

## **The Urban Governance of Economic Restructuring Processes in China: The Case of Zhongda Textile District in Guangzhou**

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### **Abstract**

Seen against the backdrop of increasing global competition, China's export-driven growth model is no longer suitable for modernizing the country. Since the mid-2000s, China has been implementing the *Second Transition* to shift its economy toward more value-added products and services. Based on a case study of an inner-city area known as Zhongda textile district in Guangzhou, China, this paper analyzes the governance of local economic restructuring and upgrading strategies in the face of global, national, and regional competition. In doing so, an analytical governance approach is applied. This includes a discussion of how Western governance models can be adapted to the situation in China. The investigation of the upgrading process in Zhongda textile district identifies two distinct development phases with changing stakeholder coalitions and shifting governance modes. The empirical analysis clearly shows that the situation cannot be described in terms of ideal types of governance modes, but that hybrid forms must be used. In general, a shift from clientelistic to more corporatist elements of governance can be observed. This is mainly linked to institutional innovations, which allow for more transparent decision-making. Finally, the paper discusses the limits of empirical research on urban governance in China and calls for further case studies and the inclusion of further theoretical approaches.

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### **Introduction**

In February 2012, the World Bank presented a comprehensive study titled “China 2030,” which had been researched in cooperation with Chinese think tanks. The subtitle “Building a Modern, Harmonious, and Creative High-Income Society” summarizes the major development aspirations of the Chinese leadership. Above all, the study contains proposals to restructure the economy along the lines of a more qualitative growth model — with particular consequences for the labor-intensive sectors, such as the textile and clothing industry.

The authors of this paper on the urban governance of restructuring processes have chosen the Zhongda textile district (*Zhongda bupi shichang*) as a showcase for an analysis of spatial-economic restructuring in China. It is a densely populated, vibrant, and almost completely built-up inner-city area in the heart of Guangzhou,

Guangdong province. Currently, this district is experiencing massive tertiarization processes: traditional manufacturing activities such as spinning and assembling are losing importance due to the construction of wholesale malls with the character of urban entertainment centers. This is part of ambitious plans to transform the area into the “Silicon Valley of the textile industry” (Information Times 2008), seeking to maintain the importance of Zhongda textile district within the global drapery value chain. The upgrading process has been taking place in the face of increasing competition from other clusters in China and from cheaper manufacturing sites in Southeast and South Asia.

The objective of this paper is to analyze the governance of upgrading strategies in Zhongda textile district in order for it to stay competitive. Accordingly, the paper will address the following key questions:

1. Which *global, national, and regional* competitive challenges affect Zhongda textile district? How can this *structural context* best be described?
2. What *local* economic upgrading and restructuring strategies have been implemented in Zhongda textile district? Which *stakeholders* have promoted these efforts?
3. Which *modes of governance* of urban economic policies can be identified over time?

The authors conducted empirical fieldwork in Guangzhou from 2007 to 2012. In-depth interviews were conducted with various stakeholders as well as expert talks with representatives from local universities, urban planning offices, chambers of commerce, and other such bodies. Furthermore, newspaper articles and political documents were analyzed and scientific articles reviewed. This research was supplemented by a small-scale quantitative survey conducted among local textile shop owners in 2010.

### **Research on urban governance in China**

Apart from the application of these empirical methods, the answering of the research questions is embedded within an analytical governance framework. This serves to structure the research and to generalize findings to achieve a more abstract understanding of how urban economic restructuring takes place in China over time. As stated in DiGaetano/Strom (2003), urban governance is “the process of coordinating political decision-making.” Urban governance leads the researcher to look beyond the public institutions, pointing to the ways in which powerful actors coordinate (Pierre 2005). Due to fiscal crises of welfare states and neo-liberal policies, governments have increasingly outsourced tasks to private entities and formed new alliances with the private sector. The urban governance approach not only seeks to analyze these stakeholder coalitions, but it provides insights into *how* a city is actually governed. In the following, the authors will explain two major analytical governance frameworks conceptualized by DiGaetano/Strom (2003) and Pierre (1999).

DiGaetano/Strom analyze governance as a set of intermediations among layering spheres, the *structural context*, the *political culture*, and the *institutional milieu* centered on *political actors*. The different formal institutions (*institutional bases*) do not act separately, but they are integrated in a complex *institutional milieu*. These informal, non-visible interactions are labeled *modes of governance* here. The North American and European cities observed are embedded within a specific *structural context* of state devolution, less financial support from national governments, and greater economic competition at the global level. The structural changes are forcing governments to find new ways of interacting with private entities. Due to distinct *political cultures*, cities choose specific kinds of public-private partnerships (DiGaetano/Strom 2003: 370). *Political actors* seek to influence the decision-making to maximize their benefits; their success is dependent on the ability to cooperate with other acting groups (ibid.: 371). To compare urban regimes, DiGaetano/Strom define *modes of governance* among cities, analyzing the relations between different actors and stakeholders (*governing relations*), the way decisions are taken (*governing logic*), the *key decision-makers*, and the *political objectives* that exist. The five *modes of urban governance* are clientelistic, corporatist, managerial, pluralist, and populist (see table 1).

**Table 1: Modes of urban governance**

	Clientelistic	Corporatist	Managerial	Pluralist	Populist
<b>Governing relations</b>	Particularistic, personalized, based on exchange	Exclusionary negotiation	Formal bureaucratic, or contractual	Brokerage/mediating among competing interests	Inclusionary negotiation
<b>Governing logic</b>	Reciprocity	Consensus-building	Authoritative decision-making	Conflict management	Mobilization of popular support
<b>Key decision-makers</b>	Politicians and clients	Politicians and powerful civic leaders	Politicians and civil servants	Politicians and organized interests	Politicians and leaders of community movements
<b>Political objectives</b>	Material	Purposive	Material	Purposive	Symbolic

Source: DiGaetano/Strom 2003, modified.

In the *corporatist* mode of urban governance, for example, the policy is ruled by civic elites and a coalition of powerful private interest groups, such as managers from local companies (ibid.: 365-366). Decisions are taken in a consensus-oriented way by an exclusive circle of people and are based on negotiation and compromise. One example is the organization of round tables. As part of the *managerial* approach, the city is dominated by governmental officials and private interests, too, but in this case, decisions are based on “formal bureaucratic relations” and

implemented in an authoritative manner (ibid.: 366). The political objective of the managerial mode is material, because governmental services are contracted to private companies (ibid.: 366). Material objectives can also be found in the case of the *clientelistic* mode: here, politicians and their favored clients usually interact through personalized exchange based on reciprocal benefits (ibid.: 365).

As early as 1999, Jon Pierre defined a typology of four ideal-type *models of urban governance*, which met with broad interest in the scientific community even though it caused some controversy (e.g., Kantor/Savitch 2005; Nuissl/Heinrichs 2011; Sellers 2002, 2005, 2011; Ward 2009). Pierre (1999) differentiated between managerial, corporatist, welfare, and pro-growth models of urban governance. Like DiGaetano/Strom, he also introduced a set of indicators, including policy objectives, policy style, key instruments, and key evaluation criteria (ibid.: 388). Pierre argues that the *pro-growth* model of urban governance is “by far the most familiar abstraction of urban politics” (Pierre 1999: 383). In this “distinctly elitist governance model,” the city is governed by a close collaboration of shared interests between civil servants and local business elites, as Moltoch already stated in 1976 (ibid.: 384; Moltoch 1976). As they have a common interest in boosting the local economy, for example by city branding, the instruments they employ are institutionalized public-private partnerships. The nature of exchange is consensus-oriented, characterized by a pragmatic policy style (Pierre 1999: 388). Although Pierre highlights the role of local politics, which can “make a difference,” he clearly admits its weak role when compared with “the overwhelming influence that structural changes in the economy have on the local economy” (ibid.: 385).

Obviously, such urban governance models cannot be applied without adapting them to China’s one-party state, which is in a constant state of economic and social transition. The comparative modes and models of urban governance introduced above have been developed against the backdrop of pluralist democracies in the West and public financial crises and deindustrialization processes. China, in contrast, has been experiencing a highly dynamic phase of industrialization and a seemingly abundant state budget. For a long period of time, national ideology focused on “economic developmentalism” (Heberer/Schubert 2006: 15), the primacy of economic growth, which has served as the main legitimacy for one-party leadership to this day.

The *structural context* of Chinese cities can best be described as a gradual overall transition of an experimental nature, which Heilmann/Perry (2011) have described as “adaptive governance.” The cities are confronted by highly dynamic marketization, decentralization, and globalization (Lin 2001; Ma 2004). For example, fiscal decentralization has led to the rising autonomy of cities, which has been labeled “local state corporatism” (Oi 1992; 1995). Local cadres and politicians often act as “political entrepreneurs” (Kirchberger 2004: 66) and bypass laws and regulations prepared by higher levels of the hierarchy to maximize investments

(Duckett 1998; Ng/Tang 2004; Oi 1992, 1995; Wu et al. 2007). Competition between cities has increased as a result.

The *political culture* in China is fundamentally different as well, with significant impacts on the way in which policy-making and collective decision-making take place. In general, it can be characterized by intransparency and weak formal institutions (*institutional bases* in the terminology of DiGaetano/Strom). A former member of the CCP's Central Committee from 1982 to 1985 argued that "Chinese politics is too complicated to understand; some things can never be made clear" (Teiwes 1995: 55). Nonetheless, leading cadres have tried to make policy-making more transparent, replacing "informal personalism" (Heberer/Schubert 2006: 15, 18) with formal structures and institutions with a view to "constitutional sanctification" (Dittmer 2003: 358). Although political leaders have aimed at reducing the CCP's control over personal matters (Heberer/Schubert 2006: 15), "there remains a lack of clarity in distinguishing the individual roles of government, state enterprises, and the private sector" (World Bank 2012: 25). Clearly identifying the *key decision-makers* and the relations among them (*governing relations*) is a challenging task. This is also because the political actors referred to as "civil servants" and "politicians" by DiGaetano/Strom are often identical.

The actors involved and the censored Chinese media do usually not discuss how decisions are taken. In particular, the transformation of land and big investment projects are often accompanied by rent-seeking activities based on personal relations (Langenberg 2007; He 1998). It is a well-known fact that *guanxi* is particularly dominant in local politics (Kirchberger 2004), where powerful interest groups seek to influence political decisions for the purpose of maximizing their own benefits, often indicating bribery.<sup>1</sup>

These elements of *political culture* additionally constitute a considerable challenge for empirical work. However, the identification of urban governance modes is largely a result of broad generalizing. Looking at the existing literature on governance, it seems that the empirical analysis often begins at the meso-level of urban policy and that the application of a "spying approach" at the micro-level has not been considered necessary.

Following DiGaetano/Strom, the starting point of urban governance is the structural context, because "the sources of institutional change in urban governance stem most fundamentally from changes in the structural context" (DiGaetano/Strom 2003: 373).

<sup>1</sup> In China, governance (*guanzhi*) is most often understood in a normative sense, implying investigations of local corruption. During their fieldwork, the authors therefore replaced it by "urban management" (*chengshi guanli*).

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## 1. The structural context

### Global challenges

The textile and clothing sector<sup>2</sup> is undoubtedly one of the most globalized industries of all. Developing and newly industrialized countries in Asia have particularly benefited from the early globalization of its value chains. In many cases, the expansion of this industry was the stepping stone for further economic growth. In China, this sector became a key vehicle of export-oriented industrialization.

The textile industry is dominated by a small number of economies, of which the top five, i.e., China (1), the European Union (2), India (3), the USA (4), and Hong Kong (5)<sup>3</sup> account for approx. 63% of the world's total textile exports (WTO 2011). As the leading exporter, China has a volume of USD 77 bn, ahead of the European Union with USD 67 bn (ibid.). Since the beginning of the reform process, the country has been able to raise its world market share substantially — from 5% in 1980 to 31% in 2010, with an average annual growth rate of 13% over the last five years (ibid.).

As for the clothing sector, China's role is even more dominant: it is also the leading exporter here with a total market share of 37% and an astonishing volume of USD 130 bn in 2010. The European Union is the second-largest exporter of clothing, followed by Hong Kong, Bangladesh, Turkey, and India (ibid.). But even though China's world market share has increased, the contribution of the textile and clothing sector to the total volume of China's exports dropped from 19% in 2000 to 12% in 2010 (World Bank 2012), probably due to the massive growth in electronics and machinery exports since 2000 (UNCOMTRADE 2012).

The immense pool of cheap labor and the favorable environment for foreign direct investment within China's special economic zones have been the main drivers of growth for a long time now. China has continuously demonstrated its high adaptive capacity to flexibly restructure, to increase its vertical range of manufacturing, and to upgrade (ADB 2006; USITC 2004). Furthermore, through the provision of a broader range of services — everything ranging from cheap T-shirts to luxury goods — China's textile industry has been able to stay globally competitive so far. Last but not least, China's proximity to US markets (12–18 days) is advantageous in comparison to ASEAN countries' (28–30 days) (USITC 2004).

China's accession to the World Trade Organization (WTO) in 2001 was a milestone in its economic transition. The full implementation of the Agreement on Textiles

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<sup>2</sup> The terms *textiles* and *clothing* are often used in a blurry way, sometimes even as synonyms. The Chinese characters for Zhongda textile district are also ambiguous: “*bu*” refers to both textiles and clothing.

<sup>3</sup> Hong Kong's exports are so-called re-exports (see below). The WTO itself consequently does not calculate Hong Kong's shares in world exports (WTO 2011: 124). (A large amount of internal trade also takes place in-between EU states.)

and Clothing (ATC) in January 2005 finally put an end to the quota system and most of the discriminatory measures and restrictions (ADB 2006). However, China has not yet been able to obtain free market access, since other member countries are allowed to treat it as a ‘nonmarket economy’ until 2016 (WTO 2001). Safeguards to protect domestic markets from Chinese dumping prices have been established, though. The effects this is having on the Chinese economy remain rather unclear. For example, Lau/Bilgin (2010: 2,029) regard China as “the big winner in the post-quota era,” whereas James (2008: 1) points out that the imposition of safeguard quotas on China by the US and EU in 2005 helped other competitors to increase their market shares.

The textile sector is very heterogeneous, covering the complete range from cheap mass production to high-end innovations. In the past, many countries were able to restructure their local textile industry and produce more innovative products as a result. Germany, a high-wage country, is now the leading producer of technical textiles, for example (Heymann 2011: 1; A2). In contrast, the manufacturing of clothing is exceedingly labor-intensive. Combined with the small size of plants and low technical requirements, the barriers to entering the low-end production chains are not very high (Dicken 2007: 255). Tiger economies of the third generation, such as Vietnam, can easily compete with Chinese wage levels of approx. USD 300 per month for workers in the textile industry (CTEI 2011). In 2011, sportswear company Nike consequently moved its production facilities from China to Vietnam (Want China Times 2011) and in 2012 Adidas announced to shut down its production site in Suzhou, too (Xie 2012). China’s competitors have steadily strengthened their local textile industries by upgrading their technology, improving their transport facilities, and actively protecting niche-based exports (A1; Hayashi 2005). Many customers nowadays consider India to be the first alternative to China (USITC 2004: 16).

The immense competitive pressure from other global manufacturing countries means that quantitative low-end assembling no longer makes economic sense for China. The following section will discuss what measures the national government is undertaking to climb up the ladder of the global value chain.

### **National challenges: the Second Transition**

Modernization of the centrally planned socialist economy started in 1978. The opening to global capital was highly successful: China became the factory of the world. The export-led industrialization was fueled by a massive influx of cheap labor in the form of migrants from the countryside. Over the last decade, however, this resource seems to have run dry, and in Guangdong province particularly, the labor-intensive sector has experienced labor shortages for the first time since 2005 (Schucher 2009: 134). When Chinese workers were not willing to accept low wages in 2009, scientists started to debate whether China had reached its *Lewis turning*

*point*, “the stage of development beyond which surplus labor is exhausted” (Schucher/Kruger 2010: 128). There is strong evidence that China is at least approaching this milestone: since the turn of the millennium, migrant workers’ wages have risen by 6% annually, and in 2010, local authorities throughout the country increased minimum wages by 10–25% (*ibid.*: 124–125). As productivity could not be increased to the same extent, production costs in China have been rising (Bottelier 2007). Chinese Prime Minister Wen Jiabao acknowledged as much when he warned his comrades about “an increase in the comprehensive power of newly emerging market economies” at the 2011 National People’s Congress (China Quarterly 2011). This is of particular concern to the clothing industry in China, which generates a low profit margin and limited added value; less than 10% of the added value of shirts or pants remains in China, while the rest goes to foreign designers, distributors, and retailers (Shen 2008).

A crucial instrument of national policy that is employed in order to protect export-led growth is the undervaluation of the Chinese renminbi (RMB), making exports from China considerably cheaper than those from many other countries. Not market forces determine the exchange rate, but the Chinese government. The RMB is undervalued by 20–40% (Frankel 2010; Reisen 2010). The tool of undervaluation is increasingly being criticized, because it is creating economic imbalances, particularly regarding trade with the USA. It can be safely assumed that China will be forced to float its currency more freely in the future (Krugman 2010a; 2010b). When this happens, its economic structure will have to be adequately restructured to cope with unavoidable export losses.

For the Chinese government, these challenges are directly linked to policies boosting domestic demand and transforming the economic growth model. Pieter Bottelier labeled this shift the *Second Transition* following the First Transition of export-led, resource-intensive expansion (from 1978 until the early 2000s) (Bottelier 2007: 32; Schucher 2009). The quintessence of the Second Transition is to win a larger share of the global production chains by increasing independent domestic innovation and high value-added production, and finally by increasing the service industry’s share of GDP. This paradigm shift has been implemented in the political program of the *Hu-Wen* leadership and is termed the “Scientific Outlook on Development” (*kexue fazhan guan*; translated in line with Holbig 2009: 48), and is the key vehicle with which to bring about a “harmonious society” (*hexie shehui*). These concepts were implemented as part of the 11<sup>th</sup> and 12<sup>th</sup> Five-Year Plan (2006–2010 and 2011–2015 respectively) to turn from merely *quantitative growth* toward *qualitative expansion*. According to the related “Recommendation for the Textile Industry” (CEI 2010), China aims to transform itself “from a big textile country to a strong textile country” by 2020 (“*fangzhi daguo xiang fangzhi qiangguo*,” Liang 2011). During that period, at least fifty innovative methods of production and 110 key projects are to be realized across the nation (CEI 2010: 3). Finally, the wording “Made in China” is to be replaced by “Designed in China” (Shen 2008), for China is aiming to develop

internationally recognized brands and products of its own with the aid of integrated domestic value chains. The domestic market is to act as a driving force for China's manufacturing industries. Thus, there will not only be a phase of maturing from "Made in China" to "Designed in China" (Shen 2008), but also from "Made in China" to "Sold in China" (Farrell et al. 2006). In this context, it is worth mentioning recent national CSR initiatives such as compliance standards for companies of the textile sector that are driven not only by global customers and international NGOs, but also by the Chinese national state (Habich 2010: 100).

### Regional challenges

At the regional level, the "Scientific Outlook on Development" has a special significance, as it can be linked to the so-called "Great Western Development Strategy" (*xibu da kaifa*), the relocation of production sites from the affluent coastal provinces to low-wage hinterland areas in central and western China (Heilmann 2004: 175). The 2009 stimulus program to soften the impact of the "financial tsunami" (Schucher 2009: 122) has accelerated this trend: the share of investments in the central and western regions increased from merely 22% in 2005 to 48% in 2010 (CNTAC 2011). So far, though, the Chinese textile industry has remained highly concentrated in the east of the country, namely in the Yangtze River Delta region shared by the provinces of Jiangsu, Zhejiang, and Shandong, and in the southern provinces of Fujian and Guangdong. These top five provinces account for approx. 77% of the country's total sales volume and a remarkable 84% of its exports in textiles (table 2).

**Table 2: The regional structure of the Chinese textile industry**

Province	Location quotient <sup>4</sup>		Share of the PRC's total textile sector in 2008			Annual growth of the textile sector in 2007	
	2002	2008	sales	profits	exports	exports	sales
<b>Zhejiang</b>	2.72	2.71	21.7%	20.2%	27.7%	6.3%	9.0%
<b>Jiangsu</b>	2.28	1.98	23.3%	21.8%	21.0%	5.4%	10.3%
<b>Shandong</b>	1.14	1.34	16.9%	28.8%	11.8%	10.7%	20.9%
<b>Fujian</b>	0.93	1.46	5.3%	6.0%	5.7%	8.3%	16.5%
<b>Guangdong</b>	1.15	0.76	10.1%	4.3%	17.4%	1.9%	15.6%
			Σ 77.3%	Σ 81.1%	Σ 83.6%		
<b>Shanghai</b>	1.07	0.58			no data		

Source: data compiled from Zhang 2011

<sup>4</sup> A *location quotient* (LQ) higher than "1" indicates that the concentration of the textile industry is higher than at the national level, and an LQ below "1" indicates the opposite (Zhang 2011).

As table 2 indicates, Zhejiang province has been able to attract the highest number of textile companies, and it has managed to maintain this position over the last decade. But comparing the economic performance of the various provinces, Jiangsu, which is Zhejiang's busy neighboring province, has gained even more sales and profits. In the past decade, the two provinces have spared no efforts to strengthen their textile industries (Zhang 2011).

In Guangdong's case, the quotients in table 2 indicate that the province lost part of its market share between 2002 and 2008. Although the percentage of the country's exports was still substantial at over 17%, the low share of its profits — just 4% — indicates structural weaknesses in this sector in Guangdong. The economic growth of the textile sector in Guangdong has been underperforming for quite a long time compared to the growth rates of other sectors, such as the electronics industry. According to Guangdong's Textile Association, the province is suffering from six major structural problems, which has particularly been the case since the global financial crisis broke out in 2008/2009. These are actually described as “three shortages, two burdens, and one weakness” (*san huang liang gao yi di*): labor shortages, especially for labor-intensive processes; liquidity shortages due to rising interest rates; electric power shortages; high costs; high taxes; and low profits (GDTexile 2011a/2011b; A3). Before the end of global quota restrictions back in 2005, Guangdong province had particularly benefited from “quota-hopping” (Hayashi 2005: 6). Due to China's highly restricted exports, labor-intensive sewing processes took place in Guangdong, and the semi-finished products were then transferred to nearby Hong Kong for final processing before being exported to overseas markets (Yeung/Mok 2004).

Close relationships with Hong Kong's textile industry (A1) have been the basis of growth in the textile sector in the Pearl River Delta (PRD) for a long time. Textile and clothing companies have been financed and managed from the Hong Kong “shop at the front,” whereas the labor-intensive processes of the production chain have been located in the PRD “factory in the backyard.” The knowledge-based parts remained in Hong Kong until only just recently. Lately, however, textile and clothing companies from Hong Kong have even started to relocate their design and marketing departments to the PRD (A4). Guangdong textile experts regard the province's collaboration with Hong Kong as problematic, because the thousands of scattered textile companies in Guangdong lack brands and rely on processing to attract investment from Hong Kong (Southern Metropolis Daily 2004; A3).

First and foremost, however, it was the increasing competition from eastern Chinese provinces that put pressure on Guangdong's textile industry. In 2004, experts from the China Textile Industry Association argued that “the developmental speed of Zhejiang province has outpaced that of Guangdong, and the gap is still widening” (Southern Metropolis Daily 2004). In particular, the biggest textile hub in China, *China Textile City*, located in Keqiao southeast of Hangzhou in Zhejiang province,

which proudly labels itself “the capital city of the international textile business” (“guoji fangzhi zhi du,” CTC), applied a great deal of pressure to the textile industry in the PRD. Further, the famous Yiwu market, located in Zhejiang province, as well, with a great proportion of clothing products had been continuously expanding and upgrading its commerce facilities, too. Consequently, Zhongda textile district has been forced to upgrade its operations to remain competitive.

To summarize, the global textile industry is characterized by many countries competing against each other, challenging China to continuously modernize and adapt its industrial structure. The PRC’s national policies are trying to master the shift from a quantitative growth model toward a more qualitative growth model — the so-called “Second Transition.” This combines a whole set of measures aiming at achieving higher productivity, more diversity in manufacturing, and greater added value. At the same time, the competitors of Zhongda have undertaken huge investments in a bid to develop the clusters of mere textile trading into international service centers combined with exhibitions. All this shows that Zhongda textile district is embedded in a complex interplay of global, national, and regional challenges. In the following, it will be shown how these challenges trickle down to the local level and how this has influenced the actors, how it has contributed to new stakeholder coalitions, and finally how urban governance has changed over time.

## 2. Restructuring and upgrading Zhongda Textile District

This section analyzes the spatial restructuring and economic upgrading processes observed in Zhongda textile district. Specific measures and steps will be described, followed by an analysis of the stakeholders and their influence, both in an *early* and an *advanced* development phase. During the first decade of the 2000s, Zhongda textile district became one of the biggest textile clusters in China, comprising a total area of approx. 67 hectares and a population of around 300,000 (FZGH 2007). By 2006, there were 40,000 employees dealing in more than 20,000 different products and achieving an annual turnover of RMB 25 bn (Shuai 2008: 9).

### The early development phase (1980s–2004)

The history of this cluster goes back to the end of the 1980s when mobile retailers selling textiles along the banks of the Pearl River were relocated to the sparsely populated Haizhu district. At that time, the area consisted of just four villages: Wufeng, Fenghuang, Kangle, and Ruihao. The Chinese name *Zhongda bupi shichang*<sup>5</sup> still refers to its location just opposite the south gate of Sun Yat-sen University (*Zhongda*). The retailers bought clothes and other textiles from nearby factories and sold them on small stalls. The small factories operated in the

<sup>5</sup> Various English translations of this are commonly used: “Zhongda Textile District,” “Zhongda Fabrics Market,” “Zhongda Cloth Market,” etc.

surrounding villages, and some tradesmen added further value to the goods by dye-printing or tailoring them. As recently as 2010, a survey conducted by the research team showed that the overwhelming majority of shops still had sales areas of less than 30 sqm and employed no more than three hired workers. This period of “incubation” (Schröder et al. 2010: 6) can be characterized by increasing purchase volumes. The villagers benefited a great deal from the revenues, because during that time, they were usually the shop owners’ landlords (Cai 2010: 22; FZGH 2007). The area developed in a fragmented way: Stalls were erected without official permission, often expanded without any restrictions, in many cases blocking roads in the process; and the villages experienced extreme densification due to the erection of factories and accommodation for migrant workers. All this led to frequent fire hazards and high crime rates. During the 1990s, the economic development of the market became intertwined with that of the villages. The latter became increasingly urbanized (*chengzhongcun*) by the expanding city of Guangzhou in the meantime. In 1996, the district government started an initial upgrading program and moved mobile street vendors indoors to mostly makeshift shops (Cai 2010: 20). As a result of the economic boom, Zhongda became the biggest textile market in southern China (ibid.: 22). Aware of the market’s potential, Guangzhou’s city administration included it in its “Development Plan for a Commodity Network in Guangzhou (2003–2010)” (Schröder et al. 2010: 7).

Despite various efforts, the security problems could not be solved, and the local government began to search for new ways of managing the area. In 2001 and 2002, meetings were held with appropriate departments, but the results were “little more than a temporary palliative treatment” (FZGH 2007: 20). No satisfactory approach to these problems was found until 2004; for many years, Zhongda was listed as one of the ten least safe places in Guangzhou (ibid.). The executive powers of the public-security, fire-prevention, tax, and planning departments essentially failed to consult with each other. Consequently, planning documents described this period as “government by non-interference” (ibid.).

The security problems were only the tip of the iceberg and had far-reaching structural causes. Many different stakeholders were competing who often had opposing interests, ultimately preventing the creation of a long-term perspective for the textile district (table 3). The most important stakeholders were urbanized villages, local government, small- and medium-sized enterprises (SMEs), and potential investors or developer companies. Being the owners of the land plots, the urbanized villages had the most leverage in negotiations. Guangzhou had encircled the villages, and the once valueless farm plots gained in value considerably as a result. Joint-stock companies managed the collectively owned land, with villagers holding the stocks (Altrock/Schoon: 2011a; Guo/Wu 2007: 3; FZGH 2007: 23). The companies sought to maximize their profits by building low-quality houses that almost touched one another over the narrow roads. The lower floors of these “kissing buildings” served as shops and manufacturing spaces, the upper floors as

apartments for workers. Because national laws prohibited villagers from selling their land to private investors, investments in public infrastructure, such as sewage systems or roads for logistics purposes were seriously neglected (Shuai 2008; Schröder et al. 2010). At that time, public authorities suffered from institutional fragmentation as well as a lack of coordination and power to solve the area's problems. In addition, developers had no opportunity to purchase larger plots of land.

**Table 3: Stakeholders and their influence during the early development phase**

Urbanized villages		SMEs (shops, factories, logistics)	
++	<ul style="list-style-type: none"> <li>• landlords</li> <li>• small-scale infrastructure</li> <li>• high returns on collective land</li> </ul>	+	<ul style="list-style-type: none"> <li>• small-scale operations</li> <li>• walk-in customers</li> <li>• high rents and poor logistics</li> </ul>
Developer companies		Local government	
-(-)	<ul style="list-style-type: none"> <li>• no possibility to obtain land</li> <li>• insecure investment perspectives</li> </ul>	0	<ul style="list-style-type: none"> <li>• various institutions act in an uncoordinated way</li> <li>• incapable of exerting development control</li> <li>• no power over land</li> </ul>

Source: the authors' own compilation

To summarize, the interest groups dominating the market had a short-term perspective: the shop and factory owners tried to maximize their revenues in order to pay the high rents to the villages. At the same time, the government was to some extent absent and did not control, manage, or develop the market adequately.

### **The advanced development phase (since around 2004)**

The local governmental authorities were rather helpless with regard to the mostly spontaneous and highly dynamic economic forces for a long time. To some extent, this can be traced back to institutional gaps that are typical of socialist countries in the course of transition (Waibel 2006; 2008). Usually, the adaptation of the planning apparatus to the intense dynamics of market-driven forces lags behind the economic development. Over time, however, these institutional gaps were closed. During the late 1990s, there was a "comeback of the state" (Heberer/Göbel 2011). In the case of Zhongda textile district, the reassertion of state control can be linked to a set of measures initiated by the local authorities since 2004:

- 1) In 2004, Haizhu district implemented the *Two Axes and Seven Areas* plan (*liang zhou, qi qu*, Liu/Deng 2004). The term "Two Axes" refers to the construction of two arterial roads running north-south and east-west. To realize the implementation of the new traffic axes, more than 16,000 square meters of buildings were demolished that had been built without permission. The shop owners were only informed about the demolition by the sign "*chai*" ("pull down") put on their doors shortly before the buildings were flattened (Liu/Deng 2004; Hu 2004). Nonetheless, the local government granted the tenants RMB 16,000 in compensation (Liu/Deng 2004). This

radical approach became necessary to achieve the next step, i.e., the erection of huge wholesale malls along the traffic routes shaping the “Seven Areas.” It was also a clear sign that the government would no longer tolerate informal developments to the same extent.

- 2) Again in 2004, an institutional innovation was initiated by the district government, i.e., the *Management Board of Zhongda Cloth Market* (MBZD). This new organization became responsible for the supervision and the daily management of the whole area. Taxation authorities and planning and security departments were pooled and put under the local government’s direct control (B3; FZGH 2007). By means of the MBZD, problems concerning the Zhongda textile area could be treated in a holistic manner, whereas before, they had been handled by different entities without any attempt at coordination. Thus the establishment of the MBZD served to regain development control.
- 3) Another institutional innovation achieved in 2006 was the establishment of the *Textile Industry Chamber of Zhongda Canton, China* (TIC) to mediate the interests between the developer companies, the shop owners, and the local administration: “Shop owners are in need of a chamber to protect their rights and benefits so they can concentrate on their [real] business” (B4). In order to prevent aggressive price wars from breaking out, the prices of major goods are discussed at monthly meetings (B4). The TIC also organizes expert discussions to inform its members about economic and legal issues (B4). It frequently holds meetings with the MBZD to solve problems and to discuss options concerning the future development of Zhongda textile district. All this ensures more transparent decision-making than before, and it also strengthens local coordination.
- 4) In 2007, the “Upgrading Plan for Zhongda Textile Area” (*Zhongda bupi shichang zhengzhi guihua fang'an*, FZGH) was promulgated, outlining a new economic strategy. The document, prepared by scientists from Sun Yat-sen University, evaluated past efforts at upgrading and finally gave Zhongda a specific development perspective: “to become a modernized and specialized textile wholesale market with adequate supporting facilities, complete functions, first-class services, and standard management; to become a trade area for the cloth and apparel industry, which can perform the functions of business exhibition, e-commerce, transaction, and processing; and to become a central economic zone in Haizhu district” (ibid.: 16).

As a consequence, this plan became the most important guideline for the restructuring process.

These milestones were achieved because the practice of dealing with land-use rights had been changed at the beginning of the 2000s: the provincial government prohibited the direct sale of land-use rights by villagers to SMEs, for example (FZGH 2007; B3). This new approach was implemented to regain control of the spatial development and to curb speculation about this crucial resource (B2). In the case of Zhongda, this decision accorded with the “Suggestions for the conversion of urbanized villages in Guangzhou” (*Guangzhou guanyu chengzhongcun gaizhi gongzuo de ruogan yijian*) (FZGH 2007: 34; Altrock/Schoon 2011b). First of all, the leases had to be transferred to the local government. Acting as an entrepreneur

dealing in land, the local government was able to pool land-use rights and subsequently offer them to developer companies.

As a result, a number of wholesale malls were built, designed as “one-stop centers for fabrics and accessories” (B6, table 4) and combining purchasing, trading, logistics, and exhibitions. These malls are usually financed and managed by mainland Chinese investment companies:

**Table 4: An overview of newly erected wholesale malls in Zhongda textile district**

Mall	Opened	Shops & size	Developer
Guangzhou International Textile City	2004	4,200 30,000 sqm	Guangzhou Kaihua City Real Estate Developer
Jiuzhou Fabrics Market	2007	2,000 around 20,000 sqm	Zhongda Jiuzhou Property Management
Changjiang (China) Fabrics & Accessories Center	2010	8,000 > 40,000 sqm	Subsidiaries of Zhenwei Exhibitions: Canton TIPT, Canton Fabric, and Canton TEX
Pearl River International Textile City	2012	> 6,000 (estimated) 90,000 sqm	Two subsidiaries of Pearl River Investment

Source: the authors' own compilation based on observation and interviews

**Figure 1: Demolition of a textile factory building in Zhongda textile district**



Source: Michael Waibel, 2009

**Figure 2: Erection of a new wholesale mall next to urbanized village structures**



Source: Michael Waibel, 2007

**Figure 3: The Pearl River International Textile City main building**



Source: Michael Waibel, 2011

The first big investor was Guangzhou Kaihua City Real Estate Developer: in 2004, it invested RMB 20 bn to develop “Guangzhou International Textile City” (Dong/Wen 2005). The mall management aims to be a “365-day expo” targeting international clients. So far, this has been the most successful venture featuring high occupancy,

restaurants (including McDonalds), and the provision of condominium apartments for the upper-class population. The organization of fashion shows gives university students the opportunity to present their own designs (B1). In 2010, a subsidiary of renowned exhibition organizer Zhenwei erected the huge Changjiang Fabrics and Accessories Center, offering a total of 8,000 shop stalls (B6). Finally, Pearl River International Textile City was opened in 2012. Boasting a total space of 90,000 sqm, it is currently China's biggest mall. Like Guangzhou International Textile City, it combines textile trade with fashion shows and exhibitions, the provision of high-rise apartments, and various urban entertainment facilities (B10, B11). However, the malls, which saw completion only recently, are still suffering from high vacancies (B8).

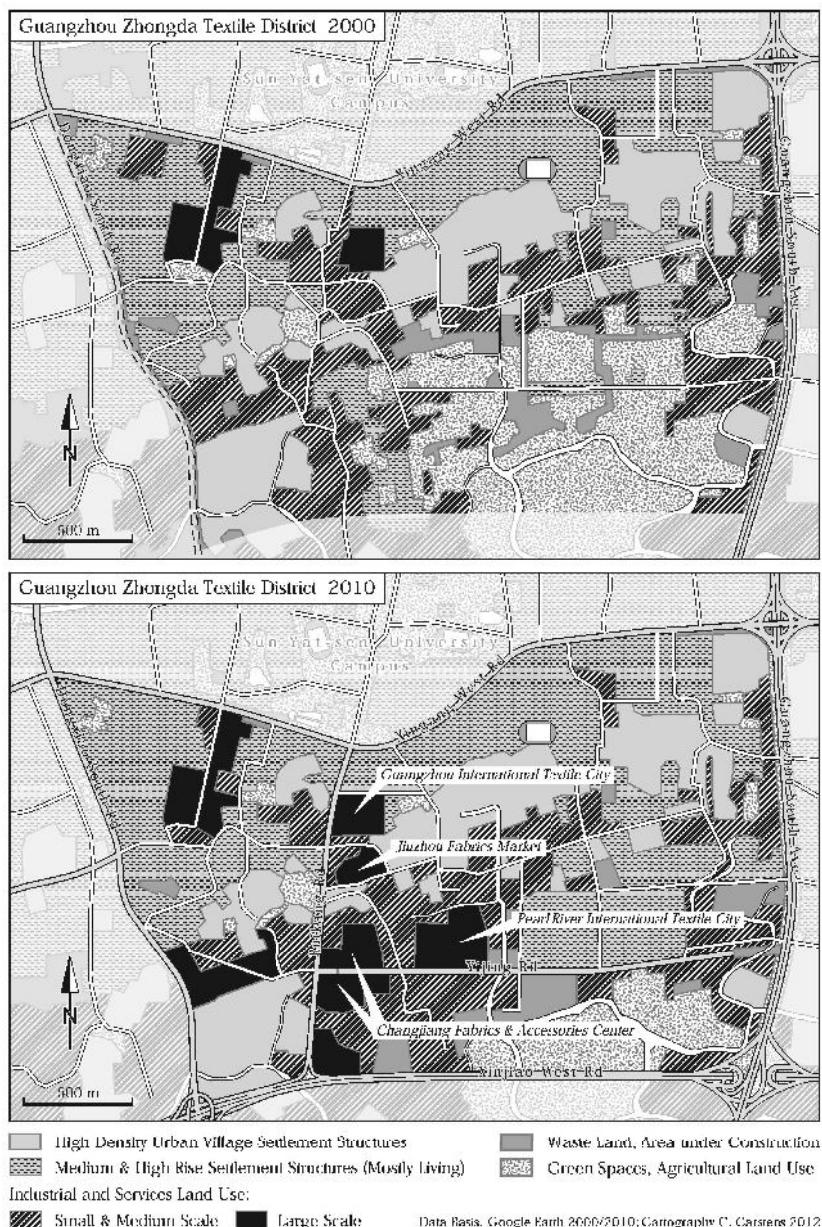
The district government has massively supported tertiarization — not only physical upgrading, but also new marketing initiatives. In 2007, the set-up of an e-commerce system was funded by the government and organized by the MBZD (Luo 2010). The requirements of this virtual trade zone of daily transactions were defined in close collaboration with state-owned telecommunication companies and representatives from the MBZD (B4). Goods can be advertised, sold, and paid throughout this system, potentially to customers all over the world. Furthermore, Haizhu district increased its efforts to establish Zhongda as a trademark. By means of the e-commerce system, the prices for thousands of daily transactions are aggregated in “the Guangzhou price,” which is supposed to serve as a benchmark regarding national prices for textiles and garments (Information Times 2008).

The shift toward service-oriented industries has been accompanied by the relocation of production sites out of Zhongda and into southern suburbs and even to remote parts of Guangdong province (CCP 2010). The outsourcing is promoted by the national government's “Transformation of Industries” (“*change zhuanyi*”) policy of granting tax incentives to companies relocating inner-city industrial production sites to rural areas (B2; CCP 2010).

The stakeholder landscape in Zhongda has been witnessing shifting power relations ever since 2004 (table 5). While the SMEs and urbanized villages have lost influence, the local government has become a powerful decision-maker. Institutional gaps have been closed and institutional innovation promoted, making it the main driver of the upgrading process. Apparently, much of this has happened in close collaboration with developer companies. Recently, the local government has been serving:

- as a *regulator* through laws, development plans, and regulations; tasks have also been delegated to — and centralized by — the MBZD and the TIC,
- as a *strategic provider* of land slots, and
- as an *investor*, for example to boost the e-commerce system (B3).

**Figure 4: The economic/spatial transformation of Zhongda textile district over time**



Caption: The maps illustrate the enormous economic/spatial transformation of the area between the year 2000 and 2010.

*Developer companies* have particularly benefited from the government's policies. Having gained long-term perspectives, these privately run companies were able to raise funds to initiate the construction and subsequently to manage the malls.<sup>6</sup> In many cases, the villagers have been replaced by mall operators as landlords for SMEs. However, many SMEs are still located in the villages, which still accommodate most of the migrant workers. The SMEs were merely informed about the upgrading plans and did not play any significant role in the further course of the economic upgrading process. They were, at least, given the opportunity to articulate their interests through the TIC.

**Table 5: Stakeholders and their influence during the advanced development phase**

Urbanized villages		SMEs (shops, factories, logistics)	
0	<ul style="list-style-type: none"> <li>informal factories</li> <li>migrant workers</li> <li>landlords of some plots</li> </ul>	0(-)	<ul style="list-style-type: none"> <li>small-scale operations</li> <li>represented by TIC</li> </ul>
Developer companies		Local government	
+0)	<ul style="list-style-type: none"> <li>landlords</li> <li>management of the malls</li> <li>long-term perspectives</li> </ul>	++	<ul style="list-style-type: none"> <li>initiation and coordination of the upgrading process</li> <li>implementation of economic vision</li> <li>relevant tasks centralized by MBZD</li> </ul>

Source: the authors' own compilation

The shift toward service industries coincided with the changing influence of various stakeholders. The following section will discuss how all this affected the governance modes over time and how decisions were taken.

### 3. Modes of governance over time

It has already been indicated that it is a challenge to determine how decisions were taken and who really played a decisive role during the complex processes of inner-city spatial/economic restructuring. This is particularly true for the investigation of brownfield developments, which involve many competing interests. The argumentation in this chapter follows DiGaetano/Strom's analytical framework, beginning with the *structural context*, followed by an analysis of the *political culture, institutional milieu, and political actors*. Finally, the *modes of governance* are discussed over time.

In the case of Zhongda, the *structural context* of a fierce global and regional competition appears to be the most crucial source of spatial, economic, and institutional change. The key decision-makers of the early development phase were fragmented and often pursued conflicting interests. They were not able to cope with

<sup>6</sup> This statement is based on interviews, but to some extent a degree of uncertainty remains as to whether there are any former or hidden state-owned enterprises.

the immense competitive constraints and could not enforce the restructuring on a larger scale. These shortcomings played into the hands of the public authorities, which saw a comeback at the beginning of the advanced development phase. The local government, in coalition with well-funded investors, pressed ahead with the transformation from a market area with rural characteristics into one largely homogenous modern and globalized space consisting of wholesale markets designed as urban entertainment centers for international trade.

These developments considerably changed the *institutional milieu*, especially the division of formal *institutional bases* and informal *modes of governance*. The new institutions — the MBZD and TIC — led to formalization, or constitutional sanctification (Dittmer 2003), of interactions between public and private actors. Nevertheless, the amount of exchange taking place between developers and the local government remains unclear to a certain degree, as our interviewees refused to discuss their *guanxi* relations, and the media do not report on this delicate subject. As explained above, this lack of transparency can be explained by Chinese political culture with its bargaining systems.

From the description of the upgrading activities and the stakeholder analysis, it is obvious that the governance has significantly changed from the early to the advanced development phase. Apparently, no single ideal-type mode of governance fits, so hybrid forms need to be applied. During the *early development phase*, the *clientelistic* mode best describes the governance (table 6a). Villages and SMEs shaped the area, whereas the government lacked the capacity to exert overall development control. The participants acted in an unregulated (and informal) way, transport companies operated without licenses, shops were built and managed without permission, and so on, all of which was apparently tolerated by local-government representatives. Consequently, the governing relations can be labeled “particularistic.” The actors tried to maximize “selective tangible benefits” (DiGaetano/Strom 2003: 365), so the political objectives were purely material and the governing logic was based on pragmatic exchange.

**Table 6a: Modes of urban governance during the early development phase**

	<b>Clientelistic</b>	<b>Corporatist</b>	<b>Managerial</b>
<b>Governing relations</b>	Particularistic, personalized, exchange	Exclusionary negotiation	Formal bureaucratic, or contractual
<b>Governing logic</b>	Reciprocity	Consensus building	Authoritative decision-making
<b>Key decision-makers</b>	Urbanized villages, SMEs	Politicians and powerful civic leaders	Politicians and civil servants
<b>Political objectives</b>	Material	Purposive	Material

Source: DiGaetano/Strom 2003, modified to the case of Zhongda; relevant characteristics with white background

The *physical modernization* was accompanied by new planning and management models. Such institutional innovations aim to replace the *clientelistic* with the *managerial* mode (table 6b). The local government enforced the spatial upgrading in an authoritarian manner and demolished informally erected — and long-tolerated — buildings. The governing logic of “authoritative decision-making” is a typical element of the *managerial* mode. But it should be noted that the governing relations at this point are ambiguous to some degree: instead of being formal and bureaucratic, as in the managerial mode, the decisions could also be characterized as “particularistic, personalized, based on exchange,” because the local government closely interacted with investors (DiGaetano/Strom: 366). Consequently, a hybrid form of urban governance modes can be identified during the physical upgrading process, combining *clientelistic* and *managerial* elements.

**Table 6b: Modes of urban governance regarding physical upgrading**

	Clientelistic	Corporatist	Managerial
<b>Governing relations</b>	Particularistic, personalized, exchange	Exclusionary negotiation	Formal bureaucratic, or contractual
<b>Governing logic</b>	Reciprocity	Consensus building	Authoritative decision-making
<b>Key decision-makers</b>	Local government and investors	Politicians and powerful civic leaders	Politicians and civil servants
<b>Political objectives</b>	Material	Purposive	Material

Source: DiGaetano/Strom 2003, modified to the case of Zhongda; relevant characteristics with white background

First and foremost, the *economic modernization* is characterized by new institutions, as the MBZD and TIC coordinate the interests of their members. This indicates an increasing replacement of the clientelistic by the *corporatist* mode of governance (table 6c). The TIC brings a variety of actors together and represents the interests of its members, so it can be characterized to some extent as a more transparent and participatory approach. Decisions are communicated and discussed by the participating SMEs; most of them relate to daily business, similar to the MBZD. Therefore, their influence on large-scale planning is still limited. Instead, these strategic decisions are made by a “growth coalition” consisting of the local government and developer companies. These “exclusionary ruling coalitions of powerful economic and/or community interests” (DiGaetano/Strom 2003: 365) are typical of the *corporatist* mode. The decisions are consensus-oriented and taken by “exclusionary negotiation,” balancing economic and political interests (B1; B4). Nonetheless, the *corporatist* mode still needs to be combined with *clientelistic* elements. Analytical problems persist here, because DiGaetano/Strom’s ideal type of corporatist mode distinguishes between politicians and powerful civic leaders (ibid.:

366). This case study has shown that government officials are usually CCP members who form coalitions with economic elites. As a consequence, the authors argue that the more general term “local state” should be used instead.

**Table 6c: Modes of urban governance regarding economic upgrading**

	Clientelistic	Corporatist	Managerial
<b>Governing relations</b>	Particularistic, personalized, exchange	Exclusionary negotiation	Formal bureaucratic, or contractual
<b>Governing logic</b>	Reciprocity	Consensus building	Authoritative decision-making
<b>Key decision-makers</b>	Local state, mall operators and investors	Politicians and powerful civic leaders	Politicians and civil servants
<b>Political objectives</b>	Material	Purposive	Material

Source: DiGaetano/Strom 2003, modified to the case of Zhongda; relevant characteristics with white background

The political objectives have also changed during the two distinct development phases. The “local state” has regained development control and successfully implemented the *Two Axes and Seven Areas* plan. Potentially conflicting interests are coordinated by the MBZD and the TIC. These steps certainly enhance the economic competitiveness of the area, and, accordingly, the objectives are “nonselective tangible benefits” (ibid.). Consequently, a shift of the political objectives from material to purposive can be observed.

## Conclusion

The case of Zhongda textile district illustrates *how* stakeholders at the local level pursue spatial/economic restructuring against the backdrop of fierce global, national, and regional competition. Furthermore, it is an impressive example of a changing stakeholder landscape and shifting power relations. As has been outlined here, the urbanized villages governed the market during the early development phase, with SMEs acting as their main “clients,” in the terminology of DiGaetano/Strom. The executive power at the district level regained control during the advanced development phase, and financially powerful developer companies can be considered their clients. Despite the change of key decision-makers, however, the nature of the interaction between them still appears to be *particularistic*, at least from what can be observed from the outside. In this case, research on governance in China clearly reaches its limits.

Nonetheless, a degree of formalization cannot be denied — at least in terms of daily management and planning. Institutional innovations contributed to more transparent and participatory approaches of collective decision-making. These enabled a further

separation of the public and the private sphere, a strategy also strongly recommended by the World Bank (2012: 15). These major structural reforms have enhanced economic efficiency and competitiveness and thus ensured the survival of the textile sector in Guangzhou.

Finally, the authors would like to point out that the textile industry is suitable for an analysis of governance, as it is currently one of the sectors experiencing strong competitive pressure. This *structural context* has accelerated the change of governance modes over time, as our case study illustrates. Rising domestic wages and Asian competitors with lower production costs have been forcing China to continuously modernize and adapt its infrastructure and modes of operation. China's Second Transition toward more qualitative growth is incorporated into the national government's most recent five-year plan and the overall guiding ideology of the Hu-Wen leadership. Accordingly, textile clusters such as Zhongda, the China Textile City in Keqiao or the Yiwu market are actively trying to stay in the market and to climb up the ladder of the value chain with respect to service provision. In doing so, they are apparently watching each other closely: learning from the experiences of others has become a key strategy in urban economic restructuring.

The application of Western governance models to China has shown that the influence of local government can hardly be underestimated, at least in the course of economic upgrading. Scientists such as DiGaetano/Strom and Pierre, however, observe a "local state" that is weak due to financial constraints and deindustrialization and compensates for this by building public-private alliances. In China, we observe a "local state" that is initially weak due to a lack of enforcement power, but that seems to be getting stronger over time. This is happening through the formation of special-purpose associations, rising budgetary resources, the closing of institutional gaps, legislative support at the municipal and provincial level, the provision of land-use rights and strategic coalitions with investment companies. Because of the double or triple functions of government officials, who can easily be communist cadres and economic entrepreneurs at the same time, it remains a challenge to determine unambiguously whether the state's development control is really increasing in the course of the economic upgrading process or whether, in fact, it is economic entities that dominate decision-making.

Investigating urban restructuring in the case of Zhongda textile district is certainly a complex empirical challenge. To analyze urban governance, different pieces of the puzzle need to be put together. Micro-level considerations take various aspects into account: physical changes, organizational innovations, economic modernization policies, and the stakeholder environment. Putting the various pieces of the puzzle together results in a distinct picture on the meso-level.

Last but not least, urban governance research in China and other developing Asian countries has to deal with specific uncertainties. Civil servants and politicians are not controlled by public media, for example. In order to determine modes of

governance, stakeholder interviews need to be combined with a comprehensive analysis of scientific, media, and governmental documents to decipher the relevant hints. As such, this paper can only be considered an initial study in the investigation of urban governance and the adaptation of Western governance models to China's municipalities. Hopefully, it will be substantiated and complemented by further empirical and theoretical studies in future.

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### Interviews (2009–2011)

	Reference	Description
Expert	A1	Delegation of German Industry and Commerce
	A2	China-Italy Chamber of Commerce
	A3	Guangdong Textile Association
	A4	Hong Kong-based design expert
Stakeholder	B1	Operator of Guangzhou International Textile City
	B2	Representative of a local planning body
	B3	Haizhu District, Public Information Office
	B4	Secretary-general of the Textile Industry Chamber of Zhongda
	B5	Operator of Jiuzhou Fabrics Market
	B6	Operator of Changjiang Fabrics & Accessories Center
	B7	Company that manages Jiuzhou Textile Market
	B8	Management of Pearl River International Textile Mall
	B9	Guangzhou Kaihua City Real Estate
	B10	Pearl River Investment
	B11	Subsidiary of Pearl River Investment