



The rise of strategic partner firms and reconfiguration of personal computer production networks in China: Insights from the emerging laptop cluster in Chongqing

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ABSTRACT

In recent theorization of the Global Production Network (GPN) framework, viz. “GPN 2.0 theory” (Coe and Yeung, 2015), firm-specific strategies namely intra-firm coordination, inter-firm control, inter-firm partnership and extra-firm bargaining are conceptualized to understand the changing dynamics and reconfiguration of global production networks. Drawing upon the extra-firm strategies in the GPN 2.0 theory, this paper examines the spatial and organizational reconfiguration of personal computer production networks in China since late 2000s. Based on the information and data collected from years of observation and in-depth interviews with various firms and extra-firm actors, particularly government officials during June 2014 and December 2016, this study explores the emerging laptop cluster in Chongqing, a centrally-governed municipality in West China, which produced 40% of the world laptop computers in 2015. This paper argues that the rapid development in Chongqing in a short span has been attributed to the rising power of strategic partner firms of lead firms, primarily Taiwan-based contract manufacturers (e.g. Foxconn). It sheds light on the emerging strategic coupling between strategic partner firms and local government in Chongqing, which has brought about the re-configuration of laptop production networks from the prevailed lead-firm centric to the emerging strategic partnership pattern. This study enriches the developing literature on the rise of strategic partner firms by extending the firm-centric analysis to extra-firm strategies, which echoes the extra-regional dynamics advocated recently by the Evolutionary Economic Geography (EEG) perspective.

1. Introduction

Since the early 2000s, the perspectives of global value chains (GVCs) and global production networks (GPNs) have been widely adopted to examine the organization of global industries and regional developments in the global economy (Gereffi et al., 2005; Henderson et al., 2002; Coe et al., 2004). While a rich body of literature on GVC and GPN has put emphasis on the role of lead firms, recent attention has turned to the rising power of “first tier firms” in various global value chains/global production networks, e.g. garment (Merk, 2014) and electronics industries (Azmeh and Nadvi, 2014; Raj-Reichert, 2011). Increasing efforts have been taken to examine the subsequent effects of these “rising power firms” on economic and social upgrading of GVCs (Morris et al., 2016; Lee and Gereffi, 2015). Notably, the newly-developed GPN 2.0 theory labelled these firms as “strategic partners” of lead firms (Coe and Yeung, 2015). What has however received little attention is related to these firms as the coordinators of the geographical and organizational restructuring of GVCs/GPNs and the ways they engage with different host locations (Azmeh and Nadvi, 2014;

Yeung, 2016a,b). It is essential to understand their roles as not just contract manufacturers of lead firms, but more importantly as “strategic and pivotal actors that increasingly shape the geography of the global value chain” (Azmeh and Nadvi, 2014: 715).

Existing literature on the rising power of the contract manufacturers as strategic partners of lead firms has primarily focused on the firm-centred analysis, while neglecting the extra-firm dynamics, particularly the interplay between firms and non-firm actors, such as various levels of states in host countries. The changing power relations between lead firms and their strategic partners as well as subsequent impacts on the organization of global and regional production networks remain underexplored in the literature. Recent theorization of the GPN 2.0 theory conceptualizes the firm-specific strategies, namely intra-firm coordination, inter-firm control, inter-term partnership and extra-firm bargaining strategies to understand the reconfiguration of global production networks (Coe and Yeung, 2015). Furthermore, existing literature on the GPN1.0 has widely adopted the framework of “strategic coupling” with lead firms to examine regional development in developing countries in the global production networks (Coe et al., 2004;

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Yeung, 2009 and Yeung, 2016a,b). The GPN 2.0 theory has turned to pay more attention to the rising power of strategic partners of lead firms and the reconfiguration into the so-called “strategic partnership” pattern of global production networks (Yeung and Coe, 2015). Despite such an innovative conceptual development, there lacks comprehensive and updated empirical analysis of the emerging strategic coupling between strategic partner firms and local assets in host regions, the effects of which on the organization of global and regional production networks remain understudied. The changing dynamics of strategic coupling mechanisms warrant comprehensive and updated investigation, which will advance the developing literature of GPN theory.

Taking the emerging laptop cluster in Chongqing in West China as a case, this paper examines the rise of strategic partner firms in the reconfiguration of personal computer production networks in China. It sheds light on the emerging strategic recoupling of selected top strategic partner firms, e.g. Foxconn as the major contract manufacturer of HP as a renowned lead firm in the global laptop production networks, and local government in Chongqing. Along with the production relocation from coastal to inland regions, the prevailed strategic coupling between lead firms and local states in coastal regions, e.g. Pearl River Delta and Yangtze River Delta as the origins of spatial relocation has undergone dramatic transformation (Wang and Lee, 2007; Yang and Hsia, 2007; Yang and Coe, 2009; Yang, 2009). Recent efforts on the transformation of strategic coupling has mainly focused on the “decoupling” and “recoupling” of original regions (Yang, 2013; Butollo, 2015), while little has been conducted on the emerging strategic coupling of destination regions in the global production networks (e.g. Chongqing in this study). Moreover, this study advances the existing literature on the rise of strategic partner firms in the reconfiguration of global and regional production networks, by extending the firm-centred analysis to extra-firm strategies, particularly negotiation with local states in destination regions in relation to spatial relocation, which has echoed to the extra-regional dynamics recently advocated by the Evolutionary Economic Geography (EEG) perspective (Dawley et al., 2015). Empirical evidence from the relocation of laptop production from coastal to inland China provides vivid cases of strategic coupling of local assets with lead firms and their strategic partners respectively in the changing dynamics and restructuring of global and regional production networks.

The present study is conducted based on years of participation observations and updated investigation in both origin and destination regions of relocation (Dongguan and Suzhou as origins, Chongqing and Chengdu as destinations). Particularly, in-depth interviews with concerned firms and extra-firm actors (such as government officials, migrant workers, and industrial experts) were conducted during the period between June 2014 and December 2016. The rest of the paper is organized as follows. Section 2 reviews the recent development of GPN literature in terms of firm-specific strategies in the reconfiguration of global and regional production networks. Particular attention is paid to the rising power of strategic partner firms of lead firms and extra-regional dynamics, as well as subsequent effects on the reconfiguration of global production networks. Section 3 introduces the research design and methods for conducting the empirical study of the spatial and organizational reconfiguration of laptop computer production networks in China. Section 4 examines the relocation of laptop production from coastal to inland China since the later 2000s, with particular attention to the rising power of strategic partner firms of global lead firms, mainly the large Taiwan-based contract manufactures, such as Foxconn. Section 5 investigates the strategic coupling with strategic partner firms and municipal government of Chongqing and impacts on the emergence of a competitive laptop production base in inland China. Finally, Section 6 elaborates the main findings, theoretical contributions, and policy implications of the study, as well as agenda for future research.

2. The rise of strategic partner firms and reconfiguration of global production networks

2.1. Changing power dynamics of global production networks

Existing literature on GVC/GPN has put emphasis on the coordination activities orchestrated by lead firms in relation to various tiers of suppliers. Much of the research on the governance of GVC is focused on how production standards and specifications required by lead firms have impacted on the GVC structures and supplier involvement. Specifically, Sturgeon (2002) argues that the governance relationship between lead firms and contract manufacturers (CMs) is modular. Lead branded firms can easily switch among CMs. Recent studies have however questioned the precise nature and dynamics of governance and power relationships between lead firms and CMs. Limits of the modularization framework have been recognized, as product specifications have become more complex and less standardized. Manufacturers have turned to have cooperative, interdependent and strategic relationships with lead firms in relation to product and process specification, which led to dependency by some lead firms on certain CMs in electronics and other sectors (Yang and Coe, 2009; Yang and Chen, 2015). While numerous studies on the role of lead or branded firms in various global industries, recent attention has been turned to those companies, namely to the “tier 1 suppliers” or strategic partner firms which have expanded their businesses significantly over the last few decades, but have little or no control over end-consumers markets. In the global garment industry, these firms have been referred to as ‘production transnationals’, ‘giant transnational contractors’ (Appelbaum, 2000), ‘indispensable contractors’, more generally as ‘Asian Transnational Corporations (ATNCs)’ (Chang, 2005) and ‘tier 1 companies’ (Hurley, 2005: 97). The latter term, which was used by Merk (2014) in his study on the rise of Asian TNCs in global garment production, refers to the fact that these companies “have *direct* supply relations with major brands and retailers, even though not all of them have emerged as transitional companies” (original italic). A number of common features of the so-called ‘tier 1 firms’ in global garment industry have been summarized by Merk (2014). First, tier 1 companies normally produce for multiple brands and retailers, which can range from a handful to dozens of buyers. The long-term relationships place the companies in an advantageous position compared to manufacturers just starting out in the industry, because the newer companies are exposed to greater market uncertainties, have fewer possibilities of engaging with lead companies, and often end up acting as tier 2 or tier 3 companies. Second, tier 1 companies run multiple production sites, either domestically or overseas. The organizational capacity of tier 1 manufacturers has been crucial in the spatial reorganization of the sourcing networks that provide lead companies with access to low-cost production sites. Thirdly, tier 1 manufacturers often achieve their status by offering a full range of services to their customers, which includes design, product development, sourcing, manufacturing, quality control, and timely delivery. Upgrading typically requires tier 1 firms and their clients to collaborate closely throughout the various phases of the production process. Fourthly, tier 1 firms usually have limited access to end-markets. Industrial upgrading for most manufacturers remains restricted mainly to functions within the productive circuit and they have not as yet succeeded in breaking into end-consumer markets. To generalize various firms in the governance of global production networks, the newly developed GPN 2.0 theory has categorized a range of firm types (Table 1), namely, lead firms, strategic partners, specialized suppliers (industry-specific or multi-industrial), generic suppliers, and customers, as main actors in the GPNs (Coe and Yeung, 2015). To better demonstrate the strategic position of top contract manufacturers, this study uses the notion of “strategic partner firms” in the GPN framework.

Recent attention has been paid to the effects of these “rising power firms” on economic and social upgrading (Lee and Gereffi, 2015) or

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