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From global to local economics A preliminary framework to the analysis of the Pearl River Delta economy*

1. CAPITALISM AND MARKET ECONOMY ARE NOT EQUIVALENT CONCEPTS.

Each of these concepts only makes sense assuming different sets of assumptions and different «visions» (in the Schumpeterian sense) of economy and society. In other words, they correspond to different paradigms or structures of knowledge.

Capitalism is a specific economic system, historically developing through different stages. Its analysis and theoretical interpretation requires a long term perspective. Private capital accumulation, profit maximisation, existence of a «labour market», etc. are some of the fundamental dimensions of that system. It has been the source of an unequal process of world economic growth, which is gradually generalised world-wide and without any comparable previous experience in human history.

The market economy, explicitly or implicitly, is usually understood as an abstract model, an analytical tool elaborated in the framework of a certain paradigm of Economic Theory. There is not much in common between what the layman thinks the «real» market is (a place where some people buy what others have to sell), and the corresponding theoretical model. This model, assuming a certain set of hypotheses, has a normative character, that is, it describes not what the market economy «really is» — that is, capitalism — but what it could and should be in order to achieve positive results according to a certain set of values.

It is often assumed that we have entered a new stage of capitalism, sometimes called *transnational*, *post-national* or *network capitalism*. However, the theoretical interpretations of this «new stage» are considerably different according to the authors or currents of thought.

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We call *global market economy the present stage of capitalist development in History*.

The corresponding analysis should consider the following dimensions in the working of the present world economic system:

- a) **the mega economy** (the most comprehensive dimension, corresponding to the unique and global world market);
- b) **the macro regional economy** (subset of the world economy, relatively more integrated around a dominant pole and playing a specific role in the global market economy, as for instance the European Union, the Asia/Pacific region, Southern Africa, North America);
- c) **the macro economy**, in the usual sense of Economic Theory, that is, the national economy;
- d) **the regional (intra-national) economy**, for instance, the Pearl River Delta economy;
- e) **the «local» economy**, that is, the economy of the smaller geographic unit that we consider relevant for the purpose of the analysis (say, Macao or Zhuhai)

Broadly speaking, the recent (last decades) evolution of capitalism *has increased* the relative autonomy and relevance of levels a) and (in some parts of the world system) also level b) — for instance in Europe and the Asia/Pacific region — also level c) in some cases — for instance, the «Special Economic Zones» (SEZ) in China — and *has reduced* the autonomy and relevance of the «national» level (c).

Apparently, the mega economy, in the current process of globalization, is progressively dominating the functioning of the whole system at other levels. That is: globalization means, among other things, *increasing integration or inter-connection at the world level and increasing dis-integration at level c), and also, in some cases, serious tensions between levels a) and b).*

If that is the case, we could say that «geography» (a specific locus in space) and «history» (a specific trajectory in past time) are becoming less important conditioning factors of the «present» at each point *hic ed nunc*. In this sense, *we could say that globalization means a disconnection between time and space (Giddens).*

(However, looking back in History, we may ask: is there anything really «new» at this stage of capitalism? Or, is what we call globalization just the continuation of past trends in the secular trajectory of capitalism? We think that we may consider «new», at least, the following main facts.

First, we have at present a single and increasingly interconnected world economic system, where the dominant actors, the Transnational Corporations

(TNC), look for increasing capital accumulation through transnational strategies.

Second, these strategies combine different, although inter-related, vectors: what we may call a transnational production function; a global finance function; a global marketing function; a global information and communication function. It is generally understood that global finance, supported by new information and communication technologies, has been the dominant vector in the recent world globalization process. The impetus and size of this global finance vector, at least, is «new», if we compare, say, to what Keynes called, about sixty years ago, «casino games».

Third, a new global geoculture is emerging, under USA hegemony. Perhaps the main feature of this new «culture» is the strong appeal to each individual *to become more as a human being through having more as a consumer*.

Individual freedom, if we may say so, is supposed to be the golden road to the endless up grading of the market economy; and vice versa, of course.)

2. THE GLOBAL MARKET ECONOMY IN TRANSITION

The global market economy, it is often said, is in «transition». In what sense? In what direction?

In a narrow sense, we may consider to be in «transition» those countries that decided to change their economic and social system according to the market economy paradigm (Murteira, 1996). Including PRC in this group of countries, as seems appropriate, we find two billion people in this situation, that is, about one third of the world population.

However, in a broader sense, we may consider all the world system in transition, as Immanuel Wallerstein and collaborators of the Braudel Centre (New York State University at Binghamton) did in their recent book, *The Age of Transition*. This second perspective is more appropriate for our research.

In fact, there is a generalised and accelerating process of societal change in the world system, even in relation to a relatively recent past, for instance, about twenty five or thirty years ago. Then, it was the end of the period sometimes called «The Golden Years» of capitalism, time of the greatest economic crisis (widely apparent in 1974/75) after the end of the Second World War. Since then, in fact, there has been a remarkable acceleration of the globalization process in the world economy.

However, there is no scientific methodology available in order to identify the destiny, or future trajectory, of that «globalizing transition». Of course, it is always possible to elaborate different and alternative scenarios for possible futures, according to different hypotheses corresponding to selected relevant factors. Complexity, turbulence, uncertainty are obvious in the present situation.

on of the world system. The so called «chaos theory» has often been mentioned in this perspective.

In relation to our specific purpose in this research, we are interested in the following aspects of the «mega» transition:

- a) The interaction between the current trends to globalization and macro regional integration in the Asia/Pacific area;
- b) More specifically, and taking into consideration the first broad framework, on the interaction among the macro (PRC's economy), intra-regional and local levels in the Pearl River Delta Region.

It must be stressed, however, that our paper has an exploratory character, as the corresponding research program we co-ordinate is still in course.

3. THE ASIA/PACIFIC REGION IN THE WORLD ECONOMY

This macro region is economically integrated mostly through informal links, and it is interconnected by specific economic, social and cultural networks. It is, probably, the strongest example of «network capitalism».

However, as is well known, this region is far from being relatively homogeneous in cultural as well as political and economic terms. The present «regional» crisis — China must be considered, at least for the time being, as a case apart — has raised some basic interrogations. Questions not only about the future of this macro region in the world system but also relative to the explanation of past successful economic performances, the so often admired «Asian miracles» including Japan and the «four dragons».

Therefore, we can ask:

Excluding China, is the Asia Pacific region in a downward movement in the world economic system? If the answer is yes, as seems to be the case by now, what will the consequences be for the relative positioning of China in the Asia/Pacific region, and more broadly in the frame of all the global market economy?

Our preliminary «answer», or our preliminary hypothesis, in relation to these questions is the following:

It does not make sense, strictly speaking, at the present stage of capitalist development, to talk about «regional» crisis when a major area of the world economy is in question, including one of the three major economic poles of the world system, that is, Japan. We all know that the world system is increasingly interdependent, as a consequence of globalization. What is at stake, after all, is the relative positioning of different country states and relatively more integrated areas of the world economy in the world process of capital accumulation. In fact, for some analysts

(for instance, Wallerstein, 1996, Arrighi, 1997, Thurow 1996), the present situation is, as may become obvious in the near future, the first stage of a «global» crisis. However, we do not have relevant past experience to give us empirical information as a basis for prediction to its outcome.

Given this global/regional arena, the Pearl River Delta's economy is a critical Chinese region in the sense that its future evolution, will probably have major consequences not only in the future of the Chinese economy but also of the Asia/Pacific macro region.

This region also may be considered as a kind of a laboratory, useful to the analysis of the mutual implications of the mega, regional and local dimensions of the world system.

4. THE PEARL RIVER DELTA REGION AND ITS ROLE IN PRC'S TRANSITION TO THE GLOBAL MARKET ECONOMY

The fundamental role of the Guangdong province is well known (Ezra Vogel, 1989), and particularly, of Hong Kong and the Pearl River Delta economy, in the fast economic growth of China in the last two decades, that is, since the launching of the «Open Door Policy» and also of the «One country, two systems» strategy.

This is, at present, a very specific and critical region of the world economy. It is useful to remember, though superficially, the principal reasons for that specificity. We mention here just three of them, which we think more relevant for our purpose in this paper.

- a) One is related to the characteristics of Hong Kong's economy and its past strategic role on the Open Door Policy (Sung, 1991).
- b) Another is the setting up, in the beginning of the new PRC's economic strategy, of two «special economic zones» (SEZ), Zhuhai and Shengzhen, near to Macao and Hong Kong, for political as well as economic reasons, both considered by the PRC's government as experimental zones for the adoption of new — radically new, in fact, by comparison with the Maoist era — economic policies.
- c) The third is related to the role played by this region in order to attract Chinese capital and management skills from outside China, that is, from Taiwan and, in general, from the so called «Overseas Chinese». In this aspect, the Open Door policy has meant, after all and above all, an appeal to the reconciliation, if we may say so, of different Chinese political and economic interests under one single world market banner. The «mot d'ordre» is simple: faster economic growth, with increasing articulation to the world market and as Deng Xiaoping once said to the Chinese people, to give everybody the opportunity to be rich.

The following must be remembered, about the two SEZ:

The two «pairs», Macao-Zhuai and Shengzhen-Hong Kong, have obviously two rather different economic sizes and structures, as well as very different degrees of integration. (Murteira, 1997)

Shengzen has experienced, since its beginning, a process of economic development closely linked to Hong Kong. In fact, we may say that Shengzen became a formidable background to the economic expansion of Hong Kong's endogenous or exogenous (but located in HK) business interests. In the last three or four years, in particular, the business environment in Shengzen has made spectacular progress; *Shengzen is at present probably the best environment to high-tech industries in the country.*

One key point to consider in the economic role of Shengzen — as well as in other Chinese SEZ — is the existence of a strict border separating the SEZ from the rest of the country. About one million people are permanent residents, and more than two million are just temporary residents. This means that there is a strict control of the manpower supply and, therefore, of the wage level. Although this level is well above the rest of China it is also considerably inferior to the Hong Kong level.

4.1. COMMENTS ON HONG KONG'S AND MACAO'S TRANSITIONS

Obviously, two recent major facts must be taken into consideration in our analysis: one is the present status of Hong Kong as a Special Administrative Region (SAR), under Chinese sovereignty; the other, is the already mentioned «regional financial crisis» and its implications for the future of HK, and in particular, the prospects of the present *peg* linking the HK currency to the US dollar.

The new SAR authorities have recently set up a special commission of distinguished personalities to analyse and make proposals about the future strategic development of the territory and much discussion is going on at academic as well as political levels on the subject. But it must be said that the economic future of the SAR is conditioned by a singular set of «regional», «national» and «global» factors. Only part of these factors, after all, may be controlled or, at least, affected, by Chinese decision makers, outside or inside the formal SAR area.

It is clearly in the interest of PRC that HK may continue one of the major financial centres in the world. On the other hand, the huge economic «productive» potential of the complex Hong Kong—Shengzen is far from exhausted. However, it seems wise to admit that the *relative* importance of HK to the insertion of China in the world economy may be reduced for several reasons, including the present general trend to open the economy, the fact of the past fast economic growth, and the development of other strategic points to connect China with the outside world, like Shanghai.

The question of the future of the HK dollar is, of course, of great importance for the economic development of this SAR (Rowher, 1997). We assume, without presenting here *in extenso* the corresponding reasons, the following hypotheses:

The present monetary *status quo* is temporary and its alteration is a function of economic as well as political reasons. The full convertibility of the Chinese currency has been considered as a possible short term target by Chinese authorities. In that case, the importance of the HK currency would be reduced and the revision of the present *peg* possibly made easier.

The present devaluation of many currencies in the region, is a fact that *coeteris paribus* — has a negative effect on the exports of non devaluating countries. But, really, «other things» do not remain the same, and other factors may improve the so called «structural competitiveness» of China in relation to other countries, as has been the case of Shengzen relatively to other regions in China. And the present situation has a positive side: to remain competitive in order to attract more FDI — namely from EU, not only Japan and USA — China should offer to the foreign investor something more and better than, basically, cheap labour.

One negative, but obvious, implication of the present «peg» is that the international value of HK currency — and indirectly of PRC's own currency — is dependent on the USA monetary policy. It is true that the USA are, and probably more than ever before, the hegemonic economic and political power in the world, — in that sense we may say that «the dollar rules» — but one of the reasons behind the development of the EMU and the implementation of the *euro* is precisely the European will to reduce that hegemony. It is hard to imagine how the Chinese government could accept such a situation in a long term view: it is surely considered just as a transitional step to a different, a more independent situation in the future.

We will come again to this question in the next sections of this paper.

As we have said before, Macao is a small and relatively marginal economy in the frame of the Pearl River Delta's Economy. The «pair» Macao-Zhuai is relatively underdeveloped comparing to the other powerful pair Hong Kong-Shengzen. In regional terms, Hong Kong is by far the dominating pole. However, the Western Bank of the Pearl River has a great potential for future growth.

Broadly speaking, as we have discussed in another paper (Murteira, 1997), we may imagine three different scenarios for the future of Macao, and the corresponding titles suggest the substantive meaning of each of them: *Montecarlo* (or, «Las Vegas»); *economic bridge* (to EU); *cultural pole*.

We think that there are good reasons to assume that the future will be some combination of the three suggested scenarios, though predominating the «Montecarlo» hypothesis. This means, among other things, that the «hidden

dimension» of Macao's economy will continue to be the fundamental basis of Macao's economic structure.

On the other hand, Macao will be in the future more economically integrated in the Pearl River Delta. But what will the predominant trend be?

Is Macao going to integrate economically more closely to Zhuhai or to Hong Kong? Probably to both, Hong Kong however being by far the dominant pole. In fact, it seems that increasing economic integration between Macao and Zhuhai is, at most, a matter of «wishful thinking», the two territories having different interests and a past experience of relatively independent development trajectories. (Jacky Hong, 1998)

The «cultural pole» scenario assumes that in different fields like R&D, higher education institutions, cultural activities, Macao has some valuable specificity that could and should be preserved and promoted in the future. Possibly it is in this area that some Portuguese influence, even limited as it is and always was, will last more in the future. However, this possible future does not seem to have relevant support from economic and political interests to make it a realistic scenario.

5. A COMPARISON BETWEEN MACRO REGIONS IN THE WORLD ECONOMY

It may be useful to compare, though very briefly and only in some fundamental aspects, the Asia/Pacific Region and the European Union in relation to their functioning, as well as to their insertion in the global market economy. Our basic purpose is to show some implications of trends to globalization and regional economic integration in different areas of the present world economic system.

As we know, the European process of formal or *de jure* economic integration started after the Second World War, and the institutional framework that is the source of EU was launched forty years ago, and included only 6 of the present 15 members. A long political, as well as economic, process of inter-states negotiation was necessary before the launching of the European and Monetary Union (EMU). Among other things, the EMU imposed as a *sine qua non* condition the so called nominal convergence of the national economies, that is, the macroeconomic stability of the member states according to certain quantitative criteria. This means also that monetary, fiscal, and budgetary policies must be strongly co-ordinated by central authorities and, consequently, that national governments should accept to reduce their autonomous decision power in some fundamental aspects of economic policy.

On the other hand, the purpose of *real* (not only *nominal*) convergence, which demands what we may call a structural convergence, even in a long term perspective, is also determining the trajectory of EU's building process. That is, after all: macroeconomic stability and increasing balanced growth (at

the macro regional level) are actively promoted ways of deeper economic integration. But this inward macro regional economic integration — though more implicitly than explicitly — is also a strategy of outward macro regional integration in the global market. The acceleration of the European economic integration by the end of the eighties — namely the achievement of the so called Single Market until 1993 — had, among other objectives, perhaps more rhetoric than real, the purpose of improving the competitiveness of European firms as well as European national economies in the global market.

This panorama is, obviously, in total contrast to the situation in the Asia/Pacific region. We cannot find similar regional rules, goals or institutions, and it would be useless to insist on the analysis of the present economic crisis to show how something like that macro regional co-operation is desperately needed in this part of the world. Until now, ASEAN has remained very far from an effective area of regional economic integration and it does not seem realistic to assume the possibility of playing that role in the short term. But, of course, we are not suggesting that the European model of economic integration and, as a consequence, the European way to globalization should or could be imitated in other parts of the world. We only insist on the idea that it is not only sound national macroeconomic policies that are needed but *also some kind of inter-states commitment to a macro regional policy appropriate to the present situation*. But, of course, we are very far from that at present. And the least we can say is that the Japanese government is desperately trying to escape from a serious national crisis (not only «economic») and does not seem at all prepared to be the leader of a new macro regional strategy. On the contrary, reducing imports and investment abroad, is a way to increase, not to reduce, the difficulties of other Asian economies.

For the time being, the IMF is still in charge of these problems, in Asia as in other parts of the world, but it has been increasingly criticised, and for different reasons. Let us refer just a few of them:

One criticism (for instance, Martin Feldstein, 1998) is related to the present trend to enlarge IMF usual scope in policy recommendations. Not only appropriate policies in those matters the IMF is normally interested in — questions related to balance of payments, monetary stability and so on — but also, structural reform of the economic system. Here we may use one strong argument, as Feldman does: it is not exactly fair to impose that kind of reform to governments, particularly if they are democratic, because they should respond to the will of their electorate, and not to the IMF's.

Another, and more common criticism, is very easy to state: the IMF, it is said, is a «one medicine doctor». In another words: it is not prepared to face seriously complex and difficult situations as those we can meet nowadays in Asia (and elsewhere, for instance in Russia). More than that, according to Lester Thurow (1998): in his opinion, what is needed in many cases, to overcome the economic crisis, is to stimulate internal demand and not to do the

opposite, that is, restrain internal demand to reduce imports. But it is not our purpose, in this paper, to discuss alternative national economic strategies.

Another relevant question we can ask is the following: what will be consequences of the present economic situation in Asia to the other two macro regions — that is, USA and EU — and to the future relationships between them?

The Asia/Pacific region is neither a major destination for the exports from the other two macro regions nor for the FDI flows coming from the same areas. Which means that, say, we have three levels of relative economic integration, by decreasing degree of importance: between USA and EU, between USA and Asia/Pacific and between the latter and EU. This third macro regional link has been the weakest of the three, but there is at present a strong effort from EU to improve that situation. However, for cultural, historic and political reasons, the EU, if we may say so, is more spontaneously oriented to develop its external projection to Central and Eastern Europe and to Africa, than to Asia.

But, there is another side of the question: the consequences of the «regional crisis» in terms of Asian competitiveness as exporter as well as of attractiveness to foreign investment (the two things being, of course, not independent). In those two aspects, at least, this «regional» crisis will have probably important consequences for the other macro regions, namely, increasing unemployment levels. In fact, what is occurring, among other things, is an absolute and relative downgrading of the labour value in this part of the world. And more than that: fixed capital, in land, construction and equipment, is becoming relatively cheaper, which gives the opportunity to non Asian TNC to make easy profits and develop their activity in this down grading macro region.

Taking into consideration these facts, we may ask: what can we expect from the growing insertion of PRC's economy in the macroregion as well, in general, in the global market, considering the present «macro regional crisis» and the «mega transition» in the world system we mentioned earlier? Should we expect, considering the almost «continental» size of the country, a change of direction in the Chinese economic strategy, that is, a return to some kind of (relatively) self reliant or inward oriented economic strategy?

Broadly speaking, economic policy in China, at present, faces two different sorts of problems: one is the reform of the economic system, the reform of large state owned enterprises being, in particular, a matter of great concern for the PRC's government; the other is the macroeconomic strategy, now more oriented to stability than to fast growth, as it was in the recent past, but nevertheless forced to take into consideration the social and political risk of a growing unemployment. The present macro regional environment could hardly be considered favourable to the solution of these problems.

Possibly, the practical «answer» to these questions will depend to a great extent on the adaptation of the Pearl River Delta's economy, and in particular, of the Hong Kong SAR to the present transitional period, at macro national, macro regional and mega levels, in the sense we have defined above.

6. THE INTERLINKED «TRANSITIONS»

We have been discussing problems related to different, but closely inter-related, transitions at different levels of the present global market economy, that is, the mega, macro regional, macro national, regional intra-national and local dimensions we mentioned at the beginning of this paper. What, after all, is more specific and critical to the national and macro regional environment in the case of the Pearl River Delta's economy?

Perhaps we could say that there are three main features of this region that should be emphasised:

One is the key position of the region in the insertion of the PRC's economy in the world economy, not only at the macro regional dimension but also at the dimension of the global market tout court,

The second is the simultaneous development of different but inter connected transition processes: political — the return to Chinese sovereignty of Hong Kong and Macao; economic, at national level, the transition of the Chinese economic system to something not yet clear in the horizon, but closer to the market economy normative paradigm; still economic, but at the macro regional level, in consequence of the «Asian regional crisis», that is, a re-insertion of this macro region in the world economy.

The third is related to the «mega» transition of the world system and the possibility of an emergent global crisis at that level. For different reasons we have mentioned before, and in particular because Hong Kong still is one of the greatest world centres of global finance, this is a critical area of the world system.

Is the Pearl River Delta's economy just a passive region in this complex process of multidimensional change, or on the contrary, its strategic positioning is or may be a source of some endogenous process of successful adaptation and relative up grading in the macro regional framework? Obviously, no definitive answer to such a broad question is possible, considering the complexity and uncertainty of the present stage of the global market capitalism. However, as in other similar questions, we may try to elaborate alternative scenarios according to different sets of hypotheses. But such a task is beyond the purpose of this paper.

7. CONCLUDING REMARKS

In the present global market economy in transition, the Asia/Pacific macro region is a critical area where contradictory trends are emerging. On one hand, PRC will soon in the next century probably be the greatest national economy that has ever existed, as a result of an original and complex process of economic growth and upward integration in the world system. On the other hand, the so called «regional crisis» in some Asian countries, in fact possibly the first phase of a «global» one, may induce a downgrading movement of this region — or part of it — in the global market. The Pearl River Delta economy is a key region to determine the outcome of those contradictory trends. It also is a kind of laboratory to analyze the mutual implications of different dimensions of the global market economy at a critical stage of its long term trajectory.

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The so-called Asian Crisis: Geopolitics in the Long Durée

Politicians, journalists, and too many scholars are repeatedly overwhelmed by the latest headlines. This is unfortunate because it leads to curious and unsatisfactory analyses of the meaning and importance of even large events. Thus it has been with the collapse of the Communisms; thus it has been with the geopolitical challenge of Saddam Hussein; and thus it is with the so called Asian financial crisis. To make sense of this «event», it is useful to have recourse to the multiple social times, which Fernand Braudel insisted is this crucible within we may be able to analyze reality realistically.

Let me start with an interesting editorial comment from the *Financial Times* (Feb. 16, 1998, p. 15) on the situation:

Why have (the east Asian countries) sunk now? A big part of the explanation has to do with the fickleness Asian economies could do nothing wrong and, shortly thereafter, as if they could do nothing right...

Panic-stricken lenders. The inflows offered more temptation than inexperienced businessmen guaranteed financial institutions, or corrupt and incompetent politicians could resist. The outflows worsened the managed by domestic institutions. As the capital flooded out, exchange rates collapsed and bankruptcy engulfed the private sector, countries found themselves at the mercy of panic-stricken private lenders and demanding official ones...

This is a world of panic. Once panic begins, each investor rationally wants to escape before all the others. Vastly more damage is then done than the underlying economic situation would warrant...

There are several things to be noted about this analysis. The financial slump in east Asia is looked at from the point of view of investors, primarily external investors, and the editorial suggests that a prime consideration in explaining the event of the problem was their panic. If one reads closely, one sees that we are talking especially of comparatively smaller investors, who have the least political clout and the most reason to need «to escape before all the others». The second thing to note is that geopolitical considerations do not seem to enter the analysis. The third thing to note is that almost left-wing policy conclusion of *The Financial Times*: