**REGIONAL RESILIENCE TO POSITIVE SHOCKS**

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**Abstract**

The term “shock” often represents negative (sudden) externalities in the economic literature. The unexpected rise of disequilibrating forces in output, labor or capital markets might trigger economic turbulence (Lütkepohl, 2008; Margalit, 2019). The shocks, however, are not bound with negative ones. On the other side of the coin, economies may also face positive externalities. Such technological advancements, discovery of new products or processes, i.e. digital transformation, productivity jumps, and unanticipated expansionary policies may represent some of them (Boschma, 2015; Martin, 2018). However, the empirical literature largely fails to consider the resilience with respect to positive shocks. This paper investigates the geographical patterns and determinants of positive resilience of Chinese provinces with respect to the productivity jump that occurred during the first decade of the Millennium. The dataset is obtained from NBS, OECD, World Bank and PWT websources (Feenstra et al. 2015). Having applied a range of empirical tools, such as Markov-Regime Switching Regressions, Panel Unit Root Tests, Panel Lagrange Multiplier Tests, Hausman Test and Spatial Panel regressions, we reach two main results (Anselin, 1988; Hamilton, 1989; Levin et al. 2002; Anselin et al. 1996; Millo and Piras, 2012; Baltagi, 2013a; 2013b; Elhorst, 2014a; 2014b; Bivand et al. 2021) First, resilience behavior of provinces with respect to the productivity jump is spatially very heterogeneous, in both initial response (transition capability) and post-shock behavior (positive adaptability). Second, we provide a set of strong evidence showing that the industrially specialized provinces benefit more from the productivity increase rather than specializations in services and agriculture sectors. This most likely arises from productivity gains through the Marshallian externalities; internal economies of scale, localization economies, agglomeration externalities, intra-industry knowledge spillovers, process and product innovation.

Note: The list of references are available upon request