

URBAN COMPETITIVENESS AND URBAN GOVERNANCE IN THE GLOBALIZING WORLD

Jianfa SHEN

Department of Geography and Resource Management
The Chinese University of Hong Kong

***Abstract:** This paper discusses the ideas of urban competitiveness and urban governance in the context of urban transformation in the age of globalization. There are independent spheres of competitiveness at firm, sectoral, urban and national levels due to their own characteristics. But competitive cities are backed by competitive firms. The scope of urban competitiveness includes quality of life and is wider than that of firm competitiveness. Urban competitiveness and urban governance are interrelated and the pursuit of urban competitiveness will necessitate changes in urban governance. There is a great need to pay more attention to comprehensive competitiveness of cities to ensure economic, social and environmental sustainability. A comprehensive perspective on urban competitiveness and urban governance is required for policy-making.*

Hong Kong is used as a case study to highlight the changing urban governance and new initiatives of HKSAR government to enhance the urban competitiveness. Nevertheless, the role of government should not be overestimated as government can only have limited impact. The ultimate success needs the active participation of business sector and the community at large. The place promotion after SARS is a good example.

Keywords: Urban competitiveness, urban governance, entrepreneurial cities, globalization, Hong Kong.

Introduction

The globalization of production, finance and other business is one of the most important characteristics in the modern world economy. Transnational corporations (TNCs) take full advantages of their technology, capital, and management to make use of worldwide resources for maximization of their profits (Dunning, 1993). The world economic systems and international division of labour have been remoulded by such globalizing forces. Along with the spatial dispersion of economic activities, there is a trend towards territorial centralization of controlling functions in major cities in the world such as New York, London and Tokyo (Friedmann, 1986; Godfrey and Zhou, 1999; Beaverstock et al., 1999; Sassen, 2001). Urban competition has been intensified as cities compete against each other to attract TNCs and international capital.

Globalization has resulted in profound socio-spatial transformation and the rescaling of space and the state. It is now popular to assume that the scalar relations of governance are changing in the era of globalization. The role and function of state-level governance have been restructured and declined in particular areas such as trade regulation. Such changes in scalar relations of governance are called rescaling and refer to the shifting in

the power and control over scales, such as from the national scale to the urban scale or to the global scale (Shen, 2005).

Indeed, there are “major transformations of territorial organization on multiple geographical scales” (Brenner, 1999). The role of state is on decline while that of the local state such as urban governments is rising (Dunning, 1995; Macleod and Goodwin, 1999). In other words, the nation-state has rescaled much of its authority to the local and regional level such as cities to take full advantage of globalization’s benefits at the scales where the process is most active. Cities have become foci of territorialization and deterritorialization in spaces of flows. Territorialization is a concept related to the economic organization in the discussion of globalization. According to Storper (1997: 21), “an activity is fully territorialized when its economic viability is rooted in assets (including practices and relations) that are not available in many other places and that cannot easily or rapidly be created or imitated in places that lack them.”

In the western countries, local governments have emerged as major actors in urban restructuring, leading the transition from a welfare state to an economic-developmental state (Brenner, 1999). In a highly competitive world where capital and professionals are footloose, cities adopt entrepreneurial and internationally-oriented policies to increase their competitiveness resulting in the emergence of entrepreneurial cities and new regime of urban governance (Hubbard, 2001).

Similar changes have taken place in China since the early 1980s. There has been clear tendency of decentralization in economic and financial administration and decision-making since then. Various scales and forms of state activities have been rearticulated through complicated processes involving twin issues of governance and scale (Shen, 2004a, 2005; Shen et al., 2002; Hu and Chan, 2002). Zhu (1999) cautiously used concepts of urban regime and urban growth machine in an analysis of the urban dynamics in China. He found that an informal local growth coalition is formed between local state and enterprises. Zhang (2002) formally adopted the urban regime theory in the study of Shanghai. He concluded that the concepts of urban governance work well with the economic dimension but differ from the political dimension of urban governance due to a strong government and tight social control. Hong Kong as a quasi-city state with a free port status and capitalist system is a special case. It is a key base of global capital and an exemplary city of global capitalism that many cities in mainland China try to emulate and learn in such areas as business practice, urban planning and urban governance (Ng, 2002; Shen, 2002).

This paper has two purposes. First, it discusses the ideas of urban competitiveness and urban governance in the context of urban transformation in the age of globalization. Previous studies have examined these issues separately. This paper argues that urban competitiveness and urban governance are interrelated and the pursuit of urban competitiveness will necessitate changes in urban governance. More importantly, most previous studies of urban competitiveness focus narrowly on economic aspects. This paper emphasizes that there is great need to pay more attention to comprehensive competitiveness of cities to ensure economic, social and environmental sustainability.

Second, Hong Kong, a highly internationalized city with the freest economy in the world, will be used as a case study to highlight the new initiatives of HKSAR (Hong Kong Special Administrative Region) government to enhance the urban

competitiveness of Hong Kong and the changing governance. Hong Kong's experience provides a useful reference for other cities.

Urban Competitiveness: a Comprehensive Perspective

Urban competitiveness has become an important new research agenda in urban studies. Globalization, coupled with new information technology and dramatic structural change, has profound impact on the competitiveness of cities. Urban hierarchies are shifting radically and many cities have to face severe competition from other cities (Jensen-Butler, 1997; Kresl and Singh, 1999; Begg, 1999). The declining old industrial cities of northern Europe are just some examples. Urban China, as elsewhere in the world, is the core of China's economy where the most dramatic development is taking place. Various city governments have been keen to promote their own cities and to lure key projects or foreign direct investment (Shen, 2005; Wu, 2000). Whether these cities will be successful or not in their pursuit depends on their competitiveness and effective urban governance (Wang and Shen, 2002).

The competitiveness of firms, the competitiveness of cities and the competitiveness of nations are interrelated but interdependent concepts (IMD, 2000; Rogerson, 1999). Begg (1999) conducted an extensive review of several meanings of competitiveness. In the western literature, the term "competitiveness" is equated loosely with the notion of "performance" of an economy. At the firm level, the term of competitiveness is well understood and means securing market-share. The following definition is used by the UK government at the firm level:

For a firm, competitiveness is the ability to produce the right goods and services of the right quality, at the right price, at the right time. It means meeting customers' needs more efficiently and more effectively than other firms (quoted in Begg, 1999: 798).

Firms compete with each other on the basis of price and quality of their products. There are four kinds of sources of competitive advantages for firms in the urban area. First, the direct cost of factor inputs largely determines the price of products. For example, labour and property costs affect the product's price significantly. There is systematic difference in such factor costs among cities within a country and between countries, forming part of comparative advantages of cities and nations respectively. The diffusion of labour intensive manufacturing from western advanced countries to developing countries such as China is largely induced by such cost differences.

Second, some indirect factors, external to the firm, also affect its operation. These factors, such as environmental quality, urban infrastructure and industrial clusters, are location-specific and represent an important part of urban competitiveness, independent of competitiveness of a firm. For examples, transport congestion will affect the service delivery. The availability of advanced business services will enhance the quality of products. Environmental quality will affect the attractiveness of a city to skilled and unskilled workers. There may be systematic difference between countries that also affect the competitiveness of cities.

Third, urban policy and urban governance also have significant impact on the firms' operation and ultimately the performance, productivity and competitiveness of a city.

The details of urban governance will be examined in the next section. But it is useful to note that urban governance and urban policy play an important role in enhancing urban competitiveness. The main scope for action by urban policy-makers seems to be in enhancing the business environment, fostering innovation and learning, and assuring social cohesion. On the other hand, Krugman (1996) is sceptical of the notion of competitiveness as it may advocate trader barriers and become a threat to free trade, especially when a government intervenes in the market operation such as applying low tax rate to specific economic sectors or firms. Nevertheless, cities and nations do have much scope to enhance the overall competitiveness of all firms and the well being of their residents. Thus, promoting urban competitiveness or competitiveness of nations will not necessarily become a barrier for free trade.

Fourth, the national policy and regulation affect the operation of firms within a country. For example, trade regulations, membership of international trade organizations and trade agreements signed with foreign countries, all have important implications for firms. Economic freedom is often cited as an important indicator for a nation. These national-level policies and regulative environment are related to competitiveness of nations.

Competitiveness of firms and economic performance are important determinants of competitiveness of cities and nations. But urban competitiveness and competitiveness of nations are concerned with not only the economic well being of their firms, but also the well being of their residents, social cohesion and long-term sustainable development. The following reviews the notions of nation's competitiveness and urban competitiveness briefly.

A nation's competitiveness is defined by OECD as follows:

The degree to which it can, under free and fair market conditions, produce goods and services which meet the test of international markets, while simultaneously maintaining and expanding the real incomes of its people over the long term (quoted in Begg, 1999: 798).

In his study of the competitiveness of nations, Porter (1998) focused on the microeconomic foundations and the role played by companies in contrast to most thinking and policy that focused on the macroeconomic conditions. He argued that the roots of competitiveness or productivity lie in the national and regional environment for competition represented in a diamond framework made up of four primary facets including factor conditions, demand conditions, related and supported industries as well as firm strategy, structure and rivalry. One important notion is that competitiveness is different from comparative advantage that rests on endowments of labour, natural resources and capital. Porter (1998) argued that factor endowment is no longer important and prosperity depends on creating a business environment and supporting institutions to enable the nation to productively use and upgrade its inputs. Different from most thinking about the consequence of globalization, Porter argued that location has become more important as firms are now able to choose the best location without various unnecessary barriers. He argued that industrial clusters and agglomeration economies are most important in the formation of urban competitiveness. He also argued that clusters not only reduce transaction costs but also improve incentives and create collective assets in the form of information and specialized institutions. His

theory is indeed familiar to economic and urban geographers who have studied locational and agglomeration economies for a long time. Porter (1998) claimed that his theoretical framework on nations' competitiveness, based on microeconomic foundations, could also be applied at the regional and city levels.

In the case of a system of cities in a country, capital and labour are highly mobile. The successfulness of a city is represented by its economic strength, a low unemployment rate and the high quality of life of its residents. One good example of urban competitiveness study is the work by Kresl and Singh (1999) on the competitiveness of 24 large metropolitan areas in the United States.

Kresl (1995) attempted to define urban competitiveness using six attributes. The six attributes, both quantitative and qualitative, representing a competitive city are as follows:

- a. The jobs created should be high-skill, high-income jobs.
- b. Production should evolve towards environmentally benign goods and services.
- c. Production should be concentrated in goods and services with desirable characteristics.
- d. The rate of economic growth should be appropriate to achieve full employment.
- e. The city should specialize in activities that will enable it to gain control over its future.
- f. The city should be able to enhance its position in the urban hierarchy.

Kresl argued that the determinants of urban competitiveness could be divided into two components. The first is the "economic determinants" including factors of production and infrastructure. The second is the "strategic determinants" including policy and institutional design. Indeed, another important key attribute of a successful city is that it has a good strategy as a basis for coordinating long-term development.

The competitiveness of a city mainly relies on its position in the national and/or international hierarchical system of cities, the transport, communication, electricity and water supply infrastructure, efficient operation of urban governance, capacities of R&D activities, education and quality of human resources (Jensen-Butler, 1997). The sources of firm competitiveness include above favourable factors as well as special technology and organizational strength at firm and sectoral levels. It is argued that competitive firms also contribute to urban competitiveness. This means that there are independent spheres of competitiveness at firm, sectoral, urban and national levels due to their own characteristics. But competitiveness is recursive in the sense that the low-level competitiveness is part of high-level competitiveness (Figure 1). The scopes of national and urban competitiveness include quality of life and are wider than that of firm competitiveness that focuses narrowly on profit and market share.

It has been suggested by Gordon and Cheshire (quoted in Begg, 1999) that urban competition "may be conceived of as involving attempts by agencies representing particular areas to enhance their locational advantage by manipulating some of the attributes which contribute to their area's value as a location for various activities."

The study of world cities or global cities is also closely related to the issue of urban competitiveness. As world cities are commanding centres of global capitalism and

world economy, many cities are working hard to become world cities (Beaverstock et al., 1999). Most studies have focused on the ranking of world cities, while a few studies also consider the consequences of social polarization in world cities (Sassen, 2001).

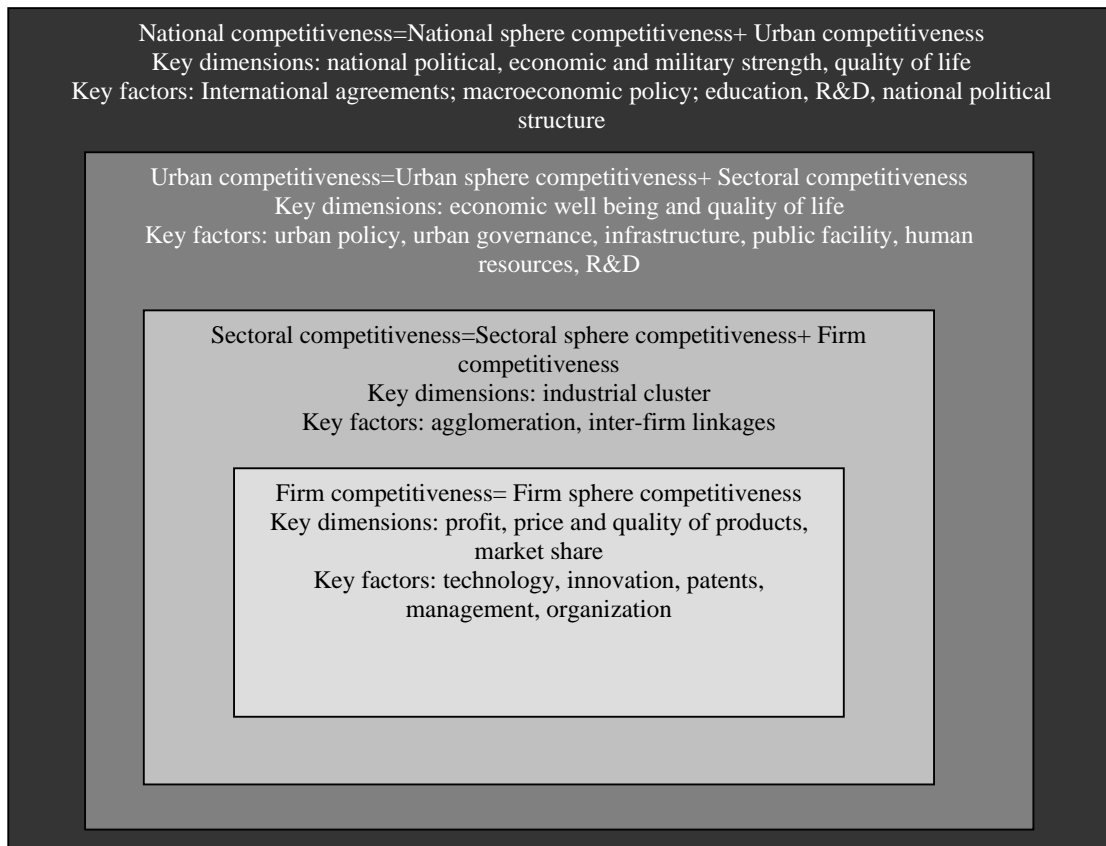


Figure 1. Relationship between firm, sectoral, urban and national competitiveness.

Most previous studies of competitiveness of cities and nations focus narrowly on economic aspects. The study on 24 US metropolitan areas by Kresl and Singh (1999) used three economic indicators, i.e., the growth in retail sales, manufacturing value added and business service receipts. As mentioned before, urban competitiveness and national competitiveness are not just concerned with the economic well being of their firms. Some key issues have to be resolved at urban and national level such as labour-capital relations, government-business relations, civil society and citizen participation, environmental conservation and economic development. In some cases, competitiveness of firms may contradict with the competitiveness of cities and nations. For example, reducing wage rate and safety standards will enhance the competitiveness of firms but will undermine the well being of residents, thus the competitiveness of cities and nations.

It is arguable whether world cities really have high urban competitiveness. Ng and Hills (2003) argued that world cities should also be great cities that not only actively engage in the global economy but also are rich in local economic, social and environmental capital. There is great need to pay more attention to comprehensive competitiveness of

cities and nations to ensure economic, social and environmental sustainability and the overall well being of the members of the society (Rogerson, 1999; Wang and Shen, 2002).

Indeed, in the evaluation of the competitiveness of a city, social, economic and environmental indicators have to be integrated together. Such approach has been adopted in a preliminary study of urban competitiveness of 223 cities at prefecture-level and above in China using 55 indicators (Wang and Shen, 2002). The top four cities found in that study were Shanghai, Shenzhen, Beijing and Guangzhou respectively. In another study of 24 cities in China using 88 indicators, Ni (2001) found that the top four cities were Shanghai, Shenzhen, Guangzhou and Beijing respectively. Hong Kong was excluded in these studies of Chinese cities due to its outstanding economic foundation and particular capitalist system. There is little doubt that Hong Kong's urban competitiveness is well above any cities in mainland China and this has been confirmed in a recent study by Ni on Chinese cities including Hong Kong (SCMP, 2003). Hong Kong is followed by Shanghai, Shenzhen, Macao and Guangzhou in urban competitiveness in that study.

Urban Governance: the Emergence of Entrepreneurial Cities

Governance has been a popular term in the social sciences to describe the role of network involving both state and non-state sectors (Painter, 2000). According to Rhodes (1997), governance is growing in importance in contrast to conventional government with four key features:

- a. Interdependence between organizations.
- b. Continuing interactions between members of governance network.
- c. Game-like interactions based on the trust and rules negotiated and agreed by the network members.
- d. A significant degree of autonomy from the government. Governance networks are self-organizing but government can steer networks indirectly and imperfectly.

Urban governance refers to the collective policy and strategy formation at city level with the participation of urban government and other organizations. The relationships and interaction among urban government, business sector and civil society are the foci of urban governance. Urban political economy is the basis to understand urban governance (Stone, 1987). One important theoretical development in the study of urban political economy is the urban regime theory developed mainly in the context of United States (Fainstein and Fainstein, 1983; Lauria, 1997). In the United States, the elected urban government is relatively weak, and it relies on governing coalitions between government and interest groups, business interest in particular, in the society. Business interests are central in the practices of urban governance in the United States as the success of urban governance is evaluated by economic performance and urban government depends on the business sector for tax revenues.

There are different types of urban regime that pursue different strategies. Various scholars have proposed different typologies of urban regime. Pierre (1999) identified four types of urban governance models: managerial model, corporatist model, welfare model and pro-growth model. Elkin (1987) argued that urban political economies were defined by the particular ways in which various land interests and politicians ally. There were three urban regimes, namely, pluralist, federalist and entrepreneurial.

The new entrepreneurial regime is gaining currency in the age of globalization. As discussed in the previous section, urban competition has been intensified in the age of globalization. Cities have become not only the key nodes in the global economy but also the most important unit for competition. Various urban governments have adopted entrepreneurial type pro-growth strategies to promote their urban development.

According to Schumpeter's definition, entrepreneurship is the creating of opportunities for surplus profit through the "new combinations" and innovation. Schumpeter's analysis was concerned with innovation by firms. Schumpeterian interpretation of cities, according to Jessop and Sum (2000), focuses on cities' capacities to promote innovation in urban form and has a broad account of competition including non-economic and economic factors. A city may use any opportunities to market itself and promote an entrepreneurial environment to sustain urban growth.

There is a broad shift from managerial to entrepreneurial strategies in urban governance (Painter, 2000). There is a change from running the daily functions such as transportation or housing provision (managerialism) to developing active risk-taking strategies to enhance urban competitiveness and promote economic growth (entrepreneurialism). Urban government under such urban regime may also be called as enabling authority (Goldsmith, 1995). It was predicted that the service functions could be separated from the urban government that would then focus on co-ordination and strategic thinking.

Following measures are often used by an entrepreneurial city (Painter, 2000):

- a. Attract foreign investment using various incentives such as cheap land and tax concessions.
- b. Assistance and support to local small and medium enterprises.
- c. Infrastructure provision.
- d. Land use planning.
- e. Training and education.
- f. Promoting public-private partnership.

Governance network is often mobilized to implement the above strategies. Porter (1998) argued that there is an inevitable mutual dependence between government and business in national productivity. The same applies to the case of cities. The above trend takes place not only in western countries but also in transitional economies like China. As mentioned before, various city governments in China have been keen to promote their own cities (Shen, 2004b; Wu, 2000). To a large extent, Chinese cities in the reform era are truly entrepreneurial cities driving their economy. Hong Kong as a most westernised world city in China would be an interesting case to examine its new strategies after the Asian financial crisis. As an economically leading city in China and Asia-Pacific region, the Hong Kong case would shed light on the urban governance issues and development strategies although Hong Kong's experience could not be simply duplicated elsewhere.

Shift of Urban Governance in Hong Kong: Towards an Entrepreneurial City

Hong Kong is a well-established global city with GDP per capita on top of many developed countries. In 2001, the GDP per capita, after purchasing power adjustment

was US\$26050 and was ranked 17th in the world (World Bank, 2003). It is the tenth largest trading entity with the airport and container ports among the busiest in the world in 2002 (CSD, 2003a). Despite difficulties in recent years due to Asian financial crisis, Hong Kong is still largely a success story comparing with other cities in the region (Berger and Lester, 1997; Shen, 2004b). The emergence of Hong Kong as a major world city in the region depends on various complimentary factors such as the rule of law, competition based on the free market principle, and an efficient and clean government.

Economic Growth and Governance before 1997

In the period before 1997, the laissez-faire non-intervention policy of the government was the most famous feature of urban governance and considered one of the most important factors in the development of Hong Kong's economy (Enright *et al.*, 1997). Under such mode of urban governance, Hong Kong government rarely engaged or intervened directly in economic and business affairs, a distinctive departure from the practice of urban government in the mainland China. But there was close relation and much interaction between government and business. The commercial and financial interests were well represented in Hong Kong's executive and legislative councils and had much influence in political affairs and government policy (Yeung, 2000).

Indeed, the role of government was very important in the economic life and was conducive to the thriving businesses in the city. Essentially, there was a large public component in capitalist Hong Kong before 1997 including land ownership, education, public housing, water supply and health service. The then government did not involve directly in economic activities but it did strive to provide a good physical, organizational and informational infrastructure for Hong Kong to play a hub-gateway role and an excellent environment for businesses to thrive. The government adopted polices of low and simple taxation, free port and free trade status, anti-corruption and political stability.

Hong Kong only had a GDP per capita of US\$410 in 1961 (Sung and Wong, 2000). Rapid economic growth in Hong Kong was based on industrialization within Hong Kong before the 1980s. The share of the labour force employed in manufacturing was as high as 47.8% in 1978 and was still 41.0% in 1984 (Sung and Wong, 2000: 211). However, during the period of 1979-1997, Hong Kong transferred majority of its manufacturing to the Pearl River Delta (PRD) and itself has become a prominent service centre specializing in trading, transport and communication and financial services (Sit, 1989; Lin, 1997). By 1996, the share of labour force was only 18.9% in manufacturing (CSD, 1997: 94). Hong Kong's economy has experienced a significant de-industrialization process and trading with mainland China has become very important to Hong Kong (Shen, 2003, 2004b). Sung and Wong (2000: 225) estimated that the income generated by China-related trade and investment accounted for 24.4% of GDP in Hong Kong in 1996.

Economic Crisis and Development Challenges

As an important node in the global economy, Hong Kong's economy is particularly susceptible to external economic shocks that pose a great challenge to the government and business sector in Hong Kong. The Asia financial crisis hit Hong Kong's economy

greatly, especially on its stock and property market in October 1997. The price index of private housing dropped by 46.8% and the rental index of private housing dropped by 27.1% in the period 1997-2000 (CSD, 2001). The Hang Seng index dropped from over 16000 in 1997 to the bottom of 6600 in August 1998. Hong Kong's domestic export dropped from HK\$211.4 billion in 1997 to HK\$170.6 billion in 1999. With the fall of the stock and property prices and the shrinking of import/export trade, the consumption power of Hong Kong residents declined significantly. As a result, Hong Kong registered a negative GDP growth rate of -5.3% in 1998 and -3.0% in 1999.

In 2000, Hong Kong's economy seemed to be on its way to recovery with a positive GDP growth rate of 10.2% (CSD, 2001). However, Hong Kong's economy worsened again after the 911 event in New York (Table 1). The value of domestic exports continued to drop. The GDP growth rate was very small in 2001 and 2002.

Table 1. Growth rates of main economic indicators in Hong Kong 2001-2002 (%).

Indicator	2001	2002
Domestic export	-15.2	-14.7
Re-export	-4.6	7.7
GDP	0.5	2.3

Sources: CSD (2003b; 2003c).

Note: The value of re-exports increased by 7.7% in 2002 due to strong export performance of mainland China.

The outbreak of SARS (Severe Acute Respiratory Syndrome) in March-June 2003 was another blow to Hong Kong's tourism industry and further weakened internal consumption. It had the effect of stopping the global flows of tourists and businessmen that were so vital to Hong Kong's post-industrial economy. There was a significant drop in the number of tourists while some shops and airlines lost a large portion of their customers and sales during the peak of SARS outbreak (Table 2). For example, tourist arrivals dropped by 67.9% in May 2003 in comparison to the same periods last year. Hotel occupancy rate dropped to only 18% in May 2003, down from 83% in May 2002. Retail sales dropped by 12.2% in real terms in April 2003 from April 2002. But the sale volume of supermarkets increased by 8.6% in the same period as more residents dining at home.

Table 2. The impacts of SARS on some economic indicators in Hong Kong in 2003.

Indicator	Period	Change
Tourist arrivals	May 2003/May 2002	-67.9%
Passengers in Hong Kong Airport	19-25 May 2003/19-25 May 2002	-80.0%
Number of flights	19-25 May 2003/19-25 May 2002	-50.0%
Hotel occupancy rate	May 2003/May 2002	-78.3%
Retail sales	April 2003/April 2002	-12.2%
Sale volume of luxury goods	April 2003/April 2002	-44.3%
Sale volume of clothing	April 2003/April 2002	-29.6%
Sale volume of cars and accessories	April 2003/April 2002	-23.8%
Sale volume of department stores	April 2003/April 2002	-19.7%
Sale volume of supermarkets	April 2003/April 2002	8.8%

Sources: Mingpao (2003a; 2003b; 2003c; 2003d).

The value of domestic export continued to drop by 16.9%, 7.8% and 10.4% year-on-year in April, May and June 2003 respectively (CSD, 2003b). The seasonally adjusted GDP change recorded a negative -3.7% in the second quarter of 2003 (CSD, 2003c). The rate of unemployment, a vital indicator of social well being and stability, rose from only 2.2% in 1997 to 6.2% in 1999 (Table 3). The SARS outbreak pushed the seasonally adjusted unemployment rate to the highest peak of 8.6% in April-June of 2003 (CSD, 2003d). The unemployed population reached 0.3 million.

Table 3. Number of unemployed and unemployment rate in Hong Kong 1997-2003.

Year	Unemployed (thousand)	Unemployment rate (%)
1997	71.2	2.2
1998	154.1	4.7
1999	207.5	6.2
2000	166.9	4.9
2001	174.8	5.1
2002	255.5	7.3
Jan.-March 2003	259.8	7.5*
April-June 2003	300.0	8.6*
July-Sept. 2003	297.3	8.3*
Oct.-Dec. 2003	253.0	7.3*

Source: CSD (2003d).

Note: * Three month moving average, seasonally adjusted.

There are various explanations for the economic crisis in Hong Kong. For example, Sung and Wong (2000) pointed out that Hong Kong's economic growth slowed down in the early 1990s even before the Asian financial crisis. Its annual growth rate of GDP per capita was only 3.51% in the period 1991-1996, much lower than the 1980s. Hong Kong's growth increasingly relied upon the profit from outward processing and re-export trade while the TFP (total factor productivity) of manufacturing actually declined by 13% in 1984-1993 (Kwong et al., 2000). An economic bubble had been formed in Hong Kong by 1997. Ng (2000) argued that Hong Kong's crises are rooted in its speculative growth-oriented economy, a lack of competence in urban governance, a strong sense of complacency within the government administration and a disempowered community.

Changing Role of Government in Hong Kong

It is clear that Hong Kong has suffered from several global and local shocks such as Asian financial crisis due to a highly open economy since 1997. This was coincident with the return of Hong Kong to China in July 1997. Unlike the colonial era that the governor was appointed by British government and was immune to local political pressure, the new HKSAR government had to ensure economic growth to win the support of local public (Sung and Wong, 2000: 227). Under the situation of economic hardship, instability and uncertainty after 1997, HKSAR government is expected to

play a major role to pull the city out of recession and to consolidate its world city status competing with other cities in the region. This means a major policy change from previous “positive non-intervention”. Indeed, the 1st Chief Executive of HKSAR had tried to focus on economic matters during his terms of service.

It has been highly controversial whether such change in policy direction is correct and, more importantly, effective (Lau, 2002). HKSAR government’s economic policy has been heavily criticized resulting in very low political support from the public at large. Following non-intervention policy for many years, a long-term development strategy is missing in Hong Kong. The Asia financial crisis led Hong Kong to consider its long-term economic strategy. By the early 2003 when the Chief Executive, Mr. Tung Chee-hwa, delivered his first policy address in his second five-year term, the government and the society seem to have reached consensus on its urban strategies, i.e. focusing on further integration with PRD and the development of four pillar industries: financial services, logistics, tourism and producer services (Tung, 2003; Yeung, 2003). Becoming a leading world city in Asia has been a common objective of the HKSAR government and the public. But there are a number of challenges facing Hong Kong:

- a. Sustainability of low-cost production in PRD (Berger and Lester, 1997).
- b. Problematic cross-border development with PRD (Wong and Shen, 2002).
- c. Over-dependence on the re-export trade.
- d. Over-dependence on the property sector.
- e. Shortage of qualified human resources.
- f. Transition toward IT-driven economy and society.
- g. Competition from Singapore, Shanghai, Shenzhen and Guangzhou.

There are five main debates about the urban strategies of Hong Kong. First, whether Hong Kong should focus on financial and producer services or high value-added manufacturing. Second, whether Hong Kong should focus on the development of IT and high-technology. Third, whether Hong Kong should focus on the development of logistics and tourism. Fourth, whether Hong Kong’s business environment is deteriorating in terms of office and labour cost. Fifth, whether there is any problem in Hong Kong’s education sector and whether Hong Kong should import more skilled professionals from abroad especially mainland China. Many of these debates are also concerned with the role of HKSAR government in the process of urban restructuring.

The rest of this section reviews the major initiatives taken by the HKSAR government with different degrees of intervention and participation of business sector and the public. Of course, some measures are not well founded and are highly controversial such as the Cyberport project. On the other hand, some measures are in the right direction. But the shift towards an entrepreneurial city is clear in post 1997 Hong Kong (Jessop and Sum, 2000). The first two are especially risk-taking strategies.

First, there was a direct intervention in the economy that goes far beyond the expectation of even an entrepreneurial city. In mid-August 1998, to rescue the economy, the HKSAR government intervened in the stock market by spending HK\$118 billion to recover the Hang Seng index from the low point of 6600 to over 8000. The government may not take such measure again in the future.

Second, the Hong Kong Disney is an outstanding example that HKSAR government engages in an economic project directly, holding 57% equity of Hong Kong Disney, to boost Hong Kong's economy. It used land and public fund to lure foreign investment. In 1999, HKSAR government (1999) stroked a deal with the Walt Disney Company to develop the Hong Kong Disney involving a total investment of HK\$27.7 billion. HKSAR government will bear the cost of HK\$13.6 billion for land reclamation and infrastructure construction although HK\$4 billion representing the land premium will be repaid with interest. The theme park and other facilities cost HK\$14.1 billion that will be funded by a mixture of 60% debt and 40% equity. Of the equity, the Government is injecting in cash HK\$3.25 billion and Disney HK\$2.45 billion. That means the Government will hold 57% of the equity compared to Disney's 43% in the Hong Kong International Theme Parks Ltd. The government will also provide a loan of HK\$5.6 billion (HK\$6.1 billion including interest). The theme park will start operation in 2005. The number of tourists each year will be 2-3 million initially but will reach 10 million eventually. It will generate over 18000 jobs and total revenue of HK\$2.5-3 billion each year.

Third, the CEPA agreement is an outstanding example of close cooperation between HKSAR government and the business sector to boost the economy. HKSAR government played a leading and an indispensable role in reaching the trade arrangement with the central government in Beijing. The China's entry of WTO in December 2001 provides opportunities and challenges to Hong Kong that have been playing a bridging role between mainland and outside world. To catch business opportunities before China's full opening to outside world after 2005 and to respond to the strong demand of the business sector in Hong Kong, the HKSAR government proposed to the central government to reach a closer economic partnership agreement (CEPA) between HKSAR and the mainland on 20 December 2001 (Mingpao, 2001). The CEPA agreement was signed officially on 29 June 2003. Hong Kong's business sector would benefit from zero custom duties for exporting 273 kinds of Hong Kong products to the mainland from January 2004 (Mingpao, 2003e). The mainland market would also be opened for 18 kinds of Hong Kong's business and professional services.

Finally, comparing with the Disney project that was mainly a government decision, post-SARS place promotion involves close interaction between government, business sector and ordinary residents. After the SARS was under control, the HKSAR government and the business community began immediately to promote Hong Kong as a safe and attractive city for tourism and business around the world. Many measures and activities have been announced targeting local residents and overseas visitors.

The Hong Kong Tourism Board (HKTb, 2003), a semi-public body, announced a promotion programme on 23 June 2003, backed by a global advertising campaign, for the next nine months to boost the tourism industry, and re-establish Hong Kong's reputation as one of the world's most diverse and exciting destinations. The "Welcome Month" was launched on 13 July 2003 featuring a wide range of special travel offers and in-town activities. A series of world-class sporting and cultural events were brought to Hong Kong in the following months by the government and the private sector.

It is clear that facing the challenges of Asian financial crisis, SARS outbreak and competition from cities like Singapore, Shanghai, Shenzhen and Guangzhou, the

HKSAR government has tried hard to adopt various measures to enhance Hong Kong's urban competitiveness in the globalizing world. The success of Hong Kong's new entrepreneurial city strategies would depend on the coalition of the government, businesses and people. The global environment would also have important impact on Hong Kong as a global city.

Conclusion

In a highly competitive world where capital and professionals are footloose, cities adopt entrepreneurial and internationally-oriented policies to increase their competitiveness resulting in the emergence of entrepreneurial cities and new regime of urban governance. This paper discusses the ideas of urban competitiveness and urban governance in the context of urban transformation in the age of globalisation.

It is argued that there are independent spheres of competitiveness at firm, sectoral, urban and national levels due to their own characteristics. But competitiveness is recursive in the sense that the low-level competitiveness is part of high-level competitiveness. This means that competitive cities are backed by competitive firms. But the scope of urban competitiveness includes quality of life and is wider than that of firm competitiveness that focus narrowly on profit and market share. On the other hand, national and urban attributes and governance have significant impact on the operation of firms and their competitiveness.

The paper also argues that urban competitiveness and urban governance are interrelated and the pursuit of urban competitiveness will necessitate changes in urban governance. More importantly, most previous studies of urban competitiveness focus narrowly on economic aspects. This paper emphasizes that there is great need to pay more attention to comprehensive competitiveness of cities to ensure economic, social and environmental sustainability and the overall well being of the members of the society. A comprehensive perspective on urban competitiveness and urban governance is required for policy-making.

Hong Kong is used as a case study to highlight the changing urban governance in Hong Kong and new initiatives of HKSAR government to enhance the urban competitiveness. In the period before 1997, urban governance in Hong Kong was characterized by the *laissez-faire* non-intervention policy of its government. The government did not intervene in the economy and market directly.

The Asian financial crisis hit Hong Kong's economy greatly after October 1997 especially on its stock and property market. The situation has been worsened by 911 event in 2001 and the SARS outbreak in 2003. These crises and increasing competition from cities in the region such as Singapore, Shanghai, Shenzhen and Guangzhou led Hong Kong to re-consider its long-term development strategy. By the early 2003, the government and the society seem to have reached consensus to focus on further integration with PRD and the development of four pillar industries: financial services, logistics, tourism and producer services.

The HKSAR government has taken many measures, since the onset of Asian financial crisis in 1997, aiming to enhance Hong Kong's urban competitiveness and sustainable social, economic and environmental development. These measures such as Disney

project are aggressive and different from the non-intervention policy before 1997. It remains to be tested whether these measures are effective. Nevertheless, the role of government should not be overestimated as government can only have limited impact. The ultimate success needs the active participation of business sector and the community at large. The place promotion after SARS is a good example.

It is also important that government policies should be consistent and based on consensus of the business sector and the public. An overall strategy for Hong Kong would be consolidating its status as a world city and enhancing its producer services through the CEPA framework to its huge manufacturing base in PRD in terms of information, marketing, logistics, financing and technology (Enright et al., 1997; Sung, 2002; Shen, 2002, 2003).

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