

Chapter 9. Understanding cross-boundary cooperation in South China

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9.1. Introduction

The Hong Kong Special Administrative Region (the HKSAR) was established in 1997 in the People's Republic of China, under the policy of 'one country, two systems'. Hong Kong can maintain its own system of governance and enjoy a high degree of autonomy under Chinese sovereignty. The socioeconomic interactions between Hong Kong and the neighbouring Pearl River Delta (the PRD) have developed rapidly in the past decade (Enright, Scott, & Chang, 2005). The HKSAR government and its counterparts in Guangdong province have established many intergovernmental mechanisms to manage cross-boundary policy issues, such as economic development, infrastructure and public health since 1997 (Cheung, 2006). Despite difficulties experienced initially, such mechanisms were further expanded in 2003. This chapter does not seek to detail the evolution of such cross-boundary cooperation. Instead, different analytical frameworks—namely global cities and global city regions, policy coordination and multi-level governance—would be used to interpret the cross-boundary relations between Hong Kong and the PRD since 1997.

9.2. Perspectives in understanding cross-boundary development in South China

9.2.1. Global cities and global city regions

One common approach to studying cross-boundary development in south China is the global cities and global city regions perspective. Globalisation has impacted profoundly on cities and regions, but they have in turned played an important role in shaping the world economy (Sassen, 2001a, 2001b, 2005; Scott, Agnew, Soja, & Storper, 2001). Studies of global cities and city regions examine such new spatial and economic configurations in the global economy. According to Sassen, the evolution of a global city results from the demand for a control centre for global business and the demand for specialised finance and business services. Global cities play a pivotal role in servicing these firms as command centres of the global economy. Cities that excel in business and financial services further facilitate the agglomeration of such businesses by attracting other firms to their jurisdictions. Similarly, global city regions have emerged as

new spatial and economic formations in the world economy. According to Scott (2001), large city regions provide the 'territorial platforms' from which networks of companies compete in the world markets (Scott et al., 2001: 15). Clustering in a city region allows firms to access information, human capital, suppliers and business opportunities flexibly and to enhance their creativity and innovation in order to respond to the uncertainties and competition in the global markets. In short, global city regions serve as 'dynamic local networks of economic relationships caught up in more extended world-wide webs of inter-regional competition and exchange' (Scott et al., 2001: 18).

Driven by global market competition, the development of south China in the past 30 years is characterised by the relocation of Hong Kong's manufacturing across the boundary, its own transformation into a service economy, and the rapid industrialisation and urbanisation in Guangdong province, especially in areas neighbouring Hong Kong, where labour and land are comparatively much cheaper. Lin observes that with Hong Kong serving as the control centre and the PRD as the hinterland, a distinct 'global city region' is 'quickly taking shape' (Lin, 2003: 100). Shen points out that economic cooperation between Hong Kong and the PRD is characterised by a 'bottom-up approach' driven by the local residents and businessmen between 1979 and 2001 (Shen, 2003). Unlike other regional production systems, the cross-boundary cooperation between Hong Kong and the mainland has several distinguishing features, such as close demographic and cultural ties between the two areas, intensity of cross-border interactions, and China's adoption of open door policy in 1978 and Hong Kong's reunion with China in 1997 (Shen, 2003: 14).

Other studies suggest that Hong Kong has established its position as a primary provider of business and financial services in south China (Yeh, 2005). Hong Kong's position as a global city is confirmed by its prominence in aviation networks, telecommunications, financial services and the exercise of command and control functions by a large number of regional headquarters (Yeh, 2005). Key command and control functions of a global city are still being played by Hong Kong, although other services can gradually be delivered by Shenzhen and Guangzhou (Breitung & Günter, 2006). The cities in the PRD are mainly connected to the global economy through Hong Kong's international links. However, as China further opens up, these localities would maximise their direct access to the global market. Hence the Greater PRD, comprising the PRD, Hong Kong and Macao is at best an *emerging*

global city region. Other key cities in the PRD, such as Guangzhou and Shenzhen, are jumpstarting their service sectors, hence the intense competition may prevent Hong Kong from consolidating its once dominant position. These studies on global cities and global city regions have shed important light on the emergence of the Greater PRD and its growing polycentrism. However, as intergovernmental interactions have become more prominent, this perspective cannot fully capture the complexities in the cross-boundary relations between Hong Kong and the PRD. Two other approaches—policy coordination and multi-level governance—can also be employed to offer new perspectives.

9.2.2. *Policy coordination*

Coordination problems arise from specialisation of modern governments along both vertical and horizontal dimensions (Peters, 1998, 2007). According to Peters, coordination has two common meanings. First, coordination refers to the extent to which the activities of organisations take into account those of other organisations. Second, coordination refers to policy integration, meaning that the consequences of policy choices on the full range of activities of other organisations and programmes have been considered in the evaluation of these policy options, in order to achieve consistency among different policy areas. The distinction between vertical and horizontal coordination is particularly pertinent in ‘multi-level governance’ involving different layers of supranational, national and subnational governmental authorities. Further, cooperation is difficult ‘when two organisations perform the same task (redundancy), when no organisation performs a necessary task (lacunae), and when policies with the same clients (including the entire society as the clients) have different goals and requirements (incoherence)’ (Peters, 1998: 303). If interorganisational cooperation between different levels of government is often hard to achieve, such coordination would be even more challenging for two jurisdictions with different economic, administrative and legal systems, as in the Hong Kong–PRD region.

9.2.3. *Towards policy coordination in south China*

The coordination perspective is useful in studying the growing cross-boundary intergovernmental interactions in south China (Cheung, 2006). The high-level Hong Kong/Guangdong Cooperation Joint Conference (the HKGDCJC) was established in 1998 to provide a framework for managing cross-boundary cooperation. Initially, the Chief Secretary for Administration (the

CS), the second ranking official in Hong Kong, was responsible for this task during the 1998–2001 period. But these efforts had not been particularly successful in this period, when closer integration with the mainland was considered politically sensitive. Since mid-2001, other initiatives have been proposed, such as the extension of boundary crossing hours and infrastructural coordination. Cross-boundary cooperation with the mainland cuts across different bureaucratic turfs in Hong Kong. In order to better coordinate the various agencies, a special unit was created to help senior officials in Hong Kong monitor the implementation of cross-boundary initiatives and review its existing policies and arrangements. In August 2003, the Joint Conference was upgraded to the level of the heads of administration, as they will be presided over by Guangdong’s governor and the chief executive (the CE). An executive vice-governor and the CS will be responsible for steering the cooperation. A total of 22 expert groups were consolidated under the HKGDCJC, to achieve more coherence in intergovernmental cooperation over priorities such as economic and infrastructural development, tourism, and infectious diseases.

Both vertical and horizontal coordination have been attempted by Hong Kong in recent years in order to expedite cross-boundary cooperation. Such efforts are considered necessary by the HKSAR government in order to benefit from China’s economic ascent and to resolve cross-boundary problems. Vertical integration is achieved by relying upon a higher level of government (namely the central government in Beijing) to resolve intergovernmental differences. Horizontal coordination is achieved by working closely with provincial counterparts to resolve cross-boundary policy issues. As the central and provincial authorities in the mainland remain powerful, reliance upon the market or other means of coordination is simply not viable. The following examples show that intergovernmental coordination constitutes a key element of cross-boundary development in south China.

A. *Closer Economic Partnership Agreement (CEPA)*. After being prompted by the business community, the HKSAR government has become active in lobbying the central government for a free trade agreement since 2001, in order to tap the ‘first-mover’ advantage for Hong Kong after China’s WTO accession. From Beijing’s perspective, China’s WTO accession may seriously erode Hong Kong’s role as a gateway between the mainland and the world economy. The CEPA Agreement, signed in June 2003, hence provides for the entry of products of Hong Kong origin

to the mainland with zero-tariff, and has facilitated the entry of Hong Kong service suppliers to the mainland since January 2004, about two years before China opened up in accordance with the WTO schedule. The Agreement has since been further broadened and encompassed six rounds of policy relaxation measures.

B. Coordination with regional and national plans. In view of China's rapid growth, the HKSAR government actively participated in the Pan-PRD regional cooperation, a network spearheading regional cooperation in nine provinces (Guangdong, Guangxi, Hainan, Fujian, Hunan, Jiangxi, Sichuan, Guizhou, Yunnan) and the two special administrative regions (SARs) (Hong Kong and Macao). For the first time since 1997, the HKSAR government also requested the central authorities to incorporate Hong Kong into the 11th National Five Year Plan (FYP) in 2006 and proposed recommendations on economic cooperation and transportation to complement the plan.

C. Coordination in urban planning. Since the HKSAR operates under 'one country, two systems', it is politically sensitive for mainland governments to incorporate Hong Kong into their regional plans. The participation of Hong Kong in Guangdong's urban planning was minimal until around 2005 (Yang, 2005a). However, the Guangdong authorities had tried to achieve coordinated development within the PRD by building a light rail system and a highways network and coordinating the clustering of cities in the PRD. In view of the exclusion of Hong Kong in such processes, the HKSAR government began actively to participate in regional planning, for instance, by raising the issue in the HKGDCJC in May 2004. A major joint study was later launched by both sides in late 2005 to examine planning coordination and other related issues.

D. Coordination of infrastructural development. In view of the duplication of infrastructural facilities in south China, the HKSAR government tried to work with Guangdong and requested that the central authorities coordinate cross-boundary infrastructure, such as the construction of the Hong Kong-Shenzhen-Guangzhou Express Rail Link to improve Hong Kong's links to the PRD, and the planning of the Hong Kong-Zhuhai-Macau Bridge to improve connectivity with the western PRD. The bridge was perceived by Guangdong as mainly benefiting Hong Kong, hence the provincial government has no longer been enthusiastic about the project in recent years. Only after the intensive lobbying of Beijing by the HKSAR government and a change in Guangdong's top leadership in late 2007 could both sides agree to build the bridge in early 2008.

E. Recent central and provincial initiatives. Since late 2008, the central and provincial governments have reasserted their commitment to repositioning the PRD as a key economic region in China's reform drive and to deepening regional coordination and economic integration (National Reform & Development Commission, 2009). The promulgation of 'The outline of the plan for the reform and development of the Pearl River Delta (2008–2020)' in late 2008 by the National Reform and Development Commission of the central government is profoundly important in reaffirming the pioneering role played by Guangdong province in past and future reform. Specifically, this comprehensive document encourages further social, economic and administrative reforms and stresses the support of the central and provincial governments in facilitating the division of labour between Hong Kong and the PRD and consolidating Hong Kong's key position as an international finance, trading, shipping, logistics and high value-added service centre. Closer coordination over economic cooperation, regional planning and the ongoing cross-boundary infrastructural projects would be expedited. Most importantly, the State Council and its ministries will oversee the implementation of such efforts together with the provincial government, to improve coordination. Through enhancing both vertical coordination with central ministries and horizontal coordination within Guangdong and between the PRD and Hong Kong and Macao, this policy framework has established an unprecedented platform to facilitate spatial, social and economic integration in south China by creating more policy space and incentives for these areas to work together (Constitutional and Mainland Affairs Bureau, 2009). While there are obvious competing interests in a decentralised region like south China and the implementation of this policy can only be assessed a few years later, such an ambitious initiative under the auspice of the central government is nonetheless path-breaking in promoting regional cooperation within the PRD, as well as between the PRD, Hong Kong and Macao.

9.2.4. Multi-level governance

The dispersal of authority from central states to both supranational institutions and to regional and local governments and the proliferation of public-private networks are widely recognised as salient characteristics of contemporary governance. The multi-level governance approach has been specially applied to the European Union (Bache & Flinders, 2004; Hooghe & Marks, 2001, 2003; Marks & Hooghe, 2004). While 'multi-level' refers to the 'increased interdependence of

governments operating at different territorial levels', 'governance' is about the 'growing interdependence between governments and non-governmental actors at various territorial levels' (Bache & Flinders, 2004: 3). Bache and Flinders capture the key themes in the literature as the 'increased participation of non-state actors', the increasing difficulties in identifying the 'discrete or nested territorial levels of decision making' as a result of 'complex and overlapping networks', the transformation of the role of the state in coordination, steering and networking in order to protect and enhance state autonomy, and the challenges to democratic accountability (Bache & Flinders, 2004: 197). Hooghe and Marks (2003) have articulated two distinct types of multi-level governance. Type I refers to general-purpose jurisdictions with non-intersecting memberships, characterised by a limited number of jurisdictional levels and a system-wide, durable framework such as a legislature, an executive and a court system. Type II is composed of 'special-purpose jurisdictions that tailor membership, rules of operation, and functions to a particular policy problem' (Marks & Hooghe, 2004: 28). They are task-specific rather than general-purpose, and are intended to be flexible rather than durable (Hooghe & Marks, 2003: 238). Being task-driven, Type II multi-level governance is quite common in cross-border regions (Marks & Hooghe, 2004: 24).

9.2.5. *Towards multi-level governance in south China?*

The multi-level governance approach has also been applied in studying the cross-boundary cooperation in south China, even though its conditions differ from those in Europe (Sasuga, 2004; Yang, 2005a, 2005b). Yang argues that cross-border interactions in south China have, since 1997, transformed from a market-led to an institution-based process. The growth of inter-governmental mechanisms exemplifies such an evolution. Decision making in the Hong Kong-PRD region involves not only a wide array of governmental actors at different levels, but also a host of businesses and local residents (Yang, 2005a: 2164). The existence of multiple levels of governments in the PRD has greatly complicated regional cooperation (Yang, 2005a: 2158). Regional cooperation in south China is similar to the Type II model advanced by Hooghe and Marks, which highlights the role of 'task-specific, intersecting and flexible jurisdictions' (Yang, 2005a). In the absence of a regional authority to mediate differences, Beijing still plays a critical role in cross-boundary coordination between Hong Kong and the PRD. Other scholars have also applied this perspective in studying the interactions

among the different levels of government and business actors in south China. In his study of Japanese and Taiwanese investment, Sasuga examines the 'fluid and flexible system of multilevel governance' exemplified by the entrepreneurial strategies of Guangdong's provincial and subprovincial governments in attracting foreign investment and the networking between foreign firms, especially in electronics, with these local governments (Sasuga, 2004: 161–162). However, in view of the constant changes in central policies, the frequent administrative changes in the PRD, and the onset of the global financial tsunami since 2008, how a special multi-level governance framework spanning across 'one country, two systems' may emerge in south China remains to be seen.

9.3. *Conclusions*

This section attempts a preliminary assessment of these different perspectives on cross-boundary cooperation in south China. Various studies have illustrated the characteristics of the Greater PRD as an incipient global city region. While this perspective is useful in understanding the past decades, its application is constrained by the following conditions. First, the multiple jurisdictions in the Greater PRD have hampered a clear division of labour among the competing cities based on market coordination. Despite Hong Kong's strengths in services, legal system and regulatory framework, whether it can be sustained as the premier centre for services in south China and perform its command and control functions in the longer run remains to be seen. China's further opening up, the high cost of operation in Hong Kong, and the differences between the Hong Kong and mainland legal systems, among other factors, are crucial in shaping such a trajectory. Second, the powerful role played by entrepreneurial local governments in south China suggests that political consideration is as important as economic gain in explaining government behaviour, because local leaders equate their achievements with short-term local economic development. The fragmentation of China's planning bureaucracies also does not facilitate coordinated regional governance (Yeh & Xu, 2008b). Hence it would be difficult for these localities to coordinate among themselves or with Hong Kong to achieve long-term, sustainable regional development, unless there are other political or economic incentives to foster cooperation. The duplication of infrastructure and the rivalry over logistics development have become obvious problems in the Greater PRD. Hence other approaches could also be used to appreciate the growing

role of intergovernmental interactions in cross-boundary development in south China.

The policy coordination perspective holds great promise in studying cross-boundary relations between Hong Kong and the PRD. First, the HKSAR government has been experimenting with various institutional forms to achieve intraorganisational and intergovernmental coherence in managing cross-boundary relations, as shown in the reshuffling of its own agencies and the development of intergovernmental mechanisms in dealing with such issues. Second, the HKSAR government has not only expanded its horizontal coordination with Guangdong province to resolve cross-boundary problems, but also increasingly sought vertical coordination with and assistance from Beijing because the competing interests between Hong Kong and Guangdong could not be easily resolved. These actions reflect purposive efforts by Hong Kong to achieve a higher degree of cross-boundary coordination under 'one country, two systems'. The recent central policy on reform and development planning of the PRD provides a new impetus for boosting policy coordination in this region. Under the guidance of the central and provincial authorities, whether such efforts in coordination would be effective constitutes a key policy challenge and research question in the near future.

Last but not least, the central government in China is no longer as powerful as in the pre-reform era in dictating local economic development and regional coordination. After three decades of decentralisation, local governments in south China have become very aggressive in attracting foreign investment and skillful in dealing with their provincial or central government agencies. Interactions among these different levels and the business sectors provide a fascinating story of how

economic development and infrastructural coordination have been pursued by different state and non-state actors. Nonetheless, strictly applying the multi-level governance approach developed in the European context is problematic. First, the approach lacks a clear theory to explain the pattern of interactions among the state and non-state actors operating at different territorial tiers. Specification of hypotheses based on the model, especially with reference to the Chinese context, would be critical. Second, while the Chinese central state is no longer as commanding as before, it still dominates personnel appointments and arbitration of disputes among the subnational governments from time to time. Whether a unique form of multi-level governance has indeed taken shape in south China merits more research.

The three perspectives discussed above are, nonetheless, not necessarily mutually exclusive because they offer insights into different aspects of the dynamic cross-boundary cooperation in south China. No single perspective can fully grasp the intricacies of the economic and political processes at work. For instance, a focus on intragovernmental and intergovernmental coordination can be incorporated into a study adopting a multi-level governance analysis of cross-border cooperation in south China. By doing so, the institutional obstacles in inhibiting coordination at each governmental level can be better appreciated. If we are interested in the politics among the competing local governments and non-governmental actors, it would be necessary to examine the different layers of political interactions, the stakes and strategies of each player, and how their strengths have shaped outcomes. Hence, more empirical research and conceptual refinement would be needed to explain the dynamics of cross-boundary relations in south China.