

The Experimental City of Qianhai: the Past, the Present, and the Future

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Introduction

Urban and city development can be viewed as a business operation similar to the operation of companies and firms in a market economy. The concept that a government operates essentially as a super firm has been suggested in Coase (1960). Either by contracts or by edicts, various alleged externalities of a market can often be internalized via innovative institutional designs. Lai and Lorne (2014) suggested this explicitly as a Fourth Coase Theorem entailing either the government as an enabler, or that in many situations, a private-public institutional structure that enhances post infrastructure spontaneous economic activities. Indeed, Gordon and Cox (2014), in their studies of megacities of the world, explicitly integrated a Coasian approach to spontaneous development of cities.

The Qianhai experiment in the Pearl River Delta of China provides an ideal experiment to study the interaction of state actions and the spontaneity of the markets through strategic decision-makings, a normative managerial inquiry similar to that in examples of corporations described in many MBA case studies. Experimental cities have the advantage that planning in a completely new environment can learn from the constraints that other redevelopment projects, having the need to deal with the livelihood of existing inhabitants, with divergent public preferences that can be sometimes difficult to manage. Indeed, all famous cities of the world have evolved from a historical background of actions taken by individuals and/or by progressive personalities via government actions of some type (Auerbach and Nadel, 2016). History as far back as Alexander the Great, Emperor Augustus, etc., is as relevant as modern placemakers today, with familiar names such as Donald Trump, Frank Lloyd Wright, etc., created prominent landmarks of recognition for cities. Issues and propositions articulated by academicians, journalists, and corporate CEOs can all be useful in formulating a new framework, calling for appropriate private-public cooperation.

The Pearl River Delta of China has many new developments that are moving China to a new phase of economic integration. This paper studies the past, present, and the future prospects of the experimental city of Qianhai in evaluating its possible impact in the socio-economic

technological evolution that is about to take place in affecting regional and global economics in that part of the world.

The Past

The idea that Qianhai can be a megacity of China started as early as 1993 in China's administrative documents. With revisions of the early drafts completed in 1996, a document known as the *Shenzhen Municipal General System planning (1996-2010)* 《深圳市城市总体规划 (1996—2010)》 was submitted and rectified by the State Council in 2000. Construction of reclaimed land for Qianhai commenced around 2001. It lasted for about 12 years, occurring in different stages (as seen from Google earth), and finally stabilize in its current shape around 2013. The total reclaimed area was estimated to be 13.78 sq.km, roughly 20% of all reclaimed land area from the sea by the Shenzhen municipality as of 2013.¹

On December 31, 2014, with the approval of the State Council, Qianhai & Shekou became an experimental area of the Guangdong Province Free trade zones. (See Figure 1 for a distribution of various free trade zones (FTZs) in the Pearl River Delta of Guangdong.) Hong Kong is also shown on this map. But Hong Kong is not considered as a part of the Pearl River Delta administration in China. Indeed, Hong Kong currently operates as a China Special Administrative Area (SAR) of China, under a Basic Law of “One Country-Two System” adopted in 1997.²

¹ http://news.ycwb.com/2013-08/06/content_4792151.htm

² The Law originated from a 1983 Sino-British Declaration on the handing over of a previous British Colony from U.K. to Mainland China. Hong Kong at this point still runs very differently from the rest of China.

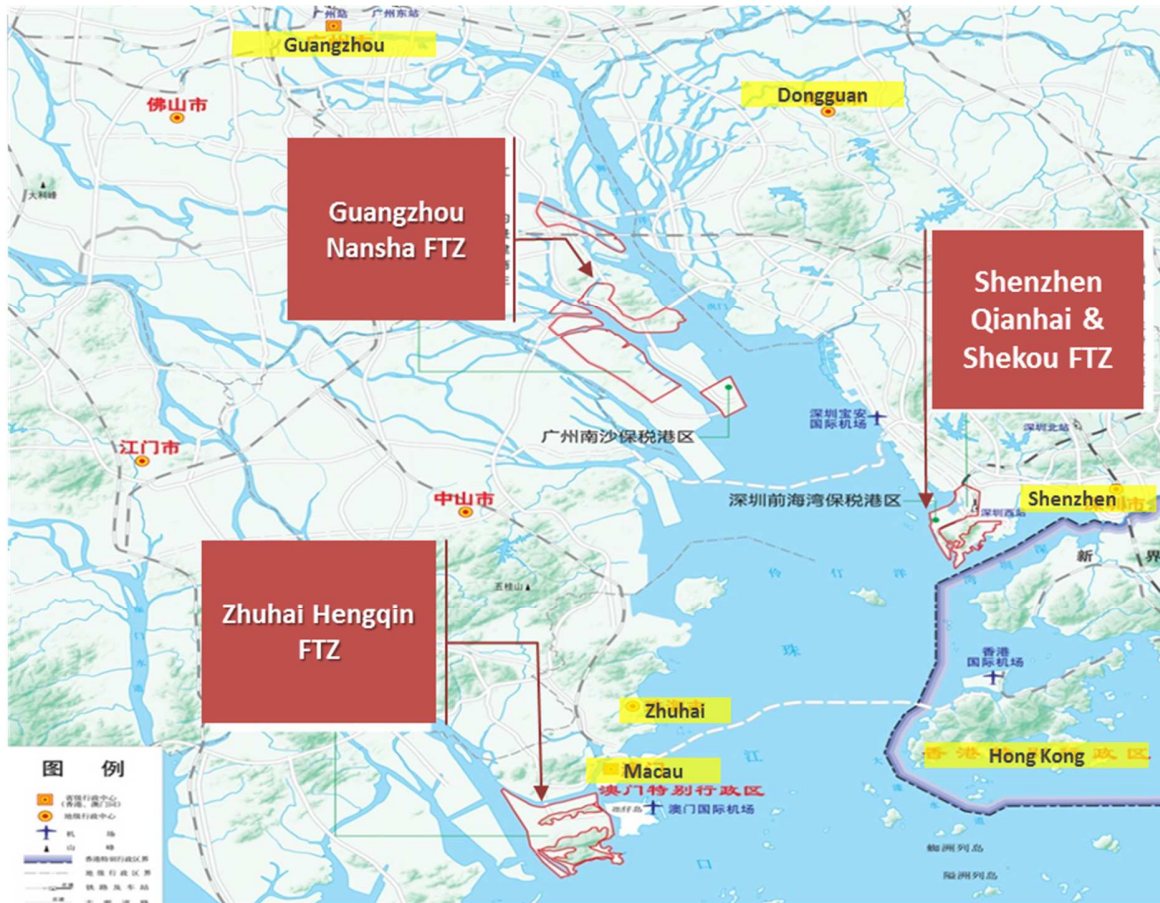


Figure 1: Free Trade Zones (FTZ) in Pearl River Delta

Source: Powerpoint Presentation of Qianhai Shekou FTZ Administrative Committee to European Chamber, Jan. 18, 2016, Authority of Qianhai (前海管理局)

On April 27, 2015, the Shenzhen Qianhai & Shekou free trade area (FTZ) was formally established, with a subset of that area being designated as SZ-HK Modern Service Industry Cooperation Zone, having an official area of 1492 hectares (14.92 sq.km). A “Manhattan of the East” idea focused within this Cooperation Zone (92% reclaimed land) in the three areas called Guiwan, Liwan, and Maiwan. The location of the three areas in relationship to the FTZ is depicted in Figure 2., which is a magnified area of the Shenzhen Qianhai-Shekou FTZ redlined area in Figure 1.

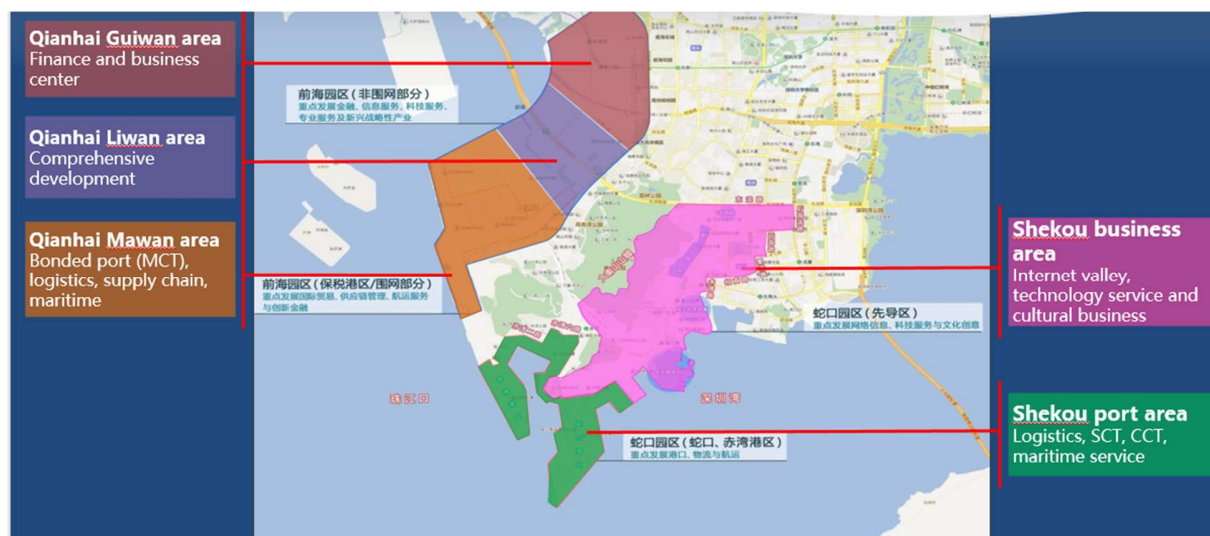


Figure 2: The Cooperation Zone within the Shenzhen Qianhai-Shekou FTZ
 Source: Powerpoint Presentation of Qianhai Shekou FTZ Administrative Committee to European Chamber, Jan. 18, 2016, Authority of Qianhai (前海管理局)

The principal leaders of the Shenzhen municipal government set up a FTZ Administrative Committee for the implementation of a Qianhai vision: Utilizing the successes of Hong Kong and Macao, Qianhai aims to service the mainland and to “face the world”. A Guangdong/Hong Kong/Macao cooperation in the forming of this demonstration zone will become an important trading hub in the 21st century, embedded into a maritime “Silk Road” concept in the strategic positioning of modern China.

The Near Present

Strategic development of Qianhai can be found in official documents as well as site visits and interviews, e.g. 《前海蛇口自贸片区建设实施方案》 and 《前海蛇口自贸片区 2015 年工作要点》. Official policies outlined six agendas encompassing trade and investment, finance, Shenzhen-Hong Kong cooperation, law and regulatory framework, HR personnel matters, and the system implementation mechanism. This was to be integrated into the 13th 5th year plan for the country. Qianhai prided itself to achieve a “5 year planning, 1 year breakthrough” type of accomplishment.

Reportedly, in 2015, Qianhai’s free-trade zone reached an “enterprise added value” of 1,019 billion yuan according to the registration statistics, an increase of 45% over a year before. It achieved a tax revenue exceeding 170 billion yuan, an increase of combination; contract utilization of foreign capital amounted to \$217.78 billion, an increase of 211%, accounted for 77% of the city; the Qianhai cooperation zone actual use of foreign capital was US \$22.3 billion, accounted for the city’s 34.23%. Annual investment in fixed assets 308 million yuan, an increase of 80%, of which cooperation zone alone accounted for 208 billion yuan, compared with 2012, 18.1 billion; 2013, 84.41 billion; and 2014, 117.2 billion yuan.

Over the years, there were 102 reform and innovation agenda topics created; 31 of them have been incorporated into the Guangdong Free Trade area initiatives so far, and 14 of them were publicized provincial-wise. This shows the type of dynamic organic growth pattern on the method of transferring and implementing system change in China.

Also, in 2015, new registered enterprises numbered 43827, an increase of 133.79%; new registered capital was 18824.74 billion yuan, achieving a year-to-year growth of 101.07%. Fortune 500 enterprises accumulated investment enterprises 159. In terms of development benefits, the annual revenue exceeded 17 billion yuan, an increase of 63.61%.

In July 30, 2015, the Qianhai administration started a "10 campaign" initiative, relating to road transport, rail transport, water environment, landscape engineering, unit development projects, involving more than 140 items, e.g. the screening for free trade metro construction headquarters, HongKong Merchandize Center First Phase development, innovation and business center, GUI Wan River project, dream Sea Avenue, the dismantling of obsolete rail tracks, an Integrated transportation hub, serving 15 key industrial targeted sectors, including Qianhai Nanyou International Wine Investment Trading Center, value factory and Prince Edward Bay Cruise home port, etc. Since the opening of Hong Kong Merchandize Center in December 7, 2015, the average daily turnover of the facility averaged one thousand yuan per square meter. Over the first opening weekend, there have been steady visitors passing through since its opening.

The Future

Undoubtedly, Qianhai has the locational advantage of being situated close to the shore of Nanhai, and adjacent to Hong Kong and Macau. Located at the west of Shekou Peninsula in Shenzhen and almost entirely created by land reclamation, covering an area of 14.92 square kilometers, it has been targeted as an important center for a megacity concept for the Pearl River Delta. The master plan of this urban village, consists of three zones, Guiwan area, finance and business center; Liwan area, comprehensive development; Mawan area, Bonded port (MCT), logistics, supply chain, etc. The strategic vision entails achieving the following goals by year 2020:

Building area: 26-23 million m²

Office Building area : 16 million m²

Commercial Building area:23 million m²

Residential Building area : 38 million m²

Public service and municipal Building area : 13 million m²

Working population: 650,000

Resident population: 150,000

The vision of Qianhai is to build an innovation area for modern service industry system, and together with it, an operating mechanism. It has been targeted as a pilot area for substantive cooperation between the mainland and Hong Kong. Industries suitable for to locate in Qianhai have been evaluated to be in the field of finance, modern logistics, information services, technology services, etc. Together, they are anticipated to produce an estimated GDP of RMB

150 billion, yielding RMB 10 billion per square kilometer, and reaching the same level of density as in London, New York and other international first-class cities of the world.

2016 had been a "comprehensive promotion year" for Qianhai. There was the mentioning of a "Qianhai spirit, meaning a reliance on the mainland, Hong Kong and Macao connections, designing it as a service-oriented modern "village" with a world view. With "innovation, harmony, green, open, sharing " being the five major development concepts for the area, the GUI Wan integrated business pilot area could be particularly interesting in this respect. The "village" idea can be viewed as a prelude to a broader concept for the area. Qianhai as an experimental city, indeed, can be a living model. This is in contrast with other cities in the world where their destinies have been evolved primarily from the past. For example, Venice is a living museum, New York is a city of immigrants, and Hong Kong represents a pragmatic lifestyle that largely inherited from its colonial past.

Qianhai is different in all these respects. As a reclamation land built-up with no prior existing inhabitants, its emphasis unquestionably is in the future and not of the past. Indeed, the shaping of its future would be very much depended on the strategy of development, from government driven initiatives as well as for private responses to those initiatives. Several will be highlighted in the rest of this paper as a recap of near future developments.

On Jan 7, 2017, a ground breaking ceremony of significant Projects in Qianhai was held by Shenzhen government in Qianhai. The ceremony declared six significant projects, with total investment budgeted for 15.4 billion RMB (2.24 billion USD). The announcement detailed the projects below, using the conversion rates of 1USD = 6.88RMB, and 1 square meter (sq.m.) = 10.764 square foot (sq.ft.)

- Merchants ShekouTaiziwan (Prince Bay) DY02 Urban Complex Project
Merchants (China Merchants Group)
Located alongside with a newly constructed Prince Bay Ferry/Cruise Port, the project will cover 58,000 sq. m.(624,312 sq.ft.), with approximately 3,150,000 sq.m. (33,906,600 sq.ft.) usable space. The total investment of DY02 is 4.78 billion RMB (0.69 billion USD).
- Qianhai Municipal V Landmark Project
Located in Qianhai Guiwan #19 and Mawan district, the construction project will cover approximate 4.9 sq.km. (52,743,600 sq.ft.). The total investment is 2.356 billion RMB (0.34 billion USD).
- Qianhai Municipal Engineering VI Landmark Project
Located in Qianwan district, it will cover 3.2 sq.km. (34,444,800 sq.ft.). The total investment is 2.2 billion RMB (0.32 billion USD).
- Guiwan River Park Project
A water canal project, it will cover 520,000 sq.m. (5,597,280 sq.ft.), with a length of 2.2 km. (7,218 ft.). The total investment is 480 million RMB (69.8 million USD)
- COFCO Asia-pacific Headquarter Project

COFCO (China National Cereals, Oils and Foodstuffs Corporation)

Located in Guiwan district, it will cover 6,263 square meters (67,415 sq.ft.), building area is 89,544 sq.m. (963,852 sq.ft.). The total investment is 2.996 billion RMB (0.44 billion USD).

- Aviva-COFCO Headquarter project

Aviva-COFCO (Aviva-COFCO Life Insurance Co., Ltd.)

Located in Guiwan district, it will cover 5,455 sq ft. (58,718 sq.ft.), building area 81,564 sq.m. (877,954 sq.ft.). The total investment is 2.57 billion RMB (0.37 billion USD)

Building on various campaigns executed under the Qianhai Development Authority, the targeted new projects will strengthen the overall vision of Qianhai. Clearly, these belong to a series of ongoing efforts to set up industry infrastructure, city environment facilities, construction of the free trade area generally, with the broad objective of developing some type of various system innovations, all together aiming at the construction of a new town concept, particularly via Shenzhen Hong Kong cooperation initiatives, industrial agglomeration, system optimization while apparently allowing some degree of higher level of social governance.

The development path that Qianhai will take is likely to be unique, consisting a mixture of the past, innovative institutional design of the present, and progressive actions of a large number of individuals and enterprises to shape the future. The human factor in this development process remains to be high and quite significant, as it is likely that not only physical investment being needed, but also the quantity and the quality of human capital that is likely to cluster that will determine the success of a Qianhai vision. The contractual approach, integrated with strategic management principles, will provide many interesting insights and implications on theories and practice in the field of real estate and development.

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