

Chinese Regional Planning Under Xi Jinping: The Politics and Policy Implications of the Greater Bay Area Initiative

Jason Jia-Xi Wu

Tony Saich, *Series Editor*

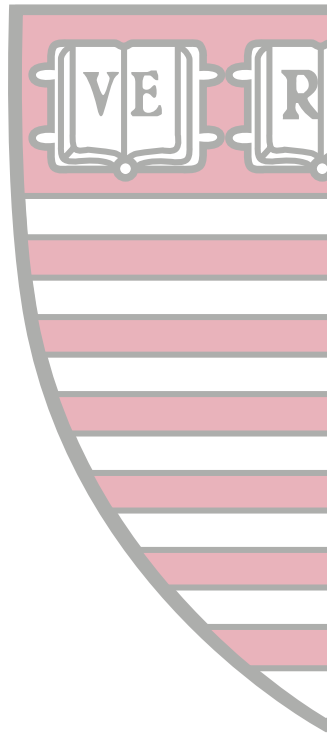
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About the Author

Jason Wu is a J.D. candidate at Harvard Law School and an A.M. graduate from the Regional Studies: East Asia program at Harvard University. His A.M. thesis examined the politics of spatial planning in the Pearl River Delta region. His current research interests lie at the intersection between international trade law and political geography. Jason will spend his summer as a legal fellow at the New Markets Lab and return to Harvard for the 2021–2022 academic year.

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Abstract

This paper seeks to explain the logic of Chinese regional planning pertaining to the Guangdong-Hong Kong-Macao Greater Bay Area (粤港澳大湾区, hereafter GBA) and the challenges it entails for spatial development. Three questions guide the inquiry of this research: First, what are the institutional underpinnings of the GBA initiative, and how is the path dependency of regional integration in the Pearl River Delta (PRD) unique compared to that in China's other coastal macroregions? Second, how does Beijing's changing strategy toward Hong Kong inform the costs and limits of the GBA initiative, and what are their policy implications for the future development of the PRD? Third, why is regional planning uniquely favored by the Chinese Communist Party (CCP) central leadership, and what does this tell us about the changing policy parameters that govern center-local relations in China?

This paper argues that the GBA initiative is an overly ambitious plan with very few policy instruments and little regulatory flexibility. It contends that the tensions between the GBA's intended goals and the means of policy implementation are jointly resulted by three factors:

1. Beijing's emerging inclination toward using regional planning as an instrument to police center-local relations and cement its national security interests rather than using it as a mere instrument of economic governance.
2. The declining room for policy experimentation at the local level, which reduces the state's responsiveness to local demands and capacity to learn from mistakes.
3. The historical and strategic importance of the Pearl River Delta to the People's Republic of China (PRC), which causes Beijing to prioritize the political interests of PRD integration much more than its pursuit for regional development in China's other macroregions.

These changes are reflective of a broader paradigm shift in Beijing's regional developmental strategies, under the climate of power centralization in the Xi Jinping era (2012–present). Finally, this paper demonstrates that such changes in the CCP's regional planning in relation to the GBA initiative will engender both the decline of adaptive governance and premature deindustrialization.

Letter from the Editor

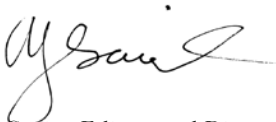
I had the pleasure of serving as Jason Wu's thesis advisor, and encouraged him to submit his work to the Ash Center as part of our Occasional Paper Series. Jason's thesis and subsequent paper with the Ash Center takes on a complex and contemporary subject, relates it to important theoretical literature, and comes to sound, realistic findings.

It is always difficult to address a contemporary subject as the "current" may change and there might be a difficulty in finding enough relevant literature. This is not the case with this paper. Jason has labored tremendously to produce a first-rate piece of work, excavating original materials and linking them to broader questions about the nature of rule under Xi Jinping, center-local relations, and adaptive governance. I have not seen other deep research on the Greater Bay Initiative. There have been a number of journalistic accounts and many of these are highly partisan, backed up with little original research. Jason resolves the problem of scholarly literature on the subject by relating his paper to literatures on China's planning process (for example, Kyle Jaros), on the concept of compressed development (especially important for Shenzhen), and adaptive governance (Sebastian Heilmann et al).

Significantly, the paper highlights the shift under Xi Jinping that regional planning has moved from the need to integrate the domestic economy to overcome the fragmentation inherited from the Mao years to incorporate national security concerns. This is highly salient in the case of Hong Kong and the future development of the Pearl River Delta. The findings are robust in that they reflect the greater centralization that we have seen under Xi Jinping in other realms; that adaptive governance (another band of relevant scholarship) is likely to decline; and there will be the challenge posed by premature de-industrialization in the Pearl River Delta.

I applaud Jason on this significant work and encourage anyone seeking a greater understanding of China's regional planning efforts to study his paper closely.

Tony Saich,



Series Editor and Director Ash Center for Democratic Governance and Innovation
Harvard Kennedy School

Contents

Acknowledgments	viii
Abbreviations.....	ix
1. Introduction: The Past and Future of the Greater Bay Area.....	1
1.1 Mapping Development in the PRD.....	1
1.2 Argument of the Paper	3
1.3 Previous Literature	4
1.3.1 Managing Markets in Spatial Development	5
1.3.2 Economic Geography and Path Dependencies.....	6
1.3.3 Regional Planning and Center-Local Relations	7
1.4 Roadmap for the Paper	8
2. The Boundaries of Policymaking: Determinants of PRD Integration.....	10
2.1 History of Integration Prior to the GBA Initiative.....	11
2.1.1 Incomplete Integration: The CEPA	12
2.1.2 Stretching the Limits of “One Country, Two Systems”	14
2.2 Paradigm Shifts Under the GBA Initiative	17
2.3 Macro-Regional Planning in Comparative Perspective	21
3. Compressed Development: Explaining the Challenges of the Greater Bay Area.....	24
3.1 Compressed Development: The Chinese Context.....	24
3.2 Revisions to the Compressed Development Model	26
3.3 Policy Stretches of the GBA Initiative.....	28
3.4 Policy Implications.....	30
3.4.1 Decline of Adaptive Governance.....	30
3.4.2 Premature Deindustrialization	31
4. Conclusion: Rethinking Regional Integration in China.....	34
Appendix: Tables and Auxiliary Figures.....	36
Notes	39

List of Tables and Figures

Chapters 1–4

Table 1. Key features of CEPA (2003) between Hong Kong and mainland China.....	13
Table 2. Major economic indicators of nine PRD cities and two SARs, 2018	15
Table 3. Governmental programs under the GBA initiative and its related plans.....	18
Table 4. Comparison of three coastal macroregions in China	22
Table 5. Conceptualizing degrees of compressed development: Challenges and trade-offs.....	27
Table 6. Employment by broad industry sector (in millions) in nine PRD cities and two SARs.....	32
Figure 1. Explanatory indicators for various outcomes of compressed development.....	29

Appendix

Table A1. A spectrum of spatial development models.....	36
Table A2. Made-in-China 2025: Overcoming the middle-income trap	36
Table A3. Key changes in 2003 CEPA regulations under the GBA initiative	37
Table A4. Macro-regional plans and experimental schemes under the Hu-Wen regime.....	38

Acknowledgments

This paper is based on an award-winning master's thesis which I have submitted to the Committee on Regional Studies: East Asia at Harvard University as partial fulfillment for my degree. It is both the culmination of two years of graduate studies and the product of a yearlong research and reflection on the current developments in Chinese politics.

Many people have offered me generous help in the production of this paper. I would like to express my utmost gratitude to my master's thesis advisor Professor Tony Saich, whose meticulous guidance and expertise allowed me to complete this research project. This thesis would not have been possible had Professor Saich not equipped me with the vital tools and knowledge to conduct original research on Chinese political economy and public policy. His work has inspired me to think critically about the myriad dilemmas of policymaking from the perspective of an insider, from which I have benefited enormously in writing this paper.

In addition to my advisor, there have been several other professors whose guidance and support have been invaluable. Professor Mark Wu taught me the fundamentals of international economic law and encouraged me to examine the intersection between law and policy. Professor Daniel Koss introduced me to the notion of spatial development with a particular focus on China's economic geography. I am particularly thankful to Professor Michael Enright for generously sharing his decade-long research on the Pearl River Delta economy and giving me critical insights on the inner workings of the Greater Bay Area initiative.

I am also greatly indebted to my colleagues and family, who have provided constant help and inspiration throughout my writing process. I am especially grateful to Esse Yao Chen, whose constructive feedback helped the project not only reach its initial phase but also move past it. I also want to thank my sister Juliette, my brother Jersey, and my parents for supporting me unconditionally. They are the reason I wish to devote my thesis to writing about my childhood hometown, Shenzhen, despite all its imperfections.

Finally, I would like to extend my most heartfelt gratitude to Jessica Engelman for her diligent work and dedication to publishing this paper during the trying times of COVID-19. Although she did not have the chance to see the final product, she contributed substantially to the paper and made its fruition possible. Jessica will be dearly missed.

Abbreviations

BRI	Belt and Road Initiative
CCP	Chinese Communist Party
CEPA	Closer Economic Partnership Arrangement
COD	Central Organization Department
FDI	Foreign direct investment
FTZ	Free-trade zone
GATS	General Agreement on Trade in Services
GATT	General Agreement on Tariffs and Trade
GBA	Greater Bay Area
GDP	Gross Domestic Product
HK	Hong Kong
HKMAO	Hong Kong and Macao Affairs Office
MIC2025	Made in China 2025
MITI	Ministry of International Trade and Industry (Japan)
NDRC	National Development and Reform Commission
PRC	People's Republic of China
PRD	Pearl River Delta
R&D	Research and development
SAR	Special administrative region
SEZ	Special economic zone
WTO	World Trade Organization
YRD	Yangtze River Delta

1. Introduction: The Past and Future of the Greater Bay Area

My interest in the distributive politics of the Greater Bay Area burgeoned from an interview with a property developer in the Qianhai pilot free trade zone (前海自贸区) during my visit to Shenzhen in the summer of 2019 (the three pilot free trade zones established under the Greater Bay Area initiative are located in Nansha, Qianhai, and Hengqin). The interviewee was a sales executive from the real estate subsidiary of the China Merchant Group, one of China's fastest-growing state-owned conglomerates. Throughout the interview, he belabored two points: that the Qianhai Free Trade Zone is unique compared to its counterparts across the GBA due to priority support from the central government, and that Beijing has selected Qianhai because of its strategic importance to the region. The future of Qianhai as envisioned by Beijing, he said, is to replicate—and ultimately supplant—the role of Hong Kong's Victoria Harbor in the Pearl River Delta within a decade.

I asked him whether the plan seems overambitious given that the Qianhai FTZ was created almost *ex nihilo* five years ago and has only recently garnered enough policy attention to resume its long-stalled development. Instead of answering my question, he argued that what I suggested was a problem with Qianhai is actually where its strength lies—that its artificiality will actually maximize its economic potential, precisely because Qianhai's development will be unburdened by the usual municipal-level politics that dictate resource allocation. Sensing my disbelief, he went on to offer an explanation. Unlike earlier mandates establishing China's special economic zones, in which Beijing went virtually hands-off after setting the initial stage for marketization, the Qianhai FTZ is directly micromanaged by the central government, circumventing Shenzhen's municipal authorities. He opined that Beijing's "parachuting style" of spatial governance would reduce distributive costs wasted on local politics and mitigate principal-agent problems in center-local relations, thereby enhancing the effectiveness of planning.

The truth is, however, that the rapidity of development in Qianhai has revealed inefficiencies embedded in its spatial planning. Later in the conversation, the executive begrudgingly admitted that the plan involved reworking and dismantling a number of infrastructures that only recently had been put into use. Apart from clearing up entire industrial bases to create space for ostensibly replicating an urban built environment similar to that of Hong Kong's Victoria Harbor, the city blew up several bridges and artery channels that connect the Guangzhou-Shenzhen highway—completely new infrastructures that survived a little less than two years. I wondered how many more projects would encounter the same fate across cities in the PRD as the GBA development plan further unfolds.

The case of Qianhai is emblematic of the myriad contradictions of development present in China's GBA initiative. They include tensions between regional economic integration and strategic competition, between central planning and market forces, and between efficiency and compliance. Such distributive dilemmas constitute a common theme of spatial policymaking in China's macro-regional development schemes. As sustained economic growth demands a closer linkage between China's megacities and the creation of a new generation of pilot FTZs, these problems become increasingly salient for the central planning apparatus. This paper will attempt to unravel some of the core features of the GBA initiative and assess their implications for the future development of the PRD.

1.1 Mapping Development in the PRD

First envisioned by the State Council in the Twelfth National People's Congress of the PRC in 2017, the GBA initiative represents one of China's most ambitious plans for regional integration to date. Harnessing the growth momentum of a USD \$3.6 trillion market and covering a population of more than 120 million residents, the GBA initiative plans to transform the PRD region into an international financial and technological hub that surpasses other global bay-area economies—e.g. the Greater Tokyo Bay, the

New York metropolitan area, and the San Francisco Bay Area—in both scale and productivity. It aspires to shape the PRD into a regional fulcrum to leverage China's global economic interests under the Belt and Road Initiative (一带一路, hereafter BRI). At the same time, it plans to remold existing institutions in the PRD to deepen China's concurrent financial and industrial restructuring policies since 2013. The GBA initiative is the PRC's first regional planning scheme that explicitly links domestic spatial governance with international economic statecraft.

Apart from its international ambitions, the scale and depth of regional integration stipulated by the GBA initiative are unprecedented in the PRC's history of macro-regional planning: It lays out a comprehensive vision for the development of *all* private and public infrastructure in *all* of the PRD's vital economic sectors—a demanding project that inevitably stretches the managing capacity of the PRC government. The sheer ambition and immensity of the GBA initiative are reflected by the multitude of its objectives. In February 2019, the Central Committee of the Chinese Communist Party (CCP) revealed the specific underpinnings of the GBA initiative in a 53-page Outline Development Plan promulgating the following broad policy goals:¹

1. Optimize resource allocation by establishing a spatial hierarchy of “core” (核心), “pole” (极点), “axes” (轴带), and “periphery” (周边) cities in the GBA. Create a spatial division of labor among GBA cities according to their levels of social stability risk, resource vulnerability, and existing comparative advantages.
2. Prioritize the development of technology innovation sectors in “core” cities by stepping up the protection of intellectual property. Spin off traditional manufacturing to “periphery” cities.
3. Enhance economic linkage among GBA cities via upgrading existing transportation networks and developing a “new generation” of information infrastructure with strong cybersecurity protection.
4. Modernize supply chains by adjusting industrial management, subsidizing R&D and high-tech service, and prioritizing the development of financial service sectors in the broader GBA region.
5. Strengthen environmental protection and ecological conservation by optimizing energy consumption in the GBA.
6. Minimize frictions in human mobility across GBA cities (especially between Hong Kong and the mainland). Bolster institutional support for cultural entrepreneurship and unite educational values across the GBA.
7. Enhance collaboration in the judiciary, dispute resolution, and government across the GBA to facilitate China's outward business activities under the BRI.
8. Promote regulatory cooperation between Free Trade Zones within the GBA.
9. Establish a “smart” urban cluster (智慧城市群) in the GBA's “core cities” by transitioning them into predominantly service-oriented economies.

To the untrained eye, the aforementioned goals of the GBA initiative epitomize a promising blueprint for thoroughly restructuring the Pearl River Delta economy for a brighter and more sustainable future. Why would anyone, considering the unbounded potential of the GBA initiative, object to this wonderful idea? Yet, a scrupulous examination of the goals of the GBA initiative reveals worrisome patterns. First, the goals of the GBA initiative seem to be scattered across a diverse set of governance topics with very little commonality uniting them. Emphasizing freer factor mobility on the one hand but stronger hierarchies of urban development on the other, the GBA initiative appears to exhibit a conflation of policy objectives. Second, the objectives of the GBA initiative are closely intertwined with those of other central economic policies such as supply-side structural reform (供给侧结构性改革)²

and Made in China 2025 (中国制造2025),³ incentivizing localities to play off one objective against the other. Under the GBA initiative, regional integration in the PRD becomes entangled with Beijing's central schemes for trade governance and industrial restructuring. As I will argue in the coming chapters, these characteristics plant the seeds for institutional failure and resource misallocation.

1.2 Argument of the Paper

This paper seeks to explain the logic of CCP's regional planning pertaining to the GBA and the challenges they entail for spatial development. Three questions guide the inquiry of this research: First, what are the institutional underpinnings of the GBA initiative, and how is the path-dependency of regional integration in the Pearl River Delta unique compared to that in China's other coastal macroregions? Second, how does Beijing's changing strategy toward Hong Kong inform the costs and limits of the GBA initiative, and what are their policy implications for the future development of the PRD? Third, why is regional planning uniquely favored by the CCP central leadership, and what does this tell us about the changing policy parameters that govern center-local relations in China?

My overall assessment of the GBA initiative is that it is an overambitious plan with very few policy instruments and little regulatory flexibility. Specifically, the inadequacies of the GBA are reflected by the gap between planning and implementation: On the level of planning, the GBA initiative suffers from the overlap and entanglement of potentially conflicting goals—between regional economic integration, legal harmonization, social stabilization, trade facilitation, and the entrenchment of authoritarian power. On the level of implementation, the problems of the GBA are evident in the myriad dilemmas of policymaking that result from the simultaneity of governance challenges. Policymakers often find themselves mired in an overwhelming hodgepodge of conflicting policy goals from the central directive, while at the same time compelled by local circumstances to craft targeted solutions demanded by a diverse set of stakeholders. In the context of the GBA, these dilemmas include the following: (1) tensions between social stability maintenance and facilitating human mobility;⁴ (2) frictions in trade governance such as supporting trade protectionism on the one hand and relaxing regulations on commercial market access⁵ and national treatment⁶ on the other; and (3) fulfilling the central government's vision for radically transforming the industrial landscape of the PRD economy while grappling with the consequences of premature deindustrialization and labor-market disruption. I argue that these tensions between planning and implementation are symptomatic of what some scholars call “compressed development”—a condition of accelerated development whereby state capacity is overwhelmed by the simultaneity of governance challenges and stretched by the collapse of developmental stages.⁷

In light of these observations, this paper contends that the tensions between the GBA's intended goals and the means of policy implementation is a joint result of three factors: (1) Beijing's emerging inclination toward using regional planning as an instrument to police center-local relations and cement its national security interests, rather than using it as a mere instrument of economic governance; (2) the declining room for policy experimentation at the local level, which reduces the state's responsiveness to local demands and capacity to learn from mistakes; (3) the historical and strategic importance of the Pearl River Delta to the PRC, which causes Beijing to prioritize the political interests of PRD integration much more than its pursuit for regional development in China's other macroregions. These changes are reflective of a broader paradigm shift in Beijing's regional developmental strategies, under the climate of power centralization in the Xi Jinping era (2012–present). As the title of this paper suggests, such changes in CCP's regional planning will engender adverse consequences in two areas related to the GBA initiative: decline of adaptive governance and premature deindustrialization.

Regarding the decline of adaptive governance, the tendency toward power centralization under the Xi Jinping administration has two implications for the GBA's development: (1) it's a mismatch

between the objectives and instruments of regional planning; and (2) it exhibits intolerance for policy experimentation at the local level. Beijing has increasingly used macro-regional planning as an instrument to police center-local relations. A key feature of the Xi regime is the proliferation of *ad hoc* CCP supervisory commissions that directly oversee implementation at the local level. This has replaced the bottom-up “point-to-surface” (以点带面) approach⁸ of policy implementation and the center-local bargaining processes which were dominant during the 2002–2012 administration of Hu Jintao and Wen Jiabao. One foreseeable consequence is the increasing rigidity of implementation, as Party discipline and ideology start to constrain the bounds of policy choice.

Premature deindustrialization is characterized by the simultaneous occurrence of industrialization and deindustrialization. As the parameters of the GBA initiative are determined largely by the state’s political priorities, this has resulted in the misalignment of a city’s designated role in the GBA and its actual comparative advantage. Highlighting the case of Shenzhen, the risk of prematurely transitioning into a service economy before reaching the peak industrial capacity implies socioeconomic fractures in predominantly manufacturing-based cities, since most GBA cities still average far below economies with similar a sectoral structure in terms of GDP per capita.

In addition to underscoring the determinants and implications of the GBA initiative, this paper focuses on the distributive dilemmas of spatial policymaking pertaining to the GBA at the local levels. As I will attempt to show in the coming chapters, the GBA initiative is a joint product of conflated policy objectives and the distributive politics between various key stakeholders who harbor power over the implementation of spatial development. Distributive politics, broadly defined, refers to the institutional design of distributive programs that frame the interplay between policymakers, administrative authorities, and nongovernmental stakeholders on matters of resource allocation. While the present literature on distributive politics primarily focuses on pork-barrel politics and clientelism in electoral democracies, this analytical framework also applies to authoritarian regimes, albeit with a number of modifications. Due to the absence of robust civil society and formal electoral mechanisms in China, distributive politics occur in the form of bargaining and strategic competition between powerful stakeholders via an intragovernmental, nontransparent process. Though the macro-regional initiatives discussed in this paper are not subject to negotiation, powerful stakeholders could exert their influence over which policy instruments are deployed at the local level to deliver the broader objectives specified by the CCP’s central mandates. Land use and zoning legislation, for example, become contested arenas where urban planners, public companies, and state-owned enterprises battle over who gets what in developing the GBA’s pilot FTZs. Whereas in the area of industrial planning, distributive politics is featured in the fight over preferential financial support and targeted investments from the municipal budget.

1.3 Previous Literature

Scholars have long sought to understand the extent of coordination between Chinese economic planning and policy implementation in carrying out the state’s objectives of regional integration. However, given the relative novelty of the GBA initiative, academic literature concerning the GBA is almost nonexistent. Most of the work on the subject is either in journalistic accounts or industry reports. Since the implications of the GBA initiative also intersect with multiple fields where prior research is already rich, this paper draws inspiration from three main bodies of literature and seeks to contribute to them accordingly: (1) works explaining the metropolitan bias in Chinese spatial policies; (2) studies of the path dependencies of economic integration and the politics of spatial development; and (3) scholarship on the history of Chinese regional planning.

1.3.1 Managing Markets in Spatial Development

A core dilemma of spatial development relates to the question of how to manage the balance between market sizes and their administrative boundaries. On the one hand, governments are incentivized to contain market dynamism within a unified administration in order to reduce regulatory costs. Yet this choice is not always economically efficient given its propensity for overregulation. On the other hand, allowing markets to naturally outgrow their administrative bounds enhances aggregate welfare for producers and consumers alike. However, expanding administrative boundaries to overlap with the growing market size can hamper the government's ability to provide public goods and centrally remediate market failures across the region, especially if the economic landscape has become too diverse to efficiently manage. Due to this trade-off, governmental planning authorities have to make the conscious decision of whether to limit market growth or reduce the government's regulatory capacities when they design and administer their zoning policies.

Nowhere is this dilemma more evident than in the case of the GBA. From the 1980s to the late 1990s, free-market commerce between Hong Kong, Macao, and the Chinese mainland was largely contained in the selective special economic zones (SEZs) in Guangdong. Since China's 2001 accession to the World Trade Organization (WTO), cross-border trade has proliferated substantially and legal harmonization between the SEZs and special administrative regions (SARs) was demanded. This led to the signing of the Closer Economic Partnership Arrangement (CEPA) in 2003, which created the foundational jurisdiction for cross-border trade governance. However, as nontrading sectors too have become interlinked by inward as well as outward foreign direct investment, the PRD market outgrew the CEPA framework. Realizing it was necessary to facilitate the efficient exchange of all factors of production within the region, the National Development and Reform Commission (NDRC) and other central planning agencies have, since 2009, mandated increasingly ambitious and progressive plans for further economic integration. The GBA initiative is one that is focused on trying to bring separate urban markets of the greater Guangdong area together into a unified, if not single, regional market under harmonized jurisdiction. Yet, regional integration under the GBA has become increasingly difficult since it entails expanding beyond Guangdong's regulatory capacity and destabilizing the "one country, two systems" (一国两制) framework.

What explains China's institutional preferences for metropolitan integration in the GBA, even as it risks destabilizing the "one country, two systems" principle? What is the politics behind China's spatial development? While the absence of scholarship on this question motivates this research, a substantial amount of prior work has been devoted to related questions. In examining the correlation between regime types and spatial governance patterns, Robert Bates's (1981) seminal work argues that authoritarian governments are more prone to metropolitan bias in the allocation of resources. Given that policymakers in centralized systems are more insulated from the demands of society, they are incentivized to concentrate resources in selected cities where regime stability could be efficiently maintained via doling out public largesse to urban constituencies. This motivates authoritarian governments to keep urban markets firmly within the state's administrative capacity for resource management and public goods provision.⁹ Bates's theory coincides with the empirical findings of Wang and Hu's 1993 study, which indicates that China's urban-based industrial growth is most positively correlated with the expansion of state capacity over regional urban markets.¹⁰ The selectorate theory of urban politics offers a partial explanation of why the GBA initiative categorizes cities in the PRD into a hierarchy of "core" and "peripheral" developmental zones in terms of priority level for resource allocation. Yet Bates's theory does not explicate why the government's approach toward spatial development differentiates within the same authoritarian system, as evident in the divergence of policy choices between economic integration in the PRD and regional development in the Yangtze River Delta.

1.3.2 *Economic Geography and Path Dependencies*

Economic geography offers a further explanation for the differentiation of policy choices. Since cities do not share an identical distribution of factor endowments, specialization occurs when various urban markets engage in trade to reduce the opportunity cost of production. As economies of scale emerge only after resource accumulation reaches a critical mass, certain areas develop before others, creating different path dependencies in regional market growth. Because of this, zoning and industrial policies in a market economy tend to be tailor-made to the contours of local sectors in order to better exploit the returns to scale. Scholarship by Krugman (1991), Sassen (2006), and Glaeser (2008) have confirmed this hypothesis by arguing that agglomeration economies can lock-in the comparative advantages of large cities over time, as positive returns to scale economies accrue in urban industry and labor markets.¹¹

Focusing on the Chinese context, Fan (1995) argues that China's uneven developmental landscape can be attributed to both market-based agglomeration effects and nonmarket considerations in spatial policy. Since China is not a full market economy—despite that certain sectors are substantially privatized, and free-market forces play an indispensable role in resource allocation—state intervention and central planning still figures heavily in spatial policy. This suggests that the political incentives driving China's metropolitan bias could compound with geographic inequality already caused by agglomeration effects. This model is affirmed by Fan's empirical analysis of interprovincial inequality in China, which points out that the central government's assignment of different priorities of development to the provinces—captured by the CCP's “ladder-step” theory (梯度理论)—resulted in divergent policy choices in investment policy, foreign-exchange retention policy, revenue-remittance policy, price policy, and financial policy.¹²

While there is little doubt that authoritarian politics combined with agglomeration effects led to different path dependencies of spatial development between China's macroregions, these factors alone fail to explain why there are abrupt shifts in patterns of resource allocation in one region, as in the case of the GBA. Following the logic of Bates (1981), Krugman (1991), and Fan (1995), one might assume that cities follow a set path of spatial development once agglomeration takes place, and deviations become increasingly difficult as spatial policies are designed to lock-in existing advantages. Yet, the history of economic integration in the PRD reveals constant aberrations and paradigm shifts in spatial planning. Whittaker et al. (2010) explain that China's nonlinear history of spatial development is a consequence of “compressed development,” since it is accompanied by the simultaneous intertwining of industrialization, integration with the global economy, and urbanization in an accelerated developmental process.¹³ As state capacity is stretched by the simultaneity and diverse nature of the challenges it faces, policies addressing separate domains of development become entangled.¹⁴ This leads to potential conflicts in developmental objectives. In the case of the GBA, for example, policymakers have embraced greater market competition and committed to WTO law, but they have also tried to intervene with the outcomes of market competition by subsidizing a select set of firms, sectors, and cities in a manner that is inconsistent with international agreements. Yet, Whittaker et al.'s theory reveals very little about the institutional underpinnings and political logics that dictate how spatial policies pick winners in spatial development.

This gap in the current literature is filled by Kyle Jaros's 2019 study, which highlights the intergovernmental (i.e., center-local, provincial-municipal) bargaining process that underlies the crafting and implementation of spatial policy in China. In comparing four quintessential provincial cases—Hunan, Jiangxi, Shaanxi, and Jiangsu—Jaros argues that the policy outcome of spatial development in any given province is not driven by pure economic incentives but is rather a product of central rules, provincial strategic choice, and municipal institutional variation.¹⁵ In Shaanxi, for instance, the provincial authorities' interest in enhancing regional competitiveness and asserting administrative control over municipal agencies led them to promote regional integration centered on the industrial sectors in their largest cities but curb

the autonomy of their municipal subordinates in local jurisdictions. This contrasts with the high level of top-down policy compliance in Hunan and Jiangxi, where economic performance is largely dependent on largesse from Beijing. Spatial development in Hunan and Jiangxi displayed a pattern of dispersed urbanization in alignment with the State Council's 2004 macro-regional plan, the Central China Rising initiative (中部崛起). In Jiangsu, a coastal province where market forces and city-level activism play a larger role in economic development, municipal governments had greater bargaining power against their provincial authorities. Given the competitive relationship between Jiangsu's provincial capital, Nanjing, and the regional economic powerhouse Suzhou, spatial policies were often torn by political priorities and changing factional alignments in Beijing. As a result, provincial policymakers in Nanjing adopted a "divide-and-conquer" strategy to foster regional economic interdependency, while Suzhou's municipal authorities sought to hedge against Nanjing's policy efforts by maintaining fiscal independence and sheltering local businesses from resource diversion. The result is the emergence of fragmentary governance and "hubs-and-spokes" regional integration in Jiangsu, which contrasts with Shaanxi's concentrated metropolitan-oriented approach and Hunan's dispersed development.¹⁶ Jaros's study shows that while it makes little economic sense to resist the centrifugal pull of scale economies in growing urban markets, it makes political sense to do so if the unrestrained agglomeration effect means reducing the bargaining power of provincial administrative centers vis-à-vis their municipal subordinates.

Although Jaros's study does not address the Pearl River Delta, it offers valuable insight for understanding the politics of planning, policy implementation, and resource distribution conducive to the GBA initiative. In particular, the framework of intergovernmental bargaining sheds light on how power relations affect which development priorities win out in policymaking. Yet, this framework has limited applicability to the GBA because regional economic integration in the PRD is complicated by four additional conditions absent in the aforementioned provincial cases: (1) different legal systems across the GBA cities; (2) varying degrees of market openness between the SARs and the rest of the GBA cities; (3) limited factor mobility between GBA cities; and (4) the presence of top-down extra-bureaucratic pressure from the CCP, which circumvents the regular channels of center-local governmental bargaining dominant during the Hu-Wen era. To address these theoretical omissions, this paper builds on the model of intergovernmental politics by underscoring two additional factors absent in the existing literature on Chinese spatial development: (a) regional planning as an instrument for policing center-local relations; and (b) the overlapping objectives between spatial policy, industrial policy, and economic statecraft as a result of "compressed development."

1.3.3 Regional Planning and Center-Local Relations

Finally, let us turn to regional planning, a policy instrument uniquely favored by the CCP leadership. Since the initial opening and start of reform in 1978, China's central leadership has relinquished most notorious aspects of socialist economic planning, such as quota-setting, micromanaging household consumption, and directly intervening in market pricing. Yet regional planning persisted in the CCP's central calculations and remained an integral part of Chinese economic governance. In fact, only twenty years after Mao's initial Third Front construction (三线建设) was abandoned by the CCP leadership, China witnessed a renaissance of regional planning from the mid-1990s onward. Why, despite its obvious economic inefficiency, did regional planning gain widespread popularity in Chinese spatial development?

To understand its value to China's central leadership, one must look at the history of regional planning and how it adapted to the conditions of marketization. A commonly cited origin of macro-regional development schemes is Mao's Third Front construction, which followed a defense-oriented, redistributionist strategy that relocates heavy industries and critical energy infrastructure away from coastal areas to remote parts of China's interior hinterland.¹⁷ Although this developmental philosophy was rendered

obsolete early on, during China's opening and reform, the notion that the state should actively steer spatial development proved resilient. According to Vivienne Shue (2017), regional planning and mapping are unique "techniques of political leadership" that are practiced in China today to "grapple with all the cross-cutting dilemmas generated by the party-state's headlong pursuit of development, prosperity, and modernization."¹⁸ Beijing intends to use them to extend the reach of the central government into what Shue has elsewhere called the "honeycomb-like, cellular structure local societies."¹⁹ Through the vicissitudes of Chinese economic development, regional planning, despite its obvious socialist roots, has evolved into a multifunctional instrument of political governance that is compatible with the forces of the free market. It is favored by the reform-minded CCP leaders because, unlike other aspects of economic planning, regional planning does not require the state's direct intervention in market demand and supply. Rather, it provides a communicative mechanism for the central government to be cognizant of changes in market conditions and coordinate regional economic strategy accordingly. This is a "second-best" solution given the hybrid economic structure of the CCP-led socialist market economy.

The adaptive capacity of regional planning is corroborated by Heilmann's 2019 study of unorthodox policymaking during the Hu-Wen era. According to Heilmann, planning exemplifies one of the three mechanisms of "macro-control," alongside fiscal and monetary policies that are intended to facilitate the "comprehensive coordination" and "aggregate balancing of economic activities." Under the Hu-Wen system, planners were ordered to "focus on macro, strategic, and policy issues and to refrain from issuing orders to departments and regions."²⁰ Within the subset of development planning, macro-regional initiatives are instruments deployed by the central government to coordinate regional economic growth. The process typifies a system of nested authority that is characteristic of Chinese center-local relations during the 1990s: The National Development and Reform Commission (NDRC) in Beijing actively coordinates regional planning, but also must grant discretionary authority to provincial governments to conduct their own planning schemes, with city and multicity regional planning approved by the State Council.²¹ During the 2000s, this formula of regional planning became increasingly "contractual:" The center would authorize experimental policy schemes at the locality and provide financial support to localized projects, as long as the local government delivered the center's macro-regional developmental objectives. The local governments, in turn, would reciprocate the center's endorsement of local autonomy by prioritizing economic performance in local governance. The central state apparatus and the local governments would play their parts and not transgress each other's boundaries.

This paper builds on Heilmann's research by extending his analytical framework to the Xi Jinping era. Using the GBA initiative as a case study, I argue that the "contractual" relationship between center and local governments, as defined by macro-regional initiatives, has become increasingly unequal under Xi's power-centralization schemes. This is because regional planning has become increasingly dominated by extra-bureaucratic forces exerted by the CCP, rather than by the institutional feedback loop discussed above. Moreover, regional planning was used by the central government as an instrument to police center-local relations and cement national security priorities, often working to the detriment of local interests.

1.4 Roadmap for the Paper

The rest of this paper proceeds as follows. Chapter 2 provides a historical explanation for the recent paradigm shifts in Chinese spatial policymaking under the Xi administration. It first investigates the legislative history of prior integration attempts such as the Closer Economic Partnership Arrangement between Hong Kong and the mainland. Then it underscores the factors that undergird recent alterations of macro-regional planning in China. Finally, it empirically compares the GBA initiative with

macro-regional plans of two other coastal macroregions, arguing that the unique path-dependencies of the GBA has resulted in its greater degree of compressed development compared to the Yangtze River Delta (长三角) and the Jing-Jin-Ji (京津冀) economic rim.

Chapter 3 posits that the policy confluences of the GBA initiative are symptomatic of “policy stretch” under compressed development. This chapter is the theoretical centerpiece of the paper since it develops a new explanatory mechanism for “policy stretch,” building on the existing literature of compressed development. Using this revised model, the chapter then assesses the policy implications of the GBA by focusing on two phenomena: the decline of adaptative governance and premature deindustrialization—both of which are directly related to the recent paradigm in spatial policymaking under the Xi administration’s power-centralization trend.

2. The Boundaries of Policymaking: Determinants of PRD Integration

Spatial development in China is characterized by a fundamental tension. Since the 1980s, free-market mechanisms have risen to become the dominant mode of resource allocation in city-making, and the PRC's tendency has been to propel regional economic development toward coastal areas. But this momentum was counteracted by the proliferation of macro-regional initiatives launched by Beijing and a number of provincial governments, such as the 2003 Revitalize the Old Northeast Industrial Bases campaign, the 2004 Rise of Central China strategy, and the Western Development Program launched in 1999. Largely determined by the parameters of central planning rather than free-market dynamics, these initiatives were constantly confronted by allocation dilemmas—torn by choices between dispersed development and concentrated growth, between stability and efficiency. Consequently, most initiatives worked against the economic geography of the localities they affected and resulted in resource misallocation, while only a select few aligned with the contours of local market structures and successfully delivered economic objectives as planned.

Against this backdrop of burgeoning resource misallocation in China's macro-regional initiatives, economic integration in the Pearl River Delta presents a peculiar case. On the one hand, regional integration in the PRD not only shares the myriad allocation dilemmas that confront spatial policymaking in China, but it also faces additional challenges posed by the “one country, two systems” principle. On the other hand, the PRD's economy has consistently outperformed other macroregions by almost all sectoral measurements.²² This paradox raises the following questions: How is the GBA initiative different from other macro-regional schemes? What is unique about the regulatory landscape and economic geography of the PRD economy? And what are the conditions of spatial development in the PRD that are absent in other regional economies?

To answer these questions, this chapter first provides a historical overview of regional integration in the PRD, covering the legislative history of the CEPA as well as policies leading to the most recent GBA initiative. As this chapter shows, the initial phase of integration under the CEPA regime was incomplete and uneven. This is caused by the institutional constraints of the “one country, two systems” principle as well as the risk-averse strategy of the Hu-Wen administration. Hong Kong's business stakeholders also played an indispensable role in facilitating integration under the CEPA. The second phase of integration is characterized by the strategy of parallelism by which Beijing severely limited the policy parameters available to HK's administrative authorities but endorsed local policy experimentation in Guangdong province under the PRC's macro-regional initiatives. However, as center-local relations were altered by Xi Jinping's ascendancy to power, Beijing adopted an increasingly aggressive and ambitious approach toward regional integration. This paradigm shift in spatial planning planted the seeds for the policy conflicts and entanglements present in the current GBA initiative.

Second, this chapter outlines changes in the various institutional boundaries that dictate policy implementation pertaining to the GBA initiative. By “institutional boundaries,” I mean the natural and artificial limits of governance that constrain how institutions shape incentives within their jurisdictions. This formulation draws inspiration from Douglass North's (1990) classic definition of institutions as systems of interrelated formal and informal rules—i.e. customs, norms, and laws—governing various power relationships that determine how autonomous agents pursue their legitimate interests.²³ In the context of the GBA, limitations on the governmental scope of institutions include, most notably, (1) the contractual arrangements between governmental entities across mainland China and the SARs; (2) the landscape and nature of economic interdependence between urban markets in the PRD; (3) the political-ideological climate in Beijing; and (4) the changing power dynamics between governmental

bodies.²⁴ As this chapter illustrates, these boundaries restrain the policymaking process behind the GBA initiative, which, in turn, has resulted in the uniqueness of the PRD's growth trajectory.

Third, this chapter compares the GBA initiative with two other institutional arrangements that govern Beijing's intergovernmental relations with China's coastal macroregions, contending that compared with policies dedicated to regional economic integration in the YRD and the Jing-Jin-Ji Region, the GBA initiative exhibits a greater degree of policy stretch as a consequence of compressed development.²⁵ This is puzzling, however, given that the PRD has developed earlier than its macro-regional counterparts and was one of the first regions in the PRC to embrace international trade.

2.1 History of Integration Prior to the GBA Initiative

The idea of the PRD being an integrated economic region from the standpoint of central planning actually long preceded the fruition of the GBA initiative. In fact, it started to take root in Chinese spatial policymaking soon after the handover of Hong Kong and Macao to the PRC's administration in 1997 and 1999 respectively. China had already embarked on export-oriented industrialization by the time of the SAR handovers and further linked its economy to the global markets after its accession to the WTO in 2001, so the CCP leadership recognized early on the importance of linking the institutional advantages of the SARs to the mainland markets via economic integration.²⁶ Not surprisingly, Chinese policymakers have been receptive to export-oriented developmental theories that were burgeoning in both domestic and foreign academic circles. Narratives emphasizing the integrative capacities of global value chains and economies of scale have also garnered widespread currency. For example, PRC policies issued immediately after the handover had already started to mention the term "Greater Pearl River Delta" in juxtaposition with other macroregions in China prior to the GBA initiative. China's central-planning apparatus, the National Development and Reform Commission (NDRC), also commissioned think tanks to research policy recommendations for integrating PRD economies.

The key question, however, was how to facilitate regional integration given the realistic institutional restraints. The first problem Chinese policymakers encountered was the lack of administrative capacity by any government (whether that of the SARs or that of Guangdong's municipalities) in the PRD to initiate the policy coordination effort without a central directive. This predicament was most salient at the provincial administrative level, since Guangdong's provincial policymakers were under-equipped to carry out the task of integration within the institutional bounds permitted by the "one country, two systems" principle. By the early 2000s, provincial authorities in Guangdong had already acquired a preliminary toolbox of policy instruments to facilitate spatial development within the province. Some of its tools include land-use policies and zoning legislation, targeted investment in infrastructure and industry, tax and land subsidies, and preferential fiscal and financial support.²⁷ But the use of these policy tools was limited to urban administrations in the mainland portions of Guangdong province (which excludes Hong Kong and Macao) due to differences in the legal systems and legislative structure of mainland China and the SARs. Moreover, the nature of the SARs' constitutional arrangements (such as the Hong Kong Basic Law) prevents administrative intervention from Guangdong's provincial government. Since spatial development in Guangdong and the SARs is dictated by fundamentally incompatible logics—the former is determined by intransparent intergovernmental bargaining, while the latter depends on state-business interaction in an open forum—Guangdong's provincial policymakers could not deploy the usual strategies of spatial development upon which they frequently relied for intercity integration within their administration. Similarly, the governmental authorities of the SARs lacked the capacity—or the incentive—to initiate PRD integration since pursuing it entails giving up the autonomy of planning, trade, and regulation. The second institutional restraint lies at the heart of the CCP's central planning. Though the idea of PRD integration was attractive to China's central planners from an economic standpoint, it posed political risks to Beijing because it inevitably

runs against certain aspects of the “one country, two systems” principle. In particular, a centrally coordinated plan for PRD regional integration potentially undermines Beijing’s commitment—enshrined in Article 18 of the Hong Kong Basic Law²⁸—to secure the administrative and jurisdictional autonomy of HK. At a time when the CCP leadership was preoccupied with domestic marketization reforms and sought international allies to support its efforts, avoiding this risk would be politically prudent since it lent international credibility to the PRC’s commitment to the autonomy of the SARs. As such, a primary concern of CCP leadership at the time was the possibility that any sign of intervention might diminish international confidence in the Hong Kong financial markets, which the PRC depended on for funneling inward foreign investment into the SEZs in Guangdong. As a result, the CCP considered any plan for comprehensive PRD integration as a secondary concern. The central strategy of noninterference was reflected in policy mandates administration. This was evident in their full-fledged support of the autonomy of Hong Kong and Macao under the 10th and 11th five-year plans of the PRC.²⁹

2.1.1 Incomplete Integration: The CEPA

However, the presence of institutional restraints does not imply that regional integration did not take place prior to the GBA initiative. Surprisingly, the initiative for integration actually came from the SARs. Adhering to the boundaries mandated by “one country, two systems,” business interests became the first stakeholders to propel governments to take the initial steps in facilitating cross-border economic linkage between SARs and the mainland. Because of this, areas where regional integration had taken off prior to the GBA initiative were almost exclusively trade-related. These areas include, most notably, integration of trade in financial services, goods, investment flows, and to a certain extent, intellectual property.

In the years leading up to the handover in 1997, a combination of foreign-invested enterprises and Hong Kong investors lobbied the HK Legislative Council to pressure the SAR government to begin the process of drafting a legal framework for trade integration with specific mainland cities.³⁰ A wide range of mainland-based manufacturing sectors started becoming increasingly dependent on HK investors and had themselves listed on the HK stock exchange. Since they shared interests with the Hong Kong business sector, their voices were also heard in the Legislative Council (though they were indirectly represented).³¹ Consequently, on the eve of the millennial turn, a cross-border coalition in the PRD was formed, its members tied together by their common preference for a predictable trading landscape with minimal standards for corporate rule of law.

Because these demands coincided with China’s WTO accession, they were promptly answered by the Hong Kong SAR government. In 1999, the General Chamber of Commerce of Hong Kong conducted a study on how vital economic sectors could leverage their interests into the mainland Chinese market—particularly that of the Pearl River Delta—in anticipation of China’s impending accession.³² The study garnered widespread attention and support in Hong Kong at the time. As small and medium-sized enterprises in Hong Kong feared they would lose their competitive edge over foreign firms once China became a member of WTO, they soon joined the existing coalition to pressure the SAR government for closer linkage to and preferential treatment from the mainland.³³ A year later, the study’s recommendations were adopted by the Hong Kong Monetary Authority. The final report, which investigated the PRD market conditions, took account of substantial industry advice from HK business stakeholders, and recommended forming a regional trade agreement with the mainland, was publicly released in January of 2000.³⁴ Immediately after China’s WTO Accession, in December 2001, the Chief Executive of Hong Kong obtained the PRC central government’s endorsement to begin establishing a free-trade area between the mainland and the Hong Kong SAR. The two sides held a number of high-level meetings between senior officials over an 18-month period, and eventually reached an agreement on the

first institutional arrangement governing PRD integration in June of 2003. Table 1 summarizes the key features of the Closer Economic Partnership Arrangement as it was originally crafted:

Table 1. Key features of CEPA (2003) between Hong Kong and mainland China

Legal text	Details
Agreement on Trade in Services	Article 11, Annex 4: Mainland China agrees, starting from October 2003, to grant premarket access concession to valued-added telecommunication services from Hong Kong; and starting from January 1, 2004, to grant market access concessions to HK services and service providers in the following sectors: professional services, real estate services, advertising services, management consulting services, audio-visual services, exhibition and convention services, construction and engineering services, distribution services, financial services, tourism, transport services, and logistics services.
Agreement on Trade in Goods	<p>Article 5: Hong Kong SAR agrees to maintain its existing regime of zero import tariffs on goods of mainland Chinese origin.</p> <p>Article 10, Annex 2: All goods manufactured in Hong Kong and meeting the CEPA rules of origin enjoy zero tariffs when imported into the mainland. If the rules of origin are met, this allows importers to circumvent China's market access and national treatment regulations in Schedule of Specific Commitments under the GATS.³⁵</p> <p>Articles 6, 7, 8: Both HK and the PRC agree not to take anti-dumping, countervailing, or any other WTO-inconsistent nontariff measures against goods originating in the other side.</p> <p>Article 4: Both sides recognize that the PRC has attained market economy status and agree that certain discriminatory treatment provisions in China's accession protocol will not be applicable to trade between the PRC and HK.</p>
Agreement on Economic and Technical Cooperation	Article 17, Annex 6: The Hong Kong SAR and the PRC agree to promote cooperation in trade and investment promotion; customs clearance facilitation; commodity inspection and quarantine procedures, food safety, quality and standardization; electronic business transparency in laws and regulations cooperation of small and medium enterprises; and cooperation in the Chinese medical and pharmaceutical industries.

Sources: Hong Kong Trade and Industry Department, Mainland and Hong Kong Closer Economic Partnership Arrangement: CEPA Legal Text.

Note: The Macao-Mainland counterpart of the CEPA was signed in October 2004. Except for a few economic sectors that were specific to Macao, the main provisions were almost identical.

Despite the herculean efforts involved in crafting the CEPA, both the depth and scope of regional economic integration under the CEPA framework were severely limited. As shown in Table 1, the CEPA only established a basic framework for mutual preferential treatment and outlined minimal requirements for liberalizing market access. Critical issues central to trade integration—such as standardizing processes and production methods (PPM), licensing regulations, trade remedy administrations, technical barriers to trade, and dispute settlement rules—were virtually absent from the CEPA. Beyond the inadequacies found in trade governance, the CEPA also offered very limited predictability to the regulation of cross-border supply chains, though it did outline an elaborate set of conditions to preserve the discretionary power of the PRC over trade protection in case of WTO inconsistency.³⁶

This gave rise to a number of legal caveats. First, the tacit agreement not to impose anti-dumping or countervailing duties against enterprises in each other's territories incentivized the use of trade remedy measures and nontariff barriers by PRC customs authorities, since the risk of bearing international legal consequences was eliminated. Second, the administration of rules of origin was subject to an arbitrary process conducive to trade protection. Though rules of origin were designed to control arbitrage in free trade areas, they could incentivize administrative red tape and rent-seeking by customs authorities since they granted them disproportionate power to inspect all goods transferred across internal borders to determine the eligibility of duty-free access.³⁷ Moreover, since both the Hong Kong and Macao SARs were already bound by the WTO's 1947 General Agreement on Tariffs and Trade (GATT) not to impose tariffs or other nontariff trade restrictions on any other country prior to the CEPA, the arrangement did little to change the economic openness of the SARs. In essence, regional integration under the CEPA framework only occurred only at the superficial level and had very few institutional underpinnings to bolster deep economic linkage across the PRD.

The incompleteness of the CEPA's integrative scope is, in part, a result of the unique legal status of the CEPA under international law. Since both SARs are recognized as autonomous customs territories enjoying full legal personality under WTO law, the CEPA must, in principle, comply with the international jurisprudence on the law of treaties. Thus, its provisions must be consistent with the obligations set forth in Article XXIV of the 1994 GATT annex, which include duty-free market access for substantially all intraregional exchange of trade between free trade area signatories and nonrestrictive external tariff barriers for nonmembers of the free trade area.³⁸ At the same time, however, the CEPA must comply with the "one country, two systems" principle, which, first and foremost, held the territorial sovereignty of the PRC sacrosanct. Chapter VII of the Hong Kong Basic Law stipulates that the PRC government holds the ultimate authority to determine the external affairs of the Hong Kong SAR, including any treaties it engages in with another sovereign entity.³⁹ The PRC Constitution also affirms that principle by stating that the Standing Committee of the National People's Congress wields sole and supreme authority to ratify any treaties.⁴⁰ This tension posed a dilemma for the CCP's central leadership, as fully exercising domestic legal sovereignty would risk undermining the PRC's commitment to international rules and vice versa. At a time when China was seeking to consolidate the fruits of domestic market reforms via international legal compliance, this trade-off was too costly to bear for the incumbent CCP leadership. Consequently, the CEPA—both China's first free trade agreement and the first coordinated effort toward regional economic integration in the PRD—was designed to be both shallow and incomplete. This eclectic and minimalist approach adopted by both the SARs' administrative authorities and the PRC central government offered the groundwork for regional integration without having to make a painful trade-off between domestic legal sovereignty and international legal compliance.

2.1.2 Stretching the Limits of "One Country, Two Systems"

For most of the Hu-Wen administration, Beijing adopted a risk-averse approach toward the SARs and exercised considerable caution in coordinating any noneconomic policies for regional integration. Apart from scant moments of intervention such as the PRC's efforts to implement patriotic education in Hong Kong in 2012 and its attempted enactment of the anti-subversion law required by Article 23 of the Basic Law, Beijing maintained a hegemonic distance from the SARs.⁴¹ From the PRC's standpoint, this was the prudent option since it posed the least political risk to the CCP leadership and was aligned with the inward-looking strategy of the Hu-Wen regime. The implicit result, however, was uneven regional integration in the PRD. Since the CEPA remained the only functioning pillar of regional integration throughout the 2000s, other developmental areas such as institutional and sociopolitical integration across the PRD were stalled.⁴² From 2004 to 2013, 10 supplements were added to the CEPA to fix legal loopholes and

incrementally broaden the scope of market access liberalization. But centrally coordinated plans for comprehensive regional integration across the PRD did not unfold until the Xi administration.

The CCP leadership's emerging preference for central intervention was broadly reflected by two trends: (1) the changing nature of economic interdependence between the SARs and the mainland, and (2) rising concern for national security in the PRC's political-ideological climate. In the early years of the CEPA regime, the development of Guangdong province (and, to a larger extent, the entire PRC) was largely dependent on Hong Kong, since Hong Kong functioned as an international financial center and transshipment port. However, this trend reversed with China's economic rise. Consider that by 2013 Hong Kong's share of China's GDP had shrunk from 15.6 percent in 1997 to 2.9 percent (around which it holds steady today).⁴³ Even cities within Guangdong province like Shenzhen and Guangzhou have caught up with Hong Kong in terms of GDP. Table 2 provides an overview of the recent economic performance of nine major cities in the PRD:

Table 2. Major economic indicators of nine PRD cities and two SARs, 2018

City	Land area (sq. km)	Population (million)	GDP (billion, in USD)	GDP per-capita (USD)	GDP share of tertiary industry (%)	Exports (billion, in USD)	Utilized FDI (billion, in USD)
GBA	56904	71.16	1641.97	23075	66.1	1145.84	132.695
Hong Kong	1107	7.48	362.66	48673	92.4	530.44	110.7
Macao	33	0.67	54.54	82609	94.9	1.51	0.375
Guangzhou	7434	14.9	345.44	23497	71.8	84.74	6.611
Shenzhen	1997	13.03	366.03	28647	58.8	245.94	8.203
Foshan	3798	7.91	150.15	18992	42.0	53.30	0.691
Dongguan	2460	8.39	125.1	14951	51.1	120.22	1.361
Huizhou	11347	4.83	62.0	12908	43.0	33.38	0.959
Zhongshan	1784	3.31	54.9	16711	49.3	27.23	0.527
Jiangmen	9507	4.6	43.83	9570	44.5	16.97	0.734
Zhuhai	1736	1.89	44.05	4100	49.1	28.52	2.391
Zhaoqing	14891	4.15	33.27	8050	38.6	3.59	0.143

Sources: Census and Statistics Department of Hong Kong, Statistics and Census Service of Macao, the statistics bureau of the relevant PRD cities, Hong Kong Trade Development Council

Despite the diminishing economic weight of the Hong Kong SAR in the PRC, the mainland continues to be the largest market for Hong Kong in trade and investment. By 2015 approximately 44 percent of Hong Kong's exports of goods and 54 percent of re-exports of goods were going to the mainland.⁴⁴ Moreover, even the direction of investment flow changed. Excluding those originating from Hong Kong's favorite tax havens such as the British Virgin Islands and Bermuda, firms incorporated in mainland China constituted the largest portion of Hong Kong's inward direct investment—30.1 percent of the total—by 2014.⁴⁵ This reversing trend is also accompanied by the diminishing voice of HK business stakeholders in the policymaking processes central to PRD integration. With the exception of financial and capital markets, Hong Kong has become increasingly reliant on the mainland and consequently susceptible to risks in the PRC market. The changing nature of economic interdependence has prompted the CCP leadership to prioritize development in other PRD cities over development in the SARs and emboldened Beijing to coordinate more ambitious plans for regional integration.

The second trend—the changing political climate in Beijing regarding SAR-related matters—became evident when national security priorities began surfacing in new policy frameworks governing SAR-mainland relations. At the end of the Hu-Wen administration, the once-dominant strategy of risk aversion toward SAR-affairs was replaced by a new set of pro-intervention policy parameters. Three core interests—state sovereignty (国家主权), national security (国家安全), and development (发展利益)—emerged as the guiding principles for regional integration and spatial development in the PRD. Though never authoritatively defined, these interests could be broadly interpreted as safeguarding territorial integrity while pursuing state-led economic growth without institutional change in the CCP-dominated political system. At the 18th National Congress of the CCP in 2012, Hu Jintao’s speech mentioned the three core interests in relation to Hong Kong and Macao for the first time: “The underlying goal of the principles and policies adopted by the central government concerning Hong Kong and Macao is to uphold China’s sovereignty, security, and development interests and maintain long-term prosperity and stability of the two regions.”⁴⁶ Although the three core interests remained at the level of rhetoric during the Hu-Wen administration, they represented a shift in the priorities of policymaking in the CCP. It is not surprising, therefore, that the three core interests were soon highlighted in all key policy mandates on the SARs. Most notably, the National People’s Congress’s 8.31 decision, which provided a basic framework for universal suffrage and methods for forming the Legislative Council in Hong Kong, included the three core interests as the guiding principles.⁴⁷ This elevation of developmental interests and national security to the level of state sovereignty revealed the beginnings of a policy entanglement process.

A key element of Beijing’s strategy to tighten its grip on SAR affairs is to promote what it deems a correct understanding of the Hong Kong Basic Law. The first signal of entrenching an orthodox understanding of the Basic Law was sent by the then Chinese vice-president, Xi Jinping, during a visit to Hong Kong on July 8, 2008. Deviating from the non-interventionist style of Hu and Wen, Xi emphasized that an authoritative interpretation of the Basic Law must be determined by the mutual coordination between governmental bodies in Beijing and Hong Kong and other related agencies in Guangdong, rather than by HK’s independent judiciary.⁴⁸ Further, the Basic Law should uphold the PRC’s three core interests as its inviolable principle. Xi’s statement directly conflicted with the “separation of powers” traditionally upheld by the Hong Kong Bar Association and chief justices.

After Xi came to power in 2013, official voices for intervention from Beijing were further amplified. Rao Geping, a senior member of the PRC’s Basic Law Committee, argued that the Hong Kong SAR’s judiciary branch was corrupted by having foreign judges at the Court of Final Appeal (CFA). Similarly, Zhang Rongshun, the vice-chairperson of the legislative affairs commission under the National People’s Congress Standing Committee, argued that Hong Kong needed a “re-enlightenment” to give citizens a correct understanding of “one country, two systems.”⁴⁹ The most aggressive statement delivered by Beijing was by Foreign Ministry spokesman Lu Kang, who, in 2017, called the Sino-British Joint Declaration a purely historical document that “no longer has any realistic meaning” in regulating the current SAR-PRC relationship.⁵⁰ These concerted efforts to promote a “correct understanding” of constitutional arrangements governing the PRC-SAR relationship indicate the increasingly interventionist trend of Beijing’s political climate. These incidents show that Beijing has begun to disavow both the international treaties and the domestic constitutional commitments to the “one country, two systems.”⁵¹ In the face of the SAR government’s dwindling economic weight and bargaining power vis-à-vis the stronger PRC central government, these signs of greater intervention reflect a change in the political calculation of CCP central leadership on matters regarding PRD integration.

Moreover, a series of reshuffles of senior personnel on HK affairs occurred since the ascendancy of Xi Jinping to the CCP leadership. On December 19, 2012, the former deputy director of the PRC State Council’s Hong Kong and Macao Affairs Office (HKMAO) and the former secretary for ex-director

Liao Hui, Zhang Xiaoming, replaced Peng Qinghua as the director of the Liaison Office of the PRC in the Hong Kong SAR. Zhang was widely recognized within the CCP as a hard-liner on HK issues. His appointment reflected Beijing's stringent attitude toward the Hong Kong SAR. In March 2013, Zhang Dejiang, the chair of the Standing Committee of the National People's Congress, took over the leadership of the Central Coordination Group on Hong Kong and Macao Affairs. The incumbent vice president of the PRC, Li Yuanchao, became the group's deputy director.⁵² In December 2014, the CCP leadership established a top-level policy think tank, the Chinese Association of Hong Kong and Macao Studies, to design and analyze policies pertaining to both the regional integration and external affairs of the SARs. The association was staffed by senior officials and advisors like Chen Zuoer (former deputy director of the HKMAO), Lau Siu-kai (former head of the HK's Central Policy Unit), Rao Geping (Basic Law Committee member), and Wang Zhenmin (head of the Legal Department of the HKMAO).⁵³ As the autonomy of Hong Kong SAR was incrementally diminished by Beijing's intervention, these personnel changes since Xi's ascendancy paved the institutional groundwork for a more aggressive policy approach toward PRD integration.

2.2 Paradigm Shifts Under the GBA Initiative

The existing scholarly consensus on the SAR-PRC relationship has more or less portrayed Beijing's tightening grip on Hong Kong as a linear history of increasing intervention characterized by the incremental encroachment on Hong Kong's autonomy and the overreach of Beijing's power over the SAR's internal affairs. Cheung (2018), for example, argues that the origin of Beijing's interventionist strategy could be traced to the National Security Bill of 2003, passed as a response to public panic triggered by the initial outbreak of severe acute respiratory syndrome (SARS). Cheung argues that since the bill's passing, Beijing has emphasized the central government's constitutional authority in steering Hong Kong's political reform in addition to its authority in coordinating economic integration.⁵⁴ Similarly, Lui (2018) argues that the increasing intensity of Beijing's intervention in HK has weakened the SAR's capacity to capitalize on the opportunities developed in the mainland market. Despite the initial fervor in the HK business sector to support PRD integration, opportunities in the mainland have gradually faded due to the decline of Hong Kong's economic and institutional advantages.⁵⁵

The implication of this scholarly consensus is to view the GBA initiative as a natural outcome of Beijing's increasing intervention in SAR affairs. From a cursory glance, this seems plausible since the policymaking process behind the GBA initiative did not involve stakeholder interests from Hong Kong and Macao, contrasting with the legislative history of the CEPA. Moreover, the GBA initiative is far more extensive and ambitious than any prior regional integration schemes in the PRD. Both observations fit the generalization narrated above, but this view is far too reductionist since it omits the myriad incentives embedded in the policymaking process pertaining to the GBA and pays inadequate attention to the heterogeneity of governmental plans that comprise the GBA initiative.

In light of these observations, the following discussion will focus on recent changes in center-local relations in the PRC that underpin Beijing's new strategy toward PRD integration under the Xi regime. I argue that the GBA initiative is a joint result of conflicting objectives from the central directive and the changing power dynamics between the related administrative agencies in charge of policy implementation and resource allocation. Table 3 unravels the overlapping web of governmental plans, programs, and policies that were issued by various PRC administrative authorities under the GBA initiative, while highlighting areas where policy conflict is present.

Table 3. Governmental programs under the GBA initiative and its related plans

Programs	Issuing authority	Key features	Areas of conflicting policy objectives
The Outline of the Plan for Reform and Development for the Pearl River Delta ^{*56} (2009)	NDRC	<ul style="list-style-type: none"> • First national-level plan to address PRD integration • Authorizes 24 local-level policy experimentation schemes for priority sectors and industries • Does not address socio-political integration with the SARs 	Authorization of local policy experimentation conflicts with recent trends toward power centralization.
Implementation Plan for the Construction of the Pearl River Delta National Demonstration Zone for Independent Innovation and the Guangdong Pilot Free Trade Zone ⁵⁷ (2016)	Guangdong Provincial Government	<ul style="list-style-type: none"> • Assigns specific specialization roles and hierarchical divisions of labor between PRD cities • Establishes eight “pioneer areas” • Provides a future framework for creating demonstration zones • Prioritizes the development of Shenzhen in the PRD under the 2019 subsidiary plan 	Government-assigned divisions of labor work against the cities’ economic geography, though the scheme also incentivizes strategic competition between PRD cities.
Framework Agreement on Deepening Guangdong–Hong Kong–Macao Cooperation in the Development of the Bay Area ⁵⁸ (2017)	NDRC Guangdong Provincial Government, Macao SAR, Hong Kong SAR	<ul style="list-style-type: none"> • First comprehensive integration plan coordinated by all relevant governments in the GBA • Establishes a PRD single market by modifying the CEPA regime • Requires an annual review by PRC central government to monitor progress • PRC-SAR policy coordination 	Further economic integration without addressing emerging fractures in society creates conflict between economic growth and social-stability maintenance.
Outline Development Plan for the Guangdong–Hong Kong–Macao Greater Bay Area ⁵⁹ (2019)	CCP Central Committee State Council	<ul style="list-style-type: none"> • Centerpiece of GBA initiative • Uses PRD integration to buttress supply-side reform, MIC 2025, and the BRI project • National security as top interest • Addresses novel areas of regional trade governance including e-commerce and cybersecurity • Isolates 10 sectors in the GBA for priority development 	Having national security as the top priority for spatial and industrial development limits policy choice at the implementation level. The plan is overambitious, with too many goals and too few policy instruments.
The Three-Year Action Plan for Deepening Construction of the Greater Bay Area ⁶⁰ (2019)	Guangdong Provincial Government CCP Provincial Committee	<ul style="list-style-type: none"> • Enhances cross-border mobility in service trade under the new CEPA framework • Creates international commercial arbitration system in pilot FTZs • Uses target-based responsibility to monitor implementation 	Creates tensions between international legal compliance and domestic industrial policy and tensions in center-local relations.

Note: *Not officially part of the GBA initiative but recognized as a central component of it.

Sources: Author’s observations of each government document. Documents retrieved from the websites of relevant administrative agencies in the PRD cities and the PRC central government.

Notice that Table 3 reflects four trends in the PRC's governmental planning pertaining to the GBA initiative: (1) the increasing scale and depth of political coordination between relevant SAR and PRC administrative authorities in carrying out PRD integration; (2) the accelerating pace of legislation and the decreasing time interval between each newly unfolded GBA plan; (3) the increasing degree of intertwinement between potentially conflicting policy goals; and (4) growing Party involvement in the state's operational functions. These trends are indicative of an emerging paradigm shift in Chinese spatial policymaking regarding the integration of the PRD economies.

From 2009 to 2016, Beijing's strategy toward PRD integration was to focus on altering the constitutional arrangements governing PRC-SAR relations and on fostering a stronger economic interdependence between Hong Kong and the mainland to lock in these institutional changes. This generated mixed results, as Beijing's increasing intervention in Hong Kong's legislative affairs created an even greater backlash in protest-driven public crises. Yet, on the mainland side, Beijing has given substantial autonomy to the Guangdong provincial government and its subordinate agencies to implement and experiment with their own policy schemes as long as they align with the central directive. (See the first two rows of Table 3.) Under the 2016 implementation plan, provincial authorities in Guangdong were granted the autonomy to create "national demonstration zones" within the province's jurisdiction for purposes of resource allocation. Local state-owned sectors such as the China Merchant Group and Shenzhen's municipal authorities were granted discretion to determine the parameters of specific policies for the pursuit of their own interests. In addition to allowing the involvement of local interests in policy implementation, the State Council also endorsed the Guangdong provincial government to design its own plans for cooperating with the SAR governments on matters relating to integration. The autonomy of local policy implementation is evident in two regional action plans crafted by the Guangdong provincial government: the Regional Cooperation Plan on Building a Quality Living Area (2012),⁶¹ and the Action Plan for a Livable Bay Area of the Pearl River Estuary (2014).⁶² In essence, Beijing's attitude toward PRD integration from 2009 to 2016 was characterized by a strategy of parallelism that discriminated between SAR and local governments in the PRC.

From 2017 to 2019, Beijing envisioned a new strategy that replaced the conventional mode of fragmentary governance: centralized coordination of integration by the CCP. While Beijing has continued its interventionist attitude toward the governance of SAR-PRC relations, it has become intolerant toward the autonomy of Guangdong province. This paradigm shift is evident in GBA plans after 2016, in which the dominant mode of policy implementation is cross-coordination among relevant local governments under strict central supervision from Beijing. For instance, the 2017 Framework Agreement between the NDRC, the Hong Kong SAR government, the Macao SAR government, and the Guangdong provincial government established a formal procedure for annual review. The review was designed to evaluate the progress of policy implementation and monitor the local use of policy instruments conducive to objectives outlined by central plans. The level of cross-border political coordination was unprecedented in the history of SAR-PRC relations (as well as center-local relations). Further, the 2019 Three-Year Action Plan also explicitly mandated the adoption of target-based responsibility evaluation schemes to police local bureaucrat behavior on compliance with central schemes. These internal cadre evaluation schemes—evaluated by the bureaucrats' direct superiors and monitored by the Central Organizational Department of the CCP—function as powerful instruments of political control that deter local bureaucrats from engaging with any form of unorthodox or experimentative policymaking. Due to the threat of disciplinary action by the CCP, local bureaucrats are incentivized to rigidly follow central directives even when doing so would sacrifice local welfare.

A core tactic Beijing deploys to keep local administrative authorities in line with the central directive is to embed concurrent policies of the central government with macro-regional plans. This is

especially the case for the 2019 Outline GBA Development Plan, which explicitly entangled PRD integration with central economic policies such as supply-side structural reform (macroeconomic restructuring), MIC 2025 (industrial policy), and the BRI (economic diplomacy).⁶³ For example, Chapter 5 of the 2019 Outline Development Plan established a set of priority development targets to enforce the implementation of supply-side structural reform in the PRD's energy sector. Industries such as nuclear infrastructure and solar equipment manufacturing in Shenzhen received priority developmental treatment according to the plan, while Guangzhou and Zhuhai were assigned to clean up their liquid natural gas and electricity supply chains. Chapter 6 of the plan delineated specific steps to promote Shenzhen's transition into a predominantly service economy, aligning with the targets to reduce industrial overcapacity and advance tertiary sectoral development as promulgated by the supply-side structural reform economic policy. Chapter 9 outlined new areas of trade governance where the CEPA could be modified to better suit Beijing's broader economic objective to facilitate outward business activities in accordance with the Belt-and-Road initiative.⁶⁴ As shown in these examples, the level of specificity and micromanagement in recent GBA plans (2017–2019) is unmatched by previous macro-regional development schemes. Consequently, local policymakers in Guangdong province face fewer options in their use of policy instruments while their tasks have become increasingly difficult since they are intertwined with broader objectives in Beijing's national economic policy.

In addition to policy entanglement, the recent paradigm shift in spatial policymaking under the Xi regime is evident in Beijing's prioritization of national security interests in regional planning schemes. Although national security had already taken root in Beijing's political calculations as a guiding principle for regional economic governance in Hu Jintao's three core interests, it remained mostly a toothless mandate until the Xi administration. In contrast, the GBA initiative under Xi offers an actionable blueprint for Beijing to extend the reach of its political power into the locality beyond conventional economic means. Specifically, the initiative plans to deliver this goal by authorizing military intervention in the GBA's civilian technology sector, since industrial capacity is deemed by Beijing as a paramount national security concern. Chapter 4 of the Outline GBA Development Plan, for instance, states that one of the core objectives of industrial policy in the GBA is to “take forward military-civilian integration in innovation development in the nine PRD municipalities and support the establishment of a demonstration zone of military-civilian integration innovation development.”⁶⁵ In practice, the GBA's emphasis on “civilian-military integration” provides discretionary power for the People's Liberation Army to intervene with the decision-making of dominant, “national champion” firms like Huawei, which is headquartered in Shenzhen, regarding the sale and production of dual-use technologies such as surveillance equipment. These measures stifle the autonomy of both state and private sectors in the PRD.

From a broader, geoeconomic perspective, the changes enumerated in the Outline GBA Development Plan embody a fundamental shift in how Beijing envisions the role of the PRD—as well as the roles of Hong Kong and Macao—in China's state-capitalist, export-driven economy under the Xi administration. During the Hu-Wen administration, the PRD was given a passive role as the regional anchor for hosting inward foreign investment destined for export processing.⁶⁶ Its success was contingent on Beijing's preferential policies, which granted fiscal autonomy to the province, allowing local authorities to design pilot policy schemes and selectively implement them to maximally retain the benefits of spillover delivered by foreign direct investment.⁶⁷ The CCP intervened minimally to ensure that Guangdong's SEZs and SARs would maintain their comparative advantages by operating separately (but complementarily) under the “one country, two systems” principle. Under the Xi regime, however, the PRD is tasked with the political mission of spearheading the supply-side structural reform and BRI projects locally, albeit with very little consideration for local economic interests.

As such, the paradigm shift under Xi disrupts the status quo that sustained the development of PRD for more than 30 years. Prior to the unfolding of the GBA, the PRD drove China's export-led growth by enjoying its isolation from the rest of the Chinese economy. It was able to pursue a sheltered, albeit uneven, growth pattern via a combination of factors: (1) restrictive family registry and urban deflection policies that generated an endless supply of migrant labor flow from the hinterland provinces with minimal labor-force maintenance cost;⁶⁸ (2) preferential duty-free market access within the SEZs that attracted foreign direct investment;⁶⁹ (3) formation of enclave manufacturing zones that integrated labor communities into global value chains;⁷⁰ (4) intransparent land bidding and land-swap policies that kept prices low;⁷¹ and (5) proximity to Hong Kong, which gave the rest of the Guangdong province the opportunity to offer its competitive factors of production in land and labor to foreign firms in exchange for inward investment flows.⁷² Together, these ingredients had secured the comparative advantage of the PRD and kept it relatively immune from the consequences of unequal development. But as the GBA initiative introduces a new set of policy parameters and objectives that are incompatible with the PRD's previous growth model under the Hu-Wen regime, the future of PRD development has become increasingly uncertain.

In short, this paradigm shift has wedged new fault lines into spatial policymaking at the local level. Since Beijing has started to use macro-regional planning as an instrument to tighten its control over SARs and to police center-local relations apart from delivering its intended objective of regional integration, these mandates have become increasingly multifunctional and ambitious. Yet, the expansiveness of the GBA initiative is accompanied by the narrowing of administrative discretion in both Guangdong province and Hong Kong. The specific symptoms of this mismatch are evident in the GBA initiative's overly ambitious scope, extensive micromanagement, intolerance for fragmentary governance, and conflicting policy objectives.

2.3 Macro-Regional Planning in Comparative Perspective

How does the path dependency of PRD integration differ from that of other urban clusters governed by similarly expansive macro-regional plans? Why is the GBA initiative unique? To answer these questions, one must understand the function of macro-regional initiatives in Chinese spatial policymaking. Borrowing Heilmann's (2018) terminology, macro-regional development plans can be characterized as "implicit contracts between central and local governments," because the central government decides the functions of macroregions within the national development strategy while authorizing local governments to use their own policy instruments (or come up with novel ways of governance) to achieve the objectives defined in the plan.⁷³ These contracts are binding because local noncompliance risks punitive measures from the central government such as reduced central funding, demotion of bureaucrats, or Party disciplinary action. They are also unequal, because no mechanism exists to punish the central government for breaching the contract or failing to provide the necessary pre-conditions for local compliance.⁷⁴

Due to the contractual nature of these macro-regional initiatives, the institutional design of these plans can be used to approximate the intergovernmental relations between Beijing and the provincial administrative authorities responsible for delivering these objectives at the local level. Additionally, macro-regional initiatives can tell us about the types of political capital local policymakers rely on for delivering the intended objectives of centrally drafted regional plans. For regional planning in underdeveloped areas, such as the 2003 Revitalize the Old Northeast Industrial Bases campaign, the 2004 Central China Rising strategy, and the Western Development Program, central government funding and investment played a decisive role in local implementation. For advanced coastal economies such as the Yangtze and Pearl river deltas, policy implementation relied less on central largesse and more on the central authorization of local policy schemes.⁷⁵ As such, local policymakers from wealthy

provinces derive political capital not from their abilities to attract central funding, but from their discretionary power over the policy implementation. Table 4 analyzes the center-local relations of three macro-regional urban clusters by comparing their regional economic profile and the policy parameters that govern integration in their respective areas.

Table 4. Comparison of three coastal macroregions in China

	Greater Bay Area	Yangtze River Delta	Jing-Jin-Ji
Core cities	Hong Kong, Macao, Guangzhou, Shenzhen	Shanghai, Hangzhou, Nanjing	Beijing, Tianjin
Number of cities	9, plus 2 SARs	26	11
Area	56,000 km ²	219,000 km ²	217,000 km ²
Population	69.6 million	128.3 million	112.5 million
GDP (USD)	1.6 trillion	2.6 trillion	1.3 trillion
GDP per capita (USD)	23,000	13,000	11,000
Urbanization	70%	69%	49%
GDP share of tertiary	66%	54%	59%
Shortest intercity distance	10 km Macao-Zhuhai	30 km Suzhou-Wuxi	50 km Beijing-Langfang
Longest intercity distance	200 km Zhaoqing-Huizhou	750 km Lianyungang-Wenzhou	440 km Chengde-Shijiazhuang
Number of airports	7	16	9
Number of ports	1,817	1,828	373
Length of highway (km)	218,085	289,649	227,221
Free trade area (km ²)	116 km ²	241 km ²	120 km ²
National strategy	Development Plan for the Guangdong–Hong Kong–Macao Greater Bay Area	Regional integration for the Yangtze River delta region	Coordinated development for Beijing–Tianjin–Hebei region
Key policy targets	Create an international financial, innovation, and technology hub in the PRD; mitigate political risks in current SAR-PRC relations	Infrastructure-oriented development to close the gap between YRD cities; industrial upgrade in accordance with MIC 2025	Relocating noncapital functions from Beijing to build the Xiong'an new zone; alleviate resource pressure from Beijing
Integration challenges	Constraints from “one country, two systems,” policy entanglement	Diversity of economic geography, lack of cooperation	Looming presence of Beijing, absence of satellite cities.

Sources: Created by the author. Data retrieved from China Entrepreneur Investment Club (CEIC) data bank, CBRE Group, Inc., and Development Bank of Singapore (DBS) at Hong Kong (2019).

Compared to the GBA initiative, Beijing's integrative plans for the Yangtze River Delta region and Jing-Jin-Ji economic rim displayed a lesser degree of compressed development, or the accelerated collapse of developmental stages. In the GBA, compressed development is exemplified by both the rapidity of planning at the central level and the increasing entanglement of policy objectives at the implementation level. The typical problems of the GBA initiative—conflicting policy objectives, overly ambitious scope, and extensive micromanagement—are less salient in the YRD and Jing-Jin-Ji integration plans. Though Beijing has also entrenched concurrent economic policies such as MIC 2025 with specific targets set forth in the YRD Regional Integration Plan, national security does not supersede other economic objectives as the top priority in YRD regional integration, as it does in the GBA initiative.⁷⁶ Furthermore, the institutional barriers to integration in the YRD and Jing-Jin-Ji are purely domestic and less politically charged compared with those in the GBA. For example, the diversity of economic landscape and differing levels of development are the two greatest obstacles to integration in the YRD. For the Jing-Jin-Ji, the greatest difficulty is the lack of satellite cities to provide the necessary economic linkage between Beijing and Tianjin. Both problems could be solved via market mechanisms and the natural effects of agglomeration, whereas in the GBA, the challenges of regional integration come from multiple sources—the institutional instability of “one country, two systems,” tensions between international legal compliance and domestic constitutional commitments, and principal-agent conflicts arising from fragmentary governance.

These empirical indicators suggest that the macro-regional “contract” governing the GBA initiative is fundamentally different from those regulating regional integration in the YRD and Jing-Jin-Ji urban clusters. As I mentioned in the previous section, the GBA initiative is deployed by Beijing as an instrument to police center-local relations in addition to fulfilling its intended function of facilitating regional integration of the Pearl River Delta. Its complexity also results from the fact that Beijing must take account of the political implications of “one country, two systems” and SAR-PRC relations when crafting the GBA initiative. In contrast, plans governing YRD and Jing-Jin-Ji integration are primarily focused on conventional developmental issues. Political calculations also play a less salient role. This difference explains why the GBA initiative exhibits a greater degree of policy stretch as a consequence of compressed development, even though the region developed earlier than its macro-regional counterparts and was one of the first regions to open to international trade.

3. Compressed Development: Explaining the Challenges of the Greater Bay Area

I have demonstrated the complexity of the GBA initiative and the diverse nature of challenges it aims to tackle in a single undertaking. Although the GBA initiative primarily concerns economic integration between urban markets in the PRD region, it attempts to govern a wide spectrum of policy issues ranging from human development and urban infrastructure to financial regulation and trade facilitation—regulatory issues that often demand separate tools to address and effectively manage. These simultaneous developmental challenges result in overlap between multiple instruments of policy-making, as shown by the initiative’s intertwining of economic planning, spatial planning, and legal institutionalization.

These problems with the GBA initiative are emblematic of what Whittaker et al. (2010) called “policy stretch” in compressed development. According to Whittaker et al., compression is defined by two central features. First, it entails an accelerated “collapse of developmental stages” that normally, in mature Western market economies, would require multiple prolonged phases. For instance, a compressed developer would be preoccupied with tertiary industry development and sectors at the top echelons of the global value chain while continuing to engage with basic infrastructural problems in its primary and secondary sectors.⁷⁷ Or, in the case of spatial development, a compressed developer may still face critical challenges in under-urbanization when parts of its urban clusters have already reached their limits of carrying capacity, making them unable to absorb migrants from less urbanized regions.

Second, compressed development involves premature deindustrialization. This is characterized by the simultaneous occurrence of industrialization and deindustrialization, which propels developing countries to prematurely transition into service economies before industrial manufacturing reaches its full capacity.⁷⁸ As Dani Rodrik (2015) points out, this phenomenon not only impedes a developing country from overcoming the middle-income trap, but also generates grave sociopolitical repercussions as it disrupts labor markets and aggravates manufacturing displacement before the formation of a robust middle class.⁷⁹ When faced with the dual imperatives of compressed development, the tendency is for policymakers to stretch their regulatory scope, extend available policy instruments, and form coalitions with a diverse set of stakeholders, both domestic and foreign.

However, the existing literature on compressed development fails to offer a generalizable theory to capture specific sources of policy stretch. Due to the absence of a guiding analytical framework and the dearth of open governmental data, empirical studies on this topic are also relatively scarce. To fill the current gaps in research, this chapter attempts to extend the literature on compressed development by offering a model to explain the sources of challenges the GBA encountered, as well as the expected outcomes it will likely engender. As this chapter will attempt to illustrate, the distributive dilemmas of policymaking entrenched in the GBA initiative should be understood in terms of the governmental strategies to address specific challenges arising from compressed development. This revised model of compressed development both reveals the state’s planning logic and informs the limits of policy experimentation conducive to the GBA initiative. Thus, in advancing this argument, this chapter casts doubt on the common assumption that the GBA is a carefully orchestrated masterplan by the PRC central government, thereby calling into question the seemingly prescient vision of the CCP’s spatial and economic planning.

3.1 Compressed Development: The Chinese Context

The phenomenon of compressed development is not uncommon among developing states in East Asia. In fact, a rich body of scholarship has attributed compression to the East Asian economic miracle, identifying late development as a source of advantage rather than an obstacle. Haworth (2013), for instance,

argues that the rapidity of development propelled East Asian countries to creatively adapt and enhance state capacity due to the diverse demands of stakeholders in an accelerated developmental environment.⁸⁰ In the Chinese intelligentsia, the notion of overtaking developed countries on a curve (弯道超车) has gained currency, since it implies the developmental advantage of centralized institutional intervention over *laissez-faire* markets, especially when pursuing industrial upgrades in a compressed time frame.⁸¹ These insights build on Gerschenkron's (1962) classic argument that countries do not follow an identical, linear path of economic development because variations in speed and scale depend on a diverse set of determinants, such as the availability of factor endowments, the ideological climate, and the degree of institutional intervention. Gerschenkron's theory implies that countries can harness late development as a source of strength as long as institutional involvement shapes the economy according to its comparative advantage.⁸²

A quintessential example of state adaptation under compressed development is the emergence of embedded autonomy in the Japanese and South Korean contexts.⁸³ In Japan, the government's pursuit of rapid export-oriented industrialization from 1955 to 1990 necessitated the formation of a robust linkage between business and bureaucratic interests through a process sometimes called "the invisible handshake." Instead of directly intervening in market pricing and production, postwar Japan's central-planning apparatus, the Ministry of International Trade and Industry (MITI, renamed Ministry of Economy, Trade, and Industry after Japan's central government reform in 2001), would coordinate industrial policy by creating an incentive structure that fosters corporate dependence on bureaucratic resources. One of MITI's usual strategies, for instance, was to disclose regulatory details of trade policies to favored companies before implementing them. This ensured that targeted firms could relocate their supply chains without incurring regulatory costs. Through this strategy, the MITI successfully directed *keiretsu* conglomerates (Japanese syndicates) to align with its industrial goals and set favorable policies to reward compliant corporate behavior in return. Similarly, in South Korea's postwar developmental experience we saw strong institutional involvement in export-oriented industrialization. This was epitomized by the intimacy between South Korea's Economic Planning Board and the *chaebols* (South Korean syndicates), upon which the government relied to upgrade the nation's industrial capacity. Evident in both the case of Japan and South Korea, the symbiotic relationship between the state and favored corporations was founded on the fact that in both cases their central governments had privileged access to capital in a capital-scarce environment—a constraint imposed by the conditions of late development.⁸⁴ Compounded by the countries' need to balance the tensions between industrial protectionism with integration into the global economy, both governments have extended their reach into the market and created unique productive and organizational structures that helped them overcome the diverse challenges typically present in compressed development.⁸⁵

However, compared to the developmental circumstances of Japan and South Korea, the conditions of compressed development in China are much less favorable. Apart from the usual developmental constraints—capital scarcity, the simultaneity of challenges, tensions between protectionism and global integration, and so forth—China faced an additional set of institutional barriers when it embarked on its economic reform. The challenges are threefold. First, the heterogeneity of China's economic geography impairs the state's ability to centrally coordinate policies across a vastly diverse landscape. The difficulties of policy coordination are compounded by information asymmetries between local and central governments, which is evident in the pervasive principal-agent conflicts present in China's local governance. Although the recentralization schemes of China's 1993–1994 fiscal reform allowed Beijing to strengthen its grip on local governments via provincial tax remittance, it did little to mitigate principal-agent problems in center-local relations due to the proliferation of underground financing and debt spending in local governments.⁸⁶ These measures were considered necessary by local

governments since the task of simultaneously addressing multiple developmental challenges required them to maintain a disposable pool of economic resources to finance projects suited to local circumstances. Faced with the simultaneous challenges of compressed development, local policymakers are compelled to choose between complying with the conflicting objectives of central mandates and pursuing local interests that may deviate from plans of the central government.⁸⁷

Second, with regard to political culture, the CCP inherited from its Party legacy a tradition of clandestine decision-making. Fraught with factional contestations and intraparty struggles, this intransparent style of policymaking exacerbates economic inefficiencies stemming from principal-agent conflicts because policymaking tends to be driven by political considerations and informal patronage networks rather than long-term economic calculations. This issue is evident in the various economic policymaking flip-flops, whereby policymakers treat public goods as sources of political capital to either reward factional alliance or punish disobedience. As Victor Shih (2008) points out, two of the CCP's competing factions—the technocrats (senior experts and technical bureaucrats) and the “princelings” (the scions of revolutionaries and high cadres)—had clearly divergent preferences over monetary policies due to different incentive structures undergirding their respective patronage networks. But both factions prioritize short-term factional gains over other goals, resulting in a lack of cohesive long-term financial strategy.⁸⁸ The implication is that factional politics counteracts any forward motion in systematic financial reform, making it harder for China to overcome the challenges of compressed development.

Third, the Leninist structure of the CCP's party organ prevents the formation of an autonomous bureaucracy to craft policies independent of the Party's political priorities. Since the CCP continues to draw institutional legitimacy from its insistence on being a proletarian vanguard party entrusted by the populace, it demands ubiquitous Party presence in all of China's important economic sectors and administrative units. Members of the CCP are dispersed throughout the various strata of society, with Party cells established in “villages, urban residential communities, corporations, government agencies, and schools.”⁸⁹ CCP membership is also the prerequisite for obtaining any significant status, though this diverse collection of societal “elites” is subject to a uniform standard of disciplinary action administered by the CCP's Central Organization Department (COD). Not only does the COD wield power over recruitment and discipline, but it can also decide to rotate individuals between jobs in the state and private sector or across sectors and regions. For example, the COD might at various times make the same person director of economic reform in a free trade zone, institute director of a think tank, vice-governor of a province, minister of finance, or chairperson of a sovereign wealth fund.⁹⁰ Thus, individuals are incentivized to prioritize the Party's goals over those that are more relevant to the nature of their work; their career trajectories depend on how well they fulfill the Party's political objectives. Due to the CCP's regular intrusions into the daily institutional operations of the state apparatus and vital economic institutions, China's ability to maintain a consistent, coherently structured bureaucracy—one of the key prerequisites for embedded autonomy—is hampered.

Given the uniqueness of China's institutional structure and policymaking climate, it makes sense that the current model of compressed development does not accurately describe the factors of state adaptation or failure that drive the outcomes of Chinese regional planning. Therefore, it naturally follows that a new set of conditions needs to be inserted into the compressed development model in order for it to be applicable to the politics of spatial development in the GBA.

3.2 Revisions to the Compressed Development Model

Any attempt to revise the compressed development model must begin with understanding its current functions, origins, idiosyncrasies, and relevant components. Within the existing literature, compressed development is generally understood as the iterative “next step” after late development, which is

characterized by both accelerated industrialization and rapid institutionalization of markets under a regime that exhibits a strong predilection for economic planning and intervention. Though derivative of late development, compressed development is different because it generally involves a simultaneous overlap of developmental stages whereby the capacities of the developmental state are also challenged—and consequentially redefined—by the diverse demands of domestic and international stakeholders. This contrasts with the late development model, which often conceptualizes states as exogenous forces that unilaterally exert power over markets with very little adaptation within the state apparatuses themselves.⁹¹

However, the current model of compressed development is incomplete since it offers very little insight into how states adapt to these developmental conditions, what the sources of their challenge are, and how policymakers navigate the diverse demands of stakeholders within their institutional boundaries. Neither does the model account for the incentive structures that underpin the decision-making process behind policymaking. This omission precludes the possibility that policymakers may respond to one kind of demand but omit others, or that a certain institutional change can actually create more problems than it remediates. Table 5 summarizes three types of governance challenges that policymakers encounter under compressed development: economic/technological challenges, social/human challenges, and political/institutional challenges. Depending on policymakers' priorities, the solutions they craft to address these simultaneous problems can produce unique trade-off patterns, especially when they implement macro-regional schemes under compressed development.

Table 5. Conceptualizing degrees of compressed development: Challenges and trade-offs

Challenges for Compressed Developers	Policy Trade-Offs
Economic/technological <ul style="list-style-type: none"> • Tensions between trade specialization and infant industry protection during the pursuit of industrial upgrading* • Premature deindustrialization: uneven sectorial development due to the collapse of developmental stages* • Tensions between economic planning and market forces 	<ul style="list-style-type: none"> • Industrial upgrading requires a certain degree of trade protectionism, which creates a dead-weight loss • Prioritizing the service economy risks premature deindustrialization
Social/human <ul style="list-style-type: none"> • Income inequality at municipal and sectoral levels • Frictions in human mobility caused by intransferability of skills, culture, education** • Differences in healthcare, taxation, pension systems.** 	<ul style="list-style-type: none"> • Facilitating mobility in service trade and employment ameliorates the socio-human frictions and fractures across SARs and PRD cities
Political/institutional <ul style="list-style-type: none"> • Constraints from international law and treaty obligations, binding commitments, and external political pressures. • Strategic competition between cities and administrative authorities in charge of resource distribution; tensions between rent-seeking and arbitrage incentives • Pressure from domestic stakeholders; push for reform. 	<ul style="list-style-type: none"> • International contract arrangements generate external momentum for domestic reform and lend credibility to domestic commitments • Irresponsive to the changing demands of domestic stakeholders

Note: *Specific to late-developing transition economies **Specific to the Greater Bay Area

Source: Created by the author; inspired by Whittaker et al., (2010) and Jaros (2019).

One way to conceptualize the dilemmas of policymaking is to consider the particular trade-offs a policymaker is compelled to make in order to address the challenges stemming from compressed development. A common challenge for late-developing transition economies is the tension between international legal compliance and domestic industrial protectionism. Take, for example, the goal to scale up in the global value chain via industrial upgrading. Consistent with the MIC 2025 policy, the GBA initiative isolated 10 sectors in the information technology, robotics, and electrical equipment industries for priority development.⁹² But pursuing these goals entails the extensive use of government subsidies and targeted investments in a way that violates some of the PRC's international obligations, such as its commitment to the Subsidies and Countervailing Measures Agreement in WTO Law. This puts local policymakers in a difficult situation: On the one hand, failure to deliver these objectives may result in demotion or even CCP disciplinary action. On the other hand, local officials may become personally responsible for the violation of international legal commitments since they are the ones who actually enforce these measures at the local level. Either way, local officials find themselves bearing the risks and consequences of Beijing's planning failures. This dilemma is frequently featured in international cases regarding China's illegal practice of forced technology transfer, in which local bureaucrats are held personally liable for implementing a policy that is publicly disavowed but tacitly endorsed by the central leadership in Beijing.

Another salient policymaking dilemma specific to the GBA context relates to the problem of premature deindustrialization. To remediate the emerging socio-human fractures across the SARs and other PRD cities in the mainland, Beijing has mandated a series of steps to transition the core GBA cities into primarily service-oriented economies. The intention of this arrangement is to accelerate the accumulation of human capital and promote cross-border mobility of professional talents; but the rapid transition of predominantly manufacturing-based economies like Shenzhen and Dongguan into service economies will accelerate the deindustrialization of traditional secondary sectors, which constitute the majority of local employment. Moreover, the GBA initiative's inflexible assignment of divisions of labor between PRD cities results in a mismatch between the cities' comparative advantages and their designated roles. Because of this, municipal policymakers are compelled to choose between sacrificing local interests and noncompliance with central plans.

This dilemma is accurately captured by what Gao (2015) calls a conflict between “political rationality” and “technical rationality.” Since deviation from central mandates can result in negative consequences for a political career, bureaucrats are incentivized to comply even though strict alignment may result in local mismanagement. From a political standpoint, it is rational for local bureaucrats to implement seemingly “irrational” policies that contradict the needs of local governance. However, if a bureaucrat mismanages the local situation due to inflexible alignment with the central directive, the bureaucrat is still personally responsible for the policy failures at the local level, especially if the failure results in social instability. Vice versa, bureaucrats who resist central directives may be politically punished for disobedience even though that resistance is necessary for effective governance at the local level. This dilemma characterizes a conflict between two incentives of rational choice generated by the unique political ecosystem of a compressed-developing regime.⁹³

3.3 Policy Stretches of the GBA Initiative

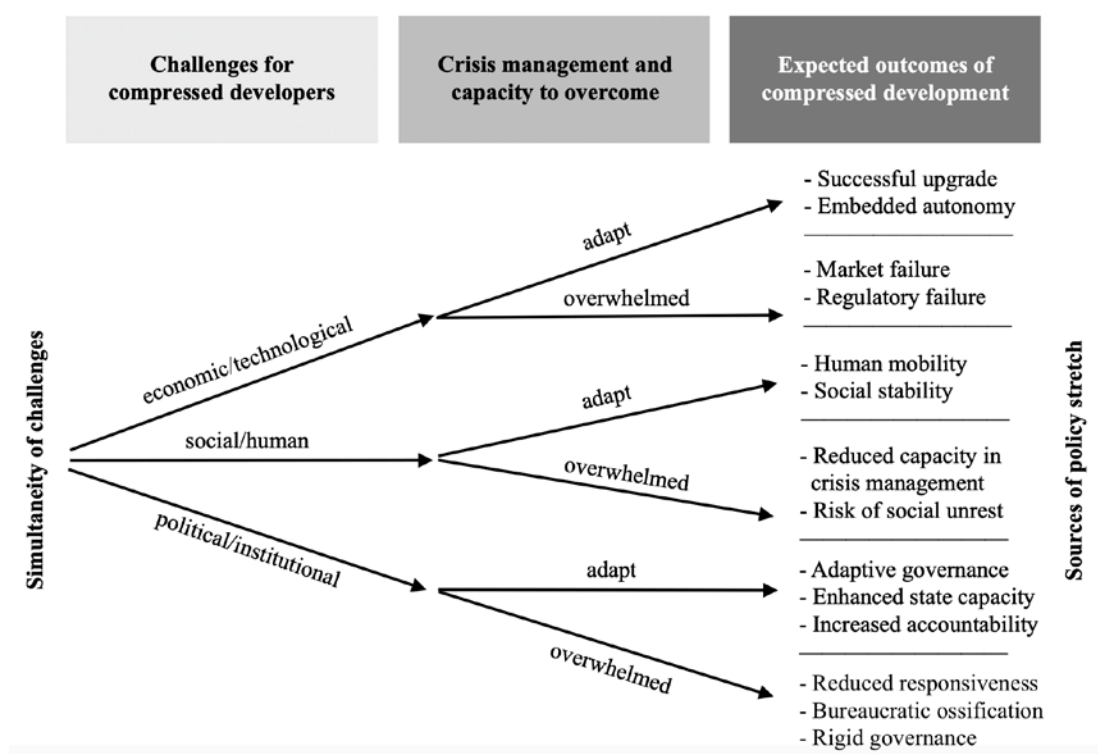
The aforementioned examples of policymaking dilemma show us where the typical sources of developmental tension are, and why bureaucrats may opt for inefficient policy choices when implementing national plans locally. As epitomized in the GBA initiative, compressed development not only causes the conflation of policy objectives at the level of central planning, but it also imposes implementation dilemmas at the local administrative level, where either trade-off can generate undesirable effects. This

section considers what policy trade-offs may look like from a broader theoretical perspective, using the state apparatus as the central unit of analysis.

Assuming the presence of a strong developmental state that exhibits a preference for institutional involvement in economic development, it follows that the state would be interested in centrally orchestrating industrial upgrading, capital mobilization, and technological learning by pursuing an export-oriented growth strategy. The micromanagement of individual choices locally over the use of policy instruments will aggregate at the macro level due to the tendency of policy outcomes to generate regional or sectoral spillovers. In this regard, the gap between central planning and local implementation creates room for “policy stretch”—which can either enhance or reduce state capacity depending on how the state as a whole respond to it.

The inputs I used to construct this explanatory model are drawn from the definition of policy stretch provided by Whittaker et al. (2010): a process of institutional change whereby the competencies of the state are distended by the simultaneity of challenges imposed by compressed development. When addressing a multifaceted and diverse array of governance challenges with limited policy instruments, the state apparatus may be overwhelmed, or it may creatively adapt. The types of policy stretch a state experiences depends on the nature of the challenge. The following model considers the expected outcomes of compressed development, given the possibility that a government may either succeed or fail to overcome the typical challenges outlined in Table 5.

Figure 1. Explanatory indicators for various outcomes of compressed development



Source: Created by the author; inspired by Whittaker et al. (2010) and Haworth (2013).

Taking into account the three types of compressed development challenges outlined in Table 5, the model above presents six possible pathways shaping the outcome of policy stretch, based on whether or not the state apparatus successfully finds a solution to overcome a particular challenge associated with compressed development. The state apparatus is deemed to adapt to a challenge if a certain institutional change or policy generates new equilibria that are sustainable over the long run. Conversely, the state is deemed to be overwhelmed if it fails to find a solution for a particular governance challenge or if that solution is unsustainable. Under these conditions, the state's overall policy performance for each scenario will lead to different outcomes in spatial development. The 14 expected outcomes of compressed development listed in the model are neither definite nor exhaustive. Rather, they offer a tentative suggestion of what types of policy stretch compressed development may generate. This simplified model by no means excludes other explanatory mechanisms for policy stretch under compressed development.

3.4 Policy Implications

How does this renewed model of policy stretch help us to understand the inadequacies of the GBA initiative? How does it inform the limits of the CCP's central planning? To answer these questions, this section focuses on the GBA's costs and the implications for future development of the PRD. Two of the major policy implications of the GBA initiative I will focus on here are the decline of adaptive governance and premature deindustrialization. I single out these two as the most alarming consequences of the GBA initiative because they're both directly related to the previously described paradigm shift in spatial policymaking since the Xi administration. These newly emergent problems in China's regional planning invite us to rethink existing models of authoritarian resilience from the perspective of policy trade-offs.

3.4.1 Decline of Adaptive Governance

One of the strengths of the Chinese political system under the Hu-Wen regime was the high adaptability of the Chinese state. Though China's compressed development faced an additional set of institutional constraints compared with that of other East Asian developmental states, China forged its own developmental path by creating a political ecosystem that encourages bottom-up policy experimentation. This allowed the Chinese state to be responsive to changes in the economy even without the presence of embedded autonomy. In fact, Whittaker et al. (2010) acknowledge this strength and actually mention China as a successful example of "state adaptation under policy stretch," but their model is otherwise ambiguous and incomplete. Citing Howell (2006) and Zhu (2010), Whittaker et al. called China a "flexible state," in which flexibility in central-local government relations allowed for policy innovation and subsequent diffusion of successful formulae through "point-to-surface" implementations.⁹⁴ These observations are consistent with Heilmann's (2018) central argument, which is that the Chinese state's tolerance for fragmentary governance allowed for the proliferation of unorthodox policymaking conducive to innovation. Though there is still much debate on whether the Hu-Wen administration intended to grant autonomy for local policy experimentation or simply lacked the capacity to centralize power, the observable result was that fragmentary governance allowed the state to be more responsive to local demands and to diffuse developmental tensions stemming from compressed development. Using the example of regional planning schemes from 2004 to 2010, Heilmann contends that Beijing's authorization of decentralized experimental schemes has strengthened the state's overall regulatory capacity at the local level.⁹⁵

This is no longer the case under the Xi regime. In the context of power recentralization, the CCP's increasing involvement in local administrative affairs via extrabureaucratic means made the original equilibrium between central and local governments unsustainable. The nature of macro-regional "contracts," as I have shown with the analysis of recent paradigm shifts in spatial policymaking, has

been altered by Beijing to serve its increasing appetite for entrenching authoritarian power locally. Micromanagement has substituted policy experimentation as the dominant mode of policy implementation, while the use of various inflexible schemes of target-based responsibility evaluation has prompted local bureaucrats to be more risk-averse than the central planners. The shrinking room for innovative policy deviations has reduced the regime's responsiveness to bottom-up demands. At the same time, the extensive use of Party discipline as an instrument of control and the revival of ideological initiative in governance has made the Chinese bureaucracy more rigid than it was during previous administrations.

The result is a drastic decline in the scale and frequency of innovative policymaking at the local level as inflexible central planning starts to constrain the choice of policy instruments available to bureaucrats in various agencies across the PRD. A simple comparison illustrates this trend. Under the Hu-Wen administration's 2009 PRD integration plan, the state council authorized 24 areas in which local policy experimentation was encouraged, including land-use and zoning management, public infrastructure-building, urban social policy, and financial opening. The formulae of local policy experimentation were successfully replicated in other macro-regional plans such as the 2010 Yangtze Delta integration plan, which authorized 25 local schemes, and the 2010 Central China regional development plan, which authorized 14 local schemes. In contrast, the GBA initiative under the Xi regime has prohibited local policy experimentation for most areas, with the notable exception of financial policymaking in the pilot FTZs. Chapter 10 of the GBA Outline Development Plan endorses the "innovative development of the financial sector" in Shenzhen's Qianhai FTZ, authorizing the adoption of offshore banking in Qianhai, establishing a separate spot-commodities trading platform, and restoring Shenzhen's legislative autonomy to craft and implement local policies conducive to these goals. Yet this mandate runs against the traditional comparative advantage of Shenzhen.

This alludes to another important implication of declining state adaptability in the GBA: resource misallocation. More specifically, the mandate entails a shift in the flow of developmental resources from more efficient to less efficient areas, which includes not only the misallocation of government funding and investment, but also misplaced priorities in regional development. The Qianhai FTZ, for example, was mandated by the GBA plan to specialize in financial service facilitation and authorized by the central government to open offshore banking functions. But this assignment ignores the comparative advantage of Qianhai, which is in light manufacturing. Since the division of labor between SEZs, SARs, and other GBA cities is largely determined by the CCP's political priorities, resource allocation is not always optimal and can generate a deadweight loss.

3.4.2 Premature Deindustrialization

The risk of prematurely transitioning into a service economy before reaching peak industrial capacity is especially worrisome since most GBA cities still average far below urban economies with similar sectoral structures in terms of GDP per capita. Consider Shenzhen, the "pioneer city" of the GBA: While tertiary industry accounts for 58 percent of its total employment and is at 65 percent of Hong Kong's level, the GDP per capita is a staggering \$28,647—only half of Hong Kong's (and Hong Kong is a highly unequal society compared with other developed economies). Yet by 2016 Shenzhen's overall GDP had already caught up with that of Hong Kong, which suggests that Shenzhen is prematurely transitioning into a service economy even though there is still substantive room for improving the efficiency of its secondary industries and the quality of jobs in those sectors. Not to mention several other PRD cities with even weaker economic profiles than that of Shenzhen. Yet, governmental plans and policies under the GBA initiative continue to emphasize the GBA's rapid transition to a service-industry based economy, or "servicization" (服务化). Since cities across the PRD already have a weak civil society and a weak and shrinking middle class, this will likely create new socioeconomic fractures between broad sectors—which we are already seeing in the growing scale and frequency of labor resentment in Shenzhen.

Compressed development in the PRD is also indicated by the rapidity of its “servicization” process. Excluding Hong Kong and Macao, the service industry accounts for 57 percent of GDP in the nine cities of the Greater Bay Area. DBS Bank forecasts the tertiary sector’s contribution to GDP in the GBA to move from its current ratio of 66 percent to 76 percent by 2030, with Hong Kong and Macao staying as they are today. DBA predicts that the financial sector alone will contribute more than 18 percent of the GBA’s GDP. It took around 30 years for both the San Francisco Bay Area and the Tokyo Bay Area to move from a manufacturing economy to a service economy at the GBA’s projected ratio, it took only 15 years for Shanghai (excluding the rest of the YRD).⁹⁶ For the entire GBA region, this process will take less than a decade, given the current pace of “servicization” and the policy goals outlined in the GBA initiative. Table 6 shows a brief overview of the sectoral composition of the nine PRD cities and two SARs before and after the paradigm shift in CCP’s spatial policymaking:

Table 6. Employment by broad industry sector (in millions) in nine PRD cities and two SARs

	2009				2016			
	Total	Primary	Secondary	Tertiary	Total	Primary	Secondary	Tertiary
Hong Kong	3.47	0%	12%	88%	3.79	0%	12%	88%
Macao	0.31	0%	17%	83%	0.39	0%	14%	86%
Guangzhou	7.39	11%	40%	49%	8.35	7%	34%	58%
Shenzhen	6.92	0%	54%	46%	9.26	0%	45%	55%
Foshan*	3.81	7%	54%	39%	4.39	5%	57%	38%
Dongguan*	4.29	2%	64%	34%	6.54	1%	68%	31%
Huizhou	2.46	28%	44%	28%	2.86	17%	50%	33%
Zhongshan	2.10	7%	67%	26%	2.13	5%	66%	29%
Jiangmen	2.34	35%	39%	26%	2.44	33%	39%	28%
Zhuhai*	0.98	7%	45%	48%	1.10	6%	50%	44%
Zhaoqing	2.36	49%	25%	27%	2.20	48%	26%	26%

Note: *Shows percentage reduction in GDP share of tertiary industry sectors.

Sources: Guangdong Statistical Bureau, Hong Kong Census and Statistics Department, and Macao Statistics and Census Service

The policy implication of this phenomenon is twofold. First, from the perspective of a local policymaker, the rapidity of GBA’s “servicization” creates a conflict between social stability maintenance and national security goals, both of which are central to the CCP leadership’s core political interests. The central mandates to increase service trade mobility within the Greater Bay Area and relax licensing regulations for inward flows of human capital from SARs intends to alleviate socio-human frictions between Hong Kong and the mainland, but the risk of premature deindustrialization may increase socio-human frictions within cities like Shenzhen, since the primary focus on developing the service economy will create labor-market disruptions in Shenzhen’s traditional secondary industries. Second,

similar to the example of the Qianhai FTZ illustrated in the previous section, Shenzhen has been given a role that is contrary to both its conventional comparative advantage and its set path-dependency of economic development.

The two idiosyncratic phenomena outlined above show that the GBA initiative fails to provide a long-term, sustainable solution to the systematic challenges arising from compressed development in the Pearl River Delta. Both symptoms—the decline of adaptive governance and premature deindustrialization—are indicative of the immense socio-economic costs of policy conflation. These problems are closely correlated with Beijing’s growing intolerance of local autonomy and its inclination toward using regional planning as an instrument of control. As this chapter has demonstrated, the recent paradigm shift in Beijing’s spatial policymaking has sacrificed the regime’s overall adaptability and responsiveness to the challenges of compressed development. Such failure amounts to an overwhelming policy stretch whereby the capacities of the state are crippled. While my observation by no means dismisses the growth potential of the Pearl River Delta economy, it does suggest that the current momentum of development is stymied by inefficient planning schemes that are closely intertwined with agendas of power centralization. Moreover, while this chapter does not intend to invalidate the use of regional planning as a viable policy instrument, it still maintains that political rationality often follows a distinctive logic that is sometimes incompatible with economic rationality, a phenomenon especially salient in an authoritarian context. Unfortunately, regional planning is one of those instruments that are most susceptible to such conflict, and it tends to amplify friction when a regime is irresponsive to—or incognizant of—local demands.

4. Conclusion: Rethinking Regional Integration in China

Regional planning is a unique instrument deployed by the PRC, and it has increasingly served a multitude of functions in the current political-ideological climate. No other developmental state has placed as much weight on regional planning in its decision-making as China does, even though other developing states also exhibit a strong preference for institutional involvement in economic development. It is puzzling why China's central leadership has embraced the idea of regional planning so emphatically, even though the economic inefficiencies of the strategy are well known. Perhaps a more perplexing phenomenon is why regional planning has played an increasing role in China's spatial policymaking, even though the Party-state's institutional legitimacy depends heavily on economic performance.

While most of China's spatial policymaking process is shrouded in mystery, the GBA initiative provides a rare opportunity for understanding the CCP's logic in this matter and how the contradictions embedded in China's macro-regional schemes evolved. Additionally, the initiative's distributional politics shows the fault lines of policymaking, the costs of regional planning, and how regional planning has been used by the CCP central leadership to address a diverse set of developmental challenges despite its apparent inadequacies. As I have demonstrated with this paper, the challenges of the GBA initiative can be understood through the lens of compressed development. Evident in the various governmental programs comprising the GBA initiative, the overambitious scale and entanglement of policy objectives in the GBA plan are symptomatic of policy stretch—a condition whereby the state's capacities are distended by the simultaneity of developmental challenges. In this regard, the GBA initiative could be understood as the central government's attempt to address multiple governance challenges at once. However, due to the expansiveness of planning and the diverse nature of these challenges, the GBA initiative is torn between potentially conflicting objectives that are evident in the tensions between promoting global-value-chain integration and domestic industrial protection, between “servicization” and industrialization, and between national security and social stability maintenance.

What are the policy implications of policy stretch and entanglement at the local level? This paper argued that the failure to address challenges stemming from compressed development engenders two adverse consequences—the decline of local adaptive policy experimentation and premature deindustrialization in the PRD's core cities—related to the paradigm shift in regional planning under the Xi administration. The first implication is a result of the central government's increasing intolerance for local autonomy. As Beijing becomes more inclined toward micromanagement and direct CCP involvement in local administrative affairs, local policymakers are compelled to make undesirable trade-offs between two or more potentially conflicting goals enumerated by the central mandates—whereas their predecessors under the Hu-Wen regime had the luxury to opt for deviation and experimentation. This results in inefficient policy choices, since local bureaucrats are incentivized by the current political system to prioritize the state's political objectives over economic ones. At an aggregate level, this is indicative of the increasing rigidity of the Chinese state apparatus and compels local policymakers to comply with Beijing's regional planning at the expense of local welfare. Since the assigned divisions of labor between GBA cities are not determined by comparative advantage but by the political priorities of Beijing, this results in resource misallocation and misplaced developmental objectives. The quintessential example is the GBA initiative's emphasis on the “servicization” of Shenzhen, which risks aggravating existing socioeconomic fractures since prematurely transitioning into a service economy before reaching peak industrial capacity is disrupting the SEZ's traditional manufacturing economy.

Apart from pointing out the policy implications of the GBA initiative, this paper has also provided a historical explanation for why Beijing's plans for PRD integration have become imbued with conflated objectives. I have argued that the main reason for this lies in Beijing's increasingly viewing

macro-regional initiatives as an instrument to police center-local relations. This paradigm shift is both related to the power recentralization trend in Beijing's political climate and a result of Beijing's handling of the "one country, two systems" policy. Broadly speaking, Beijing's attitude toward PRD integration leading to the GBA initiative is characterized by two phases. The initial phase of integration under the CEPA regime was both incomplete and uneven because of both the institutional constraints of "one country, two systems" and the risk-averse strategy of the Hu-Wen administration. The second phase of integration is characterized by the strategy of parallelism by which Beijing severely limited the policy parameters available to Hong Kong's administrative authorities but endorsed local policy experimentation in Guangdong province under the PRC's macro-regional initiatives. However, as center-local relations were altered by Xi Jinping's ascendancy to power, Beijing adopted an increasingly aggressive and ambitious approach toward regional integration. This paradigm shift in spatial planning planted the seeds for the policy confliction and entanglement present in the current GBA initiative.

Finally, this paper challenges the conventional wisdom regarding the patterns and determinants of Chinese spatial policymaking in the current political climate. Contrary to common belief in the radical, long-term vision of CCP's central planning under Xi, the GBA initiative is not a complete departure from the earlier modes of regional planning in the Hu-Wen regime. Neither is the GBA initiative the natural outcome of Beijing's incremental encroachment into Hong Kong's regional autonomy. Rather, it is the result of conflated policy objectives embedded in the CCP's central planning and the distributive politics among various key stakeholders who harbor power over the implementation of spatial development.

Appendix: Tables and Auxiliary Figures

Table A1. A spectrum of spatial development models

Model	Definition
Metropolitan-oriented development (megacities)	Developmental priority given to the largest, most advanced urban areas, with limited attention for small cities and rural areas. <ul style="list-style-type: none"> • Benefits: agglomeration, scale economy, energy use • Costs: congestion, consumption, pollution
Mixed development (hub and spoke)	Limited priority given to any one region; support for cities of various sizes as well as rural areas. <ul style="list-style-type: none"> • Benefits: funding, economic specialization • Costs: pollution, metropolitan bias, inequality
Dispersed development (even distribution)	Urban policy prioritizes closing the development gap between large and small cities. <ul style="list-style-type: none"> • Benefits: efficient consumption, more equality • Costs: land development, no scale economies, labor
“Townization” (Suburbanization)	Developmental priority given to smaller cities and rural areas with reduced attention to major cities. <ul style="list-style-type: none"> • Benefits: poverty reduction, sustainable development • Costs: funding, land development, human capital

Source: Created by the author. Inspired by Kyle Jaros, *China's Urban Champions: The Politics of Spatial Development* (2019), p.6; and MGI China's Urban Billion Report (2009), p. 31.

Table A2. Made-in-China 2025: Overcoming the middle-income trap

10 Key Priority Sectors	Objectives
<ol style="list-style-type: none"> 1. New information technology 2. High-end numerically controlled machine tools and robotics 3. Aerospace equipment 4. Ocean engineering equipment and high-end vessels 5. High-end rail transportation equipment 6. Energy-saving car and new energy cars 7. Electrical equipment 8. Farming machines 9. New materials, such as polymers 10. Biomedicine and high-end medical equipment 	<ul style="list-style-type: none"> • Shift the economy from low to high value-added activities. • Reduce dependence foreign technology • Expand the manufacturing base in high-tech industries and approximate self-sufficiency (China accounts for about 60 percent of global demand for semiconductors, for example, but produces only around 13 percent of global supply). • Ultimately catch up to—and then surpass—Western technological prowess. • Controversial goal: Achieve 70 percent self-sufficiency in high-tech industries by 2025.

Source: Created by the author. Summarized from the Made-in-China 2025 Plan (2015)

Table A3. Key changes in 2003 CEPA regulations under the GBA initiative

Legal text	Details
Agreement on Trade in Services	Hong Kong Service Suppliers (HKSS) enjoy preferential treatment in the mainland Chinese market in various services. The 2017 amendment obligates the PRC to open up 153 of 160 service sectors to HKSS, in full or in part. Hong Kong professional bodies and regulatory authorities in PRC have also signed agreements on mutual qualification recognition to facilitate Hong Kong professionals entering the mainland Chinese market. The 2019 amendment obligates the PRC government to relax restrictions on equity shareholding, capital registration requirements, and investment thresholds, making it easier for qualified HKSS to develop firms and enterprises across the PRD.
Agreement on Trade in Goods	As of June 30, 2017, 151,000 CEPA Certificates of Hong Kong Origin had been approved. The top product types qualifying for the Hong Kong Origin are foodstuffs, beverages, plastics, and textiles and clothing.
Agreement on Economic and Technical Cooperation	This agreement consolidated and updated the economic and technical cooperation activities set out in the CEPA and added new cooperation areas in relation to the BRI as well as subregional cooperation in the GBA. Twelve new major cooperation areas are highlighted to facilitate and promote trade and investment.
Investment Agreement	This agreement was not in the original CEPA in 2003. As of 2018, the CEPA investment agreement is expanded to cover nonservice sectors. The Investment Agreement also introduced new measures to promote and protect investment between Hong Kong and the PRC, in both service and nonservice sectors.

Note: The CEPA documents signed by the PRC with Macao are generally identical counterparts of those signed with Hong Kong.

Source: Hong Kong Trade and Industry Department

Table A4. Macro-regional plans and experimental schemes under the Hu-Wen regime

Programs	Decentralized experimental schemes explicitly authorized (selection)
Western development program for the 11th Five Year Plan period (March 2007)	<ul style="list-style-type: none"> • Circulatory economy based on resource recycling and environmental sustainability • Innovation and dissemination of agricultural technology at the local level • Dispersed administration of urban-rural economic integration • Localized schemes for human resource development
Northeast revitalization program (August 2007)	<ul style="list-style-type: none"> • Organizational and technological transformation of the local industrial structures • Bottom-up economic restricting in natural resource-based cities in the region • Circulatory economy based on resource recycling and environmental sustainability • Small and medium enterprise (SME) credit issuance
PRD integration program (January 2009)	<p>Authorization of 24 experimental schemes, including:</p> <ul style="list-style-type: none"> • Administrative reorganization and reform of government investment • Financial market reforms • Technological innovations through integrated R&D production bases • Dispersed regulation of urban-rural economic integration and land-use management • Reform and privatization of public infrastructure such as hospitals
YRD integration program (May 2010)	<p>Authorization of 25 experimental schemes, including:</p> <ul style="list-style-type: none"> • Information industry development • Dispersed regulation of urban-rural economic integration and land-use management • Real property and environmental taxes • Funding of cross-provincial infrastructural and environmental projects • Comprehensive management of lakes, rivers, and other water resources. • Promotion of local low-carbon economies • Promotion of the private sector
Central China regional development program (August 2010)	<p>Authorization of 14 experimental schemes, including:</p> <ul style="list-style-type: none"> • Land-use management • Environmental support funds for priority river management and other water resources • Public hospitals and old-age insurance • Sustainable development for regions primarily dependent on coal and fossil fuel industries • Cross-provincial collaboration projects

Source: Heilmann (2018). Data from macro-regional development plans on the NDRC homepage.

Notes

1. State Council of the People's Republic of China, Central Committee of the Communist Party of China, *Outline Development Plan for the Guangdong-Hong Kong-Macao Greater Bay Area* 粤港澳大湾区发展规划纲要, 18 February 2019.
2. For further details, see The Economist Intelligence Unit, *China's supply-side structural reforms: progress and outlook*, 2017.
3. State Council of the People's Republic of China, *Notice of the State Council on Promulgating "Made In China 2025" Plan* 国务院关于印发“中国制造2025”的通知, 国发[2015] 28号, 8 May 2015.
4. Refers to the lack of incentives for skilled workers and professionals, especially from the SARs, to live in GBA cities located in the mainland. Despite that the GBA governments have progressively lowered eligibility requirements for SAR residents to access public goods in the mainland GBA cities, problems such as different levels of development, legal systems, education, healthcare, pension, and taxation still present disincentives to relocate geographically.
5. “Market Access” refers to trade barriers. For trade in goods, it usually takes the form of customs duties, but other non-tariff barriers such as tariff-rate quotas and licensing requirements are included. In WTO law, this is governed by the Tariff Schedules of each member state, pursuant to Article II of the GATT 1994 and the *Agreement on Technical Barriers to Trade*. For trade in services, the minimal standards for regulation are provided by Article XVI of the GATS Agreement, which dictates that member states only have to liberalize services trade to the extent determined by the specific commitments they negotiated and codified in the Schedules of Specific Commitments.
6. “National Treatment” refers to the obligation of non-discriminatory treatment between domestic suppliers and like foreign suppliers. The minimal international standards for non-discrimination are governed in WTO law—for trade in goods, it is under Article III of the GATT 1994 Agreement; for services, it is governed by the Schedules of Specific Commitments that each signatory has undertaken, pursuant to Article XVII of the GATS Agreement. But WTO law does not regulate how individual member states administer and exercise these obligations.
7. D. Hugh Whittaker, Tianbiao Zhu, Timothy Sturgeon, Mon Han Tsai, Toshie Okita, “Compressed Development.” *Studies in Comparative International Development* 45:4 (2010): 439–467.
8. Sebastian Heilmann, “Policy Experimentation in China's Economic Rise.” *Studies in Comparative International Development*, vol. 43:1 (2008): 1–26.
9. Robert H. Bates, *Markets and States and Tropical Africa: The Political Basis of Agricultural Policies* (Berkeley, CA: University of California Press, 1981).
10. “State capacity” refers to the central government's ability to exert its will in specific sectors and localities via policy implementation. It is measured in four aspects: (1) fiscal capacity such as public goods provision and taxation; (2) ability to coordinate macroeconomic adjustment; (3) power to mobilize resources for regime legitimization; (4) ability to enact coercive powers. See Shaoguang Wang and Angang Hu, *A Research Report on China's State Capacity* 中国国家能力报告 (Shenyang, PRC: Liaoning renmin chubanshe, 1993).
11. Paul Krugman, “Increasing Returns and Economic Geography.” *Journal of Political Economy*, vol. 99:3 (1991): 483–499; Saskia Sassen, *Cities in a World Economy* (Thousand Oaks, CA: Pine Forge Press, 2006); Edward L. Glaeser, *Cities, Agglomeration, and Spatial Equilibrium* (Oxford, UK: Oxford University Press, 2008).
12. C. Cindy Fan, “Of Belts and Ladders: State Policy and Uneven Regional Development in Post-Mao China.” *Annals of the Association of American Geographers*, vol. 85:3 (1995): 421–449.
13. D. Hugh Whittaker, Tianbiao Zhu, Timothy Sturgeon, Mon Han Tsai, Toshie Okita, “Compressed Development.” *Studies in Comparative International Development* 45:4 (2010): 439–467.
14. This phenomenon is emblematic of what Whittaker et al. (2010) call a “policy stretch.” Since all late developing countries experience compressed development, the simultaneity of challenges both overwhelms and expands state capacity. The sources of policy stretch for compressed developers are: (1) creating an “innovation/technology system” conducive to global management; (2) addressing different “stage” targets simultaneously; (3) dealing more explicitly with the inter-relationship and balance between economic, social, and environmental policies; (4) addressing double burdens and challenges with limited resources; (5) constraints from international treaty obligations (often with neoliberal foundations) and global integration; (6) creating coalitions with domestic and international parties, often at regional or local levels. See *Ibid.*, 458–461.
15. Kyle A. Jaros, *China's Urban Champions: The Politics of Spatial Development* (Princeton, NJ: Princeton University Press, 2019), pp. 54–79.

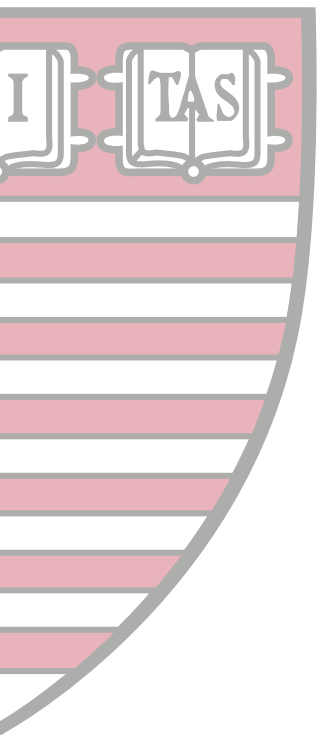
16. For further information on different strategies of metropolitan development, see Table A1 in Appendix.
17. Barry Naughton, "Third Front: Defense Industrialization in the Chinese Interior." *The China Quarterly*, vol. 115 (1998): 351–386.
18. Vivienne Shue, "Maps, Dreams, and Trails to Heaven: Envisioning a Future Chinese Nation-Space." in *To Govern China: Evolving Practices of Power*, Vivienne Shue and Patricia M. Thornton eds., (Cambridge, UK: Cambridge University Press, 2017), pp. 83–117.
19. Vivienne Shue, "Honeycomb and the Web: The Process of Change in Rural China." in *The Reach of the State: Sketches of the Chinese Body Politic* (Stanford, CA: Stanford University Press, 1988), pp. 123–154.
20. Sebastian Heilmann, *Red Swan: How Unorthodox Policy Making Facilitated China's Rise*. (Hong Kong: The Chinese University Press, 2018) p. 133.
21. *Ibid.*, p. 159.
22. Numerous empirical studies have indicated that the degree of integration is positively correlated with GDP growth in the PRD. For further statistical background on the PRD's economic performance, see Michael J. Enright, Xiaoyun Feng, Patrick Low, Petros Mavroidis, Ka-Mun Chang, Denise W. Y. Cheung, and Kaiyip Chan, *The Future of Guangdong-Hong Kong-Macao Greater Bay Area: Background Document* (Hong Kong: 2022 Foundation, 2019), pp. 11–45.
23. See Douglass C. North, *Institutions, Institutional Change and Economic Performance* (Cambridge, UK: Cambridge University Press, 1990); Victor Nee and Sonja Oppen, *Capitalism from Below: Markets and Institutional Change in China* (Cambridge, MA: Harvard University Press, 2012), pp. 17–21.
24. While this chapter employs a state-centric view toward understanding institutions, by no means does it attempt to revive the discredited notion that institutions are only determined governmental forces. Nevertheless, this chapter privileges formal governmental bodies, rather than informal rules and norms, as the units of analysis because the focus of this paper is the coordination between policy implementation and central economic planning.
25. For background information, see, *supra*, endnote 14 of the Introduction chapter.
26. By "institutional advantage," I meant the advantage of having corporate rule of law in Hong Kong and an open, democratic legislative structure relative to mainland China. This provides economic efficiency and predictability in the corporate regulations, and this advantage is contingent on the legal autonomy of Hong Kong. Since the economic development of the Greater Guangdong Area depends on financial resources and inward investment originating from Hong Kong, it is in the central government's interests to keep the status quo.
27. Kyle A. Jaros, *China's Urban Champions: The Politics of Spatial Development* (Princeton, NJ: Princeton University Press, 2019), pp. 31–40.
28. The Basic Law of the Hong Kong Special Administrative Region of the People's Republic of China, 1 July 1997.
29. National People's Congress of the PRC, The 10th Five Year Plan for National Economic and Social Development 国民经济和社会发展第十个五年计划纲要, 15 March 2001; The CCP Central Committee Advice for the 11th Five Year Plan 中共中央关于制定十一五计划的建议, 18 October 2005.
30. Henry S. Gao, "Legal Issues under WTO Rules on the Closer Economic Partnership Arrangement (CEPA) between Mainland China and Hong Kong." *Chinese Journal of International Law*, vol. 2:2 (2003): 629–648.
31. Note: While Hong Kong companies have been the major investors in China in light manufacturing, real estate, infrastructure, and other industries, a substantial number of investors, though listed as HK investors, are actually of foreign origin. However, the exact source of the FDI is oftentimes untraceable because some of them may be originated from HK businesses disguised as foreign businesses. From 1998 to 2013 the British Virgin Islands—a tax haven in which many HK companies have incorporated—and the Chinese mainland each accounted for approximately 34% of FDI into Hong Kong. Bermuda—another favorite place for the incorporation of HK firms—accounted for another 8%. For further details, see Michael J. Enright, *Developing China: The Remarkable Impact of Foreign Direct Investment* (New York, NY: Routledge Press, 2017), p. 23.
32. Gao, "Legal issues under WTO Rules on the Closer Economic Partnership Arrangement (CEPA) between Mainland China and Hong Kong." p. 629.
33. *Ibid.*, 630.
34. General Chamber of Commerce of Hong Kong, "China's Entry into the WTO and its Impact on Hong Kong Business." January 2000.
35. General Agreement on Trade in Services, April 15, 1994, Marrakesh Agreement Establishing the World Trade Organization, Annex 1B, 1869 U.N.T.S. 183, 33 I.L.M. 1167 (1994).

36. https://www.tid.gov.hk/english/cepa/legaltext/files/consolidated_main_text.pdf, Articles 6 through 8.
37. Anne O. Krueger, "Free Trade Agreements as Protectionist Devices: Rules of Origin," *International Trade and Investment Program*, NBER Working Paper No. 4352, 1993.
38. General Agreement on Tariffs and Trade 1994, April 15, 1994, Marrakesh Agreement Establishing the World Trade Organization, Annex 1A, 1867 U.N.T.S. 187, 33 I.L.M. 1153 (1994).
39. The Basic Law of the Hong Kong Special Administrative Region of the People's Republic of China, 1 July 1997.
40. The PRC Constitution, Article 67(14). See also the Law of the People's Republic of China on the Procedure of the Conclusion of Treaties, Article 3(2). The existing PRC Constitution was enacted in 1982 by the 5th National People's Congress, and amended in 1988, 1993, 1999, 2004, and 2018.
41. In both cases, the Hong Kong populace demonstrated against the SAR and PRC governments, and the CCP leadership in Beijing reluctantly deferred the issues. See William H. Overholt, "Hong Kong: The Rise and Fall of the 'One Country, Two Systems,'" *Ash Center for Democratic Governance and Innovation; Mossavar-Rahmani Center for Business and Government, Harvard Kennedy School*, Associate Working Paper 131, December 2019.
42. These areas of integration would be normally considered perquisites for "deep integration," as opposed to "surface integration" which include, almost exclusively, aspects relating to trade and commerce. Yet, as I have shown in the previous section, even these areas categorized under "surface integration" were filled with legal caveats in the original 2003 version of the CEPA.
43. Rachel Lu, "Report: Hong Kong Becoming 'Mere Second-Tier' Chinese City," *Foreign Policy*, 2 September 2014, <http://foreignpolicy.com/2014/09/02/report-hong-kong-becoming-mere-second-tier-chinese-city/>.
44. Hong Kong Census and Statistics Department, *Hong Kong Annual Digest of Statistics: 2015 Edition*, 24 November 2015.
45. Hong Kong Census and Statistics Department, *External Direct Investment Statistics of Hong Kong in 2014*, 11 December 2014.
46. Hu Jintao, *Report to the 18th National Congress of the Communist Party of China* 中国共产党第十八次全国代表大会报告, Beijing: Xinhua News Agency, 2012.
47. The 8.31 Decision refers to the *Decision of the Standing Committee of the National People's Congress on Issues Relating to the Selection of the Chief Executive of the Hong Kong Special Administrative Region by Universal Suffrage and on the Method for Forming the Legislative Council of the Hong Kong Special Administrative Region in the Year of 2016* 全国人民代表大会常务委员会关于香港特别行政区行政长官普选问题和2016年立法会产生办法的决定, announced on 31 August, 2014.
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49. Lui Ho-ying, "Rao Geping: Foreign Judges Do Not Understand the Basic Law" 饶戈平:外籍法官不谙基本法, *Apple Daily*, 12 April 2015, hk.news.appledaily.com/local/daily/article/20150412/19109665.
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51. William H. Overholt, "Hong Kong: The Rise and Fall of the 'One Country, Two Systems,'" *Ash Center for Democratic Governance and Innovation; Mossavar-Rahmani Center for Business and Government, Harvard Kennedy School*, Associate Working Paper 131, December 2019.
52. Peter T. Y. Cheung, "In Beijing's Tightening Grip: Changing Mainland-Hong Kong Relations amid Integration and Confrontation," in *Hong Kong 20 Years after the Handover: Emerging Social and Institutional Fractures After 1997*, Brain C. H. Fong and Tai-Lok Lui eds., (London, UK: Palgrave Macmillan, 2018), pp. 255–286.
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 64. See Table A3 in Appendix, for a detailed overview of key institutional changes in the CEPA regulations under the GBA initiative. Source derived from the Hong Kong Trade and Industry Department.
 65. The original Chinese phrase is “推动珠三角九市军民融合创新发展，支持创建军民融合创新发展示范区。” For further information, See State Council and CCP Central Committee, *Outline Development Plan for the Guangdong-Hong Kong-Macao Greater Bay Area*, p. 17.
 66. Michael J. Enright, *Developing China: The Remarkable Impact of Foreign Direct Investment* (New York, NY: Routledge Press, 2017), pp. 1–30.
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 68. This includes points system policies that govern the eligibility for transferring rural to urban *Hukou*. For example, the requirements for *Hukou* transfer under Shenzhen's points system are designed to be prohibitively high, which bars the vast majority of unskilled migrant labor from access to public goods in the city. As Chan and O'Brien (2018) argue, the reason for not denying migrants benefits outright is that deflecting demands allow local governments to benefit from the contribution's migrants make to the local economy without covering the fully array of expenses associated with maintaining a labor force. For further details, see Alessia T. Chan and Kevin J. O'Brien, “Phantom Services: Deflecting Migrant Workers in China.” *The China Journal*, no. 81 (2018): 103–122; Zhonghua Guo and Tuo Liang, “Differentiating citizenship in urban China: a case study of Dongguan city.” *Citi-enship Studies*, vol. 21:7 (2017): 773–791.
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 72. Victor K. Fung, *Creating the Greater Bay Area of the Future—Opportunities for Hong Kong* (Hong Kong: 2022 Foundation, 2019), pp. 2–10.

73. Sebastian Heilmann, *Red Swan: How Unorthodox Policy Making Facilitated China's Rise*. (Hong Kong: The Chinese University Press, 2018) pp. 159–167.
74. Ibid., p. 160. Note: Heilmann does not mention the unequal nature of these “contracts,” nor the power imbalance in contract enforcement between central and local governments in situations of “breach.”
75. Ibid., p. 100.
76. State Council of the People's Republic of China, Central Committee of the Communist Party of China, *Outline Development Plan for Regional Integration in the Yangtze River Delta* 长江三角洲区域一体化发展规划纲要, 1 December 2019.
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78. For further information on premature de-industrialization, see Sukti Dasgupta and Ajit Singh, “Manufacturing, Services and Premature Deindustrialization in Developing Countries: A Kaldorian Analysis.” In *Advancing Development*, George Mavrotas and Anthony Shorrocks, eds. (London, UK: Palgrave Macmillan, 2007), 435–454.
79. Dani Rodrick, “Premature deindustrialization.” *Journal of Economic Growth*, vol. 21:1 (2016): pp. 1–33.
80. Nigel Haworth, “Compressed Development: Global value chains, multinational enterprises and human resource development in 21st century Asia.” *Journal of World Business*, vol. 48 (2013): 251–259.
81. This idea is most vigorously advanced by public economist Justin Yifu Lin, who argues that late developers can better integrate into the world trading system via “learning by doing” and harnessing their comparative advantage without repeating the tumultuous experiments their precursors went through. Together with strong institutional involvement, emulation confers a “latecomer advantage” to developing economies. See Justin Yifu Lin, “From Flying Geese to Leading Dragons: New Opportunities and Strategies for Structural Transformation in Developing Countries.” *Global Policy*, vol. 3:4 (2012): 397–409.
82. The implications of Gerschenkron's argument are twofold. First, late developers have the example of early developers, and therefore know what to emulate and what to avoid. Second, late developers are compelled by capital scarcity to concentrate resources in areas with largest expected return. This results in a governmental preference for large firms and closely-knit public-private relationship, as the task of capital mobilization in a developing country requires centralized institutional capacity for coordination and enforcement. These observations paved the intellectual foundations for the late development model which gained currency during the 1980s. For further information, see Alexander Gerschenkron, *Economic Backwardness in Historical Perspective: A Book of Essays* (Cambridge, MA: Harvard University Press, 1962), p.7.
83. According to Evans (1995), the main positive features of a developmental state (vis-à-vis those of an extractive state) are (1) *autonomy*: a coherently structured, professionalized institution of elite bureaucracy which focus selectively on collective developmental projects; and (2) *embeddedness*: strong bureaucratic connections to owners of different factors of production, such as industrialists, land owners, labor. These connections inform bureaucratic decision-making and facilitate implementation of specific policies, which include disciplinary measures for non-compliance. For further information, see Peter Evans, *Embedded Autonomy: States and Industrial Transformation* (Princeton, NJ: Princeton University Press, 1995), pp. 43–73.
84. D. Hugh Whittaker, Tianbiao Zhu, Timothy Sturgeon, Mon Han Tsai, Toshie Okita, “Compressed Development.” *Studies in Comparative International Development* 45:4 (2010): 439–467.
85. Compressed development theory emerged as an extension of the late development model, adding to the framework the aspect of policymaking. The difference between the two is analytical. The late development theory is negligent about the simultaneity of challenges that a typical late developing country would face. The compressed development model fills that lacuna by highlighting the dilemmas of policymaking and stretches of state capacity in the context of late development.
86. Tony Saich, “Governance Beyond the Centre: Relations between the centre and the localities: the fiscal picture.” in *Governance and Politics of China (Fourth Edition)* (New York: Palgrave Macmillan, 2015), pp. 172–176.
87. Jie Gao, “Political Rationality vs. technical rationality in China's target-based performance measurement system: the case of social stability maintenance.” *Policy and Society*, vol. 34:1 (2015): 37–48.
88. Victor C. Shih, *Factions and Finance in China: Elite Conflict and Inflation* (Cambridge, UK: Cambridge University Press, 2008), p. 47.
89. Daniel Koss, *Where the Party Rules: The Rank and File of China's Communist State* (Cambridge, UK: Cambridge University Press, 2018), pp. 3–34.

90. Mark Wu, "The China, Inc. Challenge to Global Trade Governance." *Harvard International Law Journal*, vol. 57:2 (2016): 280–282.
91. This contrast is useful for understanding the institutional differences between "state capitalist" economies in South America and the "developmental states" of East Asia, since both of them had strong institutional involvement in economic development. Late development characterizes the developmental experience of South American countries in the 1970s. This is evident in the government-led pursuit of import-substitution industrialization. In this case, state involvement generated very little structural change in their economic institutions and was eventually setback by the state's unresponsiveness to market demands. In contrast, compressed development propelled the "East Asian tigers" to pursue export-oriented industrialization, an economic outcome that was resulted by a diverse host of objectives and pressures such as the simultaneous needs to integrate into the global value chains and protect domestic industries. These challenges created pressures for their state apparatuses to adapt, finding new equilibria in governing the evolving market institutions and provided momentum for economic reform. However, not all of those captured by compressed development successfully overcame developmental challenges. Also, the East Asian economic miracle does not suggest that their model is superior. The institutional advantages which brought their convergence with the West also became the very problems which were exposed in the 1997 Asian financial crisis.
92. See Table A2 in Appendix.
93. Jie Gao, "Political Rationality vs. technical rationality in China's target-based performance measurement system: the case of social stability maintenance." *Policy and Society*, vol. 34:1 (2015): 37–48.
94. Jude Howell, "Reflections on the Chinese State." *Development and Change*, vol. 37:2 (2006): 273–297; Tianbao Zhu, "Political Economy of the Chinese Flexible State." *Peking University School of Government: Department of Political Economy*, Working Paper Series 1, 2010.
95. See Table A4 in Appendix.
96. Development Bank of Singapore, *Greater Bay Area: In-depth Study*, DBS Asian Insights: Number 74 Sector Briefing, May 2019.



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