

Globalizing City and the State:
Spatial Evolution and Development of the CBD in Guangzhou

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von der Fakultät VI – Planen Bauen Umwelt
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zur Erlangung des akademischen Grades

Doktor der Philosophie
- Dr. phil.-

genehmigte Dissertation

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Tag der wissenschaftlichen Aussprache: 9. Juni 2015

Berlin 2015

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ABSTRACT

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Kai Huang

According to current studies there are already abundant achievements of globalization and global cities. However, what should be remembered and emphasized is that almost all the theories within this research framework are the outcomes of case studies from cities with a capitalist economy. In particular, the role of the state under globalization has always been considered equal to any other player, although sometimes weaker. Given China's national condition, it is reasonable to believe that the state plays a more important role than any other player, and effectively affects the globalizing process of spatial organization in individual cities and their worldwide connections. The analysis is divided into three parts as follows: spatial polarization, spatial distribution, and spatial global connections. Using the central business district of Guangzhou as a case study, this dissertation concentrates primarily on factors such as the decrees and ordinances that underline the role of the state. Both quantitative and qualitative methods are applied in this study. It concludes that unlike in western countries, there is an initial discrepancy and a dissimilar process

for the development model of cities within contemporary globalization in modern China. The comprehensive decree system shapes spatial distribution and changes urban space remarkably. In other words, urban space, and particularly the most profitable economic space, is the outcome of national decrees to a large extent. As we have become used to surveying global cities under capitalism or neo-liberalism within the western model for over 20 years, this dissertation initiates a new research approach and unique point of view. It is time for us to take a fresh look at cities using a new perspective.

Keywords: globalizing city, state, Guangzhou, CBD

Acknowledgement

I would never have been able to finish my dissertation without the guidance of my advisors, help from friends and support from my family.

I would like to express my deepest gratitude to my advisor, Prof. Dr. Peter Herrle, for his excellent guidance, caring, patience, and providing me with an excellent atmosphere for doing research. Meanwhile, he let me experience the research and practical issues beyond the textbooks, patiently corrected my writing and supported my research in all directions.

My sincere thank also goes to my second advisor, Prof. Dr. Desheng Xue from Sun Yat-sen University. He has been guiding my research for the past several years and helping me to arrange the investigation in Guangzhou. My research would not have been possible without his helps.

Special thank goes to Ms. Franziska Berger, who was kindly helping me with all affairs of the university and faculty. Many thanks to Dr. Lin Cai and Dr. Josefine Fokdal, they gave me lots of suggestion and help during the last couple years. Meanwhile, I would take this opportunity to express gratitude to all of the Department faculty members for their help and support.

I would also like to thank my parents. They were supporting me and encouraging me with their best wishes. Although my father can't see this moment any more, I truly believe he is always with us.

I will always remember the time in Berlin of last six years. It is one of the most precious memories in my life.

Table of Contents

CHAPTER 1 INTRODUCTION	1 -
1.1 A GLANCE OF GUANGZHOU	1 -
1.2 A BRIEF INTRODUCTION OF CENTRAL BUSINESS DISTRICTS IN GUANGZHOU	4 -
1.2.1 History and development of Huanshidong Road (1980s)	4 -
1.2.2 History and development of the Tianhebei and Sport Center (1990s)	6 -
1.2.3 History and development of the Pearl River New Town (2000s)	8 -
1.3 HYPOTHESIS OF DISSERTATION	13 -
CHAPTER 2 LITERATURE REVIEW	15 -
2.1 THEORIES OF GLOBALIZATION	15 -
2.1.1 World-systems theory	15 -
2.1.2 Theories of global capitalism	17 -
2.1.3 Theories of network society	21 -
2.1.4 Theories of transnationality and transnationalism	24 -
2.1.5 Theories of Modernity, postmodernity, and globalization	27 -
2.1.6 Theories of space, place, and globalization	29 -
2.2 THEORETICAL APPROACHES TO WORLD CITIES AND GLOBAL CITIES	35 -
2.2.1 World cities	35 -
2.2.2 Global cities	42 -
2.3 PRODUCER SERVICE	49 -
2.4 PUBLIC POLICY WITHIN GLOBAL CITIES	52 -
2.5 CHAPTER CONCLUSION	58 -
CHAPTER 3 RESEARCH DESIGN	60 -
3.1 APPROACHES AND RESEARCH DESIGN	60 -
3.2 DATA COLLECTION	61 -
3.3 METHODOLOGY	69 -
3.3.1 Qualitative research	69 -

3.3.2 Quantitative research.....	70 -
3.4 LIMITATIONS	71 -
CHAPTER 4 ANALYSIS OF SPATIAL POLARIZATION IN GUANGZHOU	75 -
4.1 INTRODUCTION OF FISCAL SYSTEM IN CHINA.....	75 -
4.1.1 Fiscal Responsibility System.....	75 -
4.1.2 Tax-sharing System.....	78 -
4.2 POLARIZATION OF URBAN SPACE	80 -
4.3 HEADQUARTER ECONOMY	95 -
4.4 BRANCH COMPANIES	99 -
4.5 CHAPTER CONCLUSION.....	102 -
CHAPTER 5 ANALYSIS OF SPATIAL DISTRIBUTION AND EFFECT FACTORS IN CBDS	107 -
5.1 SPATIAL DISTRIBUTION FEATURES OF THREE CBDs IN GUANGZHOU	107 -
5.2 UNSCRAMBLING DECREES OF LAND DEVELOPMENT	114 -
5.2.1 The Primary Development.....	116 -
5.2.2 The Secondary Development.....	124 -
5.3 CHAPTER CONCLUSION.....	136 -
CHAPTER 6 ANALYSIS OF LOCALIZATION OF FOREIGN INFLUENCE IN GUANGZHOU	138 -
6.1 RESTRICTION TOWARDS FOREIGN CAPITAL	138 -
6.2 HEADQUARTER ECONOMY IN GUANGZHOU	148 -
6.3 DEVELOPMENT OF FOREIGN PRODUCER SERVICE.....	155 -
6.3.1 Development of accounting firms	156 -
6.3.2 Development of foreign banks	163 -
6.4 CHAPTER CONCLUSION.....	167 -
CHAPTER 7 CONCLUSION	170 -
REFERENCE.....	176 -
APPENDIX	184 -

List of Figures

FIGURE 1. GROWTH RATE OF REVENUE IN CHINA, 1978-2003	- 77 -
FIGURE 2. FINANCIAL IMBALANCE IN GUANGZHOU, 1991-1997	- 80 -
FIGURE 3. LAND-ASSIGNMENT PLAN IN GUANGZHOU, 2006-09, 2010-11.....	- 86 -
FIGURE 4. ANNUAL REVENUE AND REVENUE FROM URBAN LAND IN GUANGZHOU, 2008-2011.	- 90 -
FIGURE 5. AVERAGE LAND PRICE IN PEARL RIVER NEW TOWN (RMB/M ²).....	- 94 -
FIGURE 6. COMPARISON OF THE LAND USE SITUATION IN THREE CBDs	- 112 -
FIGURE 7. ANNUAL TRANSFERRED AREAS OF GUANGZHOU, 2001–2005 (10,000 M ²)	- 126 -
FIGURE 8. VALUE OF TRANSACTIONS IN GUANGZHOU, 2001–2007 (IN 10,000 RMB).....	- 127 -
FIGURE 9. REAL ESTATE DEVELOPMENT BY SOURCE OF FUNDS, GUANGZHOU, 1995–2010	- 130 -
FIGURE 10. PLOT DISTRIBUTION OF THE CORE AREA OF PEARL RIVER NEW TOWN	- 132 -
FIGURE 11. THE OPERATIONAL STRUCTURE OF GUANGZHOU R&F PROPERTIES CO. LTD.	- 151 -
FIGURE 12. THE OPERATIONAL STRUCTURE OF THE BANK OF GUANGZHOU.....	- 152 -
FIGURE 13. THE OPERATIONAL STRUCTURE OF PING AN BANK (REGIONAL HEADQUARTERS OF GUANGZHOU)	- 153 -
FIGURE 14. FOREIGN FINANCIAL INSTITUTIONS AND REPRESENTATIVE OFFICES IN GUANGZHOU (2000-2013)	- 163 -

List of Tables

TABLE 1. BENCHMARK PRICES IN GUANGZHOU (2007, 2009, 2011)	- 84 -
TABLE 2. HIGHEST LAND PRICES IN GUANGZHOU, 2005-2012	- 89 -
TABLE 3. POLARIZATION OF URBAN SPACE IN GUANGZHOU	- 93 -
TABLE 4. NEW BRANCH AND COOPERATED COMPANIES IN GUANGZHOU, 2007-2009	- 101 -
TABLE 5. LAND USE SITUATION IN HUANSHIDONG ROAD	- 108 -
TABLE 6. LAND USE SITUATION IN THE TIANHEBEI AND SPORT CENTER DISTRICT	- 108 -
TABLE 7. LAND USE SITUATION IN PEARL RIVER NEW TOWN	- 109 -
TABLE 8. COMPARISON AMONG THE THREE CBDs IN LAND USE PERCENTAGES.....	- 110 -
TABLE 9. LAND USE DISTRIBUTION IN THE PRNT BEFORE 2003	- 136 -
TABLE 10. COMPARISON OF REGISTERED CAPITAL (RC) BEFORE AND AFTER THE “OPINIONS”	- 141 -
TABLE 11. FOREIGN CAPITAL CONTRACTS BETWEEN 2009 AND 2010	- 142 -
TABLE 12. OWNERS OF LAND USE RIGHTS IN B, F, AND J AREAS OF THE PRNT (SEE FIGURE 10)-	147 -
TABLE 13. HEADQUARTERS AND SEMI-HEADQUARTERS IN PEAR RIVER NEW TOWN	- 154 -
TABLE 14. TOP FIVE ANNUAL INCOMES OF ACCOUNTING FIRMS, 2002-2008 (IN 10,000RMB).....	- 157 -
TABLE 15. TOP FIVE ANNUAL INCOMES OF ACCOUNTING FIRMS, 2008–2012 (IN 10,000 RMB) ..	- 158 -
TABLE 16. INCOME RATIO BETWEEN THE “BIG FOUR” AND THE TOP 10 ACCOUNTING FIRMS IN CHINA, 2002–2012 (IN 10,000 RMB)	- 159 -
TABLE 17. COMPARISON OF CLIENT TYPES BETWEEN MNC AND LOCAL ENTERPRISES IN DTT	- 160 -
TABLE 18. DEVELOPMENT OF FOREIGN BANKS IN GUANGZHOU (2005–2007, 2009–2010, 2013)	- 166 -

List of Pictures

PICTURE 1. SKETCH OF GUANGZHOU CITY, GUANGDONG PROVINCE AND CHINA - 2 -

PICTURE 2. LOCATION OF THREE CBD AREAS IN GUANGZHOU - 6 -

PICTURE 3. PICTURES OF HUANSHIDONG ROAD (TOP LEFT), TIANHEBEI AND SPORT CENTER (BOTTOM)
AND PEARL RIVER NEW TOWN (TOP RIGHT) - 9 -

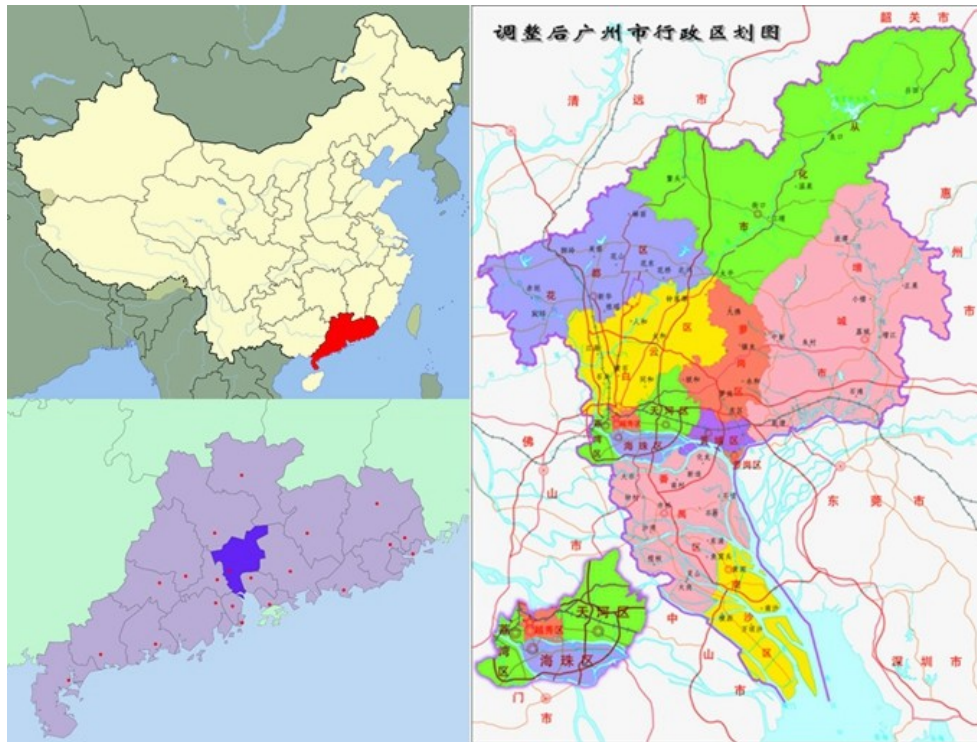
Chapter 1 Introduction

1.1 A glance of Guangzhou

Guangzhou, the largest city and the focus of economic growth in southern China, is located at the center of the Pearl River Delta. The city contributes a significant amount of revenue to the central state, and it now finds itself being restructured as a result of global and local forces. The changes that are occurring in Guangzhou demonstrate a complex negotiation process through which local sources of production must interface with newly introduced international influences. In comparison with cities in northern China, particularly those in the Long River Delta, Guangzhou has a centuries-old history of external trade and linkages. It frequently serves as a site of reform experiments that are carried out by the central government; thus, the government of Guangzhou plays a much greater role in urban development than do the governments of northern Chinese cities. Since the wave of modern Chinese economic reform began 30 years ago, Guangzhou has built up a strong economic environment that has relied mainly on international markets. In relation to the Chinese Export Commodities Fair¹ and the National Games in 1990, the city has seen the emergence of two central business districts around Huanshidong Road and the Tianhebei and Sport Center District. The

¹ See Canton Fair (Page 112)

pace of urban development increased greatly after 1990 when the development of Pearl River New Town, the latest central business district of Guangzhou to be developed, was initiated.



Picture 1. Sketch of Guangzhou City, Guangdong Province and China

The growth trajectory appears to correlate with both the city's history over the past 30 years and the subsequent market economy that developed, due in large part to influences from abroad. These external influences are apparent in the cities of the Pearl River Delta, different as they are from the cities in the north (Eng 1997). Accordingly, both global and local forces are drivers of urban change in Guangzhou. This case study should therefore provide a wider snapshot of a different globalizing process in China.

According to the A.T.Kearney's Global Cities Index (GCI)² in 2014, Guangzhou was ranked 66th among the global cities of the world and, at the same time, 26th in the Emerging Cities Outlook (ECO) report³. Globally integrated cities are intimately linked to economic and human development. By creating an environment that creates, attracts, and retains top talent, businesses, ideas, and capital, a global city can generate benefits that extend far beyond municipal boundaries. Although the extent of the globalization of Guangzhou is far removed from that of the cities at the top of the global urban hierarchy, the impacts of globalization on the city's urban space are nonetheless huge and pervasive. The penetration of foreign investment into the sphere of urban development represents the global dimension of place-making (Wu 2000). A quick glance at Pearl River New Town leads to an immediate understanding of the extent of the changes experienced by the city: mushrooming skyscrapers, more than 280 regional offices or headquarters of various companies, 61 Fortune 500 companies, more than 140 financial companies, and 45 regional headquarters of financial companies. This situation has been interpreted by Castells (1996) and other scholars, whose

² Global Cities Index (GCI) examines a comprehensive list of 84 cities on every continent, measuring how globally engaged they are across 26 metrics in five dimensions: business activity, human capital, information exchange, cultural experience, and political engagement.

³ Emerging Cities Outlook (ECO) measures the likelihood that cities in low- and middle-income countries will improve their global standing over the next 10 to 20 years. It calculates how long it would take any given city, provided that it progresses at the same rate as between 2008 and 2013, to become a global leader in each of 10 leading indicators for business activity, human capital, and innovation, which is crucial for attracting talent and business.

research provides a perspective by which globalization can be understood as a process that includes various “flows” that lead to a modification of certain factors of urban development. At the same time, globalization has been seen as a process that is subject to little or no governmental intervention and that fosters a decline in the role of the state in economic management (Ohmae 1995; Strange 1996).

1.2 A brief introduction of central business districts in Guangzhou

In the history of Guangzhou, three central business districts (CBDs) have appeared one after another since the late 1980s. Up to the present, they are still key economic hubs for Guangzhou. Undoubtedly, these areas are witnesses to the urban changes and developments since the Chinese economic reform was introduced. A brief introduction is now provided on each of the three CBD areas of Guangzhou, along with their history.

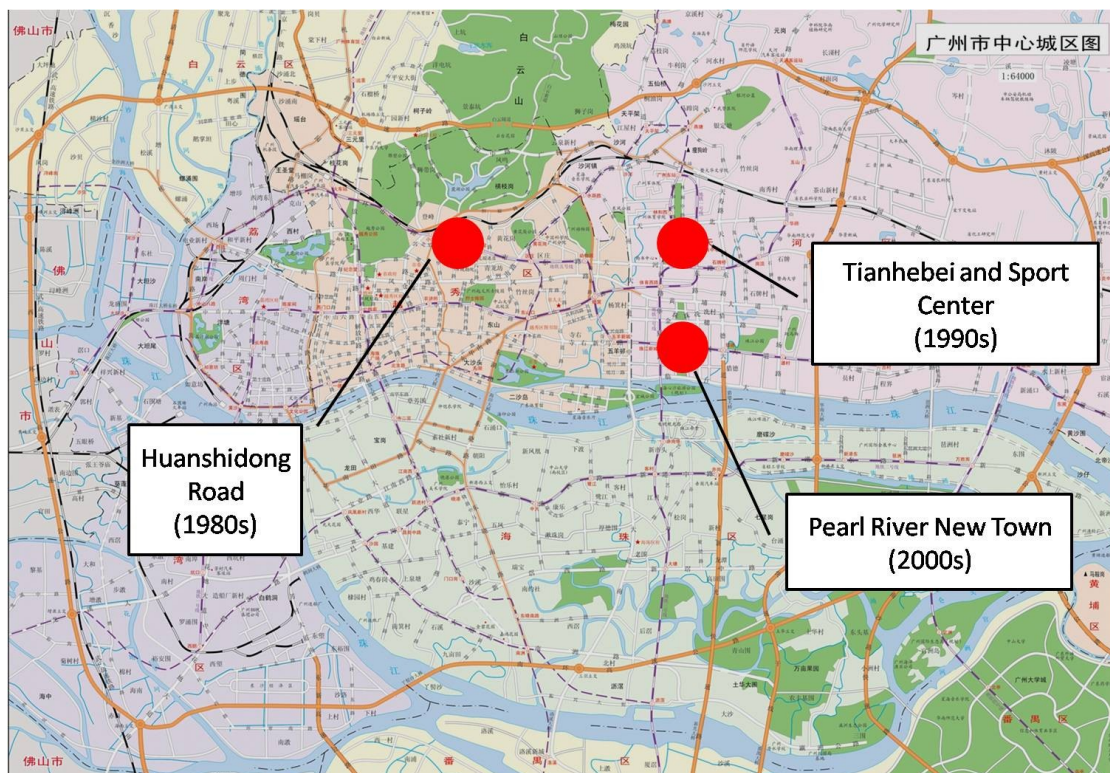
1.2.1 History and development of Huanshidong Road (1980s)

The Huanshidong Road Central Business District (hereinafter referred to as HR) is located near the old train station and the old exhibition hall of the China Import and Export Fair and covers a total area of 4.4 square kilometers. It includes a central core area of 0.18 square kilometers. It is the first official CBD in Guangzhou, and was planned and constructed in the 1980s. They are comprised of residential, financial, administrative, and public entertainment zones.

During the late 1980s and the early 1990s, the Golden Age of this CBD, it combines three main functions: commercial affairs, international official business, and wholesale.

The China Import and Export Fair, founded in 1957, has always played a key role in Chinese international commercial history. It takes place during the traditionally important periods of spring and autumn in Guangzhou, and the scheduling of the event was not interrupted even during the Cultural Revolution (1966–1976). After the reforming and opening-up policy was carried out in the late 1970s, large amounts of capitals, material, and people from all over the world began to enter mainland China. Undoubtedly, the China Import and Export Fair became one of the biggest annual commercial activities in China, accommodating thousands of exhibitors and more than 20,000 foreigners every year. For this reason, an effective, balanced development policy for Guangzhou could not be devised. This might have provided a unique trigger for the development of the HR area at a global level. Meanwhile, the airport and main train station in the 1970s were located near this area. Thus, the urban construction of Guangzhou entered a new active period, especially the construction of the HR area. Some of the symbolic buildings were built during that period. However, there was no conscious intention in China to construct a true CBD at that time. It was merely considered as a commerce and service-gathering process of urban development. Although it has been

nearly 30 years, the HR area still retains the memory of the reform process. It also has its own style— combining efficiency and modernism— which is different from the traditional or colonialism ones. The number of consulates in Guangzhou has been greater than in Shanghai throughout history. Consulates from Southeast Asian countries, in particular, have been strongly represented. Even in periods of political tensions and other difficulties, Guangzhou's trade never stopped.



Picture 2. Location of three CBD areas in Guangzhou

1.2.2 History and development of the Tianhebei and Sport Center (1990s)

The Tianhebei and Sport Center business district (hereinafter referred to as the TSC) is built around the Guangzhou East Railway Station and Tianhe

Sport Center. The main business area measures 1.8 square kilometers. It is the second official CBD in Guangzhou, and was planned and constructed beginning in the 1990s. The Tianhebei area is a much more artificial CBD compared to the Huanshidong area. The area comprises commercial, financial, administrative, and public entertainment zones.

What was unpredictable was the rate of development after the 1970s. All control indexes of the master plan had already reached their limit in 1987 (e.g., population, construction land). For this reason, the city management had to modify the master plan in the same year, suggesting expansion toward the east as a solution. Meanwhile, the city government finally realized the limitations of Guangzhou's administrative divisions and planned to enlarge the scale of the Northern Group, transfer the industry sector to Huangpu District, and re-plan the Eastern Group, especially the Tianhe District.

Guangzhou successfully sought two marketing opportunities in the 1980s and 1990s: the 6th and 9th National Games. Before the 6th National Games were held, the Tianhebei area was just a suburban one, regarded as a peripheral part of Guangzhou. The National Games led not only to an upgrade of sports facilities, but also to a rapid promotion of urban infrastructure. After the No.6 National Games in 1987, hundreds of office blocks, including several skyscrapers, were built around Tianhe Sport Center and Guangzhou East Railway Station over a 10-year-period. With this significant urban construction

development, numerous companies and enterprises, a number of which were international, established their offices or agencies within this future 'core' area.

Since the 9th National Games in 2001, the urban axis of Tianhe Sport Center has ultimately been shaped. A commercial atmosphere was also initially established. For example, various banks appeared in this area. Meanwhile, there was a marked migration of businesses from the Huanshidong area to the Tianhebei area, although most of the development of the Tianhe area was the result of new urban construction demand. A new urban center in Tianhebei was gradually created due to the relocation of some commercial organizations and regional headquarters, but the administration center was still located in Yuexiu District. This is a very different situation from Qingdao, Kunming, and Xiamen. Development in those three cities has strongly reflected government relocation policies. Another feature of Guangzhou's changed urban center is that every new urban center is not far from the older one, ranging between five and ten kilometers.

1.2.3 History and development of the Pearl River New Town (2000s)

The Pearl River New Town Central Business District (herein after referred to as the PRNT) is located to the south of the Tianhebei and Sport Center District. Encompassing both sides of the Pearl River, it has a total planning area of 6.69 square kilometers, including a central core area of 1.4 square

kilometers. It is the third official central business district in Guangzhou that was planned and constructed in the 2000s. The PRNT is a multifunctional district, complete with commercial, trade, and international financial activities, official administration, a cultural and residential area, public leisure facilities, and a hotel area mixed together. Due to inappropriate planning, the PRNT has not evolved according to reasonable development criteria. Following self-criticism and the abolition of the former planning process in 2003, the government laid out another planning blueprint for the PRNT.



Picture 3. Pictures of Huanshidong Road (top left), Tianhebei and Sport Center (bottom) and Pearl River New Town (top right)

In 1997, an important developmental opportunity for the PRNT arose

when the construction of first subway system began. The current the PRNT area still comprised farmland and some low-rise buildings. At the time, real estate was undergoing a rapid developmental process (a land compensation transfer mechanism, a compensation auction mechanism, and the fiscal decentralization of local government and central government). In this case, urban development followed its own style: the local government was in charge of financing and taking the initiative, and it used an auction process to raise numerous funds for urban construction. The average price of residential real estate reached a peak of 12,000 RMB/m² during 1997 and 1998 when the whole real estate sector was in a bubble economy. The government had optimistically estimated that the funds, which were collected by auctioning the Pearl River New Town lands (approximately six to seven km²), would be sufficient to support Guangzhou's subway construction (approximately 100 km).

In the same year, Guangzhou formulated the master plan of the PRNT by international tender notice. This was a typical planning-oriented development, which was conspicuous in Guangzhou's urban developmental process. That meant the general structure of the PRNT was settled in the late 1990s. From 1997 to 1998, the Guangzhou government hired a well-known American consultant, Thomas Friedmann, who put the first city planning process based on the Western theory of the Central Business District concept on the table. It

was the earliest CBD special plan in China, occurring even earlier than those in Beijing and Shanghai. In 1998, the financial crisis deeply affected not only the real estate sector, but also land auctions. However, there was a fast recovery, which meant there was no lasting effect on a macro-economic scale.

Although the River New Town's construction process was full of twists and turns, a new opportunity arose when Guangzhou successfully won the right to host the Asian Games in 2004. After a period of huge capital inflows and the formation of large real estate companies, the basic shape of Pearl River New Town was created. However, inner economic activities did not run parallel with outside construction. At present, it is tourism that has become the biggest economic activity in Pearl River New Town, which is not at all the original reason for it being designated as a CBD area.

All of the construction, which was not the result of the natural development of a city, reflected a strong design and planning-oriented mechanism and government investment. However, with this urban development approach, Guangzhou was able to enhance its reputation, environment, and comfort levels, which became synonymous with the city, in a short period of time. Pearl River New Town was intended to be constructed as a high-quality district, but this proved not to be the case. All kinds of advanced economic activities needed to be embedded in order to turn the PRNT into a real socio-economic network space.

Pearl River New Town is currently not a center of public activities. However, due to the twists and turns that occurred during the construction process, it is no longer the number one CBD in China, having being passed out by Shanghai and Beijing. Although there are no significant economic activities within the PRNT today, the overall image and construction standards were successfully established thanks to the Asian Games in 2010. The new strategic plan mainly focuses on optimization and promotion rather than simply expansion. The traditional labor-intensive industry of Guangzhou has obvious shortcomings nowadays: low added value of goods, lack of stability, and high mobility. These weaknesses are hindrances that diminish the core competence and sustainable developmental capacity of Guangzhou. Even though the manufacturing level has to be enhanced, it is also necessary to increase the level of the service industry. Therefore, a transformation development strategy is needed. A healthy development of the service industry requires the integrated co-operation of all aspects of a strategy.

Thanks to the hosting of the Asian Games, the Guangzhou's environmental standards have overtaken most other cities in China; meanwhile, it has also formed a good reputation for attracting advanced industry. This is a particular Chinese specialty, and is not comparable with how cities operate abroad. Governments in foreign cities control few resources (e.g., land, capital, and political power); as a result, it is hard for them to either

influence market-oriented economy or to spend millions on construction before development, which creates an unbalanced financial situation.

1.3 Hypothesis of dissertation

It is not a secret any more that all Chinese cities are operated and organized by strong political leadership and intervention. As a matter of fact, the development of Chinese cities is a reflection of a particular administrative idea. In other words, spatial and functional changes in any city in China are probably interrelated to the modification and reform of decrees in every single field. This has been a traditional situation since the time of the ancient dynasties. Having established such a precondition, it is reasonable to form a hypothesis, as follows: state policies, such as decrees and ordinances have a more important role than any other players of globalization in China and effectively affect the globalizing process of individual cities in key aspects, including their spatial organization and how they manage their global connections. In reality, Guangzhou, as well as other similar major cities in China, when experiencing the influence of globalization, engages in different processes when comparing to other current global cities in moving toward being a globalized city. Meanwhile, even though it has already become part of the networks of global cities, Guangzhou has a dissimilar spatial organization within it, and it represents a different global connection operation model when compared with other global cities.

In order to prove the hypothesis, three major questions need to be addressed: Firstly, as Pearl River New Town has become the latest new central business district, how and to what extent did both central and local government influence the area's development? How and why did the PRNT area become polarized? Secondly, with regard to the history of central business districts' development in Guangzhou, what are the spatial differences between the three CBD areas in the city and why are they different? This question aims to discover which government policies and decrees impose urban spatial order. Finally, what is the global connection situation in these areas and why is it so? The purpose is to explore the internal and external connections of Guangzhou in order to further understand what a policy-oriented globalizing city looks like.

In the next two chapters, I will firstly have a brief review of relative studies of different themes; in addition, a research framework will be designed and explained in detail in exploring the research questions outlined above.

Chapter 2 Literature review

According to the hypothesis and its further division in last chapter, I carefully narrow the theories and researches of relative literature into four main sectors which are the most necessary to be reviewed systematically: theories of globalization, theoretical approaches to world cities and global cities, producer service and, the public policy within global cities. Each part will be comprehensively recapped on the basis of detailed classification in this chapter.

2.1 Theories of globalization

2.1.1 World-systems theory

World-systems analysis as a distinctive sociological paradigm emerged at least 15 years before the use of globalization as a signifier that appeared in headlines and emerged as a subject of academic research and publications (Arrighi 2005: 33). Wallerstein, one of the principal progenitors of world-systems theory, tends to view globalization not as a recent phenomenon but as being virtually synonymous with the birth and spread of world capitalism around 1500. According to his research, the capitalist world system emerged in Europe and expanded outward in the following centuries, absorbing in the process all existing mini-systems and world empires, and establishing market and production networks that eventually brought all peoples around the world

into its logic and into a single worldwide structure. Hence, by the late 19th century, there was one economic system that had come to encompass the entire planet, the capitalist world system, a truly “global enterprise” (Wallerstein 1974).

A key structure of the capitalist world system is the division of the world into three great regions, or geographically based and hierarchically organized tiers. The first is the core, or the powerful and developed centers of the system, originally comprising Western Europe and later expanding to include North America and Japan. The second is the periphery, those regions that were forcibly subordinated to the core through colonialism, including Latin America, Africa, Asia, the Middle East, and Eastern Europe. The third is the semi-periphery, comprising those states and regions that were previously in the periphery and are moving inwards. Values flow from the periphery to the semi-periphery, and then to the core, as each region plays a functionally specific role within an international division of labor that reproduces this basic structure of exploitation and inequality. Another key feature of world-systems theory is the centrality of the inter-state system and inter-state rivalry to the maintenance and reproduction of the world system. It appears as if its principal adherents reject the term globalization; however, if a simplified definition is expanded upon to include the interconnections and interdependencies that

exist on a planetary scale and the consciousness of them, then certainly world-systems theory is a cohesive theory of globalization.

Wallerstein put forward an explanation of early 21st century change within the logic of world-systems theory as a moment of transition in the system. In an essay entitled “Globalization or the Age of Transition?” (Wallerstein 2000), he analyzed the late 20th and early 21st century world conjuncture as a “moment of transformation” in the world system, a “transition in which the entire capitalist world-system will be transformed into something else” (Wallerstein 2000:250). His thesis on the terminal crisis of the system can be said to provide an explanation for social change in the age of globalization consistent with his own world-systems theory.

2.1.2 Theories of global capitalism

This group of theories is in several essential respects different from the world-systems theory outlined above. In particular, these theories tend to see globalization as a different stage in the evolving system of world capitalism (hence, these theorists tend to speak of capitalist globalization), one with its own, qualitatively new features that distinguish it from earlier epochs. They focus on a new global production and financial system that is believed to have superseded earlier national forms of capitalism, and emphasize the rise of processes that cannot be framed within the nation-state/inter-state system that

informs world-systems theory and, indeed, more traditional macro social theories.

Sklair (2000, 2002) came up with a theory of the global system, at the core of which are “transnational practices” (TNPs) as operational categories for the analysis of transnational phenomena. These TNPs originate with non-state actors and cross-state borders. The theory involves TNPs at three levels: the economic, the political, and the cultural-ideological. Each practice is primarily identified with a major institution. The transnational corporation is the most important institution for economic TNPs; the transnational capitalist class for political TNPs; and the culture-ideology of consumerism for transnational cultural-ideological processes. Locating these practices in the field of a transnational global system, Sklair thus set about explaining the dynamics of capitalist globalization from outside the logic of the nation-state system. His theory involves the idea of the TCC as a new class that brings together several social groups who see their own interests in an expanding global capitalist system: the executives of transnational corporations, “globalizing bureaucrats, politicians, and professionals,” and “consumerist elites” in the media and the commercial sector (Sklair 2000).

Robinson (2003, 2004) presented a similar theory that involves three planks: transnational production, transnational capitalists, and a transnational state. The new transnational stage of world capitalism involves

the globalization of the production process itself, which breaks down and functionally integrates what were previously national circuits into new global circuits of production and accumulation. Transnational class formation takes place around these globalized circuits. Like Sklair, Robinson analyzes the rise of a TCC as the class group that manages these globalized circuits. Globalization creates new forms of transnational class relations across borders and new forms of class cleavages globally and within countries, regions, cities, and local communities in ways quite distinct from the old national class structures and international class conflicts and alliances.

However, unlike Sklair, for whom state structures play no role in the global system, Robinson theorizes an emergent transnational state (TNS) apparatus in order to get beyond what he sees as a national-global duality in these approaches. This TNS is a loose network comprised of supranational political and economic institutions together with national state apparatuses that have been penetrated and transformed by transnational forces. National states as components of a larger TNS structure now tend to serve the interests of global over national accumulation processes. These “transnational state cadres” now act as midwives of capitalist globalization.

In Hardt and Negri’s studies, *Empire* (2000) and *Multitude* (2004) are considered to be a postmodern theory of globalization that combines Marx with Foucault. They take the global capitalism thesis a step further, proposing an

empire of global capitalism that is fundamentally different from the imperialism of European domination and capitalist expansion of previous eras. This is a normalized and decentered empire – a new universal order that accepts no boundaries and limits, not only in the geographic, economic, and political sense, but in terms of its penetration into the most remote recesses of social and cultural life, and indeed, even into the psyche and biology of the individual. While for Sklair and Robinson, the TCC is the key agent of capitalist globalization, for Hardt and Negri, there is no such identifiable agent.

There are still other variants of the global capitalism thesis taken up by McMichael (2000), Ross and Trachte (1990), and Went (2002), as well as a considerable amount of theoretical work on globalization undertaken by international relations (IR) scholars, a sub-discipline that has come under special challenge by globalization given that it is centrally concerned – by definition – with the state system and the interstate system. There is also a tension between those theories that retain a national/international approach, and view the system of nation-states as an immutable structural feature of the larger world or interstate system, and those that take transnational or global approaches that focus on how the system of nation-states and national economies are being transcended by transnational social forces and institutions grounded in a global system rather than the interstate system.

2.1.3 Theories of network society

In the late 1990s, Castells' path-breaking trilogy, *The Rise of the Network Society* (1996, 1997, 1998), exemplifies another approach of globalization. While his theory shares with world-system and global capitalism approaches an analysis of the capitalist system and its dynamics, it is not the logic of capitalist development any more, but that of technological change. Castells' approach has been closely associated with the notion of globalization representing a new "age of information." In his construct, two separate processes came together in the 1990s to result in the rise of the network society. One was the development of new information technology (IT) while the other was capitalist retooling using the power of this technology and ushering in a new system of "information capitalism," what Castells and others have alternatively called the "new economy."

This new economy is: (1) informational and knowledge-based; (2) global, in that production is organized on a global scale; and (3) networked, in that productivity is generated through global networks of interaction. Castells' definition of the global economy is an "economy with the capacity to work as a unit in real time, or to choose time, on a planetary scale," and involving global financial markets, the globalization of trade, the spread of international production networks, and the selective globalization of science and technology. A key institution of this new economy is the "networked enterprise," which

Castells sees as the leader of a more general form of social organization, the network society itself. This involves a new organizational logic based on the network structure in interaction with the new technological paradigm. The network form of social organization is manifested in different forms in various cultural and institutional contexts.

Here, Castells, along with the global capitalism approaches of Harvey (see below), Lash and Urry (1987), Cox (1987), and others, draw on a number of strands of late 20th century political economy scholarship, especially that of post-Fordism and flexible accumulation, involving a breakdown of the old rigid, vertical corporate structures and the rise of new horizontal and flexible structures. In Castells' view, "the networked enterprise makes material the culture of the informational, global economy: it transforms signals into commodities by processing knowledge" (1996: 188). Castells goes on to argue that the image of giant transnational corporations (TNCs) as centralized structures driving the global economy is "outdated" and "should be replaced by the emergence of international networks affirms and of subunits of firms, as the basic organizational form of the informal, global economy" (1996: pp. 206-207).

Castells sees a close linkage between culture and productive forces in this informational mode of development due to the centrality of the symbolic order, of sign production, and of consumption to IT. Indeed, Castells' approach can

be seen as much a cultural as an economic theory of globalization. In the globalized age, this gives way to the integration of various modes of communication into an interactive network involving the formation of hypertext and a meta-language integrating into a single system: the written, oral, and audiovisual (or text, image, and sound) modalities of human communication. This interaction takes place along multiple points in a global network, fundamentally changing the character of communications. In turn, “communication decisively shapes culture because we do not see reality as it ‘is’ but as our languages are.” He adds, “we are not living in a global village, but in customized cottages, globally produced and locally distributed” (1996: pp. 370).

One of Castells’ core concepts that capture this image is the space of flows and timeless time. As a space of flows substitutes for the space of places, time becomes erased in the new communications systems, “when past, present and future can be programmed to interact with each other in the same message.” The space of flows and timeless time become “the material foundations of a new culture” (1996: pp. 406).

While the prescriptive structure of world-systems and global capitalism approaches is decidedly critical of what those theories conceive of as globalization, Castells is more upbeat on the possibilities opened up by the global network society. Nonetheless, a central theme is the division of the

world into those areas and segments of population switched on to the new technological system and those switched off or marginalized, giving rise to the oft-cited digital divide.

2.1.4 Theories of transnationality and transnationalism

The study of global cities gives us a glimpse of how transnationalized populations reorganize their spatial relations on a global scale, a topic taken up as well, and with quite a different perspective, by theories of transnationalism and transnationality. The former denotes a range of social, cultural, and political practices and states brought about by the sheer increase in social connectivity across borders. The latter, closely associated, refers to the rise of new communities and the formation of new social identities and relations that cannot be defined through the traditional reference point of nation-states. Transnationalism is referred to more generally in the globalization literature as an umbrella concept encompassing a wide variety of transformative processes, practices, and developments that take place simultaneously at a local and global level. Transnational processes and practices are defined broadly as the multiple ties and interactions— economic, political, social, and cultural – that link people, communities, and institutions across the borders of nation-states.

Within the field of immigration studies, transnationalism came to refer to the activities of immigrants of forging and sustaining multi-stranded social relations that link their societies of origin and settlement as a single unified field of social action (Baschet al. 1994: 7). Scholars, such as Levitt (2001), Smith and Guarnizo (1998), and Portes and his colleagues (1999) point to the novel character of transnational links in the era of globalization. Transnational ties among recent immigrants are more intense than those of their historical counterparts due to the speed and relatively in expensive character of travel and communications, and that the impact of these ties is increased by the global and national context in which they occur (Levitt 2001, Portes 1995; Portes et al. 1999). Scholars working within the framework of transnationalism generally consider transnational activities, links, and spaces as the effects of globalization and, on the other hand, as a driver that helps to shape, consolidate, and fuel it.

The concepts of transnationality and transnationalism have increasingly been given a broader explanation beyond immigration studies. Transnationality should be understood as a form of experience that cannot be restricted to immigrant groups (Roudometof 2005). This experience involves the transnational mobility of richer sectors, such as professional and managerial groups. Transnational social spaces can extend into other spaces, including spaces of transnational sexuality, musical and youth subcultures,

and journalism, as well as a multitude of other identities, ranging from those based on gender to those based on race, religion, or ethnicity. They also involve communities composed of members of professional and non-governmental associations (Kennedy and Roudometof 2002). Members of cultural communities who live in different countries but remain connected to each other through their cultural tastes or pastimes may also form transnational communities. Transnational social spaces, hence, are constructed through the accelerated pace of the transnational practices of actors worldwide. These practices become routine to social life and may involve transient as well as more structured and permanent interactions and practices that connect people and institutions from different countries across the globe.

Transnationalism and transnationality have also been central to theories of ethnic group formation and racialization in global society. These theories have focused on transnational immigrant labor pools and new axes of inequality based on citizenship and non-citizenship (see, for example, Espiritu 2003). A popular motif in post-colonial theory is a view of globalization as a new phase in post-colonial relations (Wai 2002). Notable in that regard is Parreñas' (2001) theory of the international division of reproductive labor, providing a view of a global South to a global North flow of domestic workers that produces a global economy of care-giving work and a "new world

domestic or,” in which reproductive activities themselves become transnationalized within extended and transnationally organized households, in broader transnational labor markets, and in the global economy itself.

2.1.5 Theories of Modernity, postmodernity, and globalization

Another series of theories of globalization refers to the process in terms of modernities and postmodernities. Parts of the theories conclude that globalization has simply radicalized or culminated the project of modernity. Robertson, an early pioneer in globalization theory, provided perhaps the most widely accepted definition of globalization among scholars: “Globalization as a concept refers both to the compression of the world and the intensification of consciousness of the world as a whole ... both concrete global interdependence and consciousness of the global whole in the twentieth century” (Robertson 1992: pp. 8). His extraordinary theory is also centrally concerned with the subjective, cultural, and phenomenological dimensions of globalization.

For Giddens, who advances a similar construct, this universalization of modernity is central to the very concept of globalization. He views globalization, defined as “time-space distancing,” as the outcome of the completion of modernization – he terms it “late modernity” – on the basis of the nation-state

being the universal political form organized along the four axes of capitalism, industrialism, surveillance, and military power (Giddens 1990).

Meyer puts forward an institutional and network analysis to globalization that can be seen as a cultural as well as an institutional theory of globalization, and he has alternatively referred to his approach in terms of “world polity” and of “world society,” as distinct from global society (Lechner and Boli 2005). Globalization is viewed as the spread and ultimate universalization of sets of modern values, practices, and institutions through “isomorphic” processes that operate on a global scale. The growth of supranational institutional networks and of universal modern norms of organization brings about what they refer to as “world society” (Boli and Thomas, 1999; Meyer et al. 1997). Educational institutions are particularly singled out as central to the transmission of culture and values in a global scope.

For Albrow, in contrast, the transition from modern to postmodern society is the defining feature of globalization. A new “global age” has come to supersede the age of modernity (Albrow 1997). Albrow argues that globalization signals the end of the “modern age” and the dawn of a new historic epoch, the “global age.” In Albrow’s Weberian construct, the quintessence of the modern age was the nation-state. However, the contradiction of the modern age has resulted in the decentering of the nation-state, so that under globalization both individuals and institutional actors

such as corporations relate directly to the globe, rendering the nation-state largely redundant. As the nation-state is replaced, the globe becomes the primary source of identity and arena for social action.

Much of the literature on modernity, postmodernity, and globalization reveals certain continuity with an earlier generation of modernization theories associated with development sociology. Thus, globalization appears as a continuation at the global level of the processes of modernization. Indeed, mainstream modernization theory has transformed itself into theories of global modernity and postmodernity, and early radical theories of development have become theories of the world system, global capitalism, time-space compression, and global cities. Nonetheless, another striking feature of the set of theories associating globalization with modernity and postmodernity is the continued centrality accorded to the nation-state and the interstate system in contrast to propositions on the transcendence of the nation-state that constitute a core motif of competing theories.

2.1.6 Theories of space, place, and globalization

The concepts of time and social space are central to a number of globalization theories. Globalization in turn points toward the larger theoretical issue of the relationship of social structure to space, the notion of space as the material basis for social practices, and the changing relationship under

globalization between territoriality/geography, institutions, and social structures. For Giddens, the conceptual essence of globalization is “time-space distancing.” He defines time-space distancing as “the intensification of worldwide social relations which link distant localities in such a way that local happenings are shaped by events occurring many miles away and vice versa” – social relations are “lifted out” from local contexts of interaction and restructured across time and space (1990: pp. 64).

In a distinct variant of this spatio-temporal motif, Harvey, in his study, *The Condition of Postmodernity*, argues that globalization represents a new burst of “time-space compression” produced by the very dynamics of capitalist development. What Harvey means by time-space compression is the process whereby time is reorganized in such a way as to reduce the constraints of space.

The world economic crisis that began in the early 1970s and led to the breakdown of the old Fordist-Keynesian model and the development of flexible accumulation models was, in turn, a key causal determinant in the new burst of time-space compression that started in the late 20th century. In this point of view, Harvey is close to the global capitalism thesis (although he does not refer specifically to a new epoch in the history of world capitalism), and to world-systems theory. Meanwhile, Harvey also shows how each major crisis in the historical development of capitalism has been resolved, in part, with new

forms of social organization of capitalism made possible by new technologies and predicated on successive waves of time-space compression.

The issue of a transformation in the spatial dynamics of accumulation and in the institutional arrangements through which it takes place is taken up by Sassen, whose works have generated new imageries of a restructuring of space and place under globalization. Sassen's modern classic, *The Global City* (1991), has had an exceptional impact on many disciplines and left a permanent mark on the emergent field of globalization studies. Sassen's study is grounded in the literature on "world cities," which views world-class cities as sites of major production, finances, or coordinating of the world economy within an international division of labor, and more recent research on "globalizing cities" (see, for example, Marcuse and van Kempen 2000).

Sassen argues that a new spatial order is emerging under globalization based on a network of global cities, and New York, London, and Tokyo can be seen as prototypes. These global cities are sites of specialized services for the transnational variable capital that is so central to the global economy. This global economy has involved the global decentralization of production simultaneous to the centralization of the command and control of the global production system within global cities. Global cities linked to one another become "command posts" of an increasingly complex and globally fragmented production system. It is in these cities that the myriad of inputs, services, and

amenities are to be found that make possible centralized coordination. In Sassen's words, "the combination of spatial dispersal and global integration has created a new strategic role for major cities" (1991: 3).

Sassen identifies four key functions of the global city: (1) they are highly concentrated command posts in the organization of the world economy; (2) they are key locations for finances and for specialized service firms providing "producer services," which are professional and corporate services inputs for the leading global firms such as finances, insurance, real estate, accounting, advertising, engineering, and architectural design; (3) they are sites for the production and innovation of these producer services and also headquarters for producer-service firms; (4) they are markets for the products and innovations produced and used in these cities. Sassen documents how New York, London, and Tokyo, as the quintessential global cities, have restructured themselves from being manufacturing centers to producer service centers, and how producer service activities become "networked" across global cities.

The social order of the global city shatters the illusions of the affluent service economy proposed by such commentators as Bell (1976) and Toffler (1980). Producer service jobs are global economy jobs, yet they involve a new class and spatial polarization, involving new high-income sectors involved in professional work, such as investment management, research and development, administration, and personnel, and so on, and enjoying affluent

lifestyles made possible by the global economy. On the other side are low-income groups providing low-skilled services, such as clerical, janitorial, security, and personal services. These low-income groups are largely composed of transnational migrants drawn from Third World zones. In these global cities, we see a concentration of new gendered and racialized transnational labor pools increasingly facing the casualization and informalization of work.

What this all represents is “a redeployment of growth poles” in the global economy. Global cities are new surplus-extracting mechanisms vis-à-vis transnational hinterlands. “The spatial and social reorganization of production associated with dispersion makes possible access to peripheralized labor markets, whether abroad or at home, without undermining that peripheral condition” (Sassen 1991: pp. 31). This new transnational structure creates new forms of articulation between different geographic regions and transforms their roles in the global economy. It involves as well a global hierarchy of cities. The stock markets of New York, London, and Tokyo, for example, are linked to those of a large number of countries, among them HongKong, Mexico City, Sao Paolo, and Johannesburg.

Global cities draw our attention to another leading motif in globalization theory: how to conceive of the local and the global. Robertson’s concept of globalization suggests that the global is only manifest in the local. By

globalization, Robertson means that ideas about home, locality, and community have been extensively spread around the world in recent years, so that the local has been globalized, and the stress upon the significance of the local or the communal can be viewed as one ingredient of the overall globalization process (Robertson 1995). For Appadurai, locality is less a physical than “a phenomenological property of social life” (1990: pp. 182) and involves in the age of globalization new translocalities, by which he means local communities located in particular nation-states but culturally and phenomenologically existing beyond the local and national context (such as tourist localities). For others, the local-global link means identifying how global processes have penetrated and restructured localities in new ways, organically linking local realities to global processes. Burawoy and his students have called for a global ethnography. Their diverse locally situated studies show how “ethnography’s concern with concrete, lived experience can sharpen the abstractions of globalization theories into more precise and meaningful conceptual tools”(Burawoy et al. 2000: xiv).

Theoretical frameworks of global cities are explored in detail in the next section.

2.2 Theoretical approaches to world cities and global cities

2.2.1 World cities

Besides theories of globalization, world city and global city theories are other key topics of current urban research as a continual study of their place within globalization.

The word “world city” represents a modern image of a contemporary, high-technology, information-saturated, networked world. It has a long history, which was firstly formulated by Geddes, who was famous in the field of regional planning. In his 1915 book, *Cities in Evolution*, the term “world city” was first used to describe great cities in which a disproportionate part of the world’s most important business is conducted (Hall 1966). But according to what Geddes wrote, the meaning of “world city” is not absolutely clear. Until nearly half a century later, Hall catalyzed a new generation of interest in the topic:

There are certain great cities, in which a quite disproportionate part of the world’s most important business is conducted. ... By what characteristics do we distinguish the world cities from other great centres of population and wealth? In the first place, they are usually the major centres of political power. They are the seats of the most powerful national governments and sometimes of international authorities too; of government agencies of all kinds. Round these gather a host of institutions, whose main business is with government: the big professional organisations, the trade unions, the employers’ federations, the headquarters of major industrial concerns. These cities are the national centres not

merely of government but also of trade ... Traditionally, the world cities are the leading banking and finance centres of the countries in which they stand. Here are housed the central banks, the headquarters of the trading banks, the offices of the big insurance organisations and a whole series of specialised financial and insurance agencies. (Hall 1996)

This is the opening page of Hall's 1996 book *The World Cities*, which analyzes the attributes (politics, trade, communication facilities, finance, culture, technology, and higher education) of cities at the top of the world urban hierarchy (London, Paris, Randstad- Holland, Rhine-Ruhr, Moscow, New York, and Tokyo). According to his work, a world city has several defining characteristics. First of all, it is usually the major center of political power. Secondly, it is a national center of trade, serving as a great port, a site of a great international airport, and the leading banking and finance center of the country. The world city is a center in which professional expertise of all kinds is concentrated, and, in turn, it is a locus in the processes of accumulating and disseminating new knowledge through research and education. Among the residents of the world city are a significant proportion of the most affluent members of the region. Thus, these cities offer easy access to luxury goods and services as well as plentiful entertainment and culture consumption opportunities. For Hall, world cities are not only the centers of both political and economic power, but also of culture, information, the wealthy, professionals, and so on. Their national and international significance is their most important characteristic, although population size can be an indicator of the world city

also. Hall (1996) identified several world cities, from the relatively highly concentrated metropolis of London and Paris, to the polycentric metropolis, such as Randstad of the Netherlands and the Rhine-Ruhr urban agglomeration of Germany.

The world city became a remarkable and broad research theme in the 1980s thanks to Friedmann's essay, "The World City Hypothesis" (1986), in which he contributed to establishing a framework of research that was neither a theory nor a universal generalization about cities. A world city is defined by its functions in the international division of labor. "The world city hypothesis is about the spatial organization of the new international division of labor" according to Friedmann (1986).

As Friedmann points out, certain key cities are "basing points" for transnational corporations and other organizations whose operations span vast stretches of the globe. When the main offices of such organizations are located in certain cities and branch offices are located in certain other cities, the resulting linkages between the control centers and the branches creates a hierarchy of cities, with some cities being more central in terms of exercising power over the others. Friedmann identified 30 world cities, using seven criteria of world "cityness," including the extent to which a city is home to major financial institutions; the headquarters for transnational corporations (TNCs); the headquarters for international institutions; the rapidity with which the

business service sector has grown; its importance as a manufacturing center; the extent to which it serves as a major transportation node; and its population size. He found “a distinctively linear character of the world city system which connects, along an East-West axis, three distinct sub-systems” (1986), comprising an Asian sub-system, a North American sub-system, and a West European sub-system.

Here is an outline of Freidmann’s framework, what he called its seven interrelated theses, and an explanation of what he meant by each:

1. The form and extent of a city’s integration with the world economy, and the functions assigned to the city in the new spatial division of labor, will be decisive for any structural changes occurring within it.

- Friedmann’s conception of the city is a “spatially integrated economic and social system at a given location or metropolitan region.” Metropolitan economies may carry out different roles – as locations for global capital’s head offices, or as financial centers, or as nodal points in a regional or nation economy – but important cities do all three.

- The form, intensity, and duration of the link between the urban system and global capital may vary, and are historically based, but for the most part the changes occurring in cities are “externally induced” by the “direction and volume of transnational capital flows; the spatial division of the functions of finance, management and production.” Changes to the urban system include “changes in metropolitan function, the structure of metropolitan labour markets, and the physical form of cities.”

2. Key cities throughout the world are used by global capital as “basing points” in the spatial organization and articulation of production and markets.

The resulting linkages make it possible to arrange world cities into a complex spatial hierarchy.

- Friedmann presents a hierarchy of world cities “based on the presumed nature of their integration with the global economy,” whose selection criteria include “a major financial centre; headquarters for transnational corporations; rapid growth of business services sector; important manufacturing centre; major transportation node; [and]population”. His hierarchy presents primary and secondary world cities, and he further classifies these according to core and semi-peripheral countries. All but two of the primary cities (Singapore and Sao Paulo) are in the global north.

3. The global control functions of world cities are directly related in the structure and dynamics of their production sectors and employment.

- World city growth has seen a growth in particular sectors (see 2 above).
- World cities play an ideological role as centers in the production and dissemination of knowledge (i.e., news and entertainment) and art.
- The labor force is dichotomized, with a high percentage of high-wage professionals and low-wage workers.
- World cities are also characterized as having growth in the “informal” economy.

4. World cities are major sites for the concentration and accumulation of international capital.

- However, some world cities are atypical and do not have high concentrations of foreign direct investment. This is the case with Tokyo: “Although a major control centre for Japanese multinational capital, Japanese business practices and government policy have so far been successful in preventing capital from making major investments in the city” (Rimmer, 1986).

5. World cities are points of destination for large numbers of both domestic and/or international migrants.

- Both international and inter-regional migrants contribute to growth in primary countries. These countries attempt to curb “low-skilled” immigration and promote high-demand (“skilled” or professional) immigration through legislation and special programs.
- Semi-peripheral world cities experience growth from intra-regional migration, and have experienced rapid population increases. Attempts to curb migration have been largely unsuccessful.

6. World city formation brings into focus the major contradictions of industrial capitalism –among them spatial and class polarization.

- Friedmann identifies three scales of spatial polarization: Global – a “widening gulf in wealth, income, and power between peripheral economies...and rich countries”; Regional – which expresses the income disparity between high- and low-income regions within states; and Metropolitan – which includes class polarization and the segregation of poor neighborhoods, for example.
- “Contradictions” include the fact that the financial services sector, which employs high paid professionals, also employs many people in low-wage categories; the absence of middle sectors in the semi-periphery and the vulnerability of the middle sectors to unemployment in core cities, for example, from the loss of unionized employment.

7. World city growth generates social costs at rates that tend to exceed the fiscal capacity of the state.

- “The rapid influx of poor workers into world cities – be it from abroad or from within the country –generates massive needs for social reproduction, among them housing, education, health, transportation, and welfare. These needs are increasingly arrayed against other needs that arise from

transnational capital for economic infrastructure and from the dominant elites for their own social reproduction.”

As these seven points illustrate, the scope of Friedmann’s world city hypothesis is phenomenal. Many of the features he identifies are related to globalization, particularly the increase in global financial markets and the rise of financial centers. In this way, world cities literature encourages thinking about the imprint of globalization on the urban landscape. The early literature tracked, for example, the office and headquarter locations of multinational corporations as one way of measuring the importance of cities in a global-city hierarchy.

About a decade later, Friedmann expanded his list of world cities following further empirical research, and he developed a different classification scheme to describe their hierarchy (1995). Meanwhile, he firstly recognized that because the world economy is so dynamic, the hierarchical ordering of world cities is quite uncertain and, thus, subject to change from time to time (1995). He identifies 30 world cities of the time and orders them into four categories based on his evaluation of the geographic scale and intensity of the global reach of the organizations sited in these cities. At the top is what he classifies as “global financial articulations.” Respectively, the other categories are “multinational articulations,” “important national articulations,” and “subnational/regional articulations.” Friedmann also summarizes the state of knowledge on world cities at that time, arguing that we can identify five general

areas of agreement. First, global cities “serve as the organizing nodes of the global economic system.” Second, significant areas of the world are not integrated into the global capitalist system of accumulation and these areas are, essentially, “subsistence economies.” Third, world cities are big, populous, and characterized by frequent and dense social and economic interaction. Fourth, world cities are systematically and hierarchically arranged, and this arrangement, due to the competitive nature of global capitalism, is subject to rearrangement. Finally, the system that gives rise to this global hierarchy of world cities is one in which the interests of a particular social class are primarily represented. This is the “transnational capitalist class,” whose very dominance, wealth, and power represent social polarization, which can be extreme within global cities (1995).

2.2.2 Global cities

Among the most remarkable social scientists in this emerging field is Sassen. The combination of spatial dispersal and global integration has created a new strategic role for major cities (Sassen 2001). Beyond their long history as centers for international trade and banking, these cities now function in four new ways: first, as highly concentrated command points in the organization of the world economy; second, as key locations for finance and for specialized service firms, which have replaced manufacturing as the leading economic sectors; third, as sites of production, including the

production of innovation, in these leading industries; and fourth, as markets for the products and innovations produced. These changes in the functioning of cities have had a massive impact upon both international economic activity and urban form: cities concentrate control over vast resources, while finance and specialized service industries have restructured the urban social and economic order. Thus, a new type of city has appeared. It is the global city. Leading examples now are New York, London, and Tokyo (Sassen, 1991).

After the first appearance of the “global city,” Sassen proceeded to further analyze its mechanism, and later presented seven hypotheses based on the global city model:

First, the geographic dispersal of economic activities that marks globalization, along with the simultaneous integration of such geographically dispersed activities, is a key factor feeding the growth and importance of central corporate functions. The more dispersed a firm’s operations across different countries are, the more complex and strategic its central functions – that is, the work of managing, coordinating, servicing, financing a firm’s network of operations.

Second, these central functions become so complex that increasingly the headquarters of large global firms outsource them: they buy a share of their central functions from highly specialized service firms – accounting, legal,

public relations, programming, telecommunications, and other such services. While even ten years ago the key site for the production of these central headquarter functions was the headquarters of a firm, today there is a second key site: the specialized service firms contracted by headquarters to produce some of these central functions or components of them. This is especially the case with firms involved in global markets and non-routine operations. But increasingly the headquarters of all large firms are buying more of such inputs rather than producing them in-house.

Third, those specialized service firms engaged in the most complex and globalized markets are subject to agglomeration economies. The complexity of the services they need to produce, the uncertainty of the markets they are involved with either directly or through the headquarters for which they are producing the services, and the growing importance of speed in all these transactions, is a mix of conditions that constitutes a new agglomeration dynamic. The mix of firms, talents, and expertise from abroad range of specialized fields makes a certain type of urban environment function as an information center. Being in a city becomes synonymous with being in an extremely intense and dense information loop.

A fourth hypothesis, derived from the preceding one, is that the more headquarters outsource their most complex, non-standardized functions, particularly those subject to uncertain and changing markets, the freer they are

to opt for any location, because less work actually done in the headquarters is subject to agglomeration economies. This further underlines that the key sector specifying the distinctive production advantages of global cities is the highly specialized and networked services sector. In developing this hypothesis, I was responding to a very common notion that the number of headquarters is what specifies a global city. Empirically, it may still be the case in many countries that the leading business center is also the leading concentration of headquarters, but this may well be because there is an absence of alternative locational options. However, in countries with a well-developed infrastructure outside the leading business center, there are likely to be multiple locational options for such headquarters.

Fifth, these specialized service firms need to provide a global service, which has meant a global network of affiliates or some other form of partnership, and as a result, we have seen a strengthening of cross-border city-to-city transactions and networks. At the limit, this may well be the beginning of the formation of transnational urban systems. The growth of global markets for finance and specialized services, the need for transnational servicing networks due to sharp increases in international investment, the reduced role of the government in the regulation of international economic activity, and the corresponding ascendance of other institutional arenas –

notably global markets and corporate headquarters – all point to the existence of a series of transnational networks of cities.

A related hypothesis for research is that the economic fortunes of these cities become increasingly disconnected from their broader hinterlands or even their national economies. We can see here the formation, at least incipient, of transnational urban systems. To a large extent, major business centers in the world today draw their importance from these transnational networks. There is no such thing as a single global city – and in this sense, there is a sharp contrast with the erstwhile capitals of empires.

A sixth hypothesis is that the growing numbers of high-level professionals and high profit-making specialized service firms have the effect of raising the degree of spatial and socio-economic inequality evident in these cities. The strategic role of these specialized services as inputs raises the value of top-level professionals and their numbers. Furthermore, the fact that talent can matter enormously for the quality of these strategic outputs and, given the importance of speed, proven talent is an added value, the structure of rewards is likely to experience rapid increases. Types of activities and workers lacking these attributes, whether manufacturing or industrial services, are likely to get caught in the opposite cycle.

A seventh hypothesis is that, as a result of the dynamics described in hypothesis six, there is a growing informalization of a range of economic activities that find their effective demand in these cities, yet they have profit rates that do not allow them to compete for various resources with the high-profit making firms at the top of the system. Informalizing part of or all production and distribution activities, including services, is one way of surviving under these conditions.

In the first four hypotheses, Sassen attempts to qualify what was emerging in the 1980s as a dominant discourse on globalization, technology, and cities that posited the end of cities as important economic units or scales. She saw a tendency in that account to take the existence of a global economic system as a given, a function of the power of transnational corporations and global communications.

Sassen's research also examined parallels between New York, London, and Tokyo in terms of the growth of the high-paying professional jobs and low-paying lower order clerical work, as well as the growth in part-time and temporary employment, which she argued, is creating an overall result in income polarization. In this way, Sassen concentrated on "the *practice* of global control – the activities involved in producing and reproducing the organization and management of the global production system and the global labor force." Yet large financial centers (such as London, New York, and Tokyo)

are not the only “global cities” – economic globalization produces a matrix of connected urban centers. Most cities in the less developed world would be excluded from empirical and analytic attention if a “financial center” criterion was applied to their cases.

While Friedmann and Sassen have both insisted that “there is no such entity as a single global city,” (Sassen 2005) critics have charged that New York, London, and Tokyo have all too often been the theory’s proto types. The analytic danger is that focusing so much attention on the “top tier” cities ignores the linkages between and among primary and secondary cities, and ignores important differences in the development and trajectories of all cities. In a recent essay, for example, Hill and Kim point out that there are key differences in the formation of New York and Tokyo as “world cities,” and here they highlight the ways the historically and spatially-situated restructuring of the US economy pervades Sassen’s definition of the global city. Hill and Kim write:

The practice of global control in Tokyo has not resulted in a social regime characterized by massive loss in manufacturing jobs, high levels of foreign immigration, extreme wealth concentration and social and spatial polarization. (Hill and Kim 2000)

These differences, the authors assert, have to do with the history and the continuing role the state plays in Japan in setting industrial policy and financial rules. Hill and Kim therefore challenge world city theory for taking up a globalist

view that posits “that a single global system is becoming superimposed on nation-states which are losing importance as a result.” In contrast, Hill and Kim assert that “fundamental regional differences among the world’s major cities might exist” and that the capitalist world economy is not a “single, globe-embracing structure and process.”

2.3 Producer service

Compared with Friedmann’s focus on international division of labor, Sassen put more effort to concentrate on the producer service sector as one of the most crucial indexes measuring global city.

Producer services can be seen as part of the supply capacity of an economy. “They influence its adjustment in response to changing economic circumstances” (Marshall et al. 1986) and represent a mechanism that “organizes and adjudicates economic exchange for a fee” (Thrift 1987). They are part of a broader intermediary economy. Producer service cover financial, legal, and general management matters, innovation, development, design, administration, personnel, production technology, maintenance, transport, communications, wholesale distribution, advertising, cleaning services for firms security, and storage. Central components of the producer services category are a range of industries with mixed business and consumer markets.

They are insurance, banking, financial services, real estate, legal services, accounting, and professional associations.

In the early research that resulted in the formulation of a distinct category of producer services (Greenfield 1966, Singelmann 1974, and Singelmann and Browning 1980), the central notion was that these services supported production, hence the name producer services. It has now become evident that these services are also used in service organization, both in the private and public sectors.

The key indicator of global city status is whether a city contains the capabilities for servicing, managing, and financing the global operations of firms and markets (Sassen 2001). In order to establish whether the variety of producer services likely to be present in any major city includes this capability, a far more disaggregated analysis of the producer services sector is needed and, to a variable degree, qualitative information is necessary as well.

According to Sassen (2001), this can be operationalized in a variety of ways: Do the firms in the various specialized producer services have global networks of affiliates? Does the city in question have significant exports of producer services? Are foreign firms locating significant headquarter functions in the city in question? Does the city have institutions that can finance cross-border operations? Does it have global markets? And, is it part of the

global property market? Producer services are a crucial factor in all of these variables, but they cannot simply be used in total.

Meanwhile, what is worth putting forward is that the high growth rates of producer services in smaller cities as compared with global cities is not necessarily a function of relocations from global cities to better-priced locations. It is a function of the growing demand by firms in all sectors for producer services. When these services are for global firms and markets, their complexity is such that global cities are the best production sites. However, when the demand is for routine producer services, cities at various levels of the urban system can be adequate production sites. The current spatial organization of the producer services reflects this spreading demand across economic sectors rather than the loss of advantage and share of global cities.

What is specific about the shift to services is not merely the growth in service jobs but, most importantly, the growing service intensity in the organization of advanced economies: firms in all industries, from mining to wholesale, buy more accounting, legal, advertising, financial, and economic forecasting services, and so on, today than they did 20 years ago.

Measuring the value of the global city sector by employment is inadequate and is a misunderstood point of the global city model. The question is whether coordination and the specialized servicing of global firms and markets is taking

place. As in Paris and Tokyo, although mostly for their national firms operating abroad, this has brought with it a growing number of top-level firms to handle the specialized servicing. This is, in turn, making it easier for foreign firms to move into these countries, thereby ratcheting the whole specialized services complex upwards (Sassen 2001).

2.4 Public policy within global cities

Emphasizing the fact that global processes are at least partly embedded in national territories introduces new variables in current conceptions about economic globalization and the shrinking regulatory role of the state. That is to say, the space economy for major new transnational economic processes diverges in significant ways from the duality global/national presupposed in many analyses of the global economy. The duality, national versus global, suggests two mutually exclusive spaces – where one begins the other ends. One of the outcomes of a global city analysis is that it makes evident that the global materializes by necessity in specific places, and institutional arrangements, a good number of which, if not most, are located in national territories.

Economic globalization is not curtailing the roles of the nation-state and public policy, but recasting them. On the one hand, there is a search for policies and institutional infrastructure that can take advantage of the

perceived benefits of globalization. On the other hand, there is a search for means to reduce the vulnerability of national societies to a perception of new risks from global phenomena that are cross-national rather than national in scale, including companies in high wage economies outsourcing jobs to low wage countries, the immigration of cheaper labor both legally and illegally, international terrorism, and climate change.

It is also the case that the shrinkage of time and space in a globalized world, where people, money, goods, and media images move rapidly across national frontiers has redefined the parameters of familiar policy problems, ranging from crime prevention to public health (George and Page 2004). The pattern of national and international responses to all these issues is quite varied. In some cases, international agencies have become more engaged with problems that threaten to overwhelm individual states, such as the role of the United Nations in working with African governments to control AIDS, while in others, international agencies are bypassed, most notably in the decision of the US and UK governments to intervene militarily in Iraq in the “war against global terror.” Globalization is essentially a paradoxical phenomenon, and this is no less true of the way public policy is responding; integration and harmonization are evident in some spheres but in others globalization creates space for difference and division.

Although there are features of the contemporary experience of

globalization that are not new, it is widely recognized that the dramatic compression of time and space on such a scale and across so many facets of human enterprise is new. Technological advances have made this possible, but they are not the driver. Technology has been put to the service of those with the power and motives to exploit its capacity to shrink the world. The prime movers in this respect are the multinational corporations (MNCs) of the North, now with the agency to organize markets globally in the pursuit of profit, facilitated by the economic and military power of their governments.

Yet to suggest that globalization is imposed by the strong on the weak is to represent the phenomenon from one partial standpoint. Although economic globalization was identified a century ago by Trotsky as a driver of widening income and wealth inequalities, and his law of combined and uneven development seems even more true today than in 1900, in current times economic globalization cannot be regarded as a project of the capitalist class alone. Most governments welcome rising international capital mobility as an engine of economic growth that can raise living standards. However, they take different positions on how investment is regulated and how income and wealth are distributed, and this mediation between national and international conditions makes a significant difference to national outcomes such as the equity of income distributions, health inequalities, and social cohesion. This can be considered in terms of the different choices that countries make

about their welfare states.

Governments may also use the possibilities opened up by globalization to achieve domestic results for their welfare states. The declining ratio of working age populations to older people in many countries is a case in point. This is a more pressing issue in some countries than others: in Japan, Spain, Poland, and the Czech and Slovak Republics, old-age dependency ratios are likely to triple over the period 2000–2050, presenting a very different landscape for social policy and tax systems (OECD 2005). This is not just a consequence of ageing but also of low fertility as women's roles and aspirations, especially in relation to paid work, change across the OECD. A response to the threat to domestic economic growth, the funding of pension systems, and the rising cost of health and social care posed by a deteriorating old-age dependency ratio is to cushion this with higher inflows of foreign workers.

In an exhaustive survey of "states in the global economy," Weiss (2003) concludes that there is little evidence that the capacity of states to act in the spheres of taxation and social spending has been reduced by economic globalization. Among developed democracies, greater trade openness has generally been associated with a growth in government spending. This has meant increased taxation of companies and individuals, often helped by using a wider range of taxes, and with corporate taxation still low compared with personal taxes. Domestic factors remain significant regarding how personal

taxation is distributed in any one country, with the strength of organized labor and its political power still important in influencing where the tax burden falls.

Weiss draws the same conclusions about the pattern of social spending and the extent of neoliberal reforms of public services. Domestic politics still make a big difference, with these in turn heavily influenced by the still remarkably different social norms of individual countries. In economic and financial policy, Weiss finds too that there has been no retreat from state intervention, with states adapting their policy tools to emerging circumstances that they themselves create, such as the WTO's market opening measures. Ellison (2005) comes to a similar conclusion: there is little evidence of interest, tax, or exchange rate convergence across countries.

This adaptation is nicely illustrated by the rise of derivatives markets. These are an example of how globalization has created an environment in which innovations take place to manage the new risks that emerge while retaining the perceived benefits. More open, markets expose companies and governments to a risk of damaging volatility in foreign exchange and interest rates, and derivatives markets are an innovation to hedge this risk. Both governments and corporations use derivatives to re-establish some certainty in a world that otherwise would be more risky, and in the process have created new markets that are global in scope. These, in turn, have brought new risks that have engendered new policy innovations to manage them (Coleman

2003).

While there remains significant space in which governments can develop their public policies according to domestic rather than global imperatives, globalization does frame what governments can do. Weiss (2003) argues that the vulnerabilities of nation-states in the global economy present their governments with new challenges, but their response is influenced by national norms: social partnership in Sweden, economic nationalism in Japan, Korea, or Taiwan, and France, for example. She also suggests that global economic interdependence is transforming how governments act. In particular, governments are managing specific areas of major risk by partnering with domestic businesses and labor organizations as well as with international bodies to arrive at joint approaches to these risks. Governments set the goals in this scenario, but their transformational capacity operates through these alliances and networks.

Swank (2002) comes to similar conclusions about the absence of any necessary connection between globalization and the domestic policies of nation-states, although he focuses solely on developed welfare states. Given that many of the public services reform measures pursued by the states considered by Swank include cuts in benefits and eligibility, cost controls, and privatizations, it is not surprising that these measures have been linked to the globalization imperative of opening up markets. However, these reforms have

sat alongside expansions of some social programs, with benefits and entitlements becoming more generous in some areas. The large Nordic welfare states, for example, remain intact and the UK's welfare state expansion under New Labour has already been noted.

However, while the growth of global capital mobility cannot explain the spread of neoliberal welfare reforms, there are clearly other factors that have promoted them, including ageing, increasing healthcare costs, and unemployment and associated fiscal imbalances. Swank found an interaction between governments facing large budget deficits and international capital mobility that was associated with cutting back social expenditure, but he emphasizes that this retrenchment has been relatively modest. In general, welfare regimes are pretty much "locked in" by the norms and institutions of their states. The future, though, presents many uncertainties, especially for those states facing a relative shrinkage of their labor force but with generous benefits for those outside it.

2.5 Chapter conclusion

A look back of literature undoubtedly helps us to have a much general understanding of the research field to which this dissertation will closely refer. Meanwhile, the lack of current researches could be found out as well. It is hard to draw any conclusion immediately just according to the review, in fact, it

should be mentioned and contrasted again after the following studies in this dissertation. However, what I have to remind and emphasize here is that almost all the theories or summaries in this chapter are the outcomes based from the case studies of the cities under the background of capitalism. On one hand, the researches of cities with capitalism background provide an integrated knowledge frame of globalization and global cities, with which we could have a better cognition of theoretical system. On the other hand, the research subject in this dissertation has exhaustive difference with the one before, particularly the background of development. Thus, I would pay more attentions on the structure system of the cities in China by unscrambling the policies, the decrees and even the ordinances. To explore with a brand new and different perspective is likewise a creative breakthrough as what I expect in this research.

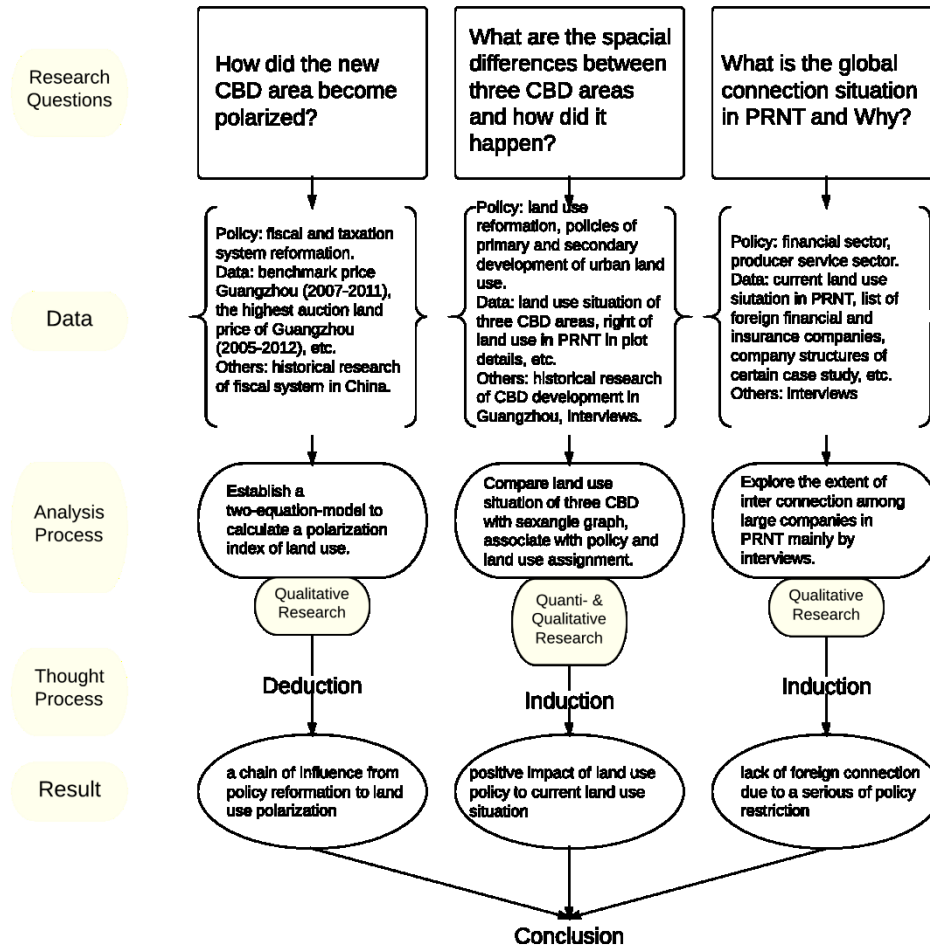
Chapter 3 Research Design

3.1 Approaches and research design

As the key purpose of this research is either to answer or to solve the three hypotheses that followed the literature review and the outline of Guangzhou's development, this dissertation will use an empirical study as its research approach. The main object is to study the city of Guangzhou.

The hypotheses refer to various fields of urban study. On the one hand, they contain a comparison of urban land use across three CBD areas; on the other hand, the extent and situation of global connections in Guangzhou will be discussed; furthermore, the relation and influence between national policy reform and local development is going to be explored as well. For the reasons outlined above, the research methods in this dissertation include both qualitative and quantitative approaches.

Research Design



3.2 Data collection

In line with the hypotheses presented in Chapter 1, three main research questions are determined. In order to answer the questions in the next step, three vertical individual pieces of research will be provided for each question. Every research study is also an integrated study, for which an appropriate analysis process, a proper research method, and a proper thought process are

designed.

Due to the multi-research methods, the data collection section is a key section for the research. In line with the issues that are being explored, various primary and secondary data are required, including policy documents, statistical data, and interview records. I will describe these below in detail in accordance with each of the key questions.

There are many data collection techniques for collecting primary data in research, including interviews, questionnaires, focus groups, and case studies. Primary data collection is every important for collecting in-depth data and information, while secondary data collection only can provide existing and relatively superficial data. Secondary data commonly come from printed sources (books, magazines, journals, and trade newspapers) and from electronic sources (CD-ROMs, software packages, or online services provided by the Internet.) Books are a general resource for providing relevant theory support for a study. Journals are a useful resource for information on a daily basis. They provide the latest views and developments in the particular area of study. The Internet is also very helpful for data collecting, especially where professional websites can be reviewed.

The advantage of primary data is that it can provide deeper answers. It can get detailed information on what causes problems or results on benefits. It

can also elicit more honest and more sensitive information. By using interviews, future change agents can also introduce themselves to the people in an organization, and establish both rapport and trust accuracy. Sometimes primary data may have limited scope in research, as they usually take a long time to collect. Opportunities for bias creep in when results are “coded,” and this is also an ever-present problem for all self-report measures.

The most important factor influencing me to use secondary data is that it is easy to do and helps to save both time and money. Usually, it is much less expensive to use secondary data than to collect primary data. Furthermore, the verification process is more rapid, and the reliability of the information and any conclusions are greatly enhanced.

Although secondary data collection is very useful for collecting existing information, the information collected through this method may be incomplete. Using this technique requires people to be quite clear about what they are looking for, and the technique is restricted to data that already exist. It is not a flexible way to collect data. So this method of documentation should be used based on the assumption that one has a clear objective about what kind of data one wishes to collect.

The research process for the three questions as outlined is described below:

The first key question is: “How and why did the new Pearl River New Town area become polarized?” According to the knowledge already gleaned, the initial hypothesis is to begin the research based on the significant policy reform that occurred in the economic sphere after 1978. Thus, a deductive reasoning process will be applied to this question. Firstly, both fiscal and taxation system reforms and their result will be carefully studied, although it seems that there is no causal relationship between such government reforms and urban development on the surface. Several potential influences from such reforms on urban space will be discovered and narrowed down. Then, combined with interviews and other resources, the situation regarding urban land use in the same period of time is also addressed. I will seek to find a conjunction between the two sides. Finally, a tight and direct “reaction chain” from the policy reforms to the urban space will hopefully be cleared up. Finally, by introducing an equation model to calculate a polarization index of land use, the “reaction chain” will be further proved as being a continuous result from such reform to the urban land use polarization. In order to accomplish the research design of this question, the following data and materials have been collected:

Primary data

Interview record of Chao WU⁴;

⁴ Mr. Chao WU is a Planner of Guangzhou Urban Planning & Research Center.

Interview record of Ru LIU⁵;

Secondary data

The Fiscal Responsibility System policy document (1978);

The Tax-sharing System policy document (1994);

Benchmark prices in Guangzhou (2007, 2009, 2011);

The annual highest auction land prices in Guangzhou (2005–2011);

Historical research on China's fiscal system.

The second question is: “What are the special differences between the three CBD areas and how did they come about?” The first half of this question can be answered by quantitative research. At first, the acreage information for the six types of land use of each central business district, comprising administrative, commercial, residential, public, infrastructure, and hotel & tourism use, have been collected and transferred into percentages for each area. Next, a hexagonal graph has been applied for each CBD area by using the land use proportion above as an index. Placing land use among the three CBDs together on a hexagonal graph make the discrepancies between the three areas easily visible.

⁵ Ms. Ru LIU is a director of the Land Development Center of Guangzhou.

Based on the observations, an inductive reasoning process will be introduced for further steps. On one hand, there would be a list of restrictions for foreign direct investors, who intend to be involved independently. On the other hand, constraints on foreign enterprises about to engage in the Secondary Development can also be seen from the policies on the Secondary Development of urban land use. With the addition of interviews from related experts, the causality between land-use policy reform and urban spatial order in such an area can be explained clearly. Finally, brief features of urban space could be generally concluded from existing data material. In order to accomplish the research design of this question, the following data and materials have been collected:

Primary Data

The land use situation regarding the three CBD areas;

Land use rights in Pearl River New Town in plot details;

Interview record of Yanmin Zheng⁶;

Interview record of Guanxian Wang⁷;

Secondary data

The policy document relating to land use reform;

⁶ Ms. Yanmin Zheng is a deputy director of Guangzhou Land Use Planning Center.

⁷ Ms. Guanxian Wang is a planner of Guangzhou Urban Planning & Research Center.

The policy documents on the Primary and the Secondary development;

Historical researches on CBD development in Guangzhou.

The third question is: “What is the global connection situation in Guangzhou and why?” In this research, Pearl River New Town is taken as a case study as it is the latest and most modern area where large proportions of companies in Guangzhou locate. This is an inductive piece of research, aimed at providing a brief summary of the general features of global connectivity in Guangzhou or other major cities. The research is further divided into three parts. In the first part, according to current research, the extent of outsourcing specialized services could be seen as one of the indexes of status of a global city (Sassen 2005). Four large enterprises whose headquarters are located in the PRNT are taken as a sample. By means of comparing the operational structure of each headquarters, the purpose is to discover whether the specialized service outsourcing phenomenon appears within such large companies. This is the most intuitive proof as to the extent of a global connection.

To gain a deeper understanding, direct interviews with the people working in the producer service industry Deloitte⁸, which also locates in the PRNT, will

⁸ Deloitte is the largest professional services network in the world by revenue and by the number of professionals. Deloitte provides audit, tax, consulting, enterprise risk, and financial advisory services, with more

be conducted in the second part of the research. The interviews refer to the operation model, the line of business in Guangzhou, and the client list of these companies. This method will further the process of gaining information about global connections in depth, including their extent, cause, and tendency.

The overseas law company, Rödl & Partner⁹, is the object in the third part of the research. The purpose is to see the global connectivity of Guangzhou from a third party perspective.

In order to complete the research design part of this question, the following data and materials have been collected:

Primary data

Interview record of Jens Hildebrandt¹⁰ (2012);

Interview record of Jürgen Baur¹¹ (2012);

Interview record of Sebastian Wiendieck¹² (2014);

Land use situation in Pearl River New Town (2012);

than 200,000 professionals in over 150 countries.

⁹ Rödl & Partner is active in 94 wholly owned locations in 43 countries. The integrated firm for audit, legal, management and tax consulting owes its dynamic success to over 3,000 entrepreneurial-minded partners and colleagues.

¹⁰ Mr. Hildebrandt is the general manager of German Industry & Commerce Greater China, Guangzhou.

¹¹ Mr. Baur is the chief manager of Rödl & Partner of Guangzhou in 2012.

¹² Mr. Wiendieck is the chief manager of Rödl & Partner of Guangzhou in 2014.

Secondary data

Organizational structure of the Bank of Guangzhou;

Organizational structure of Guangzhou R&F Properties Co., Ltd.;

Organizational structure of Ping An Bank (Guangzhou Branch);

Organizational structure of China Merchants Bank (Guangzhou Branch)

3.3 Methodology

As I mentioned above, there are two types of research methods in this dissertation: qualitative and quantitative. Thus, I would like to use both qualitative and quantitative methodologies, and then employed analytical techniques and processes to review the data.

3.3.1 Qualitative research

This is a one-on-one process in which I pose questions directly to an individual. The questions often ask not only for information and opinions but also allow the interviewer to probe the richness of emotions and motivations related to the topic. Qualitative data is used to help clarify hypotheses, beliefs, attitudes and motivations. Due to the indirect influence from policies and decrees to urban space, quantitative research could not be the most appropriate approach in certifying hypothesis; while qualitative research, especially the interview approach, is in this case considered much practical

than quantitative way.

In order to acquire basic and additional information as well, all seven interviews are all arranged as one-on-one conversation in the interviewees' offices. Each interview lasts approximately 45 minutes. During the first half hour, I take the initiative to ask a series of pertinent questions which are prepared in advance and designed according to the identity of the interviewee. In the second half of interview, I usually pose a broader topic to start a free discussion. Not as specific as the questions in the first half, the topic in this section is more or less the same with the purpose of receiving more various opinions from different background as much as possible. Sometimes such short talks provide new perspectives and points of entry during the solution of research.

3.3.2 Quantitative research

Generally, quantitative research in this study is used in two conditions. The first purpose of this method is specifying the key objects for qualitative research. During the initial stage, it is difficult to filtrate and decide which themes the qualitative research should definitely concentrate on. By means of quantitative data analysis, I can have a previous judgment to the hypothesis and hence, make a further decision to subsequent researches. The second situation is to use it as an assistant method to further testify the discoveries

and conclusions from qualitative research. This process utilizes detailed statistic data often collected from field survey and contemporary material.

Quantitative research collects a huge amount of data, which can often be generalized and allow for direct comparisons between two or more groups. It also provides statisticians with a great deal of flexibility in analyzing the results. It is at the same time followed by an analytical plan designed to process the data for information and empirically-based insights. Two common analytical techniques were used in this research phase:

- Correlation analysis: Measures whether or not, and how strongly, two variables are related. This does not mean that one variable causes the other; it means they tend to follow a similar pattern of movement.
- Comparative analysis: Measures to what extent the variables change according to a fixed period of time or under a similar precondition. This displays a clear development tendency of the variables.

3.4 Limitations

The researches on cities, especially on world cities and globalizing cities, are mostly macroscopic and multi-disciplinary. To solve and reflect the proposition of a city correctly might sometimes involve multidisciplinary study. Meanwhile, the integrity and universality of data collection is the most critical factor in testifying hypotheses. A mass of material resources, financial support, and, more importantly, manual effort are crucially required. Thus, compared to

a single student, studying as a group or an association provides greater possibilities of overcoming potential difficulty during the research. As an individual geographical researcher, due to the constraint of not having a research team, some imperfections will be apparent in the dissertation. Here I want to expound on the limitations in detail.

On one hand, due to the Chinese national condition, data around local land use and master plans are naturally difficult to attain. Along with the time factor, most of the land use data for both the Huanshidong Road and the Tianhebei and Sport Center District areas rely on secondary data, as well as about 10% data on Pearl River New Town. However, the reliability of such data is acceptable as they are acquired directly from the original government material. Meanwhile, regarding the 90% self-collected land use data of the PRNT, the author believes that there must be a statistics on every plot of this area held by an official authority, including acreage, developer, land usage, and, nowadays, use. However, it is impossible for an individual to access such data using normal approaches. On this occasion, these data are gathered from various scattered sources, such as field measurements, planning documents, statistic books, and the Internet. Due to different statistical measurement standards, a certain margin of error could appear; nevertheless, there will be little influence on the overall result.

On the other hand, from an idealistic perspective, the description of a

city's globalization status should be based on the global conditions of every aspect of the city, both horal and spatial in the field of urban construction, economy, culture, people, etc. It is definitely too ambitious a mission for the individual researcher to achieve. In this research, the author mainly focuses on the central business district as a reflection of the global status of Guangzhou. This is not comprehensive enough. However, when talking about a global city, a CBD is always a key research object on which plenty of scholars have concentrated in their study. Indeed, as a CBD usually contains most of the headquarters and specialized service firms of a city, these elements are key indexes in measuring global status and the functioning of a single city. Although using CBD as an index of global city does not amount to a multifaceted study, it is nonetheless an authentic point of view to describe a city's global status in an economic discourse.

Moreover, according to the literature review in Chapter 2, there has been little research focusing on the connections by which policy reform has had a positive effect on urban land use. This is the particular case of China, where strong political power can be applied to every aspect of urban land use. In this research, the reform of the fiscal and taxation system appears initially to have no relevance to the polarization phenomenon of urban land. By means of a timeline comparison of both sides' development and change, related junctions might be figured out. With further targeted interviews, such connections could

be positively confirmed. Due to the lack of studies that can be used for referencing purposes, the dependability of this study will still be under verified. However, it will provide a new research approach for and a perspective on this academic question.

Chapter 4 Analysis of spatial polarization in Guangzhou

4.1 Introduction of fiscal system in China

Before 1978, the economy in China operated as a so-called 'planned economy' model. The fiscal system in that period was completely managed by the central government, which had unified control over revenue and expenditures of the local governments. State power was also centralized, as all income brought in by the local governments, no matter how large or small, was required to be remitted to the central government. More or less the same rules applied to expenditures, as all local government disbursements were examined and transferred by the central authority. The central government also formulated all the control processes, systems, and criteria related to local expenditures. In those times, local authorities had little power of self-determination and were highly dependent on the central government.

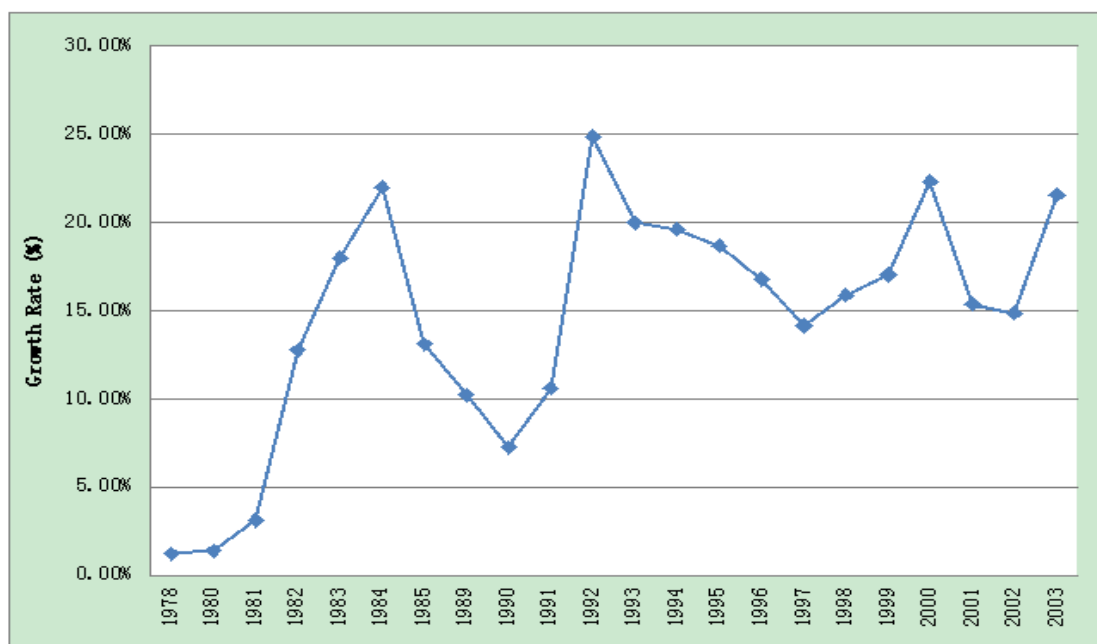
4.1.1 Fiscal Responsibility System

In 1978, the central government began its first significant fiscal reform; this "Fiscal Responsibility System" was fully enacted in 1980. The system stood in contrast to the unified control that had been in place since 1949. In China, the official administrative system consists of five levels: central, province, city, country, and township. Using a similar structure, the fiscal administrative system is also divided into five levels. Every two adjacent levels of government

operate under the same 'responsibility system'. The first level of the fiscal system, for example, is a budget administrative system with individual revenue and expenditures between the central and local governments. Each government maintains responsibility for balancing its own budgets or, as the Chinese saying goes, for 'serving meals to different diners from different pots'. Based on the subordinate relationships between enterprises and public institutions, revenue was sorted into three main categories: central fix revenue, local fix revenue, and shared revenue, while expenditures were divided into central and local expenditures. In addition, central government established a special fund in order to deal with large-scale events such as natural disasters or the provision of financial aid to under-developed areas. In accordance with these principles, the central government set up a revenue and expenditure standard for each local government based on the financial statistics of 1979. Guangdong and Fujian provinces are classified as pilot units in which each local government was required to assume responsibility for meeting the "standard" goal, which was re-calculated in every five years¹³. Local governments whose annual revenue exceeded the goal turned over a portion of their surplus income to the central government; the remainder was used for their own local needs. Conversely, the local governments that had financial

¹³ According to different situation, the provinces in China were mainly classified into four types: Qinghai, Yunnan and Guizhou; Guangdong and Fujian; Beijing, Tianjing and Shanghai; the rest provinces. The specific regulation of each type slightly differs.

deficits were subsidized by the central government with money from the share revenue or the special fund. Due to the slow process of renewing the financial goals and because of the disbursement of special allowances from the central government, most of the local governments did not suffer fiscal deficits and enthusiastically promoted the growth of their local economies. However, because the amount of revenue to be received from the local governments was unpredictable, the growth rate of the central government's revenue was extremely erratic during that period (see Figure 1). The revenue stream of the central government at that time was closely related to and heavily dependent on the local governments.



Source: *Statistic Yearbook of Guangzhou*

Figure 1. Growth Rate of Revenue in China, 1978-2003

4.1.2 Tax-sharing System

The Tax-sharing System, also known as the System of Tax Distribution, was put into practice in 1994 and is considered to be the most crucial reform measure within the Chinese fiscal system so far. A uniform formula was adopted for the purpose of calculating revenue sharing across the nation to substitute for the hitherto bilateral bargaining between the central and local governments (Wong, 1995; Yeung, 1996). The new system divides taxes into those that are centrally collected, those that are locally collected, and those that are shared by the central and local governments. Most of the taxes which relate to economic development issues are classified as centrally collected taxes or central-local shared taxes. The locally collected taxes are those which are levied by local government. No substantial modifications were made to the expenditure field, which mostly retained the pattern of the Fiscal Responsibility System. Unlike that earlier system, the Tax-sharing System operates among central (taxes collected by provincial authorities) and city governments. The division of power below the city government level varies from city to city.

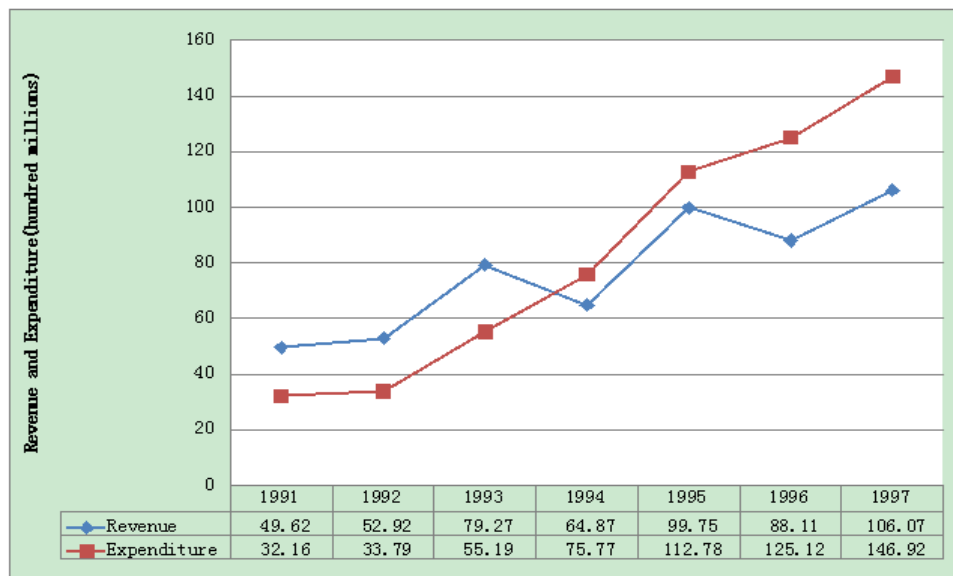
The creation of the Tax-sharing System had a significant impact on the revenue of local governments, especially at the city level. In terms of fiscal budgetary revenue, the former tax on products, which provided a significant share of local revenue, was transformed into a value-added tax and shared with central government in a proportion of 1:3. Moreover, a corporate income

tax was originally imposed by local governments; however, that changed after the reform to become a tax shared by central and local governments. At the same time, before the implementation of the Tax-sharing System, 73% of the total local income derived from taxation. This number dropped to only 49% between 1994 and 1999, and dropped further to 46.6% after 2000 (Cao, 2012). The degree of self-sufficiency displayed by local governments declined from 1.00% in 1993 to 0.24% in 1994, while the degree of central government increased from 0.78% to 1.84% in the same period.

Figure 2 clearly shows that the Tax-sharing System was a watershed of governmental revenue and expenditure in Guangzhou in 1994. Before 1994, annual revenue consistently exceeded expenditures, creating a favorable balance of payments. After 1994, the balance suddenly and clearly shifted from a state of profit to one of deficit, and the gap between expenditures and revenue steadily increased. Although the city's revenue was rising, the local government was required to pay more to the central government because of rapidly rising outlays.

Figures 1 and 2 illustrate that as compared to the era of the fiscal responsibility system, although the central government's income did not increase sharply, the reform relieved, to a great extent, the unstable income situation. By contrast, local governments suffered conspicuous financial deficits because of falling revenues and continually rising local expenditures.

The fiscal situation and the relationship between central and local government was changed tremendously. However, the vital advantage given to local governments as a result of this reform was the ability to gain fiscal autonomy and to decide to levy local taxes. Consequently, the local governments were forced to become more self-reliant and to finance their own operations; thus, they needed to make every effort to search for extra-budgetary financial revenue. Against this background, a series of further reactions by the local governments inevitably began to emerge. I will examine these and look at a case study in the next part.



Source: Statistic Yearbook of Guangzhou

Figure 2. Financial Imbalance in Guangzhou, 1991-1997

4.2 Polarization of urban space

Although the Tax-sharing System had some negative impact on the

revenue of local governments, as a result of negotiating with the central government, the local authorities were able to retain the taxes related to land value and real estate at the local level. The land use system favored the local governments regarding expropriation, modification, and transfer of state-owned land. Taking advantage of this situation, the local governments could expropriate agricultural land at a profoundly low price and then, with their approval authority, change the characteristics of its use; this practice was completely legal. They could then transfer the land at an unusually high price because of their prerogative of controlling the land market.

After the Tax-sharing System was implemented, two main revenue sources remained for local governments: value-added taxes and land sales. Value-added taxes here refer to either locally collected or shared value-added taxes. Local governments are keen to promote the growth of tertiary industries—in particular, high-density commercial development and service sectors—because these sectors can bring in value-added taxes and business-income taxes, which are now the main sources of local revenue (Wang & Li, 1997).

The most effective measure for increasing income from locally collected value-added taxes is to increase the number of local enterprises or local companies that are housed in the city. However, because every single local city government is more or less suffering from the same situation, and because

the number of effective solutions is limited as well, the competition for attracting new enterprise is extremely fierce between cities on both the regional and national levels. Consequently, all local governments must offer new businesses the most favorable policies possible. From the perspective of enterprises and companies, among preferential policies and sweeteners, nothing is more attractive than a bargain price on industrial land use; the local governments understand this better than any other level of government. Because the competition is so overheated, most of the local governments offer an industrial land use policy with very low prices in order to draw the attention of enterprises and companies; this practice has generally been seen as a successful strategy, though it may, at times, be a bit extreme. Previous research points out that in some cities, the price of industrial land is even lower than its the Primary Development cost. Nevertheless, such policies have aftereffects. After 1978, new regulations and reforms to the land use system were put into place by the Chinese government; one of the most notable modifications was the introduction of the market mechanism to the system of land use. As we know, the tenure of land and the right of land use in China were always combined and belonged to the government in the past. The land use market mechanism broke these combinations apart. Under the new system, the tenure of land belongs to the government, as always, but the right of land use was changed from free of charge to compensate and, more

importantly, could be held by a non-government-related enterprise or company for a limited period of time. According to the current rule of law, then, the low-cost industrial land use policy described above appears to be illegal; however, the price difference would be paid by the local governments themselves as a matter of course so that the enterprises being courted could still obtain the land at an extremely low price. That means that 'low-cost' was just a unilateral advertisement to potential customers; the local governments actually bought hundreds of pieces of land on their own and nominally transferred them to the enterprises and companies. These actions enabled the local governments to achieve their goals, but they also created an awful financial situation in the governmental budget.

Before I analyse the situation any further, I would like to use Guangzhou as a case study to see how the local government there reduced its prime cost. I compared the compensation the city received through expropriation and the urban benchmark land price, which is an average classification that displays the general prices of different kinds of land¹⁴. Each kind of land is further divided into 6 or 8 levels. The classifications represent the initial price of urban land, and they vary in each district of the city; they are established by the local government after the primary land development has taken place¹⁵. The

¹⁴ In China, the benchmark land price is divided into commercial land price, residential land price, and industrial land price.

¹⁵ Primary land development refers to the basic development of land including housing demolition and relocation, land leveling project, etc.

benchmark land price is in effect for a specified period of time. It does not represent a standard rate, but rather a basis for land price evaluation. Based on this foundation, and taking into account other features of the plots of land in question, the price of every land transaction is established¹⁶.

Table 1. Benchmark Prices in Guangzhou (2007, 2009, 2011)

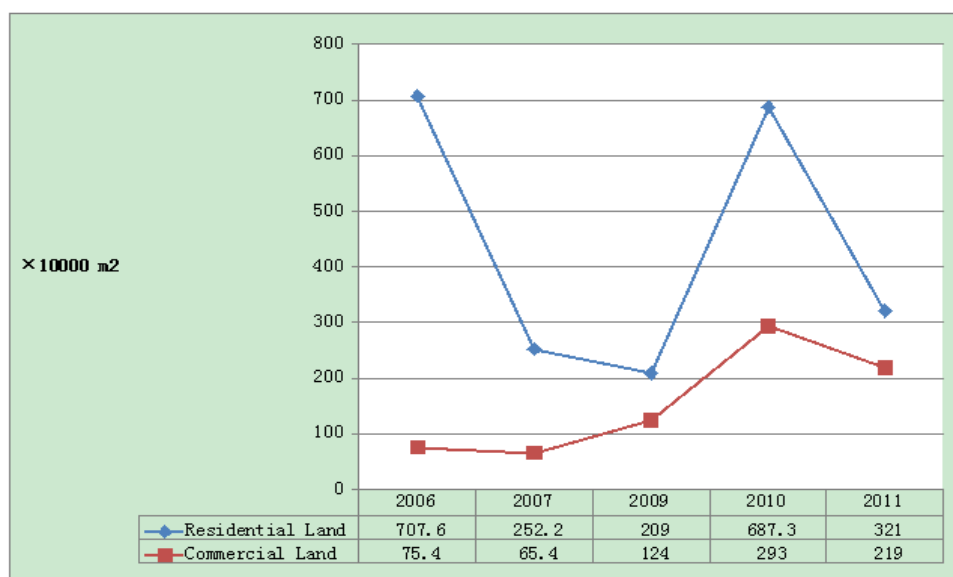
Benchmark Price of Commercial Land (RMB)					
	2007	2009	Growth Rate compared to 2007 (%)	2011	Growth Rate compared to 2009 (%)
Level 1	19505	20420	4.69	29991	46.87
Level 2	12758	14626	14.64	18334	25.35
Level 3	10354	11639	12.41	13840	18.91
Level 4	8904	9036	1.48	8654	-4.23
Level 5	5373	5466	1.73	6486	18.66
Level 6	3484	3758	7.86	4664	24.11
Level 7	2532	2626	3.71	2957	12.60
Level 8	1140	1568	37.54	1564	-0.26
Benchmark Price of Residential Land (RMB)					
	2007	2009	Growth Rate compared to 2007 (%)	2011	Growth Rate compared to 2009 (%)
Level 1	4342	5526	27.27	9181	66.14
Level 2	3633	4449	22.46	7499	68.55
Level 3	2738	3364	22.86	6142	82.58
Level 4	1793	2302	28.39	4353	89.10
Level 5	1131	1584	40.05	2821	78.09
Level 6	598	862	44.15	1659	92.46
Level 7	286	373	30.42	701	87.94
Level 8	181	233	28.73	446	91.42

¹⁶ 3. Other features include size, scale, plot ratio, and maximum service time limitation.

Benchmark Price of Industrial Land (RMB)					
	2007	2009	Growth Rate compared to 2007 (%)	2011	Growth Rate compared to 2009 (%)
Level 1	1323	1341	1.36	1419	5.82
Level 2	832	850	2.16	900	5.88
Level 3	646	655	1.39	679	3.66
Level 4	601	602	0.17	599	-0.50
Level 5	462	441	-4.55	449	1.81
Level 6	357	358	0.28	358	0.00
Level 7	307	309	0.65	309	0.00

Source: Guangzhou Statistical Bureau (2007, 2009, 2011)

In the case of Guangzhou, the government established the first benchmark land price in 2004 and renewed it in 2007, 2009, and 2010 (see Table 1). In 2010, according to the compensation formula, a piece of expropriated land would have cost the government 120 thousand RMB per 100 square meters. If that land were then re-categorized as industrial land, its price would have been 449 RMB/m² according to the benchmark land price, dropping its value to 45 thousand RMB, just over one-third of the compensation price. Clearly, the basic industrial land price is much lower than the compensation for expropriation, and adding to the financial loss is the fact that the local governments are required to pay the development costs, as well.



Source: Statistic Yearbook of Guangzhou

Figure 3. Land-assignment plan in Guangzhou, 2006-09, 2010-11.

In order to cover their budget deficits, the governments pin their hopes on auctions of profit-making land for residential and commercial use. Unlike the strategy of transferring industrial land by negotiating with enterprises, the local governments make use of their monopoly of the land market to obtain tremendous benefits (see Figure 3). In the first instance, they aggressively expropriated agricultural land and then reclassified its use as commercial and residential through a simple procedure. In Guangzhou, the area of agricultural land sharply declined from 247 km² in 1990 to only 158 km² in 2006¹⁷; this represented a loss of nearly 90km²—nearly one-tenth the area of Berlin. At the same time, the local governments cornered the land use market and were forced to transfer the land through much more competitive approaches, such

¹⁷ Source: National Bureau of Statistics of China.

as and bid. The local governments became much more aggressive after 2002, when a new regulation was put into place by the Ministry of Land and Resources of China; the new rule dictated that all commercial land must be transferred by public auction. This regulation has been responsible for the advent of outrageous land prices.

By using a market mechanism, the government cannot directly control the final prices attained by regular auction. What they can do is make every effort to stimulate the determination of the bidders in order to drive the knocked-down prices as high as possible. If the bidders have a great interest in those plots which are truly worth developing and which will provide a profitable return, they tend to battle each other by offering prices that exceed expectations. When that happens, the goal of the local governments is achieved, albeit by a different approach. Thus, the local governments can successfully affect land prices through their political influence.

In Guangzhou, the government spares no effort to publicize the developing direction of the future city centre to be located in the urban space currently occupied by Pearl River New Town; in addition, it continues to improve its public service facilities in order to demonstrate its spirit of cooperation to potential developers. One official planner commented on this type of government behavior, asserting that the governments of the Top 500 cities of the world could attract more development if they would follow China's

lead, since the development firms in cities such as Guangzhou are, in essence, offered a guaranty of cooperation by the local government. Meanwhile, the government of Guangzhou also concentrates on enhancing the qualifications of its land and on increasing the index of development¹⁸; in addition, it is also dedicated to constructing and improving the infrastructure around the plots it is selling. Moreover, with the aid of advance media, the local government strives to build positive public opinion regarding such sales in order to give bidders confidence that the local government places much stress on the areas as part of a crucial future development strategy.

Urged on by such serious stimulation measures by the government of Guangzhou, prospective purchasers become deeply interested and eager to pursue the land deals by bidding unheard-of prices — which might be several times higher than the real value of the plot—and breaking previous high selling-price records. These highly valued plots are known as “The King of the Land”. As I can conclude from Table 2, the price of ‘The King of the Land’ plots increased nearly tenfold from 2005 to 2012. Even during the economic crisis of 2008, the highest price for commercial land still increased by almost 40%.

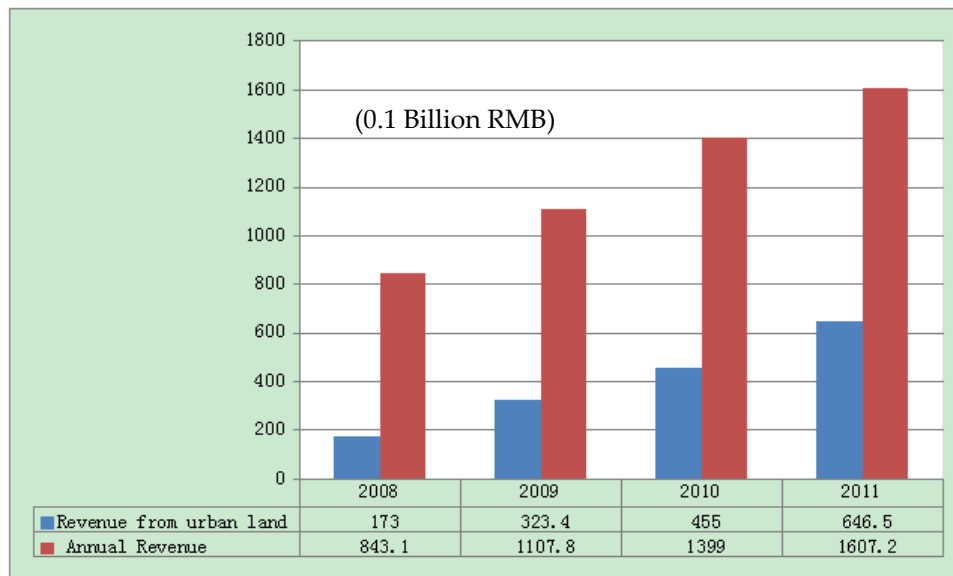
¹⁸ Otherwise known as plot ratio. This statement was taken from an interview with a planner in Guangzhou’s Bureau of Urban Planning.

Table 2. Highest Land Prices in Guangzhou, 2005-2012

Time	Land Value in terms of per Unit Floor Age (RMB/m2)	Type of Land
2005.03	3348	Commercial
2005.12	3595	Residential
2006.02	4725	Commercial
2006.09	4467	Residential
2007.02	5891	Residential
2007.03	6321	Residential
2007.03	7082	Residential
2007.07	9456	Commercial
2007.09	18729	Residential
2008.01	13053	Commercial
2009.06	15324	Commercial
2010.11	17200	Commercial
2010.12	19971	Commercial
2010.12	20605	Commercial
2011.07	17933	Commercial
2012.06	32968	Commercial

Source: Bureau of Urban Planning of Guangzhou

Taking Guangzhou as a case study, I have explored the ways in which the local governments maintain their revenue, play a crucial role in the overall reaction chains related to land use, and create high values for commercial and residential land (see Table 1). I will continue to further explore the outcomes of these actions.



Source: Statistic Yearbook of Guangzhou

Figure 4. Annual Revenue and Revenue from Urban Land in Guangzhou, 2008-2011.

Figure 4 reflects the relationship between annual revenue and revenue from urban land in Guangzhou. We can see clearly the significance of the proportion of land finance in the urban economy as a whole, as it rises from 20% in 2008 to over 40% in 2011. In other medium-sized cities of China, this proportion may rise even higher, to approximately 70%, if the cities lack other sources of income. It may be argued that for raising revenue, such local government actions are extremely successful.

However, the result of land value change has further influence on the urban spatial form. I will focus once again on the benchmark prices of Guangzhou (see Table 1) because they provide the most immediate reflection of the current value of urban land. There has been vigorous debate in recent years over whether the benchmark land price actually affects land value. From

the perspective of local government, there is no positive answer to such a question. The governments believe that under the market mechanism of the land-use system, the benchmark land price has little influence on the bargain price of the land at auction, since that price is usually several times higher than the base price. This belief seems rather reasonable, and up to this point, I have not acquired direct data that would confirm such a connection and impact. However, as we know, land is a scarce resource during the process of urban development, especially in a city's core region. Every single land transaction means one less undeveloped plot in urban space and another loss of a potentially precious opportunity for developers. It is a signal from the government rather than a trigger to raise land prices. Although the benchmark land price simply mirrors the added value in previous periods, the climbing price impels the real estate project to increase in value.

At this point, I will convert the data with the aim of presenting a more visual comparison. In this study, I calculate only from Level 2 to Level 5 because these are the inner city areas, and I use data only from 2007 and 2011. Using the Level 1 price for each kind of land in each year as a radix, I firstly use equation (1) to generate two ratios in 2007 and 2011, respectively:

$$a_i = \frac{L_{i(2007)}}{L_{1(2007)}} \quad b_i = \frac{L_{i(2011)}}{L_{1(2011)}} \\ \text{(where } i = 2, 3, 4, 5)$$

(1)

Then, I use equation (2) to determine another ratio:

$$P_i = \frac{a_i}{b_i}$$

(where $i = 2, 3, 4, 5$)

(2)

where P_i is the polarized degree of Level i of the corresponding land.

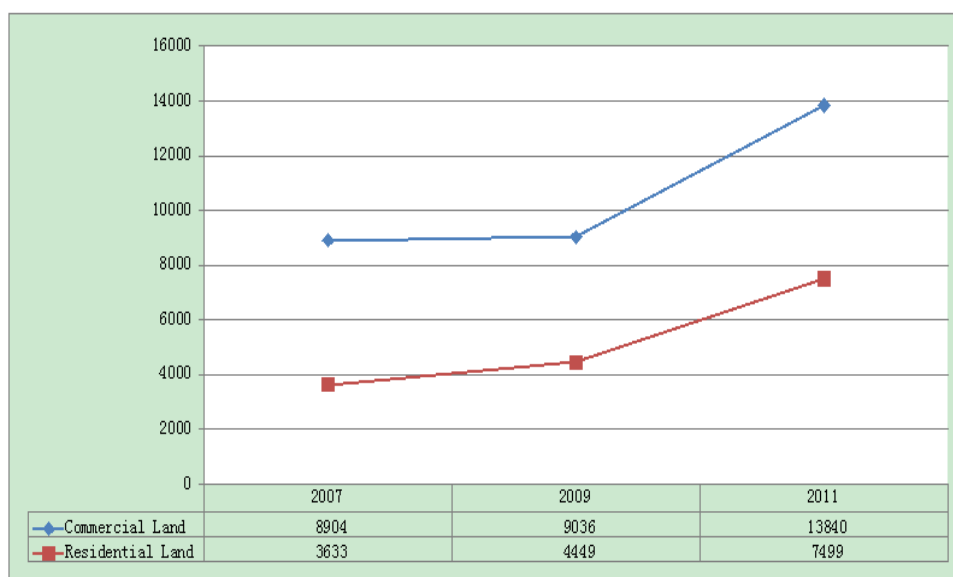
The results of applying equations (1) and (2) with further arrangements are shown in Table 3, which shows the specific values between two identical levels at different times. It may be understood that the positive numbers represent an increasing price gap between a particular level and the first level of land, while the negative numbers represent a shrinking in price related to the first level of land. The commercial land results display an obvious trend in which each level of land is increasing the distance from the top; in other words, there is apparently a polarization process underway in the commercial land arena. By contrast, the gaps between levels of residential land are gradually becoming smaller, although on the surface, prices have evidently increased. As for industrial land, in comparison to commercial land, a minute polarization is manifested.

Table 3. Polarization of Urban Space in Guangzhou

	Commercial Land	Residential Land	Industrial Land
Level 2	0.07	0.02	-0.01
Level 3	0.15	-0.06	0.02
Level 4	0.58	-0.13	0.07
Level 5	0.27	-0.16	0.10

Source: Author, based on the data from Table.1 and equation (1) and (2)

I take the area of Pearl River New Town as a study example. According to the list of benchmark prices, the land in this area has shifted from Level 4 in 2007 to Level 2 in 2011. The study above indicates that regarding the levels of commercial land, the higher the level, the more unique the plot appears. We can easily understand that the bidders and developers, who buy the plots at extremely high prices in such areas, must consequently develop exclusive and advanced real estate projects in order to reap generous returns. It is predictable that with high land value and a polarized situation, the future of such projects could lie in commercial buildings with perfect office facilities, high security, impressive views, and comfortable office environments or in luxurious hotels and exclusive residential areas enhanced with high-end decor and circumspect management service.



Source: Statistic Yearbook of Guangzhou

Figure 5. Average Land Price in Pearl River New Town (RMB/m²)

Thanks to the ‘efforts’ of the local government, Pearl River New Town, one of the highest land value areas in Guangzhou, is becoming the new de facto city centre, including as it does 22.4% of the Grade A office stock in Guangzhou. Having raised from 90 RMB/m² in 2005 to 185 RMB/m² today, the rent on Grade A offices in Pearl River New Town stands at the peak of Guangzhou rental rates. Meanwhile, an aggregation of luxurious hotels has emerged there in recent years; these include more than ten super-deluxe five-star establishments such as Four Seasons, Park Hyatt, W Hotels, and Conrad. This situation contributes to the most extraordinary polarized distribution of hotels in Guangzhou. Moreover, the planning process includes another interesting phenomenon: Since 2008, the department of planning has granted and authorized a modification to the height limit of several plots in the

area. The most significant alteration could be the one that resulted in the construction of a building 108 meters tall in 2010. Accordingly, the skyline in this area will be even higher than specified in the original plan.

This is the end of the reaction chain that has emerged thus far from the fiscal system according to our study. The results, a higher skyline and a concentrated distribution of Grade A offices and luxurious hotels, are the local places which provide opportunities and space for external influences—known as the space of flows—to interplay and further affect the characteristics of urban space. They can also be considered as the conditions necessary for the process of globalization to succeed in Guangzhou.

The subsequent positive relationships or interactions between Grade A offices and an agglomeration of financial sector and foreign companies, between hotel aggregation and frequent business activities or growing numbers of foreigners, between a high skyline and similar designs by global architecture firms or the establishment of a reputation for being a global city have been adequately analyzed and established by many researchers and are not the focus of this study.

4.3 Headquarter economy

In 2009, the municipal government developed a master plan leading towards a headquarter economy for Guangzhou; the plan drew a fabulous development blueprint for the future and further attracted potential enterprises

with preferential policies and support for projects. The government supported its vision with practical actions, as well. In May of 2009, a commercial plot located in Pearl River New Town was sold at auction. Its base price at auction was fixed at 3500 RMB/m² in comparison with a nearby plot that had commanded the highest base price of 11,000 RMB/m² in 2007. Even during the depression of 2008, the lowest base price in the same district was 6000 RMB/m². But to take advantage of the plot's rock-bottom price, the ambitious bidders had to agree to a number of conditions, three of which might be particularly interesting to the readers. First, it was required that the bidders be securities or futures companies which had legal licenses in China. Second, it was prescribed that the final transferee's headquarters must be registered beforehand in Guangzhou. And third, the final transferee's enterprise had to have paid at least 2 billion RMB in taxes in the previous year. Such preconditions made it clear that this plot of land was intended to attract major companies that would establish their headquarters in Guangzhou; the deal was a concession from the Guangzhou government, which was making every effort to build up a headquarter economy in the city. The financial incentives were marketing tools, as well. In 2011, the municipal government of Guangzhou began a five-year investment of over 5 billion RMB dedicated to raising the enthusiasm of relevant companies. A premium of as much as 50 million RMB instantly materializes when each company headquarters is

established or relocates to Guangzhou.

It seems, on the surface, that by instituting all these measures and awards, the Guangzhou government demonstrated its intent to promote a headquarter economy in its city, a move which is suited to the current phase of its economic situation. The foreword of the city's master plan for the development of a headquarter economy states that

...according to the experiences abroad, a headquarter economy is advantageous to high-end resource aggregation and international competitiveness ... Guangzhou can be developed as a competitive global city by virtue of a headquarter economy. (Master Plan of Headquarter Economy, Guangzhou, 2009, p.2)

Before 2008, correlative records or reports on the headquarter economy were rare in Guangzhou. Though several proposals regarding such a strategy had been made, they were all put forth by the local bureau of foreign trade and economic cooperation. Ironically, at the beginning of 2008, less than 20 days after the new taxation law was put into force, the mayor of Guangzhou and the managing director of the local taxation bureau both delivered speeches which mentioned the headquarter economy as well as their belief that

under the new enterprise income tax law, consummate financial benefits will be obtained by stimulating a headquarter economy rather than any other type. Guangzhou must seek this opportunity to further strengthen the local fiscal situation.

In this context, we can infer that one of the government's genuine purposes for showing such enthusiasm towards a headquarter economy was

to further boost local revenue. Since such a development strategy closely interrelates with a taxation system, it is worth discussing how the new taxation system executed in 2008 influenced local finances and local governmental strategy.

The new enterprise income tax law of the People's Republic of China was put into effect in 2008; it included various momentous reforms of taxation policies. One of the most significant was the brand new stipulation regarding the place to which companies were to pay one's taxes. For instance, businesses and enterprises were required to submit their taxes to the city where they had initially registered; enterprises which registered abroad were to pay their taxes to the city where their administrative sectors were located. Under these rules, the cities where these companies' production and service departments were located could be confronted with enormous cuts in tax revenues; meanwhile, the cities that originally housed the companies' management sectors would benefit from a tremendous increase in tax income. Although there were official agreements made regarding tax revenue distribution between the cities with management sectors and the cities with other departments, the headquarter economy has already, by degrees, become a key economic strategy of every single city in order to maintain tax revenue. Previously, city governments preferred to attract production sectors because of direct and prohibitive taxation revenue. However, after the new tax

law was implemented, most urban administrators became fully aware that the former objectives they had been pursuing had suddenly become profitable resources for other cities. The government of Guangzhou clearly understood the gravity of the situation and took immediate actions, as described above, to attract the attention of enterprises that might possibly locate their head sectors in Guangzhou. According to the statistics bureau of Guangzhou, only 20 new companies located their semi-quarters or headquarters in Guangzhou in 2010; by 2012, however, this number had increased to 86.

I will not deny the premise that the existing economic situation in Guangzhou accommodates a headquarter strategy. In addition, I should also admit that along with the discipline of economic development, the headquarter economy is probably the next alternative strategy that will benefit urban development in the future. Nevertheless, the causality and trigger that would convince urban administrators to put such a strategy into place could be the reform of the taxation system or, to be more precise, the contest for the taxation resources which concern every government's vital interests.

4.4 Branch companies

According to the new tax law, business enterprises¹⁹ that are established by foreign investors and that have legal corporate status in China will become

¹⁹ Including joint venture, cooperative and foreign-funded enterprises.

legal resident taxpayers and will be taxed on both their inland and overseas incomes. If the business in question is a branch company set up by a foreign enterprise, the branch will be a non-resident taxpayer and will pay taxes only on its inland income. Under this law, it will be more advantageous for a foreign enterprise with the goal of business expansion in China to first establish a branch company rather than any other corporate form, such as a subsidiary company.

The level of taxation for foreign companies and enterprises has also been lowered by the new tax law, which combines the tax ratio of both interior capital enterprise and foreign capital enterprise into a 25% bracket²⁰. Therefore, foreign enterprises continually seek new, legal methods to avoid taxation and reduce their proportion of tax cost. One of the methods they consider is a modification of corporate structure. Under the new tax rate regulations, especially if a company is in a deficit situation, it will reap many more benefits from setting up a branch company rather than a subsidiary company; the losses experienced by such a branch company can be integrated into the profits of the parent company, then to pay the tax after general countervailing which the subsidiary company doesn't have.

²⁰ Former tax rate for foreign capital enterprises was 15% compared to 33% for interior capital enterprise.

Table 4. New Branch and Cooperated Companies in Guangzhou, 2007-2009

	New Branch Companies	New Cooperated Companies
2007	666	756
2008	784	866
2009	842	729

Source: Guangzhou Municipal Board for International Investment

To make further comparisons between branch companies and subsidiary companies, many researchers believe that the branch company has more external connectivity with the parent company, which has consistent appellation, the same operation, analogous administrative procedures, a relationship of absolute domination, and 100% proprietorship of the branch company. In contrast, the subsidiary company is a much more local entity, though the parent company has the same oversight that it does in the case of the branch company. However, the subsidiary company is more closely related to the local environment in terms of scope of business, finance, and regulation of management. The parent company usually only takes charge of personnel assignments, and it holds most of the stock.

With the help of the interlocking connectivity model from Peter Taylor (2005),

$$C_a = \sum_j \sum_i v_{ia} \cdot v_{ij}$$

(where a does not equal j)

where C_a is the interlock connectivity of city a. We can easily verify that the existence of either headquarters or branch companies (see Figure 5) is propitious for reinforcing the connectivity of a city.

4.5 Chapter conclusion

To be considered a global city, a municipality must display a number of standard characteristics (Friedmann, 1995; Sassen, 2001; et al.). The track and process vary from city to city according to their different situations, especially at the very beginning. However, no matter how different at the start, during the process there must be articulations between the external and internal environments so that the space of flows coming from abroad can interact with local space. Globalization itself has been thought of as a process that involves little or no governmental intervention. As Castells (2010) claimed that it rarely has the political capacity for autonomous decision making as a metropolitan region, it can hardly implement redistributive policies on behalf of the needs of the local population. Some of the prevailing wisdom suggests that the role of government in the globalization process has been reduced. However, governments today can play a crucial role in such processes against a certain background, especially in the megacities of developing countries. In

most cities in these countries, the process of achieving more global connectivity is not only the consequence of the pure market economy as it is in the current global cities, but is also, in most cases, the result of a combination of local policies and global flows.

Most of the policy reforms, especially those that are fiscal and tax-related, have no immediate influence on other factors of globalization. However, such reform inevitably initiates a series of social variations and consequently triggers further chain reactions which are unforeseeable and which probably emerge in more places than just the primary field of the reform, which is not the government's original purpose. Occasionally, unpredictable reactions force the city and the urban space into new social orders or phenomena which correspond with the characteristics of current global cities; these reactions, therefore, become a process that is contemporaneous with current globalization.

In the case of Guangzhou, the central government of China has put into place a major reform regarding fiscal practices, taxation, and land use, among other areas. Some elements of the reform can be traced back to the 1980s, when they were intended to modify the systems that were in place at that time.

In 1994, the reform of the fiscal system with a process called the tax distribution system was carried out with the purpose of re-organizing the financial statuses of and the relationship between central and local

government. The effect was unquestionably conspicuous because of the re-controlling fiscal authority of central administration. However, due to the resultant sharp reductions in revenue and the persistent high level of expenditures, the local government of Guangzhou had to seek other methods for maintaining the city's financial balance. Since the major sources of income were suddenly restricted by the fiscal reforms, the local government faced an intense struggle related to the factors of value-added taxes and land sales. As discussed above, when combined with urban land use reforms, these changes to the sources of government revenue triggered a series of impacts which were transferred, step by step, from financial issues to urban land prices. Ultimately, the reaction chain resulted in a high-priced polarization of urban commercial land in the Pearl River New Town area of Guangzhou, where a convergence of extremely exclusive and advanced real estate projects is emerging and segregating itself from other districts in terms of its office buildings, luxurious hotels, and higher skyline. These are, more or less, the conditions necessary for globalization, as they open a space in which external influences can interact with the local factors.

Likewise, the original intention of the taxation system reforms in 2008 was essentially to unify a consolidated tax criterion which was previously in a multifarious situation. However, due to the new regulations that required tax payments from the administrative section of each company and enterprise, the

reforms initiated furious competition among local governments vying for tax resources. The headquarter economy, especially in the service sector, was thus given great importance by urban administrators eager to attract principal offices by offering an enticing blueprint and preferential policies.

Another impact of the reforms is that, according to new regulations directed at corporate structure, it is more advantageous for a foreign enterprise seeking to expand its business in China to first establish a branch company rather than another entity, such as a subsidiary company. The impact of the reform in this arena is made evident by noting that the number of branch companies in Guangzhou suddenly increased in year following the initiation of the reform. Both a headquarter economy and an increase in the number of branch companies can provide benefits to the global status and connectivity of Guangzhou.

To summarize our conclusion, whether the tax distribution system or the new law of taxation, such reforms by the central government significantly impact the revenue of local governments, causing a dramatic decrease in annual income and a financial burden at the local level. It is the governmental system itself that induces the local administrators to respond to the reforms in order to maintain such enormous fiscal deficits. This is the initial and ultimate purpose of the aggressive stance taken by the local governments in order to develop their economies. Some of the subsequent reactions from local

governments may coincidentally induce a well-timed condition which is more like an appropriate integration hub where the influential 'flows' coming from all over the world could synchronously interact with the local factors, fulfilling the prerequisites for advancing global connectivity or, at least, being considered a globalizing process. Even if the interactions between global and local factors are sometimes simply outcomes of the market economy, they could also, to some extent, benefit from the type of policy that acts as a trigger to accelerate and reinforce.

In this context, it is also possible that the government-oriented globalizing process in Guangzhou is relatively unstable and will be swiftly remodeled by the next political reform. Thus, unlike the situation under the market economy in other global cities, the governments of China, both central and local, intervene and influence the cities before they are allowed to operate independently within the global networks. Even some of the analogous development features of globalization were generated from a totally incongruous purpose. In other words, at the very beginning of the globalization process, they represent an initial discrepancy and a dissimilar process.

Chapter 5 Analysis of spatial distribution and effect factors in CBDs

Just as the introduction of Chapter 1, there are three CBDs around the history of Guangzhou and I have explained the reasons why such areas become polarized in the last chapter. It is time to go further to push the discourse within a spatial perspective.

5.1 Spatial distribution features of three CBDs in Guangzhou

I divide the different types of land use into six categories: administrative, commercial and business, residential, public space, infrastructure, and tourism. Administrative land refers to that which is used for government offices, official organizations, social groups, and NGOs. Public space refers mostly to large areas of green space. Here it should be noted that Tianhe Sport Center is classified as a public space as its function is mainly as a free space for entertainment and leisure, even if it hosts occasional sports matches. The construction of infrastructure includes medical and public health services, schools, museums, libraries, theaters, and so on. Meanwhile, land use for tourism involves places of interest and space serving tourists, such as hotels and restaurants.

Each area will be first analyzed into six types of land use, and the proportions will be described as percentages (See Table 5, 6 & 7.)

Table 5. Land use situation in Huanshidong Road

Huanshidong Road	Acreage (hectare)	Percentage in Total (%)
Administrative	0.8	1.81
Commercial & Business	14.1	31.83
Residential	5.2	11.74
Public space	3.4	7.67
Infrastructure	7.2	16.25
Tourism	13.6	30.70
<i>TOTAL</i>	<i>44.3</i>	<i>100</i>

Source: Planning research of municipal public centers system for Guangzhou (2009)

Table 6. Land use situation in the Tianhebei and Sport Center District

Tianhe Sport Center	Acreage (hectare)	Percentage in Total (%)
Administrative	3.1	2.52
Commercial & Business	61.4	49.92
Residential	16.5	13.41
Public space	29.6	20.07
Infrastructure	4.6	3.74
Tourism	7.8	6.34
<i>TOTAL</i>	<i>123</i>	<i>100</i>

Source: Planning research of municipal public centers system for Guangzhou (2009)

Table 7. Land use situation in Pearl River New Town

PRNT	Acreage (hectare)	Percentage in Total (%)
Administrative	6.8	4.07
Commercial & Business	59.4	35.59
Residential	44	26.36
Public space	23.8	14.26
Infrastructure	28.3	16.96
Tourism	4.6	2.76
<i>TOTAL</i>	<i>166.9</i>	<i>100</i>

Source: Planning research of municipal public centers system for Guangzhou (2009)

It is interesting to see the table of land use classified according to percentages (see Table 8). All three CBD areas represent a different story. Huanshidong Road, the oldest central business district, constitutes the highest proportion of commercial and business, infrastructure, and tourism. In particular, the ratio of tourism facilities is ten times greater than in Pearl River New Town and almost five times greater than the Tianhebei and Sport Center District. The main composition of the Tianhebei and Sport Center District is commercial and business, residential, and public lands. In Pearl River New Town, commercial and business, residential, and infrastructure constitute the biggest part of land use.

Table 8. Comparison among the three CBDs in land use percentages

Type of Land Use	Huanshidong Road	Tianhebei and Tianhe Sport Center	Pearl River New Town
Administrative	1.81	2.52	4.07
Commercial & Business	31.83	49.92	35.59
Residential	11.74	13.41	26.36
Public space	7.67	20.07	14.26
Infrastructure	16.25	3.74	16.96
Tourism	30.70	6.34	2.76
Plot Ratio	2.79	2.06	5.93

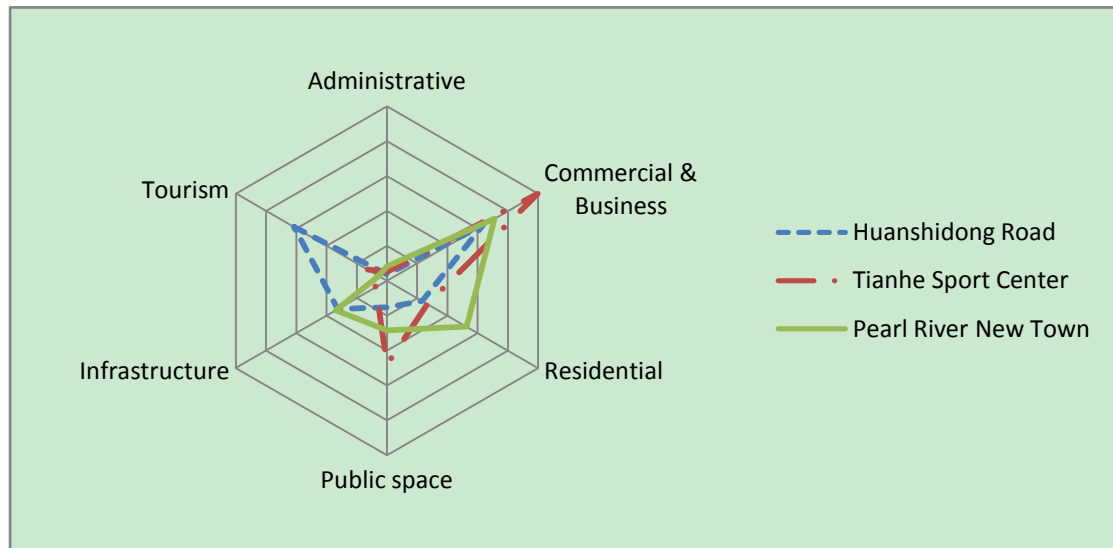
Source: Author, based on the data from Table.5, 6 & 7.

The most striking contrasts are displayed when comparing horizontally, showing many changes across the three CBD areas. First of all, the administrative land increases from 1.81% in Huanshidong Road to 4.07% in the PRNT. This shows a tendency of raising the profile of government-oriented land, which becomes more evident in recent times. Secondly, although the proportion of commercial and business land use continues to be the largest part of each CBD areas, the actual numerical value varies: The Tianhebei and Sport Center District has nearly half its land use tied up in commercial and business functions, while the equivalent percentage is 31.83% in Huanshidong

Road and is 35.59% in the PRNT. Indeed, the Tianhebei and Tianhe Sport Center area has the highest percentage for such land use (37.39%). Meanwhile, dwelling space in the three areas shows a rising trend, as well as use of administrative land. In Huanshidong Road, only 11.74% of land use is living space, while this number reaches 13.41% in the Tianhebei and Sport Center District. It peaks at 26.36% in the PRNT, which means that more than a quarter of land use is devoted to residential purposes. As for public space, the Tianhebei and Sport Center District leads with the highest proportion of 20.07% thanks to the sport center built at the beginning of the 1990s. Moreover, Huanshidong Road and Pearl River New Town contain similar percentages of infrastructure of around 16%, compared to only 3.74% in the Tianhebei and Sport Center District. However, half of the infrastructure land in the PRNT eventually became a theater, a library, a children's palace and a museum, while schools and hospitals are the main components in Huanshidong Road. Finally, as mentioned above, the proportion of land devoted to tourism drops dramatically from 30.7% in Huanshidong Road to just only 2.75% in the PRNT.

According to the table, each CBD area leads in at least one type of land use. Huanshidong Road area has the largest land use for tourism; while the Tianhebei and Sport Center District has the highest commercial and business land use and public (greenbelt) land use. High percentages for administrative, infrastructure, and residential land appear in the PRNT. Such differences,

revealed clearly in the hexagonal graph, show a prominent transformation in land use among the CBD areas in the city of Guangzhou (see Figure 6).



Source: Author, based on the data from Table.8

Figure 6. Comparison of the land use situation in three CBDs

Based on the most important function of each of the three areas, it is unquestionable that they should be called central business districts as the commercial and business land use of each comprises the largest proportion of any of the land uses. However, there are still some interesting tendencies and phenomena that emerge, some of which need to be focused on. In Huanshidong Road and the Tianhebei and Sport Center District, there is only one more distinct land use function apart from commercial and business. That is, either tourism or public space. In other words, these areas have conspicuous functions and features. The Huanshidong Road area was the concentration zone of hotels due to the advantages of location where the old

Baiyun international airport, Guangzhou railway station and the Canton fair²¹ are nearby. It thus became the area with the most foreign activities in Guangzhou. Because there wasn't a particular CBD area in Guangzhou before, Huanshidong Road certainly turned into a main business district by means of its reputation of foreign connection. While the development of Tianhebei and Sport Center District mainly relied on the 6th National Games of China in 1987. At that time, the large stadium area significantly caught the eyes from everyone and it was the first time that the tendency of urban development was focused on the east part of Guangzhou. This led to the later aggregation of commerce and business as well. Even at the present time, the Tianhe Sport Center is still a key symbol of Tianhe area and plays always as one of the most important elements during the history of Tianhebei and Sport Center District.

The situation in Pearl River New Town is different to some extent, although commercial and business is still the key function, as with the others. Yet this proportion is less when comparing it to the Tianhebei and Sport Center District. Meanwhile, the land use for administrative, residential, and infrastructural purposes has reaches its highest ratio in the CBD history of Guangzhou. The tendency is clear that the PRNT has gradually become a highly multi-functional area and is not a pure economic core as originally

²¹ The Canton Fair is a trade fair held in the spring and autumn seasons each year since the spring of 1957 in Guangzhou, China. Its full name since 2007 has been China Import and Export Fair, renamed from Chinese Export Commodities Fair, also known as Canton Fair.

planned.

Pearl River New Town was the first officially named central business district when the master plan was put into effect, but it has ultimately turned into a multi-land use area, with a shrinking business space. In Chapter 4, I have explored how this area has become polarized by studying the fiscal and taxation policy. In this chapter, I continue to concentrate on policy affairs in relation to the process of building the PRNT and how it has led to the current situation. I bring it down to the micro level in order to further analyze the land development policy.

5.2 Unscrambling decrees of land development

In China, the development of urban land usually proceeds in two main phases, known as the Primary Development and Secondary Development²².

Briefly, the Primary Development is operated by city governments. One main purpose of such a land use procedure is to centrally acquire, collect, and re-organize initial urban land, which will be further developed into so-called “standard land” to be ready for the Secondary Development.

The Secondary development refers to the practical construction on land

²² The Primary Development and the Secondary Development are used as proper nouns. In a more comprehensive expression, the Primary Development is actually a transformation of land use type process; while the Secondary Development is generally a construction land use process. The author keeps using proper nouns in this dissertation in order to emphasize such special land developments in China and to let the readers easily understand the time series of them.

that has undergone the Primary Development. It is normally carried out by different real estate companies. The trading of land use rights is a commercial function under a market mechanism, which may lead to an unforeseeable result in relation to the final winner. Through competitive bidding and auction, developers gain the right of land usage for a certain period of time. Then they can carry out large commercial or residential projects on such lands and conduct further operations on them.

Compared to the Primary Development, the Secondary Development provides a greater possibility of quick and high-profit returns. The Secondary Development project usually just relates to a plot while the Primary Development by comparison relates to a regional area in most cases. Meanwhile, the Primary Development also includes underlying cables and sewers, which is more complicated and more difficult work than the Secondary Development, as it requires the close integration of relevant departments.

It seems on the surface that Primary and the Secondary development are two individual processes; however, they have an embedded relationship in practice. Moreover, there is a series of national policy reforms being carried out around these two processes, and this has led to a new form of spatial distribution in Guangzhou.

5.2.1 The Primary Development

The Primary Development is not only just a physical improvement process in relation to land use. Other issues are likely to be involved, such as expropriation, transformation, and compensation. Each of these can result in critical social problems. Moreover, they might also relate to regional development and land use master planning. In a word, the Primary Development is not a simple process. As stated, it generally takes place under the control of a city government as all land in China belongs to the nation.

Generally, there are three distinct phases in the history of the Primary Development in China.

1. 1996–1999

Before this phase, the phrases “Primary Development” and “Secondary Development” did not exist. A series of land re-arrangements first took place in Shanghai and Hangzhou in 1996, and these were considered as an embryo of the Primary Development. However, it was just a combination phase of land development. To gain the right of land usage by contract, promoters had to develop the land by themselves, including taking ownership of the land, demolition, compensation, and then, later, construction. Furthermore, there were no laws or regulations relating to the Primary or Secondary development during this phase.

2. 1999–2002

This phase is a transition period of land use development, when the Primary Development was becoming regularized. Due to the gradual standardization of the land use market in the Secondary Development, some promoters began to specialize specifically in developmental processes of land. It is worthwhile noting that during this phase; most primary promoters achieved the right of land usage directly by contract from the government. As a result of a lack of competition, the effect of the Primary Development was not as smooth as anticipated. Another outstanding feature of land development during this period was the foundation of the land banking system in major cities. Some city governments even set up an exclusive institution to manage land development.

3. 2002–2006

The most significant feature of this period was the application of the law on land development procedures by all city administrators. Moreover, regulations, covering such areas as organization, contract intention, project acceptance, and capital management, were also carried out in succession in order to further standardize the Primary Development market. In 2002, Peking was the first city to establish the Interim Measures for the Administration of Land Development. As with the Secondary Development of land, the promoter

of each project must be determined by the institution of land banking through public bidding. It was also considered to be a symbol that stood for the eventual separation of the Primary and the Secondary development.

Financial issues are a potential bottleneck but, nevertheless, one of the key elements to success in the Primary Development. Financial issues encompass the following features:

1. A Primary Development project usually requires enormous financial resources. It is possible for a Primary Development to cost billions of RMB²³.
2. The Primary Development contains at least three or four procedures, which may last more than two years. Thus, the capital for the Primary Development is also required over a long period of time.
3. For the same reason as above, the capital for the Primary Development is invested separately on a step-by-step basis rather than as a one-off payment. Therefore, this can easily result in a financial lack at a later period or a lay-aside situation.
4. The Primary Development also involves a long payback period. Sometimes it takes several years for the promoters to recoup all the prime costs and a profit.

Due to these features, the Primary Development requires an extremely rigorous financing process; as a result, only rarely can developers achieve a Primary Development independently. Meanwhile, because of its long-term payback time, the Primary Development imposes a heavy strain on the turnover of the finances of a company. In this case, it seems that most small

²³1 US Dollars = 6.28 RMB

and medium developers are unable to achieve such an onerous task. However, they are more eager to pursue a combination of the Primary and the Secondary development of land.

According to the Ministry of Land and Resources of the People's Republic of China regulation, the profit margin of the Primary Development must not exceed 8% of the total price in any single project. This rate is far too low for some companies to continue and complete such development projects, especially if they are small or medium-sized companies. Nevertheless, some of them are still enthusiastic about the Primary Development, even though only a profit may be gained, and there is the risk of making a loss. The enthusiasm of such developers is maintained because of the advantages of acquiring the Secondary Development projects, one of the primary developers has admitted. Companies that carry out the Primary Development projects are generally at an advantage to others in competing for the Secondary Development projects in various ways. Firstly, companies that have access to a lot of capital can also register other corporations for the Secondary Development at the same time as when they are in the process of transforming initial land. Then, according to the Secondary Development blueprint, the "standard land" is voluntarily completed according to a series of particular criteria that have been previously agreed. In this case, other companies that do not display the same intentions have little possibility of taking over and continuing the construction project.

Third, thanks the maneuvers outlined above; companies that are not working in the Primary Development gradually reduce their interest in contending for further involvement in such projects.

There are obviously downsides to such an operational model of land development. One of the most negative results is that some opportunists occasionally began to delay their Primary Development schedule and negotiate with local governments when there was a shortage of land banks in order to acquire extra benefits. Apparently, this operation pattern of primary land development, which gives a large amount of self-regulation to developers, is not a long-term solution. At the same time, the government saw the necessity of intervening in the Primary Development immediately. Therefore, two main operational patterns of the Primary Development emerged and became dominant in subsequent years.

The first pattern is the so-called Government Operation Pattern. In this operation pattern, a land development institution founded by the government becomes the exclusive entity in charge of expenses and risk; meanwhile, it receives all of the profits. The Primary Development is turned into a function of such institutions as a matter of course. The expenditure on the Primary Development is paid for either by the special appropriation of government finance or by a loan from banks based on the authority's creditworthiness. The advantages of this pattern are obvious: the land price can be fully controlled by

the government; there is no appreciation loss after the Primary Development phase is completed. But financial pressures and a lack of equity trading can also combine to produce a disadvantage.

In the history of the Primary Development, foreign investment has experienced a “reciprocating motion.” Looking at this history, it is not difficult to conclude that foreign investment in the Primary Development was encouraged. The Interim Measures for the Administration of the Foreign-Invested Development and Management of Tracts of Land were passed by the State Council of the People’s Republic of China on 19th May, 1990. These measures were formulated for the purpose of attracting foreign investment for the development and management of tracts of land (hereinafter referred to as “tract development”) so as to intensify the construction of public works, improve the environment for investment, introduce technically advanced enterprises and export-oriented enterprises backed by foreign investment, and develop an export-oriented economy.

The term “tract development,” as used in these measures, means that after obtaining the right to the use of state-owned land, the investors carry out, as planned, comprehensive development and construction on the land, including leveling the ground and constructing such public works as water supply and drainage systems, power and heat supply systems, roads and communications networks, and communications facilities so that conditions

are created for the land to be used for industrial or other construction purposes. The investor then transfers the right to the use of the land for operating public utilities, or proceeds to construct such buildings as industrial units and the support facilities for production and everyday life services, and engages in the business activities of transferring or leasing these buildings. However, this measure was abolished in 2008. Essentially, the policy reform in the Primary Development amounted to nationalization.

However, the concentrated control of the Primary Development resulted in the developers losing interest in this field. In order to bring along its positivity, the government had to cooperate with such companies. And this led to the second pattern: a market operation pattern based on government intervention, which was first operated by the government of Beijing in 2005 on the basis of the *Beijing Municipality on the Administration of First-Class Land Development*. This was jointly enacted by the bureaus of state land and resources, development and reform, and planning and construction. This model was soon being used for reference purposes by other local governments in China.

In this pattern, the main body of the Primary Development remains local government, as before. However, unlike the former pattern, this model separates the whole development proceeding and puts parts of it into the market mechanism. More specifically, it is the financial issue that is dealt with by companies with appropriate qualifications through market competition. In

fact, this pattern can be further separated into two cases.

In one case, the official institution, mostly named the Land Reserve Center and entrusted by the local government, chooses applicable companies as developers through invitations for bids and authorizes them to work on the Primary Development projects.

In the other case, the local government combines the Primary and the Secondary Development according to the supply and demand situation of the land use, and transfers the right as “standard land” before each development process. However, this happens with the precondition that the transferee, who is the potential developer of the Secondary Development project, must make the payment of transfer as the fund for the Primary Development. The land use transfer action takes effect only after the Primary Development phase is completely finished. Although it seems that the whole development process is operated under a market mechanism, it is the government that promotes such cases, in particular enabling the Secondary Development phase to take place before the primary one.

This pattern became established for the Primary Development in China when the Measures for Land Reserve Administration was issued by the Ministry of Land and Resources, Finance, and Central Bank on November 19 in 2007, which allowed local land reserve institutions to protect, manage, and

develop urban reserved land as well as engage in financing. On September 10, 2010, the Ministry of Land and Resources clearly demanded that all official land reserve institutions had to completely separate from any subordinated and related agencies engaging in land development by the end of March 2011. Meanwhile, local Land and Resources departments cannot directly take part in the Primary Development any more. This is an explicit signal that the government is intentionally promoting the Primary Development as a model of market operation and creating the fundamental preconditions for real estate enterprises to participate in such land development.

5.2.2 The Secondary Development

One of the most significant pieces of legislation in the history of the Secondary Development is the Provisions on the Assignment of the State-owned Land Use Rights by Means of Bid Tendering, Auction, and Quotation (known as the Order No. 11 of the Ministry of Land and Resources), which was ratified on May 9, 2002, and came into force on July 1, 2002. Later in 2007, this legislation was revised at the third executive meeting of the Ministry of Land and Resources on September 21, and renamed as the Provisions on the Assignment of State-owned Construction Land Use Right through Bid Invitation, Auction, and Quotation.

The reason that such legislation became so important was because it

stipulates:

With respect to the land for commerce, tourism, entertainment, commercial housing or other business operations, or on which there are two or more intended land users, the assignment thereof shall be conducted through bid invitation, auction or quotation. (Order No. 11 of the Ministry of Land and Resources, 2002)

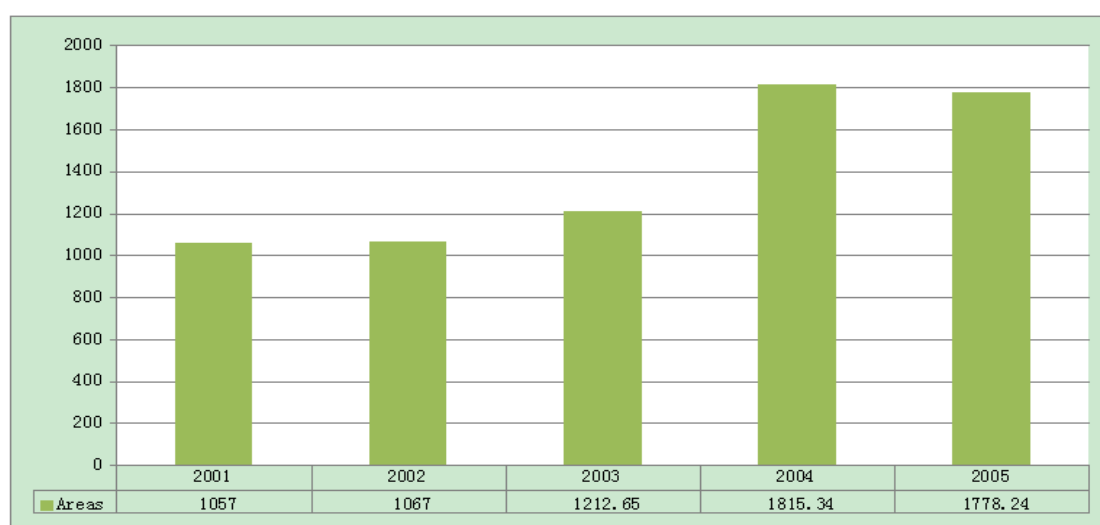
This is for the purpose of regulating the assignment of state-owned land use rights, optimizing the allocation of land resources, and establishing an open, fair, and impartial land use system. Furthermore, in 2007, industrial land was added to the remit of the revised provision.

The “assignment of state-owned construction land use right through bid invitation,” as mentioned in these provisions, refers to an act in which the Department of Land and Resources under a city or county government (hereinafter referred to as the assigner) releases the bid invitation notice, invites specific or non-specific natural persons, legal persons, and other organizations to participate in the bidding of the state-owned construction land use right, and determines the holder of state-owned construction land use right according to the bidding results.

The “assignment of state-owned construction land use right through auction,” as mentioned in these provisions, refers to such an act in which the assigner releases the auction notice, and the competitive buyers engage in an open-price competition at a designated time and place, and the holder of

state-owned construction land use right is determined according to the results of price competition.

The “assignment of state-owned construction land use right through quotation,” as mentioned in these provisions, refers to such an act in which the assigner releases the quotation notice and list, and announces the trading terms about the land for assignment at a designated land exchange within the terms specified in the notice, accepts the quotations of competitive buyers, updates the quotation, and determines the holder of the state-owned construction land use right according to the quotation results at the expiry time for the quotation or the on-site quotation results.

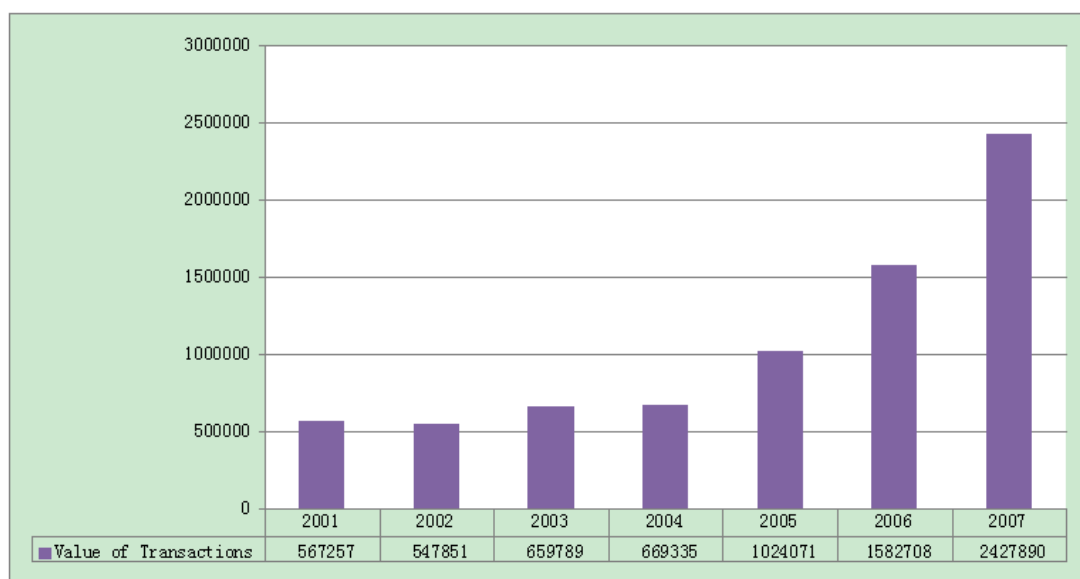


Source: Guangzhou Municipal Land Resources and Housing Administrative Bureau

Figure 7. Annual transferred areas of Guangzhou, 2001–2005 (10,000 m²)

The results of this policy have been distinctive. While previously most land use right leases were altered either by allocation or negotiation, which brought

about tremendous waste of state-owned land, with a low efficiency of use, and, more importantly, unequal income from assigning the land use rights. After Order No.11 came into effect, the total income from assigning land use rights by bid invitation, auction, or quotation all over China increased from 492 hundred millions RMB in 2001 to 5492 hundred millions RMB in 2006, a spectacular tenfold growth. As for the situation in Guangzhou, both the annual transferred areas and the values sharply increased around 2002 when the order came into effect (see Figure 7 and Figure 8).



Source: Guangzhou Municipal Land Resources and Housing Administrative Bureau

Figure 8. Value of Transactions in Guangzhou, 2001–2007 (in 10,000 RMB)

Looking back at the spatial distribution of the three CBD areas in Guangzhou, especially the Pearl River New Town, it can be seen that, in combination with the analysis above, there are correlations between the

spatial features and the policies and regulations in the field of urban land development.

As Table 7 shows, the land use condition of the PRNT is that it contains a higher proportion of infrastructure, administrative, and residential land when compared to the other two zones. Firstly, I focus on the former two types of land. Neither infrastructure nor administrative land is operational land; it is sometimes known as “profit-making land.” Thus, it can be stated that their high proportions are not as a result of a market mechanism; instead, it is down to the intervention by the government.

It is interesting that the Huanshidong Road area contains a similar proportion of infrastructure land as the PRNT. However, they are essentially different when I make a comparison of the details: most of the infrastructure land in Huanshidong Road turns out to be used for schools and hospitals, which is fairly understandable, while the situation in the PRNT is less pronounced regarding where the theater, library, museum, and children’s palace are located. Such a case is intriguing as these infrastructural developments do not usually appear in the central business area of other cities. Moreover, when I look up their location, I find that these buildings are based in the core area.

During an interview with a participant of the PRNT master plan, some

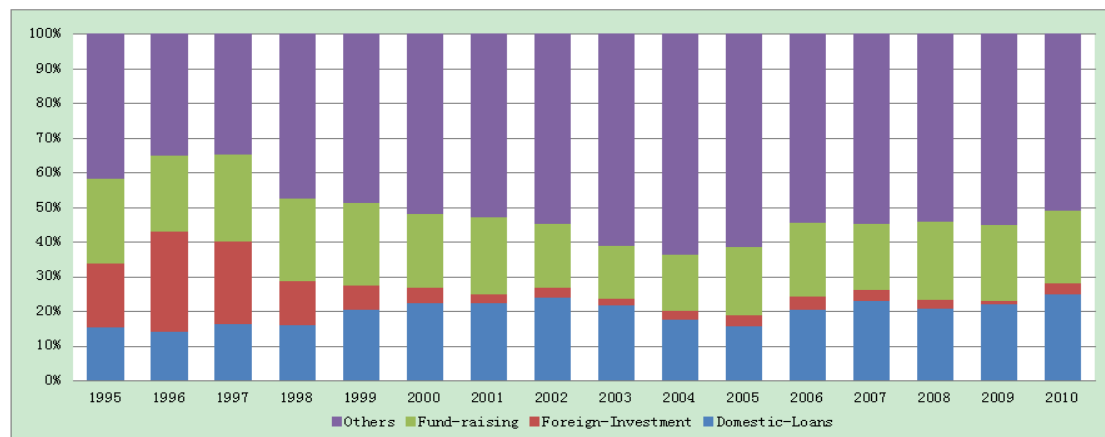
queries were answered. According to the interviewee's description, the PRNT was in development for ten years until 2003, yet the factual growth of economy was far from what was expected. In that situation, the Guangzhou government made a readjustment and decided to stimulate investors' confidence, which meant the government had to make an intervention. A number of key infrastructural projects and some authority departments were planned in order to demonstrate the key status of the PRNT in future developments.

This readjustment can only be explained by the fact that a higher proportion of infrastructure and administrative lands appear in the PRNT. However, the follow-on question is, how did this happen?

To come up with a good answer for such a question, it is necessary to start with the model of the Primary Development. As I noted before, the Primary Development begins early as a combination model with the Secondary Development. Because of a lack of income and the necessity for massive funds to be used, local governments come under great pressure if they conduct projects by themselves. Meanwhile, real estate companies like to participate in the Primary Development only if they get permission for the subsequent development. Obviously, this model eases the burden of local government, but it inevitably causes problems. One of the most striking results is that developers can negotiate with local governments by means of disturbing the Primary Development. In this case, the authorities rarely have the chance

to decide for themselves the planning as a whole. Until 2002, the “Provisions on the Assignment of the State-owned Land Use Rights by Means of Bid Tendering, Auction, and Quotation” were put into effect.

The effect of these “provisions” was to cut off the connectivity between the Primary and the Secondary development. Hence, there was no possibility for the developers, who gained the rights of the Secondary Development by participating in the primary one, to repeat their former success. In other words, the Primary and the Secondary developments were formally and legally separated. Since then, local governments have left no doubt that they again dominate the Primary Development process. In fact, the profound influence of governments on this process amounts to not just simply domination, but also having the main control over urban land use.



Source: Guangzhou Municipal Land Resources and Housing Administrative Bureau

Figure 9. Real Estate Development by Source of Funds, Guangzhou, 1995–2010

In fact, the model of the Primary Development in Guangzhou has never

been changed from how it was implemented at the beginning. According to the head of the Land Reserve Center of Guangzhou, the precondition for this model operating successfully is that the government is able to sustain all of the funding for the Primary Development thanks to its early entry into land use exploitation when all costs were relatively low (see Figure 9). All along, the Guangzhou government has been the controlling power for all “standard land.” Therefore, all these lands can be further distributed and developed in accordance with government’s intentions and plans.

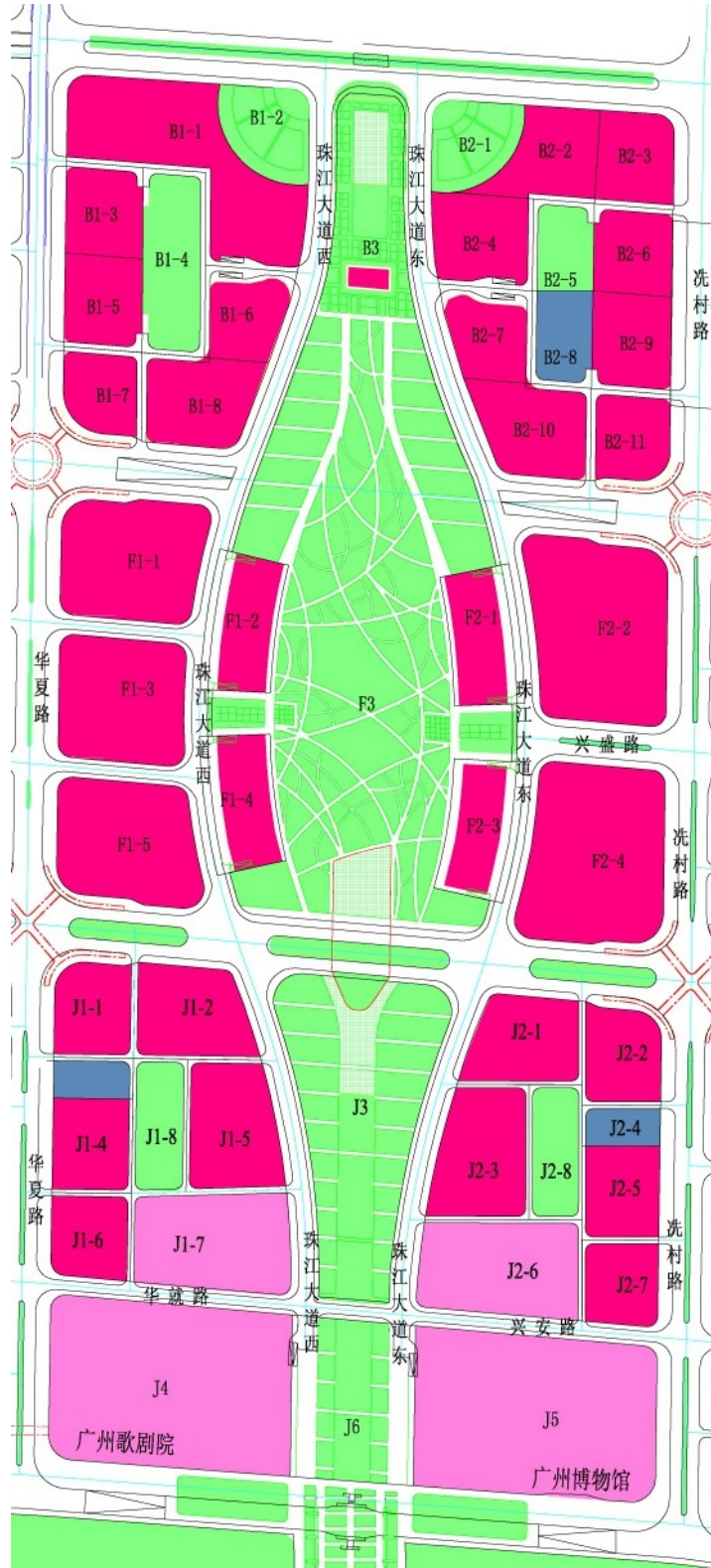


Figure 10. Plot distribution of the core area of Pearl River New Town

One straight forward example is the four plots in the core area of the PRNT (see Figure 10). This area was the last one to be developed, and is considered as “the heart of Pearl River New Town,” where all the plots are used as commercial land except for four parcels in the southern part: J4, J5, J1-7, and J2-6. In particular, the J4 and J5 plots are even larger than any other single plot in the core area. In fact, the other plots were sold for the highest prices ever reached in the history of Guangzhou by public auction. However, it turns out that such valuable plots are being used as infrastructure, and they have further seen a theater, museum, library, and the children’s palace being built on it. Obviously, this is not the consequence of a market mechanism but government behavior. The person who participated in the PRNT master plan described this process as follows: to serve as a modest spur to induce someone to come forward with his valuable contributions. He further commented that this phenomenon strictly represents the fully land control power of the local government: The usage of relative land is changed to infrastructure or administrative in advance in order to avoid it being put onto the real estate market as no private developer will voluntarily build for the public good on such expensive land.

The evidence above is an explanation for how infrastructure and administrative land appear in relatively higher proportions than ever before. On the surface, there is no direct influence from the decrees of land use on the

land distribution in the PRNT. However, likewise the reform and its consequent results have become or provide a key precondition for the existence of the PRNT. After the spectacular theater, museum, and library were designed and built, they soon became part of the new landscape of Guangzhou. Subsequently, the core area of the PRNT became one of surprisingly rapid development from 2007 to 2012.

Meanwhile, it is worth mentioning that important event also plays a positive role in the changing of urban space. With the help of such important events, the cities in China generally seek the opportunities to promote the image of themselves and attract the attention of all over the world. More specifically, Guangzhou got the host of 16th Asian Games in 2004. During the construction and preparation of the following 6 years, the local government implements the furthest intervention in the development of urban space by means of altering original administrative procedure, simplifying approval process and quickening the construction. Some of the measures are even against the normal rules and regulation. Although such governmental behavior would not sustain for a long period, the spatial result of the development and modification in certain area are nevertheless extremely distinct. And this is definitely not the situation which the authorities in western countries readily achieve.

As for the residential land, it is closely interrelated with the decrees of

urban land use, but its usage is another story. It is worth mentioning again here the fiscal and taxation system that I discuss in Chapter 4. After the crucial reform of the taxation system in 1994, the financial burden of local government increased sharply, which led to a long-term gap emerging in finances. As a result, local governments must earn big profits by other means. In the case of Guangzhou, transferring land use rights became the most profitable and effective approach compared to any others.

As I mentioned before, the initial purpose of the local government in developing the PRNT was to provide financing for the enormous budget of urban construction by assigning land use rights even though there were still no regulations stipulating that all lands should be part of a market mechanism. The growing trend of the PRNT between 1992 and 2003 diverged from the blueprint to varying degrees due to lack of appropriate business circumstances at that time while most business activities remained concentrated in the Huanshidong Road area. As a result, few developers had an interest in commercial land development in the PRNT due to its uncertain future. Although the government had officially announced that the PRNT would be the future central business district of Guangzhou, it appeared to be situation too far from public areas and this led to a lack of progress. But on the other hand, residential land became popular for developers because the demand of for housing became more urgent than commerce. Moreover, as part of the

strategy of real estate enterprises, it is crucial to corner low-priced land plots as much as possible to make profits in the future. It nevertheless brings a benefit to the authority when their original intention is met. Thus, the proportion of residential land in all plots of the PRNT reached over 50%; while only 25% of the plots were used for commercial purposes (see Table 9).

Table 9. Land use distribution in the PRNT before 2003

Types of Land	Number of Plots	Area (m ²)
Residential	21	355535
Administrative	7	60684
Commercial	9	140797
Infrastructure	2	64353
Public space	1	283195
Total	40	904564

Source: Guangzhou Municipal Land Resources and Housing Administrative Bureau

Even after 2003, when the PRNT entered a new phase of development, residential land was still a main target in land appropriate as result of Order No. 11 of the Ministry of Land and Resources. In particular, from 2009 to 2013, there have continuously been four “king of lands” that emerged in the PRNT, two of which are commercial land.

5.3 Chapter conclusion

In this chapter, I first made a comprehensive comparison between the land use proportions in the three central business districts of Guangzhou by

using six categories of land use type. Each CBD area in Guangzhou turns out to be multi-functional one rather than being a purely economic center. Moreover, it is interesting to note that the results also show a different developmental emphasis for each area. This applies in particular to the latest Pearl River New Town area: a much more homogenized functional combination than formerly appears in a high economic development-level central business district, where the highest proportion of residential and administrative land of the three CBD areas is present. Instead of listing any possible historical reason, I looked at the aim of the decrees and ordinances in the area of land use development to explore the deeper causes. After unscrambling the policies and regulations, it has become clearer that the government of Guangzhou has absolute control over the distribution of urban space because of the highly central-oriented policy of land development. The multi-functional distribution of space in the PRNT of Guangzhou is a result brought about by government behavior rather than economic development. Moreover, from a micro perspective, any foreign direct investment and activities under a market mechanism could operate only within a space that is controlled or delineated by the local authorities.

Chapter 6 Analysis of localization of foreign influence in Guangzhou

Foreign flows impact and change the local objects through various approaches in current globalization background. In this research, I chose the feasible invested industries of foreign capital, the structure of headquarters and the development of producer service as three main focuses of this chapter.

6.1 Restriction on foreign capital

In the past, there was a period when there was a positive policy that allowed and encouraged foreign capital to be invested in the real estate industry in China. The “Catalogue of Industries for Guiding Foreign Investment” (hereinafter referred to as the Catalogue) is a legal guide, which, at the same time, exhibits the underlying investment tendency of the Chinese authorities toward foreign investment. Each Catalogue has been divided into three sub-directories: encouraging, restrictive, and inhibitive industry. In particular, both the 2002 and 2004 Catalogue versions provided encouragement for foreign capital in developing regular housing projects. Such a provision reflected the government’s eagerness to promote real estate at that time. As for the restrictive industry, in both of the Catalogues, only the Primary Development land, top grade hotels and villas, A-class office buildings, and

conference and exhibition centers were explicitly listed.

As a result, massive foreign capital flowed into the Chinese real estate market during 2002 and 2004, especially as a result of the so-called “831 Limitation,” which was promulgated in March and became effective from 31st August, 2004. From that date, all rights of usage of land with commercial utilization had to be assigned through a public bidding process. This type of land leasing was once operated mostly by contract between the government and the promoter. Thus, more opportunities were created for foreign investors to enter the real estate sector in a fair and open environment. This touched not only on primary, but also on the whole the Secondary Development process, including intermediary companies and agents.

However, things changed completely in 2007 when a new Catalogue was created. The former encouragement of building dwelling houses with foreign investment no longer appeared in the subdirectory. At the same time, the activities of both the intermediary companies and related agents in the real estate industry were restricted. Moreover, the use of foreign capital for the Secondary Development, which was in a fast growth phase at the time, was also restricted. Since then, foreign capital has remained separated from the real estate sector in China.

One of the main purposes of that modification was to prevent commercial

speculation using foreign capital and to maintain the stable development of real estate, according to the chair of the Institute of Chinese Real Estate. Because of the rapid economic progress in China, the amount of domestic funds available for dwelling house construction was sufficient in recent years. With a state-oriented political background, the Chinese government must, in any case, retain the effective ability to regulate and control, especially in such a key sector of national economy, and even under a market mechanism. Excessive foreign investment undoubtedly threatens such central power. As mentioned above, the Catalogue is more of a bellwether than a real rule of law in practice. Therefore, the modification of the Catalogue actually affected the confidence and direction of foreign investors instead of the amounts being invested. As a result, foreign-invested enterprises are not allowed to engage in the Secondary Development or the Primary Development on their own. Meanwhile, it is only legal for joint venture enterprises to undertake the Primary Development if at least half of the company's stock belongs to the nation.

On the other hand, another crucial set of ordinances, the Opinions on Regulating the Access to and Administration of Foreign Investment in the Real Estate Market (hereinafter referred to as the “Opinions”), was jointly issued by six national ministries on 11th July, 2006, almost at the same time as the modification of the Catalogue. In contrast to the Catalogue, the “Opinions”

were set up a clear stipulation for foreign capital for the real estate industry in three specific aspects: a market entry certification system, the scope of development and operation, and property purchases overseas. It went a step further in imposing limitations in four main fields:

1. Limitation on registered capital

Compared to the former official regulation, the new criterion in the “Opinions” dramatically increased the amount of registered capital required for projects (see Table 10). The registered capital must exceed 50% of the total investment if the total investment is over US\$10 million. As things stand, the investments capital of a single contract is usually over \$10 million (see Table 11). It is really a proof of the financial strength of a foreign company if the registered capital has to be over 50% of the total investment.

Table 10. Comparison of registered capital (RC) before and after the “Opinions”

Total Investment (USD)	RC before the “Opinions”	RC after the “Opinions”
below 3 million	70%	70%
3 million to 10 million	50%	
10 million to 30 million	40%	50%
over 30 million	33.3%	

Source: Opinions on Regulating the Access to and Administration of Foreign Investment in the Real Estate Market (2006)

Table 11. Foreign capital contracts between 2009 and 2010

Year	Number of Contracts (unit)	Contracted Foreign Capital (USD 10,000)	Average Investment of Capital per Contracts (USD 10,000)
2005	61	40371	662
2006	73	110632	1516
2007	49	276328	5639
2008	31	172973	5580
2009	16	35066	2192
2010	36	136216	3784

Source: Annual Statistic Book, Guangzhou (2005–2010).

2. Limitation on corporation merging

It is stipulated that when merging with a domestic real estate company through an equity assignment or in any other way, a foreign investor must make a one-off payment for the assignment fee using their own capital. The regulation before the “Opinions” was to pay the assignment fee in three months or one year, as appropriate. It is clear that a one-off payment for an equity assignment burdens foreign real estate investors with an enormous external cost.

3. Limitation on loans

The limitation on loans is also more restrictive than ever before. Foreign

investors and companies that are about to apply for credit either from a domestic or an overseas financial institution must avoid the registered capital not being paid, the license for the land use permission not being validated, and the amount of the initial contribution being less than 35% of the total investment. Meanwhile, the foreign exchange settlement of such capital will not be approved by the official ministry as well.

It is ironic that the regulation on loans in the “Opinions” makes certain rules of the Company Law of the People’s Republic of China (hereinafter referred to as the Company Law) void. The Company Law came into effect on 1st January, 2006, and governs not only domestic companies in China but also limited liability companies and joint stock limited companies invested in by foreign investors. It stipulates:

The minimum amount of initial capital contributions to be made by all initiators shall be not less than 20% of the total registered capital, and the remaining amount shall be paid off by the initiators within two years as of the day when the company is established, while for an investment company, the remaining amount may be paid off within five years. (Article 81, Company Law of the People's Republic of China)

Investors in the real estate sector always have a strong dependency on banks and other fundraising institutions because of their requirements for huge amount of money. It is a disaster for construction and development if there is no way of raising loans. However, if the foreign investors pay the registered

capital by amortization, as before, in order to ease the financial pressure, there is no possibility for them, according to the “Opinions”, to apply for a loan until they pay off that. Thus, by enacting certain regulations and laws, the Chinese government has increased the requirements for foreign investors who seek to enter the domestic real estate market.

4. Limitation of contract

Because of the overheating in the real estate market and the high returns to be made in the short term, an increasing number of foreign investors have engaged in real property investment, including those who are unfamiliar with this area of business. However, in order to ensure a good rate of return, a number of foreign investors have sought a fixed return when cooperating with Chinese investors in practice. These appear to be like investment agreements; nevertheless, it is a form of providing a loan and equity trading. In view this, the “Opinions” set out a regulation as follows:

The Chinese and foreign investors to a foreign-invested real property enterprise may not in any manner specify in the contract, articles of association, equity transfer agreement or other document terms that guarantee a fixed return in a disguised form to either party. (Article 8, Opinions on Regulating the Access to and Administration of Foreign Investment in the Real Estate Market)

With this regulation, short-term speculation and a covert act of equity trading can be effectively prevented, while it is also notable at the same time

that a certain type of foreign investment may be further resisted.

In spite of the various restrictions imposed by the policies and regulations set out above, it seems that powerful foreign-investment enterprises can nevertheless devote themselves to this sphere unless they are one of the ones forbidden by the government. However, foreign real estate investors are still confronted by invisible restrictions or inappropriate regulations apart from the implementation policies and regulations.

The head of the Land Reserve Center of Guangzhou privately mentioned some unwritten rules that are used by the authority to control the accessibility of foreign investment. According to the regulation of public listing and bidding assigning the right of land usage, the period lasts about 30 days. As a matter of fact, no foreign enterprise can make a final decision until the deadline has passed because of the feasibility research and capital turnover. By contrast, local companies mostly take advantage of their close connection with local departments and might acquire information in advance. Meanwhile, a foreign capital company established for the Secondary Development projects has to be strictly examined and approved by related departments. Although the approved time for every procedure is officially announced as a schedule, it is this schedule that turns into an unknown factor that sometimes makes the establishment process become a long-term business. For such a company to receive a final permission requires individual verification from at least six

government agencies, including the development planning commission, the Department of Commerce, the industry and commerce administration, etc. Each authority can extend the duration of verification in order to limit the number of new companies within a certain period of time. Furthermore, regarding the regulation of registered capital (see Table 10), it is more or less a disguised restriction, which vastly increases the threshold of investment for large-scale real estate projects, especially for small and medium-sized enterprises. “Such invisible restrictions work sometimes much more effectively than any other official policy or regulation,” she added.

To further emphasize that policies and regulations in the field of land development actually have an effect on spatial distribution, I take the core area of Pearl River New Town as an example. This area has been developed since 2006, when the latest policies and regulations were put into effect. The area is divided into three zones (B, F, & J), which are further partitioned into 49 plots, each corresponding to a code (see Figure 10 in Chapter 5). Besides the plots used for infrastructure, public spaces, and other functions, there are still 33 plots left for commercial and business purposes whose land use rights are transferred by public auction. In fact, there are several records of the highest bid being accepted among the plots. However, if I look at the list of plot buyers in the core area of the PRNT, it is surprising that all the buyers are locals except for a Hong Kong enterprise, Chow Tai Fook, which bought plots J2-1

and J2-3 in 2008. It is hard to judge whether the enterprise from Hong Kong took advantage during the whole process without any evidence being available. However, it is the only non-local enterprise that successfully secured a plot among the real estate magnates.

When I further distinguish the owners of land use rights in the core area of the PRNT by industrial sectors, it turns out that about 80% of owners are local real estate enterprises (see Figure 12). As for the remainder of the owners, like I mentioned above, two plots in the J area belong to a Hong Kong enterprise. The remaining owners are China Telecom, China Tobacco Monopoly Administration, and Xiancun's Economic Development Corporation²⁴, which is operated by an urban village committee. The remaining areas of the PRNT are dominated and developed by local real estate enterprises.

Table 12. Owners of land use rights in B, F, and J areas of the PRNT (see Figure 10)

Area	Total	Real Estate	Others
B	14	10	4
F	9	9	0
J	10	8	2
Total	33	27	6

²⁴ Xiancun is an urban village with a history of 800 years which originally locates in the area of PRNT. By the development of Xiancun, it potentially benefits the villagers who hold land titles, the village government, the Guangzhou city government and the citizens of Guangzhou. Under the plans of development, villagers with land titles will receive new, higher value apartments in the new development, the village government establishes a corporation and which will earn higher rental revenues to distribute amongst the villagers, and Guangzhou City will eliminate an unsightly neighborhood and attract wealthy residents to rent new apartments and contribute to the city's consumption economy.

Rarely can local enterprises or even local financial companies buy a plot in competition with real estate corporations, let alone foreign enterprises, even though they may be willing to. Apart from the restrictions against foreign enterprises in the Secondary Development outlined above, from a further interview with the head of the Land Reserve Center of Guangzhou, two other reasons become clearer. Firstly, local real estate enterprises generally are more advantaged in winning an auction as they can invest much more capital in land use as they gain huge earnings during the Secondary Development phase. On the other hand, other companies, for example the ones in the financial sector have to consider the cost of subsequent development when their profits will not be a short-term but a long-term progress. The second reason local real estate enterprises are advantaged relates to the participants in an auction. Local governments did not set any limit on the sorts of participants at that time, which led to enterprises in the real estate sector dominating in an unequal competition.

6.2 Headquarter economy in Guangzhou

The outsourcing of the inner functions of a headquarters has become a clear tendency in global cities all over the world as they focus on their central control more than any other activity. As Sassen pointed out in one of her seven hypotheses of global city model:

These central functions become so complex that increasingly the headquarters of large global firms outsource them: they buy a share of their central functions from highly specialized service firms – accounting, legal, public relations, programming, telecommunications, and other such services. While even ten years ago the key site for the production of these central headquarter functions was the headquarters of a firm, today there is a second key site: the specialized service firms contracted by headquarters to produce some of these central functions or components of them. This is especially the case with firms involved in global markets and non-routine operations. But increasingly the headquarters of all large firms are buying more of such inputs rather than producing them in-house. (Sassen 2005)

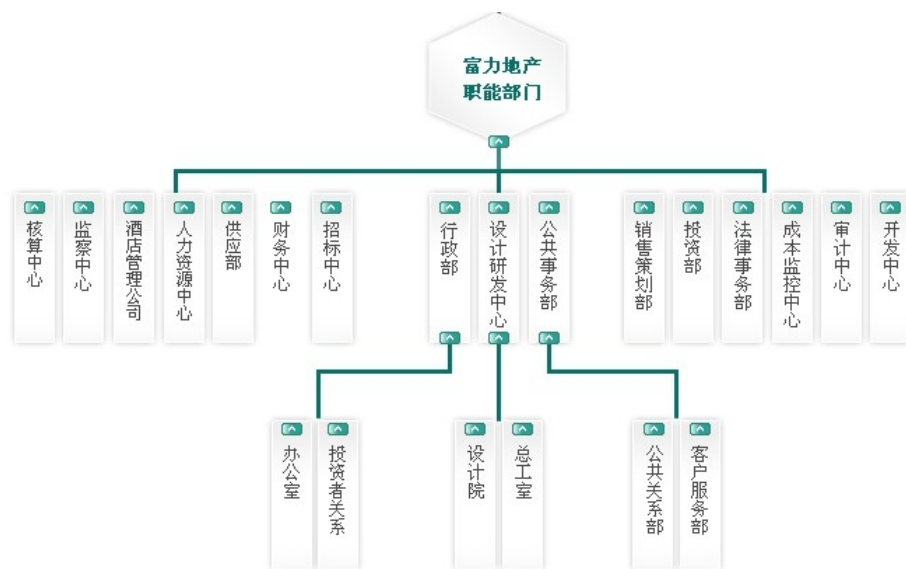
It is interesting and worth investigating the operational structure of companies and enterprises in the PRNT. According to Sassen's hypotheses, the result might not only represent the development situation for specialized service firms, but also reveal the extent to which Guangzhou is growing toward being a globalizing city.

I take three headquarters or regional headquarters in the PRNT as a case study to examine their current operational structure. They are the headquarters of Guangzhou R&F Properties Co. Ltd. ("R&F"), headquarters of the Bank of Guangzhou (BG), and the regional headquarter of Ping An Bank (PA). They are all located within the core area of the PRNT and were the

pioneers that first moved their headquarters into the zone. This leaves no doubt that they are the leading companies or enterprises in their respective fields and have become three of the most powerful entities in Guangzhou, backed by enormous property and scale.

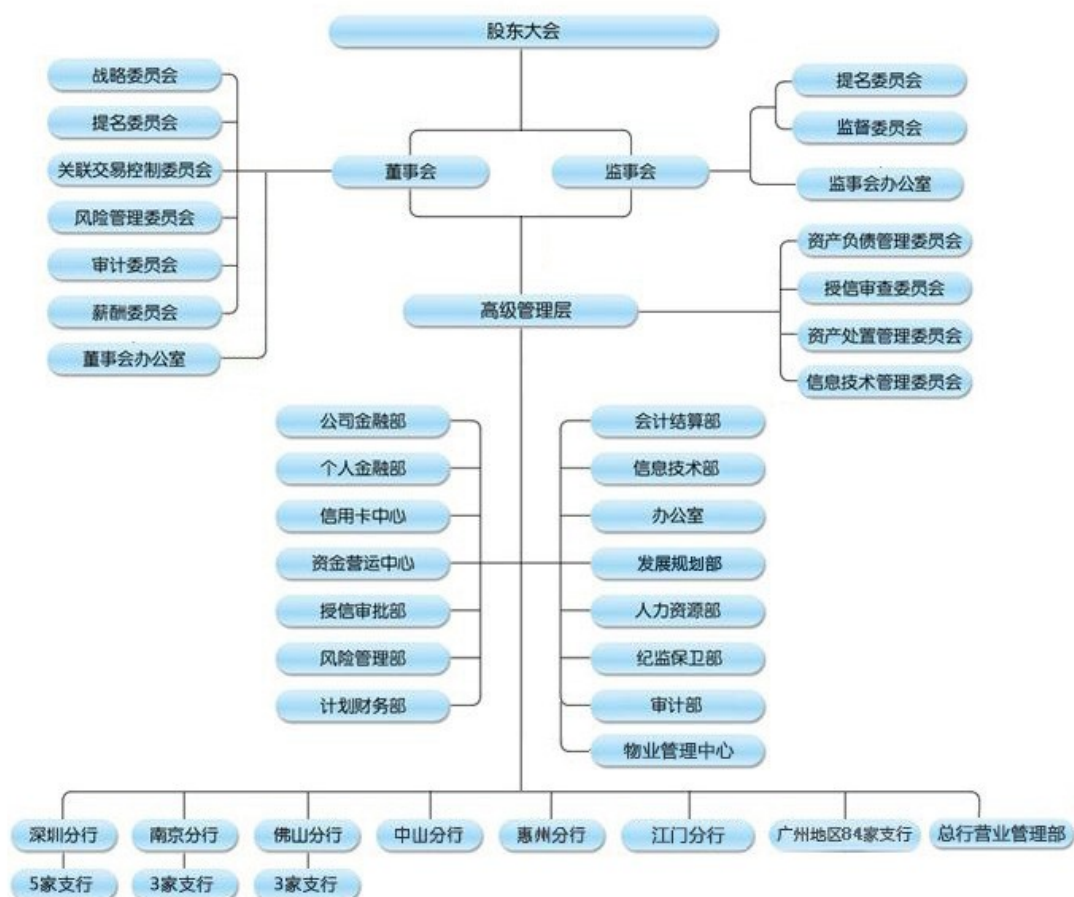
The operational structure of R&F contains as many as sixteen departments, including law, HR, accounting, marketing, audit, and finance. All these departments are located and centrally controlled in the headquarters building – R&F Centre. There is still no functional outsourcing activity within the daily operation. Based on an interview with a staff member of seven years' standing in R&F Properties, it turns out that there are two main reasons for the current situation. According to his statement, security is the first factor, as the board of directors believes that it is much safer to operate and control all the necessary functions rather than outsourcing them. This helps to avoid any risk from an immature specialized service. The second cause relates to cost. On the one hand, there is no obvious increase in fixed costs if they operate such departments on their own as the offices and space were already reserved when the entire headquarters move into the PRNT. On the other hand, it is much expensive to outsource a single function of headquarters than training staff to become professionals in within a specialized service. It is always considered better and safer to operate with people by their side, and that is what they have always done in the past, he commented.

Asked whether this intensively operational model is common in the industry, the answer from him was positive. Meanwhile, he further set out his point of view by providing an example. Real estate industry profits are huge in the current economy. Thus, information is considered to be a significant business secret by real estate enterprises, especially regarding aspects of finance, marketing management, law, and accounting. Every enterprise in the real estate industry nowadays is eager to gain the latest information from their competitors. It would be a critical risk for them if they had the same outsourced service firms even though such companies should be professional enough to maintain confidentiality. It is more than self-protective awareness; it is a psychological bind that no enterprise proposes to unravel, he added.



Source: Guangzhou R&F Properties Co., Ltd.

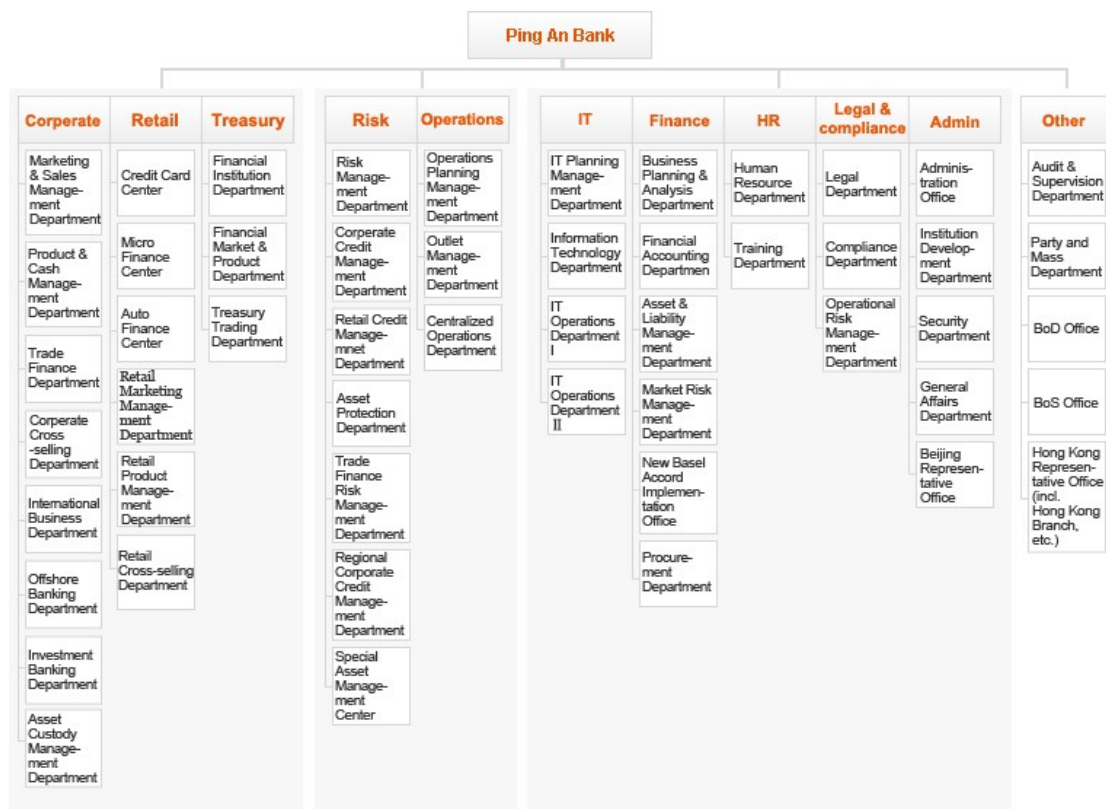
Figure 11. The operational structure of Guangzhou R&F Properties Co. Ltd.



Source: Bank of Guangzhou

Figure 12. The operational structure of the Bank of Guangzhou

The situation in financial sector remains more or less the same. The operational structure of the Bank of Guangzhou (hereafter referred to as BG) is also multi-functional (see Figure 12). The 15-department headquarters covers all of the necessary functions of a daily operation, similar to Ping An Bank (see Figure 13). The latter operates by having eleven different kinds of functions, and each function is further vertically divided into a number of departments.



Source: Ping An Bank

Figure 13. The operational structure of Ping An Bank (regional headquarters of Guangzhou)

Up to the present, a total of 33 headquarters or regional headquarters have located in Pearl River New Town, ten of which come from abroad. If we look further to classify these enterprises, only three of them belong to an advanced producer service. They are Nippon Telegraph & Telephone (Japan), Ernst & Young (the UK), and PricewaterhouseCoopers (the UK). Although the absolute number is quite low, it is interesting that two of the three are companies which provide identical assurance (including financial audit), tax, consulting, and advisory services. Meanwhile, they are the largest professional services firms in the world by aggregated revenue in 2012 and known as two

of the “Big Four”²⁵ accounting firms. Is that coincidental?

Table 13. Headquarters and semi-headquarters in Pear River New Town

	Name of Company	Type	Industry	Headquarters
1	R&F Properties Co. Ltd.	HQ	Real estate	
2	KWG Property Holding Limited	HQ	Real estate	
3	China Southern Power Grid	HQ	Electric utility	
4	Evergrande Real Estate Group	HQ	Real estate	
5	China Aoyuan Property Group Limited	HQ	Real estate	
6	Hopson Development Holdings Limited	HQ	Real estate	Guangzhou, China
7	Guangdong Pearl River Investment Limited	HQ	Real estate	
8	Biostime Inc. Guangzhou	HQ	Food processing	
9	Guangzhou Automobile Group Co. Ltd.	HQ	Automotive	
10	Bank of Guangzhou	HQ	Financial services	
11	HITACHI Elevator (China) Limited Company	HQ	Engineering	
12	Sohu, Inc.	SHQ	Internet	Beijing, China
13	Mars, Inc.	SHQ	Food processing	Mclean, USA
14	Sun Hung Kai Properties Ltd.	SHQ	Real estate	Hong Kong
15	Outlet (China) Limited	SHQ	Retailing	Beijing, China
16	Bank of China	SHQ	Financial services	Beijing, China
17	Guangdong NANYUE Bank	SHQ	Financial services	Zhanjiang, China

²⁵ The Big Four are the four largest international professional services networks, offering audit, assurance, tax, consulting, advisory, actuarial, corporate finance, and legal services. They are Ernst & Young (EY), Deloitte Touche Tohmatsu (DTT), PricewaterhouseCoopers (now known as PwC), and KPMG.

18	Agricultural Bank of China	SHQ	Financial services	Beijing, China
19	Tesco PLC	SHQ	Retailing	London, UK
20	Agile Property Holdings Limited	SHQ	Real estate	Zhongshan, China
21	PricewaterhouseCoopers	SHQ	Professional services	London, UK
22	Ernst & Young	SHQ	Professional services	London, UK
23	General Electric Company	SHQ	Conglomerate	Fairfield, USA
24	Carlsberg Group	SHQ	Beverages	Copenhagen, Denmark
25	Nippon Telegraph and Telephone Corporation	SHQ	Tele-communications	Tokyo, Japan
26	Hewlett-Packard Company	SHQ	Information technology	Palo Alto, USA
27	Manulife-Sinochem Life	SHQ	Insurance	Shanghai, China
28	CITIC Securities Company Limited	SHQ	Financial services	Shenzhen, China
29	Shentong JCDecaux Metro Advertising Co., Ltd.	SHQ	Advertising	Shanghai, China
30	Johnson Controls, Inc.	SHQ	Automotive Interiors	Milwaukee, USA
31	Infinite Pole	SHQ	Food processing	Hong Kong
32	Bank of Communications Co., Ltd.	SHQ	Financial services	Shanghai, China
33	China Development Bank	SHQ	Financial services	Beijing, China

HQ= Headquarters; SHQ= Semi-headquarters;

Source: Based on field work of the author.

6.3 Development of foreign producer service

As with credit rating institutions, audit firms are a special producer service

in the finance field. They are usually considered as being at the center of financial services. The Chinese government has historically established a variety of restrictions within every sector in order to maintain its macro-control power, especially with regard to foreign enterprises and companies. Thus, it is common for advanced producer service firms to be small scale and not to be the front runners in their spheres, such as banks and law offices.

6.3.1 Development of accounting firms

As for accounting firms, there was a significant policy issued by the China Securities Regulatory Commission (known as CSRC) in 2002, which thoroughly changed the development direction and destiny of foreign accounting companies in China. The historical background is that a scandal emerged in 2001 that was closely connected with local accounting firms through audit business. That was an undisputed disaster for the reliability of local accounting firms, which faced to an unprecedented risk of losing their reputation. To avoid similar incidents occurring again, as well as to ensure the authenticity of information provided, the CSRC set out a supplemental policy about auditing, known as Document No.16, which expressly stipulates that all financial reports from listed companies must be audited by international accounting firms before an initial public offering (IPO) is conducted. Meanwhile, most of the banks in China also stipulate that companies receive a credit auditing from foreign audit firms before applying for a loan. Moreover, a

number of local governments have even required that annual auditing from all state-owned enterprises must be undertaken by foreign firms.

Table 14. Top five annual incomes of accounting firms, 2002-2008 (in 10,000RMB)

Year	1st	2nd	3rd	4th	5th
2002	PwC	KPMG	DTT	EY	BDO
	76631	33439	29152	24632	10089
2003	PwC	KPMG	DTT	EY	BDO
	90233	43176	37636	32926	11360
2004	PwC	KPMG	DTT	EY	BDO
	124677	71578	65797	62846	15330
2005	PwC	EY	DTT	KPMG	BDO
	180296	97166	90876	91478	18324
2006	PwC	EY	DTT	KPMG	BDO
	203762	159833	138564	123747	21983
2007	PwC	EY	DTT	KPMG	RH
	262571	231580	212428	194496	50467
2008	PwC	EY	DTT	KPMG	RH
	275518	270000	249882	243517	65217

PwC= PricewaterhouseCoopers (UK); KPMG= KPMG International Cooperative (Netherlands); DTT= Deloitte Touche Tohmatsu (US); EY= Ernst & Young (UK); BDO= BDO China Shu Lun Pan CPAs (China); RH= Ruihua Certified Public Accountants (China).

Source: Chinese Institute of Certified Public Accountants

With such positive factors behind them, the “Big Four” accounting firms have experienced unparalleled development in China (see Table 14). They are firmly anchored in the top four places of annual income ranking among

accounting firms in China. In addition, the gap in revenues has also been dramatically increased. In particular, PricewaterhouseCoopers always occupies the top position. Its annual income in 2005 was almost ten times more than BDO, which was the best of the Chinese firms at that time. KPMG earned the least amount of income for a foreign accounting firm in 2008; however, this was still 273% more than the highest earning Chinese firm, RH.

Table 15. Top five annual incomes of accounting firms, 2008–2012 (in 10,000 RMB)

Year	1st	2nd	3rd	4th	5th
2009	PwC	DTT	KPMG	EY	RH
	257843	237025	222110	196064	87205
2010	PwC	DTT	EY	KPMG	RH
	296065	260007	209413	186203	103929
2011	PwC	DTT	EY	KPMG	BDO
	295674	292844	227749	192842	150418
2012	PwC	DTT	RH	EY	BDO
	322629	304451	243709	223646	177357

PwC= PricewaterhouseCoopers (UK); KPMG= KPMG International Cooperative (Netherlands); DTT= Deloitte Touche Tohmatsu (US); EY= Ernst & Young (UK); BDO= BDO China Shu Lun Pan CPAs (China); RH= Ruihua Certified Public Accountants (China).

Source: Chinese Institute of Certified Public Accountants

Document No.16 was officially abolished on 24th April, 2008. The subsequent effect of this is clear (see Table 15). The gap between local and

global accounting firms rapidly narrowed. Particularly by 2012, the myth of the “Big Four” no longer prevailed. They were no longer the largest four accounting firms in China, with EY and KPMG having been surpassed by two indigenous firms. Meanwhile, the proportion of annual income from the “Big Four” within the top 10 accounting firms in China has also varied since 2008 (see Table 16). This proportion was 83.8% in 2007, when the gap between local and foreign accounting firms reached its maximum. After that, the gap between proportions declined visibly year on year. Until 2012, the general income of the “Big Four” accounted for only 54.94% of the total of the top 10 accounting firms.

Table 16. Income Ratio between the “Big Four” and the top 10 accounting firms in China, 2002–2012 (in 10,000 RMB)

Year	Total Income of Top 10	Total Income of “Big Four”	Ratio (%) Big Four/Top 10
2002	208652	163854	78.53
2003	254083	203971	80.28
2004	390041	324898	83.30
2005	549763	459816	83.64
2006	739861	625906	84.60
2007	1075240	901075	83.80
2008	1299604	1038917	79.94
2009	1273540	913042	71.69
2010	1392972	951687	68.32

2011	1635159	1009109	61.71
2012	1937351	1064302	54.94

Source: Chinese Institute of Certified Public Accountants

Even until today, it seems that the influence of Document No.16 is still substantial. I acquired a 2013 client list from DTT China during my investigation, which may have helped me to further understand the current situation regarding accounting firms in China.

DTT China divides their services into auditing services and non-auditing services, based on commission from clients. The non-auditing service, also called a “relationship”, mainly refers to accounting, tax administration, and consulting services. The “relationship” here could also be understood as carrying on outsourced specialized services.

About 40% of multinational corporation (MNC) clients commission DTT China for an auditing service; at the same time, nearly 60% of the MNC clients become a “relationship” partner with DTT for their daily operations. As for local enterprises, it is a different story, with over 70% of these companies applying for auditing services from DTT. Only 29% of clients buy non-auditing services from specialized service firms (see Table 17).

Table 17. Comparison of client types between MNC and local enterprises in DTT

Industry	Multinational Corporations		Local Enterprises	
	Audit	Relationship	Audit	Relationship
BS	0	2	4	3

CB	15	16	33	14
E&R	3	5	17	5
GFSI	7	11	20	12
LSHC	5	18	10	8
MFG	17	24	56	29
PS	0	1	1	1
RE	3	2	51	10
TMT	9	4	37	11
<hr/>				
Total	59	83	229	93
<hr/>				
	142		322	

BS= Business Service; CB= Consumer Business; E&R= Energy & Resources; GFSI= Global Finance Service Industry; LSHC= Life Sciences and Health Care; MFG= Manufacturing; PS= Public Sector; RE= Real Estate; TMT= Technology Media and Telecommunications;

Source: DTT China Client Lists (2013)

In an interview with a project manager who has been working in DTT in Guangzhou since 2006, she admitted that the working emphasis of foreign accounting firms in China was different from abroad. Specifically, the biggest proportion of business in China is devoted to auditing rather than consulting or accounting, while the opposite is the case in western countries. Due to their being internationally owned, having well-regarded qualifications and reputations, and, perhaps most significantly, enjoying an advantageous policy emanating from the Chinese government, foreign accounting firms successfully gained market share and almost monopolized it before 2008 when Document No.16 was abolished. Since then, they have quickly lost a number of clients because of the high costs for foreign firms of establishing

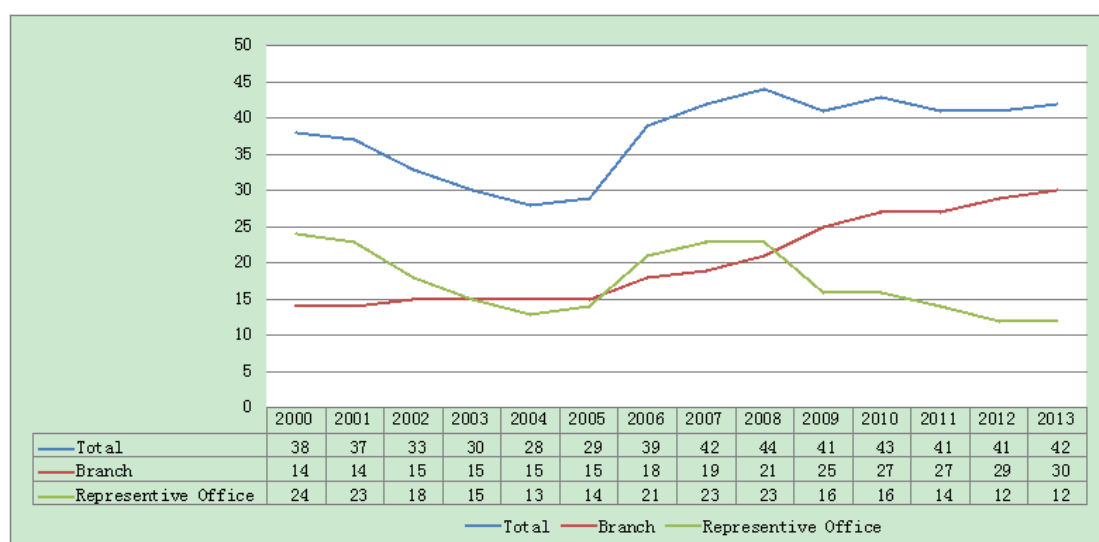
themselves in China and no compulsion from authority. As the manager explained, foreign accounting firms are three to five times more expensive than local, indigenous firms for a single auditing project. A chief accountant working for an indigenous company earns about 300 RMB per hour, while this value rises to approximately 2,500 RMB in DTT and similar foreign firms. Hence, many companies and enterprises will not become the clients of foreign firms without a restriction policy being in place. Despite the restriction being abolishment, she added, the “Big Four” have still laid a solid foundation in China by developing firm and cooperative relationships with numerous local companies and enterprises. However, what is undeniable is, the developmental trajectory of such specialized firms is directly and closely bound up with the execution of government policy and the reform process in China. In other words, in comparison to other advanced producers of services, accounting firms have enjoyed much better development in China.

Although it is impossible for me to collect the data for all foreign specialized firms based in Guangzhou as an individual researcher, I believe that the development of foreign accounting firms at a national level can nevertheless directly reveal the situation in Guangzhou, as well as in other primary cities. In fact, as one of the most important and largest cities in China, Guangzhou is likely to accord with the overall statistics than most of the other cities. On the one hand, any central government policy is imposed nationwide

and takes effect all over the country; on the other hand, advanced producer services are much centralized in the principal cities that are economically developed than the ones in peripheral areas.

6.3.2 Development of foreign banks

China becomes an official member of the World Trade Organization in December 2001. Accordingly, China opened its financial markets gradually to the outside world until 2006, when there were no longer any barriers to foreign banks expanding their business into mainland China.



Source: *Statistic Yearbook of Guangzhou*

Figure 14. Foreign financial institutions and representative offices in Guangzhou (2000-2013)

Unlike how accounting firms develop, the development of foreign banks does not undergo such sudden expansion due to the lack of positive policies. Moreover, on toward foreign banks never stopped after the Regulation of the

People's Republic of China Governing Financial Institutions with Foreign Capital was promulgated on 25th February, 1994. The regulation was further renewed and modified on 12th December, 2001. In addition, the Regulation of the People's Republic of China on the Administration of Foreign-funded Banks came into effect on 24th November, 2006.

There are plenty of restrictions on foreign banks, and these range from registration to operation. However, some of them could have further impact on the relationship between urban spaces.

As we all know, the normal approach that foreign banks follow in establishing their branches abroad is to set up either a bank branch or a subsidiary bank that has a legal entity. Hence, the banking business is usually divided into two parts: the individual service (personal service) and the business service. The individual service sector is only allowed to banks that are independent legal persons. Thus, branch banks from foreign banks are unable to get involved in this professional work. It seems that carrying forward an individual service is not a problem for those who set up subsidiary institutions.

I held an interview with a male manager who has been working successively in three different banks in China for over 20 years. According to his statement, there is a similar invisible limitation in the regulation just as in

the one on urban land use policy. On the surface, there is no specific prohibition of the personal services provided by foreign banks, yet every issuance, such as credit cards and deposit cards, as well as ATM distribution, have to be firstly examined and approved by the China Banking Regulatory Commission, which sometimes delays any procedure in order to comply with central management. As a result, individual service is more or less under controlled again, which directly hinders the development of a business service. The reason for this is, according to the Regulation, a commercial bank should abide by some stipulations, one of which is that the ratio between the balance of loans and the balance of deposits must not exceed 75%. The more a bank absorbs deposit money, the more a bank can loan. Thus, due to all kinds of restrictions in personal services and the loan-to-deposit ratio, foreign banks generally lose competitive power to local banks in business service even though it brings huge profit. Another side view of this phenomenon is that Deutsche Bank shut down its personal service sector all over China in 2013 and is only concentrating now on the business service sector in the future. What is ironic is that two banks from Hong Kong – the Bank of East Asia and the Hong Kong and Shanghai Banking Corporation (HSBC) – successfully expanded their sub-branches of individual service all over China at the same time. There is as yet no evidence to prove that any policy helped them to achieve anything, but I do not think this is just a coincidence.

Table 18. Development of foreign banks in Guangzhou (2005–2007, 2009–2010, 2013)

		2005	2006	2007	2009	2010	2013
Total assets of foreign banks	Billions	377.1	466.3	717.3	849.6	1156.5	1584.2
Total assets of banks in Guangzhou	RMB	12908.5	15590.3	21079.7	26389.0	29673.9	49999.1
Proportion of total assets	%	2.9	3.0	3.4	3.2	3.9	3.2
Growth rate		-	2.4	13.8	-5.4	21.1	-18.7
Total profit of foreign banks	Billion	-	1.9	5.2	5.0	8.5	15.6
Total profit of banks in Guangzhou	RMB	-	106.6	231.2	231.7	324.2	555.8
Proportion of total profit	%	-	1.8	2.2	2.1	2.6	2.8
Growth rate		-	-	28.0	-4.8	22.0	7.5

Source: Annual Report of Institute of Guangzhou Finance (2005–2007, 2009–2010, 2013)

As the annual report of the Institute of Guangzhou Finance shows (see Table 18), the total assets of foreign banks sharply increased almost four times between 2005 and 2013, while the portion compared to the assets of all banks in Guangzhou remained at around 3%. Although the number of branches of foreign banks doubled in the last eight years (see Figure14), there is no any breakthrough of development during the development, instead, stay at the same place.

According to data from the China Banking Regulatory Commission in 2012, the difference between the total assets of foreign banks and the assets of all banks in China is only 1.82%; while the proportion in 2011 was 1.93%. In fact, this figure has never exceeded 2.5% over the past ten years and has continuously declined in the last five years. By contrast, the situation regarding foreign financial institutions in Guangzhou is far better than in other cities in China. Guangzhou has the third-highest number of foreign financial institutions in the country, coming behind Shanghai and Beijing.

6.4 Chapter conclusion

The main task of this chapter is to illustrate the spatial global connectivity situation in the PRNT. I firstly focused on the ownership of the land use rights of every plot in the core area by unscrambling the policy of the Secondary Development and conducting interviews. It turns out that due to the express statements of the government and other unwritten rules, foreign direct investors rarely get the opportunity to enter the local real estate market, not to mention engaging in any further development.

Then I contrasted the three headquarters located in PRNT, focusing on the ownership of the operational structures, trying to find out whether an outsourcing phenomenon of specialized services appears. The results show that until now, there has been no obvious evidence to show that there has

been any functional decentralization occurring within the headquarters of companies in Guangzhou. But the reason for this is not the lack of a specialized service provider; rather, it is down to the immature business environment.

Last, I take foreign accounting firms and banks as a case study in order to explain how state policy has led to such a huge development status between them. The following can be concluded: Advantageous policies are the crucial factor for global elements to become localized. In fact, such beneficial policies also provide and determine the specific plan in the process of localization. From another point of view, they exert an influence on spatial functional form and global connectivity. In the case of Guangzhou, foreign accounting firms have taken advantage of the state-forced policy and successfully become localized from the very beginning. By contrast, banks and other financial institutions have not enjoyed such “treatment” and have been always excluded, both officially and off the record from entering local marketplaces even though the demand is huge. However, the localized global space provided by foreign accounting firms is equipped with what Sassen calls “functional space.” The sort of business they were initially involved in is actually a subsidiary step instead of an indispensable function. But, with the advantages of entering a local market, the firms gradually established cooperative partnership with some of their clients and provided advanced services for their operations.

Even though this advantageous policy was abolished afterwards, leading to foreign firms losing their audit business to local companies, the partnerships continued to be stable. This process became a global connection with a substantial functional transfer.

Chapter 7 Conclusion

In this dissertation, I attempted to contribute to the field of spatial distribution and characteristics within a globalizing city through an empirically based exploration of key national decrees. The three central business districts of Guangzhou were chosen as the subject of a case study. Guangzhou has as many general features as most of the major cities in China. Meanwhile, it experiences less special direct policies than the other two mega cities, Shanghai and Beijing. The results of this research have applicability to the other Chinese cities. This inquiry was made possible through a deep analysis of various policies and regulations in different fields, as well as qualitative and quantitative research on the CBD spaces of Guangzhou. The research was divided into three separate parts, and by using a series of qualitative and quantitative analytical methods, the hypothesis proposed in Chapter 1 was demonstrated: that the decrees and ordinances at a national level affect individual globalizing cities, not only in their spatial organization, but also with regard to their performance as global connections.

To form a conclusion more generally, the central state and the cities in China are closely tied together and have tight inter-relationships due to the fiscal and taxation system. It is impossible to discuss any activities from the perspective of each single entity. In other words, individual cities in China are unable to exceed the level of state control to engage in any multinational

network or global affairs. At the same time, any localized process as a result of globalization occurring within a city is inevitably restricted and affected by the rules and regulations of the state. In comparing this research to other relevant research, the role of the central state in China is not so much a strong influential factor, but rather a conclusive element. Instead of just having an impact on local firms and classes, the central government of China re-positions the status of local cities through reforming taxation distribution, in which the state takes absolute control over total income and leaves the local government to maintain its finances by itself. In this context, local authorities have to pursue economic benefit as much as possible by dominating every link in the chain of urban development. It is surprising that during a development process with special Chinese characteristics, we can still identify similar features and phenomena of other global cities in these local areas, such as urban polarization and the localization of producer services.

However, what is in the background of such similar spatial features on the surface is a differentiation of spatial distribution. A strong development tendency and a high proportion of local enterprises and companies appear to be necessary. On the other hand, foreign companies become secondary in both space and scale aspects. The latest CBDs in China have a tendency to create a brand new spatial structure between local and foreign firms. Local companies, in particular, experience an unprecedented spatial domination

under various beneficial policies and regulations. At the same time, CBD areas appear not to be highly specialized but more multi-functional, where more economical concentration could be presented as contemporary CBDs in globalizing cities. It is foreseeable that unless there is a thorough reform of the fiscal system in China in the future, the contemporary situation will remain and will continuously affects further developments of cities. In fact, a new example has emerged quietly with the new development zone called “Guangzhou Financial City” being under construction. Learning a lesson from the PRNT, the authority set a threshold for the bidder in the auction market with a temporary ruling that only allows financial sector enterprises to become potential proprietors in order to ensure that such an area is worthy of its name.

Meanwhile, a comparative study on the debate between the localization of global flows, which is one of the contentious topics in current globalization research, was also conducted. It is clear that state decree and ordinance affect this process effectively; unfortunately, they all amount to negative factors with regard to global connections. To be more precise, there are mainly two approaches: national decree and ordinance do not actively create opportunities to provide an entity with the global flows to enter a local market; rather, local demand seeks the opportunities and rapidly occupies such interspaces. Second, policy and regulation can, at the same time, play a supportive factor when both global and local elements are suitably matched, or

rather, act as a catalyst. For a local dominant economic environment, global factors, especially ones with a management function, experience a tough start if there is no forced introduction from an authority at the very outset. Once the ice is broken, compact global connectivity can be further established and successfully operated within global networks.

Nowadays, with scholars advocating using monetary policy as a state control function from a Keynesian economic point of view, the role of the state during the globalization process has been changed steadily on the other side of the world. Although there are still a number of decrees and ordinances which have direct impact on the level of local factors, such as companies, enterprises and some of the organizations. However, unlike western central governments using economic-related policies, the Chinese government meanwhile has controlled the initiative of the fiscal system as a fundamental precondition and allowed city authorities to implement policies and regulations to achieve their financial goals. In a highly centralized control state, such as China, reform and modification of the policy and regulation of the fiscal and taxation system, as well as land development, generally build up and settle the model of government operation, which simultaneously has a crucial and further influence on spatial form and distribution in cities. From the shaping of space to further development and establishing domestic and global connections, every procedure is closely related to the fixed model above. Although there is

no obvious direct relation between decrees and the final spatial distribution outcome, there is less impact from any policy and regulation on spatial visual appearance. However, the space, particularly the core developed area within a city, still contains strong, intensive, and unavoidable evidence of the domination of local or central authorities.

In fact, no single decree has the ability to eventually influence any urban space by itself; it is the more comprehensive decree system that appears and further shapes spatial distribution that is one of the main factors in socialist states, just as the establishment of hegemony is in capitalist countries under neo-Marxism. The changes in urban space are closely related to the processes of decree promulgation, modification, and execution, as well as the fiscal system. In other words, urban space, particularly the top economic space, is to a large extent the outcome of decrees.

No matter how strong the global flows are, they exert an influence on cities only if there are successful localization processes, which neither neo-liberalism in the western world nor socialism with Chinese characteristics can avoid. Both the assistant and domineering roles of governments are intent on facilitating and promoting such processes under distinctive national backgrounds. Thus, cities can gradually integrate into the networks of global city. How the latter type of government performs is what my dissertation has explored. There will be an initial discrepancy and a dissimilar process for cities' development model

within contemporary globalization. As such diverse models appear, these non-western development models likewise affect the global network also.

Just as globalization acts on various local players, the decrees from the national state similarly have the ability to alter such players as well. However, it is so delicate and unclear which part of a city the decree will influence when it has just been issued because the indirect outcomes lag behind by a few years in most cases, and it is difficult to exactly define and testify to the causal relationship among them. In this dissertation, I have concentrated on the consequent results from decrees on the economic sector and local space and, in addition, tried to open a new spatial research form by emphasizing several themes toward the cities in the third world, especially where a high centralization of authority is present.

Nevertheless, there is still a lot of blank space of research to fill on other aspects of cities with similar backgrounds, such as population, culture, and NGOs. We have become used to surveying world cities and global cities under capitalism or neo-liberalism within the western model for over 20 years. It is time for us to take a fresh look at cities using a new perspective.

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* The English title of Chinese article is translated by the author.

Appendix

List of important decrees and ordinances with Chinese based on time-line:

- Title: Interim Measures for the Administration of the Foreign-Invested Development and Management of Tracts of Land (issued on 19th May 1990)
《外商投资开发经营成片土地暂行管理办法》（国务院）
Purpose: Attracting foreign investment to participate in the Primary Development
Result: (ditto)
See Chapter 5
- Title: Tax-Sharing System (issued on 1st January 1994)
分税制改革
Purpose: To reorganize the revenue distribution between central- and local government
Result: Polarization of urban land use; extreme high land price in new core area
See Chapter 4
- Title: Regulation of the People's Republic of China Governing Financial Institutions with Foreign Capital (issued on 12th December 2001)
《中华人民共和国外资金融机构管理条例》和《中华人民共和国外资金融机构管理条例实施细则》
Purpose: Setting business restriction towards foreign financial institutions
Result: (ditto)
See Chapter 6
- Title: Document No.16 by China Securities Regulatory Commission (issued on 1st January 2002)
《公开发行证券的公司信息披露编报规则第16号—A股公司实行补充审计的暂行规定》（中国证监会）
Purpose: To prevent inervacious audit from local accounting firms
Result: Rapid development of foreign accounting firms both in audit and relationship business
See Chapter 6
- Title: Provisions on the Assignment of the State-owned Land Use Rights by Means of Bid Tendering, Auction and Quotation (known as the Order No. 11 of the Ministry of Land and Resources) (issued on 1st July 2002)
《招标投标挂牌出让国有土地使用权规定》（国土资源部第11号令）
Purpose: To cut off the potential connection between two kinds of land development
Result: Local government re-gains control power of the Primary Development
See Chapter 5

- Title: 831 Limitation (known as the Order No. 71 of the Ministry of Land and Resources) (issued on 31st August 2004)
《关于继续开展经营性土地使用权招标投标挂牌出让情况执法监察工作的通知》
(国土资源部、监察部联合下发71号令)
Purpose: Using market mechanism to standardize the assigning rights of commercial land use
Result: Real estate enterprises dominate the distribution of plots in the Secondary Development
See Chapter 6
- Title: The Administration of First-Class Land Development (Market Operation Pattern base on government) (issued on 1st January 2005)
《北京市土地一级开发管理暂行办法》
Purpose: To set a standard of market operation pattern based on government in the Primary Development
Result: Local government has the final decision of land status in every single plot
See Chapter 5
- Title: The Company Law of the People's Republic of China (2006.1.1)
《中华人民共和国公司法》
Purpose: To increase the barriers to entry in real estate industry towards foreign investors
Result: (ditto)
See Chapter 6
- Title: Opinions on Regulating the Access to and Administration of Foreign Investment in the Real Estate Market (issued on 11th July 2006)
《关于规范房地产市场外资准入和管理的意见》
Purpose: To establish restriction towards foreign investment in real estate market
Result: Local enterprises, especially real estate companies dominate the distribution of plots in CBD area
See Chapter 6
- Title: Catalogue of Industries for Guiding Foreign Investment (issued on 1st January 2007)
《外商投资产业指导目录(2007年修订)》国家发展和改革委员会、商务部令第57号
Purpose: Building dwelling house by foreign investment was no longer officially encouraged
Result: Further restriction towards foreign investment in real estate market
See Chapter 6