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Situating regional advantage in geographical political economy: Transformation of the state-owned enterprises in Guangzhou, China

Fox Z.Y. Hu *, George C.S. Lin

Department of Geography, The University of Hong Kong, Pokfulam Road, Hong Kong

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ABSTRACT

Drawing upon insights from geographical political economy, this study examines the causal processes and mechanisms that underlined the growth and adaptation of state-owned enterprises in mechanical and electrical sectors (SOMEEs) in a leading Chinese city since market reforms. It reveals that the geographically specific and historically contingent political economy in which SOMEEs in Guangzhou were situated before economic reforms was the fundamental force underlying their successful adaptation in the post-reform period. SOMEEs in Guangzhou prior to market reforms were placed in a geographical political economy characterized by a special market orientation toward the production of low-end machinery for local needs and a loosely-coupled political linkage with the state apparatus. While such place-specific market and institutional relations were not favorable to the growth and survival of SOMEEs in Guangzhou in the Mao era, they have constituted an important source of regional advantage to enforce both market competitive pressure and hardened budget constraints on SOMEEs in Guangzhou and propel them to adopt efficient market-adaptation strategies and practices during the post-reform period. There is a need for 'scaling up' the theorization of regional advantage to go beyond the exclusive emphasis placed on the institutional dynamics endogenous to regional economies and take more seriously the unequal positions of regions within the extra-local structural relations of actually existing political-economic regimes. The paper advocates a place-contingent treatment of soft budget constraints in future studies on state-owned enterprises in China and other transitional economies.

1. Introduction

Economic geography over the last two decades has witnessed a resurgence of academic and policy interests in the region as a site for constructing competitive advantage in an increasingly globalizing economy. In addition to the earlier interests in localized input–output relations and material linkages in regional agglomeration and new industrial spaces, a more sophisticated theoretical formulation of "new regionalism" and "new economic geography" has shifted the attention of researchers and policy-makers towards a broad concern with the significance of certain non-economic factors such as social capital, trust and reciprocity, shared know-how, spillover expertise, cooperation, embedded routines, habits and norms, local conventions of communication and interaction and so on (Putnam, 1993; Saxenian, 1994; Amin and Thrift, 1995; Florida, 1995; Malmberg, 1996; Storper, 1997; Amin, 1999; Cooke and Morgan, 1998). These soft externalities, known as 'relational assets' or 'untraded interdependencies' to some and 'institutional thickness' or 'innovative milieu' to others, are believed to be localized, place-bounded, culturally rooted, socially embedded and spatially sticky conditions, which serve to reduce uncertainty among local economic actors, facilitate collective learning and knowledge creation and improve regional economic competitiveness (Camagni, 1991; Amin and Thrift, 1994; Asheim, 1996; Storper, 1997).

While the new regionalism literature focused on dense local production and social networks as the major source of a region's competitive advantage in the era of globalization, the recently emerged theoretical project of "evolutionary economic geography" has provided a different interpretation by highlighting the negative aspect of embedded local milieu that might ultimately lead to a petrification of routines and institutional conventions and prevent regional economies from successful adjustment to emerging new economic environments (Grabher, 1993; Hudson, 1994; Hassink, 2005; Martin and Sunley, 2006; Boschma and Martin, 2007; Essletzbichler and Rigby, 2007; Frenken and Boschma, 2007). Building upon the twin related concepts of path dependence and lock-in, the evolutionary literature has emphasized the importance of historically inherited habits, norms, cultures and practices in shaping the complex and diverse processes of regional evolution and adaptation (MacKinnon et al., 2002; Chapman et al., 2004). Its basic premise is that the capacities of regional actors and institutions to shape their own pathways in light of changing economic

* Corresponding author.
E-mail addresses: fzyhu@hku.hk (F.Z.Y. Hu), gcslin@hkucc.hku.hk (G.C.S. Lin).

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conditions are affected by the strength of locally induced lock-ins, as strong lock-in leads to unsuccessful renewal and weak lock-in contributes to relatively successful renewal (Hassink, 2007; Cho and Hassink, 2009).

Although the theses of new regionalism and evolutionary economic geography have provided a different interpretation of the nature and dynamics of regional growth and evolution, they have shared similar analytical and theoretical limitations. They are both based on the neoliberal assumption that all regions can be successful in a 'win–win' world of bottom-up endogenous regional growth. Little attention has been paid to the power and politics underlying regional autonomy and proactivity and the effects of wider processes of uneven development that are structurally embedded within and genetically encoded into the capitalist mode of production (Cumbers et al., 2003; Hudson, 2005, 2007; Hadjimichalis, 2006). While highly influential in focusing attention on regional action, these two streams of literature have probably moved too far to over-emphasize the endogenous capacity of regions to adapt to changing conditions at the expense of links to other scales of regulation, particularly in terms of how regional adaptation and development is facilitated or hindered by the national macro-regulatory regime (MacLeod, 2001a; Cumbers et al., 2003; Hudson, 2005; Birch et al., 2010).

Moreover, the existing regional development research is predominantly based on the growth experiences of private enterprises in competitive market economies which are characterized by relatively harder budget constraints[1] and have built-in incentives to adapt to market signals in order to remain survival and growth. As such, the theoretical formulation in both new regionalism and evolutionary economic geography has tended to privilege regional competitive advantages in terms of technological skills, labor costs, capital availability and policy preferences and overlook other sources of regional growth and adaptation such as demand-side budget constraints which are a defining institutional factor for understanding the nature and trajectory of evolution in many socialist transitional economies.

Building upon the geographical political economy approach which combines sensitivity to institutional differences and spatial–temporal contexts with a stronger appreciation of structural constraints related to regional uneven development (Smith et al., 2002; Cumbers et al., 2003; Goodwin, 2004; Hadjimichalis, 2006; Hudson, 2005, 2006; Jones, 2008; Grabher, 2009; MacKinnon et al., 2009; Pike et al., 2009), this paper investigates the political origins of regional advantage in market adaptation that lies beyond the social and economic aspects already highlighted in the existing literature. The empirical case is based on the examination of state-owned enterprises (SOEs hereafter) in Guangzhou—a leading metropolis in southern China—in the post-reform era when the institutional environment changes from plan to market. Our research identifies an intriguing pattern and process whereby SOEs in Guangzhou appeared to be more capable of adapting to the emerging market economy in the post-reform period than their counterparts in other regions. Further analysis has revealed that the successful adaptation of SOEs in post-reform Guangzhou has owed a great deal to their historically contingent and geographically specific political economy in the previous Maoist redistributive regime that assigned them to a disadvantageous position in plan coverage and weakened their functional and institutional affinity with state strategy. Such a politically-inflected, loosely coupled relationship with the state apparatus has ironically constituted an important source of regional advantages in the post-Mao era that enforced both market competitive pressure and hardened budget constraints on state-owned mechanical and electrical enterprises (SOMEEs hereafter) in Guangzhou and propelled them to adopt efficient market-adaptation strategies and practices. This study advocates a place-specific treatment of the institutional constraints hardening the operational budget of economic actors in socialist transitional economies.

This paper is organized into five parts. It begins with a critical evaluation of the existing literature on new regionalism and evolutionary economic geography. A critique of the theory leads to the identification of several research questions and a methodological framework to address these questions. The third part examines the geographical political economy confronting SOMEEs in Guangzhou in the Maoist era and its impact on their specific market orientation and political connection. Attention is then turned to a detailed investigation of the causal relationship between such place-specific and historical-contingent market and institutional features and the adaptation strategies and practices of SOMEEs in Guangzhou during the post-reform period. The final part of the paper highlights important findings of the study and their major theoretical implications.

2. Reconnecting with geographical political economy in regional development research

Over the past two decades, the main research agenda within economic geography has developed around rediscovering 'the region' as an important source of competitive advantage underlying knowledge creation, learning and adaptation of business firms in an age of volatile globalization (Saxenian, 1994; Amin and Cohendet, 1999; Gertler, 2003). Building on an earlier interest in agglomeration economies and 'traded' input–output linkages, economic geographers have broadened their analysis of regional advantages to encompass untraded socio-cultural, institutional and relational characteristics of regional industrial agglomerations (MacKinnon et al., 2002). Under the rubric of new regionalism, these localized externalities, conceptualized as regional culture, conventions or social capital, constitute regional relational assets sustaining the productive, innovative and learning capacity of industrial firms located therein (Putnam, 1993; Saxenian, 1994; Storper, 1997).

In recent years, there has been a noticeable shift of emphasis from the incremental processes of innovation and learning within established industrial clusters and regional production systems towards the issues of adaptation and renewal in terms of how regions can sustain growth in the face of rapid technological and market changes (MacKinnon et al., 2002; Chapman et al., 2004; Schamp, 2005; Hassink, 2007; Cho and Hassink, 2009). It has been increasingly recognized that some of the key mechanisms of growth within successful industrial districts are inherently self-limiting in the medium-to-long term and there have been enough cases of regional economies that were once prosperous and dynamic but have since gone into relative or even absolute decline (Grabher, 1993; Hudson, 1994; Scott, 1998; Whitford, 2001). Economic geographers have shown an increasing interest in evolutionary regional economy in general and the concepts of path dependence and lock-in in particular which takes history and geography seriously by recognizing the importance of place-specific elements and processes to explain broader spatial patterns of economic evolution (Martin and Sunley, 2006; Boschma and Martin, 2007; Essletzbichler and Rigby, 2007; Frenken and Boschma, 2007).

Although the literature of new regionalism and evolutionary economic geography have both shed important light over the nature and dynamics of regional adaptation in a competitive

[1] As originally introduced by Kornai (1986), a soft or hard budget constraint refers to the expectation of the decision-maker in a firm as to whether or not the firm will receive help or bail-outs from the state in times of trouble. While the syndrome of SBC can also be found in a capitalist economy, it is far more common and damaging in a socialist or postsocialist economy than in a consolidated market economy. For elaboration, see Kornai (1998).