Linking regulation theory to the international political economy to study new spaces of regulation

The case of Chinese SEZs in South East Asia

Abstract

The paper proposes, in an exploratory way, to trace the evolution of two theoretical frameworks: the mesoeconomic approach of regulation theory and the domestic policy paradigm of international political economy. It shows that the evolution of these two frameworks reveals points of convergence that are particularly useful for the study of the author's research topic: the special economic zones (SEZs) implemented by Chinese actors in Southeast Asia. Their articulation allows us to make the assumption of economic and social differentiation within these areas in relation to the rest of the country where they are located. This differentiation is the result of institutional transformation strategies carried out by Chinese multinationals with the support of local and national authorities in China. Through the study of the Chinese SEZ mechanisms in Southeast Asia, the paper questions the capacity of a state to transform the rules of another country at the local level, where it can be assumed that actors have more room than at the national one. In doing so, it proposes a renewed and particularly fine-tuned conception of international relations, as called for by the regulationists.

Key words

Regulation theory, international political economy, special economic zones, China, South East Asia

Introduction

Special Economic Zones (SEZs) are, in their broadest sense, "defined geographical areas that offer regulatory regimes and frameworks that differ from the rest of the country in order to attract businesses and foreign investment". (United Nations Conference on Trade and Development 2019). The most common forms of SEZs mainly offer a combination of tax incentives, favourable tariffs and simplified customs procedures. Behind the generic term SEZ there is a variety of names and types of zones (free zones, export processing zones, free trade zones, industrial parks). These zones are set up, developed and operated by companies in cooperation with the national and local authorities of the host countries and these schemes have been on the increase in recent years. The phenomenon is such that the United Nations Conference on Trade and Development devoted its 2019 annual report on investment in the world to this issue (United Nations Conference on Trade and Development 2019). In this report, the international organization counted some 5,400 SEZs set up in more than 140 countries. Among them, more than 1,000 have been established in the last five years. In this global trend, Asia is the driving force. The region accounted for three quarters of the world's existing SEZs in 2019, with the majority in East Asia. This is historically due to the success of development strategies based on the export of manufactured products with increasing added value in the region. SEZs are an integral part of such plans, as exemplified in the cases in Taiwan, South Korea and China. Today, the
dynamic is driven in particular by the countries of South East Asia (SEA), which are competing to attract the industrial capacities of their north-eastern neighbours. A recent trend is the development and operation by foreign investors of SEZs outside their country of origin. In ASEAN, China is one of the main actors involved in setting up these schemes.¹

Attention to the regulatory frameworks of SEZs alone does not allow us to determine whether atypical socio-economic regimes exist within these spaces, i.e. whether they deploy a different way of organising economic activity than in other territories of the host country. If we take the example of labour standards, most SEZs have labour regulations identical to those in force at national level. However, the administrative organisation of SEZs can *de facto* modify the standards in force, for example by entrusting the control of their application within the zone not to the Ministry of Labour as in the rest of the national territory, but to administrations whose main aim is to attract foreign investment (Cotula 2017). Thus, the change in the institutional hierarchy in the procedures for monitoring labour regulations within certain zones can create a conflict of interest that can worsen working conditions. This example underlines that the institutional arrangements of SEZs are essential when studying the socio-economic regimes in the territories where they are set up. From a regulationist perspective, we ask whether Chinese SEZs in SEA constitute meso spaces, i.e. whether the socio-economic regimes in them are characterised by a certain autonomy from the overall mode of regulation of the host countries. As these zones are developed and operated by Chinese actors abroad, a second question arises from this first question, that of the capacity of Chinese actors to impose their rules in foreign countries, in this case at local level. Indeed, the deployment of Chinese SEZs in SEA is not only accompanied by the opening of factories but also by the establishment of cooperation frameworks between Chinese and local actors capable of modifying the local institutional environment in which Chinese multinationals operate abroad.

This paper seeks to address this question by cross-referencing two analytical frameworks: regulation theory and international political economy (IPE). The consolidation of a meso approach within the former allows us to highlight, in a context of weakening national regulations, relatively autonomous regulatory spaces at the level of economic sectors or territories. Within the paradigm of domestic politics in IPE, the growing influence of institutional economics also makes it possible to highlight strategies of institutional transformation conducted by multinationals abroad. The History of Economic Thought perspective is mobilised here to facilitate dialogue between these two approaches, with Chinese SEZs in SEA as the point of discussion. In addition to drawing on these two literatures, the paper mobilises data collected on several Chinese SEZs in SEA, and particularly on the Sihanoukville SEZ in Cambodia, where the author has recently conducted fieldwork. The attempt to generalise here may thus be somewhat biased by this particular case study in the region. Moreover, for the sake of consistency, the role of local actors in the development of these areas is little discussed here in order to focus mainly on the Chinese perspective. In order to fully understand all the dimensions of the Chinese SEZs in SEA, it will of course be necessary to include the strategies of the local actors.

We begin the discussion by examining the contributions of the meso-economic approach within regulation theory to our research topic. We will then show how recent convergences between

¹There are currently 37 SEZs developed by Chinese actors in Southeast Asia. For the sake of simplicity and style, SEZs developed by Chinese actors abroad will be referred to as “Chinese SEZs” in the text.
institutional and internationalist approaches allow us to highlight strategies of institutional transformation by Chinese actors abroad. Finally, we conclude with a discussion on the compatibility between the notions and concepts of regulationist and internationalist approaches.

1. **The consolidation of a meso-economic approach within regulation theory in the face of new geopolitical challenges**

1.1. **Initial work on new spaces of regulation**

In a context of weakening national regulations of capitalism under the effect of the increasing openness of economies in the 1970s, among the first works on the new spaces of regulation were those of Giacomo Becattini on the industrial districts of the 'Third Italy' (Becattini 1978). Drawing on the concept of the industrial district first theorised by the neoclassical economist Alfred Marshall at the end of the 19th century when studying certain industrial basins in Great Britain, Giacomo Becattini identified an atypical form of regulation within Italy. Although the production of goods is very largely oriented towards international markets, these industrial districts are characterised by a mode of pricing and a labour market specific to them, largely resulting from the atypical interpersonal relations inherited from the local culture of the territories in which they are located.

This work was the starting point for a new approach in economic geography inspired by the theory of regulation (George Benko 2012) studying the new spaces of localisation of production capacities and synthesised by George Benko and Alain Lipietz in 1992 (Georges Benko and Lipietz 1992). The territory, the space where productive activities are located, can no longer be seen solely as being at the service of an overall macroeconomic regulation determined vertically at national level. It is now the space where the strategies of numerous local, national and international actors meet and interact in a less vertical manner and whose interaction largely determines the new location of productive activities. From the regulation of spaces, we now move on to the spaces of regulation (Georges Benko and Lipietz 2002). This new approach makes it possible to understand the context in which SEZs began to spread on a global scale but also to grasp the interplay of scale at work in the regulation of these spaces. SEZs are local arrangements but anchored in national regulations and where foreign investors play a much more important role than in the rest of the country in which they are set up. The notions of space and scale are therefore central to the study of the modes of regulation within these areas.

Although Giacomo Becattini’s pioneering work has made it possible to highlight regulatory subsystems within national economies resulting from reconfigurations between local and global institutional dynamics, several limitations can be identified in the extension of this approach to the study of Chinese SEZs in SEA. According to the industrial district approach, the development of the territories concerned results from creative interactions between local institutions, especially small and medium-sized enterprises, whereas SEZ activity is essentially driven by large multinational firms. Moreover, the public authorities, and in particular the State, also appear to take a back seat in this process whereas in the context of SEZs, particularly in emerging countries, national development strategies play a central role. Finally, unlike the very endogenous dynamics at work in industrial districts, the logics of actors outside the strict local framework are essential for understanding the functioning of Chinese SEZs in SEA, where cooperation between national governments seems to be an important explanatory factor in the functioning of these zones.
1.2. The consolidation of a meso-economic approach within the theory of regulation: contributions to the study of Chinese SEZs in SEA

In parallel with this work on industrial districts, a literature on sectoral type sub-national regulations has flourished since the end of the 1980s within regulation theory. Within Fordist regimes Christian du Tertre, in the public works sector, (Christian Du Tertre 1989) and Pierre Bartoli and Daniel Boulet, in the wine sector (Bartoli and Boulet 1990), underline a certain autonomy of these sectors by highlighting specificities related to work and quality. This new approach is gradually being extended to other industries, sectors and territories (Gilly and Pecqueur 2002). Thus, a coherent body of work within regulation theory is gradually being built up which in 2011 Thomas Lamarche proposed to qualify for the first time and ex post as a mesoeconomic approach (Lamarche 2011). Under the influence of the sectoral approach and in relation to the precursory work strongly marked by economic geography, the study of spaces of regulation is evolving towards a conception of the notion of space that is more economic than geographical. The autonomy of these spaces is no longer determined so much by a geographical delimitation as by the type of activity conducted there and the mode of social organisation that results from it. This material approach to spaces of regulation has its limits in the case of Chinese SEZs in SEA since most of them are multisectoral and therefore, a priori, little subject to this approach.

However, recent developments in the methodology developed by Thomas Lamarche to identify spaces of mesoeconomic regulation have brought to light new notions that we consider useful for studying our object. The notion of spaces of differentiation (Lamarche et al. 2015) could thus be broadened not only to characterise a material differentiation of spaces of regulation but as the result of a policy at the interaction of public and private logics, in this case the investment strategy of a Chinese multinational. Three channels of differentiation are put forward to identify a regulatory subsystem (Lamarche et al. 2020). The first is that of the social relation of work, i.e. whether there is a differentiation in the relation between employers and employees within a specific space. The second channel is that of the product/competition subset, i.e. whether the organisation of competition within this space differs from the overall competition regime nationally. Finally, the third channel is that of futurity, i.e. whether there are specific representations of the future shared by the actors in this space. Some Chinese SEZs in SEA seem to favour a differentiation of labour standards compared to the situation observable at the national level. For example, the spatial organisation of work, including the use of communication systems between employers and the possibility of cutting off access to the zone for trade unions, considerably limits, if not completely, the establishment of trade unions within these zones.² There is also a differentiation of futurity within some SEZs in SEA. The institutional cooperation between the local and the Chinese authorities that follows the establishment of these zones, in order to improve their development, favours the convergence between the representations of local and Chinese actors. This is all the more important as one of the objectives of these zones is to reproduce the success of the Chinese development model. This is the case, for example, for the Sihanoukville SEZ in Cambodia where the local authorities wish to reproduce the model of the Shenzhen SEZ in China.

Furthermore, the study of interactions between regulatory subsystems and overall regulation, which characterises the mesoeconomic approach within regulation theory, does not only concern the degree of autonomy and determination of a meso dynamic by the global mode of

² Interviews with stakeholders of the Sihanoukville SEZ, Cambodia, summer 2022
regulation. It also increasingly considers the local level as the privileged level of innovation strategies by actors and the emergence of macroeconomic transformations. This element is essential in the study of SEZs, particularly in the context of the Chinese experience, where they are part of a long tradition of "experimental districts" (试验县) (shiyan xian) dating back to the origins of the Chinese Communist Party in the 1920s and 1930s (Heilmann 2008). Indeed, SEZs are first and foremost areas in which new political and institutional approaches at the local level are experimented with. If these are deemed successful by the central authorities, they can then be extended to the entire national territory. In the Chinese tradition of experimental zones, we thus find the local dimension of institutional innovation that the meso-economic approach of regulation theory wishes to highlight. These two approaches have a common origin: the American pragmatist philosophy of the early 20th century, and in particular that of John Dewey. This author had a significant influence on the first generation of Chinese communist cadres, including Mao Zedong (Niu 1995).

1.3. Limitations of the meso approach for the study of the international strategies of Chinese actors

The processes of differentiation observed within certain SEZs and this dimension of meso spaces as privileged places of institutional innovation strategies by the actors raise questions about the existence of such a strategy in the context of the establishment of Chinese SEZs in SEA. However, this approach, which is particularly relevant in the Chinese case, cannot be directly transposed to our research object. The Chinese actors are not the same as they are in China, since they are developed and operated by multinationals abroad, whereas they are mainly operated by local authorities in their homeland. The use of this meso approach in this context requires an in-depth study of the strategies of the Chinese multinationals developing these zones. As they are also developed in the framework of intergovernmental agreement frameworks between China and the host countries, the links between these companies and their local and national authorities in China must also be explored. The mesoeconomic approach of regulation theory alone seems relatively limited in the face of such geopolitical implications. We therefore propose in a second part to orient the discussion towards the domestic policy paradigm in IPE in order to identify theoretical points of convergence with regulation theory. This should allow us to better understand the motivations of firms in pursuing meso-type institutional transformation strategies, on a scale where they seem to enjoy more room than at the national level.

2. The convergence of institutional and internationalist approaches: understanding the institutional transformation strategies of Chinese actors in the establishment of overseas SEZs

2.1. Increasing consideration of the firm's domestic environment in IPE

Emerging in the 1970s in a context of growing interdependence between national economies, IPE studies the new modalities of the global economic order, focusing in particular on the power of transnational firms within it. This is the case of Susan Strange, the illustrious founder of the discipline, for whom transnational firms are diplomatic actors in their own right (Strange

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3 On the influence of pragmatist philosophy on the meso-economic approach to regulation theory: (Lamarche et al. n.d.)
Furthermore, the domestic policy paradigm within the IPE, for which the international economic policy of countries is strongly determined by their domestic characteristics, is gradually enriched by the contributions of the comparative capitalism approach in institutional economics. Popularised by the work of Peter Hall and David Soskice in the early 2000s (Hall and Soskice 2001) this approach is interested in the diversity of capitalisms in the world, in a context marked by the collapse of the USSR and the weakening of ideological logics in the determination of economic systems. Among these new developments, the impact of the rise of emerging economies and their model on the liberal international order since the end of the 20th century has recently given rise to an interest in studying the domestic and institutional characteristics of developing countries in order to explain the strategies of multinational firms (Nölke 2014a). This approach has been promoted by Andreas Nölke since the beginning of the 2010s and is particularly relevant in the case of China, where several works, and in particular those of Ching Kwan Lee, have shown the strong interweaving of political and economic logics in the investment strategies of Chinese multinationals (Lee 2018; Nölke 2014b). To return to our subject of study, the establishment of Chinese SEZs in SEA responds, for example, both to profitability objectives on the part of Chinese multinationals and to more political strategies on the part of local and national authorities in China. One of the objectives of these zones stated by the central government is to enable developing countries to replicate the success of the Chinese SEZ experience and, more broadly, its development model.

2.2. Meso-type institutional transformation strategies of Chinese firms in setting up SEZs in SEA: reproducing its domestic environment

Illustrating this convergence between IPE and institutional economics, one approach is to consider the institutional environment of the home country of the multinational firm as a comparative advantage that the firm will seek to preserve during its internationalisation process. Once firms have solved their coordination problem within their domestic market (relations with employees, industrial associations, trade unions, educational institutions, banks, suppliers) , the cost of changing this institutional environment once abroad is significant (Mikler 2014). They therefore try to reproduce it in foreign markets, particularly in highly internationalised emerging countries marked by an "institutional vacuum" that they seek to exploit (Mazé and Chailan 2021).

Applying this approach to our object of study, the deployment of Chinese SEZs in SEA seems indeed to be marked by the will to reproduce the Chinese firm’s domestic environment, notably with regard to labour standards. In Cambodia, the selection mechanism allowed by the SEZ scheme of trade union forces within the zone to de facto not allowing unions or only unions close to the government can indeed be interpreted as an attempt to imitate the Chinese institutional environment. In China, the All-China Federation of Trade Unions (中华全国总工会) (zonghua quanguo zong gonghui) is indeed the only trade union allowed in the country and is a governmental organisation. In addition, several training institutes have also been set up within the Sihanoukville SEZ, with the aim of training local workers not only in industrial

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4 This is notably the case for the China Overseas Economic and Trade Cooperation Zones (中国境外经贸合作 区) (zhongguo jingwai jingmao hezuo qu) scheme, to which belongof which the Sihanoukville SEZ is a part.
skills, but also more broadly in employer-friendly ways of dealing with factory managers within the zone.

2.3. Institutional support from the Chinese authorities in setting up Chinese SEZs abroad: an important resource for firms’ strategies

Furthermore, taking into account the institutional environment of Chinese companies in China to explain their investments abroad also makes it possible to highlight the role of ally played by Chinese authorities, particularly local authorities, in the institutional transformation strategies carried out by firms abroad. The regular cooperation between local authorities in the host country and Chinese authorities that accompanies the establishment of Chinese SEZs in SEA can thus be seen as an attempt to replicate abroad the important institutional support that large companies enjoy in China. In China, the relationship between local authorities and entrepreneurs in their constituency can be described as local state corporatism (Oi 1992). This is marked by a strong alignment of interests between the political class and the business class. As the former is very autonomous fiscally, it is strongly encouraged to facilitate the emergence of entrepreneurs, which is a source of greater wealth and consequently of a larger tax base that, in the long run, increases the resources available for public spending. This alignment between political and economic reason, especially at the local level, is an important institutional form of Chinese capitalism (Boyer 2015). In the case of the Sihanoukville SEZ, we find this local state corporatism, whereby the authorities of the city of Wuxi and the province of Jiangsu, from which the Hongdou (红豆) firm developing the zone originates, have, for example, a representative office within the zone in order to facilitate relations with the local authorities.

The support of the Chinese authorities in the deployment of Chinese SEZs abroad constitutes an important resource in the meso-type strategies deployed by firms to influence the perceptions of local actors abroad, particularly when they can leverage the soft power of the Chinese development model. This is, for example, the case in Sihanoukville where the local authorities aspire to imitate the Chinese development experience. Since the Sihanoukville SEZ became operational, local officials have been invited to visit a dozen times by the authorities of Jiangsu and Wuxi in China, where they have notably received training on local development policies. A connection appears here between the notion of futurity put forward by the mesoeconomic approach of regulation theory and that of soft power (Nye 1990) used in international relations to describe the capacity of a state to persuade another state to act in its direction, notably through the use of economic and cultural influences.

Conclusion

By tracing the evolution of the mesoeconomic approach within regulation theory, we have questioned the existence of a third space of regulation within Chinese SEZs in SEA, with notably a differentiation in labour standards and in the perception of the future of local actors. The condition for the existence of a meso-space requires, however, that the notion of a space of differentiation be extended to immaterial logics resulting from a policy led by multinationals and supported by their States. Complementary to the mesoeconomic approach, the domestic policy paradigm in the IPE adds depth to the strategies of multinationals, which seek to reproduce their institutional environment abroad with the support of their home country authorities. Conversely, attention to institutional innovation strategies in meso spaces allows for the characterisation of concepts such as influence or soft power used in international
relations. These are often studied on too large a scale, that of countries and major actors, and suffer from a lack of intelligibility. It thus seems that the articulation between these two approaches allows for a better understanding of the evolution of capitalisms in SEA as well as a renewed and particularly fine-tuned conception of international relations, as called for by the regulationists.

Bibliography


