*Journal of Economic Development, Innovation and Policy*
**Vol. 2** (2026), No. 3, pp. 183-195
DOI: https://doi.org/10.55578/jedip.2607.011

ARTICLE

# Why Entrepreneurs Fail to Promote Regional Development: The Case of the Shantou Special Economic Zone

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*Received: 23 June 2026, Revised: 9 July 2026, Accepted: 14 July 2026, Published: 24 July 2026*

**Abstract**

Regions with a high density of well-organized, capital-abundant entrepreneurs do not always experience developmental leaps. Frequently, they fall into economic stagnation, structural rigidity, and institutional lock-in. This paper addresses the interactive dilemma between entrepreneurial collectives and local development. It explores why highly organized business groups often fail to drive local prosperity. Using a typological framework of Chaoshan merchants and Shantou, the research reveals a striking paradox. The organizational capacity of these entrepreneurs yields positive externalities in open markets like Singapore and Hong Kong. However, in Shantou, where market openness is constrained, this same organizational advantage drives market closure and institutional sclerosis. The core of this paradox lies in the institutional interaction between entrepreneurial collectives and local markets. Under conditions of ambiguous state-market boundaries, homogeneous economic structures, and weak rule of law, entrepreneurs' strong organizational capacity degenerates into a catalyst for rent-seeking and market exclusion. On the contrary, the global success of Chaoshan merchants stems from enduring historical capital accumulation and robust social capital networks bound by clan culture and dialect. Yet, upon their return to the relatively closed and opaquely governed Shantou market, these exact social advantages trigger market failure. Ultimately, this study proposes a generalizable theoretical proposition: the developmental utility of entrepreneurial collectives is fundamentally contingent upon the local market mechanisms and institutional environment.

**Keywords:** Effective Market; Regional Development; Entrepreneurial Collective; Organizational Capacity; Special Economic Zone

## 1. LITERATURE REVIEW AND RESEARCH QUESTIONS

Since the onset of China's Reform and Opening-up, the tripartite interaction among entrepreneurs, markets, and the state has constituted a core narrative structure for understanding local governance and developmental trajectories. From the institutional breakthroughs of township and village enterprises to the localized industrial clusters of the Wenzhou and Sunan models, empirical evidence demonstrates the critical role of entrepreneurial collectives in market participation and regional advancement [1]. However, deepening reforms have revealed an empirical anomaly: certain localities with a high density of well-organized, capital-abundant entrepreneurs fail to achieve commensurate developmental leaps. Instead, they fall into economic stagnation, structural rigidity, and institutional lock-in [2]. Shantou, one of China's inaugural Special Economic Zones (SEZs), exemplifies this phenomenon. Envisioned in the early 1980s as a "Southern Gateway," Shantou possessed capital advantages, overseas networks, and policy support far superior to contemporary coastal cities [3]. Yet, it failed to replicate the success of Shenzhen, experiencing persistent relative decline. Paradoxically, this stagnation contrasts sharply with the continuous success of the Chaoshan merchant collective in global commercial networks. Demonstrating exceptional market acumen across Hong Kong, Singapore, and various mainland cities, their degree of globalization, organizational capacity, and

https://doi.org/10.55578/jedip.2607.011

social trust structures generally surpass other private economic collectives [4]. This reality yields a profound implication: entrepreneurial success does not inevitably drive institutional progress and regional prosperity in one's local community. Instead, it may induce non-market-oriented evolution and path dependence in local governance structures, impeding innovation.

Regarding the relationship between entrepreneurs and local development, existing literature predominantly follows two research trajectories. The first, rooted in classical development and institutional economics, emphasizes the function of entrepreneurs in promoting market and governance development, positing that resource optimization stimulates institutional loosening and policy evolution [5]. In the Chinese context, scholars argue that local entrepreneurs act as proponents of institutional reform, not merely products of marketization [6]. Particularly under administrative decentralization, they forge developmental alliances with local governments based on aligned incentives [7]. The second trajectory, grounded in public choice theory and local protectionism, points out that entrepreneurial path dependence and local governance deficiencies easily catalyze rent-seeking behavior and reform conservatism [8]. Specifically within areas of administrative power—such as land-based finance and administrative approvals [9]—entrepreneurs utilize political connections to achieve resource exclusivity and institutional lock-in, undermining market openness [10]. Within this framework, the institutional function of entrepreneurs is highly context-dependent, relying heavily on their embeddedness within local power structures. The evolution of Special Economic Zones is conceptualized by recent development economics as a dynamic contest between institutional upgrading and localized state-business capture. Contemporary empirical scholarship [11, 12]. demonstrates that prolonged, informal state-business interactions invariably generate structural exclusion if governance transparency is not simultaneously institutionalized. Consequently, these localized alliances systematically degrade regional economic resilience, providing an explanatory mechanism for the developmental stagnation observed in specific regional cases. This provides an alternative perspective for explaining why successful Chaoshan merchants fail to cultivate a successful Shantou.

Studies focusing on Chaoshan merchants emphasize the historical and cultural roots of their global commercial networks. Using kinship, bloodlines, and dialects as connective ties [13], Chaoshan merchants historically cultivated stable ethnic capital networks overseas. Their economic activities rely heavily upon integrated trust mechanisms derived from credit, social relations (guanxi), and commercial reputation [14]. This collective participation mitigates transaction costs, equipping them with robust risk resistance in volatile environments. Simultaneously, their traditional adventurous ethos ensures high mobility for cross-border capital, allowing them to maximize returns through "rapid entry and exit" strategies across shifting political landscapes [15]. However, this outward mobility has not translated into a capacity for home-based institutional reform [16]. Although Chaoshan merchants possess a strong homeland identity, research indicates a preference for investing in cities with complete market mechanisms and predictable institutional environments, such as Shenzhen, Shanghai, and Southeast Asia [17]. This investment rationality reveals a crucial dynamic: while retaining deep affection for their homeland, when the local spatial environment is closed and distorted, their collective action tends toward conservatism and inward orientation. Consequently, they leverage collective strength to maintain existing distributional paradigms rather than driving governance optimization.

Existing explanations for Shantou's developmental predicament primarily focus on locational disadvantages, local conservative forces, and insufficient governance capacity. Scholars highlight Shantou's peripheral location and weak infrastructure, which impede its absorption of global capital flows and industrial gradient transfers [18]. Other research posits that entrenched clan traditions and conservative culture prevented the establishment of effective market mechanisms during critical reform periods [19]. Instead, the local government faces constraints from indigenous forces in areas like investment promotion, fostering an intertwined structure that subjects policy innovation to local interest groups [20]. This significantly undermines public governance agency, trapping the government in structural rigidity during forward-looking agendas [21]. Particularly concerning land systems and fiscal structures, local forces act as powerful stakeholders, securing exclusionary control over resource allocation and eroding local governance capacity [22]. Simultaneously, prevalent public discourse attributes this stagnation to frail governance capacity;

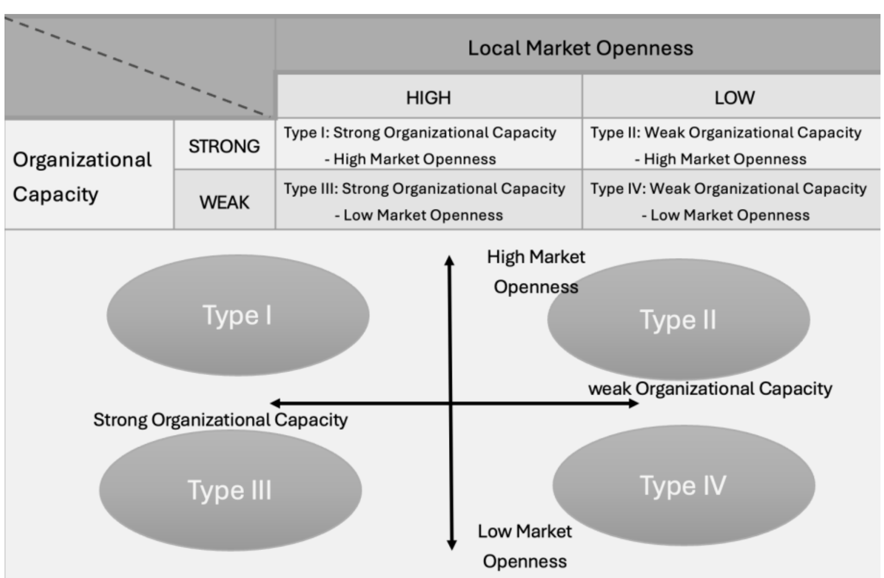
particularly around the year 2000, frequent occurrences of local corruption and performance-driven opportunism led to myopic administrative behaviors and an absence of local rule of law, causing Shantou to miss golden developmental windows [23].

The relationship between entrepreneurs and local development is not characterized by a natural, positive logic; rather, it is highly contingent upon their functional position and behavioral strategies within the institutional structure. While their role in market optimization is widely affirmed, their potential to act as "distributional coalitions" within the institution is easily overlooked [24]. As this concept implies, once an entrepreneurial group embeds itself into local politics and secures institutional advantages in decision-making and resource allocation, its original market logic may transform into a force for institutional exclusion and structural entrenchment [25]. This role transformation constitutes the critical mechanism through which entrepreneurs shift from growth engines to governance obstacles. The research questions of this paper are generated against this backdrop: First, why have Chaoshan merchants achieved sustained success globally, and how do their organizational advantages generate positive externalities in open markets? Second, why has Shantou failed to achieve sustained prosperity despite SEZ institutional dividends, and has its local institution been captured by specific interest networks? Third, does the local Chaoshan merchant collective constitute a "distributional coalition" that utilizes organizational structure to form exclusionary power and obstruct market mechanisms? By addressing these core questions, this paper aims to unpack the black box of state-business interaction, providing a more explanatory theoretical framework for the "entrepreneurial paradox" in Chinese local political economy.

## 2. ANALYTICAL FRAMEWORK BASED ON TYPOLOGY

As a mature analytical tool in the social sciences, typology facilitates concept formation, measurement refinement, dimensional expansion, and explanatory organization [26]. By generating classification systems through the interactive combination of variables [27], it operationalizes core concepts and constructs theoretical frameworks by matching abstract concepts with empirical facts [28]. Through typological research and case analysis [29], we comprehensively examine the differential developmental utility of entrepreneurial collectives in varying local markets. Consequently, drawing upon typological methodology, this paper proposes a two-dimensional framework intersecting the "Organizational Capacity of Chaoshan Merchants" and "Local Market Openness" to analyze their differential developmental efficacy (Figure 1).

**Figure 1.** Analytical Framework and A Typological Construction




**Source:** Author's own elaboration.

### 2.1. Organized Action

Understanding why entrepreneurs fail to promote local development—and may even constitute an institutional force of market obstruction—requires examining the theoretical interaction between collective action capacity and institutional structures. Small-scale, highly organized interest groups overcome the "free-rider" dilemma more efficiently than the general public, securing institutional benefits exceeding market logic in policymaking and resource allocation [30]. Once institutionally embedded, they protect vested interests and resist external competition and reform, ultimately causing policy failure, market distortion, and declining economic efficiency. The theoretical paradigm of distributional coalitions is significantly advanced by contemporary institutional economics, advancing the analytical focus toward dynamic structural exclusion and elite consolidation. Recent institutional analyses emphasize that elite capture functions as a highly resilient mechanism of self-reproduction. By weaponizing early-stage institutional ambiguities within stable political contexts, these coalitions continuously erode local governance capacity, transforming initial rent-seeking behaviors into permanent developmental constraints [31, 61]. Possessing immense path dependence and self-reproduction mechanisms within stable political contexts, they continuously erode local governance capacity.

In highly open markets, informal institutional collectives compress transaction costs and enhance opportunity identification [32]. However, when transplanted to regions with limited market openness, flexible entrepreneurs abandon open competition to secure exclusionary resources through rent-seeking, forming localized distributional coalitions. Their embeddedness within local governance aims to stabilize existing resource distributions rather than foster innovation. By controlling resource interfaces like land and industry access, they block external capital. Simultaneously, they utilize industry associations to seize agenda-setting and veto powers over local policies via power rent-seeking, triggering a structural weakening of reform momentum. Exhibiting a mechanistic trajectory from "institutional capture" to "path lock-in," entrepreneurial collectives morph into forces of market closure. Their collective action capacity transforms into a self-perpetuating mechanism for market sclerosis. This perspective effectively explains why Shantou failed to achieve institutional openness despite early policy support and Chaoshan capital repatriation.

### 2.2. Market Openness

Local market openness acts as a crucial institutional constraint on entrepreneurs' collective action trajectories, determining whether local institutions can accommodate new entrants, foster dynamic competition, and optimize resource allocation [33]. In highly open markets, transparent institutional structures compel entrenched interest groups to adapt continuously and form symbiotic relationships with competitors. Consequently, entrepreneurial collectives must seek developmental paths within fully competitive mechanisms, manifesting their influence primarily as adaptation and competition. Expatriate Chaoshan merchants exemplify this logic: they fully participate in market competition, forming a "positively embedded" structure where organizational capacity converts into endogenous forces propelling market development. In regions with high institutional quality, entrepreneurial organizations act as catalysts for governance innovation and technological progress.

Conversely, in localities with low market openness, interest groups securing institutional advantages maintain their privileged structure by suppressing competition, capturing policy agendas, and locking in resource allocation pathways through "non-competitive allocation" [34] and "distributive inertia" [35,36]. The collective's organizational capacity paradoxically drives local market closure and institutional sclerosis. Under conditions lacking rule-of-law safeguards, local governments are transformed into platforms for resource extraction by highly organized interest groups [37]. To maintain governance stability, governments collaborate with these powerful collectives. This collaboration inevitably evolves into a "symbiotic interest structure" and a "path dependency trap." Entrepreneurial collectives penetrate policymaking through collusion, prioritizing local enterprises and normalizing exclusionary market structures.

Notably, the above two core variables are operationalized through observable proxies. “Organizational Capacity” is assessed based on three criteria: whether kinship networks facilitate collective financing, whether local chambers of commerce promote commercial cooperation, and whether social relations are utilized to drive government-enterprise coordination. "Market Openness" is measured by the structural constraints of the local environment: whether diverse market entities are treated equally, whether trade information is relatively symmetrical, and whether there is effective regulatory oversight of non-market behaviors (e.g., rent-seeking).

## 3. CASE ILLUSTRATION AND ANALYSIS

Renowned worldwide as the "Jews of the East," Chaoshan merchants have swept across Southeast Asia, Hong Kong, Macau, and the West, yet they have failed to recreate similar economic miracles in Shantou, their homeland. The satirical characterization of the Shantou Special Economic Zone (SEZ) as a "Special Poverty Zone" highlights the dramatic contrast between a successful entrepreneurial collective and the developmental stagnation of their hometown. Utilizing the typological framework intersecting the "Organizational Capacity of Chaoshan Merchants" and "Local Market Openness," this chapter conducts empirical generalizations and theoretical analyses of this paradox.

### 3.1. Chaoshan Merchants Abroad

On the commercial geographic map, the success of Chaoshan merchants rarely correlates with physical location [38]; instead, it is highly contingent upon the positive interaction between the market environment and their organizational capacity. Since the mid-19th century, Chaoshan people migrated to Southeast Asia on a massive scale. Demographic and capital distribution data reveal profound success: while ethnic Chinese comprise only 5% to 6% of the region's total population, they control approximately 70% of ASEAN's private corporate wealth, with Chaoshan merchants dominating half of this segment [39]. Using the family as the axis, trust as the radius, and clan associations as structural nodes, they rapidly mobilize resources and share risks in foreign markets [40]. This robust organizational capacity enables effective business operations even in regions plagued by information asymmetry and underdeveloped financial and legal systems. In Thailand, the Chaoshan economic network controls 80% of medium-sized wholesale markets. The Charoen Pokphand (CP) Group, starting from agricultural seeds and poultry feed, expanded into a conglomerate spanning food, real estate, and retail [41]. Its success rests on a governance model of collective investment under a family system, unified decision-making, and shared profits. This model guarantees stable internal collaboration and rapid external adaptation, exemplifying a limited-scale collective efficiently overcoming the collective action dilemma.

The critical enabling factor is the high degree of local market openness, which accommodates their organizational advantages without generating institutional distortions. When host market mechanisms remain clear and unossified, Chaoshan merchants leverage their capacity for "rapid entry and rapid integration" to fill market voids and construct business ecosystems. Among Malaysia's top 50 wealthiest individuals, Chaoshan entrepreneurs occupy four spots, with the combined wealth of the Teh siblings (Public Bank), the Chia Song Kun family (QL Resources), Lau Cho Kun (Lei Shing Hong), and Lim Kuang Sia (Kossan Rubber) reaching $8.485 billion. This achievement is inseparable from the Chaoshan tradition of mutual-aid capital operations, entering markets cohesively before formal structures mature [42]. They substitute formal financing systems with concentrated capital and replace labor contracts with kinship accountability, compressing transaction costs while ensuring contract stability. Welcomed broadly by Southeast Asian markets [43], their hybrid model of "family core plus professional managers" guarantees decision-making efficiency, pioneering commercial success without relying on massive corporate bureaucracies [44].

The success of Chaoshan merchants in Hong Kong, Macau, and specific mainland cities corroborates this synergistic effect. Upon Hong Kong's port opening in 1843, Chaoshan merchant Gao Yuansheng founded Yuanfa Hong, the first "Nam Pak Hong" (North-South trading house), followed swiftly by Chen Huanrong's Qiantailong Hong. These enterprises propelled Hong Kong into an international entrepôt. Leveraging their organizational networks, they monopolized crucial North-South trade channels. By the late 1970s, as Hong Kong transitioned toward manufacturing, figures like Li Ka-shing expanded across public services, real estate, and infrastructure through strategic judgment and reputation accumulation, circumventing reliance on government franchises. The CK Hutchison Holdings once dominated the Hong Kong Stock Exchange and operated 12 berths at the Kwai Tsing Container Terminals (managing half of the port's container business); this strategy was fundamentally predicated on clear market signals and defined administrative boundaries [45]. The Li family adapted the traditional "kinship-dominated, collegial decision-making" model to a highly standardized, rule-of-law-based environment [46].

Similarly, Chaoshan merchants in Shenzhen intervened in an unossified experimental field with highly organized power. During the early Reform and Opening-up period, relocating Chaoshan capital initiated secondary entrepreneurship devoid of vested interest structures. Enterprises like Tencent Holdings and Galaxy Real Estate expanded rapidly by linking trade with industry. Their success materialized precisely because Shenzhen lacked exclusionary market structures. Acting as rule construction participants, Chaoshan merchants drove pluralistic market entry, perfectly illustrating the "positively embedded" typology where organizational capacity and market competition mutually reinforce each other [47]. Fundamentally, this success stems from the co-construction between collective action capacity and open markets [48]. However, when markets develop prolonged stability, organizational entropy increases, and collective action capacity harbors the potential to reverse into a foundation for market exclusion and institutional lock-in.

In summary, the success of Chaoshan merchants abroad is substantiated by observable facts. Their organizational capacity was demonstrated by how kinship networks facilitated collective financing (e.g., mutual-aid capital in Southeast Asia) and how chambers of commerce promoted commercial cooperation (e.g., pluralistic market entry in Shenzhen). Crucially, this capacity interacted with a high degree of market openness: diverse market entities were treated equally, trade information was relatively symmetrical (evidenced by Hong Kong's transparent market signals), and non-market behaviors were effectively regulated by restricted administrative boundaries. Consequently, acquaintance networks were utilized to overcome early-stage market frictions rather than to drive exclusionary government-enterprise coordination.

### 3.2. Chaoshan Merchants at Home

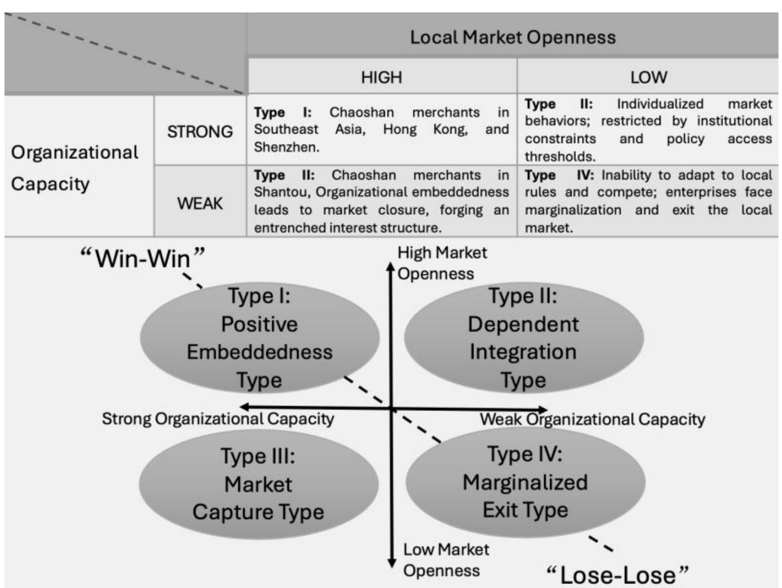
Returning to Shantou, the organizational power of Chaoshan merchants confronted a highly fragmented, distribution-oriented local market, becoming a primary catalyst for structural sclerosis. Objectively, Shantou's SEZ suffered from severe initial constraints: a minuscule area limited to 30 square kilometers in the Longhu District, an insufficient economic hinterland, and a lower administrative ranking compared to Shenzhen and Xiamen [49]. This generated a profound comparative disadvantage in institutional design. Subjectively, market openness stagnated due to homogeneous entrepreneurial origins. Before 1985, foreign investments were dominated by kinship-based Hong Kong and Macau Chaoshan merchants, concentrating on original equipment manufacturing (OEM) models lacking industrial linkages [50]. Unlike Shenzhen's inclusive investment promotion, Shantou primarily targeted local enterprises and the diaspora. Consequently, limited local resources were monopolized by families, and market access fell under the control of "insiders." This non-institutionalized, low-transparency model obstructed modern market mechanisms, driving potential large-scale external investments toward more market-oriented cities like Zhuhai and Shenzhen [51].

Crucially, the organized return of Chaoshan merchants structurally mismatched this limited openness. Instead of pioneering reform, the collective transformed its organizational capacity into rent-seeking advantages. By weaving intricate social networks with government officials, they bred power rent-seeking in land, finance, and investment promotion. Securing discursive representation through the Political Consultative Conference (CPPCC) and the People's Congress, they directly participated in resource allocation. Empirical observations regarding local resource allocation substantiate this causal chain. The resulting institutional lock-in is evidenced by the stark contrast in resource access: while indigenous enterprises secured preferential land and financial allocations through intricate social networks, external enterprises consistently faced insurmountable administrative barriers and tight land quotas. Through policy thresholds and early information monopolization, they severed entry pathways for external competitors. Led by local enterprises, industry associations and rural gentry councils consolidated agenda-setting power, pushing local governance toward localized closure. While local Chaoshan merchants drove investments through geopolitical ties, these predominantly flowed into short-cycle industries (real estate, low-end manufacturing, urban commerce), lacking technological innovation and industrial upgrading effects.

Concurrently, external enterprises faced insurmountable administrative barriers, complex approvals, tight land quotas, and a lack of guanxi networks. This exclusionary outcome is explicitly evidenced by long-term statistical divergence. Despite its initial SEZ status, Shantou is the only one among the first four SEZs whose per capita GDP persistently remained below the national average in the 21st century. Concurrently, its actual utilization of Foreign Direct Investment (FDI) stagnated at a mere fraction compared with Shenzhen, reinforcing the finding that it consistently ranked poorly in attracting foreign investment among eastern coastal cities [52]. Such protracted macroeconomic stagnation empirically substantiates that local administrative mechanisms were implicitly tailored to favor entrenched local collectives, thereby solidifying institutional lock-in. Neighboring Jieyang and Chaozhou faced similarly bleak prospects. This evolution highlights a structural contradiction: organizational capacity enhances collective efficiency, but in closed markets, it produces negative effects. To secure resource concentration, Chaoshan merchants continuously reinforced linkages with local governance, forging entrenched distributional coalitions. Exploiting existing institutions rather than innovating, they crystallized an open local consensus: enterprises survive through power rent-seeking, not competitiveness. The systemic vulnerability of this closed structure was starkly exposed by empirical historical events, most notably the massive "815" tax fraud scandal in 2000. This landmark crisis empirically demonstrated how intricate local networks and informal negotiations systematically overrode formal legal regulations, leading to the collapse of regional commercial credit. Ultimately, the market devolved from a resource allocation mechanism into an arena for interest redistribution, trapping Shantou's development in a closed loop of failed market mechanisms, paralyzed governance, and persistently depressed economic vitality(Figure 2).

Conversely, the Shantou case demonstrates how these identical organizational advantages trigger market failure under restricted structural constraints. While kinship networks and local business groups still facilitated localized collective financing, market openness was compromised. Diverse market entities were not treated equally, as external enterprises faced insurmountable administrative barriers and tight land quotas. Furthermore, trade information was asymmetrical due to early information monopolization by local insiders, and effective regulatory oversight of non-market behaviors was notably absent. Within this closed structure, social relations were primarily utilized to drive exclusionary government-enterprise coordination, effectively transforming organizational capacity into rent-seeking.

**Figure 2.** Four Typologies and Empirical Evidence of Chaoshao Merchants




**Source:** Author's own elaboration.

## 4. SUBDIVIDED EXPLANATORY DIMENSIONS

Capital flows like water, and the market serves as its channel. Although the entrepreneurial collective acts as a dynamic and robust current of capital, it can never surge into a vast ocean if the market channel is tortuous, narrow, and closed. Operating as a formidable organizational force, Chaoshan merchants navigated freely across Shenzhen, Hong Kong, Southeast Asia, and the West; yet in their homeland of Shantou, this massive economic energy remains trapped like water in a shallow pool. The root cause lies in the structural constraints of the local market channel, rather than a deceleration of the capital flow. Moving beyond the macroscopic dimensions of market openness and organizational degree, this chapter delves into micro-level dynamics: the power path dependence of local governance, the constraints of a homogeneous economic structure, and the hidden transaction mechanisms spawned by the absence of the rule of law. By dissecting these critical nodes, it explains why Shantou failed to provide a genuinely open market space. Concurrently, it re-examines the multidimensional historical, cultural, and linguistic origins underpinning Chaoshan organizational capacity.

### 4.1. Regarding the Local Market

First, the blurred boundary between the bureaucratic system and the market. Regional developmental success requires maintaining clear state-market boundaries, an issue Shantou failed to manage correctly. The government-led market lacks transparency and equal opportunity, effectively solidifying a closed pathway for resource flows during nominal marketization. While local governance elites inherently practice risk aversion and resource control, their fundamental duty is to implement policies preventing institutional entropy that undermines market openness and fairness. The local government evidently failed to fulfill this duty. Unlike market reform pioneers such as Shenzhen, Shantou's market openness never transcended the boundaries of power-dominated governance. The institutional inertia of the governance system locked in its market reform, consistently substituting competitive mechanisms with administrative resource allocation and bypassing the natural evolution of market selection [53]. Consequently, the local government acted as the ultimate distributor, degenerating market openness into exclusionary competition. As the government became a primary beneficiary of market returns, the openness mechanism lost its institutional premise, providing a breeding ground for market capture. When local investment promotion normalized into designating specific cooperative partners, the mechanistic foundation of the market fundamentally collapsed. This governance paradigm stems from local cadres manipulating markets to monetize power for career advancement, compounded by a severe absence of supervision mechanisms that renders transparent administration unattainable.

Second, the extreme homogeneity and path dependence of the economic structure constitute a secondary structural shackle severely restricting Shantou's market openness. The degree of regional market openness depends heavily on the complexity and elasticity of internal economic organizations. Shantou has long been defined by a dual structure that combines a low-end export processing system with traditional family-based commerce. Unfortunately, this configuration has failed to foster endogenous mechanisms for technological upgrading. Under this structure, market entry costs for diverse industries are prohibitively high. Incumbent organizations easily control resource allocation, exacerbating the exclusion of non-local resources. This dual dynamic drives the "hollowing out" of technology-intensive industries and the "involution" (neijuan) of labor-intensive sectors [54]. More fatally, this economic structure relies heavily on local government resource supply and policy favoritism, forging a typical interest-binding relationship between the state and local collectives. Within this system, opening-up behaviors are perceived as potential threats to the established distribution paradigm, frequently encountering soft resistance. Local forces either open only segments beneficial to themselves or utilize the government to squeeze out competitors. Therefore, Shantou's economic structure is structurally locked: unwilling to shatter the existing order and lacking pathways to break through it.

Third, the absence of the rule of law and the prevalence of personalistic rule (the rule of man) represent another core variable limiting Shantou's market openness. The rule of law serves as the institutional bedrock of modern market order precisely because it establishes stable expectations for contract enforcement, property rights protection, and fair competition [55]. In Shantou, however, this safeguard mechanism is persistently dissolved by local power structures and acquaintance-based social relations. Although formal regulations exist, execution relies heavily on traditional personal favors and informal negotiations. The resulting unpredictability makes rational, long-term investment exceedingly difficult. For external capital and nascent enterprises, the lack of the rule of law exacerbates institutional uncertainty. Excluded from existing resource allocations, they face a reality where nothing is permitted without the approval of power. Administrative approvals, commercial disputes, and supervision processes are riddled with "hidden thresholds" and "soft enforcement." The market cannot form mature mechanisms with predictable returns and controllable costs, failing to propel local industries into an innovation-driven evolutionary path. Fundamentally, the legal system failed to achieve necessary institutional independence and checks and balances. The market functions merely as a product of administrative power, failing to universally adapt to operating mechanisms based on contracts and laws [56]. In a rule-of-law environment, collective rationality cannot transform into productive forces. Lacking the rule of law as a contractual pillar, organizational capacity inherently veers toward exclusionary collusion rather than open co-construction.

### 4.2. Regarding Organizational Capacity

First, the exceptional organizational capacity of Chaoshan merchants is the product of historical capital accumulation. "Capital" here transcends material wealth; it encompasses a value-adding system of economic, organizational, reputational, and knowledge assets traversing economic cycles and market volatility [57]. Since the mid-19th century, migrating Chaoshan merchants expanded dispersed family workshops into cross-regional and cross-institutional commercial networks [58]. This catalyzed several critical values: 1) The flow of capital: Rapid primitive capital accumulation and risk dispersion via family mutual aid, kinship credit, and clan guarantees. 2) Adaptive capacity: This historical capital constructed a unique cross-cultural ability to navigate and negotiate among market mechanisms, chamber of commerce rules, and Chinese social norms. 3) Transmission of experience: Chaoshan merchants construct entrepreneurial foresight and risk-resistant capital forms as intangible assets that can be replicated across generations. They accumulate a wealth of intra-organizational experience through weathering market fluctuations, circumventing political risks, and integrating diverse institutional resources. These shared experiences serve to reinforce the foundational logic that sustains their collective action [59]. Precisely due to this high degree of organization, when operating overseas, they do not act as naive startups but systematically accomplish market entry, opportunity identification, and resource reinvestment amidst uncertainty utilizing their historical capital. 4) Local relational networks: Deep cultivation of relationships spanning financing, information, supply chains, and government-enterprise collusion. This constructs a semi-hidden local market barrier, embedding market access and resource flows entirely within the logic of an acquaintance society. Converting relational networks into capital advantage constitutes an asymmetric competitive advantage derived from immature market and legal environments.

Second, alongside historical capital accumulation, language and culture constitute unignorable soft factors behind this organizational capacity. Language functions as an identity tool for collective self-affirmation and boundary drawing [60]. In overseas immigrant societies and opaque emerging markets, the Chaoshan dialect forms a hidden contract system, rapidly establishing social trust and significantly reducing default risks. Hearing the familiar dialect on the streets of Penang, Bangkok, or Yangon signifies an acquaintance society nested within shared language, clan memories, and ethical norms. The dialect evolves into a filter for selecting cooperative partners, building credit relationships, and mitigating moral hazard, serving an alternative normative function in weak legal environments. Simultaneously, profound clan ethics and symbiotic values exert a far-reaching influence. Within this culture, "kinship" functions as a systemic resource mobilization platform. From fundraising for startups to mutual aid during crises, and from information exchange to cross-regional coordination, the operational model relies heavily on this cohesive yet elastic clan network. Its foundation is the moral binding force and reputation system constructed by clan ethics. Defaulting is not merely a business failure but a betrayal of collective values. Therefore, the endogenous incentive for Chaoshan organizations is the maintenance and reproduction of reputational capital, enabling sustained, high-efficiency coordination at a remarkably low cost.

## 5. CONCLUSION

The interactive case of Chaoshan merchants and Shantou offers profound theoretical and empirical reflections on the relationship between entrepreneurs and local development. The global success of Chaoshan merchants demonstrates the positive effects generated by the interaction between high organizational capacity and open market mechanisms. This organizational advantage stems from long-term historical capital accumulation and relies on a trust system forged by linguistic and cultural networks. However, when the Chaoshan collective returns to an environment characterized by institutional closure, market distortion, and low governance transparency, this very advantage induces market failure. Their deep nexus with the local government breeds market exclusivity and non-competitiveness, ultimately locking in the trajectory of local economic development. Consequently, entrepreneurial forces—which should inherently drive local prosperity—transform into endogenous constraints on economic dynamism. This interactive model effectively explains Shantou's developmental predicament; the underlying logic is that the functional nature of entrepreneurs fundamentally transforms in response to shifts between market openness and closure.

Furthermore, the theoretical insights highlighted in this case possess broader universality and explanatory potential. From a political economy perspective, the relationship between organized entrepreneurial action and local development must be understood as a highly context-dependent "structural interaction." Under conditions of transparent market access, clear state-market boundaries, and a robust rule of law, entrepreneurs' organizational capacity and social capital effectively translate into momentum for market reform and innovation. Conversely, in governance contexts marked by imperfect institutions and intense political intervention, highly organized entrepreneurs easily become sources of power rent-seeking and market closure. This theoretical insight provides a crucial explanatory basis for understanding the economic development dilemmas of other regions worldwide with similar characteristics. A similar "entrepreneurial paradox" exists across Latin America, Southeast Asia, and other parts of China, where capital-abundant, highly organized local elites operating in closed markets frequently act as drivers of institutional inertia and reform stagnation. Therefore, departing from the specific Chaoshan-Shantou case, this study offers a generalizable theoretical framework for understanding how entrepreneurial collectives assume divergent roles across different market environments. The explanatory boundary of this typological framework is anchored fundamentally in the structural intersection of organizational capacity and market openness, thereby subordinating the geographical origin of capital. According to the inevitable logic of organized action, once any capital group achieves high organizational capacity, it is structurally driven toward collective action.

Crucially, the perfection of market mechanisms and the dynamic adjustment of government governance are the critical variables determining the functional roles of entrepreneurs and the trajectories of local economic development. This necessitates establishing structural constraints and incentive mechanisms during policy design and market reform to prevent entrepreneurial organizations from degrading into "distributional coalitions." Only when the institutional framework effectively ensures competitive mechanisms, equal opportunity, and governance transparency can the inherent advantages of entrepreneurial organizations translate into genuine forces for local development and innovation. On the one hand, the theoretical reflections herein provide institutional references and policy enlightenments for addressing several pressing questions: how to maintain entrepreneurial vitality while preventing interest groups from capturing the market; how to propel local governments to transition from local resource allocators to defenders of free markets; and how to reconstruct the boundary between power and the market in local governance. On the other hand, future research must utilize fieldwork to further trace the interactive processes between entrepreneurial collective action and local governance, thereby capturing micro-level and critical heterogeneous variables.

**Funding Statement:** This research was not funded by any external sources.

**Contribution:** Chen was solely responsible for the research and writing of this article. Hehas agreed to the published version of the manuscript.

**Informed Consent Statement:** Not applicable.

**Data Availability Statement:** The raw data supporting the conclusions of this research will be made available by the authors, without undue reservation.

**Conflicts of Interest:** No potential conflict of interest was reported by the author.

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