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**PUBLIC GOVERNANCE AND TERRITORIAL DEVELOPMENT DIRECTORATE
TERRITORIAL DEVELOPMENT POLICY COMMITTEE**

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OECD Territorial Reviews: The Case of Guangdong, China

Issues for discussion

23rd Session of the Territorial Development Policy Committee (TDPC)

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This document is submitted to delegates of the TDPC for DISCUSSION.

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OECD TERRITORIAL REVIEW OF GUANGDONG: ISSUES FOR DISCUSSION

Abstract

1. The Guangdong Province has made remarkable progress in the past 30 years to transform itself from a backward agriculture economy to a more modern economy; it now needs to find new ways to continue this momentum. The rapid and deep urbanisation and industrialisation of the last three decades is unprecedented in human history. The Pearl River Delta, in particular, has acquired the recognition of "the World's Factory", since it has the world's largest concentration of low and medium-value added manufacturing. As the Guangdong Province approaches a new era and confronts increasing challenges, one key question has emerged: given its past success, how can Guangdong Province take necessary actions to re-strengthen its competitiveness both in the prosperous inner PRD region and in relatively lagging non-PRD regions, while at the same time achieving environmental and energy sustainability and adapting to climate change? This challenge is all the more daunting in the intense competitive environment of the 21st century global marketplace.

2. Applying the conceptual framework and methodology of the series of OECD Territorial Reviews, the study of Guangdong provides a comprehensive analysis of trends and challenges in the region, at the national and international levels. The review assesses the current provincial government strategy to upgrade the economy through industrial policies and to deal with the long lasting challenge of developing lagging peripheral regions (East, West, and North) in Guangdong. It also addresses the huge environmental challenges that the Province is facing and explores the opportunity for developing a green growth strategy. The Review discusses as well strategies to improve Guangdong's governance, with a particular attention paid to coordination issues within the Pearl River Delta.

Issue 1– Territorial Imbalances and regional policies

3. Regional policies in OECD countries were originally deeply rooted in alleviating economic disparities following a top down, sectoral and redistributed subsidies approach. But the policy world has shifted. Today, the new paradigm is well established towards integrated and well-targeted investment in local competitive advantages, and most countries now emphasize competitiveness objectives. In China, increases in per-capita income and consumption in all regions have been so rapid that disparities were for a while of secondary importance. However, in recent years, policymaking in China has put increasing emphasis on stemming with policy action taking the form regional development measures. At the national level, the Western Development Plan through large capital-intensive projects has aimed at narrowing the income gap between the sparsely populated and underdeveloped West and the more prosperous and faster-growing East. Meanwhile, rapid urbanization has brought new forms of disparities between urban and rural areas. Guangdong is the province which displays the largest internal disparities in China with the Pearl River Delta generating 83% of the whole provincial GDP whilst concentrating half of the total population. To address the issue, the provincial government launched the Double Relocation policies, which intends to move low-value added, labour-intensive industries out of the PRD region to the lagging peripheral regions based in part on a large scale infrastructure programme for industrial parks.

- What can Guangdong learn from experience of relocation policies in OECD countries? What are the main conditions of success?

- How can regional policies simultaneously reinforce equity and efficiency targets?
- What types of actions could foster urban rural linkages.

Issue 2 – Upgrading the industrial base: innovation and green growth

4. Globalisation has increased the pressure on OECD countries to move up the value chain and engage in a continuous process of innovation. Today, China's goals are no different from OECD countries. Its role in the global economy is no longer defined by a simple export-driven model based on low-cost provision of labor and resources and the development of technology-led sectors and high-value capabilities has become a key policy focus. This is a particular challenge for Guangdong whose success has been based on relocation, outsourcing, and off-shoring of low value added industries principally from Hong Kong and Taipei. Recent trends points to increasing challenges from rising labour costs, limited availability of land, and the financial crisis has aggregated the economic situation. Despite massive government-led investments – EUR 237 billion stimulus package are to be invested over 2008-12 to expand production capacity in advanced sectors -- implementation challenges lie in how to improve attractiveness to high value added activities. The current approach seems to count on the long-lasting policies focusing on certain picked pillar industries using traditional instruments such as firm subsidies and investment in hard infrastructure although recent strategic documents point out to the need to place innovation as the strategic priority in the different plans.

- How industrial policies in Guangdong could be adapted to create regional innovation systems?
- In light of the critical environmental challenges faced by the province – energy shortage, air and water pollution and high greenhouse gas emissions – how a green growth strategy can help in moving up the value chain?

Issue 3 - Governing mega-regions

5. China currently witnesses the emergence of mega-regions. One of these mega-regions is the Greater Pearl River Delta, which consists of the nine large urban prefectures of Guangdong province (such as Shenzhen), as well as Hong Kong and Macau. This mega-region has around 50 million inhabitants and is one of the leading manufacturing powerhouses of the world. Over the last decades, the different urban centres of this mega-region have been engaged in fierce competition. Although this has brought economic dynamism and growth, it currently raises concerns with respect to the quality of inter-city (and cross-border) cooperation on a variety of areas that have impacts across city boundaries and thus need some sort of cooperation. Examples of these areas are environmental sustainability, infrastructure investment (in order to avoid over-investment and over-capacity) and the attraction of companies and capital towards industrial parks. In addition, different development paths of the constituent parts of the mega-region have led to increased regional inequity.

- What types of governance (coordination mechanism) could be adapted to a mega-city region like the Pearl River Delta?
- How to find the right balance between inter-city competition and coordination?
- How can urban finance (expenditures, composition of revenues sources, choice of local taxes) help to achieve the strategic development goals of Guangdong province