Research Background

The divergence of post-socialist development patterns has been an intellectual controversy since the 1980s. While all transition economies sought to liberalize markets and build modern industrial systems, most regions could initially pursue only one of these two paths, since the goals of market liberalization and industrial consolidation entail conflicting orientations toward state intervention and resources were limited.

China's market reform represents a classical case of this divergence. Across China, the trajectory of reform varied significantly across regions. Most localities prioritized industrialization, while others moved more decisively toward marketization. Industrialization typically involved restructuring large state-owned enterprises (SOEs), promoting township and village enterprises (TVEs), and reforming industrial mechanisms such as ownership structures, corporate governance, and performance evaluation systems, as seen in cases like Northeast China and the Jiangsu model. Marketization, in contrast, unfolded through the expansion of private enterprises, the gradual strengthening of legal and regulatory frameworks, and the construction of commercial centers, as exemplified in the Yangtze River Delta.

Existing scholarship commonly attributes these regional differences to whether the state or society leads the reform process. However, this paper identifies a pair of exceptional cases—Lanxi and Yiwu—that challenge conventional state-centered or market-centered explanations. Both are county-level cities in Zhejiang Province that are geographically adjacent, share the same administrative rank, introduced SOE reform and market construction policies at similar historical moments, and possessed both SOEs and traditional marketplaces prior to reform. Both regions also achieved remarkable early-stage outcomes in their respective development paths. Moreover, other typical explanatory factors—macro-geographic characteristics and cultural environments—are highly similar between them.

Despite these similarities, Lanxi prioritized the reconstruction of its industrial system through SOE reforms, whereas Yiwu focused on cultivating a commercial market supported by household-based small-commodity production.

Using this intriguing comparison, the paper asks why do patterns of Chinese market reform (industrialization versus marketization) diverge so sharply across regions that share highly similar policy environments?

Literature Review

Diversity of Development Pathways

Institutionalist perspectives argue that development paths are shaped by differences in local institutional configurations. Among them the most distinguished group called The Varieties of Capitalism framework suggests that different capitalist systems emerge from complementary institutions: liberal market economies combine financial, labor market, education, and legal institutions that favor market coordination, while coordinated market economies emphasize sustained cooperation among firms, labor, and the state.

Historical explanations extend this argument by examining how such institutional complementarities originally formed. Scholars of post-socialist transformations, for example, analyze how communist legacies, labor union structures, welfare systems, and external influences shaped divergent outcomes in industrialization, financialization, or marketization.

Applied to China, these frameworks would predict that different regions inherited distinct institutional legacies—such as state–business networks or local commercial cultures—which subsequently pushed them toward different reform paths. However, these explanations fall short for two reasons. First, they cannot explain why some regions, such as Lanxi and Yiwu, developed clear reform patterns early on, whereas many others did not. Second, such theories generally focus on national-level contrasts, where structural differences are more visible, whereas Lanxi and Yiwu exist within nearly identical local contexts. Explaining China's regional divergence thus requires a closer examination of micro-level local processes.

The Regional Difference in China

Mainstream explanations of China's regional divergence attribute differences to the varied roles of state intervention and market dynamism. In industrialization, the state plays a strong leadership role through SOE restructuring and the expansion of TVEs and collective enterprises. Marketization, by contrast, is often society-led, emerging from household workshops, small private firms, and dense entrepreneurial networks. The state is minimally involved or even obstructive in the early stages, acknowledging private property only after informal institutions become entrenched. Some scholars even argue that the state played a largely negative role during marketization, with private actors driving most of the transformation.

A second strand of literature examines the origins of these differences and typically emphasizes either political or social factors. Politically, county governments enjoy substantial autonomy, and local officials' preferences, experience, and personal networks shape reform strategies. At the meso-level, some scholars argue that bureaucratic composition matters: a higher proportion of non-local cadres—tied more closely to the center and more risk-averse—tends to constrain aggressive reform, while locally rooted cadres with deeper social embeddedness often promote market-oriented approaches. At the macro-level, theories emphasize the industrial base and fiscal capacity influence incentives, arguing regions with weaker industrial foundations and tighter fiscal constraints are more likely to pursue entrepreneurial reforms (Walder 1995).

Social explanations emphasize commercial culture, historical legacies, and geography. Regions with long-standing merchant traditions and dense business networks, even from before the socialist period, are more likely to develop robust private sectors once market reform begins. Geographic advantages, such as transport hubs or resource endowments, historically support strong SOE presence and industrial capacity, shaping local reform strategies.

These existing explanations, however, either focus primarily on the state or treat the state as background while privileging societal forces. They cannot fully explain why two structurally similar regions such as Lanxi and Yiwu developed starkly different reform trajectories.

Argument and Analytical Framework

This paper argues that the divergence between Lanxi and Yiwu is driven not by state intervention or social entrepreneurship alone, but by differences in social autonomy, which generate distinct forms of state–society conspiration in each locality.

Scholars have already recognized that social dynamics shape state–society relations (Chibber 2006; Hoang 2018) in a great degree. However, most studies assume a baseline antagonism: the state and society hold opposing interests, and society must strategically resist, negotiate with, or overpower the state. This paper challenges that assumption. It argues that an undertheorized but empirically significant situation is one in which Local social groups hold divergent interests and compete for state attention; The state does not possess predetermined, substantive interests of its own, but instead strategically leverages successful societal initiatives to meet its performance imperatives. That is local governments operate under competitive political pressure during the early stages of market transformation. They enjoy substantial autonomy but often lack clear models for how to conduct economic transformation. Under these conditions, the great performances in society would draw attention from the state, leading to collaborative, society-driven conspirations, rather than adversarial relationships.

I use social autonomy to explain how the conspiration comes into being. Adapted from classical theories of state autonomy, the concept of social autonomy refers to society's ability to articulate collective preferences and "discipline" the state in performative ways. In authoritarian China, the existence of strong state autonomy is unquestioned. The puzzle, however, is how and to what extent society can develop autonomy, and how this autonomy varies across regions.

This paper proposes that regional development patterns emerge through a sequential mechanism in which a dominant societal group forms strong collective preferences, these preferences help improve early economic performance in a certain path, and successful performance in turn compels the state to enter into this pattern, reaching a state–society conspiration that reinforces the initial direction of reform.

In Lanxi, the dominant group consisted of industrial elites whose shared interests centered on industrial upgrading. Their strong preferences pushed local reforms good at restructuring and strengthening the industrial sector. Early industrialization produced strong and visible results, which further convinced the local government to double down on industrial development. As a consequence, marketization remained a secondary concern and did not develop into a major regional strategy.

Yiwu followed a very different trajectory. There, merchant groups constituted the most influential social force. The early efforts to promote industrialization did not produce satisfactory results in Yiwu, whereas the expansion of local markets, although initially uncertain and politically risky, generated unexpectedly rapid economic growth. The success of these market-oriented activities gradually compelled the state to shift its support toward marketization. Over time, this mutual reinforcement between societal preference and state endorsement crystallized into a distinct market-centered development path.

By contrast, in regions with social fragmentation, no dominant group emerges to articulate collective goals. As a result, neither industrialization nor marketization gains traction, and local governments remain directionless during the early stages of transformation—a pattern summarized as “two-track but neither succeeds.”

This study employs a comparative historical analysis. Primary sources include government meeting records, documentation from SOE reform processes, local newspaper archives, biographies of local political leaders, and statistical yearbooks and reports on industrial composition, all of which were collected from local libraries and municipal archives. The analysis is supplemented by interviews conducted with former SOE employees in Lanxi and early-stage entrepreneurs in Yiwu.