

Emerging Stakeholders in China's Urban Governance

The Case of Guangzhou Development District in the Pearl River Delta

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Abstract

Since the beginning of China's reform and opening up in December 1978, far-reaching and fundamental changes led to growing city competition especially in China's mega-urban regions. This also influenced the role of the special economic areas (SEAs) as growth poles of the cities' development. Changes in preferential policies or decentralization measures enabling a growing number of local authorities to establish SEAs, for example, opposed several challenges for the local governments to further promote economic growth. In the process of increasing the city's competition several shifts in urban governance structures occurred, such as local government becoming an entrepreneurial actor similar to the individual firm. Using the example of SEAs in Guangzhou, this essay analyzes shifts in actor coalitions involved in political decision-making processes in Guangzhou. The paper also highlights current trends as well as challenges for urban governance in the Pearl River Delta and China.

Introduction

Since the decision for reform and opening-up of China in December 1978, the subsequent processes caused far-reaching and fundamental changes within the country. The transition is characterized by a gradual and experimental approach towards a more market-oriented economy. In this context, the development of cities is mainly influenced by three mutually interlinked factors: (1) marketization, (2) decentralization, and (3) globalization (Wei, 2001; 2007: 21-25; Shen, 2007: 303). A range of changes has been induced by these influences such as increased competition between cities for capital and resources, city expansion as well as environmental degradation and social fragmentation.

Against the background of the growing city competition, municipal governments are getting involved in place promotion to foster further growth and development. This increasingly puts away the local governments' role as distributor and regulator of resources which more likely emerge as market actors (Wu et al., 2007: 6ff.; Wu and Zhang, 2007). As a result, shifts in governance structures concerning the formulation and implementation of urban development strategies can be observed (cp. Herrmann-Pillath and Feng, 2004), including the emergence of new significant stakeholders for related decision-making processes. This is particularly relevant for China's highly urbanized regions where a multitude of cities is facing direct competition in a dense area.

Using the example of special economic areas (SEAs)¹ as important elements for the cities' role as growth poles of regional development, this essay analyzes shifts in the actor coalitions involved in political decision-making processes in Guangzhou, capital of Guangdong Province. Furthermore, the paper highlights current trends as well as challenges for urban governance in the Pearl River Delta (PRD) and China.

Conceptual backgrounds

First of all, a conceptual framework for the analysis of shifts in actor coalitions and decision-making processes with regard to urban development needs to be sketched. For the research on urban governance in the PRD, an analytical governance concept designed by DIGAETANO and STROM (2003) can be employed, providing a robust approach for comparative urban research which integrates three different theoretical perspectives – structural, cultural, and rational-choice approaches – into a single framework. The concept is applicable to China, even if some amendments concerning its operationalization are reasonable (Becker et al., 2007; Wuttke and Waibel, 2008; Schröder, 2009). Starting point of the concept are institutions, defined as organizational means by which collective decisions are made and carried out. These institutions do not function independently but are situated in a complex set of relations called “institutional milieu” shaping urban governance (cp. Nuissl and Heinrichs, 2006). According to DIGAETANO and STROM (2003: 363) the institutional milieu “are the complexes of formal and informal political and governmental arrangements that mediate interactions among structural context, political culture, and political actors [environmental complexes]”. Formal arrangements, including governmental bodies, interest groups, etc. give visible form to urban governance through rules and organization, while informal arrangements define the governing relation between and within formal institutions.

With this understanding, DIGAETANO and STROM (2003: 373) assume that urban governance “is occurring within a nested set of environmental complexes in which institutions provide the integument” and define urban governance “as the process of coordinating political decision-making” which is constructed as a series of intermediations across these different complexes (structural, cultural, and agency). Concerning the agency level, DIGAETANO and STROM (2003: 371) imply that political actors attempt to influence decision-making in ways that benefit themselves and their interest they represent; while their success usually depends on their ability to forge alliances with other actors to draw on broader ranges of political resources to accomplish governing tasks.

Special economic areas and city competition

To understand changes in urban governance and to identify potential shifts in underlying actor coalitions in the process of analysis, the environmental complexes for the respective decision-making

¹ The term “special economic area” (SEA) (cp. Svenson, 2007: 10ff.; Kelwaram, 2007: 6) will be used as a generic term for delimited geographic areas in which special rules and regulations are applied in order to foster economic development. Although “special economic zone” (SEZ) is often used as generic name in China, SEA is favored to prevent confusion as SEZ is also a distinct type of Chinese SEAs.

processes are to be considered, as proposed by DIGAETANO and STROM (2003). Therefore, we will turn our attention to SEAs and their role for the development of the cities in the case study area PRD, Guangzhou in particular.

In the transitional context, the PRD, situated in Guangdong Province in South China, developed into a dynamic mega-urban region characterized by a polycentric city structure with several city centers holding trans-regional importance (Lin, 2001; 2002; Laquian, 2005: 31). A substantial impulse of the region's economic development has been the installation of SEAs by the central government. With the establishment of two "Special Economic Zones" (SEZs) in Shenzhen and Zhuhai in 1978/80 and further zones in the period following, such as the "Guangzhou Economic and Technological Development Zone (GETDD)" of Guangzhou in 1984 or the Pearl River Delta "Open Coastal Region (OCR)" in 1985, the delta turned into a testing ground for China's market-oriented opening up. The SEAs served as growth poles for the economic development of the region as well as for the cities (Testas, 2000; Bruton et al., 2005).

Encouraged by the relative success of the economic policy, the central government expanded the SEA program to attract more foreign direct investment (FDI) and foster economic development. The SEA strategy was diversified and specialized, *inter alia* leading to: (a) the establishment of additional zones as high-tech zones (1988-1992), free trade zones (1990-1992), and export-processing zones (2000), (b) the inclusion of additional cities and regions in which SEAs were placed (cp. e.g. Meng, 2003; Wang, 2007), and (c) increased involvement of local governments in SEAs since decentralization measures in the 1990s granted local authorities the right to approve and prosecute SEAs as well as provided the necessary resource base by awarding certain financial and fiscal autonomy (cp. e.g. Gaubatz, 2005: 101f.; Shen, 2005: 43-45). This caused a dramatic increase of SEAs in China and the PRD with an unclear variety of zones. The boom of SEAs or the "zone fever" (Cartier, 2001; cp. Yang and Wang, 2008) tellingly shows the competition emerging between the cities, but also amongst sub-divisions within themselves. At least one additional factor is influencing and fueling the competition in attracting FDI, in which the cities' SEAs are an important element: China's continuous integration in the world economy causing alteration and reorientation of the zones as well as a decline of the application of preferential policies.

In 1995, when the preferential policies for SEZs and ETDZs (Economic and Technological Development Zones) expired, the central government decided not to renew most of the policies, except e.g. for the 15% corporate income tax and some others, e.g. fostering export (Sze, 1997: 41; Wang, 2004: 150). The preferential policies from the beginning were meant to be interim supports (Wang, 2004: 151). With the reduction of preferential policies for the two SEA types and the decision that investment in labor-intensive and low-tech manufacturing should no longer be approved, the SEZs and ETDZs had to reposition themselves (e.g. trying to adopt some strategies to promote high-tech enterprises) resulting in an increasing diminishment of the differences between these types (Wang, 2004). Not only differences between the zones blur, also the practice of establishing zones within

zones (Wang, 2007: 16, 25) contributes to the dissolution of the zones' distinctiveness. In Guangzhou, for example, the Guangzhou Export-Processing Zone (GEPZ) has been set up within the GETDD while the SEAs of Guangzhou (inter alia GETDD, GEPZ, Guangzhou High-tech Industrial Development Zone (GHIDZ), Guangzhou Free Trade Zone (GFTZ)) are located in Guangzhou as "open coastal city" and are situated in the Pearl River Delta Economic Zone (PRDEZ). Thus, some zones operate within larger special areas also providing preferential treatment to FDI, therefore channeling it to other areas than the SEAs. In recent years, this trend has become more pressing as the preparation for and the actual membership of China in the WTO in 2001 triggered further reforms to open up the economy relinquishing several special treatments. One of the most actual measures in this regards is the combined tax law which came into effect in 2008 equaling domestic and foreign corporate income tax on the same level of 25 percent (The Dezan Shira China Group (ed.), 2007: 7, 8). However, preferential policies are not completely abandoned; for instance, several incentives for high-tech projects will remain. But different ways to create favorable investment provisions will be applied, such as focusing on environmental protection, intellectual property rights or other rather indirect measures (Yang, 2007).

These conditions increased and still increase city and inner-city competition which also comes with some negative implications as conflicts of interest grew between and amongst city authorities, e.g. with regards to the formulation and enforcement of a coherent planning capturing and regulating the development of the cities and regions as a whole, as TANG (2000) and ENRIGHT (2003: 111) point out.

Shifts in actor coalitions

Related to these developments several changes in the urban governance structures and actor coalitions for SEAs in Guangzhou can be identified. Most of them can be attributed to local governments' aim to increase the competitiveness of their SEAs and their city as a whole for which they are in need to generate revenues, bring in the construction costs of the zones as well as to enable further development projects to establish or refine the city's role in the region.

Only considering national-level SEAs in Guangzhou various inter-city (inter-zonal) competitions can be observed. In Guangzhou four national-level zones have been established² and have been managed by single administrative bodies as sub-branches of the Guangzhou Municipal Government on behalf of the State Council: GETDD (1984, two expansions), GHIDZ (1991), GFTZ (1992), GEPZ (2000). The zones' task was to attract FDI by utilizing their autonomy granted by the State Council and the city government but complying with respective regulations guiding foreign investment (qualified industry branches, amounts to be invested, etc.). However, in certain development stages, the zones had a comparatively low performance, inter alia grounded on different and varying (financial) support by the city and higher level governments (Sze, 1997: 39ff.). In order to cope with this, the zone management

² Nansha Economic and Technological Development Zone (Nansha ETDZ) (1993) will not be considered as it has been integrated into Guangzhou in the course of the annexation of the Panyu by Guangzhou in 2000. However, before Guangzhou took care of Nansha ETDZ upgrading it to Nansha Development Zone, the performance was rather poor due to insufficient financial support by Panyu as a county-level city.

of GETDD, for example, autonomously decided to allow some duty-free operations to compete with GFTZ, while GFTZ, as a response, allowed export-oriented business within their borders (Personal Communication 1, 2007). The formation of the Guangzhou Development District (GDD) in 2002 consolidating the four single SEAs mentioned above under one joint management, the Administrative Committee of GDD, can also be regarded as an action to prevent such inter-zonal competition and divergence in the future and therefore, as a step to increase competitiveness towards other cities such as Shenzhen. Indeed, the GDD has been able to perform second best of China's SEA in 2007, which has been a substantial improvement when compared with the previous years (Personal Communication 2, 2007).

In addition, the GDD administration discovered that development zones are not only about infrastructure and preferential policies; also the improvement of management processes and services could bring a competitive edge for their zone. To better attract FDI, the GDD Administration Committee established a FDI Promotion Office, simplified investment procedures as well as awarded several consulting companies a license to win investors for the zone. Although the latter are usually linked to the zone authority and some are solely state-owned, these companies have to gain their profits as market actors (Personal Communication 3, 2008). The license, however, defines certain investment quotas to be fulfilled by the promotion enterprise and sets industrial branches as well as the GDD sub-area for which investors can be attracted (Personal Communication 4, 2007). Thus, the zone's authority still closely regulates investment promotion.

Another trend can be highlighted. To improve procedures and services provided to potential investors but also to enterprises already situated in their zone, GDD's Administrative Committee was eager to learn from experiences of other national and international zones as well as companies. Site visits have been conducted, bilateral visits to companies to discuss pressing issues were arranged, and experts from universities and planning institutes have been consulted for various issues (Personal Communication 5, 2007). During our interviews, various company representatives assessed this as an improvement compared to the situation just a few years ago, highlighting that their needs have been considered on a larger scale. Though, some companies still complain about bureaucratic processes and non-transparent decision-making processes concerning several issues, a shift towards acknowledgement of investors' demands can be observed.

Conclusion

Several changes in the actor's coalition have been shown. While it became clear that the local state still remains as the dominant stakeholder influencing urban governance in special economic areas in Guangzhou, as a typical case for China, this does not at all mean that the local state acts as a monolithic block. Rather its several functional departments and state-owned enterprises occur as stakeholders with sometimes highly different interests and objectives, which may lead to conflict: The single zone administrations activities were conflicting in such a way that the city government decided

to re-centralize authority. Investment promotion is closely regulated by the state yet requiring market-oriented action, including the state act as market actor. The lack of supervision and coordination among the different departments and companies for FDI promotion on the city, the district, the zones and other levels does not contribute well to increase competitiveness. Besides these shifts one can observe in the government sector, other stakeholders gain more importance in urban governance. For example, foreign companies play a larger role in decision-making processes, though rather by consideration of their interests and needs as perceived by the authorities than by direct involvement. But their opinion now has a firm position when it comes to the further development of urban structures, such as the SEAs. This trend seems to broaden as the integration of the cities' development zones into comprehensive urban districts, like the Luogang District in Guangzhou, imposes new challenges for the development concerning new tasks, as housing, leisure space, schools, etc., as well as new stakeholders related with those, such as urban villages, neighborhood or ownership committees, etc. This is likely to influence the urban governance structures and actor coalitions in the future.

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