

INTER-CITY RELATIONS BETWEEN HONG KONG AND SHENZHEN: IMPLICATIONS FOR URBAN PLANNING AND GOVERNANCE

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ABSTRACT

While Hong Kong and Shenzhen compete in some areas, inter-city cooperation has become an important strategy for the governments of both cities. The paper attempts to address the following questions. What are the economic and social relations between Hong Kong and Shenzhen? In terms of inter-city competition, what is being competed? Who is engaged in competition, business sector or city governments? How would different modes of urban governance affect inter-city cooperation and competition? The paper will first review the inter-city economic and social relations. Then a conceptual framework will be developed for analyzing inter-city relationship. The issue of asymmetric urban governance will be examined.

Keywords: inter-city cooperation; inter-city competition; urban governance; Hong Kong; Shenzhen

1. INTRODUCTION

In the age of globalization, urban competition has been intensified as cities compete against each other to attract TNCs and their regional headquarters, international capital and talents (Macleod and Goodwin, 1999). On the other hand, cities may also cooperate to enhance the competitive advantage of both cities by seeking agglomeration effects, facilitating innovation process, managing externalities, avoiding duplicative capacities, improving efficacy and minimizing risks (Heeg et al., 2003). New regionalism considers regions as a more appropriate unit of local social organization. "Urban networks" offer an approach to deal with growth/sustainability tradeoff in ways that are not purely state or market (Cooke et al., 2004). The key feature of urban networks is the willingness for cities to sink historic differences and engage in collaboration for mutual benefit. Perspectives of regionalism and urban networks justify the needs of inter-city cooperation.

Since the late 1970s, Hong Kong has developed strong economic relations with mainland China especially Shenzhen and Pearl River Delta (PRD) (Sit, 1998; Shen, 2003; Yeung and Shen, 2008; Cheung, 2005). Hong Kong played an important role in driving the economic growth in Shenzhen and PRD (Shen et al., 1999; Wong and Shen, 2002). In the period 1979-1997, Hong Kong and Shenzhen were complementary in development. Cooperation instead of competition prevailed in this pair of neighbouring cities. However, in the period 1997-2003, Hong Kong suffered from economic recession caused by Asian Financial Crisis and other political and economic problems. With the growing strength of mainland cities, the economic relationship between Hong Kong and Shenzhen is in flux. In early 2006, some top officials and scholars began to discuss whether Hong Kong would be marginalized in the 11th five-year plan period (2006-2010) (Yeung et al., 2006). The inter-city relation and development in Hong Kong and Shenzhen has caught much attention (Ng, 2002; Yang, 2005). One important step is the official agenda to jointly develop Hong Kong-Shenzhen metropolis by both Hong Kong Special Administrative Region (HKSAR) and Shenzhen governments. A recent consultancy report also suggests HKSAR government to adopt more measures to promote Hong Kong-Shenzhen cooperation (Bauhinia Foundation Research Centre, 2007).

The dynamics of Hong Kong and Shenzhen relations constitutes an interesting case for the study of inter-city competition and cooperation (Chu et al., 2002; Yang, 2005). What are the economic and social relations between Hong Kong and Shenzhen? What is being competed? How would different modes of urban governance affect inter-city cooperation and competition? The paper attempts to address these issues. The paper will first review the inter-city economic and social relations. Then a conceptual framework will be developed for analyzing inter-city relationship and the issue of asymmetric urban governance will be examined. Some conclusions are reached in the final section.

PLANNING & DEVELOPMENT

2. ECONOMIC RELATIONS BETWEEN HONG KONG AND SHENZHEN

2.1 Economic Growth in Hong Kong and Shenzhen

Hong Kong experienced dramatic economic growth in the period 1981 to 1997. Its growth slowed down in the period 1997-2003 and picked up since 2003. Hong Kong's GDP (Gross Domestic Product) per capita increased from US\$5,966 in 1981 to US\$27,170 in 1997 and then declined to US\$26,095 in 2005. Shenzhen's GDP per capita increased from US\$829 in 1981 to US\$3,097 in 1997 and US\$7,422 in 2005. Shenzhen's GDP as percentage of Hong Kong's GDP increased from only 0.9% in 1981 to 8.9% in 1997 and 34.0% in 2005 (Table 1).

Table 1 : GDP and GDP per capita in Hong Kong and Shenzhen 1981-2005

YEAR	GDP (US\$ BILLION)				GDP PER CAPITA (US\$)	
	China	Guangdong	Shenzhen	Hong Kong	Hong Kong	Shenzhen
1981	286.3	17.0	0.3	30.9	5,966	829
1985	307.0	19.7	1.3	35.5	6,512	1,638
1986	297.6	19.3	1.2	40.9	7,405	1,328
1990	390.3	32.6	3.6	76.9	13,480	1,824
1991	409.2	35.6	4.4	88.8	15,444	2,254
1995	728.0	71.0	10.1	144.2	23,428	2,341
1996	856.1	82.2	12.6	159.0	24,702	2,706
1997	952.7	93.8	15.7	176.3	27,170	3,097
2000	1,198.5	129.8	26.4	168.8	25,320	3,962
2001	1,324.8	145.5	30.0	166.5	24,803	4,207
2002	1,453.8	163.1	35.9	163.7	24,274	4,877
2005	2,235.0	273.0	60.4	177.8	26,095	7,422

Source: SSB (1985: 518; 1983: 440); NBS (2006); GDPBS (2006: 91); Shenzhen Statistics Bureau (2006: 33); CSD (2007a: 14; 2007b; 2007c).

According to the study of urban competitiveness of Chinese cities, Hong Kong was ranked as the most competitive city in China in 2005 and 2006 (Ni et al., 2006; 2007). In the same study, Shenzhen was ranked as the second most competitive city in China in 2005 and 2006. In 2007, Shenzhen's tax contribution to the central government reached RMB211.2 billion. Its local tax revenue also reached RMB58.7 billion in 2007, third largest among mainland cities and greater than that of Guangzhou (Ming Pao, 2008).

2.2 Economic Relations between Hong Kong and Shenzhen

Hong Kong plays an important role in foreign direct investment (FDI) and international trade of mainland China after the opening of China to the outside world. The total FDI stock originated in Hong Kong amounted to US\$112 billion, 88.5% went to the mainland in 1996 (Sung, 1998). The 1997 was the peak of Hong Kong investment in mainland, reaching US\$21.55 billion. It declined to US\$16.73 billion in 2000 and bounced back to US\$19.80 billion in 2005. Shenzhen is one of the hot spots of FDI from Hong Kong and elsewhere. Shenzhen accounted for 19.2% FDI received by China in 1986, 3.7% in 1997 and 4.9% in 2005. Shenzhen received 27.1% of Hong Kong FDI to mainland China in 1986, 8.1% in 1997 and 16.5% in 2005. But Hong Kong is the major source of foreign capital in Shenzhen, accounting for 78.9% in 1986, 70.7% in 1997 and 53.0% in 2005 (including small amount from Macau and 2005 refer to FDI only excluding foreign loans).

Indicating closer economic relationship between Hong Kong and mainland China, the share of the mainland in Hong Kong's total import increased to 45.9% in 2006, from 37.7% in both 1991 and 1997. The share of the mainland in Hong Kong's re-export increased from 28.7% in 1991 to 35.7% in 1997 and 48.0% in 2006 (CSD, 2001: 52; 2007d: 46-49).

Shenzhen's export grew from US\$9.9 billion in 1991 to US\$25.5 billion in 1997 and US\$101.5 billion in 2005. It contributed over 13% of the total export of China. Outward processing related export accounted for the bulk of export from Shenzhen. In 2005, outward processing related export reached US\$75.5 billion and export by FDI firms were US\$67.6 billion. Shenzhen to Hong Kong export grew from US\$9.3 billion in 1991 to US\$21.2 billion in 1997 and US\$45.1 billion in 2005. Its share in the total export from mainland to Hong Kong was 19.0% in 1991, 48.4% in 1997 and 36.2% in 2005. But the share of export to Hong Kong in the total export of Shenzhen declined from 94.4% in 1991 to 83.1% in 1997 and 44.4% in 2005 due to increasing use of Shenzhen port. Overall, Hong Kong and Shenzhen are important economic and trade partners.

3. SOCIAL RELATIONS BETWEEN HONG KONG AND SHENZHEN

The huge investment in the mainland China by Hong Kong certainly generated many jobs for skilled people from Hong Kong. The number of Hong Kong residents who were working in the mainland, excluding those who stay in Hong Kong under one month in the six months before or after enumeration, increased from 52.3 thousands in 1988 to 157.3 thousands in 1998 and 237.5 thousands in 2005 according to the Census and Statistics Department of HKSAR government (CSD, 1999b; 2005). Its share in the total employment of Hong Kong increased from 4.2% in 1998 to 7.2% in 2005.

Among the total residents working in the mainland in 2005, 75.5% were males, down from 86.2% in 1998 indicating more females also engaged in working in mainland China after 1998. The share of those with tertiary education increased from 33.2% in 1998 to 42.0% in 2005. In terms of occupation, 35.6% were managers and administrators, and 45.4% were professionals and associate professionals. These percentages were significantly higher than those in the total population of Hong Kong. Clearly, a quality population selected spontaneously from Hong Kong was involved in the cross-boundary employment in the mainland. The median income were HK\$13,500 and HK\$9,000 for those working in mainland China and the total employed population in Hong Kong respectively in 1995 (CSD, 2006b) The income gap further widened in 2005, the figures were HK\$16,000 and HK\$10,000 respectively. Shenzhen and Dongguan were two major cities where 38.0% and 29.5% of those Hong Kong residents worked in 2005. Overall 90,400 Hong Kong residents worked in Shenzhen and 70,000 in Dongguan.

In another survey conducted between November 2004 and January 2005, the number of Hong Kong residents living in mainland China for at least one month out of six months before enumeration was 290,900 (CSD, 2007f). The data from that survey were found to be undercounted and were adjusted by Census and Statistics Department using immigration records (CSD, 2007f). The number of Hong Kong residents living in mainland China was 472,900, accounting for 7% of the population in Hong Kong. The economically active Hong Kong residents living in the mainland revised upward by 67.5% from 172,900 to 289,600.

Surveys have also been conducted on the Hong Kong residents living in mainland China for over three months out of the six months before enumeration which are considered as mobile residents in Hong Kong. Such residents increased from 41,300 in 2001 to 61,800 in 2003 and 91,800 in 2005 (CSD, 2006c). The share in Hong Kong population aged over 18 increased from 0.8% in 2001 to 1.1% in 2003 and 1.7% in 2005. For reasons of living in mainland in 2005, 71.3% were due to the work requirement, 8.4% for living with spouse/children, 7.2% due to relatives in the mainland and 7.0% due to low living cost (multiple answers allowed). 74.1% lived in Guangdong, including 26.0% in Shenzhen, 20.1% in Dongguan and 13.8% in Guangzhou.

A total of 190,100 domestic households had members who owned or rented residential properties in the mainland in 2005. The share in all households increased from 9.1% in 2001 to 9.8% in 2003 and then declined to 8.3% in 2005. Some 163,100 households owned residential properties in mainland in 2005. The share in all households in Hong Kong increased from 7.9% in 2001 to 8.8% in 2003 and then declined to 7.2% in 2005. Only 1.3% households in Hong Kong were renting in the mainland in 2005. Among those who owned residential properties in the mainland, 71.6% also owned their own residential properties while only 25.9% were tenants in Hong Kong.

The number of residential properties owned by Hong Kong residents was 189,000 in 2001, 215,400 in 2003 and 181,600 in 2005. The number was stable. Overall, Hong Kong residents owned 181,600 (85.6%) and rented 30,600 (14.4%) residential properties in 2005. In the mainland, the median floor space of the residential properties owned by Hong Kong

residents was 90.1 m² and the median price was HK\$240,000 at the time of purchase or construction. The median monthly rent of residential properties rented by Hong Kong residents was HK\$1,000. On the other hand, the median floor space was 50.6 m² and 41.8 m² in Hong Kong for households owned and rented residential properties in the mainland respectively. 89.8% of the properties owned by Hong Kong residents were in Guangdong, including 21.8% in Dongguan, 20.4% in Shenzhen and 18.1% in Guangzhou. But over half of rented properties, 51.5%, were in Shenzhen.

The above data shows a clear pattern of cross-boundary urban development in Hong Kong-Shenzhen-Dongguan region. Shenzhen along with Dongguan are major destinations where increasing number of Hong Kong residents live and work. They have become the important social and economic space of between 200,000 and 500,000 Hong Kong residents. Work requirement was the top reason (over 70%) of living in the mainland while low living cost was not a very important reason (about 7%).

4. CONCEPTUALIZING INTER-CITY RELATIONS BETWEEN HONG KONG AND SHENZHEN

Previous two sections illustrate close socio-economic relations between Hong Kong and Shenzhen. Business-based economic cooperation and residents-led social interaction prevail between Hong Kong and Shenzhen (Shen, 2003). Both Hong Kong and Shenzhen governments have also attempted recently to enhance cooperation between two cities. Nevertheless, there are also concerns on inter-city competition in certain areas. A good understanding of the inter-city relations is necessary for the development and cooperation of both Hong Kong and Shenzhen.

This section will develop a conceptual framework of inter-city competition and cooperation in Hong Kong and Shenzhen. The inter-city relationship between Hong Kong and Shenzhen is a unique one that differs from inter-city relations between cities in different countries and within the same country. The context of inter-city relationship has the following characteristics. First, as a general regional economic principle, the economic relation between Hong Kong and Shenzhen is governed by regional division of labour under market economy based on the comparative and competitive advantages of two cities. The current economic relationship is largely a result of such market forces.

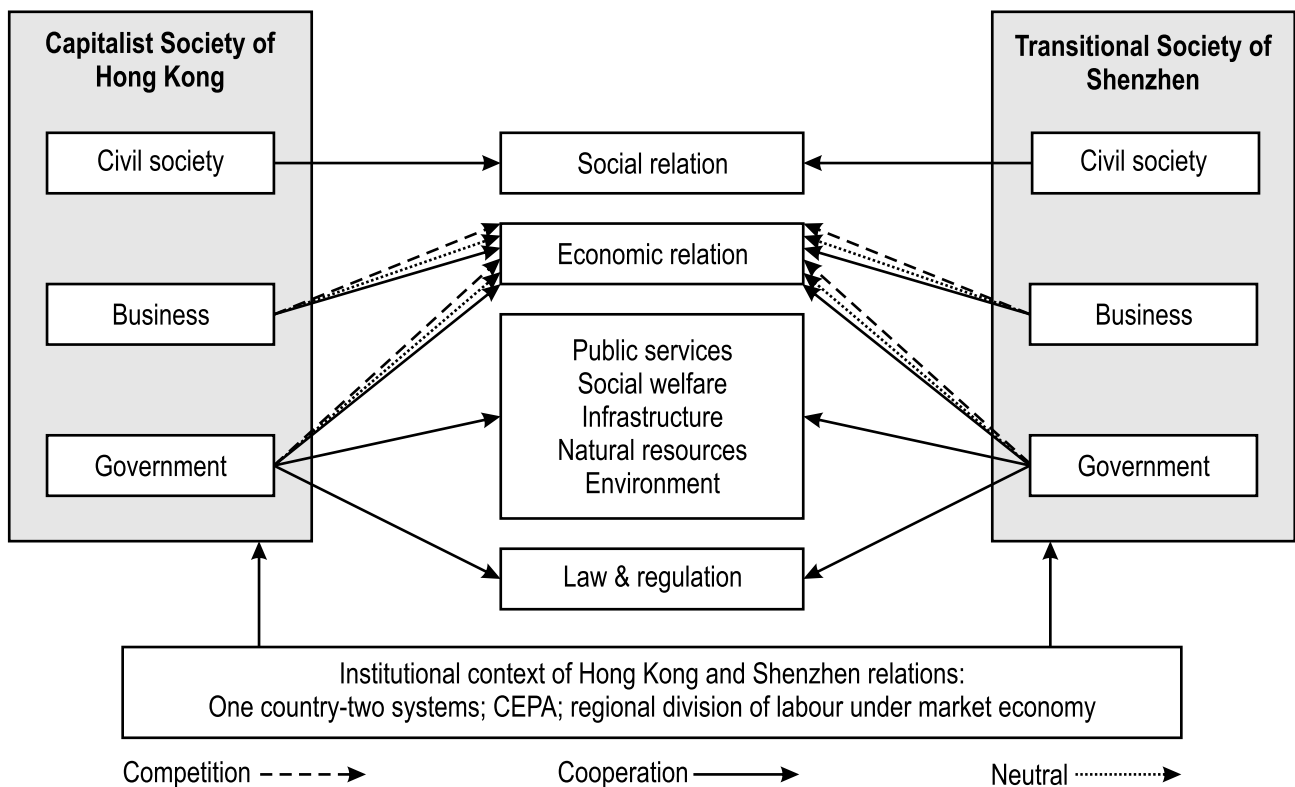
Second, Hong Kong and Shenzhen have different capitalist and transitional socialist economies respectively under the framework of "one country-two systems". Hong Kong has its own capitalist economic system and high autonomy in terms of legal, economic, financial and social matters. The "one country-two systems" and CEPA (Mainland and Hong Kong Closer Economic Partnership Arrangement) provide the institutional foundation for inter-city relations between Hong Kong and Shenzhen.

Third, there are geographical distance between Hong Kong and Shenzhen although the two cities are neighbours sharing the Shenzhen River. Shenzhen's urban development has taken place next to the boundary. But Hong Kong's main urban and business areas are located in Hong Kong Island and Kowloon Peninsula which are 30-40 minutes away from the boundary by train or car. Boundary crossing procedures and the time needed to change mode of transport means another 20-30 minutes at the boundary crossing. Thus, in reality, Hong Kong is 50-70 minutes away from Shenzhen in terms of travel time. This is equivalent to geographical distance of 60km assuming travel speed of 60km per hour.

Fourth, strict immigration and custom controls operate between Hong Kong and Shenzhen (and mainland China in general). The boundary control is even tighter than those between countries in European Union. The boundary control has reduced the scale of inter-city flows of vehicles, goods and people. The numbers of travellers and vehicles crossing Hong Kong-Shenzhen boundary (the first boundary) were only 18.00% and 5.86% of the numbers of travellers and vehicles crossing Shenzhen special economic zone boundary (the secondary boundary) respectively in 2005 (Shenzhen Yearbook Editorial Committee, 2006; CSD, 2006a).

Inter-city cooperation and competition are very general terms. They should be broken down into specific relations for realistic assessment. Three major actors are identified in each city in this paper: the government, business and civil society. Figure 1 presents a conceptual framework of the competition and cooperation of Hong Kong and Shenzhen. The areas of interaction are grouped into four categories and only direct interaction is considered. First, social relations refer to flows of travellers, commuters, cross-boundary workers, students, migrants and marriages between Hong Kong and Shenzhen. They represent normal social relations characterized by "cooperation" instead of competition between

Figure 1 : Conceptual Framework of the Competition and Cooperation of Hong Kong and Shenzhen



civil societies. Second, economic relations refer to cross-boundary investment, production and trade. It is useful to differentiate state-owned enterprises and business from private business. In the area of private business, cross-boundary cooperation prevails between Hong Kong and Shenzhen due to the complementarities of capital, labour, technology and market knowledge.

However, the situation is more complicated in the state-owned enterprises and business. HKSAR government only owns a few public organizations/businesses such as Hong Kong Convention and Exhibition Centre under Trade Development Council and Hong Kong Airport Authority. Making profit is not the main objective of these businesses. But the government does have a keen interest in maintaining a strong convention and exhibition business and airport in Hong Kong for the general interest of Hong Kong economy. Competition may exist in these areas. Shenzhen government is also involved in some economic sectors via state owned enterprises. For example, the government owns large shares in Shenzhen Baoan International Airport and various container terminals in Shenzhen. Shenzhen government is able to provide favourable incentives to attract investors to expand Shenzhen's container port.

Third, in the areas of public services, social welfare, infrastructure, natural resources and environment, generally each government is responsible for its own area and population. Thus there is no competition. But inter-city cooperation is necessary on environmental protection and in the development of cross-boundary infrastructure. Finally, under "one country-two system" framework, each city has its own set of laws and regulations on social and economic activities. Due to political and legal nature, there is no direct competition in these areas. Cooperation is needed to facilitate cross-boundary social and economic development and flows of goods and people. It is clear that cooperation is needed in many areas while there is competition in a few cases.

5. CHALLENGES OF ASYMMETRIC URBAN GOVERNANCE

This section will examine the difference between Hong Kong government's "non-intervention policy" and Shenzhen government's "developmental state" approach to urban economy. The core task of the Shenzhen government focuses on economic development and investment promotion. The core task of the Hong Kong government focuses on the social needs of the city while leaving the economy largely to the invisible hands of the market. Such asymmetric urban governance in two cities will be examined in three aspects: the difference in government budget, Shenzhen's "developmental state" approach to urban economy and Hong Kong's mode of urban governance.

5.1 The Difference in Government Budget

The difference between Hong Kong and Shenzhen governments can be partly revealed by their fiscal revenue and expenditure. The total revenue of Hong Kong and Shenzhen governments were HK\$247.0 billion and RMB41.9 billion in 2005/06 and 2005 respectively. Note the financial year 2005/06 in Hong Kong refers to the period from April 2005 to March 2006. In terms of government revenue structure, two cities were similar. Taxes contributed 71.1% and 83.0% in Hong Kong and Shenzhen respectively. The revenue of various funds, including land revenue in the capital works reserve fund, accounted for 15.3% in Hong Kong, much higher than that of Shenzhen. It is clear that land revenue is an important source of revenue in addition to taxes in Hong Kong. The land revenue in Shenzhen is not explicitly listed.

Table 2: Local Government Expenditure in Hong Kong in 2005/06 and Shenzhen in 2005

ITEM	SHENZHEN (RMB MILLION)	%	ITEM	HONG KONG (HK\$ MILLION)	%
Capital construction	11,639	19.0	Capital expenditure	30,310	13.0
Enterprises upgrading	918	1.5			
Science, science and technology promotion	2,916	4.8	Innovation and technology fund	365	0.2
Education	5,098	8.3	Education (also including following)	38,621	16.6
			Universities and polytechnics	11,326	4.9
			Vocational training council	1,689	0.7
Public health	1,503	2.5	Health	27,075	11.6
Pension of administrative and public units	594	1.0	Pensions	12,834	5.5
Government administration (also including following) ¹	10,433	17.0	Government administration ²	64,268	27.6
Public security, procuratorial, court and judicial units	4,676	7.6			
City maintenance	2,149	3.5			
Special expenditure	869	1.4	Social welfare	6,340	2.7
Other	25,947	42.3	Other	43,324	18.6
General expenditure	59,916	97.7			
Funds expenditure	1,404	2.3	Funds	9,934	4.3
Total expenditure	61,320	100.0	Total expenditure	233,071	100.0

Notes: 1. Including expenditure for public security, procuratorial, court and judicial units, city maintenance

2. Including personal emoluments, personnel related expenses and departmental expenses

Source: HKSAR Government (2007: 208 & 384); Shenzhen Statistics Bureau (2006: 86-91)

The total expenditure of Hong Kong and Shenzhen governments were HK\$233.1 billion and RMB61.3 billion in 2005/06 and 2005 respectively (Table 2). The share of government expenditure on capital construction and enterprises upgrading was greater in Shenzhen (20.5%) than Hong Kong (13.0%). Shenzhen government had much direct investment in state-owned companies in addition to investment in public infrastructure. Shenzhen also invested more in science and promotion of science and technology (4.8%) than Hong Kong (0.2%). On the other hand, Hong Kong spent more on education (16.6%) and public health (11.6%) than Shenzhen (8.3% and 2.5% respectively). Due to higher living cost and salary, Hong Kong also spent more on government administration (27.6%) and pensions (5.5%) than Shenzhen (17.0% and 1.0% respectively). In addition, Hong Kong government spent 2.7% on social welfare. Unspecified expenditure was 42.3% in Shenzhen, greater than 18.6% in Hong Kong. It is clear that Shenzhen government spent more on economy and science while Hong Kong government spent more on education, health, social welfare and government administration. Clearly, the Hong Kong government focuses more on the social needs of the city than Shenzhen.

5.2 Shenzhen's "Developmental State" Approach to Urban Economy

The secondary sector contributed 53.2% of GDP in Shenzhen. Much FDI was also invested in the secondary sector. Firms funded by Hong Kong, Macau and Taiwan were the main part of the sector, accounted for over 40% of the number of firms, employees, industrial value added, pre-tax profit and profit. Domestic sector was the second and the foreign funded firms came third.

Most domestic firms were collective, private or other registration type of firms. There were 48 state-owned firms, employed 13,000 employees and contributed about 3.2% of industrial value added and 5.0% of pre-tax profit of the sector. Its contribution to tax, estimated as the difference between pre-tax profit and profit, was 10% in 2005. Thus a market economy has emerged in Shenzhen and SOEs (State-owned enterprises) play a limited role, though much greater than the case of Hong Kong. It is noted that domestic firms employed only 22.5% of the workforce but contributed 36.2% pre-tax profit and 50.8% tax. This also explains why the government likes to support the domestic firms which are important source of tax revenue. On the other hand, the success of Shenzhen economy depends heavily on Hong Kong and foreign investment. The government has made great efforts to promote the city and attract FDI from Hong Kong and elsewhere.

Shenzhen government has been highly selective in supporting large business, SOEs and private business. In 2003, Shenzhen government (2007) introduced special measures to provide convenient and direct services to 193 large firms in Shenzhen. These firms included those firms registered in Shenzhen with either sales revenue reaching RMB3 billion, export reaching US\$200 million or tax reaching RMB200 million, firms among top 500 in the world, firms among top 100 electronics and information firms in China and firms among top 50 industrial firms in Guangdong, financial firms with headquarters in Shenzhen, and other firms needing support according to the economic development strategy of the city. But real estate firms and real estate projects of above large firms are excluded from special services.

The large firms will be eligible for the following privileged services. a) a vice secretary of the city government will be designated to coordinate the services for large firms and to liaise with standing deputy Mayor or Mayor when necessary. b) each bureau of the city government will designate a bureau official to coordinate its service and designate dedicated staff to provide all-round services. Each bureau will set up "direct service window" to deal with business application, consultation, guidance, monitoring and complaining. Most matters of the large firms should be dealt with by bureau of city government rather than lower level government. c) the processing time should be half of the usual time for all firms in the city. d) the government will involve in the early stage of site selection for large projects. Application will be dealt with immediately for planning approval. e) for projects need approval of central government, the Bureau of Foreign Trade and Economic Cooperation (now Bureau of Trade and Industry) and the Bureau of Development and Planning (now Bureau of Development and Reform) will send designated staff to the Ministry of Commerce and the State Development and Reform Commission to assist the firms in the application and approving process.

Another example is that Shenzhen government identified Huawei and other 4 firms as leading private firms and 106 firms as core private firms for 2007/08 (Shenzhen government, 2007). The government regards place promotion and attracting FDI as its major tasks.

For another example, Shenzhen government introduced "Tentative measures of managing support fund for new air cargo service lines in Shenzhen Baoan International Airport" to provide financial incentive to airlines for expanding air cargo service in its airport on 1 January 2007. China Eastern Airlines was the first company to receive RMB7.128 million for operating the service between Shenzhen, Alma-ata and Luxembourg (Shenzhen Airport, 2007a).

It is clear that Shenzhen shows nature of a local development state that offers special financial and other incentives to selected companies and economic sectors. Such policies reflect an entrepreneurial urban strategy to compete with other cities for strategic sectors and investment (Jessop and Sum, 2000; Shen, 2004; 2007). Of course, such policies may be at the expense of some economic sectors, small companies and even the public services as financial resources may be allocated elsewhere. So the ultimate result of entrepreneurial urban strategy is uncertain and debatable. But one direct result is that it can successfully attract and develop certain economic sectors such as container port and airport in Shenzhen which may develop slowly without such policies.

5.3 Hong Kong's Mode of Urban Governance

"Positive non-intervention" is the most important feature of urban governance in Hong Kong. Different from the approach of Shenzhen government, HKSAR government has attempted to create a fair business environment with no special incentives to particular business generally. HKSAR government has been less sensitive and responsive to economic opportunities under the philosophy of "positive non-intervention". Strong economic sectors such as financial industry and producer services will grow in Hong Kong based on territorialized advantages offered by Hong Kong (Shen, 2007). Under such approach, no particular business sector will be affected negatively and residents may enjoy more and better public services and social welfare. But Hong Kong does run the risk of losing certain business such as the declining status of container port in the world. It is debatable whether HKSAR government should provide financial resources to support the container port or just let the market condition to determine the scale of the container port industry. Ultimately, the future of Hong Kong's container port will depend on the territorialized advantages. The best approach is that HKSAR government should provide the best policy and operational environment for the container port without committing huge financial resources directly.

The second feature of urban governance in Hong Kong is that HKSAR government has formal and rigid system in the planning, development and environmental impact assessment of any housing, industrial, commercial and infrastructure projects. The legislative council and the growing civil society also require more time for detailed review, consultation and discussion before government can get approval or support for major projects after 1997. While it is important to get feedback and support from various stakeholders, HKSAR government needs to improve planning, policy-making and public participation process so that various strategic projects can be planned, designed and implemented efficiently. Advanced planning and consultation may be the best way to save time. Long-term strategic and coordinated planning is necessary for maximum efficiency.

5.4 Changing Status of Hong Kong and Shenzhen Airports and Container Ports

The mode of urban governance has resulted in a pattern of being slow to make decision and slow to take action in Hong Kong. After the completion of 10 projects related to new airport, Hong Kong did not complete many major infrastructure projects. On the other hand, Shenzhen has made massive investment in airport, container port and convention and exhibition facilities.

As a result, Hong Kong's leading position in international shipping and aviation sectors is under serious challenge. Hong Kong has one of the leading international airports. The air industry employed 27,994 people in 2006 (TDC, 2007). The airport handled 3.58 million tonnes of cargo and 43.3 million passengers in 2006. Hong Kong ranked No.2 in handling air cargo and No. 14 in passenger throughput respectively in 2006 (Civil Aviation Department, 2007; Ming Pao, 2007). Air cargo service is also an important business of the airport. Air cargo accounted for 1.2% by weight of all cargo handled by Hong Kong in 2004 (CSD, 2007b: 125). But its value share was as high as 21.3% in 1997 and was further increased to 34.5% in 2006 (CSD, 1999a: 104; 2001: 1 & 104; 2007d: 46; 2007e: 104). Air industry also contributed to 11.3% of total service export of Hong Kong in 2005. But Hong Kong international airport has little room for building additional runways.

The Shenzhen Bao'an International Airport is operated by Shenzhen Airport Company Ltd (2007), which is listed in Shenzhen stock market, 54.64% owned by state-owned Shenzhen Airport Company (Group) Limited (Shenzhen Airport, 2007b). The airport opened for operation in October 1991 and was the 4th largest airport in China with passenger throughput reaching 18.6 million in 2006. It ranked 68 in passenger throughput and 34 in cargo throughput in the world (Shenzhen Airport, 2007c).

According to Wang and Slack (2000), Hong Kong port has become a regional load centre for south China and is facing increasing competition from Shenzhen. A competing deep-sea direct-call port has emerged in Shenzhen. Container throughput in Shenzhen increased dramatically from 0.04 million TEUs in 1990 to 1.15 million TEUs in 1997 and 18.5 million TEUs in 2006. It became the eleventh busiest container port in the world in 2000 and the fourth in 2003-2006 (Hong Kong Port, Maritime and Logistics Development Unit, 2006; Transport and Housing Bureau, 2007). The container throughput in Shenzhen is catching up Hong Kong rapidly with a high annual growth rate of over 18% a year. A large part of containers have been diverted to Shenzhen port as its terminal handling charges and transport cost are much lower than those of the Hong Kong port (Yeung et al., 2005). Containers from eastern PRD going to Hong Kong via Shenzhen have to bear the extra time and cost of crossing the boundary and land transport to the port in Hong Kong, if not using Shenzhen port.

The total investment in airport and seaport in Shenzhen will reach RMB49.5 billion in the 11th five-year plan period. Shenzhen's rapidly expanding container port and airport are considered by many as serious competitors to those of Hong Kong. It is not just the result of free market competition (Yang, 2005: 215). The asymmetric urban governance makes it uneasy for Hong Kong to compete using financial incentives. Nevertheless, even in the case of airports and container ports, two cities have ample opportunities to cooperate. For example, Hong Kong airport may benefit from frequent domestic flights in Shenzhen airport so that it can concentrate on international flights due to difficulties of adding new runways. Indeed, Shenzhen airport help bring mainland tourists to Hong Kong. Among 13.6 million tourists from mainland to Hong Kong, 3 million used Shenzhen airport in 2006 (Shenzhen Airport, 2007d). In terms of container ports, Hong Kong and Shenzhen can also benefit from regional and functional division of labour in serving their clients. Hong Kong port is better positioned to provide service for western PRD and beyond (Yeung et al., 2005).

6. CONCLUSION AND IMPLICATIONS FOR URBAN PLANNING AND GOVERNANCE

The paper reviewed the inter-city economic and social relations. A conceptual framework is then developed for analyzing inter-city relationship between Hong Kong and Shenzhen and the issue of asymmetric urban governance is examined. Hong Kong and Shenzhen were ranked as the most competitive cities in China in 2005 and 2006 (Ni et al., 2006; 2007). The economic gap between Hong Kong and Shenzhen narrowed significantly after 1997. Hong Kong is strong in service sector. Shenzhen is strong in secondary sector with a balanced tertiary sector. Two cities may cooperate well in the secondary sector but may both compete and cooperate in the tertiary sector.

Shenzhen is the major destination of FDI from Hong Kong, accounting for 16.5% of Hong Kong FDI to mainland China in 2005. Hong Kong contributed 53.0% of foreign capital received by Shenzhen in 2005. In terms of investment relations, Shenzhen depends more on Hong Kong as source of FDI than Hong Kong depends on Shenzhen as destination of FDI as Hong Kong investors reached many cities in the mainland. Shenzhen's share in the total export from mainland to Hong Kong was 36.2% in 2005. Overall, Hong Kong and Shenzhen are important economic and trade partners.

To Hong Kong, Shenzhen is also important in terms of cross-boundary infrastructure for flows of goods, passengers and tourists, and the social issues associated with Hong Kong residents and dependents working, living and owning housing and properties in Shenzhen. The number of Hong Kong residents who were working in the mainland was about 237,500 in 2005, accounting for 7.2% of the total employment in Hong Kong. They comprised of a top segment of human resources in Hong Kong. Shenzhen was the major city accounting for 38.0% of such Hong Kong residents. The number of Hong Kong residents living in mainland China for at least one month out of six months before enumeration was 472,900, accounting for 7% of the population in Hong Kong (CSD, 2007f). Work requirement was the main reason of living in mainland in 2005 (71.3%) indicating social interaction is also economically driven. Hong Kong residents did not move to mainland purely for reasons of low living cost.

Some 163,100 households owned residential properties in mainland, accounting for 7.2% of all households in Hong Kong in 2005. 71.6% also owned their own residential properties in Hong Kong. Thus housing purchase in mainland does not replacing housing consumption in Hong Kong. As many as 89.8% of the properties owned by Hong Kong residents were in Guangdong, including 20.4% in Shenzhen. But over half of rented properties, 51.5%, were in Shenzhen. Currently, Hong Kong MTR (Mass Transit Railway) Corporation charges extraordinary high fares for cross-boundary trips making it difficult to make use of the low-cost housing in Shenzhen to reduce housing burden of some Hong Kong people. It is a good time to review whether such practices should be amended.

A conceptual framework is developed to understand the nature of inter-city competition and cooperation between Hong Kong and Shenzhen. Among four categories of interaction, there is no direct competition in three categories: "social relations", "public services, social welfare, infrastructure, natural resources and environment", "law and regulation". Indeed, cooperation is needed in these areas.

However, the situation is more complicated in economic relations. In the area of private business, cross-boundary cooperation prevails between Hong Kong and Shenzhen. But competition may exist in state-owned enterprises and business. The potential competition is rooted in the asymmetric urban governance. Hong Kong government's "non-intervention policy" differs significantly from Shenzhen government's "developmental state" approach to urban economy. Shenzhen government often offers incentives and favourable policies to particular type of companies and sectors. On the

other hand, HKSAR government has attempted to create a fair business environment. Under such approach, no particular business sector will be affected negatively. But Hong Kong does run the risk of losing certain business such as the declining status of container port in the world. The best approach is that HKSAR government should provide the best policy and operational environment for the container port.

Another feature of urban governance in Hong Kong is that HKSAR government has formal and rigid system in the planning and environmental impact assessment. The legislative council and the growing civil society also require more time for detailed review, consultation and discussion. To avoid unnecessary delays, advanced planning and consultation may be the best way. Long-term strategic and coordinated planning is necessary for maximum efficiency.

There are evidences that boundary control has reduced the scale of inter-city flows of vehicles, goods and people significantly. While boundary control has to be maintained, new technology and boundary crossing procedures should be explored and developed to minimize its adverse impact. For example, can both Hong Kong and mainland boundary crossing procedures be carried out in Hong Kong terminals for the proposed high speed rail service between Hong Kong, Shenzhen and Guangzhou? If this can be done, trains from Hong Kong can also reach many more mainland cities.

It is also useful to develop sub-urban centers near the Hong Kong-Shenzhen boundary such as at Lok Ma Chau loop. This will significantly reduce the physical distance between the core urban areas of Hong Kong and Shenzhen. Many businesses, professional and shopping services for mainland clients can be done in the boundary area. This can not only help to save time for mainland clients but also reduce the traffic flow from boundary area to urban area of Hong Kong. It will also make it convenient for Hong Kong residents living and working in mainland to acquire essential social services from the government. This should be considered a major urban development strategy considering continuous increase of mainland visitors to Hong Kong in the future. The HKSAR government (2008) recently announced to reduce the coverage of the Frontier Closed Area (FCA) from 2,800 hectares to about 400 hectares. After the completion of the planning study on the conservation and development of the land based on the principle of sustainable development, some land may be released for development. The Government may need to do forward planning in the provision of infrastructure and the development of the boundary area.

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