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## **Government-business alliances in state capitalist economies: Evidence from low-income markets in China**

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## **Abstract**

Based on three in-depth case studies, the study analyzes how and why Chinese enterprises partner with governments in cooperative ventures which aim to simultaneously achieve poverty alleviation objectives and establish profitable business ventures in rural areas. The analysis draws out specific characteristics of three government-business partnerships in China, which vary in terms of governance structure, resource complementarity and incentives. The findings show that in state-capitalist countries, outcomes of government-business partnerships depend on firms having unique resources and capabilities that serve particular policy objectives of the state. By the same token, in order to make partnership attractive to firms, national and local governments must have unique resources needed in order to successfully operate in low-income markets. The cases further illustrate that in order to build and maintain successful government-business partnerships over time, the alignment of incentives plays an important role. In sum, complementary resources and well-aligned interests between firms and governments help to explain why some government-enterprise partnerships are more successful than others.

**Keywords:** State-business alliances, state capitalism, China, government, low-income markets

### **1. Introduction**

The concept of designing economically viable ventures to serve low-income groups living at the base of the economic pyramid (BoP) now has considerable prominence (Prahalad and Hart, 2002; Prahalad, 2004; Nakata, 2012). Through innovation of new products and services targeting the needs of the low-income group, business ventures can actively support poverty alleviation and at the same time can reach new untouched markets. Contributors to the BoP and Subsistence Markets (SMs) literatures highlight the distinctive characteristics of low-income markets – e.g. their remote geographic location, customer bases with limited and irregular income streams, and challenging institutional environments – and delineate the types of partnerships and business models likely to succeed in these markets (Webb et al., 2010; Rivera-Santos et al., 2011). Existing studies particularly stress the importance of enterprises fostering joint ventures and voluntary partnerships with governments and non-governmental organizations (NGOs) to overcome resource constraints in low-income markets (e.g., Hammond, Kramer, Katz, Tran, and Walker, 2007; London et al., 2010).

Since the existing research has focused almost exclusively on low-income segments of market economies, there is still much to learn about how government-business alliances and partnerships work in other contexts, especially state capitalist ones. Political economists increasingly see emerging economies such as China and Russia as state capitalist systems in which “the state exerts extensive control” (Huang, 2011) and where the state uses markets and capital accumulation for political ends. Given this evident shift in the world, research on studying government-business partnerships in state capitalist contexts is very timely.

The focus here is on China since the low-income market in China has increased in importance for both firms and government. Over the past decades, the Chinese government has put tremendous effort in addressing poverty issues and rising income disparities. In 1986, the central government initiated the China Poverty Alleviation Program, which initially targeted 592 designated poverty counties and was subsequently revised to focus on over 148,000 villages.<sup>1</sup> By the late 1990s, increasing awareness that non-coastal regions lagged behind the coastal region led to the government’s “Western Development Strategy” (1998) and the “Plan on Revitalizing Northeast” (2003). Under these programs billions of dollars were invested in the under-developed western and northeastern regions. As part of these initiatives, government spending related to broadening access to basic services has increased dramatically. From 2005 to 2012, the central government’s spending related to people’s livelihood – agriculture, social security, education, health and affordable housing – has expanded from 507 billion RMB to about 2.6 trillion RMB. However, current government programs face the daunting challenge of expanding in scope, coverage, quality, and efficiency to sufficiently serve the low-income groups. Fiscal and budget constraints are a substantial obstacle to making social services scalable, financially sustainable, and delivered in effective and efficient manner. In view of these constraints, the government hopes that government-business partnerships will help to broaden the provision of essential social services at an affordable price to excluded populations.

Meanwhile, China has an enormous low-income market with huge potential purchasing power. Measured by income of US\$1.25 per day (2005 PPP), there were 173 million people living below the poverty line in 2005 in China and if measured by the US\$2 per day line (2005 PPP), the number increases to 395 million. By either criterion, China is currently the

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<sup>1</sup> From 2001 to 2007, the central government spent on average 28 billion RMB annually for poverty alleviation programs (World Bank, 2009).

second-largest low-income market in the world after India and represents more than 13 percent of the global low-income market.<sup>2</sup> The large latent potential of China's low-income market makes the country an obvious choice for this analysis. The low-income market in China is continuously growing as its members consume more. From 2005 to 2010, per capita consumption expenditure of low-income rural households has increased from 1,548 RMB to 2,535 RMB. The large low-income market provides a new growth opportunity for the private sector to expand scale, reduce costs, and improve quality of products.

Based on three in-depth case studies, the study analyzes how and why Chinese enterprises partner with governments in cooperative ventures which aim to simultaneously achieve poverty alleviation objectives and establish profitable business ventures in rural areas.<sup>3</sup> The analysis draws out specific characteristics of three government-business partnerships in China, which vary in terms of resource dependence, alignment of incentives, identity of the partnership initiator, and governance structure. For instance, large state-owned enterprises (SOEs) have more access to resources and capabilities as compared to small, private companies and, as such, SOEs tend to form partnerships very different than private enterprises. The scale of investments and impact on low-income groups also influence the form and nature of government-business partnerships in rural low-income markets.

The paper argues that in the Chinese state-capitalist context, outcomes of government-enterprise partnerships depend on enterprises having unique resources and capabilities that serve the particular policy objectives of the

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<sup>2</sup> This does not include some disadvantaged groups that have a higher income but lack access to basic necessities of life, such as clean water and sanitation service, affordable housing, quality education, health care and modern financial services.

<sup>3</sup> This research examines government-business partnerships in low-income markets. Low-income markets differ from high-income markets as actors operating in them face significant resource constraints. The focus is on rural low-income markets since this is where the majority of Chinese people living below the poverty line reside. The country has a rural population of 750 million people and, given that the income gap between rural and urban households is vast and growing, rural residents represent a large and powerful market. Of the rural population, approximately 40 to 100 million people live below the national poverty line. This range is based on different definitions of poverty ranging from an income of 3.3 RMB (\$0.5) a day (National Bureau of Statistics of China, 2009, available at <<http://www.stats.gov.cn>>) to the expenditure of 6.7 RMB (\$1) a day (United Nations, Growing Inclusive Market Initiative, GIM Case Studies No. B071, B062, B079, B056, A020, A047 (New York: United Nations Development Programme, 2008 and 2010). Yet, the rural population also includes a small but growing middle class that is often excluded from the BoP target group. Rural citizens' average per capita annual expenditure in 2008 reached 5,915 RMB (\$917) and even the lowest 20 percent of the rural population had an average annual expenditure of 2,145 RMB (\$332) (Chinese Statistical Yearbook, 2009).

Chinese government.<sup>4</sup> Simultaneously, governments must have unique resources that an enterprise needs in order to accomplish its goals. Alignment of incentives between governments and firms are key for establishing and maintaining successful long-term partnerships. The findings further show that since the Chinese government controls valuable resources in China's state capitalist system, for an enterprise with an eye on opportunities in low-income markets, partnering with government agencies can be crucial to success in rural markets. These government-business partnerships are, as one might expect, at times more obligatory than voluntary for enterprises. Yet, our results suggest that such partnerships in which government actors more or less compel enterprises to participate are not necessarily losing ventures. On the basis of our empirical findings, we conclude that given the omnipotence of government in the Chinese economy, business models that adapt to the realities of state capitalism are much more likely to succeed than those guided by free market assumptions.

Given the lack of previous scholarly research on low-income markets in China, the study employs an exploratory qualitative research strategy (Eisenhardt, 1989). Between January 2008 and July 2011, the authors first collected case study materials on efforts by Chinese enterprises to enter rural low-income markets in China, drawing on government documents and research reports as well as local newspapers.<sup>5</sup> As a second step, three companies – China Mobile, Jiukang, and Zhilian – were selected for in-depth analysis to gain a better understanding of the dynamics and forms of partnership models used in state capitalist systems. A total of 35 semi-structured interviews were conducted with business managers, employees, farmers, and government officials in Beijing, Guangxi, and Jiangsu, the home of the three companies. The three companies are similar in that during the process of establishing a presence in rural low-income markets they formed partnerships with central and local governments, but they differ in terms of the nature of these partnerships and the results of the partnership arrangements.

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<sup>4</sup> In the following, the term “government” refers to the administrative apparatus in charge of formulating and implementing public policies. “Local government” refers to the five administrative levels below the national level – provincial, municipal, county, town, and village level. The “state” here refers not only to government administrations, but also includes the Chinese Communist Party and other state-related organizations such as the Communist Youth League of China, the media or legal organizations. In some cases, the terms state and government are used interchangeably.

<sup>5</sup> As this research specifically explores the role of domestic firms in low-income markets, the authors omitted multinational firms.

## **2. Literature Review**

### ***2.1. Multi-Sectoral Partnerships in Low-Income Markets***

The BoP literature has recast rural low-income markets in developing or emerging economies as a largely untapped opportunity for viable business ventures (Prahalad & Hart, 2002; Prahalad & Hammond, 2002; Karnani, 2007). According to estimates by the World Resource Institute, BoP markets represent a \$5 trillion market opportunity per year (World Resource Institute, 2007). The large potential of this market is explained by the fact that low-income groups living at the base of the income pyramid experience higher demographic and income growth than middle or high-income groups (UNCTAD, 2006). Accordingly, as markets at the top of the income pyramid are becoming steadily more saturated, firms are increasingly seeking out new business opportunities in low-income market segments. Companies which position themselves early in these fast-growing markets have significant first-mover advantages as they can capture the most attractive market segments and secure the more reputable and trustworthy local partners and resources ahead of their competitors.

Yet, despite the size of low-income markets and the corresponding business opportunities therein, successful business ventures in these markets remain more the exception than the rule. This is partly a reflection of the fact that operating in low-income markets also carries substantial risks for large enterprises, especially since these markets are difficult to reach and resources are often unavailable or non-tradable (Seelos & Mair, 2007). Various contextual constraints complicate market entrance, including formal and informal institutional barriers (e.g., a problematic regulatory framework), unfamiliar customer groups (e.g., customers lacking financial resources or knowledge), cultural barriers and language obstacles, and a challenging business environment (e.g., a lack of distribution channels, poor physical infrastructure) (Web et al., 2010; Rivera-Santos et al., 2011). Furthermore, the impartial enforcements of laws and regulations and the protection of property rights is often spotty in low income markets meaning that business transactions tend to be governed by relationships and networks rather than by formal contracts (De Soto, 2000; London & Hart, 2004).

In order to operate effectively in these markets with considerable business constraints, the BoP and SMs literatures stress the importance for

enterprises to forge “multi-sectoral partnerships” (Das & Teng, 2000).<sup>6</sup> For enterprises, forming multi-sectoral partnerships with other enterprises, NGOs or governments tends to reduce enterprises’ initial investment costs and increases the long-term viability of projects (London & Hart, 2004). Multi-sectoral partnerships can help enterprises to gain a better understanding of local consumption habits, distribution channels, and infrastructure (Brugmann & Prahalad, 2007). Equally important, partnering with credible partners also provides access to valuable social networks and enhances enterprises’ reputation necessary to operate in rural low-income markets. NGOs or governments agencies often have a strong local presence in remote regions and over the years have worked closely with local communities, thereby gaining trust and credibility in these communities.<sup>7</sup>

While emphasizing the mutual benefits of multi-sectoral partnerships in low-income markets, the literature has, to date, explored these partnerships in economies seen to approximate free market conditions. In these studies, companies are assumed to have free choice to select partners and enter markets so long as they abide by existing regulations and pay their taxes. In many countries around the world the assumption of a clear divide between the public and private sectors is a strong one but it is especially problematic in economies like China where the state retains tight control over many aspects of economic activity.

## ***2.2. Government-Business Partnerships in China***

Previous research studying low-income markets focused primarily on partnerships between multi-national enterprises and NGOs.<sup>8</sup> Yet, partnerships that thrive in these market economies might not be workable in all countries.

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<sup>6</sup> The term “multi-sectoral partnerships” refers to voluntary partnerships and joint ventures between enterprises and other for-profit organizations, non-profit organizations (e.g., NGOs, universities), or public actors (e.g., village committees governments) (Das & Teng, 2000; Rivera-Santos et al., 2012). A number of factors are seen to shape the success or failure of these partnerships such as: having a clear division of responsibilities and contribution of resources appropriate to each partner’s advantages; a high degree of long-term commitment; a shared vision; flexibility, and; an awareness of the risks of working together (Jacobson & Choi, 2008; Brugmann & Prahalad, 2007).

<sup>7</sup> For instance, British Petroleum (BP), a company with no experience in rural India, partnered with different NGOs when introducing new portable cook stoves into rural low-income markets in India. The partnership helped BP to enhance its reputation and tap into NGOs’ extensive infrastructure on the ground, while for the NGOs the arrangement helped to get access to business competencies needed for developing a stove that is not only cost-effective but also well integrated in a global value chain (Brugmann & Prahalad, 2007).

<sup>8</sup> See for example Brugmann, op.cit.

In China, government, firms, and NGOs differ markedly from many other settings in terms of freedom to operate and the relative resources they control. These differences means that the nature and type of multi-sectoral partnerships needed to enter and succeed in low-income markets take a different form in China.

### *Central and Local Governments*

In China, the state exercises a high degree of control over the economy. The Chinese economic system differs from many other transitional countries in terms of the preservation of strong Party leadership combined with a decentralized economic structure. China's authoritarian decentralized governance structure gives local governments more fiscal and administrative powers than in many other countries (Landry, 2008). In rural areas, local governments control access to markets, finance, information, and other resources, all of which bear heavily on the success or failure of firms entering low-income markets. Local government officials often act as gatekeepers by offering favored firms' access to localized knowledge and helping to win the trust of local residents. Indeed, in China, local governments frequently take on many of the roles played by NGOs in less statist developing countries. For example, government-run agricultural farmers associations in China do similar work to NGOs elsewhere in helping independent farmers improve farming techniques and gain access to agricultural inputs and market information. In rural areas, financing channels are also dominated by the state. The major players in the financial system are the so-called "Big Four" state-owned banks – the Industrial and Commercial Bank of China (ICBC), the Agricultural Bank of China, the Bank of China, and China Construction Bank. State-linked rural credit cooperative foundations (RCCs) and rural commercial banks (RCBs) are likewise important providers of finance in non-urban areas.

China's governmental structure has strongly shaped low-income markets in remote areas. Due to large government-driven infrastructure investments in the 1990s and 2000s that link rural areas with larger cities, the physical distance of China's low-income markets to existing (urban) markets has been reduced. Under the stability-conscious leadership of Hu Jintao and Wen Jiabao, the central government has also devoted substantial resources to creating a "New Socialist Countryside", a broad-ranging effort to strengthen the social safety net in rural areas. In both 2009 and 2010 the State Council's "Document No. 1" emphasized the urgent need to develop poor rural areas and set up numerous support and subsidy programs to spur business development in these areas, such as the "sending computer and training to rural areas" and

“sending appliances to rural areas” initiatives in 2009. In addition, China’s economic stimulus package rolled out during the global financial crisis (2008-2009) provided substantial funds for rural development, including more than 400 billion RMB (\$60 billion) for low-income housing and 370 billion RMB (\$55 billion) for livelihood and infrastructure projects in rural areas (People’s Daily Online, 2010).<sup>9</sup> Under the new Poverty Reduction Program for Rural China (2011-2020), additional further investments are planned for building or improving village access roads, the drinking water supply, school buildings, rural sanitation, electrification and communication infrastructure, water storage, and irrigation systems. For a broad range of businesses in China, these projects will provide many new opportunities for firms to enter this market by partnering with governments.

### *Firms*

With strong population growth and rapid rising incomes in rural areas in emerging economies, companies are thinking about business opportunities open to them in lower income segments. In many other countries, private or foreign enterprises are at the forefront of entering low-income markets, but this has traditionally not been the case in China since China’s private sector remains relatively small and lacks the preferential access to finance enjoyed by enterprises in the state sector (Huang, 2008). Some nominally private firms like Huawei and Lenovo have started to enter low-income markets in China, but they can be considered as government-backed enterprises. State-owned enterprises and mixed-ownership firms still play a dominant role in the economy, more than thirty years after the beginning of the “reform and opening” era (Sun, 2003). Mixed or hybrid forms of ownership have greater significance in China because cross-ownership helps reduce uncertainty in inter-organizational relationships (Sun, 2003).

The conceptual distinction between the categories “private” and “state” is problematic also because the behaviour of owners and managers in private and state-owned enterprises are not necessarily all that dissimilar. Previous work has found that local collective and state-owned enterprises faced a somewhat hardened budget constraint, from the mid-90s forward and consequently became more cost-conscious and profit-oriented (Qian & Roland, 1998). By the same token, private entrepreneurs might also place more importance on job security for employees more than profit maximization. The Communist Party’s efforts to co-opt the private sector since adoption of the

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<sup>9</sup> People’s Daily Online. 2010. China's 4 trillion yuan stimulus package at farewell platform, available at <<http://english.peopledaily.com.cn/90001/90778/90862/7209270.html>>.

'Three Represents' as official doctrine in 2002 have been largely successful and most non-state enterprises are tightly interlinked with local governments. Another characteristic of the Chinese market is that, in some sectors, regulatory restrictions still limit foreign firms' market entry. For example, foreign banks and insurance companies face numerous restrictions in offering services in rural areas (Leung & Chyan, 2006).

### *Government-business relationships*

Scholars have observed different government-business models in China. At the national level, a number of scholars, and even the Chinese Communist Party itself, have claimed that China is developing into a "regulatory state". In the ideal-typical regulatory state, regulatory bodies are both independent of businesses and have substantial autonomy from the political executive or legislature. According to Pearson (2005, 2007), the Chinese leadership holds a set of normative preferences for 'orderly' competition and the creation of national champions. She argues that different regulatory schemes have been applied to strategic and non-strategic industries – what she calls 'top tier', 'middle tier', and 'low tier' sectors (2006).

At the local level, previous field studies have described the central or local governments' attitudes towards businesses as "developmental" (Shue, 1988), "entrepreneurial" (Duckett, 1998), "managerial" (Kostka & Hobbs, 2013), "clientelistic" (Wank, 1995; Ong 2012), and "predatory" (Lü, 2000; Pei, 2006).<sup>10</sup> While these general categorizations are useful tools for portraying distinct local government orientations, many government-business relations are in reality a hybrid of these categories and multiple relationship modes coexist in China. Even within one unit of local government there can be a high degree of intra-local diversity of attitudes and behaviors towards local businesses (Tsai, 2002). The nature of government-business relationships can also change over time when one partner's bargaining power increases or declines. Ong (2012), for example, argues convincingly that local government's "relative autonomy" and "state capacity" declined over the last decades and as a result, local states have been transformed from "developmental" states into "clientelistic" states. Acknowledging a general distinction in the degree to which government-business relations are

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<sup>10</sup> There are many alternative classifying labels, such as "state corporatist" (Oi, 1992), "market-facilitating" (Howell, 1993), "paralyzed" (O'Brien, 1994), and "booty socialist" (Lü, 2000). The sum of evidence shows that many local governments subscribe to the developmental state approach, in which the state intervenes in the allocation of capital and labour flows through a strong bureaucracy and high levels of government ownership.

clientelistic or developmental towards businesses offers insights into larger patterns of government-business alliances. However, this classification does not provide much information on the characteristics and dynamics of specific government-enterprise partnerships.

### *Non-Governmental Organizations*

In many countries, NGOs make attractive partners for firms entering low-income markets because they mobilize resources directly or indirectly through their network ties. Yet, in China, independent NGOs play only a highly circumscribed role, since the government maintains a close watch over the activities of the third sector (Saich, 2000). Of the NGOs in existence, a large number of them are also directly affiliated to governmental organizations and institutes and should be seen as so-called GONGOs (government organized NGOs). Through the closed networks they maintain with government officials and their policy expertise, these GONGOs articulate public interest and present these interests in state institutions and decision-making processes (Ho, 2001; Kostka & Mol, 2013). Of late, we also see more independent NGOs in China which play an increasingly important role in the provision of community-based services by bringing in relevant knowledge, organizing petitions and using media outlets to disseminate their messages. Although the numbers of independent NGOs are on the rise, they are concentrated mainly in a few large cities in China, such as Beijing. Low income markets are more remotely located and isolated from big cities, and thus the role and influence of NGOs in China remains relatively small.

With the particularities of the Chinese context in mind, we turn now to a discussion of how enterprises' market-entry strategies for low-income markets take these unique circumstances into account. Given the sheer size and power of the Chinese government, business models that work in other markets might not apply here. For example, introducing small-scale mechanical water pumps, which were successfully introduced through enterprise-NGO partnerships in India, might only be a second-best solution to improve water accessibility in China. Previous research suggests that rather than relying on mechanical pumps or other small-scale business models, a more effective and feasible solution to water accessibility is to introduce large, government-led irrigation projects (Tong et al, 2009). Instead of devising small-scale solutions, enterprises can align their business strategies with large-scale public works projects receiving support from central and local governments by, for instance, developing irrigation equipment for larger projects.

As we can see from the discussion above, in state-capitalist countries such as China, successful multi-sectoral partnerships between firms and the government depend on the each side possessing resources complementary to those of the other. Both the governments and firms have scarce and valued resources needed for building a successful business model in low-income markets, yet none of them, on their own, could overcome structural barriers in these low-income markets. As a result, both sides need to alter their structures and patterns of behavior to acquire and maintain needed external resources. Such resource dependence calls for the formation of links and partnerships among organizations (Pfeffer and Salancik, 1978) in order to address to the uncertainty in resource acquisition.

The following proposition guides the ensuing analysis: in China, an economy bound by a strong state, partnerships with central and local governments are an effective strategy for enterprises to acquire the resources needed to enter low-income markets. For establishing and maintaining successful long-term partnerships, alignment of incentives between governments and firms is of crucial importance. We consider a partnership as successful if the partnering tactics lead to the achievement of common goals and create valued and measurable benefits. Benefits can, for instance, include increased product success rates, the development of distinctive competencies arising from partnerships with local communities or government agencies, reduced incidence of unfavorable litigation, reduced levels of negative publicity, and favorable regulatory policies. Local governments are particularly important partners for firms since governments act as gatekeepers for valuable resources, such as finance, infrastructure, assistance with planning, advocacy, and establishing links to local partners and stakeholders. Firms that successfully partner with governments can, thus, reduce their market entry risk and readily scale up their business in low-income markets. On the other hand, those firms that fail to build working relationships with central or local governments tend to have a more difficult time in establishing a long-term presence in rural low-income markets.

### **3. Case studies**

Given that this study's objective is to assess whether or not resource dependence and aligned incentives matter for the success of government-enterprise partnerships in China's low-income market, the authors adopted an exploratory research strategy. This is a suitable strategy given the relatively unexplored nature of this research topic (Yin, 1984). The study focuses on three companies that partnered with central and local governments

to target low-income markets in rural areas. The three cases were selected based on three criteria. First, the selected cases had initiated business in the low-income market in China. Second, selected cases were business-led and relied on a partnership with a government organization for conducting their business. Third, both successful and unsuccessful cases should be selected in order to analyze whether variation in resources and alignment in incentives leads to different outcomes of government-enterprise partnerships.

We selected three case studies that satisfied these criteria. Two government-business partnerships with successful market-entry are contrasted with one unsuccessful partnership. The difference between these cases reflects the wide variety of government-enterprises partnerships in state-led economies. The first case is of a strategic partnership between a state-owned enterprise, China Mobile, and the central government to provide telecommunication services in rural areas. The authors examine China Mobile's experience in setting up an Information Network Platform for Rural Areas (INPRA), which both served the government's goal of extending telecommunications services to underprivileged areas and China Mobile's objective to expand its mobile phone customer base in rural areas. The second case study looks at a privately-owned company, Nanjing Jiukang Biological Technology Company, which developed a bio-pesticides business in rural areas and established a joint-venture company with the Nanjing municipal government in Jiangsu. The third case study analyzes Zhilian Renewable Energy Company, a private company that initially partnered with the Nanning municipal government in Guangxi to produce bio-diesel from Tung trees. We find that the last company's efforts were unsuccessful in expanding into low-income markets largely because the slow pace of the project's investment returns were out of step with the short-term priorities of the local government.

### ***3.1.China Mobile: Building an Information Network Platform for Rural Areas***

#### *3.1.1. A successful government-business partnership*

The Information Network Platform for Rural Areas (INPRA) is a striking example of a successful partnership between a state-owned company and the central government. The Ministry of Information Industry (MII) and the Ministry of Agriculture (MoA) first initiated the platform in 2004. With INPRA, the government hoped to redress the information asymmetry problem in rural markets and improve farmers' access to information technology. To do so, the ministries partnered with the state-owned enterprise<sup>11</sup> China Mobile,

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<sup>11</sup> In the parlance of Chinese statistics, China Mobile is officially counted as a "state-controlled enterprise" (*guoyou konggu qiye*) and not as a "state-owned enterprise" (*guoyou qiye*) since it is a shareholding company in which the state retains a majority of shares (~70 percent) but does not wholly own it. In reality, "state-owned" is not a misnomer since the

which the government perceived to have the best technological, financial, and managerial capabilities of China's three telecommunications service providers. In contrast to the other partnerships considered in this paper, in this case, it was the central government who selected the partnering firm and not vice versa.

For the two ministries, the INPRA roll-out in 2004 was part of a larger government initiative fostering rural development to create a "harmonious society", a hallmark of the Hu Jintao-Wen Jiabao leadership starting in 2003. The INPRA system provides farmers with up-to-the-minute information on agricultural prices, which greatly enhances their ability to negotiate with distributors. Users of the INPRA can also use cell phones to sell directly to their distributors or the final customers. In addition, the INPRA provides farmers with up-to-date information on weather and technical support. Prior to the arrival of INPRA, distributors provided farmers with no or only limited information on prices and the level of buyers' demand. Consequently, farmers often had to base their planting schedule on the previous year's information which engendered chronic supply problems (Figure 1).

**Figure 1 here.**

As a business venture, INPRA well exceeded China Mobile's and the government's expectations. In the first five years of its existence, from 2003-2009, the INPRA service grew at an annual rate of 30 percent. By the end of 2010, INPRA extended over 97 percent of rural areas and its users exceeded 57 million (China Mobile Limited Sustainability Report, 2010). China Mobile under the INPRA program sent out an average of 19.5 million SMS a day by the end of 2010 (China Mobile Limited Sustainability Report, 2010). A manager in a China Mobile branch office summarizes the success of INPRA:

*At first, we started this business as a social responsibility service, but we learned that it not only provides social benefits, but also considerable economic returns. The rural market business unit accounts for most part of our recent business growth. (Interview,*

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government and Party maintain a high degree of influence over China Mobile and China's other state-controlled national champions, through a number of mechanisms. First, in all such large enterprises, Party Committees sit in parallel to the Board of Directors and retain authority over all decisions of primary importance. Second, the CEOs of these enterprises are also typically included on the Party's *nomenklatura* list, many of them at ministerial or vice-ministerial rank. Third, China Mobile is overseen by a powerful central government bureaucracy, the State-Owned Assets Supervision and Administration Commission, which conducts annual performance reviews according to government priorities.

*Beijing, August 2009).*

According to a China Mobile employee, by 2007, just three years after the introduction of INPRA, China Mobile's business in rural markets had become profitable, despite the large initial investment of 19.5 billion RMB and the below-average user fees (Interview, Beijing, August 2009).

While the reliability of the profitability data is somewhat questionable, the INPRA project certainly helped China Mobile position itself as the core player in China's rural telecommunications markets. As of 2011, China Mobile is the largest mobile telecommunications provider in China and commands a market share nationally of 70 percent. Between 2006 and 2008, China Mobile's rural customer base expanded enormously as approximately half of all new subscribers were located in rural areas (105 million customers over three years.<sup>12</sup> According to their 2010 *Annual Report* "rural and migrant markets continued to be key growth drivers", accounting for the majority of new customers, whilst the mid-to high-end customer base were described as only "stable" (China Mobile Limited Sustainability Report, 2010: 22). Within China Mobile, the INPRA system was seen an important first step in learning about farmers' consumption patterns and allowed the company to collect valuable "learning experiences" over the years (Interview, Beijing, August 2009). In view of its success in the countryside, in 2009, China Mobile signed a strategic framework agreement with the Ministry of Agriculture to continue its engagement and to invest 70 billion RMB during 2009-2012 to cover an additional 10,000 villages and increase rural network coverage from 97 percent to 98 percent by the end of the three years (China Mobile Limited Annual Report, 2010).

China Mobile's great success in China's rural market served as encouragement to offer additional services and expand its rural market activities. In 2008, China Mobile expanded INPRA by including a Rural Job Network which provides farmers with information on new job openings. By year-end 2010, the Rural Job Network hotline received an average of 31,000 calls per month (China Mobile Limited Sustainability Report, 2010). China Mobile also initiated a call line for INPRA, labeled [www.12582.com](http://www.12582.com), which links farmers directly to relevant experts. By 2010, the website ranked first among agricultural websites in China by number of hits and the hotline service received 26,000 calls per day (China Mobile Limited Sustainability Report,

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<sup>12</sup> By 2011, China Mobile is the only service provider in China that seriously targeted rural areas, while in urban markets China Unicom, China Telecom, and China Mobile are fiercely competing in the increasingly mature urban market. See Bloomberg Businessweek, "Chinese Telecom: China Mobile Leads the Way: Half of China Mobile's new customers will come from the countryside," 2009, available at [http://www.businessweek.com/globalbiz/content/aug2009/gb2009085\\_090539.htm](http://www.businessweek.com/globalbiz/content/aug2009/gb2009085_090539.htm) >.

2010). Most recently, in 2010, China Mobile drew on its vast knowledge of customers' consumption patterns in rural markets gained through INPRA in rolling out local calling and group packages tailored to the specific needs of rural users.

China Mobile also constantly diversified and improved its rural information services at the local level. In 2011, Shandong China Mobile operated a three-tier information service system that delivers tailored news at the village, township, and county level. Many provinces also developed a number of sub-services for INPRA. The China Mobile subsidiary in Jiangsu province extended the platform by, for instance, integrating INPRA with a new, cooperative medical service by offering farmers medical services when they bought a cell phone. In Fujian province, INPRA included a new service that allowed farmers to apply for loans directly from their handsets.

China Mobile's success in service provision in rural areas was also the main driver behind the company's decision to make its first foray into overseas markets. In 2007, China Mobile purchased Pakistani cell phone company Paktel for \$560 million and launched the Zong cell phone brand in rural Pakistan. At the time, the high proportion of Pakistan's residents living in rural areas (approximately 66 percent) was seen as a major investment draw and China Mobile's Chairman Wang Jianzhou hoped to replicate the company's success in the Chinese countryside (Telecom Asia, 2007).<sup>13</sup> As yet, though, Zong has struggled to take market share from Pakistan's four established larger telcos, in part because the rural strategy successfully employed in China has proven a difficult transplant to Pakistan where rural land prices are higher, a factor which has frustrated the provision of telecom bases and equipment (Caixin CNBC, 2011).<sup>14</sup>

### *3.1.2. Addressing resource constraints*

Prior to the partnership formed between the Ministry of Information Industry (MII), the Ministry of Agriculture (MoA) and China Mobile in 2004, China's telephone service providers balked at the considerable resource and market constraints in rural markets. The large state-owned telephone service providers' cell-phone investments in rural areas lagged well behind those in urban areas, as managers saw farmers' income as too low to sustain a profitable cell phone business (Interview, Beijing, August 2009). The main

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<sup>13</sup> Telecom Asia 2007. China Mobile Invests in Paktel, available at <<http://www.telecomasia.net/content/fasttakes-sony-docomo-sri-lanka-telecom>>.

<sup>14</sup> Caixin CNBC. 2011. "Wrong Key Fumble for China Mobile in Pakistan.", available at <<http://www.cnbc.com/id/43147906>>.

resource and market constraints in implementing the INPRA in rural areas were: (1) existing gaps in local cell phone network coverage, (2) the lack of tailored and up-to-date agricultural information services, and (3) the farmers' lack of information about the benefits of a mobile information service. The establishment of a strong multi-sectoral partnership linking various ministries to China Mobile was key in overcoming these constraints.

The first constraint – low cell phone coverage – existed because the telephone service providers lacked sufficient incentives to invest in poor rural areas. The MII and MoA asked China Mobile to invest 19 billion RMB (approximately \$2 billion) to build a cell phone network in rural areas. Given their considerable misgivings about rural markets, China Mobile's management may have only grudgingly acquiesced to this request though interviews with China Mobile's middle-level management did not provide sufficient evidence to conclude whether or not China Mobile had voluntarily entered this partnership.

Another major constraint was that prior to selecting an appropriate information platform, a data gathering process was needed to ensure that the service could in fact provide farmers with tailored and up-to-date information. The MII persuaded China's largest state-owned media group Xinhua, in cooperation with the Agriculture Science Academy and China Agriculture University to collect the data for China Mobile. China Mobile, in turn, integrated the INPRA service with the local agricultural administration departments' (LAAD) message processing system in order to offer farmers regional-specific and bundled information on pesticides, fertilizer selection, seed varieties, and planting technology, all delivered via text messages.

A third challenge was to reduce farmers' skepticism about information technology and stimulate demand for the INPRA service. Initially, many farmers were reluctant to use the information platform and preferred to rely on word-of-mouth information or the village's official broadcasting channel. To gain the trust of the farmers, the MII and MoA asked different local governments to start pilot schemes. Local government officials introduced China Mobile managers to selected village governments, who made their village broadcast and other channels available to advertise the INPRA. A China Mobile employee explains how this government introduction fostered acceptance among farmers:

*Farmers thought that cell phones were an unnecessary investment, and INPRA was just a trick to obtain money. The local governments contacted the village leaders for us, who closely followed instructions from the upper-level government. This was a very effective snowball effect; for*

*example, one local government organized seven villages to test INPRA before it was rolled out (Interview in Beijing, August 2009).*

Managers also initially offered the INPRA service at a subsidized price to make the service acceptable to and affordable for farmers. While the average urban China Mobile user has to pay between 10 and 60 RMB per month for a mobile service, INPRA users were charged just two RMB per month (approximately \$0.25). Additionally, when farmers called the inquiry centre, the fee was 0.1 RMB per minute, lower than the average market price of 0.2-0.4 RMB per minute (Interview in Beijing, August 2009).

### *3.1.3. Factors Contributing to Success*

The capacity of China Mobile to operate a large mobile network in remote areas made it the best available partner for the central government (MII and MoA) to achieve national poverty reduction goals, while the resources the national ministries MII and MoA could leverage were complementary to China Mobile's resource set. This government-enterprise partnership is a quintessential example of a win-win situation as MII and MoA achieved their social policy objectives to increase farmers' income while China Mobile was able to access the resources and partners it needed to operate successfully in rural areas. While the partnership in its initial stages may have been more compulsory than voluntary, in the final analysis China Mobile gained from the competence and resources advantages provided by its partners in government. As noted, MII secured assistance from the media group and research institutes in the data-gathering phase and MoA linked the project with the relevant local agricultural departments. At the same time, China Mobile tapped its managerial and technical expertise in the telecommunications industry to develop the technology to support the platform. The actors maintained separate organizational forms, but worked closely and effectively in project teams.

China Mobile benefited from partnering with the two ministries by gaining access to their resources, technical and planning expertise, advocacy, and links to media partners, R&D institutes, agricultural universities, and local branches of the MoA (Figure 2). The two ministries' initiation and coordination of the strategic partnership helped to overcome coordination problems that could have arisen had there been no clear governance structures. Local governments also supported China Mobile by sending agricultural experts to rural areas to train the farmers in using INPRA. The local governments employed their vertical administrative structures to encourage farmers to use the platform, thereby helping China Mobile win acceptance

from potential platform customers. Specifically, village governments mitigated the lack of pre-existing distribution channels by employing their own channels to promote the platform.

**Figure 2 here.**

### **3.2. *Jiukang Company***

#### *3.2.1. A successful government-business partnership*

Nanjing Jiukang Biological Science Technology Development Company Ltd. (hereafter referred to as Jiukang) is a company in Nanjing, Jiangsu province which produces Neem-tree-based bio-pesticides. A professor from the Chinese Academy of Agricultural Sciences and an investment banker jointly established Jiukang in 2002 after successfully synthesizing a new Neem-based bio-pesticide. Two years after their research breakthrough, the two entrepreneurs set up a joint-venture with the Nanjing municipal government. This resulted in the formation of a shareholding company called Nanjing Jiukang Biological Technology Company Ltd., with the two private entrepreneurs holding 30 percent and the Nanjing government 70 percent of the company's shares.

After testing and comparing different Neem-oil-extracting technologies, Jiukang rented 5,000 *mu* (one *mu* equals 1/15 of a hectare) of non-arable, hilly land from farmers to start production. Jiukang sells its Neem bio-pesticides for 15 RMB per bottle, almost the same price as most chemical pesticides. Jiukang also manufactures bio-diesel from the leftover parts of the Neem fruits and organic fertilizer from the residuals. These spin-off businesses provide the village with valuable new sources of tax revenue. For instance, in 2008, the families in Qiaoli village, one of Jiukang's Neem-tree-planting sites, received an income of 0.8 million RMB from Jiukang, which was more than a third of Qiaoli Village's GDP (the total GDP was two million RMB). A farmer summarizes the benefits as: "Previously, the hills were almost useless. Now I can grow Neem trees and I get paid 1,500 RMB per year. It is good." (Interview in Nanjing, March, 2009).

#### *3.2.2. Addressing resource constraints*

Initially, as a private enterprise operating in a low-income market, Jiukang faced various resource and market constraints, principally: (1) insufficient finances to conduct R&D; (2) poor transportation networks and supply chain interruptions through irregular raw material deliveries, and; (3)

farmers' skepticism towards Neem-based bio-pesticide. The joint-venture with the Nanjing municipal government effectively addressed these constraints and helped the company quickly scale up its business.

The first constraint was a lack of financial resources which could be used to develop new seed varieties suited to local soil conditions and a non-tropical climate zone. As a start-up, Jiukang was unable to obtain sufficient loans from the local state-owned banks to finance the required tests and equipment. The entrepreneurs solved this problem when the partners set up the joint venture and the government-owned Nanjing Hi-Tech Venture Capital Fund invested seven million RMB (\$1 million). These funds allowed Jiukang to use a new grafting and tissue culture technology to cultivate new species of Neem tree which were uniquely suited to local conditions.

The second challenge the enterprise faced was overcoming the challenges posed by poor transportation infrastructure and supply chain interruptions. Given the intense competition between firms for land to be used for agricultural and industrial usage, Jiukang found it difficult to establish Neem tree plantations on a large scale. Accordingly, the Nanjing government linked Jiukang with village governments, which used word-of-mouth communication, street slogans, and public village meetings to persuade farmers to switch from the existing maize or root vegetable crops to Neem trees. The Nanjing municipal government also linked Jiukang with government agencies and agricultural associations in other provinces to scale up its business. This government-to-government negotiation led to Jiukang signing four contracts for large tree-planting areas with agricultural cooperatives in Shandong, thus ensuring a stable raw material supply. In return, Jiukang agreed to purchase the harvest at a minimum price and provide free seeds and technical support. The Nanjing Government also introduced Jiukang to foreign investors and Jiukang eventually won a 100,000 *mu* planting contract in Malaysia. In August 2009, the local government also started to link Jiukang with decision-makers in Africa, further encouraging Jiukang to expand its business. Improving the local transportation infrastructure proved more difficult, but the village governments and the municipal government combined their financial sources and shared the costs of building new roads.

The third obstacle was promotion of the usage of bio-pesticide. Chinese farmers are accustomed to chemical pesticides' immediate pest-killing properties and were reluctant to wait for two days for the bio-pesticides' effect to show. The companies' investment in advanced synthesis technology yielded new bio-pesticides which could kill pests within two hours, thus addressing the local farmers' needs.

### 3.2.3. *Factors Contributing to Success*

As in the China Mobile case, Jiukang and the local government possessed complementary resources that helped to account for the success of this multi-sector partnership. For its part, Jiukang employed its newly developed technology to create a sustainable and profitable business while the local governments hoped to increase the farmers' income and promote the bio-agricultural sector, while also obtaining financial returns from the investment. And since Jiukang recruited and trained village women and old men as part-time tree planting workers, reducing unemployment helped Jiukang to align incentives and cement its good relationship with the village leadership. The company's excellent *guanxi* ties with local governments also boosted Jiukang's reputation at the local level in a manner similar to the China Mobile case. As well, the production of affordable bio-pesticides alleviated pressing environmental problems in Jiangsu by decreasing poisonous pesticide residuals, soil degradation, and water pollution.

The two actors offered each other valuable resources and capabilities. Jiukang had the technology and creativity to develop a new business model that incorporated farmers as producers and consumers, while the government provided access to finance, infrastructure, technical and planning advice, advocacy, and links to other strategic partners. The Nanjing municipal government linked Jiukang to other stakeholders, including village committees and agricultural associations, to transfer the model to other provinces. The company also signed contracts with agricultural associations which left coordination of the farmers and tree planting in the hands of the capable and socially influential association management. Finally, Jiukang's partnership with village committees effectively leveraged the local village committees' social network and influence to recruit workers and distribute information.

The BoP literature emphasizes the difficulty of scaling up business initiatives in low-income markets (London et al, 2010), but this case illustrates how government involvement improved the company's access to suppliers and investors. The Nanjing government helped Jiukang partner with different provinces' agricultural associations and also introduced the company to foreign investors, allowing it to expand its supplier networks beyond China.

The particular corporate form of this partnership also contributed to its success. Jiukang and the Nanjing government adopted a shareholder partnership model with the founders holding 30 percent and the Nanjing government 70 percent of the company's shares. Although the local government holds the majority of shares, it did not actively interfere with the enterprise's operation. According to company managers, a clear separation between

ownership and management ensured that the municipal government had financial incentives to offer Jiukang strategic resources, while leaving the daily management to the entrepreneurs. However, it is also possible that the entrepreneurs of the firm provided substantial stock options to individual government officials who helped the firm in entering new markets (both locally, and foreign markets in Malaysia and possibly, in Africa). Such shady dealings cannot be ruled out as similar instances of corrupt practices are widely reported in China (see for example the milk power cases or brick scandals widely reported in recent years in China) (Po, 2009).

### ***4.3. Zhilian Renewable Energy***

#### *4.3.1. An unsuccessful government-business partnership*

Zhilian Renewable Energy (Zhilian) is a private-owned company manufacturing bio-diesel with Tung trees in Nanning municipality in Guangxi province. Tung trees grow in Southern China, and the seeds of the tree can be used to produce bio-diesel. During interviews in 2010, the managers of Zhilian disclosed their plans to cover the whole value chain, including tree planting base, bio-diesel production and marketing. The company initially discussed its plan with the Nanning municipal government, which pledged government support for the business. Yet despite its promising start and the company and the local government possessing complementary resources, the company's efforts to enter this business in low-income markets failed due to misaligned incentives and interests, and by 2011, the company no longer existed in Nanning.

#### *4.3.2. Addressing resource constraints*

With a large initial R&D investment, the company mastered the technology of producing bio-diesel from Tung trees. The main constraints the company faced in 2010 were: (1) no production capacity, (2) no stable material supply (Tung tree seeds), and (3) a lack of incentives for local farmers to participate.

Zhilian used its own financial resources and reached out to the government to address difficulties in the low-income market, but efforts to overcome these constraints were ultimately unsuccessful. In an effort to address the first constraint, Zhilian persuaded a number of local firms to produce bio-diesel using the company's technology. As to the second

constraint, Zhilian considered four different business models. The company weighed: first: investing directly in a planting base of its own; second, co-investing on a planting base with a partner; third, cooperating with landowners such that the latter could become shareholders; and fourth, forming contractual relationships with farmers where farmers contributed land and labor and the company agreed to purchase the tree seeds. In the end, the first and the second model were found to exceed Zhilian's investment capacity and the company finally selected the third and the fourth model. To address the third constraint, the company hired private agents to negotiate and collaborate with farmers. This approach differed markedly from Jiukang's where business owners had directly entered a joint venture with the municipal government. Zhilian elected not to involve local governments as a close partner.

#### *4.3.3. Factors contributing to failure*

While initially the government had promised support to Zhilian, these promises never materialized when Zhilian began to struggle with the magnitude of the resource constraints. Since the Tung tree could not provide economic returns within a three-year time frame — the trees requires a minimum growing time of three years — the local government had little incentive to get invested in the value chain. The local government's short time horizons are partly a result of the fact that local government officials are evaluated through the cadre evaluation system and must deliver concrete economic and social targets annually (Edin, 2003). Since raising farmers' income is a mandatory, 'hard' (*ying xing*) target, failure to provide quick success could very well result in government officials' losing their annual bonus payments or even missing out on the next round of promotions (in China, cadres are rotated or promoted every 3-4 years, see Eaton & Kostka (2014)). In addition, counting on returns only five years down the line is highly risky in an environment characterized by opportunistic behavior stemming primarily from the under-development of legal institutions in China. Low-income markets – characterized by the absence of advanced formal institutions – are governed through relational governance (Dwyer, 1987; Macneil 1980) mediated through networks and trust rather than contracts. Thus, when evaluating possible priority projects, risk-averse government officials tend to look more favourably on agricultural investments with quick and measurable returns in their own tenure time.

The misalignment of the government's incentives (i.e., fast economic return within 3 years) with the firm's incentives (i.e., economic return within

3-5 years) served to dampen the government's initial enthusiastic support for the firm. Indeed, our fieldwork revealed that local government support tilts strongly toward fast-growing economic plants. One interviewee told us:

*The government prefers projects that can yield revenue sooner. For example, those who plant sugarcane can get subsidies from government. As a result, the farmers are incentivized not to plant tung trees. Even in the non-fertile lands, the farmers are encouraged to plant fast-growing plants, such as camellia (Interview in Nanning, October 2010).*

Without the support of local government, Zhilian was unable to gain the farmers' trust. And due to the geographic dispersal of the farmers, scaling up the business proved onerous and time-consuming. Additionally, the government decreed that Tung trees could not be planted in fertile lands. The combination of these factors ensured that the business did not develop as Zhilian had planned. By year-end 2010, just one fifth of the expected 1 million *mu* anticipated planting base was fulfilled, far below the necessary economic scale for production (0.5 million *mu*). In all, although the company had designed a business model which had the potential to be profitable, in the absence of strong support from local government, the company could not get the necessary resources to build a profitable business.

#### **4. Discussion and Conclusion**

The findings from the three case studies support our argument that in state-capitalist countries, outcomes of government-business partnerships depend on firms having unique resources and capabilities that serve particular policy objectives of the state. By the same token, in order to make partnership attractive to firms, national and local governments must have unique resources needed in order to successfully operate in low-income markets. The cases further illustrate that in order to build and maintain successful government-business partnerships over time, the alignment of incentives plays an important role. In sum, complementary resources and well-aligned interests between firms and governments help to explain why some government-enterprise partnerships are more successful than others.

The three case studies display different types of government-business partnerships that aim to service low-income markets in China's state capitalist context. All three companies partnered with central and local governments to

enter low-income markets, though the nature of these partnerships differed in terms of the partnership's governance structure, voluntary vs. involuntary nature, and initiator and firms and governments' incentives (Table 1). The cases reflect a variety of partnership governance structures, ranging from purely strategic partnerships, in which enterprises and governments maintain their respective independence, to *bona fide* joint ventures, in which enterprises and governments form a new legal entity with mixed ownership where either the government or the enterprise holds majority shares. The variation among these partnership models are, to some degree, a reflection of the different interests and available resources of the enterprises and government bodies. A large state-owned enterprise, like China Mobile, might well have better access to financial resources and a wider product distribution network as compared to a small, private start-up company such as Jiukang, thus making it an attractive partner to serve the central government's policy objectives to alleviate poverty. The three partnerships also differ in terms of stakeholder involvement, the scale of investments, impact on low-income groups, and business scale, all of which influence actors' preferences for a particular governance model.

**Insert Table 1 here.**

#### ***4.1. Partnerships with "Chinese Characteristics"***

Government-business partnerships in China share many characteristics with multi-sectoral partnerships models in other low-income markets. As in other places, in China, successful government-business partnership models are only possible when partners have bring complementary resources to the table and have overlapping interests and incentives. Yet, there are a number of findings that seem to distinguish China's statist environment from the freer markets that are typically the focus of the BoP literature:

- (1) Governments, firms, and NGOs have different resources and freedom to operate under the terms of state capitalism. In China, local governments often stand in for the role played by NGOs in other contexts or they create NGOs that are directly affiliated to governmental organizations. At the same time, state-owned enterprises are important players in the market with privileged access to finance and other resources. The different characteristics of governments, firms, and NGOs in China's state capitalist context help to explain why multi-sectoral partnerships take such different forms in China's low-income markets.

- (2) Companies and governments often share common interests and incentives in China's low-income markets. The Chinese leadership in Beijing views poverty alleviation and improvement of farmers' livelihood as crucial to maintaining their political legitimacy. The raft of new government initiatives aimed at alleviating rural poverty will provide improved business opportunities for firms to enter low-income markets by partnering with governments and offering tax incentives.
- (3) Yet, if companies' business models do not meld with governments' objectives and incentives, this can lead to the withdrawal of government support and eventual business failure. The case of Zhilian illustrates the importance of well-aligned incentives in order to build and maintain a successful government-business partnership. Although the local government and Zhilian brought very complementary resources to the table, misaligned incentives prevented the partnership from developing its full potential. Initially, Zhilian lacked sufficient financial resources, fertile land, and the support from farmers, all constraints that the local government could have helped with. But since Zhilian's business model could not deliver fast economic returns within a three-year time frame, local officials lacked sufficient personal incentives to support Zhilian since leading local officials need to deliver concrete and measurable results within a three year time frame in order for these achievements to count for the next promotion cycle. In the absence of sustained support from the local government, Zhilian failed to obtain the necessary resources to grow a successful business.
- (4) In the context of China's state capitalist system, these partnerships are at times more obligatory than voluntary for enterprises. In the case of China Mobile, two central ministries initiated the information platform INPRA and worked closely with China Mobile from the start, while maintaining independent organizational structures. In contrast, Jiukang initiated the partnership with the government and and entrepreneurs and government officials established a jointly-owned shareholder company with a single profit center. Zhilian also initiated its partnership with the government, but no new governance structure was created and the government was not included as a shareholder or investor.
- (5) Yet, our findings suggest that such partnerships in which

government actors more or less compel enterprises to participate are not necessarily losing ventures. For China Mobile, the INPRA served to rapidly expand the company's customer base in rural areas which has become the most dynamic segment of China's telecommunications market in recent years. In addition, China Mobile has amassed considerable expertise in the area of service provision in low-income rural markets. The company aims to leverage this knowledge in expanding into other developing country markets such as Pakistan.

Finally, in state capitalist economies, the state owns and operates some of the most valuable assets and largest domestic companies, thereby ensuring that the state has enough leverage within the economy to safeguard its survival. In the context of an economic system bounded by a powerful state, partnering with governments can help firms to lower the risks connected with institutional voids by providing access to finance and helping to gain the trust of farmers in low-income markets. Firms that partner with governments can take steps to create or strengthen each node in the value network so as to manage the external risk factors, such as weak infrastructure impairing transports of products. Firms that align their business model with government objectives and interests may well reap great benefits from such partnerships in the long run.

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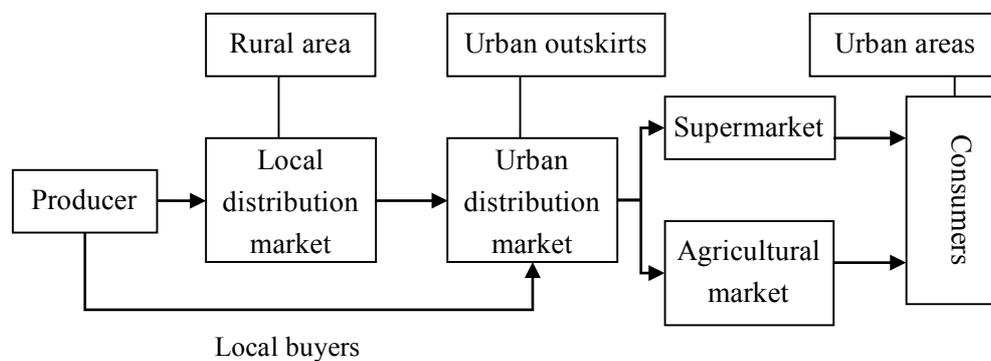
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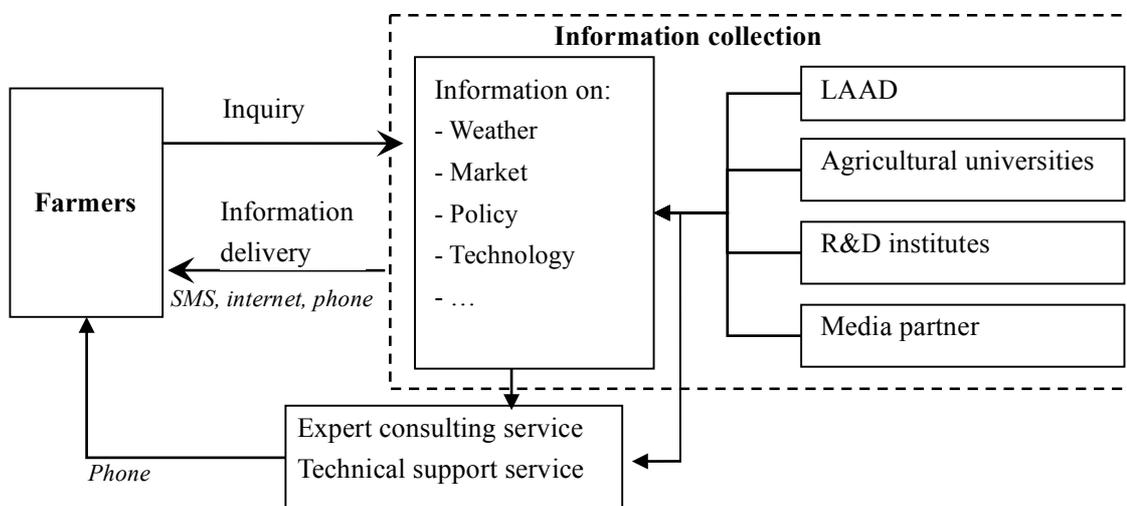
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**FIGURE 1.** Market Structure for Agricultural Outputs in China Prior 2004



Source: Adopted from Chen (2004)

**FIGURE 2.** China Mobile Information Network Platform for Rural Areas, 2005



Source: Adopted from Luo (2007).

**TABLE 1.** Variations in Government-Business Partnerships

<b>Partnership</b>	<b>Initiator of partnership</b>	<b>Nature of partnership</b>	<b>Governance structure</b>	<b>Alignment of incentives</b>	<b>Complementarity of resources</b>
<b>China Mobile and Central Government</b>	Central government	In-voluntary	New independent organization: creation of a new INPRA platform	<p>Aligned incentives –</p> <p><i>China Mobile:</i> enter rural telecommunication market, increase rural customer base, create investment returns within three years</p> <p><i>Central government:</i> national policy goal to increase rural incomes (e.g., harmonious society concept since 2003, national goal to double rural per capita income by 2020)</p>	<p>Complementary resources –</p> <p><i>China Mobile:</i> technological, financial, and managerial capabilities (e.g., mobile network)</p> <p><i>Central government:</i> access to key information providers and agricultural research institutes, link to local governments to advocate the product and gain farmers' trust</p>
<b>Jiukang and Nanjing Municipal Government</b>	Private company	Voluntary	Shareholding company: 70% municipality / 30% private enterprise	<p>Aligned incentives –</p> <p><i>Jiukang:</i> create investment returns within three years</p> <p><i>Nanjing government:</i> create investment returns, increase local employment and rural income within the next three years for achievements to count for government officials' next promotion evaluation, promote use of affordable bio-pesticides to improve local environment</p>	<p>Complementary resources –</p> <p><i>Jiukang:</i> technical and managerial expertise</p> <p><i>Nanjing government:</i> access to finance, links to agricultural associations and village leaders, product promotion, help with expanding to foreign markets</p>
<b>Zhilian and Nanning Municipal Government</b>	Private company	Voluntary	No new governance structure	<p>Misaligned incentives –</p> <p><i>Zhilian:</i> create investment returns within three to five years</p> <p><i>Nanning government:</i> increase rural income within next three years for achievements to count for government officials' next promotion evaluation</p>	<p>Complementary resources –</p> <p><i>Zhilian:</i> technical and managerial expertise</p> <p><i>Nanning government:</i> access to finance and fertile land, help with gaining the support from farmers</p>