A Stronger Pearl River Delta

Government Initiatives

Clement Miu
1. **Introduction** ...................................................................................................................... p.1

2. **Background Study of Pearl River Delta** ........................................................................... p.1
   2.1 Definition and Geographic Location of Pearl River Delta
   2.2 Spatial Structure of Pearl River Delta
   2.3 Government Structure in PRD Region
   2.4 Emergence and recent development of Pearl River Delta Region

3. **Constraints that Restrict the Growth of PRD Region** ...................................................... p.7
   3.1 Growing Competition from Yangtze River Delta
   3.2 Destructive competition within Pearl River Delta Region

4. **Government Initiatives in Planning a more Competitive Pearl River Delta** ............... p.9
   4.1 National Five Year Plan
   4.2 Pan-RRD Regional Cooperation and Development

5. **Conclusion** ......................................................................................................................... p.18
1. **Introduction**

In the past two decades, the Pearl River Delta (PRD) has been an important driver of China’s economic growth, a key destination for foreign investment, and place for the country’s growing integration into the global economy. (Leman 2003) It is also known as the wealthiest and fastest growing region in the entire Mainland. However, in recent years, emerging destructive competition between cities in the PRD region and increasing competition from other parts of China has in fact weakened the PRD’s role as an economic powerhouse and create challenges for future development. This research essay attempts to outline these constrains and the recent government initiatives which help overcome these constraints and revive the PRD.

2. **Background Study of Pearl River Delta**

2.1 **Definition and Geographic Location of Pearl River Delta**

The PRD is named after its physical characteristics. The region is located in Guangdong Province of South China. Geographically, it is a composite delta formed by sediments deposited at the mouth of Pearl River containing a total area of about 8,600 square kilometres (Lo 1989).

From the perspective of regional economic activities, people often define the PRD as the region that includes the City of Guangzhou, and the two SEZs (Shenzhen and Zhuhai) (Lin 1997).

According to Wikipedia (2004), Pearl River Delta Region occupies the low-lying areas alongside the Pearl River estuary where the river flows into the South China Sea. It can be defined in geographic terms as a triangle with the eastward leg extending about 120 kilometres from Guangzhou to Hong Kong and with a westward leg of about the same distance from Guangzhou to Macao. The southern leg is about 60 kilometres of open water, except for a few islands, between Hong Kong and Macao.
2.2 Spatial Structure of Pearl River Delta

The PRD contained three major cities which include Guangzhou, Shenzhen and Zhuhai.

**Guangzhou**

Guangzhou is the capital city and the political, economic, scientific and technological, educational and cultural center of Guangdong Province. It's the largest coastal city in the south of China. It is located at the mid-south of Guangdong Province and the north of the Pearl River Delta.

According to the Guangdong Provincial Statistical Bureau (2001), the total area of Guangzhou is 7,434.4 Square Kilometers, out of which ten districts' area is 3,718.5 Square Kilometers, accounting for 50.02%, and two county-level cities' area is 3,715.9 Square Kilometers, accounting for 49.98%.

Guangzhou governs ten districts and two county-level cities. Ten districts are: Yuexiu, Dongshan, Haizhu, Liwan, Tianhe, Baiyun, Huangpu, Fangcun, Huadu and Panyu, and two cities are: Conghua and Zengcheng. The population of permanent residents is about 7.20 million. The GDP per capita was ¥38568 (ca. US$4660) in 2001, ranked no. 8 among 659 Chinese cities. (Guangdong Provincial Statistical Bureau 2001)
**Shenzhen**

Shenzhen is a sub-provincial city of Guangdong province in southern Mainland China. It has the advantageous location adjoining Hong Kong and enjoyed the beneficial impact resulted from growth of Hong Kong economy. In May 1980, Shenzhen was formally nominated as a ‘Special Economic Zone’ (SEZ). It was given the right of provincial-level economic administration in November 1988. (Chan 1995)

Shenzhen is located in the Pearl River Delta. It covers an area of 2,020 square kilometres, with a population of 7 million. In 2000, Shenzhen won the international award of garden city and will also host the garden city competition in 2001. The GDP per capita was ¥136071 (ca. US$16430) in 2001, ranked no. 1 among 659 Chinese cities. (Guangdong Provincial Statistical Bureau 2001)

**Zhuhai**

Zhuhai is a city on the southern coast of Guangdong Province of the People’s Republic of China, in the Pearl River Delta, located at the border with Macau. It covers an area of 7,649 square kilometres, with a population of 1.23 million. The GDP per capita was ¥66551 (US$8040) in 2001, ranked no. 3 among 659 Chinese cities. (Guangdong Provincial Statistical Bureau 2001)
2.3 Government Structure in PRD Region

Corresponding to the central-plan economic model, urban planning in China has been traditionally conducted in a top-down, hierarchical manner. (Campanella, 2002:21) Higher-level governments (e.g. provincial governments) supervise and oversee the plan making and implementation processes at the lower level of governments (e.g. county and municipal governments) through redistributing the resources allocated from the central government.

Regional planning is generally done at the provincial level to organize and coordinate the development of counties, municipalities and rural areas. Local governments have little power in development decision making other than providing information to facilitate site planning. The function of city planning at the local level is to coordinate the six major land use categories and to prepare a blue-print for 20 years according to population size and the nature of the city (Ng 2002).
2.4 Emergence and Recent Development of Pearl River Delta Region

The development of the Pearl River Delta economic zone was based almost entirely on the restructuring of the Chinese economy to encourage international trade and investment as well as the restructuring of the Hong Kong economy away from labor-intensive manufacturing. (Johnson 1995)

During the early 1950s, the British Colonial Government of Hong Kong encouraged manufacturing in the colony as a result of the decline in economic and industrial activities following the establishment of the People’s Republic of China and the outbreak of the Korean War. During this period of time, Hong Kong quickly began its labor-intensive manufacturing activities and became a major exporter of clothing and toys, as well as watches and transistor radios. By the middle of the 1970s, unemployment rate in Hong Kong was reduced to a very low level and the increasing demand in labor force had lead to a rapid increase in wage rates. (Sung 1996)

During the late 1970s, the Central People’s Government of China implemented its “open door” policy and initiated reforms to open up Pearl River Delta Economic Zone to foreign trade and investment. Its geographical proximity to and extensive social connections with the newly industrializing economies of Hong Kong and Taiwan have allowed the delta region to be chosen by the post-Mao pragmatic regime to develop an open economy and practice free market forces. (Vogel, 1989; Site and Yang 1997; Lin 2001) In 1979, the government established the Special Economic Zones (SEZs) which is Shenzhen, Zhuhai and Shantou.

In 1985, the State Council of People Government of China designated the Pearl River Delta as an Open Economic Zone where local governments, individual enterprises and farm households enjoy great autonomy in economic decision making. (Lin 2001) In the status of Coastal Open City (e.g. Guangzhou), or Special Economic Zone (e.g. Shenzhen and Zhuhai), or Economic Development Zone, the local governments have the authorities to absorb foreign investments directly, and to carry out their own economic development initiatives. As a result, the PRD region has been able to attract large amount of foreign capital and to promote export production. It results in rapid industrialization and urbanization, and regional economic boom.
When China implemented its “open door” policy in late 1970s, many of the Hong Kong's manufacturers began to reallocate their production line to Mainland China in order to escape the rising labor costs. As a result, much of the machinery in Hong Kong was transported across the border and re-established in three SEZs (Shenzhen, Zhuhai and Shantou).

During that time, most of the labor supplies in these SEZs were acquired through migrant workers. Their wage rates were comparatively low. However, the fast economic growth in SEZs had created an upward pressure in wages and costs in a way that was similar to Hong Kong's experiences a decade before. (Sung 1996) The land value and wage rates for both skilled and unskilled labor rose rapidly.

In order to minimize production cost, manufacturer began to reallocate their production line from the SEZs to the smaller cities and towns between the SEZs and Guangzhou. The further growth of this smaller cities and towns has leaded to an emerging pattern of specialization and comparative advantage among the many smaller cities and towns. (Sung 1996) For example, Gulong became a “lamp and lantern” town, aided by Hong Kong and Taiwanese investors. Humen became known as a “garment town”; Huizhou attracted several large electronic manufactures; and both Foshan and Dongguan became centers for the IT industry.

In the past decades, the PRD remained as one of mainland China's leading economic regions and productive economic regions in China. (Lin 2001) The growth in GDP averaged about 13 percent per annum, with a contribution to GDP of RMB 643.89 billion in 2001, and with exports amounting to US$67.4 billion. (Guangdong Provincial Statistical Bureau 2001)
3. **Constraints that Restrict the Growth of PRD Region**

In the past decades, the Pearl River Delta (PRD) has been a major driver of China's economic growth and a platform for the country's growing integration into the global economy. (Leman 2003) It was expected that the co-operation between Hong Kong and SEZs would strengthen the PRD's role in China's economic development after the return of Hong Kong to China sovereignty in 1997. However, this expectation has not eventuated. Instead, the emerging destructive competition between cities in the PRD region and increasing competition from other parts of China has in fact weakened the PRD's role as an economic powerhouse.

3.1 **Growing Competition from Yangtze River Delta**

The development of the YRD region began in 1984. The region consists of Shanghai municipalities and some 15 cities in Zhejiang and Jiangsu Provinces. The rapid economic growth in YRD in the past decade has established the region as a competitor of PRD region. The strong growth of YRD region over the past decade is mainly due to the co-ordinated efforts of the 15 cities within the delta (Zhu 2003) However, in comparison, the PRD region seemed to have lost its momentum on economic growth, the lack of unified planning and inter-city co-ordination within the PRD regions has slowed down economic growth. This phenomenon is recognizable though comparing the Gross Domestic Product (GDP) figure of two delta’s region.

According to Ng (2003), in 2002, the PRD's GDP reached US$113 billion, with export values of $112.5 billion, which was 9.2 percent and 34.6 percent of China's totals respectively. The Yangtze River Delta has much larger GDP than PRD, at $230.1 billion, with relatively smaller exports values of $92 billion, which was 18.7 percent and 28.3 percent of the national total respectively.
Apart from the issue above, there is a growing competition for foreign investment between the Pearl River Delta and Yangtze River Delta. The Foreign Direct Investment (FDI) flows into the YRD have been rising at a faster rate than those into PRD region. At the same time, the amount of goods exported from the YRD is also increasing more rapidly than is the amount exported from PRD. (Chan 2002)

Since 1978, there were about 30% of the foreign investment into China went to the PRD region and the GDP per capita in PRD region is more than 3 times the national average. (Chan 2002) Meanwhile, from the time when YRD was developed, the delta region has positioned itself as a manufacturing centre and also as a potential consumer market. For that reason, YRD is becoming an increasingly popular destination for Taiwanese investment. Much of the production lines have shifted from Taiwan into China in order to minimise production costs. By 2000, Shanghai and the two provinces together accounted for close to 30% of the nation’s FDI. (Chan 2002)

3.2 Destructive Competition within Pearl River Delta Region

Cities in the PRD, like Hong Kong, Guangzhou and Shenzhen, are competing each other to be leader of the region. However, limited transparency in developing market economy, the lack of unified planning and inter-city co-ordination within the PRD regions is generating excessive competition which caused problems such as overlapping of roles, duplication in constructions among adjacent cities and redundant investment projects. These kinds of competitions are meaningless and wasting valuable resources and funds. (Zhu 2004) The oversupply of airports within the PRD region can be known as one of the typical examples of destructive competition.

The recent opening of the new Guangzhou Baiyun International Airport in August 2004 has generated a huge challenge for Hong Kong International Airport. As stated by the Hong Kong Airport Authority Chief Executive David Pang “Baiyun airport will directly compete with Chek Lap Kok due to geographical proximity. The two airports are overlapping in markets and both will engage in competition for passengers and cargo transport” (Luk 2004)
In order to compete with Baiyun airport and attract more airlines to use Chek Lap Kok (CLK) airport, the Hong Kong Airport Authority (HKAA) recently announced a discount scheme that airlines launching new routes from September 2004 will receive a 50 per cent discount on landing fees in the first year and there will be a 25 per cent discount in the second year. (Luk 2004) In addition, the HKAA also attempt to reduce flights' landing and parking charges of CLK airport to improve their overall competitiveness with other airports in Southeast Asia.

4. Government Initiatives in Planning a more Competitive Pearl River Delta

Unilateral action and uncoordinated growth will damage the overall competitiveness of the Pearl River Delta as a primary economic hub of Mainland China. (Hong Kong General Chamber of Commerce 2002) Therefore, to maintain and improve PRD’s overall competitiveness, it is necessary for the central, provincial, SAR (Hong Kong & Macau), and other municipal governments across the PRD to work closely and ensure greater co-operation in order to bring greater growth opportunities to the region. Recently, there a few government initiatives that aimed to create a more integrated and unified regional economy. They include the National Five Year Plan and the Pan-RRD Regional Cooperation and Development (PPRD).

4.1 National Five Year Plan

National Five-Year Plan is a development strategy to set out the development goals and economic targets for the country's socio-economic development on a five-year basis. The Plan covers all three government levels including national, provincial and municipal. This research essay will focus on both the Provincial and Municipal Level.

1. The Guangdong Plan (Provincial Level)

2. The Guangzhou Plan, Shenzhen Plan and Zhuhai Plan (Municipal Level)
**Provincial Level ~ The Guangdong Province 10th Five-Year Plan (2001-2005)**

The Guangdong Province 10th Five-Year Plan (2001-2005) covers at a provincial level. It was prepared by Guangdong Provincial Government which aimed to facilitate its provincial economic and social development. Guangdong Provincial Government (2001) addressed the following key features in the Guangdong Province 10th Five-Year Plan:

- Emphasis will be placed on developing hi-tech industries and applying advanced technologies to improve the production efficiency of traditional industries. Development priority will be given to industry such as electronic information, bio-engineering, electronic communications equipment, automobile and petrochemical. Support will also be given to industries with growth potential, such as pharmaceutical, iron and steel, and papermaking.

- The Plan will focus on developing the Guangdong Information Technology Industries Corridor. The cities within this Corridor comprise Zhaoying (electronics chips and products), Foshan (audio-visual and electronics products) Guangzhou (software and telecommunications products and source of technology), Dongguan (computer products and electronics products), Shenzhen (telecommunications and audio-visual products, and computer hardware and software) and Huizhou (audio-visual and telecommunications products). These cities focus on information technology and telecommunications products, computer software and communication equipment.
On infrastructure, the Plan will focus on "five networks, two rails and two ports".

- Five Networks: Road Network, Information Network, Water Supply Network, Natural Gas Network, Electricity Network
- Two Rails: Underground Railway, Light Railway
- Two Ports: Airport and Seaport

One of the targets in improving the transport network is to link up all municipal cities by expressways in year of 2005. In addition, the PRD Inter-City Rapid Transit System are planned to link the major PRD cities so that travelling within these cities can be achieved in half an hour.
Municipal Level – Guangzhou, Shenzhen and Zhuhai

At the municipal level, different cities within Guangdong Province have drawn up their own 10th Five-Year Plans. This research essay will only focus on the major cities including Guangzhou, Shenzhen and Zhuhai which have a more direct interface with Hong Kong. The main points addressed in these plans are set out in the following:


- In the next five years. Guangzhou aims at establishing itself as a core service hub and enhancing its function as a regional industrial base. Its economic priorities are set in the order of tertiary, secondary and primary sectors.

- The plan also aims to develop Guangzhou as a major transport interchanging hub for airport, port, railway and road network. For example, the New Baiyun International Airport which has completed in 2003 will serve as one of the top three air passenger hubs in the Mainland. The Guangzhou Seaport will strengthen the port functions of the city. The Railway network (e.g. upgrading of the Guangzhou railway stations) and road facilities (e.g. construction of Beijing-Zhuhai and Guangzhou-Huizhou expressways) will also be improved to enhance its role as the provincial focal point. Moreover, targets have been set to complete underground subway line 2 and commence line 3 within the 2001 – 2005 period.


- Shenzhen will focus on financial services, hi-tech industries and logistics as its generator of economic growth in the next five years. Meanwhile, a hi-tech industrial belt will be developed, cutting through Shenzhen from the west to the east. A university park will also be developed to attract local and overseas student.

- Shenzhen will develop as a logistics hub by continuing to improve its railway network, highways, deepwater ports and domestic air cargo facilities. Apart from this, more attention is given to accelerate the cross-boundary projects, including the Shenzhen River Improvement Project, Hong Kong-Shenzhen Western Corridor and Control Point Connections.

- The Zhuhai Plan focuses mostly on electronic IT manufacturing, computer software, leisure tourism, and developing as a major regional “campus hub” for the South China. It will make further use of its two ports (i.e. airport and sea port) to develop its logistics industry.

- In terms of infrastructure, the Zhuhai Plan aims to implement the Guangzhou-Zhuhai Railway (part of the Beijing-Zhuhai Railway line) and commence with the preliminary study of a bridge crossing from Zhuhai to Hong Kong.
4.2 Pan-RRD Regional Cooperation and Development

Feeling the pressure of growing competition from cities in the YRD region, the Guangdong provincial government and other PRD cities recognised the urgency and necessity for the development of "Greater PRD" as an integrated economic region.

The Guangdong provincial government has recently come up with the "9 + 2 Pan-PRD" concept in which aimed to "avoid duplicate construction, achieving better coordination among nine PRD cities with two Special Administration Regions (Hong Kong and Macau), and exploring new development opportunities within the delta region." (Hong Kong Government Information Centre 2004) On 1st June 2004, a Pan-RRD Regional Cooperation and Development Agreement are signed, marking the start-off of further cooperation within the Pan-PRD Region.

Pan-PRD is the further extension of the PRD economic zone in which comprising Guangdong, Hong Kong and Macau. The major changes and characteristics of Pan-PRD spatial development are finalized by the Cross-boundary Liaision System (2004) recently feature the following:

- **Cooperation with Neighboring Provinces**

  The Pan-PRD will strengthen cooperation with the all provinces/regions in the PRD in order to explore opportunities for joint development. Pan-PRD will further enhance the cooperation of nine provinces/regions (Fujian, Jiangxi, Hunan, Guangdong, Guangxi, Hainan, Sichuan, Guizhou, Yunnan) together with Hong Kong SAR and Macau SAR. This concept will be known as “9 + 2 Pan-PRD Cooperation".
• **Strength Transport Linkages between Regions**

Nine Provinces and Regions in the Pan-PRD Economic Region have signed the “Agreement on Unified Road Transport Cooperation and Development”. The objective of this agreement is to further strengthen transport infrastructure facilities thereby enhance connectivity between provinces/regions/cities in the Pan-PRD region. All major road network will be improved and Guangdong will position as a transportation hub in greater southern China by 2007.

• **Developing the Western Region of Pearl River Delta**

Once the Guangdong - Hong Kong - Macau Bridge is completed, the distance between Hong Kong and western PRD will be greatly shortened, and places like Zhuhai, Zhongshan and Shunde will be within the direct reach of Hong Kong and Macau. The area will likely become a favorite place for relocating industries from eastern PRD as well as for new foreign investment.

The development of the western PRD region is important also due to the follow reasons:

- Achieve a balanced growth of Guangdong’s eastern and western regions,
- Expand the hinterland for the development of the Greater PRD region
- Facilitate the trade activities between China and borders ASEAN countries such as Vietnam and Cambodia.
A Stronger Pearl River Delta – Government Initiatives
Integrating Hong Kong and Macau with PRD

The development of Hong Kong and Macau will be further integrated with the PRD. Hong Kong and Macau will serve as the growth engines for the PRD's future development. Hong Kong, Macau and Guangzhou are regarded as capital cities in the PRD region. The PRD region will be divided into three metropolitan areas -- central, east and west -- each with different emphases in terms of industrial structure.

Central Metropolitan Area

With Guangzhou as the core, this area encompasses Foshan, Sanshui, Huadu, Conghua, Shunde and parts of Zhaoqing (namely Duanzhou district, Dinghu district and Sihui city). Development priority will be given to tertiary sectors such as finance and commerce as well as secondary industry mainly including automobile and electronics.

East Metropolitan Area

Shenzhen and Hong Kong are the core cities. This area links up Guangzhou with Hong Kong, with the two sub-metropolises of Dongguan and Huizhou in between. This area is well served by international airports and external rail connections.
Development priority will be given to the tertiary sector, mainly external trade and commerce, as well as manufacturing industries such as R&D and IT. The two core cities of Hong Kong and Shenzhen will complement one another and benefit from their productive partnership.

**West Metropolitan Area**

This area covers Macau, Zhuhai, Zhongshan, and parts of Jiangmen. Development priority will be given to the industry related to ports, such as energy, new and high-tech industries. Other tertiary sectors to be promoted are tourism and other trade-related services.

### 5. Conclusion

Since the late 1970s, Pearl River Delta as an Open Economic Zone becomes one of mainland China's leading economic regions and a massive manufacturing centre. However, as other Chinese regions are opened to foreign investment, the PRD may no longer be able to maintain its leading economic position in the nation and its development experience will gradually lose its uniqueness. (Lin2001) In other word, the PRD region will face more intense competitions and challenges from other part of China in future.

In my point of view, competition is not necessary adverse for Pearl River Delta. Competition will help improve the overall cost efficiency and the quality of production. Conversely, uncompetitive market structures such as monopoly or oligopoly will lead to higher production costs and lower efficiency which may result in market failure. Therefore, I believe that healthy and constructive competitions should be encouraged between regions.

To maintain Pearl River Delta as a leading position in China's economy, the PRD region needs greater regional economic integration. As a result, further cooperation between the central, provincial, SAR (Hong Kong & Macau), and other municipal governments across the PRD will be required.

I strongly believe that the Pearl River Delta, with the recent government initiatives on PRD regional planning, will become more attractive place for investment in future and the region as a whole would benefit from the increased economic and investment activities.
Reference


