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# New Trends in Urban and regional governance in the Pearl River Delta Region<sup>1</sup>

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## Abstract

The impacts of globalization and the collapse of the global credit market, along with the shift in economic production, forced economic restructurings, are greatly affecting and stimulating the trajectories of China's economic developments. Under these circumstances, urban and regional governance is changing rapidly with complicated relations between government, the economy and the emerging civil society. *The Outline of the Plan for the Reform and Development of the PRD 2008-2020* and other national plans for revitalizing key industries provide impetus for possible mid-term regional economic development and transformation in south China.

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## ***Introduction***

The processes of destatization and internationalization have result in the western economies a switch from government to governance. It is also a notion in search of a definition (Maloutas and Malouta, 2004). China has undertaken a rapid process of transformation from a planned economy to market economy through decentralization, marketization and globalization. In this context, urban and regional governance is changing rapidly with complicated relations between government, the economy and the emerging civil society. As increasing number of studies began to show, the role of urban government is being changed while the solutions to many problems of urban planning, management and development require a governance perspective (Chan and Hu, 2002, 2004; Gu *et al.* 2003).

From the vantage point of governance and sustainability, several key trends have been identified. First, the autonomy of urban and local governments has been increased, resulting in competition at the urban and regional level. Second, spatial and social polarization has been accelerated. Construction of large-scale infrastructure projects had resulted in large-scale relocation of residents. The restructuring process also increased the unemployment and poverty in China. Third, the notion of public participation also promotes community mobilization. Lastly, information flow via telecommunication and the spread of the internet has augmented the paces of change (Wei, 2001; Shen, Chan and Gu, 2004; Wu, 2004).

## ***Analytical Background***

Governance theories have precursors in institutional economies, in corporatism and social welfare policy studies. Governance as a socio-political phenomenon is as old as government itself. It is of significance to note that there has always been a process of governance and how it has evolved in time, the systems of values it conveys for the public and private sectors, and the consequences it carries for the public and private spheres within the society (Harphan and Boateng, 1997; Soja, 1996). The breaking up of the Fordist system of production and consumption has created new demand on the state, resulting in restructuring strains in the economy, fiscal stress and rampant consumerism with respect to public services. This is made possible by new information technology and the emergence of a private service sector (Hudson, 2001, Stoker, 1998).

Ma (2002) argued that it is 'important not to underestimate the power of the state' notwithstanding the influx of foreign capital and the trend of devolution from the central to the local authorities. Governance, henceforth, are 'partnerships involving public, private and civil actors.' (O'Riordan, 2004). This is a difficult task in a single region or locality, and is even more challenging at a regional level where, for example, responsibility for a particular function is likely to be vested in different sorts of agencies with varying degrees of power and responsibility.

The pattern of economic development transpired from the Pearl River Delta (PRD) since 1980s highlights the classic conflict between economic growth and environmental protection. It also illustrates the birth pangs experienced in transforming a planned economy to a socialist market economy. Whilst it cannot be denied that economic productivity and incomes in both regions have increased during the reform era, the price paid has been high.

Assuming that the local authorities retain their flexible stance on policy, further deterioration of the environment will eventually become an obstacle to sustainable development. As noted by Gibbs (1994), the devolution of decision-making to local authorities should be supported by the appropriate resources. Foreign investors should also be made aware of the

requirements of environmental legislation and this industrial education should be accompanied by the enforcement of environmental laws. Strategic planning through the use of environmental impact assessment and enforcement can assist local authorities to observe the legislation enacted to protect the country's natural heritage.

The economic transformation of the PRD and the accompanying problems serve as a reminder of the major features of development elsewhere. Severe competition exists between cities in both regions, especially during a period when economic output value reigns, and when the responsibility for promoting common goals such as environmental consciousness rests with provincial and central authorities (Chan, 2006; Wong and Shen, 2002)

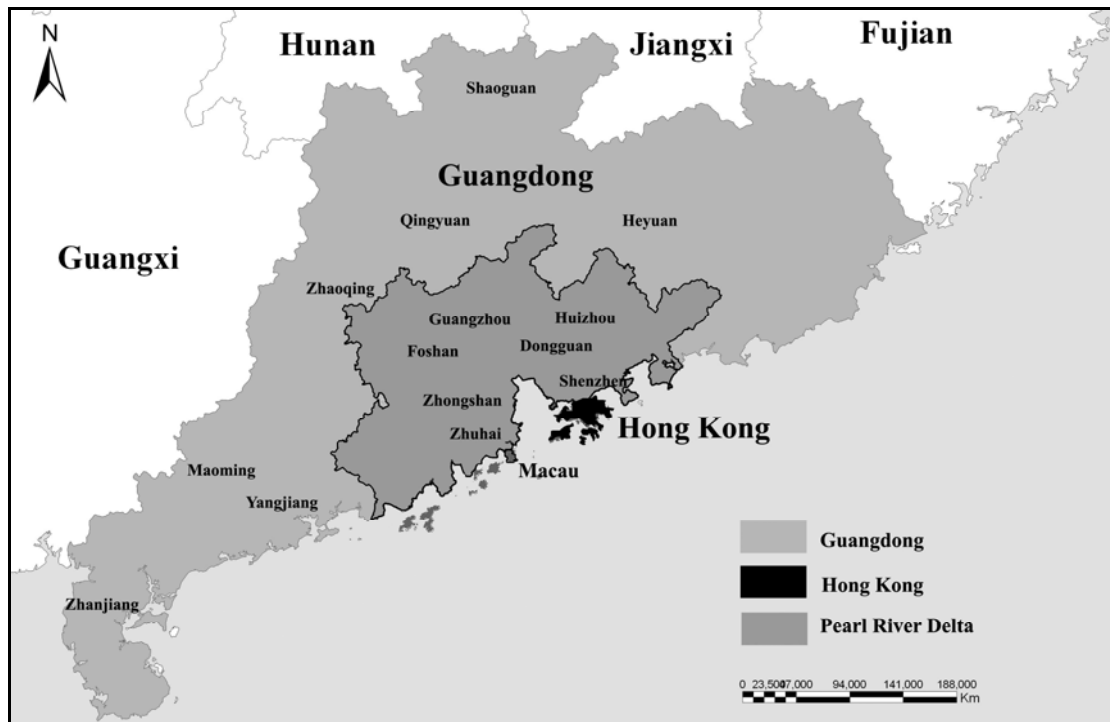
### ***The Pearl River Delta Region***

Historically, Hong Kong has always been the bridge between the Mainland and the international world. Prosperity of Hong Kong is closely knitted to her role as a middleman. In the past two decades, the economic activities in Hong Kong and the Mainland, particularly in the PRD area, were mainly undertaken by enterprises and at local level. These activities were subject to tariff control and border barriers. There was also no bilateral mobility movement for most of the production factors, as such; it could be argued that there has not been a fully and truly economic integration between Hong Kong and the PRD.

Since the opening of China in 1978 until mid-1990s, the relationship between Hong Kong and the PRD can be described as “shops in the frontage and factory at the back.” While the PRD focused on manufacturing activities, Hong Kong concentrated on higher value added business such as product design and marketing, promotion and logistic activities. It was on this basis that Hong Kong and the PRD used to integrate and cooperate in the export of goods. The mode of cooperation had contributed to the transformation of the region into a metro economic centre. Together with Shanghai-cum-Yangtze River Delta and Beijing-cum-Tianjin regions, they form the three metro-economic areas of China. Through regional cooperation, they have become the most developed and prosperous regions in China in terms of marketing and foreign investment.

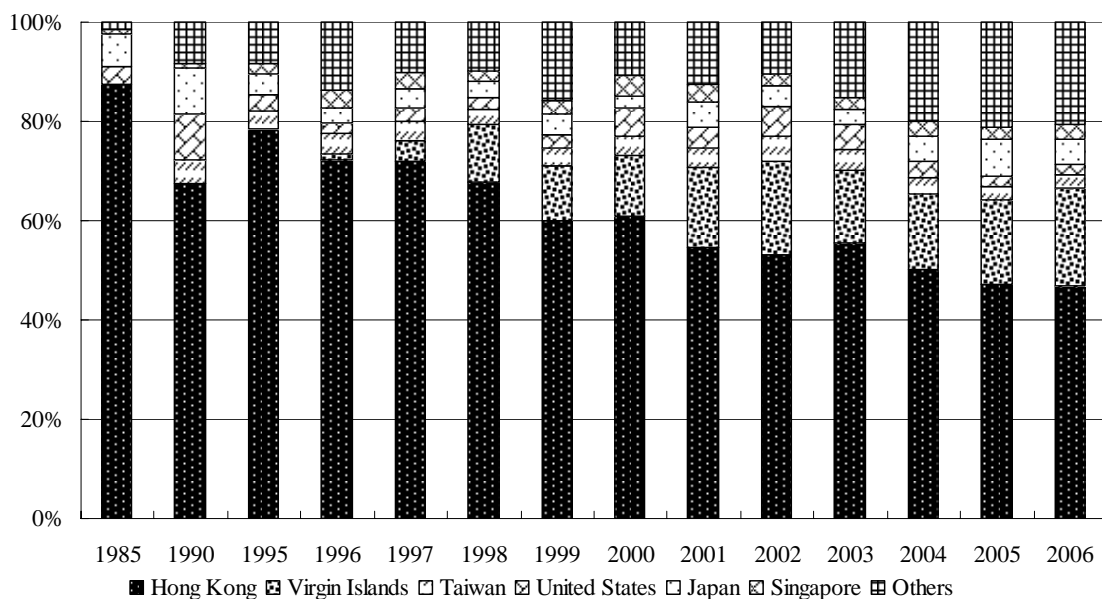
Since China's opening up its door to foreign investors, Hong Kong was and still is playing a leading role as the largest source of FDI in China. The PRD in south China, located in conjunction with Hong Kong, has attracted huge investment from Hong Kong (see Figure 1), which is documented as a typical case of exogenous urbanization and industrialization (Sit and Yang, 1997).

From 1979 to 2005, the accumulated FDI from Hong Kong in Guangdong has risen to USD 105.4 billion, accounting for 65% of the cumulative FDI in Guangdong (FHKI, 2007). It was estimated that the number of Hong Kong enterprises in the PRD was 55,200 and there have been 57,500 factories in the PRD (FHKI, 2007). Within the nine cities in the PRD, Shenzhen and Dongguan were the recipient cities of largest number of Hong Kong enterprises, sharing 47% of the total enterprises with funds from Hong Kong (FHKI, 2007).



**Figure 1. The location of the PRD in Guangdong**

Although Hong Kong investment is still playing a leading role among various source regions of FDI in Guangdong province, the share of Hong Kong in the total FDI in Guangdong has been declining in recent years (See Figure 2). Investment from other source regions particularly Taiwan, Japan, U.S. and Singapore has been more important to the industrialization in Guangdong especially after China's entry into the WTO in the early 2000s (see also Yang 2006). For example, the auto clusters fostered by Japan investment in Guangzhou and the IT cluster driven by Taiwanese electronics investment in Dongguan have attracted more attention from both academic scholars and local policy makers (Enright et al., 2005; Wang and Tong, 2005).



**Figure 2. Changes in the sources of actualized foreign investment in Guangdong, 1985-2006**

Source: Statistical Yearbook of Guangdong, various years.

Compared with a relatively decline of Hong Kong investment, the sectoral composition of Hong Kong manufacturing firms remained stable. A recent survey conducted by the HKTDC illustrated that most Hong Kong manufacturing firms still specialize in the manufacture of textile and garment, sharing 23.4 percent of surveyed firms (HKTDC, 2007). According to another comprehensive survey by FHKI in 2005 and 2006, among nearly 2529 surveyed enterprises, the top three industries in the sample were: 1) Electronic and Telecommunication Equipment (17.4%); 2) Textile Garments, Footwear and Headgear products (13.6%) and 3) Metal Products (10.5%) (See Table 1). More interestingly, although the Electronic and Telecommunication Equipment ranked the first in the sample enterprises, most Hong Kong electronics firms still concentrated on the production of electronic appliances rather than the manufacture of IT products (Chiu and Wong, 2004). Therefore, it is general accepted that Hong Kong manufacturing firms in the PRD, although has relocated for more than twenty years, have not successfully *upgraded* and still maintained the production of low end products in various labor intensive industries.

**Table 1. Sectoral Composition of HK manufacturing firms in Guangdong, 2007**

Sector	Percentage
Electronic and Telecommunication Equipment	17.40%
Textile Garments, Footwear and Headgear Products	13.60%
Metal Products	10.50%
Plastic Products	9.00%
Leather, Furs, Down and Related Products	7.70%
Textile Industry	6.40%
Electric Equipment and Machinery	5.40%
Printing and Record Medium Reproduction	3.60%
Raw Chemical Materials and Chemical Products	3.40%
Papermaking and Paper Products	3.30%

Source: Compiled from FHKI, 2007

In addition to the general status and sectoral composition of Hong Kong manufacturing firms in the PRD, the unsuccessful upgrading of Hong Kong manufacturing firms can be further illustrated by their OEM model of production. In a survey conducted by HKTDC, nearly 74% of 2200 surveyed Hong Kong manufacturing firms reported that the majority of their main business revenue was obtained from the OEM production. Meanwhile, only 6% of Hong Kong manufacturing firms have tapped into the OBM or ODM production (HKTDC, 2007). Our interviews with the Hong Kong manufacturers also indicated that the upgrading seems to be difficult for Hong Kong firms since Hong Kong has evolved into the service provider rather than the source of innovation. Hong Kong manufacturers are also in favor of the strategies of investing the profits in real estate or stock market in Hong Kong, leading to the less R&D funding in their manufacturing in the PRD (Meyer, 2008)

Accession to WTO has brought considerable changes to the profile of foreign direct investment (FDI) and trading in China. In the face of keen competition, regional economic integration becomes paramount. On 29 June 2003, the Mainland and Hong Kong concluded the Main Text of Closer Economic Partnership Arrangement (CEPA). This was followed by six annexes signed in September 2003 and the addition of five supplementary agreements in 2004, 2005, 2006, 2007 and 2008 respectively. ([http://www.tid.gov.hk/english/cepa/legaltext/cepa2\\_note.html](http://www.tid.gov.hk/english/cepa/legaltext/cepa2_note.html).) Its effect is to strengthen the economic cooperation and integration between the Mainland and Hong Kong.

The relationship between Hong Kong and the PRD takes on a new outlook with China's accession to WTO. Even before that, there were already signs of changes. The fast growing economy in the Mainland, especially in the electronic and information technology industries, has gradually reduced the gap between Hong Kong and the major coastal cities in the Mainland. Hong Kong's comparative advantages are fading. For example, the increment in GDP per capita in China is about 6%, representing a growth from USD941 in 2000 to USD1,477 in 2004. On the other hand, the GDP per capita in Hong Kong had dropped for 6% from 2000 to 2004, representing a decline from USD24,915 to USD23,410 (Earth Trends Environmental Information, 2007). At the same time, the PRD is experiencing a rapid boom in the service industries. The changes in economic profiles have brought new perspectives to the economic cooperation between the two places. They are partners as well as competitors (Yeh, 2004).

The economic achievements of the PRD has made outstanding. It produces the country's largest amount of electronic and medical products and construction materials. The country's second largest textile industry is also located in the PRD. It further produces one-half of the nation's colour televisions, one-third of the refrigerators, one-seventh of the washing machines and one-tenth of the crude oil and natural gas output. The PRD represents 85% of the economic strength of Guangdong and is responsible for 90% of the export of the province. Although its land area and population is only 0.43% and 1.8% of the country's total, it contributes to 8% of the GDP of the entire country. The PRD has all the attributes and potentials to develop into an international economic region in partnership with Hong Kong and Macao.

Particularly worthy of mention is the Changping town in Dongguan City as a logistic centre. The GDP, per capita income and per capita savings of Changping all rank first among the provinces/cities along the Beijing-Kowloon Railway. Changping is the inter-section of the Beijing-Kowloon Railway and the Guangzhou-Shenzhen Railway. It is an important hub connecting Hong Kong to the PRD and Guangdong. In 2004, about 10 million passengers travelled on these rail lines. About 1 billion *yuan* of food products went through Changping annually. Some 4,000 tonnes of fodder and food are transacted in the Changping market daily with the annual turnover reaching 2 billion *yuan*. The wholesale market handles about 7.5 million tonnes of goods each year. Through inter-regional trade, economic exchanges and cooperation take place between the areas along the Beijing-Kowloon Railway and the PRD with Changping serving as a logistics centre. Changping is now the major wholesale market for food and non-staple food products from Heilongjiang, Hebei, Henan, Anhui, Zhejiang and Jiangxi. It is also the largest food produce distribution centre. Changping also has a formidable agricultural sideline product centre that occupies an area of about 30,000

square meters, equivalent to about 20% of the size of the exhibition centre in Guangzhou. The centre in Changping serves 50 million people in Dongguan, Shenzhen, Guangzhou and Huizhou and has a daily trading volume of about 3,500 tonnes and an annual turnover of 1,300 million *yuan*. It goes hand in hand with the well-developed wholesale food and fodder market in Dongguan. Together they constitute the largest food distribution centre in Guangdong (HKEJ, 2003).

### **Infrastructural development and regional integration**

The integration of Hong Kong and the PRD requires modernized infrastructural support. Prioritization and strategic planning of infrastructural development are essential to the integration of Hong Kong and the PRD. Among other matters, a large number of Hong Kong enterprises have set up manufacturing base in Guangdong. The availability of good infrastructural support is of critical importance to the flow of raw materials and finished products. Regional infrastructural development in the PRD, however, is not well coordinated. The major cities scramble to construct large-scale infrastructures like as airports, ports and railway stations, which go much beyond the demands of the whole area. It is therefore important for Hong Kong and the PRD to coordinate and cooperate in infrastructural development so as to avoid duplications while at the same time maintain free and smooth flow of raw materials and finished products. The paramount considerations are the enhancement of the sea, land and air transportation network and the port facilities within the region, the effective utilization of existing resources, the sharing of infrastructural facilities, the implementation of effective management and the lowering of transportation costs.

Airports and ports are important aspects of regional integration in the PRD region. Between Hong Kong, Macao and the PRD, there are five airports and seven ports. In order to maintain the region's competitiveness and importance as a logistics and transportation hub, coordinated planning and sound division of functions are essential to avoid unhealthy competitions and wastage caused by duplications in constructions. The airports in Hong Kong, Shenzhen, Macao, Guangzhou and Zhuhai should be connected to form one aviation system under the *A-5 Forum*. The five airports have already reached consensus about establishing linkages among them. Instead of competing for investments to build new airports or to add facilities, the region should apply their resources to establish commercial cooperation within the region and to foster the connections among the five airports as well as to have in place an efficient and high quality land transportation network to serve the various airports. Careful thoughts should be given to identifying and delineating the functions and roles of individual airports so that they may complement and support each other's development. At the moment, its functions and role are unclear and the utilization rate is also very low. Considerations can be given to developing it into an express air courier centre for international cargoes, serving the other four airports. The centre can be financed by foreign investment and operated by Hong Kong and Macao management. In the case of Hong Kong, while the Chek Lap Kok Airport is reputed as a world class international air transportation hub, she can further enhance her competitiveness by improving on the connecting flights to Shenzhen so as to make use of the latter's good domestic flight network. This in turn will boost the international flight network, hence the competitiveness, of the Shenzhen airport. The essence is for the five airports to adopt unified and coordinated strategies and to



cooperate in developing and promoting the businesses of the regional air transportation system.

In the realm of sea transport, the major ports, such as Yantian, Shekou, Huangpu, Gaolan and Kwai Chung, can also link up to form a port cluster that is served by quality expressways. The annual volume of container cargoes handled by the PRD ports has reached 30 million standard containers TEU (Twenty-foot equivalent unit). On the basis of an increase of 6%, four berths have to be added every year in order to meet the demand. As the entire PRD region undergoes rapid economic development, it is neither reasonable nor practical to that only Hong Kong has a container port, but not for the other areas in the PRD region. As in the case of the five airports, care planning and coordination in terms of the functions and activities of the ports in the PRD region is paramount in order to bring out regional integration. There should be good division of functions that will help to cut down the import and export costs and enable better consolidation of cargoes as well as improve the accessibility of the region. The use of computerised and high-tech cargo management supports will further improve the efficiency and reliability of the logistics services and the port facilities in the region.

Apart from air and sea transport, land transport network is also an important aspect to attaining successful integration between Hong Kong and Macao and the Mainland. Presently, railway is the major form of land-based linkage between Hong Kong and Guangzhou. There is a need to maintain the efficiency of the railway line while developing a network of high quality roads and expressways. The railway and road systems are prerequisites for developing the Mainland market. The Beijing-Kowloon Railway is a case in point. When planning for the development of railway and road transportation network, consideration should be given to establishing an integrated network for Guangdong and Hong Kong. The construction, development and improvement of border facilities are a prime area for cooperation between Hong Kong and Guangdong. At present, the Kowloon-Canton Railway, which is extremely busy and has a very high usage rate, is unable to fully cope with the demand. The recently completed Shenzhen underground railway, which is connected to the Kowloon-Canton Railway, will provide a seamless linkage between Shenzhen and Hong Kong. Route Nos. 1 and 2 of Shenzhen underground railway serve to relieve the congestions at Lowu and Huanggang border crossings.

As for development of road transport, the primary objective is to link up the major highways of Hong Kong and the PRD. This is also the purpose underlying the proposal to construct the Hong Kong-Zhuhai-Macao Bridge that runs across the Pearl River estuary. Advocates for the proposed Bridge point out that in the past two decades, the disparity in economic development between eastern and western PRD is due largely to the fact that eastern PRD is linked to Hong Kong by land transport. They therefore argue that the proposed Bridge, in enabling a direct linkage between Hong Kong and western PRD, will facilitate the economic development of western PRD. According to the report published by the Hong Kong Trade Development Council, it was commented that direct land transport between Hong Kong and western PRD would bring substantial business to Hong Kong's logistics industry. The increase in business is projected to be 30% to 35%. However, like other large-scale infrastructural constructions, the proposal has been a controversial one. The situation is compounded by the fact that the project involves and affects three administrative

regions. The considerations for each administrative region differ and consensus is hard to come by. The debate over whether the design and coverage of the bridge should follow the “single Y” or “double Y” options is illustrative of the difficulties involved. In the context of regional integration and cooperation, especially over infrastructural development, it is incumbent for the relevant administrative units to have a high degree of mutual understanding and readiness to share and cooperate.

In addition to providing for direct road linkages between Hong Kong and Macao and the PRD, planning and improvement of the road system in the PRD region should aim at achieving consistency in technical quality and safety standard. There should also be standardization of development strategy and policy, highway management, taxation as well as social and technical variables. For instance, there ought to be coordination and standardization in the classification of roads, the collection of toll fees and the amount to be levied, the setting of load and speed limits and the measures for environmental protection. Importantly, too, there should be in place an effective and reliable system of communication and liaison so that information about the rail and road transport network can be promptly and accurately disseminated within the region and brought to the attention of the relevant government authorities and the road users.

### ***The PRD Urban Cluster Coordinated Development Plan (UCCDP)***

Among several plans and studies by different ministries, the PRD Urban Cluster Coordinated Development Plan (UCCDP) (also called Towards a Great Global Metropolitan Region) initiated by the Guangdong Committee of the Communist Party, the Guangdong government and the Ministry of Construction, is the most significant. Providing a general framework for future development, UCCDP marks a significant change in the philosophy of Chinese regional planning. The blueprint concept has shifted to a more regulatory approach that stresses the policy basis of plans to legitimize intervention from the upper-level governments. The normative contents of UCCDP are spelled out in ten chapters and are partially intended to offer substantial room for political efforts in exploiting the use of this planning in order to regain control and to improve the position of the PRD in the context of growing inter-regional competition.

- Chapter 1 defines the nature of the plan, the boundaries of the PRD and the planning horizon: 2004–20.
- Chapter 2 outlines development objectives and targets for population growth and land use. The overarching objective is to promote the structural competitiveness of the PRD and develop the delta into a significant world manufacturing base and a vigorous global metropolitan region. It reiterates the potential function of the PRD as the growth engine of the national economy and China’s gateway to the outside world. This directly spells out the resolution of Guangdong to compete with regions such as the Yangtze River Delta. Objectives are further broken down into six sub-components.
- Chapter 3 defines six spatial development strategies for urban systems. A central feature is the enhancement of existing central cities and growth spines and the provision of a balanced portfolio of sites to incubate peripheral development through policy inclination and resource allocation. This feature is

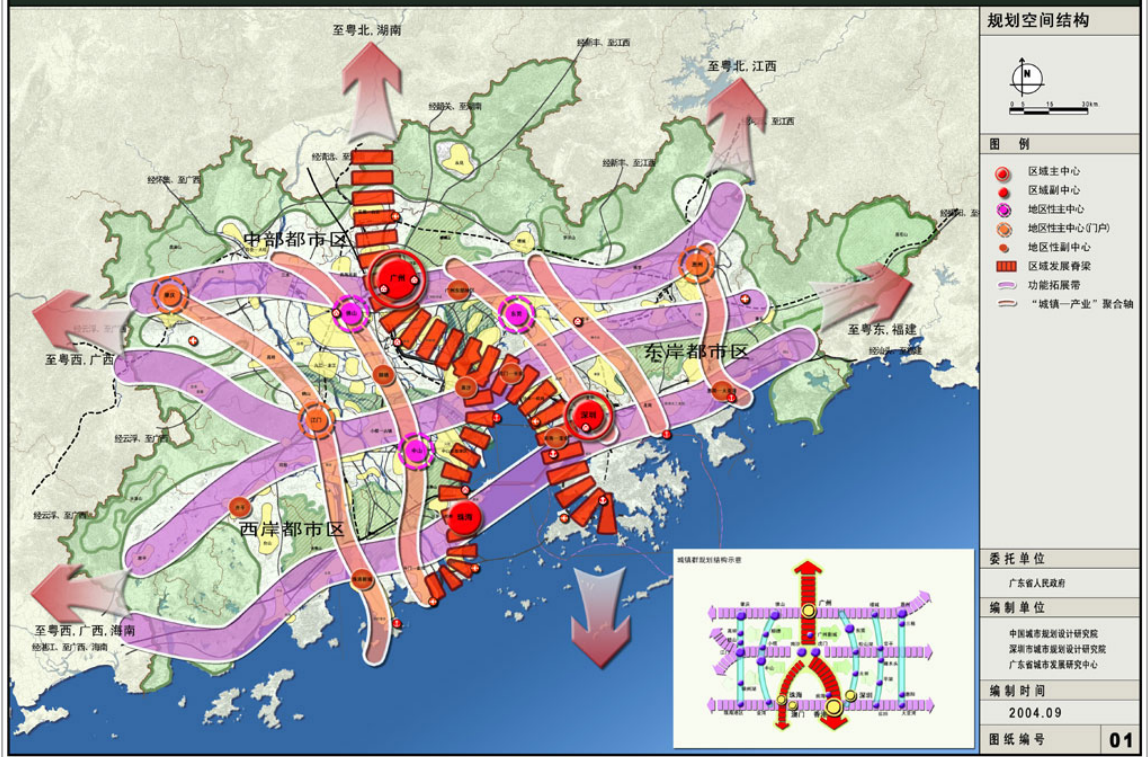
intended to insert provincial visions of territorial growth into the fragmented pattern of regional development.

- Six spatial strategies are translated into detailed policies, which are set out in Chapter 4. The spatial and functional distribution of central cities, the major development axis, three sub-regions and industrial clusters are defined in this chapter. These policies are meant to select locations for investment while placing many other areas under strict provincial control.
- Chapter 5 focuses on inserting supporting systems. This chapter identifies ecological zones, sites for heritage conservation and character areas. It also includes policies on integrated service provision and transportation. For example, it provides guidance on how to provide an integrated and balanced transport system, stressing the need to maintain and improve transportation networks, and to facilitate intercity transit systems. The economic justifications of this transport system have been closely intertwined with escalating inter-region competition in place promotion.
- Chapter 6 considers policy zones and spatial regulation, and the ‘cutting edge’ planning capacity of UCCDP. It sets up a hierarchical order of spatial control by dividing the PRD into nine policy zones, under four different levels of spatial regulation. The central idea is to amplify the supervisory and regulatory functions of the central and provincial governments and to downgrade the role of localities in land development and planning. For example, regional open spaces and transport corridors are under supervisory governance that is subject to the strictest state control. Cities and towns in these areas are no longer allowed to make independent investment decisions, and nor can they alter defined uses.
- In Chapter 7, spatial guidance for individual cities is further articulated in more detail so that the development of cities is in accord with regional spatial strategies in an attempt to reduce local discretion.

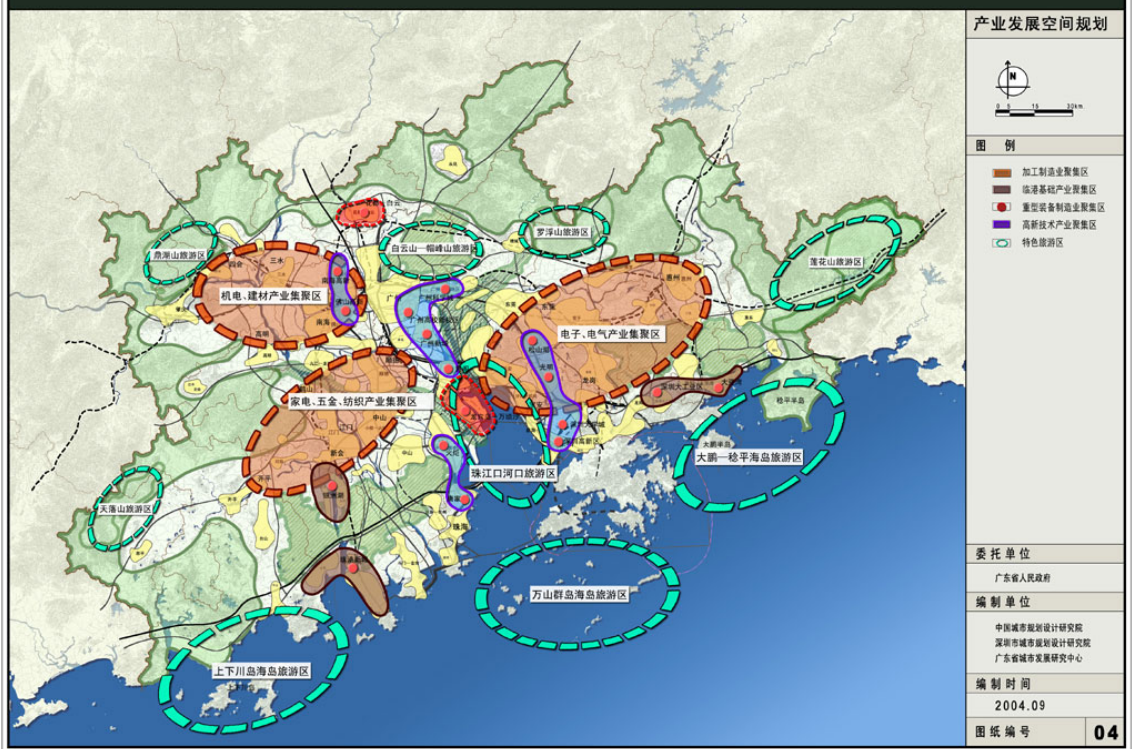
Unlike other strategic plans, the UCCDP provides content on implementation.

Chapter 8 specifies actions plans to be laid down for projects. Chapter 9 advocates institutional reforms to ensure the successful implementation of spatial policies. There are two important proposals contained within the reforms. One is to set up the PRD Urban Cluster Planning Administrative Office under the Guangdong Construction Commission to undertake UCCDP-related works. The other is to promulgate the PRD Urban Cluster Planning Ordinance to legitimize spatial policies in the plan. This ordinance was endorsed by the Guangdong People’s Congress in July 2006, and implemented in December in the same year to become the first legal document guiding regional planning in China. The ordinance requires the establishment of a provincial government-led joint conference of PRD cities to provide a framework for political negotiations regarding a number of regional issues, such as economic growth, infrastructural planning and environmental conservation. Institutional efforts are made to increase the legitimacy of central and provincial intervention in spatial formation.

# 珠江三角洲城镇群协调发展规划 (2004-2020)



# 珠江三角洲城镇群协调发展规划 (2004-2020)







**The Outline of the Plan for the Reform and Development of the Pearl River Delta (2008-2020)**

There has been long standing debate regarding the poor co-ordinate development in the PRD regional especially in areas of infrastructural projects. In the wake of the global financial crisis, the *Outline* was promulgated in January 2009 after an extensive fact finding as well as consultative process masterminded by the State Development and Reform Commission.

The *Outline* aims to create new competitive advantages for the Pearl River Delta region from the perspective of strategic planning and long-term development of the whole nation. The PRD region, in facilitating the development of the rest of the country, will be a model to be emulated.

**Building international metropolis in PRD**

Following its rapid economic development over the past 30 years under the reform and opening-up policy, the PRD region has evolved from an agricultural area into not only a manufacturing centre but also one of the most robust economic regions of the world. But competition from other regions has also emerged due to globalization and changing regional economic development. The PRD economy, which relies heavily on external trade, is confronted with unprecedented challenges as overseas demand has markedly contracted amid the global financial tsunami. The *Outline* urges the acceleration of the reform and opening up of the PRD region as well as the upgrade

and transformation of its industries. The Outline recognizes the strategic importance of the PRD in the development and economic planning of the nation and reinforces the PRD's position as a foothold for the ongoing modernization of China.

By allowing a higher degree of autonomy in the cooperation among Guangdong, Hong Kong and Macao, the Outline encourages closer economic integration and the development of a world-class international metropolis. The Outline is implemented at the right time as it helps improve the global competitiveness of the Greater PRD region.

### **Optimization of regional cooperation**

The economies of Guangdong and Hong Kong have long been interlinked. Complementing each other, the two sides have nourished momentous economic achievements. Yet, as the social systems of the two places differ to a certain extent under the framework of "One Country, Two Systems", Guangdong and Hong Kong lack a long-term macro political deployment in respect of infrastructure planning and industrial integration. The Outline incorporates the cooperation and development among Guangdong, Hong Kong and Macao into national planning, presenting a more comprehensive and detailed guiding thought for their future cooperation.

### **Boosting transport infrastructure**

The PRD is in urgent need of a comprehensive cross-border transport network and highly efficient ancillary facilities in light of the hectic economic and trading activities between Guangdong, Hong Kong and Macao. We believe it is necessary to fortify the coordination and functional division among the major railway networks, ports and airports in the region.

In particular, the Outline emphasizes improving transport links between the east and west parts of the Pearl River's mouth to form an integrated transport system with optimized network, reasonable arrangements, and high operational efficiency and close connections. It also promotes clear division and complementarity among ports and airports in the region. By the year of 2020, volume of freight, container throughputs and number of flight passenger in the PRD are expected to reach 1.4 billion tons, 72 million TEUs and 150 million respectively. The Outline encourages comprehensive cooperation of the PRD and Hong Kong in modern service sectors like the financial, professional service, and innovation and technology sectors. It provides a new momentum for the development of industries in the PRD.

The governments of Guangdong, Hong Kong and Macao held the first Liaison and Co-ordinating Meeting earlier to discuss how to implement the Outline and reached a number of consensuses over issues of infrastructure, transport arrangements for enhancing connectivity, tourism and environmental protection. They also proposed to the Central Government that the extension of the Individual Visit Scheme and relaxation of entry-permit restrictions could be extended. This would create enormous business opportunities for tourism development in the Greater PRD.

### ***New Trends and Developments in the PRDR***

Economic globalization and regional integration signify the contemporary trend of

economic development in the world. The accession to the WTO is recognition of the need to be part of the global trend. The execution of CEPA provides the impetus for Hong Kong, Macao and the PRD to undergo regional integration. Projecting into the future, the integration should take the form the creation of a highly competitive free trade area. The main features of free trade areas are free movements of goods and capital and regional cooperation in trade. The former is achieved by abolishing trade barriers such as import tariffs and custom clearance while the latter is manifested in the formation of regional trading groups or consortiums by mutual agreements (Dicken, 2007). Aside from market expansion and creation of more business opportunities, the fundamental significance of a free trade area is to provide a forum for business and human interactions and the enabling of interflow of information, all of which underlines the true spirit of regional integration.

The integration of Hong Kong with the PRD into a free trade area has a number of benefits. Firstly, it directly promotes trade and commerce between Hong Kong and Macao and the Mainland PRD. Secondly, it indirectly facilitates the growth and cooperation within the different trades and industries in the whole region. Thirdly, it provides opportunity for Hong Kong and Macao to seek new directions for development. For example, Hong Kong can develop into an “offshore” financial centre for the Mainland. Apart being situated outside the Mainland, the other potentials of Hong Kong in this regard include her well developed legal system, reliable banking and financial system, free currency, simple tax system and good IT communication network. Fourthly, the success of the free trade area will provide an instructive precedent for other regions in the Mainland. It is also possible for the free trade area of Hong Kong, Macao and the PRD to expand to include the nearby areas, which will no doubt be attracted by its success and growing prosperity. The successful implementation of the free trade area can also be a reference for other Asian countries in contemplating cross-country economic cooperation (Chan, 2006).

As with the basic principle of WTO membership, members of a free trade area have to strike a reasonable balance between their rights and obligations and to fully cooperate with the other members on such basis. Historically, Hong Kong and Macao are free ports and except for a few commodities (such as cigarettes, wine and cosmetics), no import tax is levied on imported items. By contrast, the Mainland has always imposed custom duties on imported and exported items. The setting up of a free trade area will thus involve the waiving and abolition of custom duties by the Mainland with no reciprocal concession by Hong Kong and Macao. It may therefore be felt that the PRD is giving out more benefits than what it will get in return. This perception of uneven benefits, if not addressed, is not conducive to genuine and successful integration. From experiences of other free trade areas, the following may assist in addressing the problem:

- The free trade area should promote market conditions that enable even development while encourage healthy competitions. Uneven economic growth is a major hindrance to regional economic development in the PRD region. The under-developed areas in the PRD are lacking far behind in market development. The existing rigid administrative boundaries also restricted market development and expansion. Accordingly, market regulations and sectoral policies have to be formulated to foster linkages between the under-developed areas and the other part of the PRD, to improve the competitiveness of the under-developed areas

through prioritization of sectoral development and to remove administrative barriers that stand in the way of market accessibility. The local government should assume responsibilities for determining the sectoral development priorities and policies, developing and managing infrastructural supports and public utilities as well as facilitating the flow of goods, talents and capital investments so as to provide a fair and open market environment for economic cooperation as well as healthy competitions.

- There should be mechanisms to ensure good coordination among the local governments within the free trade area. This can take the form of coordination and consultative committee consisting of officials from relevant bureaus and economists and experts. There should also be regular structured sessions of meetings between the responsible officials of the different local governments to discuss major economic planning issues, to map out infrastructural development strategies and to rationalise the division of functions within the region. The decisions should be implemented by a separate body that should also be given the tasks of organizing and introducing measures for fostering regional linkage and cooperation. Considerations should also be given to the establishment within the PRD region of a system of mediation/ arbitration overseen by the Central People's Government for resolving differences issues between the local governments and to supervise the implementation of the agreed resolution. Where necessary, the Central people's Government should give directions and guidance on strategic planning and management issues that impact upon the cooperation and relationship between the local governments.
- The local governments should always have regard to the long term overall interests of the region. In addition to market forces, government support in the form of stated policies is at times necessary to eradicate barriers to regional cooperation. As an incentive to encourage local officials to reduce regional disparity and excessive regional competitions and to be generally supportive of regional cooperation, the appraisal criteria should not be confined to the productivity level and employment rate of the areas served by them, but should also take into account the local government's contributions to and role in regional cooperation.

In terms of the coordination mechanisms, it is worth noting that the existing mode of coordination between Hong Kong, Macao and the PRD has not been effective in promoting regional cooperation. There were only formal meetings between the senior government officials with no mechanism to follow up on the matters discussed. Much is left to the goodwill of the individual local government. Removing disparity within the region is therefore critical to the viability of regional cooperation and integration. There is unfortunately no quick and ready answer for the problem. There is a need to have in place an organization that is well-structured and backed up with power to coordinate and implement regional measures. The creation of the organization, however, may require the blessing by the Central people's Government.



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