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2026 Volume 4, Issue 4
Lecture Notes in Education, Arts, Management and Social Science
ISSN:2705-053X

The Development of Horizontal Economic Cooperation in the 1980s: A Case Study of Zhejiang Province

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Abstract: Since the Third Plenary Session of the 11th Central Committee of the Communist Party of China, horizontal economic cooperation has emerged as a novel phenomenon in economic life. It has broken down the traditional economic framework characterized by administrative divisions and regional isolation, transcending geographical boundaries, sectors, and industries. Enterprises collaborate based on their respective strengths and development needs in areas such as production, technology, capital, and talent, significantly enhancing corporate vitality and injecting strong momentum into economic growth. Leveraging its unique geographical location and economic foundation, Zhejiang Province has explored various forms and dimensions of horizontal economic cooperation, effectively integrating previously fragmented resource allocation, improving production efficiency, and promoting regional economic development.

Keywords: Economic reform; Horizontal economic integration; Enterprises; Zhejiang

Online publication: April 26, 2026

1. Introduction

The so-called horizontal economic links refer to the connections among various regions, cities, departments, industries, and enterprises, which differ from the hierarchical vertical economic links that extend from ministries (commissions) under the State Council down to departments (bureaus) at provincial (municipal, autonomous region) levels and further down to municipal (county) bureaus [1]. The former primarily relies on economic means, whereas the latter depends mainly on administrative measures. Horizontal economic integration is established and developed based on these horizontal economic connections; it is an economic cooperation model centered around enterprises, involving the coordinated utilization of various elements such as enterprises, raw materials, capital, and technology, with the aim of achieving resource sharing, complementary advantages, and improved economic efficiency.

2. Policy orientation of horizontal economic integration

Horizontal economic integration aligns with the socialist essence of liberating and developing productive forces, profoundly reflecting the inherent logic of China's economic system reform during the early stages of reform and opening-up. Theoretically, concepts such as "collaboration" and "socialized large-scale production" embodied in horizontal economic integration represent both a breakthrough from the traditional segmented planning economy model and an initial exploration of socialist market economy theory. Furthermore, various policy orientations have established a framework for the practical implementation of horizontal economic integration, the governance of government-enterprise relations, and the restructuring of economic operational rules.

Before the reform and opening-up, China's economic development model was primarily characterized by "small but comprehensive" or "large but comprehensive" structures, with enterprises, regions, and departments operating in rigidly segmented sectors. Administrative measures were employed to restrict horizontal interactions between enterprises, regions, and departments within a commodity economy framework, imposing unilateral constraints based on vertical administrative hierarchies while disregarding actual economic performance [2]. Since the 1980s, some enterprises, responding to the demands of commodity economy development, sought to transcend these sectoral barriers and engage in broader commercial production and operations, yet remained subject to interference from the old system. The report to the 12th National Congress of the Communist Party of China in 1982 explicitly stated regarding urban enterprises: "Beyond mandatory planning, guiding plans should be implemented for many products and enterprises, primarily utilizing economic levers to ensure their realization... granting enterprises varying degrees of operational autonomy" [3]. This report laid the foundation for the emergence of urban economic reforms and the dismantling of the outdated system.

In 1984, the Third Plenary Session of the 12th Central Committee of the Communist Party of China adopted the "Decision of the CPC Central Committee on Economic System Reform", which emphasized the necessity and urgency of accelerating comprehensive economic reforms with a focus on urban areas [4]. Subsequently, economic reforms centered on enhancing corporate vitality gained significant momentum. In March 1986, the State Council convened the first national conference on urban economic reform, focusing particularly on horizontal economic collaboration between enterprises. Vice Premier Tian Jiyun stated in his report that such collaborations should be vigorously promoted, urging "policy incentives and legal protection", adding that "horizontal economic cooperation represents a new phenomenon in economic reform and holds great significance for advancing systemic reforms and developing social productivity." To further promote healthy development of these collaborations, the State Council issued the "Provisions on Several Issues Concerning Further Promoting Horizontal Economic Cooperation" on March 23. The document clarified that enterprise alliances constitute the fundamental form of such collaboration, advocating organization around large and medium-sized enterprises as pillars and premium branded products as leaders. These partnerships should operate voluntarily under principles of "leveraging strengths, diversifying approaches, mutual benefit, and shared development", transcending regional, sectoral, or industry boundaries as well as ownership structures. Such collaborations may involve specialized cooperation or integration of talent, resources, capital, technology, and commodity trade. The Regulations also outline the objectives and implementation measures for horizontal economic cooperation, including safeguarding enterprises' autonomy in such collaborations, improving planning management and statistical methods, facilitating horizontal distribution of materials, enhancing integration between production and technological innovation, and refining taxation mechanisms [5]. Subsequently, relevant authorities such as the Ministry of Finance, the State Materials Administration, the People's Bank of China, and the National Bureau of Statistics have issued corresponding interim measures to promote horizontal economic cooperation.

Furthermore, 1986 marked the inaugural year of the Seventh Five-Year Plan. The official report on this plan emphasized the need to advance overall reforms by fostering horizontal economic cooperation. It called for removing obstacles to such collaborations, clearly defining the rights and interests of all participating parties, and providing policy support as well as legislative safeguards to ensure the healthy development of various forms of inter-enterprise partnerships.

3. Models of horizontal economic cooperation in Zhejiang Province

Located on China's southeastern coast, Zhejiang Province exhibited distinct characteristics prior to the reform and opening-up era: uneven resource distribution, abundant human resources, and strong operational capabilities. Its economy developed primarily through leveraging human resources to process and utilize local natural resources. The economic structure was dominated by light, small-scale, and collective enterprises, with agriculture and light-textile industries accounting for over 70% of total industrial and agricultural output, while heavy industry played a minor role. Enterprise composition consisted predominantly of small and collective enterprises (over 90%), lacking large-scale flagship companies. Although this structure offered flexibility, it suffered from fragmented operations and insufficient stability [6]. These features underscore the urgent need for Zhejiang to adapt to local conditions, capitalize on its strengths, and foster diverse, multi-tiered forms of horizontal economic cooperation to drive industrial restructuring and upgrading.

3.1. Production collaboration

Production collaboration—particularly specialized partnerships led by premium branded products—stands as a key approach to horizontal economic cooperation. It features rational resource allocation, stable production, low investment requirements, rapid technological advancement, and high labor productivity, advantages unmatched by individual enterprises alone. For example, Ningbo Xinle Brand washing machines have gone through three stages—diffusion collaboration, organizational integration, and development of multi-level partnerships—to establish a specialized joint production system spanning different regions, industries, and ownership structures. This has facilitated the rationalization of corporate organizational structures and yielded significant social and economic benefits. Hangzhou Forklift Factory has adopted a path of specialized collaboration, with approximately 47% of its components produced through diffusion-based cooperation. Over several years, it initially established a horizontal economic collaboration network centered in Hangzhou and primarily serving enterprises within the province. As production volumes have grown annually, this approach has not only enhanced internal corporate profitability but also spurred the development of numerous local industries and township enterprises. Exports of its forklifts account for over 80% of China's total forklift exports, reaching more than twenty countries and regions worldwide, including the United States [7].

3.2. Enterprise joint ventures

Establishing enterprise groups or conglomerates through joint ventures holds significant positive implications for organizational restructuring and structural optimization, further enhancing corporate vitality while fostering a culture of mutual support and integration that corrects negative practices such as egalitarian distribution systems. For instance, Jiaxing Seagull Electric Fan General Factory established an enterprise group comprising the main plant, branch plants, and cooperative factories, adopting three distinct forms of collaboration to develop its flagship products and drive technological innovation, thereby invigorating the enterprise [7]. Enterprise groups such as Hangzhou Glass Fiber, Jiaxing Nanhu Color Weaving, Ningbo Ningfeng Textile Printing & Dyeing, Jinhua Jianfeng Cement, and Hangjiahu Building Materials have not only strengthened product competitiveness and improved economic efficiency but also provided effective solutions for the development of township enterprises and local employment, demonstrating substantial social benefits.

3.3. Scientific research collaboration with universities

Under market economy conditions, the key for small factories to establish a foothold and avoid being phased out by larger enterprises lies in product quality. To this end, numerous small factories have partnered with universities to establish collaborative research initiatives. For instance, the Ferroalloy Factory in Jiangshan County, Quzhou City, formed a joint research and production consortium with Zhejiang University to jointly develop, produce, and commercialize advanced wear-resistant cast iron materials and related components; within less than a year, they achieved a profit of 120, 000 yuan and trained over 60 technical experts [7]. In Deqing County, Huzhou City, more than 100 enterprises established technological and economic partnerships with 12 universities and 32 research institutions nationwide. The Jiaxing Haiyan Light Bulb Factory collaborated with Fudan University, Zhejiang Silk Science Institute, and a Beijing-based research institution, achieving significant technological advancements and producing highly competitive products [7]. Meanwhile, Shaoxing Shangyu Fan Factory learned technologies from Shanghai Jiao Tong University, establishing a research and production consortium that expanded from a village-run enterprise with only 90 square meters of factory space to a large-scale enterprise covering 15, 000 square meters with an annual output value of 30 million yuan, whose products have won multiple provincial, ministerial, and national awards [7].

4. Achievements and limitations of Zhejiang Province's horizontal economic collaboration

In the 1980s, Zhejiang Province achieved significant results in promoting economic development and optimizing its industrial structure through horizontal economic collaboration. However, new challenges have emerged, including uneven product quality, haphazard development approaches, and outdated policy planning, all of which urgently require resolution.

4.1. Significant economic benefits achieved

Statistics show that Zhejiang Province witnessed substantial development in horizontal economic collaborations during 1986. The number of cross-departmental, cross-regional, and cross-institutional economic consortia and enterprise groups grew from over 2,300 the previous year to nearly 4, 000; this figure rises even higher when including township enterprises and various collaborative initiatives. These partnerships focused on increasing production of high-quality branded products, developing new products, and expanding domestic and international markets, enabling optimized allocation of production factors such as capital, technology, and raw materials across broader regions. This significantly challenged the fragmented old economic system and injected strong momentum into economic growth. That year, Zhejiang's total social output value exceeded 100 billion yuan; industrial and agricultural output reached 86.69 billion yuan, a 17% increase from the previous year; national income surpassed 42 billion yuan, with per capita income exceeding 1, 000 yuan for the first time; and annual industrial output totaled 67.486 billion yuan (including industries below the village level), representing a 19.8% year-on-year rise.

4.2. Promoting the optimization and upgrading of industries

The horizontal economic integration has spurred rapid growth in Zhejiang Province's durable consumer goods industry. The province has successively developed clusters of enterprises producing bicycles, washing machines, electric fans, televisions, and refrigerators, which have not only expanded production scale and improved product quality but also updated product designs, reduced costs and prices, and further expanded market reach. The machinery sector, focusing on core products, has adopted a path of specialized collaboration that has enhanced product quality, lowered costs, increased output, and earned strong market credibility.

Meanwhile, manufacturing enterprises proactively collaborate with universities and research institutions through horizontal partnerships to jointly develop new products and drive technological upgrades, thereby rapidly transforming scientific advancements into tangible productive forces. Through collaborations among industry and commerce, industry and trade sectors, and among commercial entities, factory production is aligned with market demands, reducing distribution intermediaries and enhancing commodity circulation.

4.3. Shortcomings in Zhejiang Province's horizontal economic collaborations

Although the horizontal economic cooperation in Zhejiang Province has achieved notable success, investigations conducted by relevant authorities in cities such as Hangzhou, Ningbo, Jiaxing, and Huzhou have identified several challenges associated with this model.

First, after some enterprises formed partnerships with renowned product manufacturers or key industry players, they assumed that having such strong backing would allow them to relax quality control measures, ultimately damaging the reputation of these joint ventures.

Secondly, some enterprises in the consortium rely excessively on branded products while neglecting new product development and product upgrades, leading to inventory buildup and repeated price cuts, thereby placing the consortium in a passive position.

Thirdly, members within certain economic consortia have failed to properly uphold the principle of “mutual benefit and common development.” When economic interests cannot be met due to various reasons, some members focus solely on immediate gains and losses, lack a sense of the bigger picture, and even choose to withdraw from the consortium, putting it at risk of dissolution.

Fourth, the fragmented institutional framework still hinders the advancement of horizontal economic collaboration in certain aspects. Many large and medium-sized enterprises have noted that key resources—including planning, materials, capital, infrastructure, and technological upgrades—are still controlled by respective administrative authorities, while companies are also constrained by the existing fiscal management system. Under these dual constraints, corporate collaborations can largely only be established under the “three unchanged” conditions (i.e., unchanged administrative affiliations, ownership structures, and fiscal revenue channels). Consequently, truly transcending regional and departmental boundaries to form consortia aligned with the objective demands of a commodity economy remains fraught with difficulties, making significant breakthroughs challenging.

Fifth, horizontal economic collaboration lacks macro-level guidance and exhibits a degree of arbitrariness. Due to the absence of clear industrial policies, neither government departments nor local authorities have developed comprehensive development plans, leading to issues such as haphazard site selection, irrational economic scale, and suboptimal social and economic returns during horizontal cooperation and the formation of enterprise groups.

Sixth, horizontal economic collaborations lack necessary legal safeguards. Particularly for large-scale joint projects, many entities perceive the risks as high and lack adequate legal protection. Factors such as market fluctuations, policy adjustments, or even changes in leadership may serve as grounds for unilateral contract termination, significantly compromising the stability and sustainability of these collaborations [8].

In general, collaboration and cooperation between enterprises must be based on sincerity, trustworthiness, shared benefits, and shared risks; the principle of voluntariness should prevail, while administrative interference must be avoided to prevent corporate groups from becoming disguised administrative entities or government management structures. The various emerging challenges and issues that arise will require ongoing research and resolution in the future.

5. Conclusion

As an important component of economic reform in the 1980s, horizontal economic cooperation represented an objective requirement and inevitable trend for the development of the socialist commodity economy and large-scale socialized production, aligning with the fundamental economic law that production relations must adapt to the development of productive forces. At a time when China urgently needed to unleash and develop productive forces to meet the growing material and cultural needs of the people, horizontal economic cooperation facilitated complementary advantages among various regions, departments, and enterprises. Under the influence of the commodity economy, it promoted survival of the fittest, drove industrial upgrading and restructuring, and fostered healthy economic development. Although challenges such as blurred boundaries between government and enterprises, excessive administrative intervention, inadequate product quality supervision, and leadership issues within cooperatives persisted, the emergence and development of new initiatives were inevitably a tortuous process. The practice of horizontal economic cooperation in Zhejiang Province during the 1980s, serving as a significant model of economic reform in the early stages of reform and opening-up, restructured various elements, injecting strong momentum into state-owned enterprises while laying the foundation for the rise of the private sector.

Disclosure statement

The author declares no conflict of interest.

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