

New International Political Economy and the Greater Pearl River Delta

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Abstract

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Abstract

The theoretical approach of new international political economy (NIPE) is reviewed in this thesis. NIPE offers a historical and contextual analysis of political economy in the interplay between international and domestic level. It regards the political economy of a given society as the resultant outcome of dynamic relation between structural changes and agents' responses. NIPE is applied to study the political economy of the Greater Pearl River Delta (GPRD) from the early 1980s to 2004 as a case study. NIPE locates the GPRD in global, regional, national and local context and regards the GPRD as a sub-region in the framework of regionalism in East Asia. The focus of the study is to review how the political transition of Hong Kong in 1997 has affected the political economy of the GPRD. The study divides the integration process of the GPRD into three periods of time. First, the period from the early 1980s to 1997 is a stable phase which is characterized by the structure of "front shop, back factory"; second, the period from 1997 to 2001 is a period of break which is characterized by an unsettled political relation among key elite agent groups; third, the period from 2002 onwards is a stable phase which is characterized by a more equal relation between Hong Kong and Guangdong. Since NIPE is still a nascent theoretical approach, the case study in this thesis can also help to evaluate the strength and weakness of the theoretical approach in its application.

撮要

本論文探討新國際政治經濟學此一理論方法。新國際政治經濟學對處於國際和本地相互影響層面的政治經濟提供一套歷史性和處景性的分析。它認為某一特定社會的政治經濟是結構轉變和人對應之間動態關係的產物。新國際政治經濟學應用於以大珠江三角洲從二十世紀八十年代初到二零零四年的政治經濟為題的個案研究。新國際政治經濟學將大珠江三角洲設置於全球性、區域性、國家性和本地性的處境，並且把大珠江三角洲放在東亞區域主義的框架上並看作一個次區域。是次研究的重點在於分析香港在一九九七年的政治轉變怎樣影響大珠江三角洲的政治經濟。大珠江三角洲的整合過程共分作三個時期。首先從八十年代初到一九九七年是一個穩定階段，並且以「前店後廠」的結構作為其特色；其次從一九九七年到二零零一年是一個中斷時期，並且以存在於主要精英群體間的不穩定政治關係為其特色；最後從二零零二年起是一個穩定階段，並且以香港與廣東之間比較平等的關係為其特色。由於新國際政治經濟學仍然是一個初期的理論方法，本論文的個案研究可以有助於評估這個理論方法在應用上的強處與弱點。

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List of Abbreviation

APEC	Asian Pacific Economic Community
APT	ASEAN Plus Three
ASEAN	Association of South East Asian Nations
CEPA	Closer Economic Partnership Arrangement
EAEC	East Asian Economic Caucus
FDI	foreign direct investment
FTA	free trade agreement
GDP	gross domestic product
GPRD	Greater Pearl River Delta
HKSAR	Hong Kong Special Administrative Region
IMF	International Monetary Fund
IO	International Organization
IPE	International Political Economy
IR	International Relation
MNCs	multinational corporations
MSAR	Macau Special Administrative Region
NAFTA	North American Free Trade Area
NGOs	non-governmental organizations
NICs	newly industrializing countries
NIPE	New International Political Economy
OPEC	Organization of the Petroleum Exporting Countries
PPRD	Pan Pearl River Delta
PRC	People’s Republic of China
PRD	Pearl River Delta
SAR	special administrative region
SARS	severe acute respiratory syndrome
SEZs	special economic zone
SMEs	small and medium-sized enterprises
SOE	state-owned enterprise
US	United States

Preface

Since the early 80s when I was born in Hong Kong, I have witnessed the rapid economic growth of southern China. The pace of development of Guangdong and its increasing linkage to Hong Kong have often surprised me. I have always been curious about the driving force behind such drastic changes. It is this curiosity that has cultivated inside my heart a growing interest in the historical development of political economy of the Greater Pearl River Delta (GPRD) in China after 1978. This is the background for me to begin this research project.

In writing this dissertation, first of all, I am enormously grateful to my thesis supervisor Prof. Peter W Preston. Prof. Preston guided me through the process of writing with wit and patience. He inspired me to break down the barrier of discipline to do a multi-discipline research and introduced the theoretical approach of new international political economy (NIPE) to me for conducting this research project. I underwent a breakthrough in my academic pursuit under his supervision.

I am much indebted to other members of my thesis committee, including Prof. Wang Shaoguang, Prof. Ma Shu-yan and Dr. Matthew Watson, for reading the entire manuscript and offering guidance on revisions. I am especially grateful to Prof. Wang Shaoguang and Prof. Ma Shu-yan for their teaching over a number of years at the Chinese University. Prof. Wang opened my eye to perceiving the complex process of state-building in China and ignited my enthusiasm for studying contemporary Chinese political economy. Prof. Ma introduced the study of politics to me in an innovative and critical way and developed my interest in pursuing academic research.

In the course of my graduate study in the Chinese University, I benefited greatly from working with Prof. Kuan Hsin-chi, Dr. Stephan Tang and Dr. Stephanie Balme respectively as teaching assistant in a number of undergraduate courses. I learned from their diligent and rigorous attitude as both teacher and scholar, and I got valuable pedagogical experiences via teaching undergraduate students in discussion sections and supervising them to prepare their research projects.

I wish to thank my classmates in the graduate division of the Department of Government and Public Administration (GPA), which are wonderful fellow travelers. We had frequent exchanges about our research interests, which were very constructive to my education. I gained much from their criticisms and suggestions of my research project in the graduate seminar. I single out for special thanks to Mr. John Lee, Ms. Kitty Poon, Mr. Gary Tang and Mr. Lo Ho-man, who shared the same office with me in different periods of time during my two year graduate study at the Department of GPA, for their supports. I am also grateful to Mr. Antony Ou who studies Just War Theory from the approach of Confucian for inspiring me to appreciate classical Chinese scholarship.

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Although the support and advice of many individuals are gratefully acknowledged, I am solely responsible for any deficiencies in this thesis.

Chapter One Introduction

1.1 Aim of study

New international political economy (NIPE) is a theoretical approach which offers a contextual and historical analysis of the relation between politics and economics in the interplay of multiple levels of international and domestic system. NIPE is good at analyzing how the foundation of the political-economic order of a given society. However as a theoretical approach, NIPE has a relatively short history and not yet been well-developed. In this research, we discuss NIPE and apply this theoretical approach to the regional integration of the Greater Pearl River Delta (GPRD) as a case study. The GPRD is an economically fast growing sub-region in southern China, which is consisted of Hong Kong, Macau, and the Pearl River Delta (PRD) in Guangdong province of China. We aim to use NIPE to offer a historical study of the political economy of the GPRD from the early 1980s to 2004 and to elucidate how the political transition of Hong Kong from a British colony to a special administrative region (SAR) of People's Republic of China (PRC) in 1997 has affected its developmental path. The result of the case study is also used to illuminate the strengths and weaknesses of the theoretical approach of NIPE in order to point out a direction on how to improve the relatively nascent theoretical approach in the future.

Since 1978 when China has adopted the Open Door Policy, the once halted relation between the Pear River Delta of Guangdong province and Hong Kong/Macau has been revived. During 1980s and 1990s, they have further increasingly integrated into an unified economic system which has been characterized as “front shop, back

factory”, with Hong Kong and Macau providing capital and technology and the Pearl River Delta in Guangdong province supplying cheap labor, land and agricultural resources (So & Kwok 1995). They have transformed into a transnational sub-region of “southern China-Hong Kong” (Breslin 2000) in the framework of Asian regionalism (Breslin 2000, Katzenstein 2000).

The successful development of the sub-region of southern China-Hong Kong has not been a natural and continuous process, but has been subjected to the change of the international, regional, national and local environments and shaped by how governing elites in the respective parties of the sub-region responding to the changing environments and pursuing their sub-regional projects. Political and economic elite agent groups are responsible for leading the development of the sub-region.

An event happened in year 1997 triggered a break in the developmental trajectory of sub-region. Political situation changed. There were transfers of sovereignty over Hong Kong and Macau from British and Portuguese colonial governments to People’s Republic of China (PRC) in 1997 and 1999 respectively. The sub-region has been shifted from a transnational sub-region to a sub-region within a nation-state of China after the transfer of sovereignty although Hong Kong and Macau still retain their independent custom controls and jurisdictions under “one country, two systems¹”. The sub-regional project has been gradually reframed as the Greater Pearl River Delta after 1997 in order to denote a more tangible sub-regional project².

¹ “One country, two systems” is a policy adopted by PRC for granting Hong Kong and Macau a highly autonomous status. Hong Kong and Macau, while belong to PRC sovereignty (One Country), adopt a capitalism system which is different from the socialism system adopted by PRC (Two systems).

² Refer to the section of “The Greater Pearl River Delta” on the website of the Hong Kong Trade Development Council. <http://www.thegprd.com/>

By using the theoretical approach of new international political economy (NIPE) and regionalism, I focus on how political and economic elite agent groups have responded to the changing environments and how they have coordinated with each other and pursued their sub-regional projects in the GPRD from the early 1980s to 2004. Apart from the political change happened in 1997, the analysis of the GPRD also consider how global, regional national and local political-economic situational change conditioning the key agent group in their pursuit of sub-regional projects in the GPRD. Elite agent groups have different interests and objectives. What is the power relation among them? Who gains and who loses in the process? After 1997, what has been the role of Chinese national government in the development process of the GPRD after the transfer of sovereignty of Hong Kong and Macau? Has the developmental model of the GPRD still been “front shop, back factory”? Has the sub-region shifted from a local initiative-oriented process to a more state-planned project in which the national government has played a more determinant role after 1997?

The time frame of this study is set between the early 1980s and 2004 because the early 1980s is the time when the re-integration of Hong Kong/Macau and the PRD in Guangdong began to take place and 2004 is the year when the sub-regionalist project Pan Pearl River Delta (PPRD), as an extension of the GPRD, was set up which represents the establishment of a stable political-economic structure of the GPRD. An emphasis of this research is laid on elucidation of the change of the political economic relation of the GPRD after the political transition in 1997. Key elite agent groups responsible for shaping the development of the GPRD are sorted out and analyzed. Elite agent groups in this study include central government of China, provincial government of Guangdong, elite agents of Macau, governments of key cities in the

PRD including Guangzhou, Shenzhen and Zhuhai, and finally the dynamic agent groups of political and economic sectors in Hong Kong. In this study, a special focus is laid on Hong Kong because it is the economic core of the sub-region and it is the place where the research is done.

1.2 Theoretical approach

The theoretical approach of new international political economy (NIPE) is used in this research. NIPE is distinguished from mainstream IPE which is positivist in nature and US-centered, and often adopts methodological individualism to reduce all individuals' action as utility-maximizing behavior. NIPE has a relatively short history and it emerged in around 1980s (Cox 1980, Strange 1988). It is critical and interpretative in nature and does not take the world order of globalization and the integration of the Greater Pearl River Delta as given and a natural process. It reflects on the foundation of world order and analyzes how an economic integration is formed politically. It offers a contextual and historical analysis of the relation between politics and economics in the interplay of multiple levels of international and domestic system. As it is reflexive in nature, it has an objective to plot out possible alternative directions to the future political-economic project of the given society (Gamble 1995, Murphy & Tooze 1991, Payne & Gamble 1996, Watson 2005).

NIPE is rooted in the foundation of classical political economy and regarded any society as oriented to a pursuit of wealth in order to meet the need of social provisioning. The way how a society pursues wealth is dependent on the dynamic relation of agency and structures. Society is regarded as a constitution of social

relationships instead of autonomous individuals who behave solely dependent on utility maximization. Agency is groups of individuals who form groups in a social system according to their background, values and interest, such as political elite agent groups, economic elite agent groups and general mass. Structures of a social system can be divided into economic, political, social and cultural structures, which are pattern of relations of human agent groups in the arena of economic, politics, social and culture respectively. These structures are interdependent. Economic and political structures are inter-related and together can be regarded as political-economic structure. Political-economic structure in a social system confines the ways how agent groups take political and economic activities; that is how they pursue livelihood IPE is a study of constitution of political-economic structure (Watson 2005, Preston 2000).

There are multiple levels of political-economic structure in global political economy, namely global, regional, national and local. Different levels of structures are inter-related. While structures confine human social practice, the constitution of structures is dependent on actions and coordination of human agent groups. Each agent groups in a social system has different interests and powers and they interpret and respond to the changing environments differently. Elite agent groups have a role to lead general mass in the pursuit of political-economic project to order the social system. Elite agent groups of a given country or territory respond to change of internal and external structures and coordinate politically to advance political and economic project in order to constitute a new social order. The interplay of agency and structure is dynamic and fluid, and structural change and agency response is an ongoing process (Preston 1998, 2000 & 2001).

To theorize the change of this process in a discontinuous developmental trajectory of a given society; that is the GPRD in this research, we adopt classical European tradition of social theorizing (Preston 1998, 2000) which is an extension of NIPE to study change of a society. Classical European tradition of social theorizing identifies phase and break and investigates agency responses and structural change along the developmental trajectory of a given society. Phase in a society is a period of time with a relatively stable political and economic structure. Break is a period of time with instability of political and economic structure. Break is a disruption of a phase by wider level change of regional and global structures or internal significant events leading to structural change.

In the study of the developmental trajectory of the GPRD, it is divided into three periods. The period between the early 1980s and 1997 is regarded as a phase in the development trajectory as it has a stable economic structure of “front shop and back factory” and political structure of limited interaction. The political transition of Hong Kong in 1997 triggered a break in the developmental trajectory of the GPRD. The break has lasted from 1997 to 2001 since there was an unstable political structure in the GPRD. Starting from 2002, a new phase of stable economic and political structure has been re-emerged. The political relation of the GPRD has been consolidated.

Also, theoretical approach of regionalism is used in the study. The theoretical approach of regionalism is used to characterize the global, regional and local context in which the GPRD is situated for analysis. The theoretical approach of NIPE is used to illustrate the constitution of the global and regional political economic structure.

Concepts including globalization, region, regionalism, regionalization, sub-region, sub-regionalism and sub-regionalization are discussed.

Globalization is not a pervasive and natural process although it represents a transformative process of economic interconnectedness which imposes impact on global order. It is more a political-economic project advanced by the agency of US-led hegemonic bloc to spread neo-liberalism across the globe (Bernard 1996, Katzenstein 2005, Stubbs 1998). Regionalism refers to top-down political-economic projects advanced by state agents to resist this globalization force, which is about constitution of independent linkages, as region, among state agents in economic and other matter, for example states in East Asia link up to constitute a region of East Asia. Regionalization refers to bottom-up regional integration initiated by non-state actors or economic actors instead of state agents (Payne & Gamble 1996). The GPRD is located in a global order of regions and regional order of East Asia.

Sub-regionalism is a lower level of transnational integration initiated by sub-national governments across border. Sub-regionalization refers to transitional integration of sub-national units initiated by economic sectors. The GPRD is regarded as a product of sub-regionalization in the regional context of East Asia before 1997.

Also the study of the GPRD is located in the national political-economic structure for analysis. The economic structure of China can be characterized as path-dependent economic liberalization and the political-economic structure of the center-local relation of China can be characterized as decentralization of economic regulatory

power from the center to local and the center's control over local via the cadre appointment system (Liew 2005, Tsui & Wang 2004, Wang 1996).

1.3 Methodology

Comparative historical approach is used as the research method in this research. It locates the political economy of the GPRD in a historical trajectory and breaks down the trajectory into three periods of time. We reject methodological individualism which believes all agents are acontextual and utility-maximization. Instead we emphasize that agents who are responsible for influencing the development of the sub-region are historical and contextual bound. By using comparative historical approach, we focus on the interaction of elite agent groups and their making decision process in response to the structural change in the contexts. Also, we compare their actions and their effects on the development of the GPRD in these three periods of time in order to understand the change of the development.

Documentaries are used as the main source of data collection. They include books, newspaper, magazine, governments report and documents from organization like Hong Kong Trade Development Council.

1.4 Significance

The Greater Pearl River Delta (GPRD) is economically significant in the global system. If the GPRD were a country, it would rank the 16th largest economy and 10th largest exporting country in the world in 2002 (Enright 2005:13). Many studies of the

GPRD have done before, but they just either focus on macroeconomic analysis of some specific reform strategies, or comparative studies of the transition from socialist economy to market economy (Cartier 1999, Enright et al. 2005, Sung 2005, Cheung Peter 1998, Tang et la. 2000). They seldom touch upon the political coordination among governing agent groups and the historical trajectory of the GPRD. They tend to take for granted the developmental process of the sub-region without explaining the process of the dynamic interplay between political-economic structural change and elite agents' response leading to the changes of the sub-region.

From an international perspective, the GPRD has been studied within the framework of Asia regionalism and is regarded as sub-regionalism (Katzenstein 2000). It is characterized by the importance of the ethnic Chinese business network (Katzenstein 2000) and the limited political coordination between the borders of China and British colonial government (So & Kwok 1995). But the situation of the current GPRD is untypical. There has been a political transition for Hong Kong and Macau. They have undergone a change of sovereignty from Britain/Portugal to People Republic of China (PRC). Before the transition, they were colonial cities and the governance of the GPRD involved governments from different countries without a central authority. The GPRD was compatible to the model of cross-country regionalization or sub-regionalization such as ASEAN and growth triangle of Singapore-Batam-Johor. After the transition, Hong Kong and Macau are special administrative regions of China and have adopted a policy of "One country, two systems", which has given them almost full autonomous status in making decision on economic affair³. On the one hand, the

³ Even international society regards Hong Kong and Macau as different entities from mainland China, especially in economic term, for example Hong Kong and Macau are independent members in many political organizations such as WTO.

GPRD is not a pure sub-national or sub-region of China because of the privileged autonomy enjoyed by Hong Kong and Macau. On the other hand, it is no longer an anarchic system without a central rule, as national PRC government has a supreme power over different parties in the GPRD. The GPRD has transformed into something in between cross-border sub-regionalism and sub-national politics of China.

This study can sort out the political and economic actors responsible for the development of the sub-region and illustrate how they have understood and responded to political structural change in 1997 and how structural changes in global, regional, national and local level condition elite agent groups' constitution of a new political-economic sub-region project of the GPRD after 1997.

Moreover, the case study of the GPRD can illuminate the theoretical approach of NIPE. NIPE, as a theoretical approach, has a relatively short history and is not yet completely developed. NIPE is useful as an alternative theoretical approach, other than positivistic mainstream IPE, to offer holistic and contextual analysis of issues concerning international political economy. However, the concepts and framework of NIPE are still relatively vague and has limitation in give explanations of social phenomenon. The case study of the GPRD can be used to assess the utility of NIPE in analysis, clarify the concepts involved and evaluate any of its strength and weakness. The result of the case study can offer future direction on how to sharpen and improve the theoretical approach.

Chapter Two Theory

2.1 International Political Economy (IPE)

International Political Economy (IPE) is an analysis of the relationship between politics and economics in the dynamic interplay between international level and domestic level (Gilpin 2001, Murphy & Tooze 1991). There are two schools in the study of IPE, namely mainstream IPE and new IPE (NIPE). In this section, we review the details of and distinctions between these two schools of IPE. We show that NIPE with a foundation in classical political economy is better to be used in the analysis of the political economy of the GPRD after 1997 because it offers a holistic enquiry of the historical and contextual change of the GPRD, locates the GPRD in local, national, regional and global contexts for analysis and is able to uncover key agent groups in shaping the direction of the development of the GPRD.

IPE is an “events-led field of study” (Watson 2005:11). It does not originate from intellectual development in social sciences. The emergency of IPE as a field of study was triggered by the changing political situation in the international economy in the late 1960s and early 1970s. At that time, the collapse of Bretton Woods system, a system which managed the order of international economy in the post-war era, led to the end of fixed exchange rate and resulted in the instability of the international trading relation. The reason behind the collapse is that US withdrew from its role as the guide of the Bretton Woods system due to its consideration of its own domestic economic situation. Also oil crisis happened at that time, which was triggered by one member of the Organization of Petroleum Exporting Countries (OPEC) in an attempt

to rise up the oil price, was another important event shaking the stability international economy. Hence, there was a call for academic scholarship to respond to the situation and to give explanations. Before the end of Bretton Woods system, scholars believed that economic activity can be separated from the influences of political activity in international arena as the Bretton Woods system was present to maintain the liberal economic order and made it eschew political intervention. The end of the system itself revealed that the stability of post-war international economy was not given but built upon a power structure provisioned by the United States. Scholars realize that the study of international economy cannot ignore the issues of politics and domestic political economy. Then IPE first emerged as a field of study to analyze how to create and maintain an order for economic activities taking place in the international level (Gamble 1995, Murphy & Tooze 1991, Watson 2005).

Watson (2005) argues that IPE as a field of study lacks a disciplinary hard core because there are no serious debates and discussion about the exact definition of concepts and theories used in IPE and the ontology of IPE among IPE scholarship. As IPE is an event-led field of study, the understanding of IPE is dependent more on what to study than on how to study (Murphy & Tooze 1991). The issues that dominate the field include the interdependence of nation-state in economic affairs, international finance, US hegemony, and causes and consequences of globalization (O'Brien & Willaims 2004:32 cited by Watson 2005, Gamble 1995, Gilpin 2001). To summarize, the substantive concern of IPE is about how to manage economic order in a system of competitive states. Although a variety of theoretical approaches are used in the study of IPE, we can distinguish the study of IPE into two different schools. Firstly, via the process of tackling issues of IPE, an unquestioning analytical foundation of positivism

for IPE is formulated and a school of mainstream IPE is come up. Secondly, another group of IPE scholars who are dissatisfied with the positivistic foundation of mainstream IPE offers a critical response to the field of study and come up with a school of NIPE.

Distinctions between mainstream IPE and NIPE are characterized as IO school versus British school (Murphy & Nelson 2001, cited by Watson 2005), traditional IPE versus inclusive IPE (Denemark & O'Brian 1997: 214-16, cited by Watson 2005) and orthodox IPE versus NIPE (Murphy & Tooze 1991). Mainstream IPE is also named orthodox IPE and traditional IPE because it is the first IPE that originate in the early 1970s as a study of order in international economy, with an application of theories and methods from the discipline of International Relation in enquiry. It is the mainstream because it is dominated in North America where majority of practitioners of IPE belong to. Mainstream IPE is also called IO school because the North American academic journal "International Organization (IO)" is the major journal publishing the outputs of its research work. By contrast, NIPE is called NIPE because it is dissatisfied with the positivism of mainstream IPE and offers a critical response to it. It aims to open up the orthodoxy analysis of mainstream IPE in order to understand the complexity of global political economy. It is called inclusive IPE because it is eclectic in nature and use theory and method from diverse disciplinary homes in its analysis. It adopts a structural approach and studies the interplay between agency and structure. It is called British school because many scholars of this school come from British scholarship (Murphy & Tooze 1991, Watson 2005).

2.1.1 Mainstream IPE

Mainstream IPE is the study of the politics of international economics. In this school, IPE is regarded as a subfield of International Relation (IR) (Frieden & Martin 2003). Before the emergence of IPE, the discipline of IR mainly focused on issue of military power and territory security which were the main concerns of states, but after the crisis of the collapse of the Bretton Woods system, economic objectives are increasing important for states too. Scholars realize that IR has also to include economic issues in its enquiry (Gamble 1995). Mainstream IPE is regarded as an extension of the study of IR to IR issues concerning economy. The concern of mainstream IPE is pre-occupied with how to manage a liberal order for international economy and large amount of literatures centre around the debate about hegemonic stability and regime theory in order to find out how to stabilize the international liberal economic order (Payne & Gamble 1996, Watson 2005 13-19). Mainstream IPE replicate the methods and theories of IR. There is a variety of theoretical approaches, which is adopted from IR, in the study of mainstream IPE. The two main approaches are neo-liberalism and neo-realism (Payne & Gamble 1996), with the former's focus on absolute gains and the latter's focus on relative gains among states from international market activities (Gilpin 200178-80). Despite the variety of theoretical approaches, the study of all mainstream IPE is positivistic in nature (Frieden & Martin 2003). It has a belief in the separation of subject and object in the production of knowledge, hence IPE scholars study the world as if the world is out there and scholars doing the social enquiry are outside of the world. The study is oriented to problem-solving. It offers a neutral and technical knowledge. They take the liberal order of the world as natural given and aim to make the existing world function more smoothly (Murphy & Tooze 1991, Payne &

Gamble 1996). It is the substantive concern for international order and the positivistic foundation of knowledge production unifies the contesting frameworks and ideologies in mainstream IPE and makes the synthesis of theoretical approach neo-liberalism and neo-realism possible in recent years (Murphy & Tooze 1991:13-15, Watson 2005: 14-27). Methodological individualism is often assumed and model of rational choice can be used in the analysis. Following the realist IR tradition, the unit of analysis is centered on states (Gamble 1995), be it the study of states' behavior in a inter-state dynamic or the study of foreign policy and regime typology of states (Bernard 1996:336). The IR method underpins the study of mainstream IPE originates from neoclassical economics (Gilpin 2001: 177-178).

Watson (2005) notes that the method deriving from neo-classical economics has an assumption that human agents are instinctive utility-maximizing economic agents. Human agents are regarded as self-interested. Human agents, individually or collectively, use utility-maximization as the only standard to make choice and take action in order to serve their own interest. It is a theory of action in which human agent's everyday behavior is conceptualized solely as means to the ends of serving their interest according to their rationalistic calculation. The assumption is that instrumental rationality of human agents is universal in regardless of differences in social contexts. The social world is constituted by an aggregation of autonomous egoistic calculating individual human agents who make contracts with each other. Social-institutions of a society are made to socialize people into this pattern of utility-maximizing behavior (Watson 2005).

Following the logic of utility maximizing behavior adopted from neo-classical economics, mainstream IPE adopts what Matthew Watson (2005) calls the “state and market approach” in tackling issues concerning international economy. There is a separation of ‘politics’ and ‘economics’ in the study of mainstream IPE. The constitution of social reality is separated into two autonomous spheres, namely ‘politics’ and ‘economics’. They are autonomous at the point of their constitution. This perspective of dichotomy between politics and economy is conventionally found in IR and it is simply imported into IPE. Mainstream IPE studies the complex reciprocal causation between ‘politics’ and ‘economics’ in the international arena. It understands the study of the relationship between politics and economics as the study of the interaction between state and market.

In the “state and market” approach, “state” and “market” are regarded as distinct and unified entities which modeled on the utility-maximizing behavior of human agents in taking action. They are regarded as self-regulating entities with their own will and capacity to pursue their discrete projects (Watson 2005). With a reference to Richard Ashley (1988), Watson (2005:26) further illustrates that the assumption of anarchy in international system conditions self interest behavior because it means there is no regulation and higher authority in the system and it is rational for each actor to secure and maximize one’s own interest. State and market have different logics which are in conflicts. Market is regarded as aggregation of individual’s will and decisions to secure maximum profits for the individual and collective in a market exchange system, because all individuals behave in an identical manner of utility-maximization. Market leads a wave of interdependence of national economies across the globe in order to achieve a more efficient market system to generate more profits, but this also affects

the autonomy of individual state's control over its domestic economic affairs. State as actor is concerned about how to maximize its power and influence over other states, maintain security and regulate economic activities within its territory. State has an incentive to manipulate market in order to secure its interests. The interaction of state and market can be characterized as state imposing constrain on rational action of market or verse versa (Gilpin 2001, Watson 2005). Rational choice model can be used to examine the behavior of state and market.

To study IPE, it is to study how to shape the causal interaction between state and market so as to maintain an orderly system for international economy (Watson 2005). For example, how states attempt to organize international market activities to serve their interest via influencing the nature of international institution and international regime (Gilpin 2001:77-78), and how international market activities constrain the policy making of autonomous states. Competing theoretical approaches, such as neo-liberalism and neo-realism, theorize different forms of arrangement for the causal relationship between states and markets which serves different forms of international order (Watson 2005).

Despite the popular status of the use of mainstream IPE in analyzing cross-border issues of political economy among scholars, we argue that the restriction of IPE as a sub-field of IR limits the methods and scope of mainstream IPE in its analysis, and hence makes it inadequate to be used to make sense of the political economy of the GPRD in this research. There are two reasons. First, the methodological approach of mainstream IPE prohibits a holistic enquiry of the development of the GPRD. Second,

the issue agenda of mainstream IPE is too US-centered and not directly relevant to the case of this research work.

First of all, Watson (2005) argues that the assumption of universal utility-maximizing behavior of methodological individualism oversimplifies human agents as unthinking and unreflexive agents. Watson (2005) notes that human agents are reflexive and are embedded in society. From the discipline of anthropology and sociology; we can know that the basic unit of a society is not individual human beings but social relationships such as family and clan. Human agents make relationship with each other and constitute patterns of social relations, and hence individuals possess social identities. These patterns of social relations, serves as structures, generating sets of social and judicial rules to guide human social practices. Social world is constituted by these social relations. The formation of pattern of relations, as structure, of a given society is contingent at a particular time and space and dependent on the action made by human agent groups in the past. Human behavior is based upon the constitution of social relations and individual cannot act alone in the pursuit of want satisfaction and disregard others in society. He notes that the assumption of utility-maximizing is only applicable in particular group of people at a particular time and place who have undergone a particular pattern of socialization via their exposure of particular set of institutionalized social norms which support this utility-maximizing behavior. This is only happened in particular societies at the particular stage of capitalist development. Therefore, it is not an universal pattern of human behavior.

Following this logic, Watson challenges the state and market approach and argues that state and market are not separate spheres of society reality because they are not

discrete but locate in social relationship. There is constitution of only a single social reality. State and market are not unified actors. They are more like arenas for human agent groups to formulate social relationships. These historically and contextually constituted patterns of relation, as structures, constraint human agent groups' actions in the arena of state and market.

Hence, the explanation of human behavior given by methodological individualism of mainstream IPE ignores the historical and contextual dimensions of human behavior and also ignores the importance of structures in conditioning human behavior. The sole emphasis on states as the unit of analysis given by the realist tradition of mainstream IPE also fails to decipher the increasingly complex world which is transnational in nature. Apart from states, human agent groups also use arena such as sub-national states, non-governmental organizations (NGOs) and multi-national corporations (MNCs) to advance their projects in international economy.

Secondly, the claim that there is a separation of subject and object in the positivistic mainstream IPE cannot be sustained because knowledge production is always regarded as a social process connecting subject and object (Murphy & Tooze 1991:14-15). IPE scholars' value and interests have influences on the research agenda. Theoretical approaches of mainstream IPE, such as neo-realism and neo-liberalism, serve different interests and values of the scholars in explaining the international order via different ways of theorization of the order along the state-market nexus. For example, scholars of neo-liberalism who uphold the values of individual free will regard the study of IPE as the study of how to limit the regulatory power of state in order to attain an effective market relation; while scholars of neo-realism who possess

a primary concern over national security and interests regard the study of IPE as the study of how states treat economy as a means to maximize their state power (Watson 2005).

Watson (2005) argues that model of analysis in mainstream IPE is ethno-centric. It takes the utility-maximization, commoditization of individuals and free market exchange as the only form of international system for economic matter, but this is only the norm and ideology of certain western advanced capitalist country. Mainstream IPE has an intention to ask the world to learn from the economic experiences minority rich societies in the world. The issue agenda of mainstream IPE is oriented to United States and aims to preserve the established post-war international economic system under US supremacy. The assumption behind the issue agenda of mainstream IPE is that every part of the world will adopt an universal market system headed by United States. The substantive study of hegemony and international order are US-centered analyses as they are issues concerning United States (Murphy & Tooze 1991: 24-27). Although lots of energy of mainstream IPE has been spent on the issue of US hegemony in stabilizing international economic order, Payne and Gamble (1996) criticize that the conception of hegemony itself is still deficiently defined and the measurement of power that is required for a hegemony to function is never satisfactorily developed. It seems that mainstream IPE does not get a right direction in its enquiry. Also, Payne and Gamble argue that the US-centered study of hegemony ignore the significance of geopolitical power. A hierarchy of IPE issues is formed and issues which do not fit into the issue agenda of mainstream IPE are marginalized (Murphy & Tooze 1991:24-27).

The development of the GPRD is situated in a unique historical context with Hong Kong and Macau undergoing political transitions and the entire China experiencing a massive post-communist reform. The change of the GPRD is not just purely driven by autonomous utility-seeking human agents and free market force, but affected by political coordination among different agent groups and constraints generated from the contingently constituted structure of economic and political relations. Also, although the political economy of the GPRD is cross-border in nature, the main level of analysis is not state-level but sub-national state level. Therefore, mainstream IPE fails to give a historical and social account of the development of the GPRD and to uncover the key agent groups who are sub-national in nature and who are responsible for shaping the political economy of the GPRD. Also, the issue agenda of mainstream IPE is US-centered and does not fit the situation of the GPRD which is subjected more to the influence of the distinctive post-communist reform of China and regional political economy of East Asia than to the US-led neo-liberal international order.

2.1.2 New IPE

The study of NIPE has a historical dimension and is concerned about a continuing process of change. It takes the extant world order as a contingent product constituted historically and contextually, and hence the order is changeable. This social enquiry serves an embedded reflexive purpose on developmental project of a given society and has an objective of identifying and proposing some possible alternative ways of ordering the social world from those dominating at any particular time (Payne & Gamble 1996, Preston 1998, 2000). For example, it does not take the liberal world order of globalization as given but challenge its foundation and extent.

NIPE studies issues of international political economy from the approach of agency and structure. Andrew Gamble (1995) introduces this version of IPE in his article “The New Political Economy”. He notes that NIPE is particularly initiated and influenced by the works of Susan Strange, Robert Cox and Immanuel Wallerstein. He shows that NIPE is structural as it considers structure seriously and does not just focus on the agency of actors in the analysis as it is practiced in the rationalistic model of mainstream IPE. It places equal emphasis on both structure and agency. On the one hand, it rejects the rationalistic model which assumes autonomous human agents take rationalistic action free of the constraint of social context. On the other hand, it rejects structural determinist thesis which assumes structures are decisive in influencing the outcomes in international political economy as it is adopted in dependency theory. The order of the world is the resultant outcome of the dynamic relation between structure and agent. Structures are regarded as historical and contingent products which are not fixed but fluid and shaped by agents, while the action of agents are also constraint by structure (Gamble 1995).

NIPE as a theoretical approach has a relatively short history. It emerged in around 1980s. The representative publications of NIPE written by Cox (1981) and Strange (1988) came out in 1980s. Also, the academic journal “New Political Economy”, which is one of the key journals hosting publications of NIPE, was set up in 1996. Therefore, the theoretical approach of NIPE is yet to be fully-developed and that is why Watson (2005) points out that it lacks a disciplinary core and there is room for proposing standards to define the theoretical approach.

Form the point of view of Robert Cox (Cox 1981, cited by Payne & Gamble 1996:6), the configuration of structures, in his word 'forces', include material capabilities, ideas and institutions, and structures mean no more or less than persistent social practices made and influenced by human agents' actions. The contribution of Cox to the study of NIPE is the introduction of ideas and ideology as sources of power to IPE analysis because before Cox the study of mainstream IPE just focused on materialist social forces (Gamble & Payne 1996).

In term of agency, NIPE do not confine to the inter-state dynamics in the analysis as the realist tradition of mainstream IPE does. It believes that the relationship of the world order is not just built up by states but it is also transnational in nature. While regarding state as actor, NIPE disaggregates state and emphasizes that it is elite human agent groups behind state advancing state projects and taking action in international arena. Apart from state, other actors such as sub-national states and multinational corporations (MNCs) also involve in shaping the order of the world. The process of global political economy happens in many levels, namely global, regional, national and local (Gamble 1995).

Moreover, NIPE has a belief in trans-disciplinary enquiry. Disciplinary boundary is often rigid, confines the scope of issues in analysis and standardizes the use of method and theory within the framework of a meta-narrative of social experience. NIPE has a belief that knowledge of the world, which gives meaning and informs actions of people in society, is produced socially in a contextual and historical way. The pursuit of knowledge cannot be confined by a pre-determined framework of meta-narrative of social experience. Hence, NIPE does not regard itself as a sub-field of IR but

associate itself with a variety of voices which draws from a variety of disciplinary homes. For example, the study of NIPE includes feminist and environmentalist political economy, neo-Gramscian study of economic ideology of everyday life and international debt problems (Watson 2005).

Mathew Watson (2005) use classical tradition of political economy to develop a foundation for this NIPE. He disagrees with mainstream IPE's unstated use of instrumental rationality from neo-classical economics as the foundation of IPE. He reflects on the origins of IPE and argues that the root of the contemporary IPE should not originate in 1970s as a political economy variant of International Relations. He uses classical political economy to develop an alternative analytical foundation for the contemporary IPE. He reviews the history of economic thought and goes back to the classical tradition of political economy in nineteenth century to develop this foundation. Classical political economy is a pre-disciplinary analysis because it is originated in the nineteenth century and exists before the division of social enquiry into disciplinary boundaries. This is compatible to the trans-disciplinary enquiry of NIPE. It adopts a holistic social enquiry. But locating IPE within the classical tradition of political economy, it releases IPE from the confinement of the discipline of IR and broadens the theory and scope of the analysis of IPE (Watson 2005). Neo-classical economics, which studies market exchange, emerged only in late-nineteenth century in replacement of the then prevailing classical political economy in analyzing economic matter. As NIPE succeed from the long tradition of classical political economy, Murphy and Tooze (1991: 27) point out that it is mainstream IPE which adopts method from neo-classical economics representing a break in a long tradition of studying political economy.

Classical political economy regards the system of social pursuit of human livelihood from a holistic perspective. Society is composed of different structures, namely economic, social, political and cultural. Each structure of society is inter-related. Classical political economy is concerned more about the economic structure of society; that is the social production of wealth. The analysis of economic aspect of society cannot be separated from its political structure (Preston 2000, 2001). As political and economic structures are inter-related, together they can be regarded as political-economic structure. With a reference Aristotle, Watson (2005:28-29) distinguishes economics into two types. One type of economics is concerned about how to achieve wealth accumulation, while another type of economy is concerned about how to reproduce a functioning system of production and distribution in order to meet the needs of social provisioning. The former economics is adopted in the study of neo-classical economics and the latter is adopted in the study of classical political economy. Hence, classical political economy is less concerned with the gains or profits of a given society but the functioning of society itself. It offers an analysis of the constitution of political-economic structure and individual action within the context of the structure

Classical political economy does not regard individual as rational atomic egoistic agent as it is assumed in neo-classical economics. It regards individuals as socially situated agents who are conscious and reflexive and will think of other people in society. Human reasoning is not just based on instrumental rationality but a diverse reasoning including aesthetic, justice, duty, social, ethics and moral etc. They are inseparable with the social environment that he or she is embedded. They have

different interests and values and they form different human agent groups in accordance to their interest, values and background, such as political elite group, economic elite group and general mass. Human agent groups constitute economic structures and other structures in which they are embedded. They have an aim to pursue wealth in order to meet the needs of social provision. They have different interest in the pursuit of wealth and they understand the outer environment differently. They have different power, be it political or economic power. They aim to use their power to pursue different political-economic projects in a given society in accordance to their respective interests and understanding about the changing environments. Then they coordinate with each other politically in order to advance a core political-economic project in a given society. A key elite agent group is formed to be in charge of political-economic project. It is the process of the constitution of economic structure. Human social practice in economic structure makes up the pursuit of livelihood.

Economic structure is patterns of economic relation of human agent group and is constituted by actions of agents. Sets of social rules and norms are generated from this pattern of economic relations to regulate human agents' behavior in economic arena. The economic structure provides the context for economic activities. It confines and provides opportunity for individual to take action. It offers a series of ideological claims about the essence of the world which legitimate the pattern of relation. Individuals have to take action in accordance to the context of socio-economic norms of the structure. Those norms are inhibited in individuals mind via socializing. It shapes individuals' identity and the way they understand themselves and the way they act. The constitution of economic structure involves political coordination of human

agent groups and the economic structure itself is inter-related to political structure of a given society. The constitution of social world of any given society is historical, contextual and contingent and it is the resultant outcome of the dynamic interplay between structure of social relations and actions of human agency at a particular time and space. The relation between agency and structure is fluid. The present form of political-economic structure is a contingent outcome of previous decisions taken by agents (Preston 2000, 2001, Watson 2005).

From the perspective of classical political economy, there is only one single social reality in which political and economic activities are co-constituted. Political and economic processes are inter-related. Agent group can use political power to pursue economic project, while economic power of an agent group can empower their political power. State and market are not purely self-regulating actors themselves; instead they are arena for political struggle. Markets and states themselves do not have will but the agent groups acting in the arena of markets and states have. Agent groups, which are confined by social norms and political-economic relations, take action and pursue their projects in the arena of state and market. The policy output of a state reflects the projects of the state elites and is resultant outcome of internal political coordination and struggle of a state.

“Economy” is more a process which is concerning the dynamic interplay between structure and agency, than an enclosed, self-regulating and substantive entity. It regards economy as economic relation with human agents situate in the context of institutionalized socio-economic norms. A variety of economic relations or market relations are developed around the world, instead of one single market relations in the

world. The maintenance of market relations cannot self-sustain but relies on political force and intervention. At least it is not purely market force that can determine economic relation of the world or a particular society. Apart from economic sector of particular country and MNCs, political elite groups and other agent groups also have a role to constitute economic structure of the world or particular society. The way of the coordination of different agent groups in constituting economic structure is political. They compete with each other. They possess different political and economic power. Political power involves the authority to control over activities within its sovereignty, such as law and military power and have legitimacy to claim what a society to do. Economic power involves material wealth and means of production. The particular form of economic relation or market relation of a given society depends on how different how agents groups understand their interests and the changing environment and coordinate politically to advance their project (Preston 2000, 2001, Watson 2005).

NIPE builds upon the foundations of classical political economy. While classical political economy is concerned about system of social pursuit of livelihood in Europe in the nineteenth century, NIPE analyzes global political economy after World War Two in twentieth century. NIPE disaggregate the world into different levels, namely, global, regional, national and local. Political-economic structure of different levels is inter-dependent and cross-cutting. Each level has its structures in making the system work. Structural change in one level affects structure of another level. Strange (1996) has a very good characterization of structure in international political economy; structure, “in short, confers the power to decide how things shall be done, the power to shape frameworks within which states relate to each other, relate to people, or relate to corporate enterprises.”(1996:25). Also in considering all dimensions of

structures in addition to economic structure, those who possess structural power has “the power to shape and determine the structures of the global political economy within which other states, their political institutions, their economic enterprises and (not least) their scientists and other professional people have to operate.”(1996:24) Hence states or the key agent groups who control the states have a desire to influence the constitution of structure in order to make the design of structure serve their interests. In response to the structural change of the wider level in which a given society situates, human agents groups within that given society will plot a new project to order the political economy of the given society.

NIPE analysis of a given society is to covers key power holders, the institutional bases of their power, the causes and way of their exercise of power and the effect of their use of power in advancing economic projects in the given society. It studies how human agents response to local, national, regional and global structural change and take action. It studies how economic structure of a particular society is constituted socially, historically and contingently (Preston 2000, 2001).

NIPE recognizes the necessary subjectivity of pursuing social enquiry. In the production of knowledge, it has a belief that ‘theory is always *for* someone and *for* some purpose’ (Cox 1981, cited by Payne & Gamble 1996), thus the relationship between subject and object is stressed (Payne & Gamble 1996). Scholars who conduct social enquiry have to be embedded in the social system in order to understand and interpret the change. In reference to Gadamar (1960) and Habermas (1989), Preston (2000) notes that “social scientists are inevitably embedded within received cultural traditions which provide the necessary materials for formal critical reflection.” This is

different from the positivistic tradition of social science which claims that research could study society outside the social reality. The perspective that scholars use to interpret “reality” and the values that they possess have influence on the world order. By showing that international economy was regarded as a purely technical and scientific system and separated from politics in the context of the Bretton Woods system, Murphy and Tooze (1991:18) point out that, “Acceptance of the system of meaning by participants in the international system entailed the acceptance of what constituted legitimate economic knowledge and legitimate political action”. The production of knowledge of IPE is integrated into the study of NIPE (Murphy & Tooze 1991:18-19). NIPE is a critical approach as it does not take the order of the world as given but challenge the foundation and formation of the “reality” of world order.

NIPE is used in the analysis of the political economy of the GPRD after 1997 because it offers a holistic and contextual analysis of the GPRD, locates the GPRD in global, regional, national and local level for analysis and uncovers key agent groups in determining the change of the political economy of the GPRD. The GPRD has a unique historical background. Before 1997, the GPRD as a sub-region, involves three parties of different sovereignties, namely British colony Hong Kong, Portuguese colony Macau and the local area Pearl River Delta of China. It was a transnational economic system. After the political transition of the two colonies in 1997 and 1999, the entire GPRD belongs to the sovereign rule of China and the three parties of the GPRD still remain to use different customs and jurisdiction. The sub-region of the GPRD is no longer transnational economic system but it is still a cross-border economic system. The situation of the GPRD is unique in the world. There are a lot of

political struggle among different power holders of the GPRD in designing the direction of the development of the GPRD after 1997.

The change of the GPRD after 1997 involves not just the influences of local economics or politics but also a multiple level of political economy. The change of the political economy of the GPRD is not just dependent on self-regulating globalizing market force, but different elite agent groups such as state elite group of central government and state elite group of Guangdong provincial government. As Watson argues that it is human agent groups who “act within the context of interpersonal market relations in order to structure economic outcomes” (Watson 2005:163), and what lost from the analysis of mainstream IPE is “any sense of conscious human agents seeking to impose a particular type of market relations, which produce the effects that are then misattributed to the market itself” (Watson 2005:164). NIPE is a good approach to elucidate the complex change the political economy of the GPRD after 1997.

2.2 About theorizing change of the GPRD

In this section, we theorize the development of the Greater Pearl River Delta from the early 1980s-2004. The development of the GPRD involves changes in its historical trajectory. NIPE is good at analyzing the pattern of political economy but it is not particularly good at analyzing the changes of pattern of political economy. To theorize change of the GPRD, we use Peter Preston (2000, 2001)’s classical European tradition of social theorizing as an extension of NIPE.

Peter Preston (2001:238) argues that NIPE recalls classical European tradition of social theorizing in the analysis of change of a country or given territory. Classical European tradition of social theorizing is a strategy of social theorizing of change of a given society used by classical political economy and is extended to be used in new international political economy in contemporary era. It aims to make sense of change of a given society in political, economic social and culture dimension. When using this strategy of social theorizing, NIPE focuses on the change of political-economic dimension. To make sense of change, it focuses on agency and structure. It views current political-economic pattern of relation of a society as result of actions of agent but also result of contingency.

Preston argues that the complex change in a historical trajectory of a given society involves phases and break and a dynamic relation of structural change and agent response. Trajectory of a given society is not smooth but includes discontinuities, reconfiguration, relatively stable phases and contingency. Phase in a trajectory of a given society is a specific and continuing pattern of economic, political, social and cultural life within the territory of the given society and definite and stable pattern of linkages with the wider regional and global system. It is stable moment with a more or less settled way of doing things both in terms of internal structure and external structural. In a phase of a given territory, people know how to make their ordinary lives and pursue livelihood. Break of a trajectory is the discontinuous point of developmental trajectory of social system from one phase to another. It can be either triggered as a result of the logics of internally secured advance or by the structural change of enfolding wider environment. When these occur, it disrupts the existing order of a stable phase in the trajectory a given society. Break can last for a period of

time. It changes the existing pattern of relation and may lead to new winners and losers among agent groups in a given society. The movement from one phase to another phase is not smooth and evolutionary development and involves this discontinuous break (Preston 2000, 2001). NIPE focuses on the analysis of political-economic aspect of the change of given society in terms of phase and break as well as agency and structure.

Agents are players in a social system. The action of human agent groups is subjected to the constraint of political-economic structure. When a stable phase is disrupted either by internal structural change or external structural change, agent groups respond to the change and take action. Their response is based on how they understand the enfolding circumstances and changing structure of wider system. Their responses could include resistance, accommodation or supercession. There are elites and mass in the study of agency. In response to their understanding of the change of structure, elite agent groups self-consciously figure new way out for future. They pursue project to lead the mass to future destiny (Preston 2001). As Preston (2001:227) notes, “elites read and react to changing enfolding structural circumstances they will plot a route to the future and mobilize their populations accordingly.” A new stable phase can be achieved after the agents’ response and action. Agents and structures are intermingled and interrelated. While structure imparts constraints on agents, what agents doing with their projects have an impact on structure in return. Moreover, there are different levels of structure, global, regional, national and local, which are also intermingled and interrelated. How local respond to the change and pursue local political-economic project could have effect on overall trajectory to the territory to modern world (Preston 2000). Therefore, how China and the GPRD elites respond to

changes and pursue their projects has effect on the trajectory of China and the GPRD and hence could have effect on the global structure, while the global structure imposes constraint on China and the GPRD.

In the analysis of the political economy of the GPRD, key agent groups in the GPRD are identified as central government of China, provincial government of Guangdong province, elite group of Macau, city government of Guangzhou, Shenzhen and Zhuhai and key political and economic sectors in Hong Kong. In this study, the GPRD is located in the dynamic interplay of global, regional, national and local structures for analysis. The development of the GPRD before 1997 is regarded as a phase in trajectory as it possessed a stable economic structure of front shop and back factory before 1997 as it is discussed next chapter in this paper. The political transition of Hong Kong in 1997 altered the political structure of the GPRD and triggered a break in the development trajectory of the GPRD. Meanwhile other changes are ongoing in the enfolding wider levels of political-economic structure which the GPRD is situated. We aim to elucidate how political economy of the GPRD has been changed after 1997 and how a stable phase is achieved after the break triggered by the event in 1997. We focus on the action of key agent groups in the GPRD and their responses to structural change. Agent groups' actions are confined by the political-economic structures. Key agent groups of the GPRD have different interests and different powers. They understand the political structural change of the GPRD differently. They also understand the changing environment of wider structures differently. In the following chapters, we investigate how the elite agent groups of the GPRD compete and coordinate with each other and advance a political-economic project in the GPRD before and after 1997. Also, in locating the GPRD in different levels of structure for

analysis, regionalism is used as a theoretical strategy for analysis. The GPRD is regarded as a sub-region in the region of East Asia. This is going to be discussed in next section.

2.3 Region

In this section, we review the theoretical approach of region. The theoretical approach of region is used in this research because the GPRD is located in the wider global and regional context for analysis. The changes of the wider global and regional structure, in addition to the domestic dynamic relation of politics and economy, have effect on the development path of the GPRD. Concepts including globalization, region, regionalism, regionalization, sub-region, sub-regionalization and sub-regionalism are discussed in this section. NIPE is used to review the formation of global and regional political economic structure. We show that the process of globalization, which is represented by the US-led global project of neo-liberalism and the advancement in information technology to deepen transcontinental economic linkage, has triggered the formation of a global political economic structure of tri-polar regional system constituted by state agents. Also, the GPRD is regarded as a sub-regionalization in the context of East Asia region because the economic sector from Hong Kong and level government in the PRD has a sub-regional project of economic integration in response to the changing environment.

2.3.1 Globalization

Globalization is a concept about world order which denotes the growing intensity and deepening impact of transcontinental linkage and interdependence of social interaction. The discussion of it emerged in the late twentieth century and it has got very popular in the 1990s due to the triumphant of capitalism after the collapse of state socialism and the information revolution (Held & McGrew 2002).

Despite its popularity, globalization is a controversial concept and there have been severe debates about the nature and real impact of it. Higgott (1999) notes that there are three phases of discussions about globalization. Phase one refers to a belief that globalization is an all-pervasive force which would lead to the break down of nation state system. Phase two refers to backlash to the thesis of hyper-globalization and regard globalization is simply a myth without real transformative impact to world order. Phase three refers to a more balanced viewpoint about globalization and regards globalization brings something novel to the world order although it's not an all-pervasive and universal force. It is the current phase of the discussion and the view point about globalization in this phase is taken in this research.

Phase one is a phase of hyper-globalization. It is believed that globalization is really occurring and it is a profoundly transformative process. Globalization is regarded as a natural and inevitable process of convergence of global ideology to liberal-democratic capitalist global system, which would lead to the diminishment of diversity of political-cultural projects (Held & McGrew 2002) and the diminishment of nation-state system to a world system of regional state and a borderless economy (Ohmae 1995). The end of cold war and the triumph of capitalism has made Francis Fukuyama

(1992) claim “the end of history” and celebrate the pre-eminence of liberal-democracy. Globalization is regarded as the world order after the end of cold war.

Phase two is phase of backlash. Skeptics of globalization argue that the impact and scale of globalization have been much exaggerated. Globalization is criticized as not a universal process as its impact is very unevenly spread. Some advanced societies experienced a high degree of globalization while some societies have not got much additional contact with the other parts of the world with the help of globalization. Majority of population in the world still have their everyday lives bounded by domestic circumstances. It is not always a harmonious process because it can trigger conflicts and animosities. There is not a convergence of culture and civilization because nationalism remains strong and to resist the convergence force brought by globalization (Held & McGrew 2002).

Phase three is a current phase about the discussion of globalization. The discussion of globalization in this phase adopts many arguments about the myth of globalization from phase two and does not regard globalization as such a pervasive, universal, inevitable and natural process. However, it recognizes that globalization has really brought something novel to the global system. Katzenstein (2005:13) points out that globalization is “a process that transcends space and compresses time” and he emphasizes on the transformative effects of globalization on world order. New actors and new relations in the world emerge due to the impact of globalization, for example MNCs have emerged to play significant role in global political economy. Also, Zysman (1996) points out that although nation-state system would not be diminished,

the autonomy of individual states decrease as state are more and more vulnerable to change of regional economic and political dynamic.

Globalization is more appropriately regarded as a multifaceted process with a material and ideational domain. Material domain refers to real economic linkages across the world which transform the original practice in global political economy. Ideational refers to competing normative discourses of knowledge production of globalization in global political economy (Higgott 1999). The notion of globalization, as Zysman (1996:157) points out, “is an effort by governments and companies to apply a label to a diverse package of changes that they do not understand and to devise strategies to adjust to a new economic world they cannot specify.”

Instead of an inevitable and natural process, globalization is a political-economic project advanced by an agency of emerging transnational hegemonic bloc, pointed out by Bernard (1996). This emerging transnational hegemonic bloc includes United States, many MNCs and some international regimes. Bernard (1996: 340) characterized the project of globalization as “transnationalized production, deregulated finance and the diffusion of neo-liberal ideology”.

There is a politics of globalization. Some agent groups support the process of globalization while some oppose in accordance to their understandings toward this new environment and their interests. Also, some agent groups, notably the transnational hegemonic bloc, use globalization to advance their global political project (Held & McGrew 2002, Higgott 1999).

2.3.2 Regionalism

In response to the pressure of economic interconnectedness brought by the material domain of process of globalization, and in resistance to the US-led global political-economic project of neo-liberalism, many state agents link up with other states to pursue a project of regionalism. European and East Asian state agents have been enthusiastic in pursuing their regional political-economic project. (Higgott 1999, Katzenstein 2005).

With a reference to Karl Deutsch (1981), Katzenstein (1997: 11-12) defines region as “*a group of countries markedly interdependent over a wide range of different dimensions*” which is indicated by “*a pattern of socio-economic and political transactions and communications that differentiates the group of countries under investigation from other, comparable groups.*” Within a region, countries are interdependent in several aspects, and each region has certain characteristics which can be distinguished from the other. Region is socially and historically constituted, which have been lodged in multitudinous of historical contextual and resulted in a variety of forms. There is no generic or natural form about regions as Bernard (1996:339) notes that “regions have existed in a myriad of historical contexts and exhibited a multitude of forms”.

There is a degree of regionness (Hettne & Soderbaum 2002). The depth and breath of the linkages among members in a particular region depends on the action of agent groups in response to the internal and external structural change project in the pursuit of regional project. For example, the region of European Union (EU) has a higher

degree of regionness than the region of East Asia because the former has already had discernible integration in all dimensions including economic, political, social and cultural while the latter mainly has integration in economic relation and integration in other dimensions are still nascent.

Regionalization or regionalism is used to analyze the formation of regional order. Regionalism and regionalization are separate but intricately linked. Gamble & Payne (1996) distinguished between these two concepts. Regionalism is state-led or states-led-project. It is often deliberately initiated by states, through inter-governmental cooperation, to construct formal mechanism for managing transnational issues. It is a top-town project, in which states make impact on society and economy. Regionalization refers to processes of transnational cooperation, which emerge from sub-national government or non-state actors, such as NGOs or Business firms. These processes are not planned or designed by nation-states beforehand. They are bottom-up process, which is a “natural” initiation from market and society. In real situation, the formation of a region lies in the spectrum of these two integration models, as there is no purely top-down or purely bottom-up formulated region. For example, Europe is more a top-down regionalism because there is a states-initiated institution European Union to facilitate the regional development, but the economic sectors in Europe from below have also played important role in the development. East Asia is more a bottom-up regionalization because its integration has been driven more by market than by states, but states have also played a role to facilitate the regional integration of East Asia for example states in East Asia has formed formal institution such as ASEAN and APEC to discuss issues concerning economic integration.

Regional arrangements have emerged in late 50s and early 60s, but at that time they were not well-developed and stillborn. Regions of Europe and Asia have already flourished before the cold war but they were subjected to the dominance of bi-polar global system. Structural change has occurred after the cold war, and a new account of regional order has fully fledged in line with the account of globalization. North America, Europe and East Asia have emerged as three major regions in the capitalist-industrial global system. Regional project in North America and Europe is institutionalized, with former called North American Free Trade Area (NAFTA) and the latter called European Union (EU). It is a tri-polar global system (Payne & Gamble 1996, Breslin et la. 2002) because these regions dominate the global system with each of them accounted for about 30 percent of the world's total GDP (Katzenstein 1997: 12) Within a region, interaction and trade and cross-border influences is intense, while by comparison interaction of states across regions is less frequent and intense. It is a plural world of open regionalisms, instead of a world of confronting regional bloc (Katzenstein 2002).

Moreover, within a region, there are political-economic cores and a spread of peripheral territories. In Europe, Germany is the core regional state, while in Asia Japan is the core (Katzenstein 2005).

2.3.3 Regionalism in East Asia

In the tri-polar global system, region of Pacific Asia is regarded as nascent, comparing to region of North America and Europe, because the character, the form and future of the region is still not yet consolidated, but always contested and disputed. Different

actors have different agenda. Japan, China, US and other states have different perception and idea for the development of the region. They are all influential but not united in a main theme.

The idea of an East Asia region has been first emerged in late 19th century by Japanese scholar invention. It has been undergoing re-configuration. The regionalization of East Asia is influenced by the wider international structural change. The security structure of US in cold war period helped underpin the region. At that time, Japanese economy has grown rapidly and has been leading the region as core economy. US also provided an open market for East Asian economy to trade with. Japan is the core regional state in East Asia. It has accelerated its regionalist project through aid, trade, investment and technology transfer. Japan has greatly increased foreign direct investment (FDI) to East Asian countries after Japan signed the Plaza Accord in 1985 which led to the revaluation of the Japanese yen. Countries in Southeast Asia have lured to emulate Japan's model of developmental state. This is known as the developmental model of flying geese, with Japan heading other East Asian countries. East Asian countries are pushed to provide privileged policy to attract Japanese foreign investment, and hence a deregulation of their national economies has been resulted. (Bernard 1996, Katzenstein 1997).

Besides Japan, other key state agents in East Asia also compete for the regional project. China has also employed its regionalist project in Asia in the past decades. By means of ideology and identity, Sum (1996) argues that China has constructed a concept of "Greater China" in order to include Hong Kong and Taiwan under its influence in resistance to US and Japan's influence among newly industrializing

countries (NICs). China has included Southern China; that is Hong Kong Macau and Taiwan; in its economic growth triangle and constructed an economic and national Chinese identity to include them. United States (US) has facilitated the establishment of international institution Asian Pacific Economic Community (APEC) to advance a regional project in Pacific Asia which includes a wide range of countries in two sides of the Pacific Ocean in order to exert its influence in the region. United States (US) has make use of its military influence and its role as key trading partner of East Asian countries to advance this regional project. But the influence of this US-sponsored regional project of APEC is not very significant and it cannot stop East Asian countries to advance their own regional project independent of United States.

Ex-Prime Minister of Malaysia, Mahathir, is one strong advocate for an idea of Asia. He led a project to pursue a model of development that follows Japanese experience, and he claimed “Asian for Asians, and assert “Asia values”, and proposed for East Asian Economic Caucus (EAEC) as a forum for states of East Asia to discuss regional issues project for East Asia, although it did not successfully formed. In the aftermath of Asian Financial Crisis in late 1990s, he even disagreed with the International Monetary Fund (IMF) intervention in its national economy and re-introduced capital controls (Stubbs 1998, Preston 2001:231). Association of South East Asian Nations (ASEAN) is the key regional institution formed by Southeast Asian countries to advance their regional project and coordinate economic activities among themselves. Membership of ASEAN includes Malaysia, Indonesia, Singapore, Philippines, Thailand, Vietnam, Cambodia, Laos, Burma and Brunei. ASEAN has a close interaction with countries in North-east Asia, for example there is a dialogue process of ASEAN Plus Three (APT) for ASEAN to coordinate regional economic activities

with Japan, China and South Korea. (Breslin et al. 2002, Higgott 2000, Katzenstein 1997, Preston 2000) In this paper, the region of East Asia is identified as a collection of countries including Japan, South Korea, China, Taiwan, Hong Kong, Macau, North Korea and the ten countries of ASEAN.

East Asia has been more and more economically interdependent as intra-Asian trade has grown rapidly in the 1980s and 1990s and has amounted to over two-fifths of total Asian trade (Katzenstein 1997:3-4). The economic structure is characterized by dynamic development in market and its informal network structure rather than formal political institutionalization as its pattern of socio-economic and political transactions and communications (Katzenstein 1997). Political and economic actors are overlapped with each other and hard to be distinguished between the two. This network structure is characterized by the *“requirement of reciprocity in the building of political consensus that combines considerations of political efficacy with a mixture of economic efficiency and inefficiency.”* Regional integration in Asia has been achieved by the expansion of this network structure. Japan’s corporate structures and Chinese overseas network are the two main constituent networks of Asia regionalism. (Katzenstein 1997).

Chinese overseas network is mainly formed by ethnic ties and family clans, and they are widely present in Asia across national boundaries without a fixed national point of origin. They are always medium-sized family-owned firms with business knowledge and capital, and they focus on producing high valued-added technical specialization throughout Asia.(Katzenstein 1997). They own up to 80 percent of the corporate business in Malaysia, Indonesia and Thailand and about 40 percent in the Philippines.

Also two-thirds of realized foreign investment in PRC came from Chinese overseas network by mind-1980s (Hui 1995: 254-269, cited by Katzenstein 2000:12).

In a world of regional order, there is a diverse pattern of interacting industrial capitalisms. In the developmental states in East Asia, it has a non-standard model of economic system. It does not adopt a typical mode of liberal-market which depends mainly on market driven economy. Instead there is routine state-intervention in economic systems in East Asia. They are successful in developing their economy. Therefore, East Asia has its own characteristics capitalism, which is not the same version of capitalism adopted in other region, i.e. North America and Europe. There maybe incompatibility of different version of capitalism. However, trade activities across region are also growing. In light of the growth and differences in system, policy makers have to devise ways to handle differences in rule of liberal market that guide trade between different regions and countries (Stubbs 1998)

The pattern of development of a country or a sub-region is lodged within the context of wider global system. But within a region, there is different rate of development as elite of different states or sub-region respond to the changing environment⁴. Therefore to understand the development of a state or sub-region, it has to go into the context and details to understand the actual pattern of relations.

Although East Asia is a relatively nascent region in a world of regionalism, the region East Asia has an impact on the global economic structure and other regional economies. In the region of East Asia, its mode of production is followed by other

⁴ For example in the region of Asia the elites of Japan responded better to the structural change in carrying out its modernist project, therefore it is the core economy in the region.

states, one by one, as illustrated by the flying geese model. The up-rise of the economy of East Asia, after WWII, also affects the global economic structure, which was previously dominated by North America and Europe. East Asia, led by Japan, has attained a low cost of mode of production and makes the products of East Asia competitive in global market, comparing to products of other two regions. Thus East Asia exerts a pressure on North America and Europe economy (Zysman 1996).

2.3.4 Sub-regionalism in East Asia

There are different levels of regionalism in modern world. The Greater Pearl River Delta in south China has regarded as a lower-level of regionalism, a sub-regionalism in East Asia regionalism in this international structure. Another example of sub-regionalism in East Asia is the growth triangle of Singapore-Batam-Johor. (Katzenstein 1997:14, Breslin 2000). Sub-regionalism is an economic integration of sub-national economies across national borders into a natural economic territory of right size and scale. It is characterized by economic complementary and initiative from local governments and non-state actors. (Breslin 2000). It often involves transnational comparative advantage within the sub-region, joint development of natural resources or cross-border local collective action. It often comes from asymmetrical level of development between different sub-national spaces. Sub-regionalism is a transnational project taken up local governments and economic sector in response to the change of global political-economic structure from state-to-state international relation in cold war to a more open and globalized environment characterized by liberal capitalism and trade liberalization across border. Besides global structure, the formulation of sub-regionalism is also subjected to the structural

change of the particular region in which sub-region locate. Different levels of regionalism are not contradictory, but complementary and parallel to each other. Sub-regionalisms aggregates into regionalism and helps to spread production chain across the Asian region (Breslin 2000, 2002).

Sub-regionalism is compliment and builds up regionalism. Take the case of the sub-region of the GPRD. Elite agent groups have take advantage of the “Greater China” regional project initiated by China to link economic sectors across the sub-region in pursuit of a sub-regional model of production. The development of the GPRD has build upon those ethnic overseas Chinese merchant for trade network and for source of capital. The primary capital flowing to the PRD come from Hong Kong but there are also significant capitals coming from Taiwan and other overseas ethnic Chinese in East Asia. It has also attracted regional Japanese capital for investment.

There is strength of sub-regional project over regional project. Without a formal institution, the target of elimination of tariffs across countries is slow in Asia. Even within the frame of ASEAN, the elimination of tariffs has not yet been implemented (Katzenstein 1997:16). Only limited and selective preferential tariff reductions can be achieved across countries. But preferential tariff reductions have been achieved in sub-regionalism more easily, because of its small scale and its nature of informality. In the sub-region of the GPRD, Chinese government has set up special economic zones (SEZs) such as Shenzhen and Zhuhai in the Pearl River Delta for granting privileged taxation policy to attract foreign investment Since the institution is not well-established in these SEZs as it is not in mainland China at large, overseas Chinese primarily from Hong Kong have advantages of common language and culture,

family ties and ancestral roots to build up personal trust and lower transaction cost in doing business in the mainland China (Katzenstein 2000).

Sub-regionalism highlights the significant role of local government and other non-state actors playing in regional economy and challenges the traditional territorial organization of nation-state system (Breslin 2000). But sometimes the distinction between state and non state actor is not clear. For example, in the Pearl River Delta, non-state economic sectors are heavily manipulated by the local governments as the latter controls the use of many resources such as land and mines and is responsible for drafting and enforcing regulation. Some economic sectors are even owned by current or former state political elites of local governments.

Just like the spectrum of regionalism and regionalization, there is also a spectrum of sub-regionalism and sub-regionalization (Breslin 2000). Sub-regionalism refers to top down sub-regionalist project initiated by state planning. Tumen sub-regional project in Northeast Asia is a good example of this. Sub-regionalization refers to bottom-up sub-regionalization process which initiated more by economic sector and local governments. In this spectrum, the GPRD has been widely regarded as sub-regionalization before 1997. In this study, it tries to find out whether the sub-regionalization process is still relevant to explain the GPRD development after 1997 which has involved more participation of PRC national government and shifted to a sub-national region. The change of the economic relation of the sub-region of the GPRD after the transfer of sovereignty of Hong Kong and Macau is analyzed, and the role of Chinese national government in the sub-region after 1997 is particularly taken into account.

Besides the sub-region of the Greater Pearl River Delta, there are multiple layers of or accounts for the sub-region involving Hong Kong and the Pearl River Delta, like the Greater China or the Chinese Economic Zone (CEA) which includes mainland China, Hong Kong, Taiwan and Macau (Sung 2005), the South China Economic Zone which includes Guangdong, Fujian, Hong Kong and Taiwan and the Greater Hong Kong which includes Hong Kong-Guangdong or Hong Kong-Shenzhen. They coexist but not mutually exclusive. In this study, the Greater Pearl River Delta is used as a sub-region for the analysis.

2.4 National and sub-national politics and centre-local relation: China

Besides the framework of transnational regionalism, the Greater Pearl River Delta is also located in the national context of Chinese political economy for analysis because part of the GPRD is a sovereign territory of China before 1997, and the entire GPRD belongs to China sovereignty after 1997 and 1999 when Hong Kong and Macau reunified with mainland respectively. In this section we illustrate the political-economic structure of China in the reform era. The national economic structure of China can be characterized as path-dependent liberalization since the early 1980s. Also, the political-economic structure of central and local relation in China in the reform era can be characterized by economic decentralization and cadre appointment system

Since 1978, China has adopted an Open-door policy and launched an economic reform. It is a path-dependent reform (Liew 2005) with partial economic liberalization. The

reform has transformed China from a communist economic structure to a post-communist economic structure. In implementation of this reform, China has followed the regional model of developmental state in East Asia and adopted an export-oriented development project. China selectively liberalizes part of its territory; that is south east coastal region; to provide a favorable environment for foreign trade and foreign capital investment. The Pearl River Delta in Guangdong province benefits from this reform and it is the primary area in China for its reform project. Overseas capital flows to China economy has developed a growing links with Japan, US and Europe. China has experienced a rapid economic growth. A market-friendly environment has been created for foreign and domestic capital to flows in for investment. In 2001, China has signed the treaty of World Trade Organization (WTO) and this signifies that China has to take a further step to implement liberalization in order to catch up the international capitalist standard as set by the WTO agreement. The economic structure of China has experienced increasing changes after the entrance of WTO in 2001. The effect of this economic structural change of China on the development of the GPRD is going to be discussed in the forthcoming chapter.

With its huge population of 1.3 billion, China is a very large country. It is not an easy task for the Chinese central government to govern so many people and keep the entire country unified. Therefore the role of sub-national governments and the center-local relation is very important in the issue of governance in China. There are multiple levels of government in China but the major divide is between the Central government and provincial government. The centre-local relation in China in the reform era is featured by the central government's decentralization policy and the center's control over local governments through a cadre management system.

China has adopted a policy of decentralization in the reform era. It is diffusing responsibilities and resources downwards from central to local government (Wang 1996). China's central government has devolved power to local government for planning and making economic decision. The central government in the reform era has changed its economic development strategy from central planning to regional-oriented development based on the comparative advantage of each regions of China. China's central government has changed from direct invention in economic development to practicing a "principle of macro economic control" (Goodman 1994). The central government just served as facilitator to draft macro economic direction.

Also fiscal decentralization has been implemented to strengthen the power of local government. A system of fiscal contracts have implemented in which local governments only need to submit to the center the amount of tax income that they have had agreed in their negotiation with the center. For the rest of tax income, local governments can keep for their own use. This can give local governments more incentive to develop their economy. Also local governments are given the right to collect off-budget resources via multiple channels. Local governments have the right to decide tax cut and tax exemption (Wang 1996, Tsui & Wang 2004). Although there was a fiscal reform in China in 1994 to alter the contract system in order to increase the central government's share of revenue in total GDP, local governments still have strong fiscal power. The policy of decentralization has granted local government a high autonomy to pursue their economic goal.

Policy of decentralization has led to local protectionism (Goodman 1994, Yang 2000). Local protectionism has emerged both among provinces and within provinces. In provincial level, it is not uncommon for provinces to lay heavy barriers to restrict imports from other provinces (Goodman 1994:7). Competition among provinces is very keen, for example Guangdong has faced stiff competitions with other regions in China and, for example the preferential treatments of Special Economic Zones in Guangdong are forced to be removed gradually due to the accusation of unfair treatment by the interior region of China. (Yang 1997:117-130). Also, there have been conflicts among different cities of the Pearl River Delta in Guangdong, for example there was a competition between Guangzhou and Shenzhen on the leadership of economic development in Guangdong province. Local protectionism has made conflicts among local governments severe and made coordination among them difficult, which has further led to poor regional planning, negative competition and waste of resources. Some scholars have even argued that there has been an over-decentralization in China (Wang 1996)⁵.

Although China is a highly decentralized country after the post-Maoist reform, China's central government maintained its control over its sub-national government via a system of cadre management. Because China is a one party dominated country, the political leader at the center has exclusive power to control local officials through personnel management system in China's Communist Party. The central government and upper level of government impose a political control over local government

⁵ Wang (1996) argues that decentralization has also led to the decline of the ratio of central government's share of revenue to GDP. The shortfall revenue of the center has made it difficult to provide enough public goods and service and to redistribute income nationwide. He further argues that the extent of decentralization in China maybe greater than any other countries which can be shown by the fact that the ratio of China's central government's revenue to GDP had dropped to 5.1% by 1994.

leaders via the Communist Party. They can give assignment to local officials whom they have to fulfill via a “target responsibility system” which is “a set of performance criteria that induce cadres to allocate their fiscal resources in ways commensurate with the preferences of the centre.” (Tsui & Wang 2004: 75). It is a vertical control system allowing “upper-level government with levers to manipulate the structure of local spending through, inter alia, unfunded or partially funded mandates.” (Tsui & Wang 2004:89) The “target responsibility system” is way to evaluate cadre’s performance which determines their personnel promotion in the government. If cadre can fulfill the assignment given by the central or upper government, they could get credit in this measurement or vice versa (Tsui & Wang 2004). As Hon Chan (2004:703) points out, through this cadre management system, “the communist party of China is essentially in charge of appointment, promotion, transfer and removal of practically all but lowest ranking officials.” This can make sure local government would allocate their fiscal resources in accordance to the center’s preference and it is an important strategy for the central government to keep local officials under its control.

2.5 Summary

In this study, NIPE is the key theoretical approach used in the study. It studies the political economy of the GPRD by studying the dynamic relation between politics and economic in the interplay of four levels of international and domestic system, namely global, regional, national and local. The strategy used by NIPE is to interpret the dynamic relation of structural change and agency response from a historical and contextual perspective. NIPE regards political and economic elite agent groups as the

key agency responsible for leading the developmental project of a given society. It regards structure as four level of political-economic structure at global, regional, national and local level.

The theoretical approach of regionalism is used to illustrate three of the four levels of political-economic structures, namely global, regional and local structure. Global structure is characterized as a global system of tri-polar regions. Regional structure of East Asia is characterized by its network nature of integration, flexible overseas Chinese businessmen and closed relation between state sectors and economic sectors. Japan is the core economy of East Asia and has led the economic development of the region, but China is catching up and persistently competes for the regional project in East Asia in accordance to its interest and its understanding of the changing environment. Local structure of the GPRD is characterized as a model of sub-regionalization with local economic sectors coming from Hong Kong to take up a leading role in shaping the development of the sub-region.

Also the study of the GPRD is located in the national political-economic structure for analysis. The economic structure of China can be characterized as path-dependent economic liberalization and the political-economic structure of the center-local relation of China can be characterized as decentralization of economic regulatory power from the center to local and the center's control over local via the cadre appointment system (Liew 2005, Tsui & Wang 2004, Wang 1996).

To study the historical change of the GPRD from the early 1980s to 2004, classical European tradition of social theorizing as an extension of NIPE is used to theorize the

change of developmental trajectory into phases and breaks. Phase refers to the period of time in a trajectory of the GPRD when there is a stable political-economic structure. Break refers to the period of time when there is an abrupt change in the continuous developmental trajectory of the GPRD and an unstable political-economic structure (Preston 1998, 2000).

By investigating how elite agent groups respond to structural change in various levels, especially the period of break, we could discover how the political economy of the GPRD is constituted, how change is occurred and who are responsible for shaping the pattern of political economic relation of the GPRD.

Chapter Three

Substantive Focus: the integration of the GPRD from the early 1980s to 2004

This section is the substantive focus of this research work. The Greater Pearl River Delta (GPRD) is used as a case study. The case of the GPRD is significant to be studied because the GPRD has undergone a very unusual political transition in 1997 and 1999 when its constituents Hong Kong and Macau has been transformed from British and Portuguese colonies to special administrative regions of China respectively. The study aims to illustrate the development of the integration between Hong Kong/Macau and the Pearl River Delta (PRD) from the early 1980s to 2004. A special focus is put on how the political transition of Hong Kong in 1997 has altered the political economic landscape of the GPRD.

Key agent groups in the GPRD are identified as central government of China, provincial government of Guangdong province, elite group of Macau, city governments of Guangzhou, Shenzhen and Zhuhai and key political and economic sectors in Hong Kong. There are reasons why these agent groups are sorted out.

The entire GPRD belongs to China's sovereignty after 1997. Three levels of governments in China are involved in shaping the development of the GPRD, namely central, provincial and city-level governments. In mainland China, although it has undergone partial economic liberalization since the adoption of Open-door Policy in 1978, state political elites in different levels of governments are still the key agent groups in charge of political-economic project of the country. Many economic sectors in China are either directly owned by state as state-owned enterprises or controlled by

and colluded with political elite groups in the governments, therefore economic sectors do not possess independent and significant power to compete with state elite groups to advance economic project in the country. Hence, central government of China and Guangdong provincial government are sorted out as key agent groups. Among all the cities in the PRD, Guangzhou, Shenshen and Zhuhai governments are sorted out because they are key cities in the development of the GPRD with Guangzhou serving as the capital city of Guangdong province and Shenzhen and Zhuhai serving as key Special Economic Zones (SEZs) bordering Hong Kong and Macau respectively. These three PRD cities possess relative stronger political and economic power and they represent different interests. Hong Kong and Macau are special administrative regions in the Chinese political system and they possess a status parallel to provincial level of governments, but they possess much larger political-economic autonomy than other provinces in mainland China due to the “One country, two systems” implemented in these two ex-colonial cities. Hong Kong and Macau possess different political-economic systems from mainland China, and economic sectors in their social systems are significant in designing the direction of the development path of these respective cities.

In this research, a specific focus is laid on Hong Kong and we disaggregate the elite groups in Hong Kong and find out how the internal dynamic of the elite political and economic agent groups in Hong Kong shapes Hong Kong’s sub-regional project in the GPRD. The special emphasis on Hong Kong’s role in the analysis of the GPRD is because this research is conducted in Hong Kong. Also, Hong Kong has a significant role in shaping the political economy of the GPRD due to its relative strength of economic power. Macau has a much lesser significant role in the development of the

GPRD due to its relative small economy comparing to Hong Kong⁶. So to simplify the study, elite agent group of Macau is regarded as a unified elite agent group in constituting the political economy of the GPRD and we do not go into the details of the internal dynamics of elite agent groups within Macau.

The GPRD is located in four levels of political-economic structure for analysis. They are global, regional national and local structures.

In the study of the developmental trajectory of the GPRD, it is divided into three periods. The period between the early 1980s and 1997 is regarded as a phase in the development trajectory as it possesses a stable economic structure of “front shop and back factory” and a political structure of limited interaction between Hong Kong and Guangdong. The political transition of Hong Kong in 1997 triggered a break in the developmental trajectory of the GPRD. The break has lasted from 1997 to 2001 since there was an unstable political structure in the GPRD. Starting from 2002, a new phase of stable economic and political structure has been achieved. The political relation of the GPRD has been consolidated.

3.1 The integration of Hong Kong/Macau and the Pearl River Delta before 1997

The period between the early 1980s and 1997 is regarded as a phase in the development trajectory of the GPRD as it has a stable economic structure of “front shop and back factory” and political structure of limited interaction between Hong

⁶ The GDP of Macau is 10 billion US dollars and in 2004, by comparison, the GDP of Hong Kong is 172.6 billion US dollars in 2005. Refer to *The World Factbook* published by Central Intelligence Agency of the US online, <https://www.cia.gov/redirects/factbookredirect.html>.

Kong governmental elites and Guangdong political elite groups (Sit & yang 1997, So 1995).

The sub-regional integration of Hong Kong and the Pearl River Delta of Guangdong province began in the early 1980s. At that time, the integration and the relation is called Hong Kong-Guangdong link (Kwok & Ames 1995) or Hong Kong-Macau-Guangdong link if Macau is also regarded as a member of this integration, while the sub-regional project of the Greater Pearl River Delta (GPRD) has not yet been emerged before 1997 (Yu 2004).

In the later 1970s, China has undergone a significant national structural change. The death of Chinese revolutionist leader Mao Zedong and the replacement of a technocrat leader Deng Xiaoping triggered a political-economic change in China. Since 1978 Deng and his political alliances, in response to the internal change of political leadership and global economic structure of free trade, have launched a post-Maoist path-dependent economic reform in China and adopted the Open-Door policy to allow part of coastal region in China such as the Pearl River Delta (PRD) of Guangdong province to open to foreign capitals. Economic reform was first took place in the Pearl River Delta of Guangdong province and other coastal areas because they are closed to the outside world such as Hong Kong and Taiwan and they are distant from the political center of China which minimized potential threat to the political regime (Cheung 1998a, Sung 2005, Yan 1997).

Form the perspective of China's political-economic structure, two features of the center and local relation were evidently reflected in the development of the PRD.

Firstly, China's central government has implemented the policy of decentralization in the PRD. China's center has selectively delegated power of decision making on economic issues to local governments and the degree of decentralization is unevenly implemented in different areas of China. Coastal region like the PRD has benefited a higher degree of decentralization from the central government because the central government has implemented the "*favor-the-rich-regional-development-strategy*" and granted preferential treatment toward the coastal region such as the establishment of the special economic zones (SEZs) of Shenzhen and Zhuhai in Guangdong province and allow them to charge a relative low corporate tax rate at 15% (Yang 1997: 117). Also, legislative power is delegated to local people's congress in special economic zone such as Shenzhen and Zhuhai by the National People's Congress since 1990s (Saich 2004:142). During this period of time, the centre served just as a facilitator of the development the Pearl River Delta and a high autonomy is granted to Guangdong province to carry out its economic reform. This allowed the PRD to possess a very favorable environment to carry out partial economic liberalization.

Secondly, the center still regulated the province via appointment of political leadership. In the 1980s, the leadership of Guangdong province, headed by Ye Xuanping⁷ was very powerful and had a record of not following the order of the central government. The central government suppressed this Guangdong localism by promoting Ye Xuanping to the vice-chairman of the National People's Political Consultative Conference of the central government at Beijing in order to remove him from the office in Guangdong province (Cheung 1998a).

⁷ Ye Xuanping is the son of Chinese Communist Revolutionary Marshal Ye Jianying who was a highly influential figure in Chinese communist party before and after Mao Zedong's death. Refer to Gao (1999).

Meanwhile, as Hong Kong's economy was growing, it began to face a problem of increasing production cost in its manufacturing industry, which was Hong Kong's core industry. Hong Kong economic sectors, in response to the internal economic problem of increasing cost of production, take advantage of the opening up in the PRD and move the manufacturing factories to the PRD for the reason of low cost in land and labor and abundance in agricultural resources, while they still remain the back office in Hong Kong for hi-technology design, business services, logistics, export etc (Sit & yang 1997, Lin 1997)..

Therefore, economic agents in Hong Kong and governmental elite agents in Guangdong can complement with each other and come up with a mode of integration between Hong Kong and the PRD which has been widely regarded as "Front Shop and Back Factory". As back factory, Hong Kong capitals invest in the PRD, cooperate with local government and enterprises in the PRD, and set up factories there for production in manufacturing industry. As front shop, Hong Kong enterprises export the goods produced in the PRD overseas. Hong Kong has benefited from the cheap labor and low land cost in the PRD, while the PRD has gained from the foreign direct investment (FDI) from Hong Kong for its development. Within this framework of "Front Shop and Back Factory", on the one hand, there has been a massive relocation of labor-intensive and low technology manufacturing from Hong Kong to the PRD since the 80s, which have led to a transformation of Hong Kong industry from secondary industry to tertiary industry. On the other hand, the PRD has taken advantage of this opportunity for advancement by means of its strength in abundant human, land and agricultural resource and its proximity to Hong Kong. (So & Kwok 1995) This is a form of regional and hierarchical division of labor and cross-border

production network. It is reported that Hong Kong manufacturers employed about 11 million workers in Guangdong in 2001 (Sung 2005). Hong Kong has been served as economic core and PRD and as periphery in their economic relation.

Macau has also developed with the PRD this kind of economic model of “front shop and back factory”, but the scale and influence is relatively insignificant because Macau has a much smaller economy comparing Hong Kong and Macau’s core industry is not manufacturing but gambling (Su 2004).

From the perspective of regionalism, the economic structure of the integration of Hong Kong and the PRD in Guangdong province is also regarded as a bottom-up sub-regionalization depending on local initiative from local government and enterprises in The GPRD (Breslin 2000, Lin 1996). Sit and Yang (1997) illustrated the dynamic pattern of development within the PRD. They note that growth has not been concentrated in major city in the PRD, rather small cities and counties have been the major site for growth and industry burgeoning. It is due to the social character of foreign direct investment (FDI), which are important force for the PRD urbanization and which mainly comes from Hong Kong and Macau. FDI have spared along the area closed to the border of Hong Kong and Macau. Due to proximity, FDI has not been focused on major cities like Guangzhou, which is the capital city of Guangdong province. Therefore, the leadership of Guangzhou as the regional core has been declined.

The integration of Hong Kong and the PRD as an economic entity has not been a formal and institutionalized region. There has been a lack of political coordination

among the economic region. Before 1997, Hong Kong was a British colony and did not belong to China's sovereignty rule and China's central government had no right to regulate Hong Kong's affairs. When China's center had to coordinate with Hong Kong, it would coordinate with Britain, the colonizer of Hong Kong because China's central government would not regard Hong Kong having an equal status as the China's central government (So 2002). Also, the colonial government of Hong Kong has adopted a "Fortress Hong Kong" (So 2002:297) approach to prevent itself from forming close linkage with Guangdong province. The colonial government even had prohibited civil servants to travel to mainland China until the early 1980s (Sung 2005:49). Hong Kong colonial government also has had a tendency to look down on Guangdong government because the former is comparatively much more developed than the latter. This complex relation between Hong Kong and Guangdong and Beijing is best described as "Hong Kong as the socioeconomic center of Guangdong but as the Political Periphery of Beijing" (So & Kwok 1995).

Hong Kong colonial government is generally passive towards Hong Kong's economic integration with China and has launched limited pro-active policy to facilitate the integration before 1997 (Sung 2005:48-49). Therefore, there has been rare political linkage or coordination between the China's Central or Guangdong government with Hong Kong government. The integration of the cross-border economic region has been more a bottom-up regionalization process (Gamble & Payne 1996) with initiative enterprises from Hong Kong and Macau and local government and enterprises from the PRD (Lin 1997). In the economic region, Hong Kong economic actors are more powerful as FDI coming from Hong Kong determine the development of PRD and affect the spatial development of PRD (Shen et al. 2000).

The lack of political coordination between Hong Kong and Guangdong and the localism within Guangdong province have hindered further development of the economic region and hence have led to poor regional planning, negative competition and a waste of resources. For example, four international airport (Hong Kong, Macau, Guangzhou, Shenzhen) and one large scale Zhuhai Airport which originally is designed to be international airport were built in the sub-region in the past few years which clearly shows a duplicate of resources (Sung 2005).

The integration of the economic region has boosted an economic growth to both sides of the region and significantly contributed to the development of the fast-growing economy in China. From 1979-2002, Hong Kong have made a cumulative US \$373 billion in contracted investment in mainland China, which is more than 45% of the total US\$878 billion contacted in that period. After the reform, now, Guangdong Province had the largest GDP and the second highest GDP per capita among the provinces in the Chinese mainland. The PRD is regarded today as one of the three major “engines of growth” economic regions in China, in addition to Yangtze Delta and Beijing-Tianjing region. If the economic region of Hong Kong and the PRD were a country, it would rank the 16th largest economy and 10th largest exporting country in the world in 2002 (Enright et la. 2005).

Overall, most parties involved gained from the economic structure in this period of time. All parties have experienced economic growth, with the central government, Guangdong, Shenzhen and Hong Kong gained more from this economic structure. Chinese central government, with the experiences and help of the successful

economic reform in the PRD, has been able to further implement economic reform in larger degree and in more regions within China. Hong Kong has experienced rapid economic growth and has been able to develop its tertiary industry after many of its manufacturing industry moved to mainland China. Guangdong has become a leading province among China due to its economic success and Shenzhen has transformed from a almost unknown city to one of the most important and wealthiest city in China due to its geographical proximity to Hong Kong. Guangzhou has gained relatively less and threatened to lose its status of economic core in Guangdong province to Shenzhen due to its relative long distant from Hong Kong. Macau has not gained significantly and directly from this economic model because manufacturing is not its core industry, but the economic growth in Hong Kong also benefited Macau because Macau's core industry, entertainment industry, depends heavily on Hong Kong people. Although Zhuahi was established as SEZs at the same time as Shenzhen, it did not shared a comparable economic development as Shenzhen did because Zhuhai is situated in the western side of the PRD and it has proximity with Macau but far away from Hong Kong, the economic core in the sub-region (Yu 2004:145-147).

3.2 A period of break between 1997 and 2001

The political transition of Hong Kong in 1997 triggered a period of break in the developmental trajectory of the GPRD because there is a change of political structure. The break has lasted from 1997 to 2001. It was a period of unsettled political structure in the GPRD.

On July 1st 1997, there was a transfer of sovereignty over Hong Kong from Britain to People's Republic of China (PRC). Thereafter the status of Hong Kong has transformed from a British colonial city to a special administrative region of PRC. As a special administrative region of China, the status of Hong Kong is significantly different from other sub-national governments in China. An innovative political system, "One country, two systems" has applied to Hong Kong in accordance to the Sino-British Joint Declaration signed by Britain and PRC in 1984. "One country, two systems" means that within one country China, Hong Kong can continue to practice capitalist system for fifty years even though socialist system is currently in practice in mainland China. Under this framework of "One country, two systems", Hong Kong maintains a highly autonomous status, especially in making decision concerning economic affairs⁸ and retains its custom jurisdiction after 1997. Due to this special system, China's central government cannot regulate Hong Kong as if it regulates other sub-national governments like Guangdong government (Wang 2000).

Macau is a city located next to Hong Kong and the PRD. It shares a similar status as Hong Kong and was once a Portuguese colonial city and has reunified with mainland China as a special administrative region under the framework of "one country, two systems" in 1999 (Su 2004). It is regarded as part of the sub-region with a relatively peripheral role due to its small size of economy.

After the reunification in 1997, a new concept, the Greater Pearl River Delta, has been gradually formulated to denote the economic region encompassing Hong Kong Special Administration Region (HKSAR) and Macau Special Administration Region

⁸ Many international organizations accept Hong Kong as a independent entity of mainland China, especially in economic arena, for example Hong Kong is an independent member in WTO.

(MSAR) and the Pearl River Delta (PRD) of Guangdong province. Due to the unprecedented framework of “one country, two systems”, the form of political relation of the GPRD after 1997 has not been definite and has been subjected to how the involving governments encompassing the Centre, Guangdong provincial and prefecture governments, and the two SAR governments have interacted with each other and perceived the political order of the sub-region themselves.

After the reunification of Hong Kong and mainland China in 1997, it was expected that a closer integration between Hong Kong and Guangdong would occur (Kwok & So 1995). But, in reality, the progress of political cooperation and coordination of the GPRD hasn't had much improvement during the first four years after the reunification because the political relation of the GPRD has remained under consolidation and both Hong Kong and the central government have not taken action to fasten the integration.

China's central government has constrained itself to have intervention in the affair concerning Hong Kong due to the respect of “one country, two systems”⁹, but China has maintained its control over Hong Kong affaire via the influence of election of appointment of political leadership (Shen 2004, Wang 2002). Although China's communist party system and the party personnel appointment system has not been directly extended to Hong Kong SAR, China's centre has kept a regulation over Hong Kong affair via the manipulation of the election of the Chief Executive of Hong Kong in order to choose the political leader in Hong Kong. The first Chief Executive Tung Chee-hwa was elected by an electoral college of 400 members which was manipulated by China's central government. He is widely regarded as the chosen

⁹ Refer to *Mingpao* February 14, 2004.

official by China's central government¹⁰. However, apart from the regulation through the appointment of the political leader of Hong Kong, China's political center has constrained itself to have intervention in the internal affairs of Hong Kong due to the respect of "one country, two systems". In term of the integration of the GPRD, the central government has followed its policy of decentralization and did not directly involve in the coordination between Hong Kong SAR government and Guangdong governments.

However, the Chief executive of Hong Kong Tung Chee-hwa chosen by the China's central government was unable to speed up the political coordination of the GRPD until 2001- 2002 because he lacked the power to fully control the policy of Hong Kong government and the determination to further economically integrate with the PRD¹¹ (Shen 2004). Within Hong Kong, there was a reconfiguration of political relation after the political transition. During the first four years after the reunification of Hong Kong, political and economic elites in Hong Kong have not had a consensus on whether to have further economic integration with the PRD and mainland China at large. Shen (2004) argues that there were four groups of elite. Nationalist political group and pro-integration economic group argued for quicker integration with the PRD because the former has a political stance rooted in close relation with mainland China and the latter are economic sector who can gain profits by further economic integration with mainland China. Another two groups are pro-distancing political group and economic group of property developers. The former group was worried that further economic integration with mainland China would trim the distinctiveness of

¹⁰ Refer to "Highest Honor' A landslide vaults Tung Chee Hwa into the 1997 leader's hot seat", *Asiaweek*, December 20, 1996, Also Wang (2002: 209).

¹¹ Also refer to "Forging closer links will not erode autonomy, says Tung" *South China Morning Post*, January 10, 2003.

Hong Kong and blur the line of “One country, two systems”, while the later group was worried that further integration with mainland China would affect the property prices in Hong Kong which is their major source of income¹². At that time, number two of the Hong Kong SAR government, Anson Chan, a former civil servant of colonial government was a stronger opposition voice of further integration¹³ and under her leadership of Hong Kong government, the political coordination of the GPRD hasn’t had much improvement although some joint conference between the two government has been set up such as the “Hong Kong-Guangdong Cooperation Joint Conference”.

From the side of Guangdong provinces, China’s political center has had continued to follow the strategy of decentralization to give Guangdong governments autonomy and used cadre management system to regulate it. In 1997 to 1999 during the Asian Financial Crisis, Li Changchun and Wang Qishan were allocated by the central government as Party Secretary and vice governor respectively in Guangdong to deal with the crisis. (Ting 2000, Yang 2000) Also policy of decentralization has still applied to Guangdong and the issue regarding how to coordinate with Hong Kong left to the hand of Guangdong government itself¹⁴.

¹² In 2001, there was a long debate in Hong Kong on whether to implement 24 hours crossing of the border between Hong Kong and Shenzhen, which was regarded as an important step of further integration of the GPRD. But this proposal was strongly opposed by Edmund Ho, the leader of property developer in Hong Kong due the concern about its effect on Hong Kong’s property price. *South China Morning Post* 24 October 2001 p.7 & 27 November 2001 p.14.

¹³ Anson Chan has written an article in Financial Times, UK on July 1st 2002 with a title “Beware of Blurring the Line” to argue that Hong Kong should keep distance from further integration with mainland china. *Wen Wei Pao* 3 July 2002.

¹⁴ Refer to *South China Morning Post*, “Hong Kong accused of pushing too hard for bridge”, December 19, 2002.

Guangdong had an eagerness to cooperate more with Hong Kong and to accelerate the integration because Guangdong would like to benefit from Hong Kong's capital, technology and business know-how for its development. Governmental elite groups in the PRD, especially Shenzhen elite agent group, were expected to advance a closer political-economic linkages with Hong Kong, because Guangdong, especially Shenzhen, has began to lose its privileged policy over other provinces and cities in China when China further launched its economic reform (Yang 1997). Guangdong faced stiff competition from other sub-regions such as Yangtze Delta and its economic growth has been slowed down in mid-1990s (Cheung 2002). Guangdong province wanted to cooperate with Hong Kong to develop high-tech industry. However, Hong Kong government did not actively response to Guangdong's welcoming gesture in this period of time¹⁵. In the end, Guangdong decided to develop high tech industry on their own and they had had visible achievement (Cheung 2002).

Although Hong Kong has reunified with mainland China after 1997, during the first four years of reunification, there was limited improvement in the political coordination and integration of the GPRD. Although the Central government has regulated both Hong Kong and Guangdong province via political appointment but it has also given them autonomy to deal with the regional coordination issue themselves and there has been no signal that the central government had given significant pressure on political leaders of both governments to have further economic integration. The regulation of the central government is constraint due to the respect of "One country two systems" and the decentralization policy practiced in local governments. Although Guangdong province was eager to further cooperate with Hong Kong in the

¹⁵ *Mingpao* January 10, 2003.

integration of the GPRD, Hong Kong political and economic elites have not had come a consensus on whether and how to further economically integrate with the PRD, the integration progress of the GPRD was static in the period (Sung 2005:55).

Although the sovereignty over Hong Kong has been transformed to belong to China and Hong Kong has become a special administrative region of China after 1997, a unique political system “One country, two systems” has been implemented in Hong Kong (and in Macau after 1999) which gives Hong Kong a special status and high autonomy. Since this system is new in history, Hong Kong and different levels of government in mainland China were not clearly known how to handle the relation between Hong Kong and different government in the PRD under the political system “One country, Two system”. Since the governments involved in the GPRD were still searching the political order of the region in this period from 1997-2001, we regard this as a period of break in the developmental trajectory of the GPRD after 1997.

3.3 A new phase of development starting from 2002

Starting from 2002, the political relation of the GPRD has been consolidated. A new phase of stable economic and political structure has been achieved. Central government has altered its role and become a mild facilitator in the development of the GPRD. Both Hong Kong SAR government and Guangdong has taken an initiative to coordinate the integration of the region on a more equal basis. This political relation of the GPRD is comparable to the logic of the general center-local relation in China in the reform era. The center functions as a facilitator to practice principle of macro economic control and draft the direction of economic policy, and the locals

possess autonomy to coordinate with each others and to pursue economic development. In this period, the integration of the GPRD has achieved a steady improvement.

Within Hong Kong, the tension between the two camps on the issue of integration has been settled as the pro-integration camp won and a consensus of pro-integration is generated among Hong Kong society around the end of 2001 (Shen 2004). On the one hand, this is done by the increasing power of the pro-Beijing political elites, the resignation of the pro-distancing leader Anson Chan from her office in Hong Kong government¹⁶. On the other hand, the then economic recession in Hong Kong affected by global economic recession due to September 11 terrorist attack and the outburst of dot com bubble made Hong Kong in need of searching a way out to recover its economy and further economic integration with the PRD seemed to be the right choice (Sung 2005:187). In this period of time, Guangdong government's eagerness to coordinate with Hong Kong has been reduced but it still has an eagerness to cooperate with Hong Kong but on a more equal status¹⁷.

The central government has maintained its regulation of Hong Kong and Guangdong province political appointment. There are reshuffle of political leadership in both Hong Kong and Guangdong after the break. In Hong Kong, the first Chief Executive Tung Chee-hwa was forced to step down by the central government in 2004, due to his poor performance. His position has been replaced by his deputy Donald Tsang

¹⁶ "Hong Kong's Canary Flies", *Asiaweek*, January 26, 2001 Vol. 27 No.3

¹⁷ Refer to *South China Morning Post*, "Hong Kong almost ignored at Guangdong congress" January 14, 2003; *South China Morning Post*, "Guangzhou tells Hong Kong: don't stand in our way", January 17, 2003; *South China Morning Post*, "Hong Kong too greedy in trade talks: expert", march 11, 2003

who first served as acting Chief executive and later on he has been selected as the Chief Executive by an electoral college of 800 members which has been largely controlled by the central government¹⁸.

In the regulation of Guangdong province, the central government has appointed Zhang Dejiang in replacement of Li Changchun, as Committee Secretary of Guangdong Chinese Communist Party to lead the economic reform and regionalist project of the province. Zhang Dejiang, who has a good relation with Jiang, has a good record of heading regionalist project in Yangtze Delta as Committee Secretary of Zhejiang Chinese Communist Party before his term in Guangdong (Wu 2006).

Besides regulating Hong Kong and Guangdong province via political appointment, the centre has also altered its non-intervention role in the integration of the GRPD after the transition period. It has taken up a role as a mild facilitator in the integration of the GPRD, for example actively coordinating the project of the construction project of the Hong Kong-Zhuhai-Macau Bridge¹⁹. Also, the central government of China has signed a free trade agreement (FTA) with Hong Kong, called the “Mainland and Hong Kong Closer Economic Partnership Arrangement” (CEPA) in 2003, to facilitate trade between Hong Kong and the PRD, and between Hong Kong and mainland China at large by progressively reducing or eliminating tariffs and non-tariff barrier on substantially all the trade in goods between the two sides (Chiu 2006, Sung 2005).

¹⁸ “Donald Tsang Appointed Hong Kong Chief Executive” China’s official gateway to News and information. June 21, 2005. <http://www.china.org.cn/english/2005/Jun/132720.htm>

¹⁹ Refer to *South China Morning Post*, “Hopes rise for harmony in the delta” June 7, 2003; *South China Morning Post*, “Central government agency to back bridge”, June 7, 2003; and *Mingpao*, March 6, 2004.

Also, the centre has launched the “Individual Visit Scheme” in 2003 to progressively allow individual citizens from different parts of the mainland China to visit Hong Kong in order to boost Hong Kong tourism. This mobility of people facilitates the intergration of the GPRD (Sung 2005).

There are two reasons for the centre to have had this alternation of the center’s role in the GPRD integration. Firstly, the centre has recognized that the economic downturn and political conflict in Hong Kong since 1997 has been so severe that it has threatened the political stability of Hong Kong, which can be shown by the social cleavages in the debate of the ratification of Basic Law Article 23 during 2002 and 2003²⁰. Therefore, the center would like to alleviate the “problems” arising in Hong Kong by supporting Hong Kong’s economy via actively facilitating the economic integration of Hong Kong and the mainland China/PRD by granting Hong Kong preferential policy such as CEPA and Individual Visit Scheme²¹. Secondly China’s center has incorporated Hong Kong in its consideration of the overall national economic planning (Sung 2005).

China has entered WTO in late 2001 and the central government would like to use the experience of Hong Kong to prepare its entrance to WTO. WTO requires China to open its domestic market to foreign firms within a number of years. By signing CEPA with Hong Kong, the center allows Hong Kong firms to have an early access to China’s market before other foreign firms so that Hong Kong has a start-up privilege

²⁰ Refer to *South China Morning Post*, “Beijing has never been so worried about Hong Kong”, September 11, 2003.

²¹ Refer to “Hu, Wen Pledge Firm Support for HK Chief Executive”, *People’s Daily*, July 21, 2003.

against other foreign firms and China can test the impact of WTO to its domestic economy through an earlier liberalization to Hong Kong's capitals (Chiu 2006).

In this phase, Guangdong has achieved a good development and it has no longer satisfied with the developmental model of "front shop and back factory" in the 1990s and the unequal status in the region of the GPRD. Guangdong has sought to have an equal basis as Hong Kong in the coordination between the two parties. After the break, Guangdong has decreased its enthusiasm to further cooperate with Hong Kong. Guangdong still wants to integrate with Hong Kong but the integration is set on a more equal status (Cheung 2002). The economic capacity of Guangdong has been growing up and it is no longer unilaterally and heavily dependent on Hong Kong. In response to the economic competition with other sub-region in China and in response to the China's national agenda to further integrate regionally with ASEAN, Guangdong has taken an initiative to expand the sub-regional project of the GPRD to a project called Pan Pearl river delta (PPRD) which linking up nine southern provinces of China and two special administration regions of Hong Kong and Macau and serving as a platform to link with ASEAN under the framework AESAN Plus One (China) (Yu 2004). The economic structure of the GPRD is no longer "front shop, back factory". In a new economic structure of the GPRD, both Guangzhou and Hong Kong are core cities. Guangzhou is the core city heading the sub-regional project of the PPRD in mainland China and the PRD is able to take up a independent role as manufacturing center without a overwhelming reliance on Hong Kong's capital. Instead of helping the manufacturing industry in the PRD, Hong Kong serves a role of international hub of financial center and business service, which serve the economic activities in the PRD (Yu 2004).

The political relation of the GPRD in this phase is based on the coordination between Hong Kong SAR and Guangdong government on a more equal basis, with a mild facilitation by the central government. Thus, the pace and content of the integration of the region largely depends on how the governments on both sides behaved. Take the case of the proposal of the Hong Kong-Zhuhai-Macau Bridge as an example. This proposed bridge is a bridge connecting Hong Kong to western part of the PRD and is regarded as one of the most significant projects in the integration of the GPRD²². Although the central government has indicated a support to this proposal in 2002, the details and conditions of how to build the bridge have left to Hong Kong, Macau and Guangdong governments for coordination and decision making. The negotiation of the terms, conditions and finance among the three governments has not been smooth, and until now in the mid-2006 a decision on how and when to build the bridge has not been made²³. Although the political coordination has not been smooth, it has been started.

After a period of break, a new phase political economy of the GPRD has been settled. The central government has gained in this political-economic structure because it is able to exert larger influence both in the GPRD and in the PRD. Guangdong province has also gained because it can benefit from a closer economic integration with Hong Kong and assume a more equal status as Hong Kong in the sub-regional project. Also it has gained because it can assume a leadership role in the sub-regional project of the PPRD, which covers large area of China. The economic development of GPRD is

²² Refer to *Mingpao* July 18, 2003

²³ *South China Morning Post*, "If you want a bride, show us the money, Guangdong tells investors" January 15, 2003.

linked to PPRD and ASEAN, and this linkage is dependent of the regional political-economic project of the Chinese central government.

Guangzhou has gained in this political-economic structure because it has regained its role as the core city in the PRD. Shenzhen has not gained much from this structure and lost to Guangzhou in the competition of the core city of the PRD. Macau has gained because it received a lot of visitors from mainland China for blooming up its entertainment industry (Su 2004). Zhuhai is expecting to gain from the plan of the bridge connecting Hong Kong, Macau and Zhuhai, because it can attract more investment from Hong Kong. Hong Kong has gained from this structure because the economic integration with the PRD helps to recover its economy but Hong Kong has also lost its role as a dominating economic core in the sub-region.

Under this form of political relation, we could see there has been a steady improvement in the integration of the GPRD after 2002. For example, Hong Kong government has already begun to discuss with the central government the arrangement of CEPA in 2002 and the central government has stated to support the proposal of the Hong Kong-Zhuhai-Macau Bridge in 2002.

A new phase of stable political and economic structure in the GPRD has been attained since the beginning of 2002. There has been formal political linkage between Hong Kong/Macau and Guangdong to address sub-regional issues, for example the Hong Kong-Guangdong Cooperation Joint Conference which is attended by Chief Executive of Hong Kong and Governor of Guangdong²⁴. Hong Kong is no longer the

²⁴ "HK, Guangdong to push cooperation to higher level" *People's Daily Online*, May 22, 2004.

super economic core in the sub-region as PRD cities like Guangdong has also grown up in economical term. Both Hong Kong and Guangzhou are cores in the sub-region with different roles. Hong Kong is responsible for connecting the sub-region to the world with its international network and for contributing financial and business services. Guangzhou are responsible for leading the PRD in Guangdong, leading the PPRD project to take advantage of the connection with other provinces in PPRD and contributing the sub-regional economy by its manufacturing industry. In this new structure, there is a steady increase in the degree of sub-regional integration.

Chapter Four Evaluation of NIPE

By using the findings of the case study of the GPRD, we offer an evaluation of the theoretical approach of NIPE in its application. There are four strengths and three weaknesses with regard to the use of NIPE in this study. We begins with the strength first.

First of all, NIPE is able to offer a contextual and historical analysis of the GPRD instead of using some standard methods and generic model of economic integration to access the case. This can elucidate the complexity of the developmental trajectory of the GPRD and the constitution of the GPRD in the context of China's post-communist reform, East Asia regionalization, global trend for trade liberalization, industrial transition of Hong Kong from secondary industry to tertiary industry and political transition of Hong Kong and Macau. The change of the political economy of the GPRD has been socially embedded and contingent upon these historical contexts.

Secondly, as NIPE focuses on agents' responses, it can uncover the key elite agent groups who are responsible for leading the development of the GPRD and the political coordination among the elite agent groups before the sub-regional project is advanced. NIPE does not like mainstream IPE which takes the process of economic integration as given and simply attributes the result of regional integration to natural market force without considering the significance of individual agent groups' will in the process. For example, we are able to illustrate the political conflict between the pro-integration camp and pro-distancing camp in Hong Kong soon after the political change in 1997

and the political consideration of Hong Kong colonial government for distancing Chinese government.

Thirdly, as NIPE recognizes the interdependence of global, regional and domestic political economy in this post-cold war era. It focuses on multiple levels of structural change in the analysis of the GPRD, so that it can offer a comprehensive study of how the international and regional context influences the sub-regional project to take shape in the GPRD. As we have discussed, the developmental path of the GPRD is dependent on global, regional, national, and local structural change. For example, the national structural change generated by China's adoption of open door policy in 1978, the regional context characterized by China's competition for East Asian regional project in the 80s and 90s (Greater China project) and in 2000s (ASEAN plus China and PPRD), the global structural pressure for China to enter WTO all have contributed to the political economy of the GPRD along its historical path.

Fourthly, the use of Peter Preston's classical European tradition of social theorizing of change is able complement the weakness of NIPE in theorizing change of the GPRD. The elucidation of historical change of the political economy of the GPRD is a key objective of this research work and the political transition of Hong Kong in 1997 is a significant event leading to a transformation of the political economy of the GPRD. By characterizing the trajectory into phase and break, classical European tradition of social theorizing offers a good strategy to interpret the change of the developmental pattern of the GPRD by dividing the trajectory into three periods of time.

The weaknesses of NIPE are mainly related to the vagueness of its concepts. First of all, it is difficult to identify the key agent groups. In this study, we regard that political and economic elite groups are responsible for leading the political-economic project of the GPRD. But the problem is how to distinguish the elite agent groups from the others. For example, in Hong Kong, do small and medium sized enterprises (SMEs) belong to economic elite agent group of Hong Kong? Or should we just include big corporations in the economic elite groups in Hong Kong? SMEs are not as powerful as big corporations therefore it seems that they are not as “elite” as those big corporations, but SMEs have played a key role in investing in the PRD. In this study, we include SMEs in the economic elite groups of Hong Kong. Also, we have only included governments of Guangzhou, Shenzhen and Zhuhai from the PRD as agency in our analysis. Should we also include governments from other cities in the PRD as agency in our analysis because they also have roles in the development of the sub-region although their roles are relatively less significant than the three city governments that we have chosen in this study?

Also, in our analysis, we disaggregate the elite agent groups of Hong Kong into four groups but we do not disaggregate elite agent group of Guangdong, Guangzhou and central government etc., and regard each of them as a unified grouping, for the sake of convenience in analysis. But as there are variances within elite agent groups of Hong Kong, there are also variances within each of the above groupings. Should we also disaggregate these groupings, for example disaggregating Guangdong elite agent group into Guangdong political sector and Guangdong economic sector and then identifying their respective interests and actions? As there must be an internal

dynamic with every grouping that we can choose, how far should we (not) disaggregate them?

Another weakness of NIPE is the vagueness of the concept “structure”. In this study, we characterize four levels of structures for analysis, namely global, regional, national and local. The use of four levels of structures for analysis can generate a more comprehensive picture but at the same time makes the scope of analysis too broad. It’s difficult to judge which structural change is more influential than others. It also makes the analysis too complicated.

Moreover, NIPE has a belief in holistic analysis and there is a claim that there are four dimensions of structures in a given society, namely political, economic, cultural and social. NIPE believes that each dimension of structure is interdependent with each other. While NIPE focuses more on the study of political and economic structure, can we ignore the social and cultural structures in our analysis if each dimension of structures is interdependent and if we really want to conduct a holistic analysis? In the case of the GPRD, we just focus on political and economic structure in the analysis of the integration of the sub-region, but indeed cultural and social dimension of structural change has had influences in the integration project of the GPRD. In term of cultural structures, the central governments of PRC launched a cultural project of “Greater China” in the sub-region and in Taiwan in order to include Hong Kong, Macau and Taiwan under its influence in 1980s and 1990s. After 1997, pro-Beijing camp in Hong Kong has also tried to build up a Chinese national identity among Hong Kong people in order to facilitate the integration between Hong Kong and mainland

China at large²⁵. In term of social dimension, increasing number of migrants from mainland to Hong Kong after 1997 has provided an excess supply of cheap labor to Hong Kong, which has indirectly affected the economy of Hong Kong, but the increasing flow of migration and tourists between Hong Kong/Macau and Guangdong after 1997 has inevitably enhanced the sub-regional integration. We can see that the social and cultural dimension of structural changes also have effect on the political economy of the GPRD, but to include all four dimensions of structures in the analysis will make the analysis, again, too complicated and may risk over-generalizing.

The third weakness is the vagueness of the classical European tradition of social theorizing. Although this social theorizing can help to interpret the change of the GPRD by using the concepts of phase and break, there is vagueness in defining what is counted as phase and break. Political-economic structure has two dimensions, namely political structure and economic structure. Sometimes, the change of these two structures are not in phase, then when there is an instability in one structure but stability in another structure in a particular period of time, should we count it as phase or break? In the case of the GPRD, we interpret that the period from 1997 to 2001 is a period of break but actually the economic structure of the GPRD is quite stable and it is the political structure having disruption at that period of time. Therefore it may not be perfectly accurate to characterize 1997 to 2001 as a period of break.

Then how should we define clearly the concept of agency and structure, as well as phase and break, in our analysis? We believe that part of the reasons for the vagueness of theses concepts used in NIPE is due to the emphasis of NIPE on contextual analysis.

²⁵ For example, the central government of PRC sent the winners of Gold medal in Olympic Game to Hong Kong for guest performance in order to make Hong Kong people proud of their nation. Refer to: "Gold medallist delegation visits HK", *People's Daily Online*, September 06, 2004.

The understanding and the use of the concepts, i.e. agency and structure, maybe different in different context each time. But the vagueness of the concepts will make NIPE analysis difficult and vague. There are not enough guidelines for students of NIPE to follow in doing NIPE analysis. If the concepts remain unclear and if the analysis is too board or too complicated, the readers of the study may not be able to comprehend it. More discussions on the conceptualization and use of agency and structure are needed if NIPE want to be developed into a mature theoretical approach with a larger size of petitioners and audience.

Chapter Five Conclusion

In the beginning of the thesis, we have asked two key questions concerning the change of the political economy of the GPRD after 1997. First is the effect of the change of sovereignty over Hong Kong happened in 1997 on the political economy of the GPRD. Second is the role of the central government of the PRC on the sub-regional of the GPRD. We can highlight the findings from the case study in order to response to these questions.

Firstly, the political transition in 1997 did not bring immediate and a large scale of change to the development of the GPRD. The economic linkage between Hong Kong and the PRD has been grown slowly without significant improvement. Political contact between Guangdong and Hong Kong also did not have significant improvement during the first three to four years after the political transition. This is contrary to what some people had expected before 1997 that an immediate acceleration of the integration process of the GPRD would take place. The reason behind is that the novel system implemented in Hong Kong “One country, Two system” has preserved the autonomous status of Hong Kong and it is too novel to a certain extent that all involved parties in the GPRD needed to take time to understand how to establish a proper political relation in the GPRD under this “One country, Two system”. The effect of the political transition on the integration process of the GPRD has only come four to five years after 1997 when the political linkage between Hong Kong and Guangdong began to take shape. The political-economic structure of “front shop, back factory” with limited political linkage between Hong Kong/Macau and the PRD in Guangdong GPRD, which existed before 1997, has gradually come to an end.

Because Guangdong and Guangzhou has been economically grown up and the PRD no longer needs to fully rely on the economic domination of Hong Kong in the sub-regional relation. Guangdong and Guangzhou seek for a more equal position in the new political economic model. Hong Kong, having experienced a few years of economic recession after 1997, has lost its sole economic domination in the sub-region. More political coordination between Hong Kong and Guangdong has been achieved after the break in 1997-2001 because the sovereignty of Hong Kong has been transferred to mainland China since 1997 and because the pro-distancing camp has lost out to the pro-integrating camp in Hong Kong. Now Hong Kong and Guangzhou are double cores in the sub-region and the role of Hong Kong is more concentrated on financial and business services and Guangdong is more concentrated on manufacturing industry.

Secondly, the central government did have a heavier involvement in the sub-regional project of the GPRD, especially after the break (1997-2001). But the involvement of the central government in the development of the GPRD are mainly either related to macro state policies, such as CEPA (related to China's entrance to WTO) and individual visit scheme of mainlanders to Hong Kong, or related to facilitating coordination between Guangdong province and Hong Kong for example in the project of Hong Kong-Zhuhai-Macau bridge. The central government restrains itself in handling issues relating to Hong Kong. Local political and economic sectors in the GPRD are still taking a major role in leading the direction of developmental path of the sub-region. In the spectrum from sub-regionalism to sub-regionalization, the GPRD still lies on the side of sub-regionalization after 1997 although it shifts to be

more state-led because there has been more coordination among different parties of the GPRD from the central state.

In assessing the theoretical approach of NIPE with the case study of the GPRD, we find that there are both strengths and weaknesses in the application of this theoretical approach. The strength of NIPE includes its ability to offer a historical and contextual analysis to elucidate the complexity of the development, to uncover key players who are responsible for leading the development, to locate the GPRD in multiple level of international and domestic system for analysis and to theorize the change of the developmental pattern of the GPRD by use of the concepts of phase and break.

The weakness of NIPE is the vagueness of its concepts of agency and structure, and phase and break. There is a difficulty in identifying and distinguishing clearly who should be included as the elite agent groups in leading the development. Also, the use of multiple levels of international and domestic structures for analysis makes the analysis too unclear and complicated. It's also difficult to do a truly holistic analysis by incorporating all dimensions of structures encompassing political, economic, social and cultural because it's too board and complicated. The concept of phase and break in classical European tradition of social theorizing is vague because it has a problem of definition when the period of continuity and discontinuity between political structure and economic structure of the GPRD is not in phase.

To further develop the theoretical approach of NIPE, we have to address the above problems. More discussions on how to conceptualize these concepts and more applications of NIPE on case studies are needed in order to increase the size of its

practitioners and audience and make NIPE be able to offer more complete and sophisticated analyses.

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