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Source:

CEU Political Science Journal (CEU Political Science Journal), issue: 02 / 2008, pages: 230-251, on www.ceeol.com.

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THE EVOLUTION OF LOCAL STATE CAPACITY AND INSTITUTIONAL CHANGE IN EAST ASIAN MEGAURBAN REGIONS: THE CASE OF THE PEARL RIVER DELTA, CHINA.

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Abstract

This paper aims to link the literature of institutional change and capacity building with issues of governability in megaurban and transitional contexts. It explores the causes and effects of intercity competition in the Chinese Pearl River Delta. While positive effects on economic growth and negative impacts on public spending have been acknowledged in the literature, the capacity building aspect has been largely ignored so far.

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

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

1. Introduction

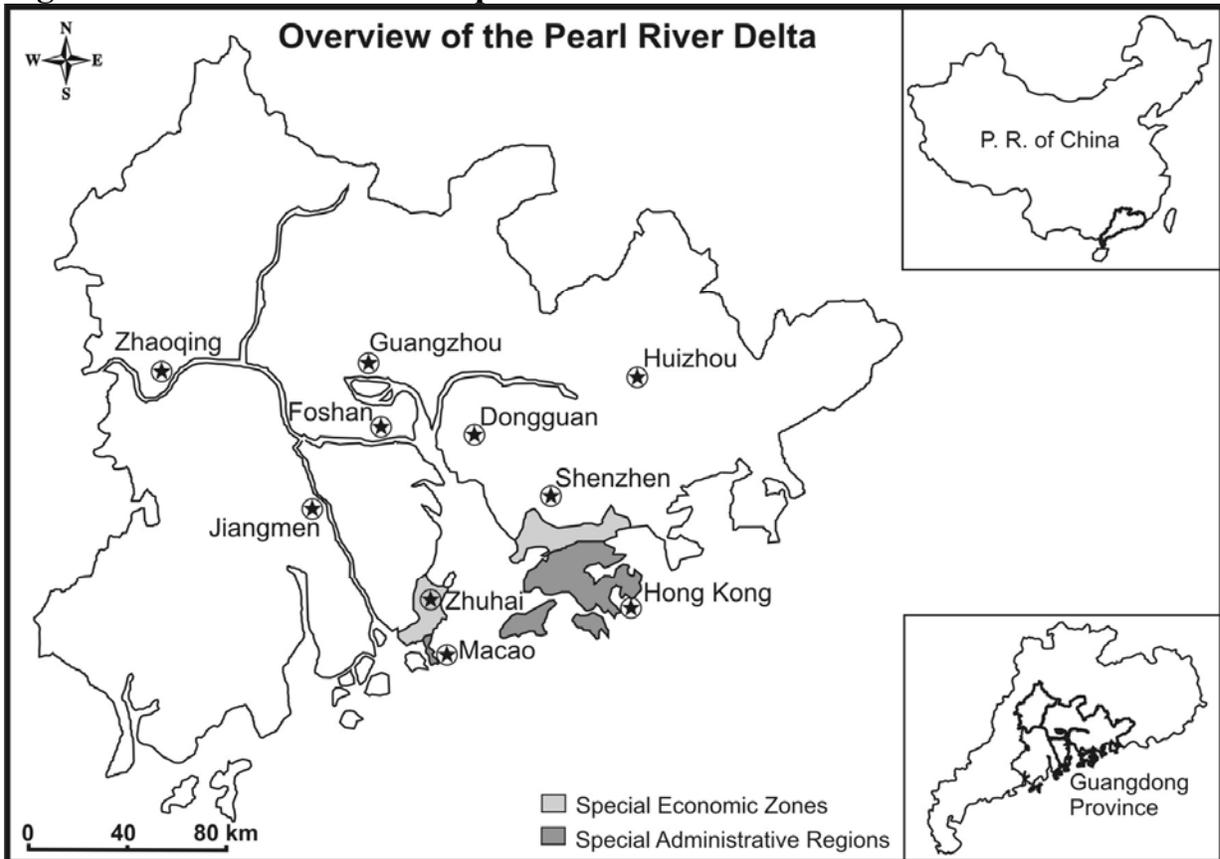
China's distinct path to transition has famously been described as "crossing the river by groping for stones" by Deng Xiaoping on the outset of reform in 1978. It is characterized by a gradual and experimental approach to marketization under close supervision of the authoritarian central government. Thereby, it differs widely in its transitional development from the former USSR and the Central and Eastern European countries that experienced a political collapse and economic shock therapy at the same time.

However, the other river bank remains foggy even today. That is, the direction of reform was variously labelled as socialist with Chinese characteristics, market socialism etc. and is far from

being complete. Despite its impressive economic growth over the past thirty years, China is also far from becoming a Western-style democratic country

with a market economy in the near future. The success of the Chinese path to transition

Figure 1: Pearl River Delta Map



is all the more astonishing, as neither its institutional features resembled best-practice examples of the developed countries, nor were any of the early reforms advocated by economists.

At the very forefront of China's transition is the Pearl River Delta (PRD) in the Guangdong Province. In the course of reform it grew into the highly dynamic polycentric megaurban region with variously estimated some 30 to 50 million inhabitants, many of them migrant or so-called floating population. Adjacent to the Special Administrative Regions Hong Kong

and Macao, a single urban corridor stretches from Shenzhen and Zhuhai in the south, encompassing Dongguan, Foshan, Zhongshan, Jiangmen, several districts of Huizhou and Zhaoqing, to Guangzhou in the north (Figure 1). If urban data were collected in a different way, the PRD would easily rank among the world's top ten largest cities. In 2000, the import and export transactions between the PRD and the world reached those of

Table 1: Pearl River Delta Main Indicators ²

	Registered Residents in 10000, 2006 (migrant population not included)	GDP, (RMB 100 mill.)	2006Contracted Foreign Capital 2006 (USD 100 mill.)	Foreign Capital,Actually Utilized, 2006 (USD 100 mill.)	Foreign Capital Utilized, 2005 (USD 100 mill., provincial data)
Dongguan	168,31	2626,51	24,85	18,08	
Foshan	358,06	2928,17	17,72	11,37	
Guangzhou	625,33	5643,95	42,32	27,28	
Huizhou	118,26	588,49	10,76	8,48	
Jiangmen	134,70	485,68	5,57	3,31	
Shenzhen	196,83	5813,56	52,64	32,69	
Zhaoqing	49,34	163,03	2,83	1,13	
Zhuhai	92,63	747,71	24,67	8,24	
<i>PRD total</i>	1743,46	18997,1	181,36	110,58	4280,02
CN total 2005	130756	183956,1			14219,1
PRD/CN	1,3%	10,3%			30,1%

² Sources: Guangdong Statistics Bureau, *Guangdong Statistical Yearbook 2007* (Beijing: China Statistics Press, 2007), National Bureau of Statistics of China (Beijing: National Bureau of Statistics of China, 2006) [database on-line]; available at <http://stats.gov.cn/english/>. Calculations by the authors.

Russia.¹ The PRD accounts for more than 10 percent of China's GDP, Guangdong's foreign trade volume comprised 428 billion US\$ in 2005, accounting for more than 30 percent of the country's (Table 1).^{2,3}

As other megaurban regions in developing and transitional countries, the PRD faces huge challenges in terms of mushrooming informal economic activities, traffic congestion and inadequate infrastructure, environmental pollution, a high influx of migrants, crime as well as a rising spatial fragmentation and social polarization. Highly dynamic, simultaneous developments on a huge spatial and demographic scale threaten the governability of megaurban regions in general and the PRD in particular. Nevertheless, the Pearl River Delta does not quite fit into the negative picture often associated with megacities: The ungovernable, soiled molochs where the calamities of globalization accumulate and are most visible. The scale of issues seems comparatively modest in the Pearl River Delta. Also, compared to other city regions in China, the Pearl River Delta is well off: Four cities in the Pearl River Delta rank among the Top 10 Chinese cities in terms of quality of life: Shenzhen (1st), Dongguan (2nd), Zhuhai (6th) and Guangzhou (9th).⁴ Obviously,

¹Huikang Jin, *Aspects of Guangdong Province* (Guangzhou: Cartographic Publishing House of Guangdong Province, 2007).

³ Wang Rendai, "Urban Life Has Improved but More Needs to Be Done," *China Economist*, May 2006, 127.

the challenges associated with megaurban developments are managed with relative success - certainly an indication of a comparatively high governing capacity.

The goal of this paper is to demonstrate how an unusual degree of governing capacity evolved in the Pearl River Delta in contrast to other megaurban regions in transitional countries and the developing world. The authors find that cooperation among its jurisdictions does not play any significant role, despite efforts on provincial as well as central state level and although advocated by planners. Instead, capacity building results from experimental learning approaches and a heavily criticized feature of the PRD: intercity competition. This is all the more surprising, as recent theoretical advancements in political science institutional theory argued, that these mechanisms generally suffer from severe limitations in the political world. Thus, they cannot easily be assumed to enhance institutional efficiency and effectiveness and, thereby, promote capacity-building.

The strong competition among the delta's jurisdictional (sub-) units at all levels has recently been subject to forceful critique, especially from the planning discipline. It is acclaimed to be responsible for the implementation of overly large-scale projects and the production of excess and redundant infrastructure, wasting capital in the face of soft budget constraints⁵. Many

⁴ Liu Junde, "Study on the Innovation in the Administrative Organization and Management of

authors therefore argue for more integrated and more comprehensive governance and planning. However, considering the enormous economic and demographic growth over the past 30 years, it may well be the case that what seems to be excess infrastructure now is just enough to meet the demands of continuing rapid economic development in the years to come.

More importantly in the context of this paper, the political dimension of inter-city competition seems to be comparatively under-researched and the implications on the institutional structure and its organizational counterpart – the capacity on local and regional level – largely ignored. After all, this institutional milieu created a rare instance in the political world: competition between institutions. The authors argue that as cities adopted to the competitive pressures after decentralization and fiscal reform, they seized the opportunities of an increased autonomy, regulatory power, and self-organization. They became what has been termed “entrepreneurial cities.”

the Metropolitan Area in Mainland China, with Special Reference to the Pearl River Delta," in *Resource Management, Urbanization and Governance in Hong Kong and the Zhujiang Delta*, ed. Kwan-yiu Wong and Jianfa Shen (Hong Kong: Chinese University Press, 2002), Jiang Xu and Anthony Gar-On Yeh, "City Repositioning and Competitiveness Building in Regional Development: New Development Strategies in Guangzhou, China," *International Journal of Urban and Regional Research* 29, no. 2 (2005).

First, the authors will briefly review the concept of governing capacity and the institutional change literature and discuss its implications for local state capacity. Then, the structural characteristics of the PRD within a transitional context, its distinct socio-cultural features will be portrayed and their influence on local state agency derived: the emergence of entrepreneurial cities and the impact of competition and learning on local state capacity building. Finally, the PRD local governments' entrepreneurial strategies will be illustrated by the example of Guangzhou. In conclusion, it is argued that local state capacities are built through pursuing entrepreneurial strategies. Further, these local state capacities compensate for a lack of higher level capacities and, thereby, increase the governability of megaurban regions.

Governing Capacity

Almost by definition, megaurban regions are plagued by issues of governability. Governing capacity can be seen as the ability to cope with these challenges: the governments' capacity to administer, make and enforce decisions with respect to the issues at hand. Painter and Pierre describe governing capacity as a triangle of administrative, state and policy capacity, drawing attention to the structural characteristics and resource stocks of a governing system. The flow of these stocks – that is, the ways in which they are channelled so as to be available when needed – is governed by

Table 2: Governing Capacities

	Indicators	Values/criteria	Support systems
Administrative capacity	Effective resource management	Economy Efficiency Responsibility Probity Equity	“Civil Service”(merit) systems Territorial organization and delegation Public expenditure management Audit and inspection
Policy capacity	Intelligent choice	Coherence Public-regardingness Credibility Decisiveness Resoluteness	Collective decision processes Planning and evaluation Information and analysis Coordination procedures
State capacity	Appropriate outcomes	Legitimacy Accountability Compliance Consent	Consensual elite formations Political intermediation structures Unified state coercive forces Implementation structures Consultative arrangements

particular needs and contingencies. They not only have to be created, stored and marshalled, but also put to use. Thus evidence of policy capacity can be gathered both from the analysis of the quality and quantity of institutional resources and from the success of specific outputs and outcomes.⁵

It should be noted that evidence does not mean exact measurement, as indicators and criteria (Table 2)⁶ for each corner of the triangle necessarily are subject to discussion and remain normative in the end. This is especially true when looking at non-Western countries in transition, which arguably cannot be measured the same way. Different political and socio-cultural preconditions, fragmented administrative structures, and an often incoherent institutional framework need to be taken into account. The

⁵ Martin Painter and Jon Pierre, "Unpacking Policy Capacity: Issues and Themes," in *Challenges to State Policy Capacity. Global Trends and Comparative Perspectives*, ed. Martin Painter and Jon Pierre (Basingstoke: Palgrave Macmillan, 2005), 3.

⁶ Painter and Pierre, "Unpacking Policy Capacity," 5.

indeterminant character and functions of individual institutions and organizations is a truly puzzling feature of the Chinese (local) state. For example, finding responsible and accountable administrative (sub-)units, e.g. to get necessary approvals or licences, is often and for varying reasons a frustrating endeavour, even for professionals such as business consultants. On the other hand, the speed in which infrastructure is being planned and built, or local policies are implemented and enforced in China, is often astonishing to Western observers. Rather than further discussing the pros and cons of measurements, the authors will instead focus on the mechanisms that promoted and/or restricted the state, or more accurately, the local state and city governments in building governing capacity. Therefore, it is necessary to take a closer look on the development of the local states' structural characteristics, that is, their institutional foundations. In the following, the authors will briefly review the respective literature on institutional change.

Institutional Theory

In the political science literature, three main theoretical approaches to institutions and institutional change can be distinguished: historical (or structural), cultural (or sociological) and rational choice (or new institutional economics).⁷ Historical institutionalism

is mainly concerned with the large scale structural, societal, economic and legal developments in the long-run and emphasize path dependencies and unintended consequences. Institutional change occurs at critical junctures followed by long periods of stability or incrementally.⁸

Sociological institutionalists generally employ a broader definition of institutions including wider cultural and symbolic patterns. Change occurs as long term evolution and/or in response to external influences, following a logic of appropriateness rather than instrumentality.⁹ The latter is often assumed in rational choice theory, where institutional change is assumed to be the outcome of action and calculus of rational and strategic actors within given constraints.

Other than earlier institutionalist thinking presumed, institutions are not

literature, respectively, see: Douglass Cecile North and Robert P. Thomas, *The Rise of the Western World: A New Economic History* (Cambridge: Cambridge University Press, 1973).

⁸ See, for example, Sven Steinmo, Kathleen Thelen, and Frank Longstreth, eds., *Structuring Politics: Historical Institutionalism in Comparative Analysis* (New York: Cambridge University Press, 1992), Kathleen Thelen, "Historical Institutionalism and Comparative Politics," *Annual Review of Political Science* 2 (1999), Paul Pierson, *Politics in Time. History, Institutions, and Social Analysis*. (Princeton: Princeton University Press, 2004).

⁹ John L. Campbell, "Institutional Analysis and the Role of Ideas in Political Economy," in *Rediscovering Institutions: The Organizational Basis of Politics*, ed. James March and Johan Olson (New York: Free Press, 1989).

⁷ For a more detailed review and comparison of the three approaches and institutional change

necessarily or automatically efficient.¹⁰ Instead, even in the most advanced countries, the actual institutional framework is “usually a mixed-bag”¹¹ of efficiency increasing and efficiency decreasing institutions. Functional rational choice approaches often explain the existence and form of institutions by their effects on and functions for (current) rational and strategic social actors. As Pierson cautioned in his award-winning article on the limits of design, the rational choice approach to institutional change has several limitations.¹² His critic targets loose functionalist accounts of institutional change. Functional approaches are often based on a crude translation of economic theoretical assumptions into political science theory. According to Pierson, for institutions to be truly functional, at least one of two hypothesis must prove to be true: Either institutional innovations need to be products of rational design or evolve through mechanisms of institutional enhancement, namely competition and learning. Rational design is limited by designers not acting instrumentally, the

problem of short time horizons and unanticipated effects.¹³

There is no reason to believe these limitations should not hold in the context of Chinese politics. Indeed, it may be assumed that the power plays in communism are even more prone to follow the logic of appropriateness rather than the strive for efficient institutions. Long-time effects are certainly no less heavily discounted by officials appointed for three to five years by the Communist Party than by their elected counterparts in Western democracies. Finally, unanticipated effects are probably even more likely to occur in the uncertainties of transitional processes.

Evolution through competition and learning are believed to compensate for these deficits, as they allow institutions to evolve into functional ones even though their designers are subject to these limitations. As in market settings, the competitive pressures of Adam Smith’s invisible hand would sort out effective and efficient institutions and organizational forms while the losers wither away. But again, the evolution of efficient institutions is often hampered in politics, because, other than in market settings, competition generally does not occur *between* institutions but *above*, e.g., between states in international relations, or *below* institutional level, as in elections.¹⁴ In addition, the complexity and ambiguity

¹⁰ Douglass Cecile North and Robert P. Thomas, *The Rise of the Western World: A New Economic History* (Cambridge: Cambridge University Press, 1973). North himself later abandoned this view in Douglass Cecile North, *Structure and Change in Economic History* (New York: Norton, 1981).

¹¹ Douglass Cecile North, *Institutions, Institutional Change, and Economic Performance*, *The Political Economy of Institutions and Decisions* (Cambridge & New York: Cambridge University Press, 1990), 64.

¹² Paul Pierson, "The Limits of Design: Explaining Institutional Origins and Change," *Governance: An Integrated Journal of Policy and Administration* 13, no. 4 (2000).

¹³ Pierson, "The Limits of Design," 477-86.

¹⁴ Pierson, "The Limits of Design," 488.

of the political world casts doubts on whether learning provides a reliable mechanism for institutional enhancement – a simplifying indicator such as market prices is thoroughly missed in politics. As the governing capacity criteria in the last chapter suggest, indicators for responsibility and accountability in the political world are much more complicated, complex, and sometimes contradictory. Moreover, in the context of megaurban regions in developing countries, highly dynamic and overlapping concurrent processes as described above impose additional difficulties on often unprepared, resource-lacking, fragmented, and all in all overtaxed governments and administrative units.

In conclusion, the analyst has to show, first, how and if mechanisms of competition and learning come in to play in political contexts, and, secondly, work out instrumentally in the face of specifiable constraints in the political arena of interest. This points to another level of institutional analysis: Institutions in general and urban governance in particular are both embedded in and constantly challenged by higher-level processes and specific cultural, geographical, and political multi-level settings over time. This is reflected in the different logics applied and approaches used in institutional theory. Several authors have therefore argued that the three theoretical approaches in institutionalism should be seen as complementary rather than rivals. Consequently, some efforts towards integration have been made.

Arguably the most prominent and promising advance among urban research scholars has been made by DiGaetano and Strom.¹⁵ They masterfully weave the three big theoretical threads into a single integrated framework for comparative urban research. Moreover, the framework captures the dynamic interrelationships between all three levels of analysis. In their words:

Structure sets the parameters of urban governance: Market forces and economic structures; national, regional, and international governing arrangements; and population migrations and demographic structures all establish the context of a city's politics. But explaining differences among otherwise structurally similarly situated cities requires an appreciation of cultural factors, which may vary even from city to city. And explaining change within cities requires an understanding of agency, how and why individuals act as they do, and what institutional and policy consequences follow from their action.¹⁶

In the following, applying DiGaetano and Strom's integrated framework, the authors are looking at the mechanisms in place that forged the institutional milieu and, respectively, the capacity of

¹⁵ Alan DiGaetano and Elizabeth Strom, "Comparative Urban Governance. An Integrated Approach," *Urban Affairs Review* 38, no. 3 (2003).

¹⁶ DiGaetano and Strom, "Comparative Urban Governance," 362.

the local state in the megaurban region in the Pearl River Delta.

The Pearl River Delta, China *Structural Parameters*

The contemporary Chinese state is far from being a monolithic entity. It has been characterized as fragmented authoritarianism.¹⁷ There are six layers of administrative hierarchy: national, provincial, prefecture, county, township, and village. A city resp. municipality can be provincial level, prefecture-, or county-level.¹⁸ Each of these layers has considerable regulatory power. The result is a shared governance structure that requires constant negotiations among different levels of government.

In the beginning of the reform course the central government started to devolve authority to lower local levels of government – not least to get support for the reform course.¹⁹ Particularly, local governments received authority over and responsibility for state fixed investment (industry and

infrastructure), business and tax policies and control over about three quarters of state industrial firms. At about the same time, the fiscal contracting system was introduced. Instead of a unified system of collecting and redistributing government revenues, contracts were bargained out between local and higher level governments. Local governments could now retain higher marginal shares of up to 100 percent plus extra and off budget funds. Thereby, the new system encouraged and rewarded local governments for economic development, and created a vested interest in and support for the reform course.²⁰

Though the fiscal contracting system was replaced by a rule-based system due to several weaknesses as part of a series of reforms in 1994, it is still worth noting that fiscal contract incentives and decentralization aligned local governments' interests with market interests. Also, as local governments controlled most enterprises, a major source of their income, they became market actors themselves. Strong horizontal inter-jurisdictional competition was introduced – with profound implications for institutional change. For example, Li et al.²¹ formally elaborated and empirically tested the theory of Weingast and others on

¹⁷ Kenneth G. Lieberthal and David M. Lampton, eds., *Bureaucracy, Politics and Decision-Making in Post-Mao China* (Berkeley: Princeton University Press, 1992).

¹⁸ Note that the municipalities of Beijing, Chongqing, Shanghai and Tianjin are directly under central government control.

¹⁹ Susan L. Shirk, *The Political Logic of Economic Reform in China* (Berkeley, Los Angeles & Oxford: University of California Press, 1993), Gabriella Montinola, Yingyi Qian, and Barry R. Weingast, "Federalism, Chinese Style: The Political Basis for Economic Success in China," *World Politics* 48, no. 1 (1995).

²⁰ Shirk, *The Political Logic of Economic Reform in China*, 152

²¹ Shaomin Li, Shuhe Li, and Weiyang Zhang, "The Road to Capitalism: Competition and Institutional Change in China," *Journal of Comparative Economics* 28, no. 2 (2000).

“market-preserving federalism.”²² They show how cross-regional competition after decentralization induced privatization of state-owned enterprises despite the lack of a private ownership regulations.

After fiscal reform, local governments were largely dependent on revenues produced by their own enterprises. To increase revenue, the efficiency of their companies had to be improved and for that purpose had to be privatized. The process was self-reinforcing: Both newly founded and privatized companies further intensified market competition. Privatization in China was not a priority of the central government at that time, nor uncontested within the Communist Party. It must thus be understood largely as an unintended consequence of decentralization and the devolution of power, especially the power to regulate and control companies to local governments.²³

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

²² Barry R. Weingast, "The Economic Role of Political Institutions. Market-Preserving Federalism and Economic Growth," *Journal of Law, Economics, and Organization* 11 (1995), Montinola, Qian, and Weingast, "Federalism, Chinese Style: The Political Basis for Economic Success in China."

²³ Li, Li, and Zhang, "The Road to Capitalism: Competition and Institutional Change in China."

Competition between regions consistently calls for innovative ideas from lower-level government. In the old planning system, bargaining with the superior official was almost the only way for one region to get ahead of another. Now, with much more freedom, entrepreneurship in the government is a critical factor in the competition between regions.²⁴

To be successful, knowledge about the behaviour of competing areas, and respective responsive and strategic arrangements had to be made. On the other hand, other issues of urban management, such as migrant workers' housing, were not, and could not, be treated with the same intensity. At a later stage, though, they were added to and/or incorporated in the overall municipal development strategies.

Another distinct feature of the Chinese path of transition is learning through (regional) experimentation. A prominent example is Special Development Zones which were implemented as investment and development areas, but often served as laboratories of institutional innovations, too. Prototype and exemplar for the construction of development zones were the four Special Economic Zones

²⁴ Yingyi Qian and Joseph Stiglitz, "Institutional Innovations and the Role of Government in Transition Economies: The Case of Guangdong Province of China," in *Reforming Asian Socialism: The Growth of Market Institutions*, ed. John McMillan and Barry Naughton (Ann Arbor: University of Michigan Press, 1996), 179.

(SEZ), set up in 1979, three of them in the Guangdong Province, with the Shenzhen and Zhuhai SEZ two in the PRD. The main objectives of the SEZs were at least fourfold:

- First, to test reforms in spatially confined, remote, and so far mostly undeveloped areas,
- second, to develop international cooperation and technological exchange,
- third, to attract and channel foreign direct investments (FDI), and, thereby and particularly in the case of the PRD, to make use of the large group of emigrants from the area - among them many successful business men in the Asian Tigers and elsewhere,
- and, finally, to use the proximity of and take a first step towards the integration of Hong Kong and Macao.²⁵

SEZs were the key element of the “open door-policy” and export-led industrialization, contributing significantly to rapid growth and market transition. Based on a positive evaluation of the SEZs, similar policies were implemented in 14 open coastal cities in 1984 – among them Guangzhou, the provincial capital of Guangdong. The success of special policies and development control through spatial confinement led to the

²⁵ E.g., see: Guangwen Meng and Klaus Sachs, "Achievements and Problems of Modern Free Economic Zone in Pr China – the Example of Teda (Tianjian Economic and Technological Development Area)," *DieErde* 136 (2005).

promotion of various types of special development zones. Each targeted (and was limited to) specific economic functions, such as export processing, trade or high tech development.²⁶

Oftentimes, special purpose associations were outsourced by local governments to manage these zones. The success of the zoning policy led to a proliferation of special development zones in the 1990s. On the one hand, special development zones served as carriers for the diffusion of market institutions throughout the region, on the other hand, the resulting “zone fever” led to a race to the bottom and inefficient land-use.²⁷

Preferential policies first within, and later beyond, the SEZs placed the PRD ahead of other regions – a tremendous advantage in interregional competition, e.g. with the Yangtze River Delta. Since 1992, China began to cut back preferential treatment on its road to enter the World Trade Organization (2001) and in favour of a fair ground of regional competition.²⁸ While the policy advantage disappeared, local

²⁶ For a detailed characterization and classification of various types of development zones in China, see: Guangwen Meng, "The Theory and Practice of Free Economic Zones: A Case Study of Tianjin, People's Republic of China" (Ph.D. diss., Ruprecht-Karls University of Heidelberg, 2003).

²⁷ Carolyn Cartier, "'Zone Fever', the Arable Land Debate, and Real Estate Speculation: China's Evolving Land Use Regime and Its Geographical Contradictions," *Journal of Contemporary China* 10, no. 28 (2001).

²⁸ Jianfa Shen, "Urban and Regional Development in Post-Reform China: The Case of the Zhujiang Delta," *Progress in Planning* 57 (2002).

governments had to turn to new strategies in order to continue attracting investments and remain competitive.

Socio-Cultural Features

Because of its history, the Guangdong Province has gained a reputation as being revolutionary and more open to foreign influences. The long trading tradition of the province dates back to the ancient Silk Road. Until recently, Guangzhou was one of the few ports connecting the western world and China. The rebellion against British colonialists started in Guangdong, later the Qing Dynasty was overthrown by Sun Yat-sen, originating from Guangzhou and to be the first president of the First Republic. Today, the Guangdong Province is still known to make extensive use of its distance to and the limited oversight capability of Beijing. As a famous proverb goes: "the heaven is high, the emperor far away!"²⁹ Local governments are known to be particularly strong and tend to ignore instructions from the central government.

The promise of economic improvements attracted millions of migrants since the beginning of reform. Beyond mostly uneducated peasants, there has also been an extensive influx of high potentials. For example, the level post-school education among

²⁹ Valery M. Garrett, *Heaven Is High, the Emperor Far Away - Merchants and Mandarins in Old Canton* (New York: Oxford University Press, 2002).

Shenzhen's population ranks second only to Beijing.³⁰ Knocking opportunities called out to entrepreneurs and elites from all over China. Looking back on Shenzhen's history as a pioneer, a businessman from Hunan commented: "People who dare to take risks have always wanted to come here. This spirit makes Shenzhen the most commercially vibrant city on the mainland."³¹

With China's opening up to the world, the PRD also benefited from its large overseas Chinese community. They were the first to seize the opportunities available in the early transition period and invested heavily in the towns and villages of origin. Personal networks (*guanxi*) and often informal arrangements substituted for the lack of a legal framework and reduced risks associated with political uncertainties.

Overall, the PRD's socio-cultural features certainly contributed to it embracing new ideas, innovations and daring experiments.

Understanding Agency

As shown above, decentralization and fiscal reform shaped an environment characterized by an intense intercity

³⁰ Michael J. Bruton, Sheila G. Bruton, and Yu Li, "Shenzhen: Coping with Uncertainties in Planning," *Habitat International* 29 (2005): 229.

³¹ Chung Yan Chow, "City at the Crossroads. After 24 Years of Breakneck Growth, the Mainland's Richest Municipality Ponders Its Future as an Economic Pioneer," *South China Morning Post*, 2 April 2004.

competition. On an institutional level, the alternatives presenting themselves to municipal governments went far beyond the privatization issue mentioned above, e.g.: relying on informal personal networks in attracting FDI vs. formalizing state-investor relations, tolerating sprouting informal developments vs. cutting down on informal economic activities to (re-)gain development control, fragmented traditionalized government responsibilities vs. customer oriented one-stop management, flexible strategic planning vs. holistic long-term planning.

Making use of their strong position due to a high degree of autonomy and self-organization, local governments in the Pearl River Delta came to pursue entrepreneurial strategies. Alternatives were weighed and opportunities seized as available. In effect, they evolved into entrepreneurial cities.

These have been characterized as follows:

- An entrepreneurial city pursues innovative strategies intended to maintain or enhance its economic competitiveness vis-à-vis other cities and economic spaces.
- These strategies are real and reflexive. They are not “as”if strategies, but are more or less explicitly formulated and pursued in an active, entrepreneurial fashion.
- The promoters of entrepreneurial cities adopt an entrepreneurial discourse, narrate their cities as

entrepreneurial and market them as entrepreneurial.³²

Entrepreneurial cities are not necessarily economically successful, nor are economically successful cities entrepreneurial per se. Behaviour and strategy are its distinct features. Also, entrepreneurial cities should not be confused with the concept of “entrepreneurial local government”, where the government itself is an economic actor, too.³³ Rather, it can be argued that, through being an economic actor at an earlier stage, local governments learned to adopt market rationales and entrepreneurial strategies - and thereby contributed to the emergence of entrepreneurial cities in the PRD.

External actors experts are often consulted during the formulation and evaluation of new concepts on all governmental levels. In the case of the PRD, knowledge transfer often stems from Hong Kong, and to some lesser

³² Bop Jessop and Ngai-Ling Sum, "An Entrepreneurial City in Action: Hong Kong's Emerging Strategies in an for (Inter-)Urban Competition," *Urban Studies* 37, no. 12 (2000): 2289. Also see: Tim Hall and Michael Hubbard, "The Entrepreneurial City: New Urban Politics, New Urban Geographies," *Progress in Human Geography* 20 (1996), Tim Hall and Michael Hubbard, eds., *The Entrepreneurial City: Geographies of Politics, Regime, and Representation* (Chichester: John Wiley & Sons, 1998).

³³ Hubbard, "Bureaucrats and Markets in China: The Rise and Fall of Entrepreneurial Local Government," *Governance: An Integrated Journal of Policy and Administration* 8, no. 3 (1995).

extent, Taiwan and Singapore. Due to the impressive development of these first generation tiger economies, they are perceived as role models for the PRD development. When needed, new concepts and management practices are often imported from there.

Cooperation and consensus seeking among government, industry and experts are used to produce improved outcomes. The lack of independent and organized interest groups considerably reduces the number of potential veto players. Resistance to change is much lower than in Western cities, due to a civil society still in its infancy. Qian and Stiglitz report the case of the Zhuhai SEZ, whose tourism-centered strategy proved to be ineffective. The issues were solved through expert involvement and “a citywide discussion of development strategy and industrial policy [...] A consensus was reached: Zhuhai should set priorities on foreign investment, products for export, technology-intensive industries, and high-tech industries for an outward oriented economy.”³⁴

Local State Capacity Building

Faced with the manifold challenges and uncertainties of transition, municipalities in the PRD, above all Shenzhen, adopted strategies based on both experimental learning and a

pragmatic “learn as you go” approach.³⁵ Faced with increasing competition both from their neighbours as well as rising cities, such as Shanghai, they evolved into entrepreneurial cities. The intensive competition constantly calls for new ideas and their implementation. As each city is well informed about the strategies of its competitors, institutional innovations, planning strategies, and new management practices quickly diffuse across and beyond the delta.

An illustrating example can be found in the shift of the urban development strategy of Dongguan in 2003. For the first time, Dongguan, until then always third after Shenzhen and Shanghai, dropped behind Suzhou in the ranking of China’s most important export centres. Greatly alarmed, the local government critically analyzed the comparative advantages of both locations. A lack of urban identity, fragmented administrative structures as well as unplanned and informal developments were acknowledged. Consequently, Dongguan changed its course towards a coherent urban strategy. This included an improved, aesthetically built environment and a new city center with an international convention centre, a city hall, a modern sport stadium, a star-architect-built opera house as well as a new high-tech and science park.³⁶

³⁴ Qian and Stiglitz, "Institutional Innovations and the Role of Government in Transition Economies," 181.

³⁵ Bruton, Bruton, and Li, "Shenzhen"

³⁶ Terry G. McGee et al., “China's urban space: development under market socialism” London: Routledge, 2007, 115f.

These diffusion processes can be found both for efficiency-increasing mechanisms, such as strategic management plans, and for the implementation of image-improving but economically questionable large-scale projects. Another widely known example from the early transition phase is the commodification of land through the practice of land-leasing during the 1980s. First, imported from Hong Kong and implemented in the Shenzhen SEZ, it spread throughout the PRD and elsewhere, before it became legalized by a constitutional amendment in 1988. Flexible strategic planning mechanisms were also first implemented in Shenzhen in the mid-1990s and, according to a high-level provincial official interviewed by the authors, is now widely adopted by PRD municipal governments. In the following, the authors will review Guangzhou's entrepreneurial strategy to provide a more detailed example.

In the 1990s, Guangzhou, traditionally both economic and political centre of the province, found its position increasingly threatened: As regional service hub and port city by Hong Kong and Singapore, as manufacturing centre by the rise of Shenzhen, Foshan, Dongguan and others. Its share of GDP in the Pearl River Delta dropped from 42.8 percent in 1980 to 23.69 percent in 1994.³⁷ At the same time it faced many urban problems like traffic congestion, environmental issues, and rising crime.

³⁷ Shen, "Urban and Regional Development in Post-Reform China," 123.

These also contributed heavily to threatening its competitiveness.

In response, a three phase strategy of "minor change in a year, medium change in three, and major change in 2010"³⁸ was adopted in 1998. The goal was to transform Guangzhou into a "liveable, ecological, and entrepreneurial city"—and thereby making it a more favourable place for business, too.

Every aspect of development should contribute to the enhancement and quality of life of the people ... but this is not the sole aim, since the core element of new strategies should help in the process of economic restructuring ... to address issues created by the declining role of Guangzhou.³⁹

As a first step, more than a hundred small image-improving projects were implemented, followed by 74 somewhat larger projects such as eliminating illegal construction and improving transportation infrastructure. Open spaces, such as at the northern gate of the Sun Yat-sen University were created for public amenity. The public space was greened to improve the cityscape and reduce air pollution. Phase three started in 2002 with US\$ 12.8 billion investments over five years, among them the New Baiyun

³⁸Jiang Xu and Anthony Gar-On Yeh, "Guangzhou," *Cities* 20, no. 5 (2003): 368..

³⁹ Nanfang Daily, 19 May 2002, cited from: Fulong Wu, Jiang Xu, and Anthony Gar-On Yeh, *Urban Development in Post-Reform China* (London and New York: Routledge, 2007), 212.

International Airport, supposed to become one of three key hubs in the country, the Nansha Deep Water Port, the Guangzhou International Convention and Exhibition Center, the Guangzhou New City Center, and the Guangzhou University Town. "There is no question that competition was the key part of the rationale and ideology for the new strategies."⁴⁰

It was recognized that in order to upgrade the local economy and the city's overall competitiveness, urban space had to be improved and a more sustainable path of development to be followed. Large-scale image improving projects alone can hardly suffice to achieve this goal. Guangzhou made huge efforts to improve its governing capacity. Through annexing the neighbouring county-level-cities Huadu and Panyu, Guangzhou expanded its administrative boundaries and increased development control in the area. Afterwards, it rearranged its administrative subunits: the districts and development zones. As in Zhuhai, the municipal government made use of external experts in the process.⁴¹ The Guangzhou Development District,

formerly divided into four different special development zones, was merged into one zone under one management. A one-stop administration was created to ease administrative burdens on behalf of investors and industry.⁴² Based on a positive experience of a failed former high-tech zone in Dongguan, the strict policy of industry zoning was relaxed to produce a mixed structure of work, living and amenities.⁴³ As most successful municipal sub-division, the zone management also received full district government responsibilities over the newly founded Luogang District, now finding itself in a dual role both as the cities most powerful economic development authority and less powerful district administration.

Establishing better environmental management capacities were also part of the city's strategy. This is reflected in the municipal budget: Guangzhou's respective financial commitment increased from 0.54 percent of GDP in 1995 to 2.84 percent of GDP in 2000.⁴⁴ Planners strive to produce a "landscape-style metropolitan ecological pattern" of "a city amongst mountains and waters, and mountains and waters in a

⁴⁰ Xu and Yeh, "City Repositioning and Competitiveness Building in Regional Development."

⁴¹ For some of the results of the consultation process: Siu-Wai Wong and Bo-Sin Tang, "Challenges to the Sustainability of 'Development Zones': A Case Study of Guangzhou Development District, China," *Cities* 22, no. 4 (2005), Siu-Wai Wong, Bo-sin Tang, and Basil van Horen, "Strategic Urban Management in China: A Case Study of Guangzhou Development District," *Habitat International* 30 (2006).

⁴² GDD, "Meeting the Needs of Both Investors and Businesses," (Guangzhou: Guangzhou Development District, 2004).

⁴³ Author interview with a high-level Guangdong official

⁴⁴ Shan-shan Chung and Carlos Wing-hung Lo, "Sustainable Development in Urban Cities in the Pearl River Delta: Comparing Guangzhou and Hong Kong," in *Developing a Competitive Pearl River Delta in South China under One Country - Two Systems*, ed. Anthony G. O. et al. Yeh (Hong Kong: Hong Kong University Press, 2006).

city.”⁴⁵ Again, external experts (from Japan, Switzerland, and the U.S.) worked in close cooperation with local planners in order to achieve a more sustainable development.⁴⁶

So far, Guangzhou’s strategy seems to be successful: Both workers and expatriates living in Guangzhou and interviewed by the authors reported increased public safety, hygiene and environmental improvements. An official public opinion poll in 2002 reported 96 percent of Guangzhou’s residents satisfied with the city’s development – in sharp contrast to a 1997 poll with 73 percent being dissatisfied.⁴⁷ Guangzhou’s efforts were recognized internationally: It was awarded the international “Garden City” title in 2001 and won the “Dubai International Award for Best Practices in Improving the Living Environment 2002.”

Conclusion: Local State Capacities, Institutional Change and the Role of Competition

In the Pearl River Delta, capacity building is achieved by the adoption of entrepreneurial strategies that incorporate approaches of learning, experiments and the extensive use of

external experts. Guangzhou’s strategy to reposition itself is but one example and not at all limited to government spending and huge construction projects. While the economic viability may be questionable at least for some of these projects, another aspect is at least as important for our purposes. The evolution of an adaptive and responsive local governing system – indispensable in achieving at least a sufficient degree of governability in the highly dynamic and fast growing megaurban region.

Entrepreneurial cities evolved in response to competitive pressures created through decentralization and fiscal reform. Institutional innovations, knowledge import, and management practices quickly diffuse across the Pearl River Delta and beyond. Thus, the lack of a comprehensive and coordinated megaurban strategy and megaurban governability can at least partially be compensated by the local state adopting entrepreneurial strategies and capacity-building.

From the perspective of higher-level governments, experiments with new institutional arrangements and new modes of urban governance in cities are desirable (and in many cases deliberately encouraged): The immediate effect is limited while the overall direction of development – including the option of reversal – is maintained. Learning through experimentation significantly reduces risks in the transition process. Potential negative side-effects are by and large limited to spatially confined areas, such

⁴⁵ UDPS, "Guangzhou Strategic Masterplan Outline - Ecological Project," (Guangzhou: Guangzhou Urban Planning and Design Service, 2000).

⁴⁶ Margrit Hugentobler et al., "AGS Future Cities: Guangzhou – a Partnership for Sustainable Urban Development," *DISP* 151 (2002).

⁴⁷ Xu and Yeh, "Guangzhou," 368.

as economic development zones, rather than the whole country. In this way of “crossing the river by groping for stones,” complexities can be reduced and pressures on the central government’s administrative and political capacities relaxed as local and urban capacities are being built.

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