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Economic transition, industrial location and corporate networks: Remaking the Sunan Model in Wuxi City, China

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A B S T R A C T

This research investigates the transition of the Sunan model, which was centered on local-state directed township and village enterprises (TVEs), through a case study of Wuxi City. Based on questionnaire surveys and firm/government interviews, we have found that Wuxi has been undergoing a series of institutional changes, economic transition and spatial restructuring. TVEs have been replaced by domestic private enterprises and to a lesser extent, foreign-invested enterprises (FIEs). However, in comparison with Suzhou, a leading city in Sunan (southern Jiangsu) where FIEs are a major driving force of economic restructuring, domestic capital and private firms have played a more important role in Wuxi. It is found that domestic firms in Wuxi have their own local production networks, rather than forming networks with FIEs. Moreover, local governments remain a key agent of economic transition and firm (re)location. The case of Wuxi highlights the multiple trajectories of remaking the Sunan model, the strong hand of local states, and the uneven process of economic development.

Introduction

China's economic development is spatially uneven, largely driven by coastal city regions and the interplay of state, global capital and local agents (Wei, 2002a). Sunan, the Pearl River Delta (PRD) and Wenzhou models represent regional development trajectories in China during the early stages of reform in the 1980s (e.g., Fan, 1995; Liu, 1992; Ma & Cui, 2002; Oi, 1995). The Sunan model attributes the development of Sunan (Southern Jiangsu) to the local-state directed township and village enterprises (TVEs). Its success is credited to local-state corporatism and development/urbanization from below (Ma & Fan, 1994; Oi, 1995; Wei, 2002b), echoing the orthodox industrial districts and emphasizing local assets and institutions (Scott, 1988).

However since the early 1990s, with deepening reforms Sunan has moved "beyond the Sunan model" through privatization and the infusion of global capital. Scholars have challenged the orthodox notions of development models in China (Lu & Wei, 2007; Wei, 2002b; Ye & Wei, 2005), and have proposed alternative models of development incorporating global and local forces (Wei, Liefner, & Miao, 2011). These studies echo the recent literature that questioned the relevance of orthodox models of industrial districts and regional development (Hadjimichalis, 2006; Whitford, 2001), and called for "globalizing" and "scaling up" regional development (Coe, Hess, Yeung, Dicken, & Henderson, 2004; Lin, 2009; Wei, Li, & Wang, 2007; Yeung, 2009).

While these researches have advanced our understanding of the restructuring of the Sunan model, studies are mainly based on the experiences of Suzhou whose restructuring process is heavily driven by globalization and the influx of FDI (Chien, 2007; Wang & Lee, 2007; Wei, 2002b; Wei et al., 2011, 2013). With few exceptions (e.g., Chou, Ching, Fan, & Chang, 2011; Wei & Gu, 2010), little attention has been paid to the role of domestic firms and local capital in the restructuring of the Sunan model. Although FDI has become a decisive dynamic of economic restructuring in Sunan, studies might have overemphasized exogenous factors and the notion of strategic coupling in regional development (Wei & Liao, 2013).

In this regard, a middle ground approach that incorporates a triple process of China's economic transition, namely globalization, marketization and decentralization, can help to gain a better sense of development dynamics in China and the restructuring of the Sunan model in particular. Moreover, the literature has also paid little attention to the spatial process of the restructuring of the

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Sunan model due to the limitations of data. Recent research has recognized the need for such studies, and has paid more attention to industrial locations at the intra-urban level (e.g., Yang & Liao, 2010).

This study draws upon the case of Wuxi City, a historical core of the Shanghai-centered Yangtze River Delta (YRD) and a prototype of the Sunan model. This paper investigates economic restructuring and industrial development in Wuxi. It aims to better understand variegated pathways to remaking the Sunan model that may not be driven mainly by FDI. Wuxi was also selected because since the 1980s, Wuxi has become a leading economic center in the YRD, which is probably the largest global city region in the world. In addition, while Sunan typically includes Suzhou, Wuxi, and Changzhou municipalities, the development of Wuxi has largely escaped scholarly investigation.

This study is mainly based on firm level data, a questionnaire survey in 2009 and dozens of interviews undertaken in Wuxi in 2008–2011. The firm level data were compiled from the Second Industry Census (1985), and the First (2004) and Second Economic Census (2008) conducted by the National Bureau of Statistics of China. We geo-coded the firms and then conducted spatial analysis to explore location and relocation of industrial enterprises, taking the Nanchang District, a central urban district in Wuxi, as a specific case. Between 2008 and 2011, we interviewed dozens of government officials and senior managers in manufacturing firms. We first interviewed officials and managers at the municipal, district, and development zone levels. Then we selected about a dozen of the firms for in-depth interviews, with an emphasis on location strategy, R&D activities, and network relations.

Based on the first round of interviews in 2008, we conducted a questionnaire survey in the Nanchang District in 2009. Our sample size was 276 firms, which were pre-determined from the business directory provided by the local government. We delivered a cover letter and a survey questionnaire to a senior manager of each firm, and the survey generated a total of 60 usable returns (68 returned). Blending evidence from both quantitative analysis and firm interviews has allowed a comprehensive understanding of the remaking of the Sunan model in Wuxi.

Research background and conceptual framework

Trajectories and mechanisms of regional development in the context of globalization have generated considerable scholarly discussion (Coe et al., 2004; Lin, 2009; Pike, Rodríguez-Pose, & Tomaney, 2006; Wei, 2002b; Yang, 2009). Scholars have questioned the literature on industrial districts for its narrow focus on local institutions and networks, as well as the neglect of globalization and the role of large firms (Hadjimichalis, 2006; Wei et al., 2007; Whitford, 2001). Amin and Thrift (1992) proposed the notion of a "neo-Marshallian industrial district", which highlighted the impact of global corporate networks on industrial districts. Markusen (1996) classified four types of industrial districts: Marshallian, hub-and-spoke, satellite, and state-anchored districts. The "high road" strategy centered on globalization and innovation is central to the restructuring and upgrading of industrial districts (Eraydin, 2001; Martin & Sunley, 2006).

In recent years, scholars have called for a global production network (GPN) perspective that focuses on the dynamic strategic coupling of global production networks and regional assets (Coe et al., 2004). The GPN perspective or approach has enhanced our understanding of the dynamics of firm networks and global–local relations, and provides a powerful interpretation of the rise of industrial production in East Asia (Yeung, 2009). However, the GPN approach also has limitations for overemphasizing global or extraregional processes and leaving specific geographical contexts in a vacuum. China's development trajectories do not totally follow Western experiences because of the transitional economy and rapid urbanization, as well as the huge domestic market (Wei et al., 2011; Zhou, Sun, Wei, & Lin, 2011).

Firm location exerts profound impact on the geographical distribution of economic activities, and scholars argue for studying regions by studying firms (Markusen, 1994). From the perspective of classical and neo-classical location theories, firm location is determined exogenously, and is deemed to have "location functions" to choose the optimal place where production will yield maximum profits. Factors such as land availability, tax and tariff, market size, etc. are typically considered in location analysis. In recent years, globalization and the development of technology have prompted scholars to develop institutional and evolutionary perspectives, with concepts such as "embeddedness", "institutional thickness", "relationship assets", "untraded interdependence" and "firm-region nexus" to understand industrial location and social–spatial relations (Amin & Thrift, 1994; Asheim, 2000; Dicken & Malmberg, 2001; MacKinnon, 2012; Storper, 1995).

In this study, we emphasize the role of the institutional change in urban and regional development and argue for a triple-process (namely, decentralization, globalization and marketization) approach, which captures the essential process of China's reforms, to study firm location and the restructuring of urban and regional economies in China (He, Wei, & Xie, 2008; Wei, 2002a; Wei, Yuan, & Liao, 2013). It has been found that development zones, agglomeration economies, land availability, and urban structure have significant influences on firm location and urban development (Wei et al., 2013)

First, China's reform initially emphasized the decentralization process, which refers to the shift of power from the central to local governments. Decentralization is a global phenomenon and is pervasive and still in full swing (Rodriguez-Pose & Sandall, 2008). In socialist countries, decentralization is a response to over centralization of socialism. It endows local governments with more autonomy and more responsibility to develop local economies, and encourage local governments to actively promote economic growth, especially in China (Walder, 1995). Local governments influence firms' location decisions through the vehicles of financial incentives, industrial infrastructures, and open door policies, largely through the establishment of development zones (Wei et al., 2007; Yang & Wang, 2008). Meanwhile, as the conflict between resource utilization and environment protection intensifies, local governments are usually forced to adjust industrial distribution. However, decentralization does not radically change state-market and domestic–international relations and local contexts of development (Thun, 2004).

Second, globalization highlights China's open door policy and its integration into the global economy. Attracting foreign investment has become a major policy objective in Chinese cities since the opening up of four special economic zones and 14 coastal cities in the early 1980s. China has become the largest recipient of FDI in the developing world, facilitated by global relocation of manufacturing to developing countries. However, evidences are overwhelming that FDI is spatially uneven and tends to be concentrated in most globalized core city regions of developing countries (Dicken, 2011). FDI in China is unevenly distributed and heavily concentrated in coastal cities (Huang & Wei, 2011). Their location decisions may differ from those of domestic firms, which lead to weak embeddedness and spatial mismatch pattern between foreign and domestic firms (Wei et al., 2013). This phenomenon limits spillovers from foreign firms to local economies (Wei & Liao, 2013). Given the relatively interior location of Wuxi in the YRD, we expect less influence of foreign-invested enterprises (FIEs) in economic development and weak linkages between foreign and domestic firms.