

Intercity Competition in China's Pearl River Delta.

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Abstract

This paper explores the causes and effects of intercity competition in the Chinese Pearl River Delta. While positive effects on economic growth and negative impacts on public spending have been acknowledged in the literature, the capacity building aspect has been largely ignored so far.

It is argued, that decentralization, the adoption of market-like strategies by local governments, and a high degree of autonomy allowed for competition and learning mechanisms to come to play in the political arena. Thereby, local capacities are built by evolving entrepreneurial cities in their efforts to retain and improve competitiveness.

Consequently, the Pearl River Delta does not quite fit into the negative image of a moloch often associated with mega-urban regions. The manifold mega-urban challenges, such as skyrocketing population, emergence of slums, social problems, inadequate infrastructure, or environmental issues, etc. are dealt with comparative success. Thereby, local state capacities compensate for a lack of higher level capacities and, in this case, increase the governability of the mega-urban region.

Over the past decades, the Pearl River Delta (PRD) grew into a highly dynamic polycentric mega-urban region with variously estimated 30 to 50 million inhabitants. Adjacent to Hong Kong and Macao, a single urban corridor stretches from Shenzhen and Zhuhai in the south, throughout Dongguan, Foshan, Jiangmen, encompassing several districts of Huizhou and Zhaoqing, to Guangzhou in the north. According to official data, the PRD accounts for more than 10 percent of China's GDP, Guangdong's foreign trade volume comprised 428 billion US\$ in 2005, accounting for more than 30 percent of the country's.¹

As other mega-urban regions in developing and transitional countries, the PRD faces huge challenges in terms of mushrooming informal economic activities, traffic congestion and inadequate infrastructure, environmental pollution, influx of migrants, crime as well as a rising spatial fragmentation and social polarization. Highly dynamic, simultaneous developments on a huge spatial and demographic scale threaten the governability of mega-urban regions in general and the PRD in particular. Nevertheless, the PRD does not quite fit into the depressing picture often associated with megacities: The ungovernable, soiled molochs where the calamities of globalization accumulate and are most visible. The scale of issues seems comparatively modest in the PRD. Compared to other city regions within China, the PRD is well off: Four of its cities rank among the Top 10 Chinese cities in terms of quality of life: Shenzhen (1st), Dongguan (2nd), Zhuhai (6th) and Guangzhou (9th) (Wang, 2006).¹²⁷ Obviously, the challenges associated with mega-urban developments are managed with relative success.

This paper discusses the evolving governing capacities in the PRD in contrast to other mega-urban regions in transitional countries and the developing world. There is some indication, that intercity competition and experimental learning are the underlying mechanisms of local state capacity building. As recent theoretical advancements in institutional theory argue, these mechanisms are rare in the political world: Learning is often limited through the complexities and ambiguities of politics, while competition generally does not occur between institutions but above, e.g.,

¹ Guangdong Statistics Bureau, *Guangdong Statistical Yearbook 2007* (Beijing: China Statistics Press, 2007), National Bureau of Statistics of China, available at <http://stats.gov.cn/english/>. Own calculations.

between states in international relations, or below institutional level, as in elections (Pierson, 2000: 488).

Also, competition among the delta's jurisdictional (sub-) units has been subject to forceful critique, especially from the planning discipline. It is acclaimed to be responsible for the implementation of overly large-scale projects and the production of excess and redundant infrastructure, wasting capital in the face of soft budget constraints (Liu, 2002, Xu and Yeh, 2005). Many authors therefore recommend integrated and comprehensive governance and planning. However, considering the enormous economic and demographic growth over the past 30 years, it may well be the case that what seems to be excess infrastructure now is just enough to meet the demands of continuing rapid economic development in the future. The political dimension of inter-city competition and the implications on the institutional structure, local governance and capacity-building largely ignored. In the following, the reasons and implications of intercity competition in the context of transition will be reviewed.

In the beginning of the reform course the central government started to devolve authority to lower local levels of government. Particularly, local governments received authority over and responsibility for state fixed investment, tax policies and control over about three quarters of state industrial firms. At about the same time, the fiscal contracting system was introduced. Instead of a unified fiscal system, contracts were bargained out between local and higher level governments. Also, as local governments controlled most enterprises, a major source of their income, their interests were aligned with market interests. Indeed, they became market actors themselves. Strong horizontal inter-jurisdictional competition was introduced – with profound implications for institutional change.

The new system encouraged and rewarded local governments for economic development, and created a vested interest in and support for the reform course (Montinola et al., 1995, Shirk, 1993). After fiscal reform, local governments were largely dependent on revenues produced by their own enterprises. To increase revenue, the efficiency of their companies had to be improved and therefore finally privatized. Both newly founded and privatized companies further intensified market competition – creating a self-reinforcing process. Privatization in China was not a priority of the central government at that time, nor uncontested within the Communist Party. It must thus be understood largely as an unintended consequence of decentralization and the devolution of power, especially the power to regulate and control companies to local governments (Li et al., 2000, Montinola et al., 1995, Weingast, 1995).

On behalf of the local state, the important point is that through competition and as market actors, they learned how to act according to market principles. Economic development and growth became a top priority, local state capacity developed accordingly.

“Competition between regions consistently calls for innovative ideas from lower-level government. In the old planning system, bargaining with the superior official was almost the only way for one region to get ahead of another. Now, with much more freedom, entrepreneurship in the government is a critical factor in the competition between regions” (Qian and Stiglitz, 1996: 179).

On an institutional level, the competing alternatives presenting themselves to municipal governments went far beyond privatization. For example: relying on informal personal networks in attracting FDI vs. formalizing state-investor relations, tolerating sprouting informal developments vs. cutting down on informal economic activities to (re-)gain development control, fragmented traditionalized government

responsibilities vs. customer oriented one-stop management, flexible strategic planning vs. holistic long-term planning.

To understand local government behavior in this context, regional socio-cultural characteristics also have to be taken into account. Throughout its history, the Guangdong Province has gained a reputation of being revolutionary and more open to foreign influences. The long provincial trading tradition dates back to the ancient Silk Road. Until recently, Guangzhou was one of the few ports connecting the western world and China. The rebellion against British colonialists started in Guangdong, later the Qing Dynasty was overthrown by Sun Yat-sen, originating from Guangzhou and to be the first president of the First Republic. Today, the Guangdong Province is still known to make extensive use of its distance to and the limited oversight capability of Beijing. Local governments are known to be particularly strong and tend to ignore instructions from the central government.

The promise of economic improvements attracted millions of migrants since the beginning of reform. Beyond mostly uneducated peasants, there has also been an extensive influx of high potentials. For example, the level post-school education among Shenzhen's population ranks second only to Beijing (Bruton et al., 2005: 229). Knocking opportunities called out to entrepreneurs and elites from all over China. "People who dare to take risks have always wanted to come here. This spirit makes Shenzhen the most commercially vibrant city on the mainland" (Chow, 2004). Overall, while contrasting the central government's goal towards a "harmonious society", the PRD's regional collective identity and its socio-cultural characteristics certainly contributed to it embracing new ideas, innovations and daring experiments.

While the policy advantages of earlier transition periods disappear, local governments increasingly turn to new strategies in order to continue attracting investments and remain competitive. Making use of their strong position due, local governments in the PRD came to pursue entrepreneurial strategies. Alternatives are weighed and opportunities seized as available. In effect, they evolved into entrepreneurial cities.

Reflexive, innovative strategies intended to enhance economic competitiveness, an entrepreneurial discourse and entrepreneurial marketing are the distinct features of entrepreneurial cities (Hall and Hubbard, 1996, Jessop and Sum, 2000). They are neither necessarily economically successful, nor are economically successful cities entrepreneurial per se. Also, entrepreneurial cities should not be confused with the concept of "entrepreneurial local government", where the government itself is an economic actor (Hubbard, 1995), it can be argued that, through being an economic actor at an earlier stage, local governments learned to adopt market rationales and entrepreneurial strategies. A fact that certainly contributed to the emergence of entrepreneurial cities in the PRD. In the following, the city of Guangzhou shall serve as an example.

Guangzhou, traditionally both economic and political center of the province, found its position increasingly threatened in the 1990s: As regional service center and port city by Hong Kong and Singapore, as manufacturing center by the rise of Shenzhen, Foshan, Dongguan and others. Its share of GDP in the PRD dropped from 42.8 percent in 1980 to 23.69 percent in 1994 (Shen, 2002). At the same time, it faced many urban problems like traffic congestion, environmental issues, and rising crime. These also contributed heavily to threatening its competitiveness.

In response, a three phase strategy of "minor change in a year, medium change in three, and major change in 2010" (Xu and Yeh, 2003: 368) was adopted in 1998. The goal was to transform Guangzhou into a 'liveable, ecological, and entrepreneurial

city' – and thereby making it a more favorable place for business, too (Wu et al., 2007).

As a first step, more than a hundred small image-improving projects were implemented, followed by 74 somewhat larger projects such as eliminating illegal construction and improving transportation infrastructure. Open spaces were created for public amenity. The public space was greened to improve the cityscape and reduce air pollution. Phase three started in 2002 with a US\$ 12.8 billion investments over five years, among them the New Baiyun International Airport, supposed to become one of three key hubs in the country, the Nansha Deep Water Port, the Guangzhou International Convention and Exhibition Center, the Guangzhou New City Center, and the Guangzhou University Town.

It was recognized that, in order to upgrade the local economy and the city's overall competitiveness, urban space had to be improved and a more sustainable path of development to be followed. Large-scale image improving projects alone can hardly suffice to achieve this goal. Guangzhou made huge efforts to improve its governing capacity. Through annexing the neighboring county-level-cities Huadu and Panyu, Guangzhou expanded its administrative boundaries and increased development control in the area. Afterwards, it rearranged its districts and development zones: Four special development zones were merged as Guangzhou Development District into one zone under one management. A one-stop administration was created to ease administrative burdens on behalf of investors and industry (GDD, 2004). Based on a positive experience of a failed former high-tech zone in Dongguan, the strict policy of industry zoning was relaxed to produce a mixed structure of work, living and amenities.² As Guangzhou's most successful municipal sub-division, the zone management received full district government responsibilities over the newly founded Luogang District. Establishing better environmental management capacities were part of the city's strategy, too. This is reflected in the municipal budget: Guangzhou's respective financial commitment increased from 0.54 percent of GDP in 1995 to 2.84 percent of GDP in 2000 (Chung and Lo, 2006).

So far, Guangzhou's strategy seems to be successful: Both workers and expatriates living in Guangzhou and interviewed by the author reported increased public safety, hygiene and environmental improvements. An official public opinion poll in 2002 reported 96 percent of Guangzhou's residents to be satisfied with the city's development – in sharp contrast to a 1997 poll with 73 percent being dissatisfied (Xu and Yeh, 2003: 368). Guangzhou's efforts were recognized internationally and awarded with the international "Garden City" title in 2001 and the "Dubai International Award for Best Practices in Improving the Living Environment 2002."

In conclusion, entrepreneurial cities evolved in response to the competitive pressures created by decentralization and fiscal reform. Guangzhou is but one example how PRD municipalities adopt entrepreneurial strategies in the face of intercity competition. While the economic viability of some of the projects included may be questionable, it could also be interpreted as the price to pay during the evolution of an adaptive and responsive local governing system. This will be indispensable in achieving and retaining a sufficient degree of governability in this highly dynamic and fast growing mega-urban region. Institutional innovations, knowledge import, and management practices quickly diffuse across the PRD and beyond. Thus, the lack of higher level coordination and capacity can at least partially be compensated by the local state adopting entrepreneurial strategies and building governing capacities.

² Author interview with a high-level Guangdong official

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