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EFFECTS OF GOVERNMENT REFORM AND CREATIVE CLUSTERS ON CHINESE
ENTREPRENEURSHIP

by

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A Thesis Submitted in Partial Fulfillment
of the Requirements for a Degree with Honors
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ABSTRACT

This thesis analyzes the ways in which Chinese entrepreneurs have interacted with and responded to government policy. An examination of ethnographic research on the Shenzhen “Special Economic Zone” revealed that the forms entrepreneurship that emerged there during the early years of China’s economic reforms are rooted in the history and culture of the region. Analysis of modern policies, such as the 13th 5-Year Plan (2016-2020) and the Internet Plus doctrine, determined that the state strategy for encouraging entrepreneurship is now focused on empowering local governments, rather than individuals, as entrepreneurial agents. The city of Hangzhou’s “Dream Town” creative cluster is proposed as a potential site for future ethnographic research to determine whether the incentives offered by the local government are aligned with the motivations of the individual entrepreneurs.

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INTRODUCTION

In recent decades, China has emerged as a major economic power on the world stage. Despite being ostensibly communist, the Chinese government has undergone significant reforms aimed at introducing market functions to their economy. In this thesis, I examine the relationship between Chinese culture, government reform and the rise of the Chinese economy. In doing so, I focus specifically on entrepreneurship in creative clusters, within the global context of neoliberalism. I ultimately determine that there is a need for more ethnographic research comparing government incentives to the real motivations of entrepreneurs.

Background on Chinese Entrepreneurship

Entrepreneurship in China has dramatically expanded since the beginning of market reforms in the 1970's. As the private sector has grown to account for a majority of China's economy, entrepreneurship is increasingly seen as an engine for China's economic growth. That being said, various factors account for an uneven distribution of entrepreneurship across China (Zhen & Zhao 2017). These include historical and geographic realities of certain regions (Guo, He & Li, 2015), as well as differences in the central and local governments' approach to entrepreneurship (Qian 2011). Some of these distribution patterns are the result of China's strategy for entering the globalized industrial manufacturing market after the 1978 "Reform and Opening Up".

This reform marked a major shift in the evolution of Chinese entrepreneurship. The period from the end of the Civil War through the Cultural Revolution had been characterized by “national political campaigns and mandates that sought to eradicate the capitalist class, private sector, and entrepreneurs” (Zhen & Zhao 2017, p. 231). The reforms of 1978 initiated a second phase, no longer dominated by state-owned enterprises. However, even during this phase entrepreneurship was guided by state controls. One way that this manifested was in the preferential allocation of rationed resources towards new enterprises in favored industries (Oi, 1995). In 1988, the Chinese government officially recognized the private sector. Many private enterprises which had been operating in a legal grey-area were able to join the formal economy (He, Lu & Qian, 2017).

Entrepreneurs in this time period were still wary of the shifting economic and political environment. As a result, the entrepreneurial risk was often assumed by state actors that were more insulated from the political risk. In many cases, the local Communist Party secretary acted as the leader of a group of local officials in roles equivalent to “a board of directors and sometimes more directly as the chief executive officers” (Oi, 1995 p. 1133). Provided with new incentives, the same managerial apparatus that had proved inefficient under Mao was able to successfully guide the first two decades of China’s embrace of entrepreneurship.

Making use of the local government to direct new forms of entrepreneurial action is a strategy that has persisted into the modern day. However, the particular methods employed changed over time. For example, the power of the local Party officials over such elements of the economy as rationing and market prices had waned significantly by the mid-1980s (Oi, 1992). Also, the initial similarity of incentives offered to each local government produced

similar results regardless of the region. It is only since the mid-1990s that regional specializations have emerged (Oi, 1995).

Rapid industrialization continued into the 1990's as China solidified its position as a major manufacturer. Guo et al. (2015) note the importance of industrial clusters to new entrepreneurial ventures in this time period. Industrial clusters are "localisation economies" that "stem from the clustering of firms within the same industry in the local economy, which generates external economies available to local firms through labour market pooling, input-output linkages and specialized knowledge spillovers (Marshall, 1920 as cited in Guo et al. 2015 p. 2586). Therefore, firms with similar or complementary businesses, such as a shoe factory and a leather tannery, are both more likely to form together and to survive as result of attracting mutually necessary resources. The proximity of similar firms has been shown to be more significant than the presence of a customer base in fostering entrepreneurial growth (Glaesser, Kerr & Ponzetto, 2010).

Although some of these industrial clusters arose organically, the Chinese state also encouraged their formation by specifically designating certain areas for industrial development. The idea of clusters is still an important element of China's plans to encourage entrepreneurship in areas other than manufacturing utilitarian goods (Murphy, 2012).

In particular, the expansion of the cultural and creative industries is making use of the cluster model. According to Murphy (2012), the cultural and creative industries are:

...concerned with the development and dissemination of goods and services that are cultural in nature: works of art, crafts, music and architecture; television programs, theater productions, and movies; toys and videogames; published materials; advertisements; cultural tourism sites and more...

(Murphy, 2012 p. 179)

This broad definition encompasses both the reproduction of traditional Chinese culture and the creation of new products. For example, a production of the Peking opera is within the sphere of the cultural industries but it is not “creative” unless it also produces something new. There is room for argument that such a production is inherently “creative”, because each iteration of even an ancient work of art is unique in some way. This ambiguity between the “cultural” and “creative” has resulted in some confusion as to what is being measured in attempts to quantify growth in these areas (Keane 2011). The distinction between what amounts to “culture” and what counts as “creative” will need to be made more clear in the future, especially as China has in recent years been using the moniker of ‘cultural and creative industries’ to describe entrepreneurship in the digital space.

Entrepreneurship is often viewed through the lens of Western economic theory. The “creative entrepreneur” idealized in Western societies presents a difficult model for China to follow. The counter-cultural implications of creativity in the Western sense are not as compatible with Confucian or Socialist values (O’Connor & Gu, 2014). Qian (2011) argues that empowering local governments as entrepreneurial actors, rather than individuals, allows the Chinese state to capitalize on the opportunities within the creative realm without

jeopardizing its ultimate authority. An examination of “the development of cultural projects in China” as they relate to entrepreneurship must therefore be approached in the context of “the desires of the central government and micromanagement by local officials” (Keane & Chen 2017, p. 9). The partnership between the central and local governments with regards to creative entrepreneurship is further explored in the following section. For the purpose of this thesis, I will focus on entrepreneurs’ individual conceptualizations of themselves. I will also use existing ethnographic research to highlight some key ways that these conceptualizations differ from how entrepreneurship is envisioned by the state.

Creative Entrepreneurship

The primary method for harnessing the power of creative entrepreneurship within the confines of state planning in China has been the “creative cluster” (Keane 2009). These new kinds of clusters are similar in structure to their industrial predecessors, relying on proximity of similar firms. Since the 1950’s, China has formally announced its economic intentions in a series of 5-Year Plans, governmental strategic plans for economic development reviewed and reformed every 5 years. Creative clusters were endorsed in the Chinese government’s 11th 5-Year Plan (2006-2010) and received further support in the 12th Five-Year Plan (2011-2015). The 13th 5-Year Plan (2016-2020) marks a significant shift in China’s strategy for economic growth from capital-accumulation to innovation (Aglietta & Bai 2016). In particular, there is a “belief that digital start-ups will kick-start China’s ‘indigenous innovation capacity’” (Keane & Chen 2017 p. 5). To promote capacity for indigenous innovation, the state has implemented a doctrine called ‘Internet Plus’, which “equips local governments with sufficient autonomy and incentive to act in an entrepreneurial fashion”

(Hong 2017 p. 1490). Thus, the internet has been embraced as a territory for Chinese creative entrepreneurship led by local government planning, paving the way for continued creative clusters in the digital space.

Creative Clusters

The study of creative clusters in China is itself new, and the relationship of these clusters to entrepreneurship has yet to be thoroughly examined. In this thesis, I examine the intersection of entrepreneurship, the creative industries, and the overlapping plans of China's central and local governments. In doing so, I hope to provide a blueprint for future research in this area. In Chapter 1, I begin by exploring the nature of entrepreneurship in Shenzhen, the first "Special Economic Zone" created by the 1978 reforms. The "counterfeiting culture" of Shenzhen as well as its unique local history and realities provide an model for the organic development of creative clusters and entrepreneurship in China. In Chapter 2, I discuss the impetus for and impact of the 13th 5-Year Plan and the Internet Plus doctrine. In doing so, I elucidate the use of creative clusters by local governments acting as entrepreneurial agents. This is further expanded upon in Chapter 3. Here, the example of digital innovation promoted by Zhejiang Province, and its capital Hangzhou, are particularly helpful in illustrating how the former the industrial cluster model has been adapted to serve digital entrepreneurship.

I conclude with recommendations for future research. In particular, I feel that the understanding the exact relationship between local government incentives for innovation and the motivations of entrepreneurs responding to those incentives would be well served by an ethnographic study. That study could be conducted in a similar manner to the ethnographies

by Steffen and Tremon discussed in Chapter 1, except focused on Hangzhou's "Dream Town" cluster examined in Chapter 3.

CHAPTER I

SHENZHEN AND SOCIALLY EMBEDDED ENTREPRENEURSHIP

In this chapter I will discuss the Shenzhen “Special Economic Zone”, and particular forms of entrepreneurship produced by the city’s “counterfeiting culture” and familial lineage system. In doing so, I examine how Shenzhen became the center of a large scale creative cluster in the Pearl River Delta before the Chinese Communist Party (CCP) formally endorsed such clusters. I also look at how the socially embedded nature of the lineage system compares to the decision making of a specific entrepreneur, Lilly, operating with her own various social pressures elsewhere in China. Overall, this chapter provides an understanding of how entrepreneurs have reacted to government policies and incentives during a time period of loosening state control. This will later be contrasted with the modern approach, which involves empowered local governments acting to encourage entrepreneurship according to larger state aims.

Background related to Special Economic Zones

Nearly thirty years after the Chinese Communist Party (CCP) emerged victorious in the Chinese civil war, China found itself well behind other regional powers in terms of development. Under Mao Zedong, the CCP decided to focus on a “Big Push” Soviet style of modernization. This strategy involved the simultaneous industrialization of all aspects of the economy while also minimizing reliance on trade. It proved ineffective compared to the

light-manufacturing export economies embraced by Japan, Taiwan, South Korea and others in East Asia. In the wake of Mao Zedong's death, a new course could be charted for China. In 1978, Deng Xiaoping, a recently rehabilitated survivor of multiple political purges, assumed control of the CCP and spearheaded a radical new direction for the Chinese economy. His campaign was known as "Reform and Opening Up". Deng oversaw the gradual embrace of free market principles both in export driven "special economic zones" (SEZs) as well as the agricultural sector. For the purpose of this chapter, I am choosing to focus on the SEZs. The development of SEZs began a period of explosive economic growth in China that continues to this day.

The SEZs were a key element in these reforms. SEZs used the model of the export processing zone, which had been successful elsewhere in the world, without requiring changes to the Chinese economy as a whole. Export processing zones more generally are regions that specialize in the manufacture and export of goods such "textiles, garments, and light consumer electronics" (Neveling, 2014 p. 66). These zones emerged across the globe in the post-war period to serve the rapidly globalizing market, and attracted foreign investment by offering "waivers of tax and customs payments for a given number of years, low-cost rental or lease of state-built industrial infrastructure, and the promise of a cheap workforce without the right of unionization" (Neveling, 2014 p. 67). A successful export processing zone relies on the free-trade foundation commonly espoused by neoliberal advocates for globalization. In Asia, the embrace of export processing zones as the engine of economic development has been viewed as the "harbinger of neoliberalism" (Neveling, 2014 p. 66).

According to Neveling (2014) "neoliberalism as an all-encompassing historical phenomenon" (p. 67) is born in part from "enthusiasm for globalization among academics in

the 1990s [that] occasionally escalated into hyperbole about the emergence of a ‘world without borders’” (Smart, 2005 p. 175). SEZs are a type of export processing that was isolated from the rest of the Chinese economy. This isolation was intended to quarantine the free market effects related to neoliberalism from the still existing command economy. However, as will be discussed below, this was ultimately unsuccessful.

While the creation of export processing zones in Asia began in earnest shortly after WWII, it was not until the period of “Reform and Opening-Up” conducted under Deng Xiaoping that the CCP adopted them as part of their economic strategy. At odds with the Communist Party’s former ethos, these so-called SEZs were nonetheless considered an integral part of the new “Socialism with Chinese characteristics” campaign. This campaign was inaugurated with the “Reform and Opening Up”, and represents an adaption of the fully command economy to one with a mix of markets and state control.

Shenzhen Explained

The city of Shenzhen was selected as the first SEZ. At the time, Shenzhen was a conglomeration of small fishing villages in the Pearl River Delta bordering Hong Kong. The location of Shenzhen worked on two levels: it was remote enough from the central authority in Beijing to be allowed some autonomy and its proximity to Hong Kong afforded opportunities to attract foreign investment (Keane & Zhao, 2012). These two factors were important because Shenzhen's distance from the Chinese core would accomplish the goal of maintaining the separation between the SEZ and larger Chinese economy, while allowing foreign capital to enter China through Shenzhen. Though the Communist Party exerted strict economic control in the period directly prior to Shenzhen’s SEZ classification, the rural

nature of the not-yet city meant that it was only after the reforms that significant efforts at consolidation and urbanization began (Tremón, 2015). These efforts manifested in “the taking over of the land heretofore managed by the collective by the state” (Tremón, 2015 p. 72) and the dismantling of existing social structures for the sake of “a purely economic logic and managerial rationality” (Tremón, 2015 p. 78). The intention was to create an environment conducive to the globalized free market.

To understand Shenzhen, it is necessary to situate it in its historical, cultural, political, and economic contexts. The SEZ classification dramatically increased the economic capacity of Shenzhen, leading to an influx of immigration. Thus, Shenzhen was the first Chinese city to subsume its surrounding villages (Tremón, 2015). The immigration movement into Shenzhen was fraught with tensions. According to Smart et al. (2005) the immigrants were at first largely considered “the wrong kind of people” for “a planned transformation to a knowledge-based society” (Smart 2005, p. 185). However, Chen and Ogan noted that “despite an earlier lack of higher education. . . the subsequent rapid expansion has caught up in providing the needed human resources for sustaining Shenzhen’s innovation” (Chen & Ogan, 2017 pg. 62). Today, “You are a Shenzheners once you come here” (Chen & Ogan, 2017 p. 60) is a popular saying. However, the border with Hong Kong remains a “hard-edged and policed discontinuity” (Smart, 2005 p. 176) creating a boundary between Shenzhen, a multicultural city by China’s standards, and the even more cosmopolitan Hong Kong. This border serves to solidify the Shenzheners identity via the inescapable “demographic and cultural” contrast (Chen & Ogan, 2017 p. 61) with Hong Kong. As explained in the following section, entrepreneurs would capitalize on the market conditions created by this border in order to create Shenzhen’s famed “counterfeit culture”.

Economic relationship among Shenzhen's SEZ, *shanzhai*, and creative clusters

Shenzhen's distance from the core of government control allowed for experimentation with its economic style. This isolated location was a major reason why the location was selected to become one of the first SEZs, but the distance from the core government also allowed for experimentation beyond even what was expected of an SEZ. The flow of tourists into Shenzhen from Hong Kong fueled a demand for cheap, counterfeit versions of famous electronic brands. Shenzhen was already in the business of producing cheap electronics, but the tourist demand for stolen brand names led to an increase in their burgeoning counterfeiting industry. The prevalence of these "knock off" or "*shanzhai*" products has since become synonymous with Shenzhen and is a major part of the city's entrepreneurial identity (Keane & Zhao 2012).

Cultural anthropologist Lynn Jeffrey (2011) outlines the rules of *shanzhai* as follows

- 1) *Design nothing from scratch; rather, build on the best of what others have already done.*
- 2) *Innovate the production process for speed and small-scale cost savings.*
- 3) *Share as much information as you can to make it easy for others to add value to your process.*
- 4) *Don't make it until you've already got a buyer.*
- 5) *Act responsibly within the supply chain. (para. 14)*

Keane and Zhao argue that *shanzhai* is a form of "second generation innovation", which must be understood as a creative process in its own right. What's more, "*shanzhai* innovation is indicative of the region around Shenzhen" (Keane & Zhao 2012, p. 223), forming the core of a creative industry in the Pearl River Delta. Thus, *shanzhai* plays central role in a large-scale creative cluster associated with the economic growth in the region (Murphy 2012). By necessity, much of *shanzhai* operates in the informal economy, meaning

the revenue it produces is not entirely accounted for in official statistics. (Keane & Zhao, 2012). However, the economic impact is still significant and the informal nature of *shanzhai* contributes to a symbolic significance as well.

The literal translation of *shanzhai* is “mountain bandits”. It reflects an “escape from authority, rising up against social injustice, and developing a set of rules parallel to those of the government” (Wu, 2000; Xi, 2009, as cited in Keane & Zhao 2012, p. 217). This symbolism of mountain bandits evokes the image of traditional culture escaping the influence of the state. As explained earlier, the creation of SEZs is often interpreted as an effort to benefit economically from the neoliberal principles undergirding export processing zones while quarantining the effects of free-trade from the rest of the Communist power structure. In many ways, Shenzhen is resistant to an analysis along these lines, with *shanzai* being one factor animating that resistance. Although market forces are the driving factor in the development of *shanzhai* culture, the disregard for intellectual property that it entails is counter to the globalized ethos of free-trade embodied by neoliberalism.

The Influence of Cultural Tradition on Shenzhen

In her ethnography, “Local capitalism and Neoliberalization in a Former Shenzhen Lineage Village”, Tremon demonstrates that “neoliberal principles that have led to the formation of Shenzhen as a vanguard of capitalism in China are both combined with and countered by other ethical traditions” (Tremon, 2015 p. 71) which predate the city’s transformation into an engine of China’s globalization. In other words, the culture of Shenzhen was ripe for entrepreneurial exploitation. While the mechanisms of the SEZ economy serve a neoliberal function in that they “seek to implement the conditions for

capitalism's effective working" (Tremon, 2015 p. 73), the individual entrepreneurs involved may have had a different understanding of their roles.

To view the development of Shenzhen from a conglomerate of fishing villages to an SEZ mega-city through the lens of neoliberalization misses much of the picture. Such a narrow view also serves to reinforce the notion that the SEZ functionally quarantines free-market ideas as something which is apart from the rest of China. Because export processing zones as a whole are highly reliant on "the continual re-creation of entrepreneurial stock" (Smart, 2008 p. 134) the resulting churn "acts as a buffer between volatile market demand and large well-established businesses" (Smart, 2008 p. 133). Acting as subcontractors, small businesses are able to maintain some autonomy and also bear the brunt of potential losses. The final effect may be neoliberalization via the dominance of market logic, but many entrepreneurs see themselves instead as embedded in other processes, or removed from such concerns entirely (Tremon 2015, Steffen 2017).

The transition of Shenzhen to an SEZ was eased by the historical culture of hierarchical lineage. Tremon argues that the lineage system that existed in the fishing villages which would eventually become Shenzhen operated in a similar fashion to an entrepreneurial enterprise. The village which is the focus of her ethnography traces its lineage back to a single ancestor, Zhenneng, whose "foundational act. . . is depicted in the genealogy history as an entrepreneurial act" (Tremon, 2015 p. 75). The village itself operated in a fashion similar to a corporate structure, and in fact "since their 'invention' (Faure, 1989, as cited in Tremon, 2015), lineages have been conceived of as a corporate enterprise" (Tremon, 2015 p. 74). Villagers within the lineage were entitled to shares of the profits, which included not only the fish but also the rents paid by non-lineage residents.

Shares and rents were distributed in an egalitarian way within the lineage group, and “the village leaders managed the collective real estate assets in the name of the ‘public good’” (Tremon, 2015 p. 76). In this way, “the vision of the lineage as enterprise does not match the capitalist business type” (Tremon, 2015 p. 74). However, the overall distribution of shares among the family does prefigure a corporate notion of “shareholders”. In fact, the injection of the capitalist ethos into Shenzhen during the “Socialism with Chinese characteristics” campaign might have been so successful because it was applied to this existing structure. As Tremon puts it, “the revival of the lineage system can be seen as having been stimulated by the economic reforms” (Tremon, 2015 p. 74). Even so, the introduction of reforms was not without considerable tension.

Although the lineage system was previously abolished by the Communist government, those policies were not enforced to the same degree in rural areas surrounding Shenzhen. Thus the lineage system persisted, albeit in a diminished state. Even in its diminished capacity, the lineage system still provided a scaffold for a capitalist hierarchy, paving the way for the central government to classify Shenzhen as an SEZ. However, the Chinese government, while promoting SEZs, did not embrace the concept of a lineage system and continued to rid Shenzhen of the notion of explicit lineage ties. The efforts to abolish the lineage system manifested in an attempt to isolate and preserve the economic aspects of Shenzhen’s history, while de-privileging the motivations that produced them. Thus, the government’s aim was “the disembedding of the economic from the social” (Tremon, 2015 p. 73), and “the traditionalism, conservatism, and backwardness of lineage ties are seen as running against Shenzhen's road toward modernity” (Tremon, 2015 p. 78). Ironically, the influence of Shenzhen *shanzhai* emerged as a direct result of these endeavors

to curtail its culture. According to Tremon, labor is organized in Shenzhen along ancient patterns of “particularist ties of kinship and geographical proximity that prevailed in the formation of shareholding companies” (Tremon, 2015 p. 78). Rather than an adaptation to the current reforms, the “ethos of entrepreneurialism” (Tremon, 2015 p. 74) has been integral to Shenzhen since its ancestral founding. The argument can be made then, that cultural nature of Shenzhen led to the development of a successful SEZ as a creative and cultural cluster.

As stated earlier, there have been attempts to reduce the analysis of Shenzhen's complex economic history to aspects of neoliberalism. Given Shenzhen's proximity to Hong Kong, it can at first appear trivial to minimize the peculiarities of its circumstances in favor of an interpretation which focuses on commonalities among export processing zones; cities which are both the product and producer of the globalized economy. The inherent problem with neoliberal analysis is that it “ignores how these spaces are structurally embedded in the wider economy” (Cross, 2010 as cited in Neveling, 2014 p. 68), while at the same time professing to give an overview of neoliberalism as an actionable economic system. Neoliberalism does not fully explain the interaction between Shenzhen culture and its increase in economic development after becoming an SEZ.

Adding to the notion that there is a need for more complex analyses of Shenzhen as an SEZ, Tremon cautions that capitalism and neoliberalism must be considered separately.

Capitalism is “an economic system based on private property rights organizing relations between workers and owners of the means of production” while neoliberalism exists as an “ideopraxis that seeks to implement the conditions for capitalism's effective working” (Tremon, 2015 p. 73). This duality is why the socially embedded entrepreneurial attitudes found both in Shenzhen's history of lineage ties and the rebellious innovation of *shanzhai* are

able to coincide with the neoliberal influence of globalization in an export processing zone. Neveling (2014) advocates that “we consider neoliberalism as one of several manifestations of capitalist accumulation” (p. 23). So, while both lineage and rebellion can resist the influence of neoliberal reductionism, they can ultimately be adapted into a capitalist mold. Similarly, other manifestations of social embeddedness can so adapted elsewhere in China.

Social Embeddedness

Economic historian Karl Polanyi observed that “man’s economy, as a rule, is submerged in his social relations” (Polanyi 1944, pg. 48). At first glance it seemed that the appropriation of Shenzhen’s economic system, first by the Communist command economy and then again by the SEZ market regime, represented a departure from this rule. But the relations remain, regardless of the overarching form of the economy. Shenzhen’s more recent reliance on markets to provide the structure of its economy does not preclude the factors that Tremon observes, such as lineage ties, from having a substantial effect. Markets themselves do not embody a neoliberal scheme in which social relations are minimized. A market is capable of operating as an information parsing tool within an economy that remains socially embedded. That said, it is possible for reasoning within a self-regulating market to obscure the social foundation undergirding market actor’s decision making.

In her ethnography of multi-generational Chinese entrepreneurs, Steffen (2017) delinks the entrepreneur’s self-conceptualization from lineage structures all together. Though her work was focused in central China rather than the coastal SEZ of Shenzhen, I contend that her work deals with many of the same complexities as the economic reforms that began in the SEZs spread throughout the country. In her ethnography of entrepreneurs in Henan

province Steffen agrees with Polanyi on the importance of social embeddedness. Contrary to a resurgence of a corporate model prefigured by lineage ties, her interviewees were characterized by a “willful” attitude that was in direct opposition to acting out patterns from the past. One participant, Lily, attributed her success in business to her “willful disregard for prevailing social norms” (Steffen, 2017 p. 256). In her estimation, it was precisely by doing what everyone, including her family, told her not to do that she was able to capitalize on opportunities others missed. At the same time, her choice to disregard the advice, and unspoken pressures, around her was not based on any solid plan for the future. Her decisions were taken more or less at random, a demonstration of “willfulness”, rather than a calculated choice with all of the risks considered.

Lily’s experience “led her to a conviction that in the future, anything could happen, regardless of her intentions” (Steffen 2017, p. 257). In this way, Lily’s example reminds us that “many people do not act in a way that is easily explained by previous theories of risk” (Steffen 2017, p. 255). In this way, Lily too defies “purely economic logic and managerial rationality” (Tremon, 2015 p. 78). Rejecting social considerations does not mean those considerations are removed from Lily’s internal economic logic. This rejection acts as an even further demonstration of Polanyi’s point that regardless of the context and social interests ultimately involved, “the economic system will be run on non-economic motives” (Polanyi, 1944 p. 48). In fact, by predicating her decision making specifically on the rejection of familial social norms, Lily’s actions are just as socially embedded as those who operate according to those norms. It is because of these socially embedded factors that the rise of entrepreneurship in China has not coincided with the formation of a unified “entrepreneurial identity” that some observers had predicted. The individual self-

conceptualizations of the entrepreneurs have, as of now, been too disparate to coalesce into a single political force (Tsai, 2005).

The only potentially unifying factor that Steffen (2017) identified among her interviewees was a “the widespread aversion to planning” (Steffen, 2017 p. 252). Like all of the entrepreneurs in Steffen’s study, Lily does not make her entrepreneurial decisions with consideration for the market. Despite her willfulness, the market still acts on her. Lily’s case provides an illustration of how a top-down view can obscure the motivations acting within a system. Her failures and successes feed the churn of entrepreneurs that Smart et. al place as the buffer between industry and the market (Smart 2008, p. 138) within the export processing zone system. Making this observation now requires the caveat that this process arises, at least in part, from socially embedded factors rather than market forces.

Socially Embedded Development

Evidence from research demonstrates that Polanyi’s theory of social embeddedness is an intervening factor in how the Chinese government implemented policies that planned for and created spaces for economic development and entrepreneurship. The SEZs represent the beginning of a reform process in China that would increasingly focus on localized regions, and eventually smaller clusters within cities, as the origins for entrepreneurial action. Within the context of Shenzhen, the specifics of this strategy had yet to be clarified. More recent efforts to foster entrepreneurship are more controlled at the individual level through “decentralized centralization”. In Shenzhen’s early development, there was a greater reliance on the market and individual autonomy. This allowed for the re-emergence of some of Shenzhen’s particular history in the form of the lineage system while at the same time

creating an opportunity for *shanzhai* to arise both as a response to and rebuke of globalized market forces. Lineage and *shanzhai* each represent cultural and creative systems that led to the rise of a cultural and creative cluster within Shenzhen's SEZ, but out of the reach of the Chinese government's direct control.

CHAPTER II

THE 5-YEAR PLANS AND INTERNET PLUS

To further examine the relationship between Chinese culture, government reform and the rise of the Chinese entrepreneurship, I am going to discuss the reforms in more detail. Rather than reduce the shift towards entrepreneurship through innovation and the deliberate investment in creative clusters to a purely neoliberal analysis, an understanding of the influence of 5-Year plans and the Internet Plus Doctrine is essential in this deeper examination of these intertwined relationships. I will first describe the nature of 5-Year Plans and the role this structure of reform efforts plays in China's plans to encourage innovation and entrepreneurship. Then, I will discuss the Internet Plus doctrine as the driving force behind the current aims at innovation within creative clusters. Finally, I will revisit the notion of creative clusters and expand my explanation beyond the example of Shenzhen. While SEZs were seen the engine of economic growth in the era focused on manufacturing and exports, creative clusters are one tier of a new strategy aimed at fostering domestic entrepreneurship and innovation.

As explained earlier, 5-Year Plans originated in the 1950's as part of the CCP's Soviet style of government. The process of reforming the Chinese economy has been a deliberate result of these plans created by the CCP. Every five years, the Party produces a document outlining its policies and reform efforts targeted for the following five years. 5-

Year Plans often respond directly to the challenges China has encountered, and attempt to anticipate the ways the country will need to change in both the short and long term. In spite of not being an explicit part of a 5-Year Plan, the emergence of the large-scale creative cluster centered on Shenzhen (Keane & Zhao, 2012) occurred organically in response to the conditions created by government planning, such as Shenzhen's classification as an SEZ. In more recent plans, as a result of the need to focus on innovation, the CCP is explicitly investing in creative clusters as an economic policy. Below, I focus on the three most recent 5-Year Plans, the 11th (2006-2010), 12th (2011-2015) and 13th (2016-2020), to examine how the CCP has increasingly focused on creative clusters as a driver of innovation and entrepreneurship. The particular method of investment relies on a delicate balance of power between the state and local governments, as well as the entrepreneurs themselves.

The 13th 5-Year Plan (2016-2020) represents a culmination of a larger shift in the aims of the CCP. While the 11th and 12th 5-Year Plans featured an increasing focus on innovation, the 13th 5-Year Plan is the first to put innovation specifically at the forefront of China's economic strategy moving forward. According to Aglietta & Bai (2016), this shift from "capital accumulation-led growth to innovation-led growth" has the potential to "enhance total factor productivity and release the huge potential of consumer spending." (p.2). The shift away from capital accumulation led growth also represents a desire to decrease reliance on foreign investment without necessarily decreasing the actual amount of foreign investment entering the Chinese economy.

Foreign direct investment does not serve to increase China's innovation capacity because the majority of investment is going to established industries. China overtook the United States as the world's largest recipient of foreign direct investments shortly after its entry in

the World Trade Organization in 2001. Despite this, China is actually still relatively restrictive when it comes to FDI. Firms investing in China have to navigate shifting laws and an opaque bureaucracy. Nevertheless, the appeal of China's massive market is enough to overcome these barriers.

The leasing and business services sector receives just over one third of the 136 billion USD in total foreign direct investment (FDI). Manufacturing represents the second highest sector at roughly 15% of FDI. Foreign firms take advantage of China's robust existing infrastructure in this sector. Next, at just over 10%, is the retail and wholesale sector (Santander 2019). The Chinese government encourages FDI primarily to sectors pushing it toward a more innovative economy such as high technology and use of renewable energies. However, the domination of leasing and businesses services shows that many investors are more interested in tried and true methods. Therefore, the government will have to lead a shift in focus from export industries supported by SEZ to domestic markets and innovation.

Complicating the reform efforts outlined in the 13th 5-Year Plan, China is currently experiencing a period of deceleration from the massive growth in GDP which has characterized the last 30+ years, spanning the time from the beginning of the "Reform and Opening Up" to now. The 13th 5 Year Plan advocated for a "new normal" of expected GDP growth at an average of 5%. This figure is still considered among the highest in the developed world (Tradingeconomics.com, 2019), and China's leaders hope it will be accompanied by "a steady increase in average income, and reduced inequalities due to a restructuring. . . towards domestic demand, innovative industries, and development. . . ." (Aglietta & Bai 2016, p. 3). SEZs were a major component of the rise in GDP since the 1978

reforms. In a similar fashion, creative clusters are now looked as zones of innovation for economic transition.

In terms of creativity and the need for future development of creative clusters, the 13th 5-Year Plan acknowledges that China currently lacks the science-based innovation industries found in rivals such as the United States. One area where they hope to be competitive in the future is in green technology. As such, pollution targets have been a regular feature of recent 5-Year Plans and the 13th is no exception. Aglietta & Bai (2016) estimate the total investment necessary to hit the green targets in the 13th 5-Year Plan at \$320 billion USD (Aglietta & Bai 2016, p. 8). If successful, China will be well positioned to lead in the green technology industry in the 2020's.

However, other forms of innovation focus not on developing entirely new technologies but on creative uses of existing technology. In particular, China has a major advantage in customer-based innovation “which depends on identifying customer needs” (Aglietta & Bai 2016 p. 4). This advantage derives from China's comparatively large population relative to other countries. Innovation of this sort can be successful in spurring long term growth, due to “rapidly decreasing prices, and fierce competition” (Aglietta & Bai 2016 p. 4) but it nonetheless makes up a large part of China's strategy in the 13th 5-Year Plan and contributes to the development of creative clusters to promote such innovation through entrepreneurship.

Rise of the Internet and the Focus on Customer-Based Innovation

Along these lines, the internet presents perhaps the largest opportunity for customer-based innovation. Recognizing this, Chinese leaders have implemented a shift towards the internet and the digital economy in recent years. This shift is documented in both 13th 5-

Year Plan and the “Internet Plus” doctrine published one year prior. The Internet Plus doctrine is a policy focused on cementing the relationship between the Chinese government and internet-based firms, both established and newly forming. Hong (2017) claims that these official documents codify a restructuring which began in response to the 2008 financial crisis. In the aftermath of the crisis, China’s leaders recognized that relying on their position as the manufacturer for the world’s goods had produced a “dependence on a low-wage regime, dependence on foreign technology and deep entanglement with foreign capital” (Hong 2017, p. 1499). There was a need to support innovation and increase the economic capacity of the Chinese population.

Massively successful “cyber entrepreneurs” like Alibaba's Jack Ma were among the first to access China’s consumer market. Whereas Western corporations had largely been able to dominate in the early years of other industries in China, former eBay China executive Wang Jianshuo points out that “almost all US internet companies failed in China in the last 10 years” (Jianshuo 2018). He attributes this to the size of China’s market, illustrating his point with the example of Google’s dominance of search in the Netherlands. Someone could, in theory, build a better Dutch search engine but “there are just about 16 million people in Netherlands, and it does not make sense economically to build one” (Jianshuo 2018). China, on the other hand, “is so big, it attracts talents, capital, entrepreneurs or any resources needed to compete” (Jianshuo 2018). Thus, the internet represents a key area for China to take an innovative lead while attracting both foreign and domestic talent.

The aim of Internet Plus is to make use of the internet to deploy “information applications and disruptive business and managerial models” (Hong, 2017 p. 1487). The 13th 5-Year Plan includes similar language, intending to incorporate the internet “as the

general purpose catalyst for innovation” (Hong, 2017 p. 1487). There is also potential for the internet to provide other opportunities for China to take a leading role in the global economy. To that end, they created the G20 Digital Economy Taskforce in 2016 and “also led the passage of the G20 Digital Economy Development and Cooperation Initiative” (Hong, 2017 p. 1487).

Many researchers have wondered whether it is possible for a state-guided economy to “build a free-market internet” (Kluver & Yang 2005, as cited in Hong, 2017 p. 1488). As previously seen in the experimentation with SEZs, China’s central government is willing to relinquish a portion of control in order to encourage entrepreneurial action. Hong notes, however, that “recentralization and reregulation are already important new trends in China’s market governance” (Hong, 2017 p. 1490). He claims that the recentralization does not produce a simple dichotomy in the presence or absence of state power. Rather, there are areas of “decentralized centralization” where the local government operates within a larger structure of state authority while maintaining some autonomy. This state of affairs can produce friction, especially in the digital space. There is considerable tension created by the government’s need to control the economy while simultaneously encouraging innovation in the face of a complex system like the internet, designed for individual autonomy.

In the case of Chinese e-commerce giant Alibaba, the overflow of *shanzhai*, which first arose in Shenzhen, into online markets frequented and monitored by foreign agencies has created a point of stress for the “decentralized centralization” system. The tide of counterfeit products on Alibaba’s digital marketplace attracted condemnation from China’s own State Administration for Industry and Commerce shortly after its historic IPO on the New York Stock Exchange in 2014. However, do to the decentralized nature of Chinese

government's internet policy, it falls to the local Zhejiang Provincial Bureau of the SAIC, which “lacks economic incentive or the political clout to punish the e-commerce giant” (Xing 2015 as cited in Hong 2017 p. 1496). In this case, the “decentralized centralization” acts to buffer entrepreneurs from both domestic and foreign regulatory institutions.

The Internet as Transitional Tool

The internet provides a means for China to transition out of its current role in the global economic context. China Daily, a state run newspaper of the CCP, made this aim clear in 2015 when it printed that the goal of Internet Plus is “to encourage the healthy development of e-commerce, industrial networks and internet banking, and to get internet-based companies to increase their presence in the international market” (China Daily 2015, as cited in Keane 2017). These elements were present in the Internet Plus doctrine and incorporated into the 13th 5-Year Plan. Where the 13th 5-Year Plan goes further is in seeing the potential for the internet “to facilitate innovation in ‘culture’ through the convergence of technological innovation and cultural creativity” (Keane & Chen, 2017 p. 5). Increasingly, this innovative spirit is anchored to creative clusters controlled by local municipalities.

The product of this technological innovation is what Keane calls “entrepreneurial solutionism” or the “the proclivity to digital technology as a solution to China’s social and economic problems” (Keane & Chen 2017, p. 1). Those problems include the previously mentioned slowdown in GDP growth, as well as the reliance on foreign investment explained above. Creative clusters focused on digital innovation have the potential to encourage “Silicon Valley style neoliberalism” (Keane & Chen 2017). However, that potential is

curtailed by the way the government is actually implementing policy. The following chapter details how the implementation of the 13th 5-Year Plan and Internet Plus are taking shape.

CHAPTER III

LOCAL GOVERNMENTS AND CREATIVE CLUSTERS

Numerous scholars have noted the uneven nature of the distribution of entrepreneurship in China (Zheng & Zhao 2017, He et al. 2019, Geo et al. 2015). Glaeser and Kerr's 2009 paper analyzing the spatial distribution of US firms provided a framework for a renewed discussion of the same factors as they apply to China. Geo et al. found that “. . . consistent with the findings of Glaeser and Kerr (2009) suppliers seem to be more important to supporting entrepreneurship than customers” (Guo et al. 2015, p. 2596). Zheng and Zhao (2017) also compared results of their study with the findings of Glaeser and Kerr, determining that levels of human capital and migrant flow were less significant for explaining spatial patterns of entrepreneurship in China than in the United States.

A major takeaway from these studies is the importance of localization economies for Chinese entrepreneurship. Localization of economies refers to “the clustering of firms within the same industry in the local economy” (Guo et al., p. 2586). Beginning in the 1980s, local governments were empowered to direct the expansion of market coordination in China by allocating resources to specific industries in specific locales. In the 1990s, “industrial clusters stimulated the Chinese economy to new heights” (Keane & Zhao, p. 221). This positive effect was recognized officially by the Chinese government early in the twenty-first century,

and the 11th 5-Year Plan saw formal support for increasing China's cultural industries using similar methods (Keane & Chen, 2017).

Recall that creative and cultural clusters are localization economies focused on generating firms within creative areas such as product development for the internet. These clusters were at first more focused on cultural output, meaning traditional Chinese crafts and performance arts, to serve a growing tourism market in the early 2000's. However, as the CCP's inclination towards innovation as a driver of economic growth has increased in the last decade, the purpose of the clusters has shifted to promote more innovative products.

The investment in cultural and creative clusters reflects a battle between dual potentials for the creative industries in China, one based on reproducing cultural identities, traditions, and heritage, and one rooted in innovation, dedicated to creating new avenues for entrepreneurship, inherently changing the touchstones of Chinese culture. At first, the initial investment in cultural clusters was spurred by a revival in traditional culture and tourism (Keane, 2009). Keane makes a distinction between these "cultural" industries and "creative" industries which have recently begun to emerge in spaces designated for cultural development. However, the current mode of most local governments remains fixed in "the conservatism of officials keen to prove how much value can be delivered by tourism spending and artists' clusters" (Keane 2014, p. 213). Income of this sort is often conflated with the "creative" growth, such as the development of new startups in the vein promoted by Internet Plus and the 13th 5-Year Plan. What results is a "...fusion and confusion between the cultural and creative industries...which is not assisted by the sloppiness of data management" (Keane, 2009 p. 224). Understanding this conflation and the tensions created by it matters in examining the relationship between Chinese culture, government reform and

the rise of the Chinese economy because monitoring the success of creative industries, apart from the cultural, is crucial in determining growth due to innovation.

Murphy (2012), however, states that while the border between cultural and creative may be vague, the activities encompassed within the two as a whole is more clear. Particularly, “research and development can be seen as part of the creative economy” (Murphy, 2012 p. 179). Murphy argues that the creative and cultural industries “become more central to social and economic life as societies become wealthier” (Murphy, 2012 p. 179). For example, a focus on research and development has been seen in creative clusters such as America’s Silicon Valley. However, Keane and Chen argue that a direct comparison to a Silicon Valley model loses the nuance of China’s particular strategy for encouraging creative clusters through government planning (Keane & Chen 2017).

In China, the inception of the Internet Plus doctrine and the 13th 5-Year Plan have manifested in “the progression of cultural clusters towards incubators, innovation hubs and Silicon Valley style start-up projects” (Keane & Chen, 2017 p. 10). The cultural clusters, which received the initial investment to reproduce Chinese culture for the tourism industry are evolving into creative clusters focusing on innovative economic engines. This shift acknowledges that “a great deal of disruptive innovation comes from below ‘ (Keane & Chen, 2017 p. 10). In other words, like in Shenzhen’s SEZ, cultural influences often lead to innovation and creative churn. To create the room for entrepreneurial action in the creative space, there has been an embrace of the same “decentralized centralization” strategy that was successful in previous pushes for entrepreneurship in areas such as manufacturing. Similar to earlier reforms, this involves the relaxing of government controls in order to allow market forces to act upon entrepreneurs. However, instead of empowering individuals in this case

the CCP is empowering the local governments to be the agents responding to market forces. Therefore, the individual entrepreneur is still within a governmental structure that directs his or her actions. Already, “earlier high-profile cultural cluster projects have ceded ground to the buzz’ surrounding ‘digital creative industries’ . . . a term now ratified in the 13th 5-Year Plan” (Keane & Chen, 2017 p. 2). An example of where this has taken place is the creative clusters in the city of Hangzhou

Hangzhou Explained

A current iteration of the creative cluster model exists in the city of Hangzhou. Unlike in Shenzhen, these developments have not been fully studied ethnographically, signaling the possibility that the full complexity of its growth is not well understood. Examining the influence of the 5-Year Plan and Internet Plus doctrine on the growth of creative and cultural clusters in Hangzhou may help researchers understand the complexities of current efforts by the Chinese government. For that reason, I am going to provide a snapshot of Hangzhou and its recent economic activity. The capital of Zhejiang province, Hangzhou has a total population of approximately 6.5 million, representing a nearly four-fold increase in population since 1949. Hangzhou incorporated the counties of Yuhang and Xiaoshan in 2001, increasing its land area to more than 3,000 km². (Qian, 2011) As the capital of one of the richest provinces in China, Hangzhou has served as a significant test case for the “decentralized centralization” model.

Qian claims that the Hangzhou municipal government has “transformed their role in urban governance from conventional regulator to entrepreneurial agent” (Qian, 2011 p. 3). This means that, in addition to “traditional local boosterism” (p. 5), the local government has

also been empowered to use its institutions to encourage investment and employment (Qian, 2011). The means by which this investment is attracted and employment provided is increasingly focused on the development of creative clusters within Hangzhou.

The process of Hangzhou's transformation into a "national cultural and creative industries centre" (Keane & Chen, 2017 p. 5) began in 2008 with a formal announcement from the municipal government. By 2012, Hangzhou was recognized by UNESCO's Creative City Network as a "City of Crafts and Folk Art" (Keane & Chen, 2017 p. 5) This creative and cultural recognition was followed by the Zhejiang provincial and Hangzhou Municipal governments embracing of the creative cluster model. The governments designated a swathe of former industrial zones to be converted to creative clusters.

These clusters were specifically focused on producing digital innovation. Though they were selected and maintained by the local government branches as "a coalition of business and government poured resources" into them in response to central government policy directives (Keane & Chen, 2017 p. 5). The response from the media, both domestic and international, has been to use these clusters as evidence that China is becoming more creative and innovative (Keane & Zhao, 2012). However, that creativity does not necessarily translate to the concept of creative freedom. The individual entrepreneurs are still monitored by the local government.

One of the creative clusters in Hangzhou is called "Dream Town". Dream Town was created to attract graduates of Zhejiang province Universities interested in creating small startups related to the internet and finance. As of 2016, 300 such start-ups had formed and the project has "a goal 10,000 and attracting over over 45 billion USD of investment within the first three years of its operation" (Argyriou 2016, p. 342). Dream Town supports these

internet startups through “the creation of a full industry chain and an ecosystem characterized by innovation” (Zou & Zhao 2018, p. 1064). The goal of Dream Town is “to produce research, development and products for e-commerce, software design, information service, big data and cloud computing” (Keane & Chen 2017, p. 7). Entrepreneurs working in Dream Town are encouraged to follow the example of Alibaba’s Jack Ma, a Hangzhou native.

The name “Dream Town” evokes current Chinese president Xi Jinping’s stated desire for a new “Chinese Dream” of national rejuvenation. One aspect of that dream is for China to outperform America in information services industries. To that end, Dream Town also includes a smaller cluster focused on finance, investment and wealth management (Keane & Chen 2017). Dream Town represents a culmination of the shift toward innovation led growth codified in the 13h 5-Year Plan.

CHAPTER IV

DISCUSSION AND CONCLUSION

Creative clusters are increasingly relied upon to promote innovation and entrepreneurship, but the exact nature of the relationship between the cluster model and entrepreneurship has yet to be fully explored in the existing research. Further research is necessary to examine the intersection of entrepreneurship, the creative industries, and the overlapping plans of China's central and local governments. In this paper, I intended to use the nature of entrepreneurship in Shenzhen, the first "Special Economic Zone" created by the 1978 reforms, to provide a comparison with the modern efforts more explicitly directed at developing innovative entrepreneurship. In the modern context, I elucidated the role of the 13th 5-Year Plan and Internet Plus doctrine in the use of creative clusters by local governments acting as entrepreneurial agents. Hangzhou's "Dream Town" illustrates how the cluster model is being used to promote entrepreneurship in the digital space. This push towards the internet is the latest wave in a series of government initiatives aimed at driving economic growth.

The development of entrepreneurship in China has been in response to a series of government reform programs. Deng Xiaoping's "Reform and Opening Up" aimed to create "Socialism with Chinese characteristics" by injecting free-market principles to carefully isolated zones. As the first of such "special economic zones", Shenzhen provides a useful tool for examining the interaction between these reforms and existing social and cultural structures. In Shenzhen, the development of "*shanzhai*" culture via counterfeit electronic

products blossomed into a larger cultural movement based on subverting global market expectations and eluding government control. This *shanzhai* culture has since leaked into digital marketplaces developed in response to the 13th 5-Year Plan and the Internet Plus policy.

Drawing from the Polanyi's theory of social embeddedness, I make the case that Tremon and Steffen provided ethnographic evidence that Chinese entrepreneurs act not only in response to market forces and government reforms but also as product of socially embedded factors. As He et al., (2017) state, "entrepreneurship must be perceived as being socially embedded in China's peculiar social networks and informal institutional context" (p. 563). This embeddedness demonstrates that while Keane and others may be correct in attributing entrepreneurial movement in modern creative clusters to local governments acting within the confines of central planning, there is likely still more to be understood by studying motivations at the individual level. There is an opportunity for ethnography in creative clusters, particularly Hangzhou's Dream Town, to further explore this topic. Such a study could focus on interviewing both the local officials charged with encouraging innovation in the cluster as well as the entrepreneurs themselves. Comparing the incentives offered and the actual motivations of entrepreneurs in creative clusters would be an important contribution to the research on this emerging topic.

Shenzhen demonstrates that relaxing government control is an effective way of encouraging entrepreneurship but, as seen in Shenzhen, the actual entrepreneurship produced might not serve the government's goals as effectively as expected. The activity of *shanzhai* is a major contributor to the wealth of the Pearl River Delta and to China as a whole, but because it is largely in the informal economy it is less useful as a means to maintain GDP

growth. Managing the decline of GDP growth through a transition to an innovation led economy has been a major element of the 12th and 13th 5- Year Plans. However, the prevalence of *shanzhai* demonstrates the necessity to manage such a transition in a more controlled manner than the explosive increase in freedom seen in Shenzhen during the “Reform and Opening Up”.

The Chinese government recognizes this and hence the development of the “decentralized centralization” model which limits the increase in autonomy to local governments rather than individuals. However, the desire to make use of the internet as a means for transitioning China from an economy based on its role as the world’s major manufacturing center to one more focused on domestic internet startups still runs into the problem created by the tension between freedom for entrepreneurs and the need to control economic development. The prevalence of *shanzhai* products on Alibaba, China’s largest digital marketplace and increasingly the way that that Western consumers order Chinese goods, demonstrates that even the internet-based model of entrepreneurship that many local governments are trying to emulate is still dependent on a level of freedom that may not be possible for China to maintain.

Government control may be viewed as having been successful for creating conditions for entrepreneurship and economic growth, but ethnographic evidence shows that geographic cultural and historical elements both enhance and constrain government efforts towards China's continued economic development.

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