the specialized markets are at upstream. If so, the general markets must be located at the region where the size of local demand is large, and the specialized markets must be located where local production of the item is large. In order to check this hypothesis, the provinces' share of national sales of industrial and agricultural general markets is regressed to the provinces' share of national GDP, which is a proxy for the size of local demand. I also included in the explanatory variables the provinces' share of national industrial output—in the case of industrial general markets—or the provinces' share of national agricultural output—in the case of agricultural markets—in order to check the alternative hypothesis that general markets are located at places where local industrial or agricultural output is large¹¹. Similarly, the provinces' share of national sales of markets specialized in textile, apparel, hats and shoes is regressed to provinces' share of GDP and of national textile and apparel industry output. The result of regression analysis (Table 4) shows that the size of industrial and agricultural general markets' sales depends on the provinces' GDP. The size of textile, apparel, hats and shoes markets' sales depends on the provinces' textile and apparel industry output. These results suggest that specialized markets are densely located at the upstream, namely at the location of industrial production, while general markets are densely located at the downstream, namely at the location of consumer demand. The average volume of trade is larger in specialized markets than in general markets: sales per one square meter of shop floor is 39,000 Yuan in textile, apparel, hats and shoes markets, while in industrial general markets it is 21,500 Yuan and in agricultural general markets, 21,000 Yuan. Among the specialized markets, the average trade volume at those markets located in the upstream is larger than that at downstream markets: in the case of textile, apparel, hats and shoes markets, sales per shop floor is correlated with the provinces' share of textile and apparel industry output ($r=0.55$). These figures suggest that specialized markets at the upstream have wholesaling function, whereas the specialized markets at the downstream and general markets have more retailing function.

Starting Business in Guangyuan: The Effect of Social Network

In this section, I will describe the origin of the shopkeepers that came to Yiwu Market and Wenzhou Centre and started business. Table 5 summarizes the data on the birthplaces of the shopkeepers. The shopkeepers can be grouped into several groups by their birthplaces: at the Wenzhou Centre, people from Guangyuan occupy 65 per cent of

the shopkeepers. People from Nanchong, a city adjacent to Guangyuan, occupy 16 per cent. 8 per cent is from other districts of Sichuan Province. Wenzhou Centre is overwhelmingly occupied by local shopkeepers. At the Yiwu Market, by contrast, the proportion of shopkeepers from Sichuan is much less, only 45 per cent. Shopkeepers from Hubei Province, most of them coming from two small cities located in the centre of the Province, make the second largest group in Yiwu Market. People from Chongqing form the third largest group, and people from Zhejiang Province, including three shopkeepers from Yiwu¹², the fourth.

Table 6 summarizes the former experiences of the shopkeepers and how they have been led to the two markets and started business there. In the case of immigrant shopkeepers, most of them—57 per cent in the case of shopkeepers from Nanchong, and over 70 per cent in the case of shopkeepers from other places—had information about the place from their parents, relatives and friends of the same birthplace before coming to Guangyuan. We can see that information which transmits through social networks plays an important role on the immigrant shopkeepers' decision to open a shop in Guangyuan. In the case of shopkeepers of Guangyuan origin, by contrast, the importance of information from relatives and friends is limited. The ratio of those who had experience of being unemployed is high compared to shopkeepers from other places, suggesting that unemployment is one of the reasons why the shopkeepers of Guangyuan origin started shops.

Among the immigrant shopkeepers, there is a sharp contrast between those coming from Hubei and Zhejiang Provinces and those coming from Sichuan Province and Chongqing. Most of those from Hubei and Zhejiang have experience in running shops in other cities. Guangyuan may be their second or third place to run a shop. On average they have longer experience in commerce: 11.0 years in the case of Hubei people and 11.8 years in the case of Zhejiang people, while 7.6 years in the case of the rest. By contrast, those from Sichuan Province and Chongqing have little experience in running shops at places other than Guangyuan; they spent 80 to 100 per cent of their commercial life in Guangyuan. More than half of them, however, have experience in working as emigrant workers in places other than their birthplace and Guangyuan. They may have accumulated capital and experience to start business while they worked as emigrant workers.

Merchandise Flow and Social Network

As shown in Table 2, shopkeepers from Zhejiang tend to buy their merchandise from

Zhejiang Province compared to other shopkeepers. Shopkeepers from Chongqing tend to buy from Chongqing. In the cases of other shopkeepers, however, there is no relationship between their birthplaces and the places they buy their merchandise. Social networks have influence on purchasing only in the cases of shopkeepers from Zhejiang and Chongqing.

With regards to the direction of sales, the average ratio of direct sales to consumers of shopkeepers from Guangyuan is significantly higher than the ratio of others (Table 7), suggesting that the former has advantage in selling merchandise to the citizens of Guangyuan. The ratio is significantly lower in the case of shopkeepers from Hubei Province. The reason for this is unclear from our survey.

The above analysis suggests that social networks between people of the same birthplaces have influence on the direction of merchandise flow.

Commercial Productivity and Social Network

We saw that social networks have a certain influence on the merchandise flow and the shopkeepers' decision to start a shop. Now I will examine the influence of social networks on the productivity of shops.

The production function of a shop, adopting the Cobb-Douglas production function, is defined as:

$$\ln Y = C + a \ln L + b \ln K + \beta'X. \quad (1)$$

Y is the added value of a shop. In the questionnaire, the amount of sales, purchase, rent, tax and other fees are asked. From these figures we can estimate the added value. However, if we subtract the amount of purchase, rent, tax and other fees from the sales, and also 400 Yuan per one work force per month—a rough estimate of monthly wage—, 112 shops out of the 156 samples turn out to be running in the red. This suggests that either the condition of the shops is very bad or many of them are underreporting their sales or overreporting their costs. Judging from the comments by the shopkeepers, they do seem to be in bad conditions. But I still doubt that many shopkeepers are either underreporting sales or overreporting costs, which is understandable because the shopkeepers fear being taxed heavily if the authorities know their real sales amount. Therefore, I give up estimating added value by subtracting costs from sales, and instead I estimate added value by simply assuming that added value is a fixed proportion of sales, namely $Y=cS$, of which S stands for sales, and c is a constant which takes a value between 0 and 1.

The explanatory variables of equation (1) are: L is the number of work force,

including the shopkeeper him/herself, of the shops. K stands for the capital of shops. The shops seem to have no fixed capital except for the shop floor. The value of the shop floor, namely its area and location, must be proportional to the amount of rent. All but one of the shops rent the shop floor. Therefore, we can estimate the value shop floor simply by multiplying the amount of rent: $K=kR$, of which R stands for rent, and k is a constant. X is a vector of variables which seem to have impact on productivity, including: Human capital factors. The education and experience of working in shops of the shopkeepers may have impact on productivity; Network factors, such as the shopkeepers' birthplace and their evaluation on the relationship with local people and people from the same birthplace; Business type factors, such as the proportion of retailing and wholesaling, the arrangement of payment with the main supplier—whether by cash, or by bank remittance, or by draft, or on consignment—, which may reflect the degree of trust extended to the shopkeeper by the supplier, and whether the shopkeeper have borrowed money in the past or not.

By substituting $Y=cS$ and $K=kR$, the production function is rearranged as:

$$\ln S = (C - \ln c + b \ln k) + a \ln L + b \ln R + \beta'X. \quad (2)$$

The result of regression analysis is shown in Table 8. The coefficients of $\ln L$ and $\ln R$ add up to 1.03, suggesting almost constant returns to scale. With regards to human capital factors, only the years of experience of working in shops significantly raise the shop's productivity. Years of education seem to have no impact on productivity: shopkeepers with senior high school or higher education level are not significantly more productive than the reference—shopkeepers with elementary school education.

With regards to network factors, most of the factors are insignificant in raising productivity. Those who responded that they have strong relations with people from the same birthplace, or have good relations with local people are no more productive than the others. Only those coming from Zhejiang Province and from other cities in Sichuan have significantly higher productivity than the reference—shopkeepers from Nanchong, suggesting that they have better commercial skills. Shopkeepers from Hubei have the highest proportion of giving a positive answer to the question asking the relations among people from the same birthplace¹³, suggesting strong ties among them. But their productivity is rather low compared to other shopkeepers. These results indicate that social network factors do not have significant impact on productivity.

With regards to business type factors, the shopkeepers with high proportion of retailing tend to have low productivity. The reason for this may be because retailing takes more times of transactions than wholesaling to achieve the same amount of sales, accruing more transaction cost to the shops.

The productivity of those adopting later payment have significantly higher productivity than normal shopkeepers, who pay by cash, but those adopting advance payment have lower productivity. This suggests that whether or not being trusted by the suppliers has impact on the shop's productivity. Those who have borrowed money have high productivity.

The above analysis suggests that the shop's productivity is influence mainly by the individual characteristics of the shopkeeper, including his/her work experience and his/her ability to gain trust from the suppliers and to borrow money. Strong ties among shopkeepers coming from the same district do not have significant impact on the productivity of shops.

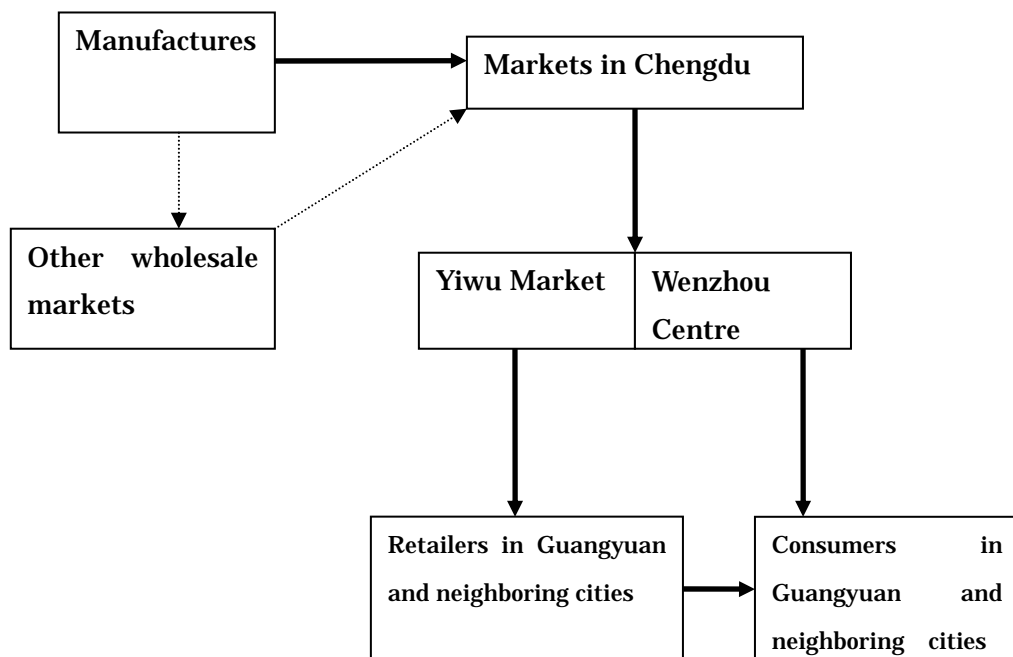
Conclusion

Our analysis of questionnaires and aggregate data suggests that consumer goods, such as garments, shoes, and housewares, flow from manufacturers to local specialized markets, and then from specialized markets to large general markets at the places where they are consumed, and then from large general markets to smaller general markets, and then from small general markets to even smaller markets or to consumers. Thus consumer goods change hands at several markets before reaching the consumers. By going through several markets, consumer goods coming from different origins are mixed together and form a product mix catered for the needs and taste of consumers in each region.

Markets are places where not only the merchandise but also the information of demand and supply is exchanged. The product mix at shops of a market provides information on supply to the buyers, and the purchasing behavior by the buyers provides information on demand to the sellers and manufacturers. The fact that consumer goods go through several markets suggests that many pieces of information are needed to be exchanged in order to match the supply and demand in a big country like China, especially in the case of unknown consumer goods such are traded at Yiwu Market and Wenzhou Centre.

Our analysis also reveals that social network between people from the same birthplace have significant impact on the immigrant shopkeepers' decision to open a shop and on the direction of merchandise flow. Social network, however, does not seem to have impact on the productivity of shops. The shopkeeper's work experience and his/her ability to gain trust have more impact on productivity than social network factors.

Figure 1 The Flow of Merchandise that goes through Yiwu Market and Wenzhou Centre



(Note) This figure draws only the major flows.

(Source) By the author, based on the questionnaire survey conducted at Yiwu Market and Wenzhou Centre.

¹ G. William Skinner, "Marketing and Social Structure in Rural China, Part I," *The Journal of Asian Studies*, Vol.24, No.1, (1964) pp.3-42; "Marketing and Social Structure in Rural China, Part II," *The Journal of Asian Studies*, Vol.24, No.2, (1965) pp.195-228; "Marketing and Social Structure in Rural China, Part III," *The Journal of Asian Studies*, Vol.24, No.3, (1965) pp.363-399.

² Hiroshi Sato, "Network capital, political capital and the bazaar economy in rural Yunnan: a family business survey of a periodic market," in Hiroshi Sato, *The Growth of Market Relations in Post-Reform Rural China, A Micro-Analysis of Peasants, Migrants and Peasant Entrepreneurs*, (London: RoutledgeCurzon, 2003) pp.25-50.

³ Zheng Yongjun, Yuan Yachun, Lin Chengliang and others, *Jiedu "shichang dasheng," Zhejiang zhuanke shichang xianxiang yanjiu, (Decoding "the Market Centre": A Study of Specialized Market Phenomenon of Zhejiang)* (Hangzhou: Zhejiang daxue chubanshe, 2002)

⁴ Guangyuan City has a population of 3 million, with an area of 16 thousand square kilometers. Guangyuan is an underdeveloped district in the Province. Its urban per

capita income was 70% of the national urban average and its rural per capita income was 58% of the national rural average.

⁵ The four markets are Small Commodity Market, Garment Market, Bicycle Market and Household Electronic Appliance Market.

⁶ Zheng Yongjun and others, *Jiedu "shichang dasheng,"* pp.79-80.

⁷ Hiroshi Sato, "Network capital, political capital," p. 38.

⁸ G. William Skinner, "Marketing and Social Structure," p. 7.

⁹ The result was: 67 per cent of the respondents have one intermediate, 12 per cent have one to two, 14 per cent have two, 4 per cent have two to three, and 2 per cent have three.

¹⁰ *Zhongguo shangpin jiaoyi shichan nianjian 2003 (Statistical Yearbook of China's Commodity Exchange Market, 2003)*(Beijing: Zhongguo tongji chubanshe, 2003)

¹¹ In addition, I tried to include an index indicating the province's convenience for transportation, in order to check the hypothesis that general markets or specialized markets are located at places which have good access to other provinces. But it turned out to be insignificant in either case.

¹² They are possibly the remnants of the Yiwu entrepreneurs that have been introduced in the early days to the market.

¹³ 94 per cent of shopkeepers from Hubei gave positive answers to the question asking the relationship among people from the same birthplace, whereas 72 per cent in the case of other immigrant shopkeepers.