ISSN: 2710-0170

Institutional and Cultural Analysis of the Economic Transformation of Taishun Merchants during the Real Estate Downturn

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Abstract

During the real estate downturn, the Taishun merchant community has encountered a systemic predicament characterized by breakdowns in capital chains and an eruption of private lending disputes. Taking the out-of-town Taishun business community as its research subject, this paper analyzes the underlying mechanisms of this predicament from both subjective and objective perspectives. The Taishun merchants' predicament is not merely a consequence of the real estate cycle shock; it is also an inevitable product of the severe mismatch between their old cognitive paradigm—grounded in acquaintance-based trust, high leverage, and the real estate upswing—and current economic realities. Cognitive lock-in under geographical endowment constraints, the absence of value rationality resulting from the expansion of instrumental rationality, and the structural limits of particularistic trust within the differential mode of association jointly constitute the internal roots of a predicament that is difficult to resolve on its own. Accordingly, the paper proposes that the construction of trust institutions and cultural foundations should serve as a leading initiative for the Taishun merchant economy to emerge from the predicament. The government should invest continuously with a long-term orientation, promoting a paradigm shift among Taishun merchants from a "logic of personal ties" to a "logic of rules."

Keywords

Taishun merchants' predicament; institutional trust; private lending; real estate downturn.

1. Historical Formation and Characteristics

Taishun's physiographic constraints—captured in the local saying "nine parts mountain, half a part water and half a part farmland," that is, roughly 90 percent mountainous terrain, 5 percent water and 5 percent arable land—have made outmigration a livelihood strategy, which after the reform and opening-up evolved into a large-scale wave of business migration: currently approximately 140,000 Taishun natives are engaged in out-of-town business, accounting for one-third of the registered population, and they have established more than 1,000 specialized markets nationwide, with cumulative value creation exceeding RMB 1 trillion. The community's business formats are highly concentrated, with specialized markets and commercial real estate accounting for approximately 50 percent. Taishun merchants have exhibited clear stages in tandem with China's modernization process: in the 1980s, outmigration was individual and survival-driven; in the 1990s, they created a replicable business model through building-materials market operations in Northeast China, and by the late 1990s had established more than 420 specialized markets. In 2014, they upgraded to commercial real estate development, building more than 850 markets nationwide with annual sales exceeding RMB 850 billion. In

ISSN: 2710-0170

2012, Taishun was awarded the title of "China's No. 1 County in Market Investment and Development".

2. Threefold Manifestations of the Predicament

Under the combined shocks of deep adjustment in the real estate sector and macroeconomic transition, the Taishun merchant community has faced systemic dysfunction, manifested in three progressively layered problems.

Alienation of the Credit System and Latent Trust Risks. In Taishun merchant tradition, financing was pursued by displaying enterprise strength through status-signaling consumption—luxury cars, high-end spending, and the like—which relied on a network of acquaintance-based trust rather than formal contracts. When the real estate downturn led to asset-side depreciation, many Taishun merchants who were already insolvent were forced to hold on and keep up appearances in order to maintain financing credibility, continuing to borrow new funds to repay old debts and sustain a superficial prosperity. This credit signal became thoroughly alienated into a "credit bubble," and a large number of lending relationships based on personal favors and social ties faced default risks, becoming a major latent source of private disputes.

Breakdown of Capital Chains and Outbreak of Private Lending Disputes. Owing to the absence of modern financial risk-isolation mechanisms, once the real estate projects stalled, Taishun merchants' capital chains rapidly slid from a precarious "ten bottles, nine caps" liquidity position(that is, rolling over short-term obligations with insufficient cash to cover all maturing liabilities at any one time), into full-scale rupture, and private lending disputes erupted in a concentrated manner. In the Liren Group case, for example, more than 7,000 creditors were involved, and book liabilities from private financing reached as high as RMB 5.075 billion; large-scale defaults directly triggered a regional financial crisis, and many ordinary households fell into hardship. More seriously, because Taishun merchants' debts were generally embedded in acquaintance networks based on blood and locality, risk spread with a domino effect: the bankruptcy of one enterprise often involved the rupture of economic chains across multiple families.

Failure of Family-Based Governance and Extensive Management. In their early stage, Taishun merchant enterprises relied on family-based organizational structures to reduce management costs and improve decision-making efficiency. As enterprise scale expanded and the economic cycle reversed, shortcomings such as crude management models and undiversified business formats became evident, leaving them with no buffer space during the downturn. Corporate power was highly concentrated in the chairman alone, exhibiting patriarchal centralization; rules and regulations were subordinated to personal preferences, and institutional checks were lacking, leading to disordered strategic decision-making and internal corruption. Professional managers were lost in large numbers because of the absence of institutional safeguards, and core positions were filled with members who were adept at ingratiation but lacked professional competence.

3. Objective Constraints: Geographical Endowment, Cyclical Trap, and Financial Fragility

The emergence of the current predicament of Taishun merchants is attributable not only to shocks from the external environment but also, more fundamentally, to structural defects endogenous to their business models and financing structures. The interplay of these two dimensions constitutes the objective substrate for the failure of their cognitive paradigm.

Constraints of Industrial Carrying Capacity. Taishun's mountainous terrain and scarce arable land fundamentally constrain the county's local industrial carrying capacity. In 2025, the county

ISSN: 2710-0170

had only 62 industrial enterprises above designated size, and the value added of such enterprises accounted for merely 5% of GDP. However, the enormous wealth created by Taishun merchants outside the region has not been transformed into growth momentum for local industry. Capital has returned in a drip-irrigation manner through private lending and project investment rather than forming organic linkages with the local economy through deep embedding in industrial chains, thereby creating a deep structural rupture between the extralocal and local economies.

Macrocyclical Shocks and the Procyclical Trap. The profit logic of Taishun merchants' specialized-market real estate operations is to obtain financing by mortgaging land and properties, cover interest with rental income, and support the next round of expansion through asset appreciation. This cycle deeply binds corporate balance sheets to the real estate cycle. When the industry enters a downturn, the asset side contracts in tandem, whereas the liability side is rigid and cannot be adjusted downward in tandem. This dual mismatch between assets and liabilities in maturity and valuation causes Taishun merchants' balance sheets to deteriorate at a pace far exceeding expectations. In essence, it is the inevitable eruption, at the point of cyclical reversal, of the procyclical leverage mechanism embedded in the business model.

Structural Fragility and Dependence on Private Lending. Taishun's private lending has long maintained monthly interest rates of 2% to 5%, with annualized rates as high as 24% to 60%. During upswings, such costs could still be covered by asset appreciation, but during downturns they become a fatal debt noose. Crucially, such lending lacks formal collateral guarantees, risk stratification, and default disposal procedures, operating entirely on acquaintance-based trust networks. A private lending network lacking formal financial isolation mechanisms is highly susceptible to regional risk contagion. Some scholars have further confirmed that default risk in private lending not only spreads within informal financial networks but also spills over into the formal financial system through channels such as corporate guarantee chains and collateral depreciation, ultimately amplifying a localized crisis into regional systemic financial risk.

4. Subjective Lock-In: Cognitive Inertia, Ethical Alienation, and the Limits of Trust

Subjective-level cognitive lock-in and ethical alienation constitute the internal roots that make this predicament difficult to resolve on its own.

Cognitive Lock-In. Most first-generation Taishun merchants grew up in environments of material scarcity and information deficiency. Their cognitive frameworks were shaped in the early stages of entrepreneurship by the specific experiences of acquaintance networks, relationship-based financing, and the real estate upswing, forming a dominant logic that was stable but lacking in flexibility. The more effective this logic once was, the more difficult it became to change when the environment shifted. The cognitive repertoire of the first generation lacked reference frameworks for handling downturn conditions; thus, when the cycle reversed, their cognitive schemas lacked the capacity to recognize a paradigm shift. Douglass North pointed out that once a system of ideas takes shape, it possesses powerful inertia. For this generation of Taishun merchants, acknowledging that the old model has become ineffective means negating the experience and judgment of most of their lives. The high psychological cost of doing so makes them prefer to believe in the old conviction that the cycle will eventually recover rather than confront the necessity of a paradigm revolution—this constitutes the deepest root of the Taishun merchants' cognitive predicament.

Absence of Value Rationality. The Taishun merchant community was driven by a strong survival impetus aroused by geographical constraints, yet it remained in a prolonged state of instability: the scarcity of mountainous resources, the drifting of outmigration to earn a living, and the

ISSN: 2710-0170

brutality of business competition allowed utilitarian ethics to gradually become dominant. Consequently, value rationality—including rule consciousness, contractual spirit, and social responsibility—lacked the soil in which to grow. Once the dividends of the era disappeared, instrumental rationality rapidly translated into opportunistic behaviors such as debt evasion and asset transfer, accelerating the comprehensive collapse of the credit system. The state of anomie described by Durkheim is precisely a portrayal of the current ethical predicament of the Taishun merchant community: old moral constraints have lost efficacy, new normative identifications have not yet been established, and individual desires have lost social restraint.

Disintegration of Contractual Solidarity. Durkheim pointed out that the effective operation of contracts depends on morality external to the contract, such as fairness and good faith. Fei Xiaotong's theory of the differential mode of association reveals the structural characteristics of trust in China's rural society: trust diminishes layer by layer with blood and geographical relationships as its radius, forming particularistic trust rather than universalistic trust. When the scale of transactions exceeds the carrying capacity of acquaintance networks, the structural limits of this particularistic trust make it impossible to extend to strangers and incapable of effectively constraining opportunistic behavior within the network. Although the Taishun merchant community possesses strong commercial profit motives and entrepreneurial impulses, it has failed to develop in tandem the contractual spirit and entrepreneurial spirit in the modern sense. The former requires rule consciousness and universalistic integrity that transcend personal ties; the latter requires innovative responsibility and long-term ethical commitment that transcend short-term profit. When the status-signaling mechanism is abused as a financing instrument, the moral foundation of trust is thoroughly hollowed out, and interpersonal trust itself disintegrates along with it.

5. Solutions and Pathways

President Xi Jinping pointed out: "Promoting the healthy development of the non-public economy and the healthy growth of individuals in the non-public sector constitutes both a major economic issue and a major political issue." The current predicament of Taishun merchants is both a manifestation of economic structural imbalance and a consequence of the disorder of values and behavioral norms. The Taishun government should ground its approach in the strategic height of the "Two Healths"(the healthy development of the non-public sector and those working in it) and provide intellectual guidance and institutional safeguards for the economic transformation of Taishun merchants from two dimensions: the construction of institutional trust and the reshaping of cultural values.

Rebuilding the Credit Rule System. The acquaintance-based trust networks of Taishun merchants can no longer carry increasingly complex transaction structures. The government should proactively build alternative institutional trust infrastructure: promote chambers of commerce to establish information-disclosure mechanisms so that credit assessment shifts from looking at luxury cars to looking at data; establish regional debt mediation and restructuring platforms to provide distressed enterprises with institutionalized exit channels and reconstruct rational business decision-making; and strengthen institutional construction for honesty and trustworthiness in order to cultivate a culture of integrity. In short, rules should be made into new credit assets, guiding the Taishun merchant community to shift from a logic of personal ties to a logic of rules.

Reshaping Cultural Foundations and Value Roots. The deep root of the Taishun merchants' predicament lies in the structural absence of cultural foundations within their commercial spirit: the impulse to pursue profit is excessive, while value rationality is insufficient. The government should treat the construction of Taishun merchant culture as a long-term strategy and invest continuously on a ten-year cycle: relying on chamber-of-commerce platforms to

ISSN: 2710-0170

conduct regular humanistic education and ethics training, using typical cases as demonstrations and guidance, and integrating rule consciousness, contractual spirit, and social responsibility into the daily practices of the Taishun merchant community. Only when nourished by a substantive culture can a correct view of righteousness and profit and a correct view of official performance truly take root, and only then can the Taishun merchant economy acquire a spiritual foundation that transcends short-term cycles.

In summary, for the Taishun merchant economy to emerge from its predicament, it must complete a coevolution of institutions and culture: using institutional trust to compensate for the structural limits of personal trust, using value rationality to correct the excessive expansion of instrumental rationality, and promoting a leap among market actors from personalized trust to impersonal trust. The government should take the "Two Healths" as its strategic overarching framework, guide the Taishun merchant community onto a path of high-quality development, and truly achieve a phoenix-like rebirth in the next cycle.

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