

**AN EFFECTIVE FRAMEWORK OF PUBLIC-PRIVATE PARTNERSHIPS:
CREATING AN ECONOMICALLY VIABLE PLAN FOR CONSERVING AND
MANAGING BEIJING'S URBAN HERITAGE SITES**

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Abbreviations

ADB	Asian Development Bank
BBO	Buy-Build-Operate
BCO	Buy-Conserve-Operate
BCOT	Build-Conserve-Operate-Transfer
BCLOT	Build-Conserve-Lease-Operate-Transfer
BLOT	Build-Lease-Operate-Transfer
BMACH	Beijing Municipal Administration of Cultural Heritage
BMBLF	Beijing Municipal Bureau of Landscape and Forestry
BMCDR	Beijing Municipal Commission of Development and Reform
BMCHURD	Beijing Municipal Commission of Housing and Urban-Rural Development
BMCLR	Beijing Municipal Commission of Land and Resources
BMFB	Beijing Municipal Financial Bureau
BOO	Build-Operate-Operate
BOT	Build-Operate-Transfer
BOOT	Build-Own-Operate-Transfer
CBFO	Conserve-Build-Finance-Operate
CSFs	Critical Success Factors
DBFO	Design-Build-Finance-Operate
HDs	Historic Districts
IDB	Inter-American Development Bank
MOF	Ministry of Finance of the People's Republic of China
NDRC	National Development and Reform Commission of the People's Republic of China
PPPs	Public-Private Partnerships
ROT	Rehabilitation-Operate-Transfer
SACH	State Administration of Cultural Heritage
SPE	Special Purpose Entity
SPV	Special Purpose Vehicle
TOT	Transfer-Operate-Transfer
UNECE	United Nation Economic Commission for Europe
WB	World Bank

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Chapter 1 Introduction

1.1 Abstract

The ongoing process of urbanization China is experiencing, budgetary constraints on heritage conservation, and inappropriate reuse have together exerted a negative impact on urban heritage sites in China's cities, like Beijing. Despite these problems, public-private partnerships (PPPs), may serve as an effective tool which can not only address these problems, but also achieve a balance between heritage conservation and economic development.

The primary aim of my work is to build more understanding about key factors for developing an effective framework of heritage PPPs to create an economically viable plan for conserving and managing Beijing's urban heritage sites. Therefore, I include a detailed background analysis of PPPs and Beijing's governance environment based on an extensive literature review. Moreover, case studies of both successful and problematic examples in China's cities and other comparable cities are explored to understand the challenges and opportunities Beijing faces. In addition, policy review of key guidelines of international organizations with expert knowledge and also policy documents at both national and local levels is carried out to select important policy elements appropriate to Beijing's contexts. Finally, a series of research-based and policy-related recommendations are proposed.

1.2 Problem Statement

It is undeniable that the gap between political will and capacity could create obstacles for developing heritage PPPs. But this huge topic, which is not exclusive to China, is beyond the scope of my thesis. Being aware of this fact, I notice that there are many other pressures facing historic urban environments. Among them, immigration from rural parts and population growth resulting from urbanization lead to uncontrolled development and increased population density.¹ In the past five years, China's urbanization rate is more than fifty percent.²

As Macdonald and Cheong noted, "in many parts of the world, government has historically been the largest single business enterprise and holds a substantial number of sites, buildings, and structures." Beijing is an obvious example of this. Among heritage sites owned by the government, seven are World Heritage Sites, more than 100 are National Major Heritage Protection Units, and more than 1,000 are Municipal/County Major Heritage Protection Units.³ There are numerous historic resources needed to be addressed by the government. Within the climate of urbanization, many urban historic sites face great risks of being torn down or becoming obsolete. The demolition of Liang Sicheng's house is a warning for the urgent need to preserve valuable historic sites. As the father of China's modern architecture and pioneer of heritage conservation in China, Liang and his wife Lin Huiyin made significant contributions to preservation of Chinese ancient buildings. "If their home can be torn down, then developers can do the same thing to hundreds of

¹ Susan Macdonald, and Caroline Cheong, *The Role of Public-Private Partnerships and the Third Sector in Conserving Heritage Buildings, Sites, and Historic Urban Areas* (Los Angeles, CA: Getty Conservation Institute, 2014), 6, http://hdl.handle.net/10020/gci_pubs/public_private_partnerships. Accessed September 19, 2016.

² Yongjian Ke, Marcus Jefferies, Asheem Shrestha and Xian-Hua Jin, "Public Private Partnership in China: Where to From Here," *International Journal of Organization, Technology and Management in Construction* (March 10, 2014): 1157, DOI 10. 5592/otmcj, https://www.researchgate.net/publication/272737373_Public_Private_Partnership_In_China_Where_To_From_He_re. Accessed November 20, 2106.

³ Beijing Municipal Administration of Cultural Heritage, "Data on protection units," <http://www.bjww.gov.cn/wbsj>. Accessed December 11, 2016.

other ancient houses in the country”.⁴

Moreover, budgetary restraint of the government is another problem threatening cultural heritage. In Beijing, the special funds for preserving cultural relics and historic districts are rarely sufficient for conservation, routine maintenance and operation. According to National Audit Office, the central and subnational governments are suffering from huge debts of RMB 10,660 billion (about US \$1,643 billion) and RMB 16,000 billion (about US \$2,465 billion) respectively in 2015.⁵ These huge debts exacerbate the problem.

In addition, inappropriate reuse of preserved heritage sites imposes adverse influence on their historic values. For example, in Daming Palace Park in Xi’an, “artificial reproduction buildings were directly built on the site where relics of the ancient Daming Palace lie underground.”⁶ In Beijing, a company turned part of the Songzhu Temple, a Municipal Major Heritage Protection Unit, to a high-end club with entertainment, catering and shopping functions by demolishing and reconstructing historic buildings.⁷

Therefore, urban redevelopment, numerous neglected historic buildings, budgetary restraint and inappropriate reuse are issues urban heritage sites in Beijing face. My thesis proposes an effective tool, heritage PPPs, to address these problems.

⁴ Tania Branigan, “Chinese Developers Demolish Home of Revered Architects,” *The Guardian*, January 30, 2012, sec. world news, <https://www.theguardian.com/world/2012/jan/30/chinese-developers-demolish-home-architect>. Accessed December 11, 2016.

⁵ National Bureau of Statistics of China, 2015, <http://data.stats.gov.cn/easyquery.htm?cn=C01>. Accessed March 1, 2017.

⁶ Zijun Tang, “Chapter 2: Does the institution of property rights matter for Heritage Preservation? Evidence from China,” in *Cultural Heritage Politics in China*, eds. Tami Blumenfield, and Helaine Silverman (New York, NY: Springer, 2013), 5, <http://site.ebrary.com/id/10703892>. Accessed December 10, 2106.

⁷ Jinze Cui, “Reinvestigation of conservation and reuse of Zhizhu Temple in Beijing,” *China Culture Daily*, January 15, 2015, <http://news.cang.com/infos/201501/376084.html>. Accessed December 11, 2016.

1.3 Rationale

Demand to address problems

- Development pressure brought by Urbanization
- Numerous neglected historic buildings
- Budgetary constraints
- Inappropriate reuse

Conditions

- China's experience of PPP development
- Development opportunities created by enlarging the scope of PPP applications
- Benefits of applying the tool for the public, private and third sectors

Figure 1.1: Research Rationale

Aside from the demand to address problems, the rationale for undertaking the following research is also rooted in China's experience of PPPs in the infrastructure field, development opportunities of PPPs in other sectors including heritage conservation, and the potential benefits of applying the tool for the public, private and third sector.

The worldwide trend toward PPPs in all fields is largely driven by the general reduction of state investment. China has followed this trend due to diverse reasons. The urbanization strategy has generated a huge financing demand (at least RMB fifty trillion, which is about US \$7,246 billion) for infrastructure construction and public service. However, the government budget cannot meet its need. Employing debt is risky and unsustainable. At the same time, nongovernmental capital in the private and third sectors is adequate after China's market reform in the past several decades. At the end of 2014, savings deposit of urban and rural households was RMB 48,526 billion and total saving deposits of all financial institutions was beyond 100 trillion.⁸ Under this general background, China also has several specific conditions to develop heritage PPPs.

⁸ National Bureau of Statistics of China, 2015, <http://data.stats.gov.cn/english/easyquery.htm?cn=C01>. Accessed March 1, 2017.

PPPs have been widely applied in China's infrastructure sector over the last thirty years.⁹ Many models have been tested in China. Among them, currently widely used ones like *BLOT* (*Build-Lease-Operate-Transfer*), *DBFO* (*design-build-finance-operate*), and *Joint Venture* already have a solid foundation that can be adapted to the needs of the heritage field.

In mature markets, the scope of PPP application has been enlarged from "hard" economic sectors like infrastructure to "soft" economic sectors like education.¹⁰ Heritage conservation belongs to the category of "soft" economic sectors. The current economic development stage in China is in transition from "hard" to "soft" economic sectors. Through establishing the China PPP Center and issuing relevant laws and regulations in the past several years, the government has clearly shown its support for promoting the tool of PPP. In June 2016, for instance, the Ministry of Finance of the People's Republic of China for the first time cooperated with the Ministry of Culture of the People's Republic of China to collect potential PPP projects that include the area of cultural resource conservation and reuse.¹¹

There are benefits for all three sectors in applying heritage PPPs. For the public sector, PPPs could help relieve its financial pressure. Adaptive reuse of heritage sites could integrate them into local economic development, through combining intangible cultural heritage and creative industries. Such conservation and reuse of the site will strengthen the identity-defining function of heritage sites, an objective the government always seeks. For the private sector, exploring the

⁹ Shuibo Zhang, Ying Gao, Zhuo Feng, and Weizhuo Sun, "PPP Application in Infrastructure Development in China: Institutional Analysis and Implications," *International Journal of Project Management* 33, no. 3 (April 2015): 502, doi:10.1016/j.ijproman.2014.06.006.

¹⁰ Darrin Grimsey, and Mervyn K. Lewis, *Public Private Partnerships: The Worldwide Revolution in Infrastructure Provision and Project Finance*, translated by Jibang Consulting Corporation (Beijing: China Renmin University Press, April 2016), 247.

¹¹ Ministry of Finance, *Notice of Organizing the Work of Submitting and Selecting the Third List of Model Public-Private Partnership Projects* (Cai Jin [2016] No.47), http://jrs.mof.gov.cn/zhengwuxinxi/zhengcefabu/201606/t20160612_2320941.html?from=groupmessage&isappinstalled=1. Accessed March 1, 2017.

heritage market could bring them a number of awards, including financial returns from new forms of real estate, enterprise branding and realizing social goals. The third sector, mainly nonprofit organizations, is a rising sector in Beijing. Through representing the government or facilitating the cooperation between the public and private sectors, its status can be raised. This is especially important for an emerging sector.

My thesis works from the assumption that a harmonious relationship between heritage conservation and economic development can be achieved. Furthermore, I argue that PPPs can be a crucial tool to positively affect the conservation and management of urban heritage sites in Beijing. I closely examine the case of the Zhizhu Temple complex in Beijing as a pilot project and look at other comparable cases. I then explore adapting key policy elements from international organizations through policy review. Based on my research, my thesis recommends a policy environment for effectively applying heritage PPPs in Beijing.

Heritage PPPs may not be a one-size-fits-all tool for all urban heritage sites. But for those with potential historic and economic value, this tool is applicable. The major audiences for my thesis are national and subnational Chinese government agencies responsible for cultural heritage conservation. Additional audiences include the private sector, covering Chinese and international companies and individuals, and foundations and researchers in the third sector.

1.4 Research Questions

The following research questions guide the framework for my thesis:

What (Background)

- What is public-private partnership (PPPs)?
- What are typical roles that the public, private and third sector could play in a heritage PPP project?
- What are characteristics of heritage PPPs?
- What is the foundation for applying the tool of PPP in heritage conservation?
- What are problems urban heritage sites in Beijing face?
- What structures of PPPs could be used for heritage conservation and management?

Why (Opportunities & Challenges)

- Why does China have a foundation to use the tool of PPP?
- Why should existing heritage policies incorporate PPPs?
- Why is the tool of PPPs beneficial for actors in projects?

How (Recommendations)

- How could policy makers be aware of major issues discussed in my thesis?
- How could case study experiences of other countries be adapted to Beijing's contexts?
- How could policy elements from international PPP expert organizations be adapted to Beijing's contexts?

1.5 Methodology

1.5.1 Literature Review

Through a review of relevant articles, books and other scholarly sources, it is apparent that there is a lack of research about PPP applications in heritage conservation in Beijing. The review covers three aspects. First, current situation of PPP applications in China shows that the tool of PPP was mainly applied in the infrastructure sector, yet not widely used in the heritage sector. But there are some unregulated forms of quasi-heritage PPPs nationwide. Second, PPP applications in urban cultural heritage sites in cities of other countries present different characteristics and possibilities of applying this tool. Last, through reviewing representative media coverage about China's policy, it is clear that the Chinese government's priorities are not conserving cultural heritage. The capital city, Beijing, follows the same logic. Moreover, there is a huge gap between the demand and supply of funds to conserve and manage urban heritage sites due to the Beijing government's budgetary constraints.

1.5.2 Case Studies

Both successful and problematic cases are chosen from China and other countries to illustrate opportunities and challenges faced by Beijing. All the cases chosen are urban heritage sites which are primarily managed by the municipal governments.

Among successful cases, the Zhizhu Temple complex in Beijing is a major one. This is a pilot heritage PPP project which can serve as a model for others. Its PPP structure, *BCLOT* (*Build-Conserve-Lease-Operate-Transfer*), is most widely used in China's infrastructure field and also has the greatest potential to be used as a heritage PPP structure in Beijing. It demonstrates

appropriate conservation and reuse of a site. However, it still can be improved by learning lessons from other heritage PPPs. Cases from other countries are also analyzed. Each represents a major PPP model that can be used in Beijing. Nottingham Lace Market in Nottingham, UK represents a *Joint Venture* model illustrating appropriate roles of the public sector. Sydney Harbor YHA, in Sydney, Australia has a *CBFO (Conserve-Build-Finance-Operate)* structure and presents creative input from the private sector. Rancho Los Alamitos in Long Beach, CA, USA has a *BCLOT* structure and illustrates important roles of the third sector in a heritage PPP project.

For problematic cases, two cases from Dali in Yunnan, China are analyzed to clarify inappropriate aspects of a potential heritage PPP. But at the same time, they also have positive experience to share. Recommendations based on cases studies are incorporated into the conclusions.

The following criteria are used to select cases:

- a. Municipal level government is the major player that can represent the public sector;

For successful cases:

- b. They present representative structures of heritage PPPs that can be applied in Beijing's contexts;
- c. They apply economically viable conservation methods by which they can take care of both conservation and producing sustainable economic benefits to support future conservation work;
- d. They are urban heritage sites, including buildings recognized for their heritage value.

1.5.3 Policy Review

I review major policy documents for PPPs and heritage conservation at the national and local levels in order to analyze Beijing's policy environment. I also review key PPP guidelines from international organizations like the United Nation Economic Commission for Europe (UNECE), and multilateral development banks which have rich experience in developing countries, such as the World Bank. The World Bank has PPP guidelines especially developed for developing countries. The UNECE is an authoritative organization that has great advice for developing successful PPP projects and is also a partner with the banks mentioned above.

The documentation is studied from a critical point of view, serving as a standard to explore challenges and opportunities for developing effective heritage PPPs in Beijing. This analysis further acts as a foundation for offering recommendations about what needs to be improved.

1.6 Assumptions

Several assumptions are made through the course of developing my thesis in order to establish a foundation for the research.

A. a harmonious relationship between heritage conservation and economic development can be achieved.

There is criticism that heritage conservation can have an adverse effect on a city's economic development by preventing the full economic use of the city's property.¹² There is also opposition

¹² Patrick Stough, "Historic Preservation in Southeast Asia: The Role of Public-Private Partnerships," *Vanderbilt Journal of Transnational Law* 39, no. 3 (May 2006): 1046.

to reusing historic buildings since this approach may sacrifice at least partial historic values. Although a dichotomy can exist between these two issues, my work is based on the assumption that heritage conservation and economic development can co-exist harmoniously.

B. PPPs can be a crucial tool to positively affect the conservation and management of urban heritage sites in Beijing.

There may be worries that the private sector cannot play an appropriate role in heritage conservation. The public benefit of a heritage site seems to contrast with the motivation of the private sector which is driven by markets and profits. However, the majority of heritage sites are currently owned and managed by the government and they have many critical problems and not an optimistic future. Some quasi-heritage PPPs already exist. Therefore, establishing a healthy policy environment and reasonable mechanism can provide a stage for heritage PPPs to act effectively.

C. Recommendations in my thesis should be offered at the institutional level.

Major problems facing urban heritage sites might be relieved by private contributions. Personal donations, experimental adaptive reuse or even quasi-heritage PPPs could help solve some problems. However, considering the scale of the issue, I claim that an essential approach must be provided at the institutional level.

1.7 Limitations

The limitations of my thesis are:

A. Limited study of other cities in China

Problems, such as urbanization, the huge number of heritage sites, budgetary restraint and inappropriate reuse, apply all over China. But only a specific area, the capital city of Beijing, is analyzed in detail.

B. Limited selection of case studies and policies for review

The literature on heritage PPP projects is finite and the majority of it focuses on urban regeneration. In this context, the criteria I employ may not guarantee that the cases chosen are fully comparable. Moreover, documents about PPP policies are numerous. Documents used for my policy review may not represent all those that are valuable.

C. Limited perspective of discussing the major issue in my thesis

PPPs can be discussed in a number of ways. Much current literature about PPP applications in the infrastructure field analyzes risk distribution from a financial perspective. Due to the difficulty of quantifying the economic values of heritage sites, I chose to discuss heritage PPPs from a policy perspective, which may not provide detailed attention to some important perspectives. For example, detailed perspectives like how to develop a financing mechanism of heritage PPPs is an important topic worth exploring.

Chapter 2 Background Analysis

2.1 Development of China's PPPs

2.1.1 Development of China's PPPs in the Infrastructure Field

	Time	Catalysts	Characteristics	Players	Examples
Stage I	Mid 1980s-late 1990s	The gap between China's urgent needs to develop its national economy and severe shortage of funds due to the condition that both the public and private sectors lacked money.	Projects were mostly in the energy and transportation sectors; Relevant policies were a reflection of political will; Many projects failed.	Public: stated unclearly; Private: foreign companies.	Five pilot projects and only two were successful.
Stage II	2000-2012	The bottleneck effect of infrastructure emerged again and great budgetary pressure.	Enlarged the scope of PPPs to almost every infrastructure sector. Dominant sectors are transport, energy, telecom, and water and sewerage; Encouraged private investment and clarified the protection of private property rights; Encouraged subnational governments to issue regulation documents for guiding PPP practice.	Public: either the NDRC or functional agencies of specific infrastructure sectors. Private: state-owned enterprises	More successful examples like the Birds Nest, and Beijing Metro Line Four.
Current Stage	Since 2014	Two signals: the establishment of the China PPP center, and enlargement of PPP applications to public service sectors.	Shows the Chinese government's unprecedented determination for reforming governance to effectively implement PPPs; Encouraged PPP applications in public service sectors.	Public: the MOF and the NDRC; Private: more private corporations are engaged.	China PPP Center database.

Figure 2.1: Summary of Development Stages of Infrastructure PPPs

Historically, the development of infrastructure PPPs in China can be divided into two stages. The first boom started in mid 1980s and ended in late 1990s due to adverse effects of the Asian financial crisis and the Chinese government's intention to eliminate failed PPP projects. The major catalyst for the first boom was the gap between China's urgent needs of funds to develop its national economy and severe shortage of funds due to the condition that both the public and private sectors lacked money.¹³ The primary motivation of the Chinese government in that stage

¹³ Zhang et al., "PPP Application in Infrastructure Development in China," 502.

was to attract foreign investment since domestic enterprises were immature and weak. Thus the chief role players from the private sector were foreign companies.¹⁴ Projects in this stage were mostly in the energy and transportation sectors, which seemed to have the most urgent needs for money. Relevant policies were mainly a reflection of political will. Together with the lack of sound administrative structure and appropriate regulations at subnational levels, many projects failed in terms of sustainability.¹⁵

The second phase was from 2000 to 2012. With the bottleneck effect of infrastructure emerging again and great budgetary pressure on different levels of governments, the central government promoted PPPs again.¹⁶ Drawing lessons and experience from stage one, the central government on the one hand required subnational governments at different levels to issue their own regulations to implement PPPs; on the other hand, it enlarged the scope of PPPs to almost every infrastructure sector. Four dominant sectors are transport, energy (electrical power, oil and natural gas), telecom, and water and sewerage.¹⁷ One major step the central government made to improve the policy environment was to clarify the protection of private property rights through an Amendment of the Constitution. It clearly states that “the State protects the lawful rights and interests of the non-public sectors of the economy such as the individual and private sectors of the economy.”¹⁸ Subsequently, the State Council of the People’s Republic of China issued three administrative regulations which were seen as hallmark policies for further reform. They are *Decisions on the Reform of Investment Mechanisms* (Guo Fa [2004] No.20), *Opinions of*

¹⁴ Ke et al., “Where to From Here,” 1160.

¹⁵ Zhang et al., “PPP Application in Infrastructure Development in China,” 503.

¹⁶ Ke et al., “Where to From Here,” 1160.

¹⁷ Hui Chen, *Public-Private Partnership Guide* (Beijing: Intellectual Property Publishing House Co., Ltd. February 2015), 29.

¹⁸ National People’s Congress of the People’s Republic of China, *Amendment to the Constitution of the People’s Republic of China* Article 21, adopted at the Second Session of the Tenth National People’s Congress and promulgated for implementation by the Announcement of the National People’s Congress on March 14, 2004, http://www.npc.gov.cn/englishnpc/Law/2007-12/05/content_1381906.htm. Accessed December 3, 2016.

Encouraging, Supporting and Introducing Private Economy Development (Guo Fa [2005] No.3), and *Directives of Promoting and Guiding Healthy Development of Private Investment* (Guo Fa [2010] No.13).¹⁹ During the same time period, various ministries such as the Ministry of Housing and Urban-Rural Development of the People's Republic of China also released rules to regulate PPP practice. Under the framework governed by the central government, rules and bylaws were formulated at the local government level. Forty six cities in China have published similar legal documents.²⁰ A great step was a more clarified statement about representatives of the public sector to address PPP issues with the private sector. A PPP project can be proposed either by the Development and Reform Commission (DRC), or authorities of the infrastructure development for a specific sector at each level of the administrative structure.²¹ Therefore, an implementation authority is arranged to act on behalf of the government. With all the policy improvement, main players in the private sector in this stage were state-owned enterprises and state-holding enterprises. At the same time, more domestic private companies began to engage.²²

In the first boom, the Shenzhen Shajiao B power plant in Guangdong Province initiated in 1984, was regarded as the first pilot project with a private investor from Hong Kong. The government bore excessive, lopsided risks for the project, which further led to disputes between the government and the private investors and the eventual failure of the project.²³ Among five pilot projects selected by the then State Planning Commission, the predecessor of the National Development and Reform Commission of the People's Republic of China, three were unsuccessful. For example, the Wuhan Junshan Yangtze River Bridge Highway Project in Hubei Province was

¹⁹ Zhang et al., "PPP Application in Infrastructure Development in China," 505.

²⁰ Ibid., 506.

²¹ Ibid.

²² Ke et al., "Where to From Here," 1160.

²³ S.Q. Wang, Y.J. Ke, *Project finance with BOT/PFI/PPP* (Tsinghua University Press, Beijing, 2008), 103.

never formally initiated.²⁴ Two successful examples were the Laibin power B plant in Guangxi Province and the Chengdu sixth water plant in Sichuan Province. They involved lengthy pre-contract negotiations and complex coordination between different government departments at different levels.²⁵ Most of the other non-pilot projects were unsuccessful.²⁶

Stepping into the second phase, China has seen more successful examples. The Birds Nest, the national stadium, is an illustrative one. The structure of *BLOT (Build-Lease-Operate-Transfer)* represents a mode of PPP which is widely used in the infrastructure field in China. Other successful PPP examples come from the transport sector, including the Beijing Metro Line Four project and the Line Four of the Shenzhen Subway project. Liu and Wilkinson did a thorough analysis of the Beijing Metro Line Four project, a representative infrastructure PPP.²⁷ This project proves the improvement of China's policy environment and the advancement of experience in implementing PPP projects. Although problems still existed, many positive aspects were clearly demonstrated, which include a streamlined approval processes, proactive public leadership, strong public support, effective organizational structure, and private sector innovation.

In May 2014, the China PPP Center was established by the Ministry of Finance of the People's Republic of China. Four months later, the *Circular of the Ministry of Finance on Issues concerning the Promotion and Application of the Public-Private Partnership Mode* (Cai Jin [2014] No.76) was issued to promote PPP applications to fields related to public service.²⁸ This also

²⁴ Y.X. Jin, "Lessons from the failure of Wuhan Junshan bridge project by means of BOT," *China Construction Newspaper*, September 6, 2005.

²⁵ Zhang et al., "PPP Application in Infrastructure Development in China," 506.

²⁶ X. Qi, Y.J. Ke, S.Q. Wang, *Analysis on critical risk factors causing the failures of China's PPP projects* (Beijing: China Soft Science September 2009), 107-113.

²⁷ Tingting Liu, and Suzanne Wilkinson, "Can the Pilot Public-Private Partnerships Project Be Applied in Future Urban Rail Development? A Case Study of Beijing Metro Line 4 Project," *Built Environment Project and Asset Management* 3, no. 2 (November 18, 2013): 250-63, doi:10.1108/BEPAM-04-2012-0014.

²⁸ Ministry of Finance of People's Republic of China, issued on September 23, 2014, http://jrs.mof.gov.cn/zhengwuxinxi/zhengcefabu/201409/t20140924_1143760.html. Accessed September 29, 2016.

required the implementation of PPP demonstration projects nationwide. This is deemed as the start of the current stage of PPP development. Different from two historical phases, the current one not only shows the Chinese government's unprecedented determination for reforming governance to effectively implement PPPs, but also encourages PPP application in many sectors other than infrastructure.

2.1.2 Development of China's PPPs in the Heritage Conservation Field

In China, although PPPs have been widely used in the infrastructure field, it is not the case in heritage conservation and management. Among limited formal applications, cooperation between an international organization, representing the third sector, and the Chinese government, representing the public sector is one type of heritage PPP, which is called *Finance Only*. Different from other forms which usually involve the private sector operating and receiving profits from the site, this typology mainly involves the third sector's contribution through providing financing and sometimes technical support. Primary international organizations that have experience in cooperating with China include the World Monuments Fund (WMF), the Getty Conservation Institute (GCI), the Global Heritage Fund (GHF) and the World Bank.

Although within the same category of heritage PPPs, these organizations have different focuses and methodologies when they establish partnerships with China. Except for the World Heritage Site of the Forbidden City, WMF usually applies the tool of the World Monuments Watch List to engage indirectly in China's heritage field. WMF has included some Chinese sites on the List to attract worldwide attention and also contributed to raise financial support to protect them. Since 1996, WMF has committed almost US \$3 million to cultural conservation projects in

China.²⁹ Founded in 2002, GHF cares about community development when implementing preservation work. It partners with all levels of the Chinese government and local residents to conserve particular architectural heritage. GHF's projects include conserving the market tower in Pingyao Ancient Town, Shanxi Province, vernacular houses in the Dong Village in Guizhou Province, Foguang Temple as part of Wutai Mountain in Shangxi Province, and providing a Preservation Incentive Fund to encourage the Native Naxi families to live in Lijiang Ancient Town.³⁰ It engages more directly in specific projects in China. Compared to these two organizations, the GCI has the longest and most comprehensive cooperation with China. In 1989, the GCI and China's State Administration of Cultural Heritage signed a memorandum as the beginning of the cooperation. This twenty-seven year cooperation includes four projects: the Yungang Grottoes, the Mogao Grottoes, the Principles for the Conservation of Heritage Sites in China (also known as the China Principles), and the Imperial Mountain Resort at Chengde and Shuxiang Temple. Based on the working philosophy of capacity building and best practice demonstrations, the GCI not only contributed its conservation technologies through directly sending technical staff to work on sites, but also worked together with the Chinese government to formulate the China Principles, China's first national guidelines incorporating international experience for conserving heritage sites.³¹ As an international financial institution, the World Bank has helped finance twelve projects of cultural heritage conservation in China from 1993 to 2011, utilizing approximately US \$260 million in loans.³² To a certain extent, the World Bank

²⁹ World Monuments Fund, "World Monuments Fund in China," <https://www.wmf.org/publication/world-monuments-fund-china>. Accessed November 10, 2016.

³⁰ Global Heritage Fund, "Global Heritage Fund," <http://globalheritagefund.org/>. Accessed November 10, 2016.

³¹ Neville Agnew, Martha Demas, and Lorinda Wong, "The Getty Conservation Institute's Enduring Collaborations in China 1989-2016," *The GCI Newsletter 31.1: Conservation in China* (Spring 2016): 4-9.

³² Katrinka Ebbe, Guido Licciardi, and Axel Baeumler, "Conserving the Past as a Foundation for the Future: China-World Bank Partnership on Cultural Heritage Conservation," *Urban development series knowledge papers*

contributes to infrastructure upgrading and urban regeneration, and strengthens the links between conservation and local economic development. It also enhances conservation technology through supporting conservation institutions and specialists.

In practice, mainland China has quasi-heritage PPP applications. In some heritage sites which have great tourism potential, local governments cooperate with corporations in the form of joint-venture entities to conserve and operate the site. Wuzhen, located in Tongxing, Zhejiang province is a good illustration. It is an historic waterfront town with thousands of years of history and a site on the China's Tentative List of World Heritage. The local government cooperated with China CYTS Tours Holding Co., Ltd. and the IDG Group to establish the Wuzhen Tourism Corporation. This joint venture is an entity with full rights to conserve historic buildings, operate the site through adaptive reuse and new construction, and promote tourism for Wuzhen. Compared to other sites which risk overemphasizing tourism development, Wuzhen has reached a reasonable balance between heritage conservation and tourism development through applying different strategies on different parts of the scenic area. Even though China has few successful heritage PPPs, the Zhizhu Temple complex, the major case studied in my thesis, can act as a fine example. Regulating existing quasi-heritage PPPs and developing more formal typologies are important for effectively conserving and managing cultural heritage.

2.1.3 Policy Tools for the Government's Intervention in the Heritage Conservation Field

Exploring the origin of PPP application in heritage conservation leads us to five tools of government policy proposed by Schuster and De Monchaux, which are accepted and applied worldwide.³³ These tools are characterized by different levels of government intervention. In order from the heaviest to the lightest government intervention, they are: ownership and operation; regulations; incentives; establishment, allocation, and enforcement of property rights; and information.³⁴ Since the private sector is driven by market forces, contrary to public attribute of cultural heritage, scholars who propose these tools find it necessary to involve government intervention.

The tool of ownership and operation carries the message of “the state will do X.” By directly owning and operating heritage resources, a country will make all the choices for a given historic property. The main advantage of it is to implement a holistic strategy which can cover various concerns and to avoid possible problems raised by the private sector.³⁵ But pitfalls of this include inadequate funding from the government and inertia of bureaucratic systems, which may cause improper maintenance of cultural heritage.³⁶ In China, because the country is the owner of the land and real estate assets, this tool is dominant in the heritage field.

The regulation tool allows the state to choose to regulate the action of other actors. It sends

³³ Edited by J. Mark Schuster, John De Monchaux, and Charles A Riley, *Preserving the Built Heritage: Tools for Implementation*, Salzburg Seminar, Hanover, NH: University Press of New England, 1997.

³⁴ J. Mark Schuster and John De Monchaux, “Five things to do,” in *Preserving the Built Heritage: Tools for Implementation*, Salzburg Seminar, Hanover (NH: University Press of New England, 1997), 5-6.

³⁵ Stefano Bianca, “Direct Government Involvement in Architectural Heritage Management Legitimation, Limits, and Opportunities of Ownership and Operation,” in *Preserving the Built Heritage: Tools for Implementation*, Salzburg Seminar, Hanover (NH: University Press of New England, 1997), 20.

³⁶ *Ibid.*, 29.

the message “you must (or must not) do X.”³⁷ Including both enforceable and unenforceable regulations, the tool is identified as having positive attributes of both certainty and flexibility by David Throsby.³⁸ But the disadvantages of the tool are also obvious. It creates inefficiency when the uniform standard is applied to various contexts. Furthermore, it also fails to incentivize more efforts than the minimum requirement.³⁹ Similar to others, the Chinese government widely uses this tool to govern the conservation behaviors of other sectors.

Incentives are identified as the third tool of government intervention in heritage conservation. With basic types of direct incentives like grants and indirect incentives like taxed-bases ones, Schuster argues that the message sent by this tool is “if you do X, the state will do Y.”⁴⁰ China has experience with this tool and it is usually employed together with other tools like regulations.

The fourth tool of establishment, allocation, and enforcement of property rights carries the message that “you have a right to do X, and the state will enforce that right.”⁴¹ John J. Costonis recognizes two ways of using this tool: transfer of development rights and use of private property instruments such as easements.⁴² The US adopted Anglo-American Property Law, however, China adopted Civil Law. Due to different legal systems, this tool, which can be useful in the US, may not be applicable in China.⁴³

The last tool, information, allows the state to “collect and distribute information intended to influence the actions of others”. The inherent message here is “you should do X,” or “you need to

³⁷ Schuster, “Five things to do,” 5-6.

³⁸ David Throsby, “Making Preservation Happen: The Pros and Cons of Regulation,” in *Preserving the Built Heritage: Tools for Implementation*, Salzburg Seminar, Hanover (NH: University Press of New England, 1997), 34.

³⁹ *Ibid.*, 36-37.

⁴⁰ J. Mark Schuster, “Inciting Preservation,” in *Preserving the Built Heritage: Tools for Implementation*, Salzburg Seminar, Hanover (NH: University Press of New England, 1997), 51-66.

⁴¹ Schuster, “Five things to do,” 5-6.

⁴² John J. Costonis, “The Redefinition of Property rights as a Tool for Historic Preservation,” in *Preserving the Built Heritage: Tools for Implementation*, Salzburg Seminar, Hanover (NH: University Press of New England, 1997), 81-89.

⁴³ Stough, “Historic Preservation in Southeast Asia,” 1040.

know Y in order to do X.” The information tool is useful in creating public awareness and education about the importance of heritage. But the power of this tool is limited and it is more like a complementary tool for others.⁴⁴ The Chinese government frequently applies the information tool to guide the general public.

It is possible that a government can take these five tools together to conserve and manage heritage. However, as mentioned above, each of these tools has its limitations. It would be more effective and efficient to explore another tool, which could integrate them. Public-private partnerships turn out to be a possible approach. Charles A. Riley II points out that “by building cross-sector relationships that will permit risks and costs, as well as benefits and profits, to be shared, organizations involved in historic preservation will address not only the dire problem of funding, but also the challenge of gaining access to the media for the dissemination of information.”⁴⁵

2.2 Definitions, Sector Roles and Characteristics

2.2.1 Definitions of PPPs

In order to assure my definition of heritage PPPs is developed reasonably, reviewing PPP concepts employed by other experienced entities is necessary. Many forms of public-private partnerships exist and numerous definitions are available to describe PPPs.⁴⁶ For example, due to different dominant transaction structures, *private finance initiative (PFI)* is the British definition

⁴⁴ J. Mark Schuster, “Information as a Tool of Preservation Action,” in *Preserving the Built Heritage: Tools for Implementation*, Salzburg Seminar, Hanover (NH: University Press of New England, 1997), 103-118.

⁴⁵ Charles A. Riley II, “When Public Meets Private,” in *Preserving the Built Heritage: Tools for Implementation*, Salzburg Seminar, Hanover (NH: University Press of New England, 1997), 157.

⁴⁶ Mirjam Bult-Spiering, and Greert Dewulf, *Strategic Issues in Public-Private Partnerships : An International Perspective* (Malden, MA: Blackwell Pub, 2006), 16.

for PPPs. In Asia and Pacific regions, *BOT (Build-Operate-Transfer)* is the primary term. In France, *Concession* model is largely used.⁴⁷ It turns out that there is no unified definition of PPPs.⁴⁸ As some scholars argued; PPP is a continuous process of interaction and negotiation.⁴⁹ The United Nations Economic Commission for Europe (UNECE) also states that there is no universally accepted definition of PPPs.⁵⁰ These partnerships are highly context-specific. With possible relevance to their political, economic, legal and cultural contexts, the term PPP has been defined from different perspectives in different countries, regions, and organizations.⁵¹ The degree of decision rights, costs and risks taken by different sectors can all contribute to differentiated definitions of PPPs. The followings are definitions from representative organizations and countries.

UNDP (United Nations Development Programme): the term public-private partnership (PPP) is used to describe a spectrum of possible relationships between the government (the public sector) and other organizations that are not government (the private sector) to carry out a project or provide a service.⁵²

The World Bank: a long-term contract between a private party and a government entity, for providing a public asset or service, in which the private party bears significant risk and management responsibility, and remuneration is linked to performance.⁵³

⁴⁷ Hui Chen, *Public-Private Partnership Guide*, 24-25.

⁴⁸ Albert N. Link, *Public/private Partnerships : Innovation Strategies and Policy Alternatives* (New York: Springer, c2006), 1.

⁴⁹ Ole Johan Andersen, "Public-Private Partnerships: Organizational Hybrids as Channels for Local Mobilization and Participation?" *Scandinavian Political Studies* 27, no. 1 (March 2004): 2, doi:10.1111/j.1467-9477.2004.00097.x.

⁵⁰ United Nations Economic Commission for Europe (UNECE), *Guidebook on Promoting Good Governance in Public-Private Partnerships* (New York: United Nations Publications, 2008), 1, <https://www.unece.org/fileadmin/DAM/ceci/publications/ppp.pdf>. Accessed October 18, 2016.

⁵¹ Zhang et al., "PPP Application in Infrastructure Development in China," 498.

⁵² United Nations Development Programme, "UNDP - Public Private Partnership for the Urban Environment," <http://pppue.undp.2margraf.com/en/01.htm>. Accessed December 9, 2016.

⁵³ Asian Development Bank (ADB), Inter-American Development Bank (IDB), World Bank Group, Public-Private Infrastructure Advisory Facility (PPIAF), *Public-Private Partnerships Reference Guide: Version 2.0*

ADB (the Asia Development Bank): the term “public–private partnership” describes a range of possible relationships among public and private entities in the context of infrastructure and other services.⁵⁴

European Commission: cooperation between public and private parties involving the establishment of a mixed capital entity which performs public contracts or concessions.⁵⁵

NCPPP (National Council for Public-Private Partnerships in the United States): a public-private partnership is a contractual arrangement between a public agency (federal, state or local) and a private sector entity. Through this agreement, the skills and assets of each sector (public and private) are shared in delivering a service or facility for the use of the general public. In addition to the sharing of resources, each party shares in the risks and rewards potential in the delivery of the service and/or facility.⁵⁶

The Chinese government (the State Council): in a PPP project, the government chooses the private sector participants with financing and operating ability through competitions. Two parties sign contracts based on an equal negotiation principle and clarify mutual responsibilities and benefits. Through a PPP, nongovernmental capital provides public service and the government pays for it according to evaluation results of the performance to guarantee the reasonable returns for the nongovernmental capital.⁵⁷

(Washington, DC: World Bank. January 2014), 14, <http://api.ning.com/files/Iumatxx-0jz3owSB05xZDkmWIE7GTVYA3cXwt4K4s3Uy0NtPPRgPWYO1LrWaTUqybQeTXIeuSYUxbPFWlysuyNI5rL6b2Ms/PPPReferenceGuidev02Web.pdf>. Accessed March 1, 2017.

⁵⁴ Asian Development Bank, *Public-Private Partnership (PPP) Handbook* (Asian Development Bank, 2008), 1, <https://www.adb.org/documents/public-private-partnership-ppp-handbook>. Accessed November 2, 2016.

⁵⁵ European Commission, “Public Procurement: Commission Issues Guidance on Setting up Institutionalized Public-Private Partnerships – Frequently Asked Questions,” http://europa.eu/rapid/press-release_MEMO-08-95_en.htm. Accessed December 9, 2016.

⁵⁶ National Council for Public-Private Partnerships, “7 Keys to Success,” <http://www.ncppp.org/ppp-basics/7-keys/>. Accessed September 30, 2016.

⁵⁷ State Council of People’s Republic of China, *Notice of the General Office of the State Council on Forwarding the Guiding Opinions of the Ministry of Finance, the National Development and Reform Commission and the People’s Bank of China on Generalizing the PPP Mode in the Public Service Field* (Guo Ban Fa [2015] No. 42), effective on May 19, 2015,

Although the definitions are not unified, some common elements can be identified from the aforementioned descriptions. First, two sectors, the public and private sectors, are the main actors in a PPP project. Second, a heritage PPP project usually involves a long-term contract guiding the actors to deliver public service. Third, each party shares not only skills and assets, but also risks, rewards and responsibilities through transactions. Fourth, the cooperation types can be varied or adapted based on service areas as well as the project context.

Furthermore, PPPs should not be confused with other seemingly similar concepts. Other than PPPs, there are many forms of cooperation between three sectors such as public procurement, and setting up a nonprofit organization addressing fund-raising and privatization. “Public procurement refers to the purchase, lease, rental or hire of a good or service by a state, regional or local authority.”⁵⁸ It is typically a short-term, one-off relationship between two sectors. But PPPs usually engage long-term and complex collaboration. In a procurement contract, the public owner of the place directly contracts a private company to do a limited part of the work, such as conserving a building, without transferring operational rights and still occupying it. In situations like contracting a fund-raising organization, the collaboration is based on one-way exchange of service, rather than mutual sharing of risks and rewards required by PPPs.⁵⁹ Confusion may also happen between PPPs and privatization since they both involve participation of the private sector. The biggest difference is that PPPs usually maintain the public ownership of the asset. Even under conditions where the public sector is selling the asset to the private sector, it often maintains the right to repurchase or lease back the property. However, in a privatization case, the ownership of a

http://www.mof.gov.cn/zhengwuxinxi/zhengcefabu/201505/t20150522_1237932.htm. Accessed December 8, 2016.

⁵⁸ UNECE, *Guidebook on Good Governance*, 4.

⁵⁹ Macdonald and Cheong, *The Role of Public-Private Partnerships*, 15-16.

property will completely belong to a private entity without expecting the re-acquirement of the ownership by the public sector.⁶⁰

Based on the summary of relevant definitions and clarification of it with other similar concepts, the definition of heritage PPPs applicable to China's contexts is given as follows.

Heritage PPPs are transactions and cooperation between the public, private and/or third sectors, usually through a long-term agreement that shares skills, assets, risks and rewards in the delivery of heritage conservation and adaptive reuse process. At least two of these three sectors should be involved in the partnerships. In China, the public sector is represented by the government and the private sector covers state-owned enterprises in a broad sense. Different from PPPs in the infrastructure field, heritage PPPs may involve the third sector, mainly represented by nonprofit organizations. Key elements of the partnership include a mutual transaction of risks and rewards, and a deep involvement of the partners' participation.

2.2.2 Typical Roles and Motivations of Sectors Involved



Figure 2.2: Motivations of Three Sectors

⁶⁰ UNECE, *Guidebook on Good Governance*, 4.

The public sector in a PPP can be “the local, state, or national government, or a combination of these three levels.”⁶¹ It can be the owner of a heritage asset who provides the asset. But it can also just play the role of the entity which is legally responsible for overseeing heritage conservation. The responsibility of the public sector should be providing sound and transparent regulatory frameworks that engage all three sectors.⁶² The motivation for public sector participation is to address problems like budgetary constraints and explore appropriate use of a heritage site to build its good reputation and receive public trust.

Roles of the public sector in a heritage PPP include one or several of the following:

- a. Provides long-term protection of the heritage asset through regulations and laws
- b. Provides the heritage asset
- c. Provides financial and regulatory incentives to encourage private or third sector involvement
- d. Occupies all or part of the building after the rehabilitation

The private sector participant can be a social enterprise or companies such as multinational corporations which deem heritage conservation as part of their corporate social responsibilities. Affluent individuals who have strong interest in conservation and adaptive reuse of heritage buildings can also be participants. They may have purposes other than conservation when engaging in a heritage PPP. However, as long as their objectives are based on the shared conservation outcome, they are potential contributors.

The motivation for the private sector can be multiple. As a market driven entity, it is natural for it to seek profits from heritage PPPs. Urban heritage sites cover a large range of places.

⁶¹ Macdonald and Cheong, *The Role of Public-Private Partnerships*, 41.

⁶² *Ibid.*, 42.

Sometimes it is about an entire neighborhood which can bring the private investment plenty of returns. Cultural real estate is an emerging market that closely relates to heritage PPPs. Even if being an independent site, its appropriate reuse can provide the private investment with a reasonable financial return. Moreover, social impact and brand marketing also serve as important drives, which indirectly lead to profit making or value-adding.

Roles of the private sector include one or several of the following:⁶³

- a. Provides capital
- b. Provides business, marketing or conservation skills

The third sector in a PPP is often a non-profit organization that cares about specific heritage assets. The motivation for the third sector is primarily achieving its social mission. Sometimes it also strives to obtain a reasonable financial return to cover its investment.

Its possible roles include one or several of the followings:

- a. Acts in the public interest to cooperate with the private sector in situations where governments lack ability to manage the partnership
- b. Acts actively with the private sector, with limited or minimal intervention of the public sector
- c. Created by the public sector to be its representative in a heritage PPP
- d. Provides straightforward grant funding
- e. Provides knowledge or capacity building beyond granting

An important trend was indicated by Macdonald and Cheong in their report about PPP (hereafter referred to as the Getty Report). “Partnerships between the private and third

⁶³ Ibid., 43.

sectors—without a public sector component—are emerging as a mechanism for achieving conservation, particularly for urban sites and less monumental heritage places.”⁶⁴

2.2.3 Characteristics of Heritage PPPs

As indicated by an American heritage PPP expert Donovan Rypkema, primary characteristics of PPPs include long duration which often lasts for twenty-five to ninety-nine years, typically substantial funding, economic operators playing important roles, and distribution of risks.⁶⁵ Although being within the general scope of PPPs, heritage PPPs have their own characteristics. Through summarizing the Getty report, several features of heritage PPPs are presented.⁶⁶ First, these projects may be simpler than those large and complex infrastructure projects. Second, the field currently lacks accepted means to clearly express the monetary value of a heritage asset. Hence, misunderstandings between different sectors happen easily. Third, a balance between new use and the maintenance of cultural significance is needed. Fourth, the cooperation of different sectors is based on the shared conservation outcome. Thus, in an ideal heritage PPP, we need a high level of government oversight, and capable staff who have both conservation skills and business management knowledge. The characteristics of heritage PPPs provide a foundation to judge case studies in the later section of the thesis. They also act as reference to propose policy recommendations for well developing heritage PPPs.

⁶⁴ Ibid., 51.

⁶⁵ Donovan Rypkema, and Caroline Cheong, *Public-private partnerships and heritage: a practitioner's guide* (Washington, DC: Heritage Strategies International, January 28, 2012), 6.

⁶⁶ Macdonald and Cheong, *The Role of Public-Private Partnerships*, 33.

2.3 PPP Types/Transaction Models/Structures

PPPs have complex categorizing approaches. To clarify them and effectively employ them in the heritage field, my thesis at first introduces major dimensions to classify PPPs widely used in the world. Then it summarizes PPP transaction models applied in China. Finally, potential types of heritage PPPs will be presented based on the adaptation of PPP transaction models used in the infrastructure field.

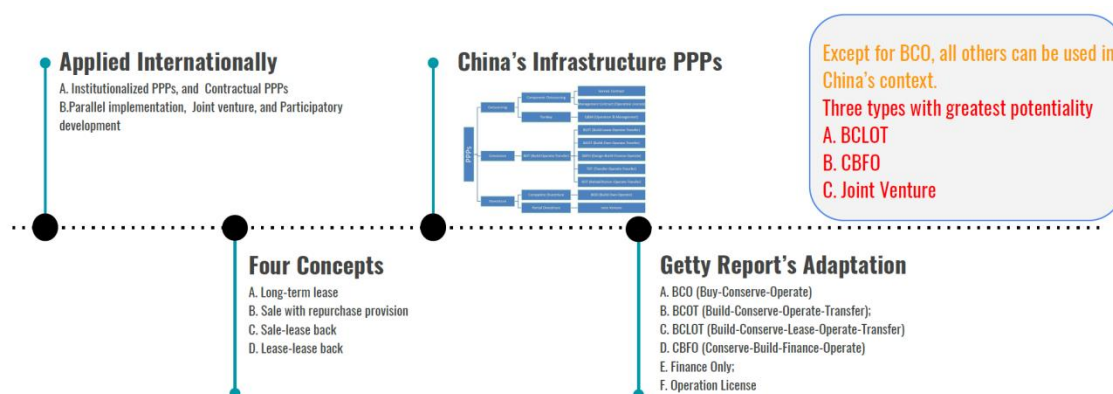


Figure 2.3: Development Methodology of Categorizing Heritage PPPs

2.3.1 Categorization of PPPs Applied Internationally

Generally categorized, PPPs can be divided into two types:

A. *Institutionalized PPPs*: a third party organization, trust, or company, called a Special Purpose Vehicle (SPV) or Special Purpose Entity (SPE), is created to insulate the founding partners from risk. The SPV is usually the governing body of the partnership. In countries with especially strong government presence and capabilities, the SPV is created with limited executive powers and serves as a catalytic advisory board, or the “face” of the project.⁶⁷

B. *Contractual PPPs*: agreements are made between the public and private sectors for the delivery of a public service or good by the private sector for an extended period of time.

⁶⁷ Ibid., 20.

Concession contracts are a subcategory of contractual PPPs, funded by a “user-pay” system, in which user fees finance the operation and management of the PPP.⁶⁸

Another categorizing method is summarized by Inter-American Development Bank (IDB) based on Latin America’s experience in urban regeneration. Three structures of PPPs are as follows.⁶⁹

Parallel implementation: it is characterized by independent organizations representing the public, private, and third sectors that work to salvage an urban space through coordinated and complementary actions. One sector should lead and oversee the cooperation efforts of all sectors. A committee or a similar body led by the leading sector is usually needed.

Joint venture: it consists of one company, usually in the form of SPV, in which the public and private sectors own shares. The third sector participates in the decision-making body of this enterprise.

Participatory development: it is composed of a process in which all interested parties in the geographic area are represented. In this model, a body with the role of decision-making and coordinating is composed of representatives from all three sectors. But it has no legal standing.

Since heritage PPPs usually involve issues about retention of the ownership of the buildings or sites, four related concepts which are often used in the heritage PPP contracts should be clarified.⁷⁰

Long-term lease: public sector lend, wherein the heritage asset is not sold to the private or

⁶⁸ Ibid., 21-22.

⁶⁹ Fano Alejandro Cruz, Jos éBrakarz, and Catherine J. Fox, *Tripartite Partnerships: Recognizing the Third Sector: Five Case Studies of Urban Revitalization in Latin America* (Washington DC: Inter-American Development Bank, 2005), 18-21, <http://publications.iadb.org/handle/11319/248>. Accessed November 10, 2016.

Macdonald and Cheong, *The Role of Public-Private Partnerships*, 55.

⁷⁰ Macdonald and Cheong, *The Role of Public-Private Partnerships*, 54-55.
Rypkema and Cheong, *a practitioner's guide*, 14-15.

third sector under a long-term. The government maintains consistent ownership of the asset.

Sale with repurchase provision: Due to taxes or other financial considerations, the government sells the asset to the private sector but will repurchase the asset back at a later date. The private sector has the ownership within a certain term.

Sale-lease back: it is an arrangement in which the government sells the property to the private sector, and immediately leases it back to the public sector. It is applicable to situations in which the government still wants to use the property, but does not want or cannot afford the cost of owning the asset. Usually, the government will repurchase the asset at the end of the lease term.

Lease-lease back: it is similar to sale-lease back except for two differences. One is at the beginning, the government lends the asset to the private sector. Another one is there is no repurchase agreement. The asset will automatically revert to the public sector at the end of the lease.

2.3.2 Categorization of PPPs Applied in China

In 2004, a Chinese PPP expert, Hao Wang, developed a PPP classification according to its evolution in China's context. His work is widely cited by other scholars. He categorizes PPPs into three distinct types: *Outsourcing*, *Concession* and *Divestiture*. Under these three types, he further develops sixteen sub-categories.⁷¹ With the evolution of PPPs, some scholars have developed their own categorizing methodology. In the book *Public-Private Partnership Guide*, Hui Chen simplifies PPPs into seven categories through adapting six sub-categories mentioned by Wang.⁷² In another recently published book, *China's PPP Logic*, Pu et al argue six types they deem as

⁷¹ Hao Wang, "A Study on the Definition and Classification of PPP," *Urban Rapid Rail Transit* 17, no. 5 (2004): 26, doi:10.3969/j.issn.1672-6073.2004.05.006.

⁷² Hui Chen, *Public-Private Partnership Guide*, 11-21.

important and commonly used.⁷³ Based on these different approaches, I have developed a categorizing method which lays foundations for further adaption of PPPs into the heritage filed.

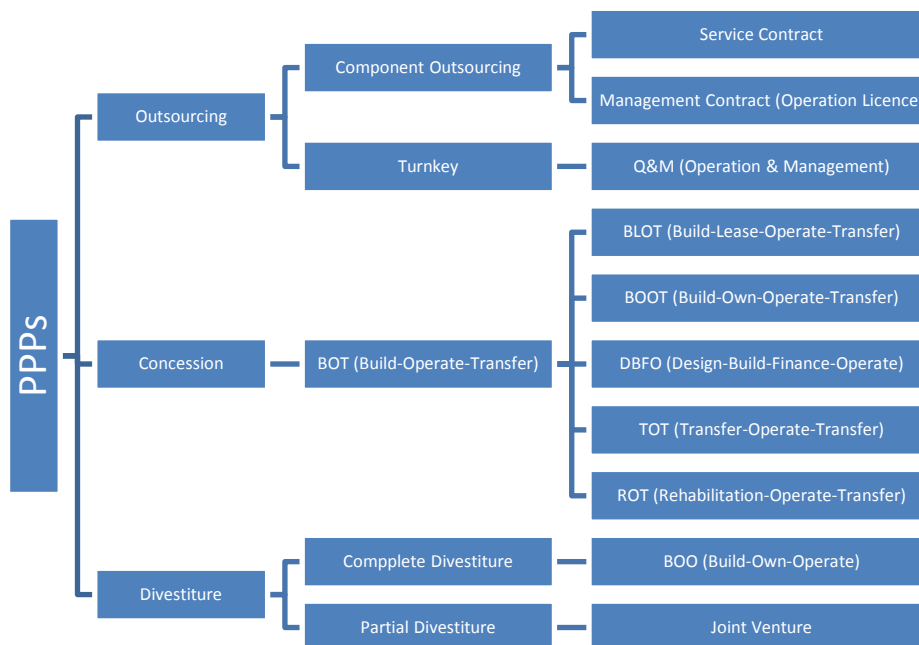


Figure 2.4: Categorization of Major Infrastructure PPPs in China

The followings are explanations for key categories related to heritage PPPs.⁷⁴ Terms showed in the name of a type like *Build*, *Lease*, and *Transfer* represent responsibilities mainly taken by the private sector. Different combinations of responsibilities create different PPP types. As indicated by PPP experts Darrin Grimsey and Mervyn K. Lewis, various models of PPPs present cooperation between the public and private sectors with different levels.⁷⁵ For different contexts, certain types could be modified to meet specific requirements. With the evolution of PPP market, different types could also be mixed together to better meet the requirements of projects.

A. Outsourcing

Outsourcing refers to partnerships where the public sector signs contracts with a private actor

⁷³ Jian Pu, Hui Sun, Er Che, and Si Zhang, *China's Logic in PPP* (Beijing: China CITIC Press, July 2016), 66-68.

⁷⁴ Author modified based on relevant contents of "A Study on the Definition and Classification of PPP" by Hao Wang, *Public-Private Partnership Guide* by Hui Chen, and *China's Logic in PPP* by Pu et al.

⁷⁵ Grimsey and Lewis, *The Worldwide Revolution*, 26.

to undertake only part of the project construction or to take responsibility for operation and maintenance.

a. *Service Contract (SC)*: the public sector hires the private sector to complete one or several assignments. The private sector is involved in the public service in a very limited way. And the contract term is usually very short, one to three years. This type is similar to public procurement. From a strict perspective, this type is not a formal PPP since it only involves a delegation relationship, rather than a transaction relationship.

b. *Management Contract (MC)*: the private sector is allowed to engage in larger or even all public service. For the private sector, it usually finances operational capital, rather than initial capital. Under MC, the type of *Operation License* will be mentioned later. MC engages larger and deeper participation of the private sector compared to SC. But through it, the public sector still just outsources part of the service to the private sector.

c. *Operation and Management (O&M)*: the public sector entrusts responsibilities like operation, maintenance, and management of stock public assets to the private sector and pays fees. The ownership is retained in the public sector. The contract is usually less than eight years for this type.

B. *Concession*

Concession refers to the private sector investing partly or wholly in the project and directly sharing the risks with the public sector.

BOT and its variant forms are particular kinds of *Concessions*. They all involve concession contracts in the project progress. Generally speaking, a *Concession* project mainly refers to the enlargement and operation of existing facilities while *BOT* is more about “green field” investment,

a concept related to international investment. It usually pertains to new projects which require not only debt but also equity financing. Even though with some differences, these two types overlap each other in most instances. Thus, the categorization here deems them as equal concepts.

BOT has many kinds of variant forms including: *BLOT (Build-Lease-Operate-Transfer)*, *BOOT (Build-Own-Operate-Transfer)*, *DBFO (design-build-finance-operate)*, *TOT (Transfer-Operate-Transfer)* and *ROT (Rehabilitation-Operate-Transfer)*. Among them, *DBFO* requires the private sector to assume all responsibilities for the whole-life cycle of a project. Especially for financing, the private sector takes charge of financing the whole project. In other types like *BLOT*, the private and public sectors usually share the responsibility of financing together.

C. *Divestiture*

Divestiture involves private sector ownership of projects that operate under the public sector's supervision.

a. *BOO (Build-Own-Operate)*: this type does not involve transferring the ownership from the private sector back to the government. Hence, it is a complete divestiture from the original public ownership. It applies to projects that play crucial roles in key fields. The ownership is kept by the private sector with governing clauses to guarantee the public benefits.

b. *Joint Venture*: the government or a state-owned enterprise and the private sector jointly own and operate the public service through a formal legal standing. The form of the joint venture entity can be a new corporation/SPV. It may also happen through a state-owned enterprise that sells part of its equity to the private sector while keeping the original form of the enterprise. Although allowing the participation of the third sector, most joint venture forms in China mainly

involve the public and the private sectors.

2.3.3 Categorization of Heritage PPPs Applied in China

As the pioneer researching about heritage PPPs, the Getty Report adapts major PPP types to fit the conservation field, through substituting the word *conserve* for the word *build* or directly adding *conserve* in the name of a PPP type. Six major forms are given:⁷⁶

BCO (Buy-Conserve-Operate) is adapted from *BBO (Buy-Build-Operate)*;

BCOT (Build-Conserve-Operate-Transfer) is adapted from *BOT (Build-Operate-Transfer)* and *BOOT (Build-Own-Operate-Transfer)*;

BCLOT (Build-Conserve-Lease-Operate-Transfer) is adapted from *BLOT (Build-Lease-Operate-Transfer)*;

CBFO (Conserve-Build-Finance-Operate) is adapted from *DBFO (Design-Build-Finance-Operate)*;

Finance Only: projects funded directly by the private or third sector or funded by long-term leases or bonds; and

Operation License: a private or third sector operates a service under contract or license at the heritage asset for a fixed term. The heritage asset remains in government's ownership.

For actual project application, sometimes there is only conservation happening at an early stage. However, in many projects, conservation and new construction do occur at the same time, so it could also be stated as "build/conserve." Being aware of these facts, I keep using the terminology used in the Getty Report to maintain continuity with the original terminology. *BCOT*

⁷⁶ Macdonald and Cheong, *The Role of Public-Private Partnerships*, 54.

involves *sale with repurchase*, *sale-lease back* or *lease-lease back* provision. *BCLOT* involves a *lease-lease back* provision. *CBFO* may involve a *lease-lease back* or *long-term lease* clause and *Finance Only* and *Operation License* can also involve *long-term lease* clause.

In China's context, among six major types of heritage PPPs mentioned above, five can be applied. Almost all heritage sites in China belong to different levels of government. Generally speaking, the private sector is not allowed to own or buy a heritage asset due to its obvious public attribute. In China's infrastructure field, the structures of BOO (build-own-operate) exist in the projects of less important infrastructure facilities. Thus, it is possible that some less important heritage sites could be owned by the private sector in the future. However, since the possibility is small, BCO is not deemed a current choice for heritage PPPs in China. A lease structure is more easily accepted, therefore, *BCLOT* and *CBFO* have a much higher possibility of application than *BCO* in China. Plus, *BCLOT* and *CBFO* are subcategories of BCOT, from my perspective. *Finance Only* is a type that has already been applied in China's heritage field as shown in the cooperation between the Chinese government and some international organizations. The *Operation License* type basically has a similar meaning to a *Management Contract*, of which China has experience. Thus, five types of heritage PPPs, *BCOT*, *BCLOT*, *CBFO*, *Finance Only*, and *Operation License*, have potential to be employed in China. Among them, *BCLOT* and *CBFO* have great possibility of being used since they are already widely employed in the infrastructure field. Additionally, due to its wide application in China and being proposed by the IDB as a major form to use in Latin America, my thesis also includes *Joint Venture* as another type of heritage PPPs.

Therefore, *BCLOT*, *CBFO* and *Joint Venture* are three major types of heritage PPPs that have

the greatest possibility to be used in China's context. Adjustments in a specific project do not affect to which category it belongs.

2.4 Governance Structure and Institution of Property Rights

A governance structure covering legal and administrative systems is important to heritage PPP application. This section aims to present a general view of the governance structure in Beijing and China. As a crucial issue related to governance in heritage conservation and management, the institution of property rights is also discussed here. The governance structure and institution of property rights together lead to a complex administrative process in China, which has severely hindered its effective preservation practice.

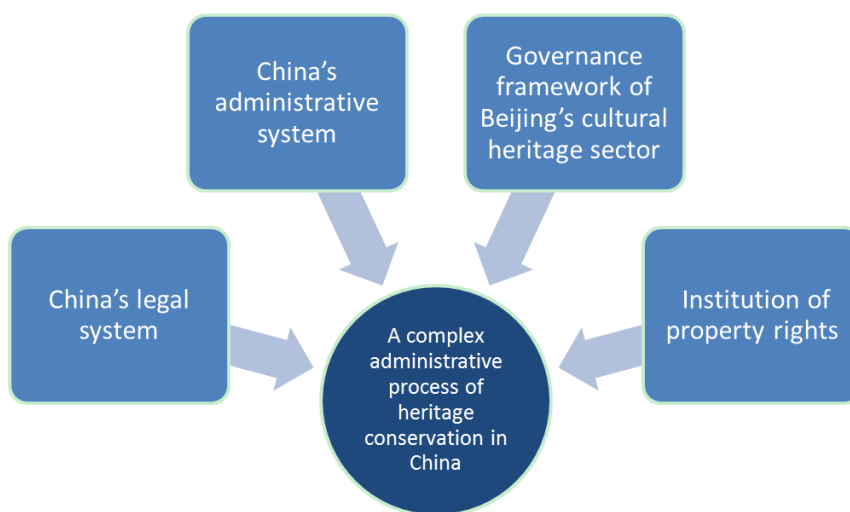


Figure 2.5: Factors Leading to Complex Administration in the Conservation Field

2.4.1 General Structure of China's Legal System

Basically, China's legal system is based on the Civil Law system but recently has gradually absorbed principles from the Common Law system. It can be classified into several types: cardinal

law, fundamental and general laws, bylaws and regulations, and provisions or rules.⁷⁷ The structure of these laws can be seen in the figure below.

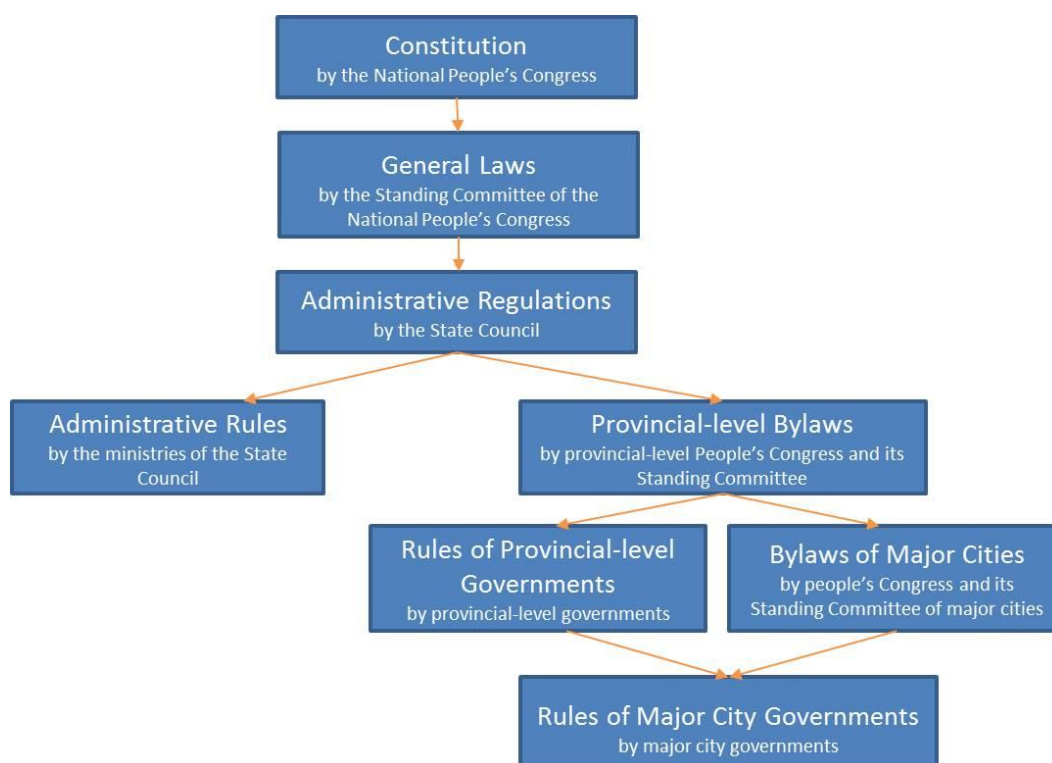


Figure 2.6: China's Legal Framework

Within this framework, the *Cultural Relics Protection Law of People's Republic of China*, the highest level of law relating to China's heritage conservation, is a general law belonging to the second level, made by the Standing Committee of the National People's Congress. Many other regulations and rules regarding PPPs belong to the third and fourth level of laws. For example, *Opinions of Encouraging, Supporting and Introducing Private Economy Development* (Guo Fa 2005, No.3) is an administrative regulation made by the State Council. *Notice of the Ministry of Finance on Issues concerning the Promotion of the Use of Public-Private Partnership* (Cai Jin [2014] No.76) is an administrative rule made by the Ministry of Finance. At the fourth level,

⁷⁷ S. F. Huai, *Research on the reform and perfection of China's judiciary system with its special socialist characteristics*, Beijing: China University of Political Science and Law Press, 2012.
Zhang et al., "PPP Application in Infrastructure Development in China," 501.

provincial-level bylaws and administrative rules are equivalent, but they apply to respective domains.⁷⁸ Similarly, at the fifth level, rules of provincial-level governments and bylaws of major cities are equivalent. Rules of major city governments are at the sixth level, the lowest level. Each higher level takes precedence over lower levels theoretically. In reality, laws at the fifth or sixth level function as specific guidance.⁷⁹ Clarifying the framework of different levels of laws provides a foundation for offering suggestions for further improvements to the system.

2.4.2 General Structure of China's Administrative System

The State Council, representing China's central government, is the highest administrative authority.⁸⁰ Under it, the Ministry of Finance and the National Development and Reform Commission are two ministries in charge of planning national economic activities. They have influence on both PPPs and cultural heritage conservation and management. With regard to the heritage field, several ministries and administrations are specifically relevant, such as the Development and Reform Commission, the Ministry of Housing and Rural-Urban Development, the Ministry of Culture, and the Ministry of Land and Resources. Similar to the infrastructure sector, the cultural heritage sector is "governed dually by local governments in block (horizontally) and ministries of the State Council in line (vertically)."⁸¹

Analysis of the administrative framework in the heritage conservation field clearly indicates its complexity. It is where adjustment measures may come in.

⁷⁸ Ibid.

⁷⁹ Ibid.

⁸⁰ State Council of the People's Republic of China, "Introduction to State Council of People's Republic of China," <http://www.gov.cn/guowuyuan/zuzhi.htm>. Accessed October 17, 2016.

⁸¹ Zhang et al., "PPP Application in Infrastructure Development in China," 502.

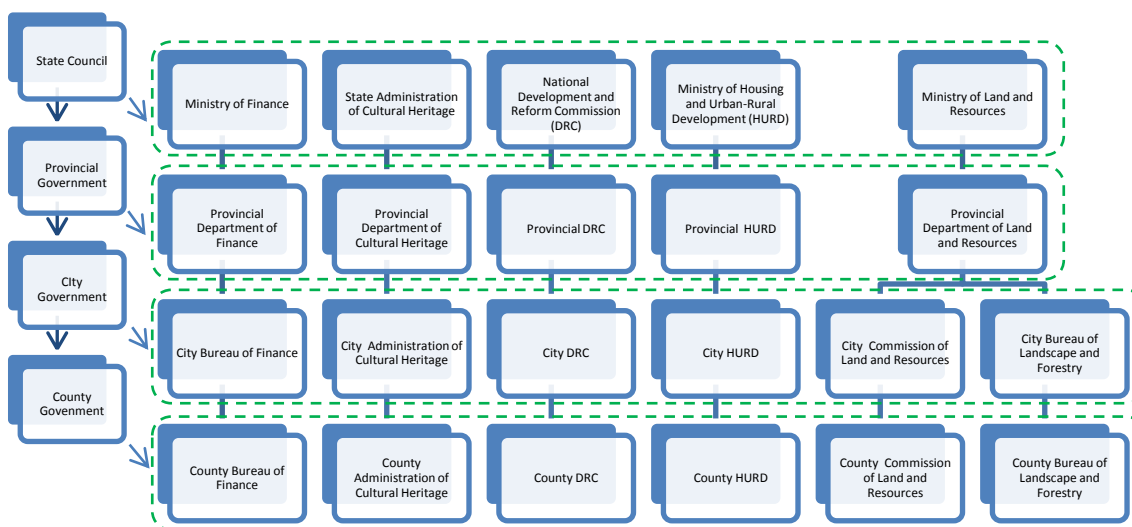


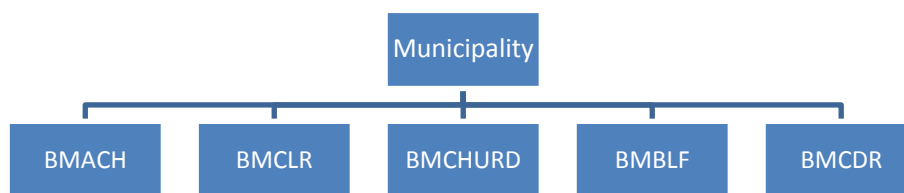
Figure 2.7: The General Framework of Administrative System of Cultural Heritage in China

2.4.3 Governance Framework of Beijing's Cultural Heritage Sector

Under the current system, important heritage sites and buildings are listed under a hierarchy of three levels. National Major Heritage Protection Units, managed by the State Administration of Cultural Heritage is the highest level. Provincial Major Heritage Protection Units and Municipal/County Major Heritage Protection Units are the second and third level sites, separately managed by local governments, either provincial or municipal ones.⁸² My focus is on municipal level urban heritage sites. At this level, the municipal government is the major player who owns and manages sites.

In Beijing, there is no single municipal agency fully in charge of urban preservation. Preservation is within the province of five functional bureaucracies, which are involved in different aspects of the work. The following chart shows those five government agencies.

⁸² Shen Chen, and Chen Hong, "Cultural Heritage Management in China Current Practices and Problems," in *Cultural Heritage Management: A Global Perspective*, ed. Phyllis Mauch Messenger, and George S. Smith (Gainesville: University Press of Florida, 2010), 78-81.



BMACH: Beijing Municipal Administration of Cultural Heritage

BMCLR: Beijing Municipal Commission of Land and Resources

BMCHURD: Beijing Municipal Commission of Housing and Urban-Rural Development

BMBLF: Beijing Municipal Bureau of Landscape and Forestry

BMCDR: Beijing Municipal Commission of Development and Reform

Figure 2.8: Five Government Agencies Involved in Cultural Heritage Urban Preservation in Beijing

The BMACH is in charge of municipal historic monuments and heritage sites. The BMCLR is responsible for designating preservation districts and making preservation plans. The BMCHURD has the authority to issue demolition certificates and construction permits. The BMBLF takes care of the green space and natural scenes in heritage sites or preservation areas. The BMCDR supervises the allocation of land and funds in urban plans.⁸³

The administrative framework of urban heritage preservation in Beijing is a clear demonstration of a complex administrative system in China. Understanding its structure lays a foundation for further development.

⁸³ Edited by author, based on Yue Zhang, "Beijing Bureaucratic anarchy and symbolic preservation," in *Globalization and Community: Fragmented Politics of Urban Preservation: Beijing, Chicago, and Paris* (Minneapolis: University of Minnesota Press, 2013), 37-38.

2.4.4 Institution of Property Rights and Heritage Conservation

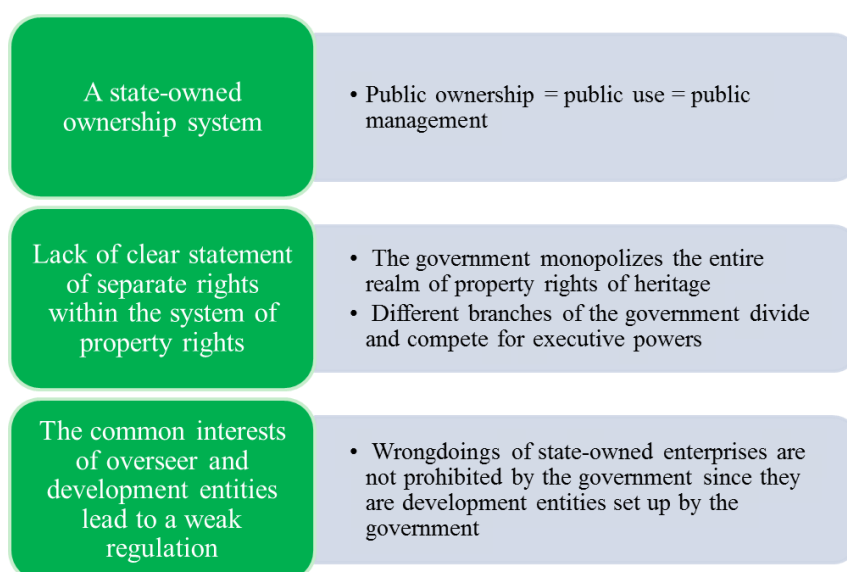


Figure 2.9: Problems of the Institution of Property Rights

China's immovable heritage is under a hierarchical and centralized state administration. However, inconsistent policy-making may occur when local governments are seeking to "set their own standards and priorities for the best interests of the region."⁸⁴ Bureaucratic problems arise from the institution of property rights, which is crucial to cultural heritage management in China.

A state-owned ownership system has been the dominant economic system in China since the founding of the country in 1949.⁸⁵ It also applies to heritage management systems. In the first Chinese Constitutional Law, enacted in 1954, there are provisions prescribing that "minerals, water, forests, land and other natural resources are owned by the whole Chinese people."⁸⁶ In the revision edition enacted in 2015, the fifth article of the *Law of the People's Republic of China on Protection of Cultural Relics*, enlarges the scope by prescribing that "all cultural relics remaining underground or in the inland waters or territorial seas within the boundaries of the People's

⁸⁴ Shen Chen, and Chen Hong, "Cultural Heritage Management in China," 75.

⁸⁵ Tang, "Property Rights," 27.

⁸⁶ National People's Congress of the People's Republic of China, *The Constitution of China*, Article 9, adopted at the Fifth Session of the Fifth National People's Congress and promulgated for implementation by the Announcement of the National People's Congress on December 4, 1982, http://www.gov.cn/gongbao/content/2004/content_62714.htm. Accessed September 19, 2016.

Republic of China are owned by the State. Sites of ancient culture, ancient tombs and cave temples are owned by the State”.⁸⁷ These are the provisions that established the state-owned ownership system in heritage resource management. Under this system, the logic for governing is that “public ownership means public use, public use means public management.” As the defender of the public interest, the government becomes the actual owner and dominant overseer of heritage resources.⁸⁸

The property rights theory suggests that property rights are a series of rights rather than a single right. Within its domain, different property rights such as the right to management and the right to earnings and ownership are supposed to be dealt with separately. According to current Chinese legal rules, only the ownership right of heritage sites is stated clearly. Other rights are defined vaguely. The lack of a clear statement leads to the result that the management and operational rights related to heritage are also taken by the government.⁸⁹ Therefore, the government monopolizes the entire realm of property rights of heritage. Different branches of the government constituting the administrative system of cultural heritage compete for executive power for their own interests. As a result, different heritage resources are divided to be owned, managed, and operated by different branches of the government (as showed in Figure 2.4). Moreover, the government usually sets up state-owned enterprises as the development entity to take responsible for preserving and utilizing heritage sites. However, since governments have monopolistic property rights over cultural heritage, the overseer and the development entity are

⁸⁷ National People’s Congress of the People’s Republic of China, *Law of the People’s Republic of China on Protection of Cultural Relics* Article 5, adopted at the 25th Meeting of the Standing Committee of the Fifth National People’s Congress, promulgated by order No.11, and effective on November 19, 1982, the current version is the 14th amendment issued in 2015, http://www.npc.gov.cn/wxzl/gongbao/2015-08/10/content_1942927.htm. Accessed September 19, 2016.

⁸⁸ Tang, “Property Rights,” 28.

⁸⁹ *Ibid.*

the same. With common interests, the oversight agency usually fails to take effective measures to stop behaviors of inappropriate use done by state-owned enterprises.⁹⁰ In other words, the regulation is weak in the preservation field. This system is the origin of many problems in the heritage field.

In the Zhizhu Temple complex case, the issue of property rights directly caused the destruction of the former site. Since the municipal government monopolized the whole series of ownerships, it distributed the site to different organizations at its will. It first gave the site to different factories, and later assigned it to the Buddhist Association of Beijing to show its respect for religious land use. However, as a nonprofit organization, the Buddhist Association of Beijing neither had money to restore the site nor cared about the preservation situation of the site. As the local heritage regulation body, the BMACH has limited power to punish and even regulate the misconduct of the current owner. Finally, long-term loss of maintenance leads to the dilapidated condition of the site. Moreover, after the private sector took over the use right for the site through a lease, the issue of property rights has created many difficulties hindering preservation and reuse work. Since the site belongs to a religion organization, its method of reuse is a sensitive topic and requires complex procedures to get permission. If the property rights of the site can be clarified and won through a transparent and market channel, the site would belong to an owner who would be willing to invest in the conservation and management work. Then, the site condition could be greatly improved through effective preservation and appropriate reuse.

Zijun Tang, a scholar, suggests finding a specific arrangement for the institution of property rights of heritage that is suited to China's contexts.⁹¹ PPPs, which transfer rights (a combination

⁹⁰ Ibid., 28.

⁹¹ Ibid., 30.

of all or one or several rights like ownership, occupancy, operation, management and conservation) to the private and/or third sector, can modify the current logic between public ownership, use and management mentioned above.

Chapter 3 Literature Review

3.1 China's PPP Situation in the Infrastructure and Heritage Sector

In recent years, the infrastructure PPP practice in China has been the focus of much literature. The different perspectives together provide us a comprehensive view of PPP application in this field. As the capital city of China, Beijing follows the nationwide development trend of the country. Plus, in order to understand the PPP environment in Beijing, to gain an overall picture of the whole country is necessary.

Much of the literature about infrastructure PPPs discusses critical success factors (CSFs). Some generalize successful factors, some concern transition countries, and some are specifically about China. Xueqing Zhang uses agreement analysis to test results of a questionnaire survey of international expert opinions to analyze CSFs in transition countries. He suggests five critical success factors and each with a number of sub-factors.⁹² Similarly, Chan et al. use an empirical questionnaire survey to propose obstacles to successful implementation of PPPs in Beijing and Hong Kong and then further implies CSFs. Although applying systematic thinking and previous experts' conclusions as a foundation, they lack a coherent framework.⁹³ Thus, factors they propose are not easy to understand or apply, either for a professional in practice or a reader in

⁹² Xueqing Zhang, "Critical Success Factors for Public-Private Partnerships in Infrastructure Development," *Journal of Construction Engineering and Management* 131, no. 1 (2005): 3-14, doi:10.1061/(ASCE)0733-9364(2005)131:1(3).

⁹³ A. Chan, P. Lam, D. Chan, M. ASCE, E. Cheung, and Y. Ke, "Potential Obstacles to Successful Implementation of Public-Private Partnerships in Beijing and the Hong Kong Special Administrative Region," *Journal of Management in Engineering* 26, no. 1 (January, 2010): 30-40, doi:10.1061/(ASCE)0742-597X(2010)26:1(30).

A. Chan, P. Lam, D. Chan, M. ASCE, E. Cheung, and Y. Ke, "Critical Success Factors for PPP in Infrastructure Developments: Chinese Perspective," *Journal of Management in Engineering* 136, no.5 (May 2010): 484-494, doi:10.1061/(ASCE)1943-7862.0000152.

academia. Yang et al. develop a framework to analyze factors affecting the implementation of infrastructure PPPs. Building on four stages of the economic transition process as defined by the International Monetary Fund (IMF 2000), their framework is more coherent. It operates on three mutually supporting and reinforcing pillars: the market, the operating environment, and the government.⁹⁴ Based on this easily understandable scheme, Mei Wang, a Chinese expert who worked at the World Bank for ten years, further integrates the framework into China's contexts. She points out China has huge market needs for PPPs due to a steep increase of the urbanization rate, from 17.9 percent in 1978 to 51.3 percent in 2011, and the following explosive demand for urban services.⁹⁵

Based on an extensive literature review about CSFs, Wang and Wilkinson argue that factors affecting the tendering process are crucial to the success of PPPs. By combining other scholars' conclusions and their own findings through methods of stakeholder interviews and empirical questionnaire surveys, they summarize CSFs for China's infrastructure PPPs as follows.⁹⁶

- A. Robustness of business case development: robustness of procurement option analysis
- B. Quality of project brief: a. quality of project brief focusing on output specifications; b. availability of PPP guidelines and standardized documentation.
- C. Public sector capacity: a. public sector's commitment to PPP tendering; b. clarity and responsiveness of governance structures.
- D. Effectiveness of communication: a. interactive tendering procedures; b. constant dialogue

⁹⁴ Yongheng Yang, Yilin Hou, and Youqiang Wang, "On the Development of Public-Private Partnerships in Transitional Economies: An Explanatory Framework," *Public Administration Review* 73, no. 2 (March 2013): 301–310, doi:10.1111/%28ISSN%291540-6210/issues.

⁹⁵ Mei Wang, "Commentary: Public-Private Partnerships in China," *Public Administration Review* 73, no. 2 (March 1, 2013): 311–312, doi:10.1111/puar.12015.

⁹⁶ Tingting Liu, Yan Wang, and Suzanne Wilkinson, "Identifying Critical Factors Affecting the Effectiveness and Efficiency of Tendering Processes in Public-Private Partnerships (PPPs): A Comparative Analysis of Australia and China," *International Journal of Project Management* 34, no. 4 (May 2016): 701–716, doi:10.1016/j.ijproman.2016.01.004.

with key market players.

E. Level of competition in tendering processes: balance between streaming tendering processes and maintaining competition.

F. Level of transparency of tendering processes: Adequacy and efficiency of probity processes.

These findings from the literature provide me with a background for examining key factors for PPP application in heritage field.

Some of the literature emphasizes problems and risks existing in China's PPP market. A review points to the direction for improvement. Adams et al. indicate six major problems,⁹⁷ of which some are also emphasized or elaborated on by other scholars. One being highlighted is that medium and small sized enterprises holding a small share of the PPP market in China may lead to slow development of PPPs in sectors other than infrastructure. Wang et al. support this argument by indicating that "state-owned or state-holding enterprises have the major market share of PPPs".⁹⁸ This problem leads us to explore financing difficulties for the private sector, especially for medium and small sized enterprises. Pu et al. point out that heavy dependence on traditional funding methods of banking loan and trust cannot supply long-term financing needs of PPP projects. More diverse ways needed to be found.⁹⁹ Other problems include the lack of a

⁹⁷ John Adams, Alistair Young, and Zhihong Wu, "Public Private Partnerships in China: System, Constraints and Future Prospects," *International Journal of Public Sector Management* 19, no. 4 (June 1, 2006): 384–396, doi:10.1108/09513550610669202.

⁹⁸ S.Q. Wang, Y.J. Ke, and J. Xie, "Public-Private Partnership Implementation in China," in *G.M. Winch, M. Onishi and S. Schmidt (ed.), Taking Stock of PPP and PFI Around the World* (ACCA, London: Certified Accountants Educational Trust, February 2012), 29-36.

Y.J. Ke, S.Q. Wang, and A.P.C. Chan, "Public-Private Partnerships in China's Infrastructure Development: Lessons Learnt," Conference Proceedings of Changing roles: new roles, new challenges (CIB W096, W104), (Noordwijk ann Zee, Netherlands, October 5-9, 2009), 177-188.

⁹⁹ Pu et al., *China's Logic in PPP*, 72.

supervision system and insufficient transparency of the government administration. Both can lead to an increase in project cost and low efficiency or even failure in a PPP implementation. However, the good news is that the practice of some cases already shows the Chinese government's efforts. In the Guangzhou No. 2 underground line project, supervision was fully and clearly given to the public procuratorial service.¹⁰⁰ Other scholars positively indicate the improvements to narrow the gap between the policy of the central government and the practice of local governments. Wang et al. state that the Chinese government is providing more operational guidelines as well as contract examples.¹⁰¹ Ke et al. also argue that measures such as developing corporate bond and local government bond markets demonstrate the government's effort to support private sector financing.¹⁰² This can help to alleviate potential risks.

For some widely raised problems such as the uncertainty of private ownership and policy risks, the development of the PPP market already provides answers. The huge number of both completed and ongoing PPP projects and the great enthusiasm of the private sector to engage in PPP projects, fully demonstrate that China's PPP market attraction overwhelms concerns about private ownership. The long term development of the PPP market is also a clear signal showing the government's stable support for this instrument.

Categorizing China's PPPs is another issue which often raises confusion or questions from scholars. Through examining definitions and classification of PPPs from other countries and international organizations, Hao Wang develops a PPP classification according to its evolution in China's context. He categorizes PPPs into three distinct types: *outsourcing*, *concession* and

¹⁰⁰ Adams et al., "PPPs in China: System, Constraints and Future Prospects," 393.

¹⁰¹ Wang et al., "Public-Private Partnership Implementation in China," 29-36.

¹⁰² Ke et al., "Where to From Here," 1159.

divestiture. Some countries do not deem *outsourcing* as a type of PPP. Under three primary types, there are sixteen sub-categories.¹⁰³ Adams et al. criticize this as over-complexity.¹⁰⁴ With the evolution of PPP application, some scholars have recently developed their categorizing methodology. In the book *Public-Private Partnership Guide*, Hui Chen simplifies PPPs into seven categories. Among them, six are sub-categories already mentioned by Wang. Chen also adjusts the categories by putting *Lease Contract*, *Concession Contract* and *BOT (Build-Operate-Transfer)* into paratactic primary types. However, Wang believes *Lease Contract*, and *BOT* are just subcategories of *Concession Contract*. The seventh type within the category indicated by Chen, is *Mixed Arrangements*, entitled due to the fact that the practice sometimes combines characteristics of different types.¹⁰⁵ In another most recently published book, *China's PPP Logic*, Pu et al further simplify the classification based on the policy document issued by the Ministry of Finance in 2014, *the Operational Guidelines for Public-Private Partnership Mode (for Trial Implementation)* (Cai Jin [2014] No.113). He argues six categories by directly taking out some subcategories from Wang's three major types.¹⁰⁶ Even though all these methodologies are based on the practice in China, they do not realize a balance between complexity and simplification while offering a clear classification of PPPs. Additionally, PPP application in heritage conservation may have different structures from the infrastructure field.

In mainland China, although PPPs have been widely used in the infrastructure field, it is not the case in the heritage conservation area. Among the small amount of literature about heritage

¹⁰³ Hao Wang, "A Study on the Definition and Classification of PPP," 26.

¹⁰⁴ Adams et al., "PPPs in China: System, Constraints and Future Prospects," 388.

¹⁰⁵ Hui Chen, *Public-Private Partnership Guide*, 11-21.

¹⁰⁶ Pu et al., *China's Logic in PPP*, 66-68.

PPPs in China, two articles discussing potential cases are valuable. Through cases in Beijing, du Cros et al. show that both the public and private sectors did not take proper roles when they had good opportunities to use the tool of PPPs. The first case is about a private investor who restored and reused a traditional courtyard in the Hutong areas near the Forbidden City as Red Capital Club and Guesthouse. Due to the lack of adaptive reuse criteria and no holistic view about heritage conservation, local heritage authorities condoned potential inappropriate interventions like changing the architectural features for commercial purposes. The authorities also did not question the appropriateness of reusing a valuable vernacular architecture as a high-priced hotel which cannot be afforded by the majority of people. Although the private sector financed the project, it risked fully commercializing the project without considering conservation.¹⁰⁷ Even though the courtyard is not designated as a protected unit, it is important to the setting of the Forbidden City, a World Heritage Site. It is also part of Hutongs, which are vernacular heritage properties of great value. Improper role playing leads to an unfortunate fact that the two sectors not only lose a potential opportunity to create a model heritage PPP but also create damage to precious built heritage.

The second case is about the Huanghua Great Wall, a section outside the World Heritage areas of the Great Wall in Beijing. It has also been called “wild wall” since there are no tickets, no signposts as well as no hassles from normal visitors. Although being a protected heritage site, its lack of potential tourism attraction caused the lack of local government’s care. Even if the local government had played a role, it was highly possible that its role would also be an improper one like restoring the Huanghua Great Wall. The private sector, mainly represented by local residents,

¹⁰⁷ Hilary du Cros, Thomas Bauer, Carlos Lo, and Song Rui, “Cultural Heritage Assets in China as Sustainable Tourism Products: Case Studies of the Hutongs and the Huanghua Section of the Great Wall,” *Journal of Sustainable Tourism* 13, no. 2 (March 15, 2005): 179.

charged unofficial fees from visitors through personally building pathways to direct visitor flow. Some other private investors developed unplanned tourism infrastructure around the site.¹⁰⁸ Scholars like du Cros express the hope to see the application of heritage PPPs in China when the market becomes more mature.¹⁰⁹

Through discussing two examples in Dali city, Yunnan province, Yawei Zhao presents quasi-projects of heritage PPPs. These two projects feature applying heritage PPPs as a city-branding tool.¹¹⁰ The first case is about a newly built “heritage” site and the second refers to the project of the Linden Center, implemented on a real heritage site originally known as Yang’s compound. These two cases aroused lots of criticism for improper conservation work and wrongful personal connection between the private investors and the local government. In short, conservation and commercial use were not rationally balanced here.

Compared to mainland China, Hong Kong and Taiwan have more advanced experience in heritage PPPs. Hong Kong initiated the Revitalizing Historic Buildings through Partnership Scheme in 2007 to explore solutions for the problem that economic success has overridden architectural heritage. Unlike traditional PPPs, the Hong Kong government fully finances all the initial costs for renovating historic buildings. Then the government rents the heritage assets to the private actors who will be responsible for adaptive reuse at their own costs.¹¹¹ Illustrative

¹⁰⁸ Hilary du Cros et al., “Cultural Heritage Assets in China,” 181-183.

¹⁰⁹ Ibid., 192.

¹¹⁰ Yawei Zhao, “‘China’s Leading Historical and Cultural City’: Branding Dali City through Public-private Partnerships in Bai Architecture Revitalization,” *Cities* 49 (December 2015): 106–112, doi:10.1016/j.cities.2015.07.009.

¹¹¹ Esther Cheung, and Albert P. C. Chan, “Revitalizing Historic Buildings through a Partnership Scheme: Innovative Form of Social Public-Private Partnership,” *Journal of Urban Planning and Development* 140, no. 1 (2014): 4013005, doi:10.1061/(ASCE)UP.1943-5444.0000161.

examples include Mei Ho House and the Savannah College of Art and Design Hong Kong.¹¹²

Through treating the development of the private sector's expertise as the greatest concern instead of attracting private money, this scheme demonstrates a successful practice in a region within China.

Taiwan started using heritage PPPs to conserve and adaptive reuse heritage sites in 2003. Successful examples include the British Consulate at Takow, the Red House in Taipei and the Old Tainan Forest Office. Reuse choices cover small-scale theatres, restaurants, bookstores, tourism information centers and galleries. Foundations and private enterprises are major social actors.¹¹³ Although reuse design does not always match historic features of a heritage site, heritage PPPs are effective for conserving and operating heritage assets.

This literature review clearly shows that there is little literature covering the cross-section of heritage PPPs in China or Beijing and key factors for implementing it. Although some articles discuss critical factors, whether they are all important for Beijing's heritage conservation is not clear, especially in this fast-changing environment. My thesis will take a sectoral view based on examining Beijing and China's heritage context and policy environment, as well as international experience to see what factors are crucial for effective implementation of heritage PPPs in Beijing.

¹¹² Esther Cheung, and Albert P.C. Chan, "Revitalizing Historic Buildings through Partnership Scheme: A Case Study of the Mei Ho House in Hong Kong," *Property Management* 30, no. 2 (April 6, 2012): 176–189, doi:10.1108/02637471211213415.

¹¹³ Xingping Guo, and Gangli Wu, "Research on policy factors for public-private partnerships in adaptively reusing historic buildings," *Architecture Academic Journal*, no.84 (June 2013):145-146.

3.2 Worldwide Applications of PPPs in Urban Heritage Conservation

PPPs are also being tested in heritage conservation and management worldwide. The international focus of PPPs is on the sectors of infrastructure, education, and medical treatment.¹¹⁴ The practice in heritage conservation and management has only recently become the subject of published literature and is closely related to urban regeneration. Much of the literature I reviewed is within this scope.

The figure below showing the PPP market maturity in major countries is adopted both by the UNECE and the Getty to discuss PPPs. It provides a good reference to select country cases.¹¹⁵ This part of the literature review covers countries in all three stages, including India and Mexico in stage one, the Netherlands, Spain, Italy, France and the US in stage two, and the UK and Australia in stage three. Choosing countries with contrasting geographical locations from each stage in the Getty Report, this section will help to tease out characteristics of major countries which engage in heritage PPP applications. Beijing can learn lessons from reviewing international experience.

¹¹⁴ Hui Chen, *Public-Private Partnership Guide*, 22-26.

¹¹⁵ Deloitte Touche Tohmatsu, *Closing the Infrastructure Gap: The Role of Public-Private Partnerships* (Deloitte Research, 2006), 6, http://www.cnrs.fr/aquitaine/IMG/pdf/closing_the_infrastructure_gap.pdf. Accessed October 18, 2016.

UNECE, *Guidebook on Promoting Good Governance in Public-Private Partnerships*, 8.
Macdonald and Cheong, *The Role of Public-Private Partnerships*, 28.

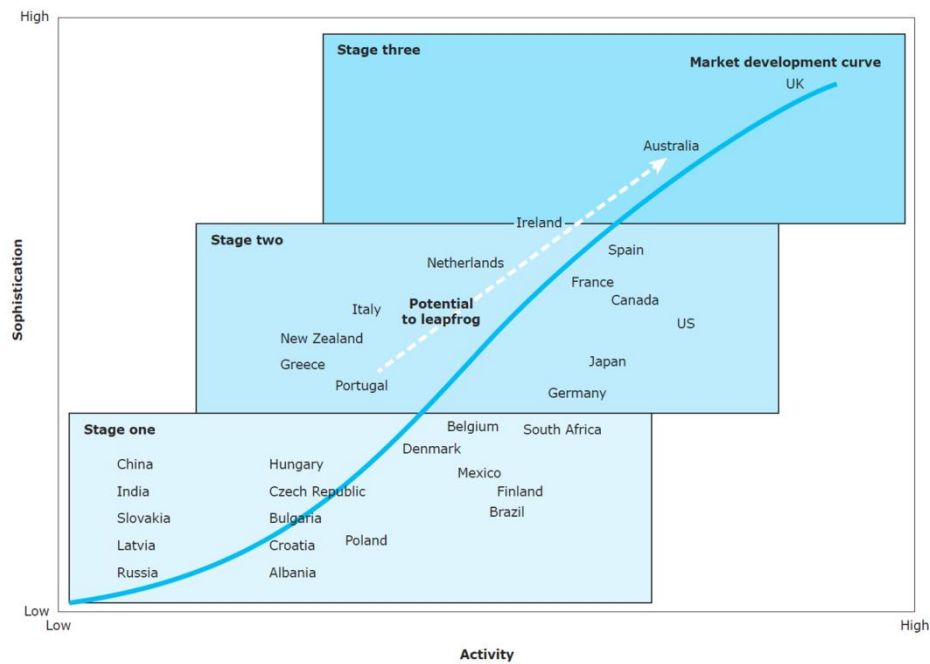


Figure 3.1: PPP Market Maturity Curve

A large body of literature focuses on the practice, especially through case studies. Before the 1990s, few cities succeeded in creating an environment to attract private participation in urban heritage conservation. As Florian Steinberg, an expert at the Asia Development Bank (ADB) indicates, economic problems of financing preservation have stimulated a good deal of debate about the possibilities of inviting the private sector (or non-governmental institutions) to lease historic buildings for commercially viable activities.¹¹⁶ The practice of PPPs was established in Western Europe and North America. Naturally, many mistakes were made in the early days. Some projects were failures. Some were successfully implemented at the expense of historic values. Nonetheless, the experience gradually formed the trend of applying the tool. A comprehensive approach to conserve and reuse single historic buildings and historic urban centers was applied in developed countries. However, this was not the case for developing countries. In an early stage, developing countries have had rich examples of applying PPPs on isolated historic buildings.

¹¹⁶ Florian Steinberg, "Conservation and Rehabilitation of Urban Heritage in Developing Countries," *Habitat International* 20, no. 3 (September 1, 1996): 470, doi:10.1016/0197-3975(96)00012-4.

Among these are included cities such as Cartagena, Bhaktapur, Tunis, Penang and Singapore, to name a few.¹¹⁷ Only in the late 1990s developing countries began to try PPPs on large areas. As for area regeneration, Singapore and Cartagena are pioneers. The Singaporean government tendered designated conservation areas for rehabilitation. It tried to attract private investors to redevelop areas for shops, restaurants, hotels or offices for commercial activities. In Cartagena, Columbia, the government was even more radical. It not only allowed private investors to convert late medieval buildings for their private use after conservation and rehabilitation work, but also supported private investments in the historic town by converting some areas to increase the land use.¹¹⁸ These PPP projects are primarily applied through the delivery structure of lease.

With the maturity of local market conditions and assistance from funding by the ADB, some Asian countries began to implement heritage PPP projects to conserve and renew their urban historic centers. In the cases of Ha Noi in Vietnam, Jakarta in Indonesia and Manila in the Philippines, governments offered political support. However, ineffective governance turned out to be a primary obstacle. Specifically, in the city of Ha Noi, a Department of Conservation Management for the Ancient Quarter (historic area) was formed. However, its inadequate interaction with the Ancient Quarter's local government and potential stakeholders in the private and third sectors led to Ha Noi's failure. In the city of Jakarta, the lack of a powerful and autonomous body to manage the PPP project on revitalizing Kota Tua (Old Town) left the area in a deteriorating condition. In the case of Manila, the city did set up a quasi-municipal agency, the Intramuros Administration, acting as the administrative body of the Intramuros (Walled City). However, it was constrained by budgetary limitations as well as the conservative perception that

¹¹⁷ Ibid.

¹¹⁸ Ibid., 471.

such an agency should not deal with development issues. Thus, the public sector was not able to promote a PPP agreement with private sector investors.¹¹⁹

Another potential issue in Asian countries is the dearth of efficient models of heritage PPPs. For instance, in India, there are some heritage PPP implementations such as the National Culture Fund (NCF) project in Delhi, and the “Adopt-A-Monument” scheme and the Amber Fort project in Rajasthan. They mainly applied *Contribution Contracts* or *Contracting Services*, two types of PPPs. The former is controlled by the public sector, with donations as the only form of participation of the private sector. The latter consists of outsourcing select operations, the most diffused form of partnership.¹²⁰ As Sandeep Verma indicated, the transfer of operational risks to the private sector is limited in both of these PPP models. He suggests exploring the model *Concession Agreement* that can address the concerns of various stakeholders.¹²¹

At the World Heritage Site of Angkor in Cambodia, the structure of *Operation License* is applied. The government contracts with Oknha Sok Kong’s company to manage the site. This scheme has raised many objections, as showed in the letter from parliamentarian Son Chhay to the Prime Minister in January 2008. He argued that the government would continue to lose a significant amount of benefits under the terms of the contract. They would receive only US \$10 million from the company while income from tourists visiting the site was already US \$50 million in 2007. The company also had failed to maintain the site in a reasonable way. Even the toilets for

¹¹⁹ Florian Steinberg, “Revitalization of Historic Inner-City Areas in Asia: the potential for urban renewal in Ha Noi, Jakarta, and Manila,” *Urban Development Series* (Manila: Asian Development Bank, 2008), 51-160, <https://www.adb.org/sites/default/files/publication/27553/revitalization-inner-city.pdf>. Accessed November 18, 2016.

¹²⁰ J. Stewart, and K. Walsh, “Performance Measurement: When Performance Can Never Be Finally Defined,” *Public Money and Management* 14, no. 2 (April 1, 1994): 45-49, <http://search.proquest.com/docview/1292678326?pq-origsite=summon>. Accessed December 6, 2016.

¹²¹ Sandeep Verma, *Sharing of Risks and Rewards in Public-Private Partnerships for Conservation and Management of Heritage Monuments in India: Exploring the Possible Contours of a Model Concession Agreement*, SSRN Scholarly Paper (Rochester, NY: Social Science Research Network, September 30, 2007), 1,9,11, <http://papers.ssrn.com/abstract=1464694>. Accessed November 10, 2016.

tourists were not good. But the government seemed to neglect these opposing opinions since officials got much money into their own pockets.¹²² So it is clear that, in certain conditions, blaming the structure of PPPs is not a fundamental solution for solving the problem. PPPs can only work well with good governance.

Similar governance problems exist in Latin American countries. The fragmentation of Mexico's political system led to the failure of historic-center regeneration partnerships (HCPs), which were created in late 1990s and early 2000s in the cities of Queretaro and San Luis Potosi. In both historic centers, HCPs were only loose networks formed by the city mayor, representatives of UNESCO and ICOMOS through the local government's World Heritage centers, other federal ministries such as the state's Department of Conservation, and professional groups. Accordingly, the decision making mechanism was blurred. Together with heavy financial dependence on governments instead of the private sector and stakeholders' lack of trust in the government, the mechanism of HCPs failed to perform effectively for revitalizing historic centers.¹²³

In other cases, with help of the Inter-American Development Bank (IDB), heritage PPPs in urban regeneration projects have had good outcomes. The emphasis of the practice is to form tripartite partnerships. Three structural models are presented by the IDB report discussing cases studies.¹²⁴ In the case of recovery of Mexico City's historic district, the parallel model is applied. In it, three sectors maintain independent organizations. The public sector includes both the government and a public trust. The private and third sectors are represented by a property

¹²² Norbert Klein, "Income from Angkor Wat is More Than \$60 Million, but the State Gets Less Than \$10 Million," *Mirror* (Phnom Pehn) vol. 12, no. 542, January 13, 2008, <http://khmernz.blogspot.com/2008/01/income-from-angkor-wat-is-more-than-60.html>. Accessed September 30, 2016.

¹²³ Valeria Guarneros-Meza, "Local Governance in Mexico: The Cases of Two Historic-Centre Partnerships," *Urban Studies* 45, no. 5–6 (May 1, 2008): 1031, doi:10.1177/0042098008089851.

¹²⁴ Cruz et al., *Tripartite Partnerships*, 24-88.

developer and a foundation. In the case of Quito, Ecuador, the model of a joint venture entity is used. Quito's Historic Center Enterprise is a joint venture entity with legal standing, funded by the public sector (ninety percent of the capital) and the private sector (ten percent of the capital). The board of directors of the Enterprise is made up of representatives from all three sectors. The participatory development model is used in the Comas District of Lima, Peru. It features a council without legal standing. Specifically, the Comas District Development Council is chaired by the mayor of Comas with Council members from the public, private and third sectors. Even though problems including inefficient governance still exist in some situations, the structure's formulation provides valuable reference for PPP application in other countries, especially developing countries.

Since the beginning of 1980s, PPPs have been developed in more than twenty-five countries in Europe.¹²⁵ Similar to other parts of the world, European heritage PPPs are developed within the large scope of urban development and renewal. European PPPs have different characteristics specific to individual conditions. The UK has applied the instrument of PPPs most extensively. With the dominant form of the *Private Financing Initiative (PFI)*, Great Britain stresses creating institutions which facilitate the cooperation between the private sector and the central or local authorities within the frame of a PPP.¹²⁶ A comprehensive system and a wealth of expertise from professional organizations like English Heritage and the Prince's Regeneration Trust promote wide application of PPP projects in urban regeneration around the country.¹²⁷ France also

¹²⁵ Stella Kyvelou, and Elisavet Karaiskou, "Urban Development through PPPs in the Euro-Mediterranean Region," *Management of Environmental Quality* 17, no. 5 (2006): 602, doi:<http://dx.doi.org/10.1108/14777830610684567>.

¹²⁶ Pu et al., *China's Logic in PPP*, 82-84.

¹²⁷ Deloitte, British Property Federation, English Heritage, and Royal Institution of Chartered Surveyors, *Heritage Works: The use of historic buildings in regeneration A toolkit of good practice* (London: English Heritage, 2013), 16, <http://www.bpf.org.uk/sites/default/files/resources/Heritage-Works-2013.pdf>. Accessed October 29, 2016.

emphasizes institutions to create tripartite partnerships and guide PPP implementations. To manage urban space, Zones of Concerted Management (Zone d'aménagement concerté ZACs) are “initiated by local public authorities and realized through a convention between the community and the managing private company.” Moreover, the local mixed economy societies (Société européenne de mini-informatique et systèmes, SEMs) have been the principle entities for creating local PPPs in France.¹²⁸ They are joint venture real estate companies between the public and private sectors with local authorities holding the majority of the company’s capital.¹²⁹ Different from the UK, France has produced a relevant balanced power distribution not only among the three sectors but also within the public sector. The French central government set up a special unit in the French Ministry of Economy, Finance and Industry (MEFI) in 2005 to promote PPPs. At the same time, it encourages local governments to play central roles in PPP projects.¹³⁰

The literature on thorough case studies has further clarified different characters between these two leading countries. Suzy Nelson discusses two cases of urban renewal in London and Paris and offers some valuable conclusions. “The French case study concerns Bercy in eastern Paris, formerly the site of bonded wine warehouses. The British case study concerns the Surrey Docks in London, which were a system of inland dock basins.”¹³¹ In the French case, strong city government played a major role in initiating the project. Moreover, “an institutional structure and a culture which was more conducive to cross-sectoral working” facilitated sector collaborations.¹³² In the British case, more direct involvement came from the central state agency and the local government was marginalized. Additionally, the private sector participated in the project with high

¹²⁸ Kyvelou and Karaïskou, “Urban Development through PPPs in the Euro-Mediterranean Region,” 604.

¹²⁹ Alistair Cole, and Peter John, *Local Governance in England and France* (London: Routledge, 2001), 76.

¹³⁰ Ibid.

¹³¹ Suzy Nelson, “The Nature of Partnership in Urban Renewal in Paris and London,” *European Planning Studies* 9, no. 4 (June 2001): 487, doi:10.1080/09654310120049862.

¹³² Ibid., 500.

autonomy. The role of the third sector has emphasized providing social housing and education which were closely related to heritage conservation and management. Nelson concludes that the relationship between different tiers of government appears to be a key factor in determining different structures of the partnerships. She also suggests a more collaborative approach for securing the development of PPPs since she deems that the frameworks applied in these two cases still have problems.¹³³

Another comparison between a leading PPP country, the Netherlands, and a promising leader, Spain, is valuable in judging criteria for evaluating the effectiveness of heritage PPPs. The Dutch case concerns the PPP in Hoogravens' Heart (a large shopping center area in the historic urban center) in the city of Utrecht. The Spanish case concerns the PPP in Ciutat Vella, the old city center of Barcelona. Van Boxmeer and Van Beckhoven deliberately select these two countries with different governmental environments. The Netherlands is a northern European country with a developed welfare state and a relatively old democracy. The Dutch case is analyzed as an example in which power is shared more or less equally among actors. The neighborhood development of the local government, the housing association involved and an external developer together formed a partnership. However, due to the fact that the partners were unwilling to change or adapt their own visions, the situation resulted in a delay of the project and a decrease of trust among many residents and entrepreneurs. Spain is a relative young democracy in the south of Europe with a less-developed welfare state. The Spanish case happened in a place where power is concentrated in the public sector instead of divided among all actors. In this case, Procivesa, a semi-public company controlled by the local government, was established with considerable freedom in

¹³³ Ibid.

managing the project. The comparison demonstrates that a strong partnership, showed in the Dutch case as more equally distributed power among actors, does not necessarily lead to a good performance. It seems that the Spanish case, which is categorized as a weak partnership due to its unequal power sharing among partners, has less organizational problems. Therefore, an important conclusion is that unbalanced power distribution among partners does not necessarily lead to bad results, as long as it can fit local contexts. Compared with governance issues like power distribution, a shared vision on the regeneration project and an agreement on the share of power turn out to be more important for a good consequence of a heritage PPP project.¹³⁴

Another European country worth exploring is Italy, the country with the highest number of World Heritage Sites (fifty-one in 2016). The Ministry of Cultural Heritage and Activities (MiBAC) is the national level agency leading cultural heritage preservation. It operates through locally detached organizational units – *soprintendenze* - that coordinate with local governments in tourism and urban development issues.¹³⁵ To a certain extent, collective management limits the involvement of the private sector in Italy. For a long time, bank foundations have been the primary private actors.¹³⁶ Recent literature examines two popular forms of heritage PPPs. The first type is *Cultural Patronage*, a donation dispensed by a private entity who can seek tax deductions. The second form is *Sponsorship*. In return for the investment, the private entity can take advantage of the image or the name of a cultural property for the duration of the service contract.¹³⁷ Despite

¹³⁴ Brechtje Van Boxmeer, and Ellen Van Beckhoven, “Public–Private Partnership in Urban Regeneration: A Comparison of Dutch and Spanish PPPs,” *European Journal of Housing Policy* 5, no. 1 (April, 2005): 1-16, doi:10.1080/14616710500055612.

¹³⁵ Paola Dubini, Ludovica Leone, and Laura Forti, “Role Distribution in Public–Private Partnerships,” *International Studies of Management & Organization* 42, no. 2 (July 1, 2012): 57–75, doi:10.2753/IMO0020-8825420204. P60.

¹³⁶ *Ibid.*, 62.

¹³⁷ Claudia Ventura, Giuseppina Cassalia, and Lucia Della Spina, “New Models of Public-Private Partnership in Cultural Heritage Sector: Sponsorships between Models and Traps,” *Procedia - Social and Behavioral Sciences*, 2nd International Symposium “NEW METROPOLITAN PERSPECTIVES” - Strategic planning, spatial planning, economic programs and decision support tools, through the implementation of Horizon/Europe2020, ISTH2020,

this evolution, these two major forms of heritage PPPs employed in Italy fall into the category of *Finance Only*, in which the private and third sectors mainly play financing roles. Heritage PPPs need to be further developed to engage private investment and address the rich resources of cultural heritage in Italy. At the same time, strengthening regulation on potential over-commercialization through the form of sponsorship is necessary.

Australia is a country with rich experience in PPPs. It has developed one of the most sophisticated PPP markets, in which local governments, including state and municipal level governments, play central roles.¹³⁸ Australian PPP activities center on economic infrastructure, in which the private sector is responsible for providing full-packaged services. In an advanced stage, the chief objective of PPPs is to achieve appropriate risk transfer, significant design innovation, and superior whole-of-life outcomes, as opposed to the initial driver being obtaining private sector finance and off-balance sheet treatment.¹³⁹ Under such circumstances, heritage PPPs have evolved into many formal types which led to a number of successful examples. For instance, in the project of the Quarantine Station in Sydney, a *CBFO (Conserve-Build-Finance-Operate)* structure is used. In Prince Henry at Little Bay in Sydney, a *BCLOT (Build-Conserve-Lease-Operate-Transfer)* is the major form. As for the project of Walsh Bay in Sydney, *BCLOT* and *SPV (Special Purpose Vehicle)* are employed together to deliver satisfied conservation and development consequences.¹⁴⁰

Similar to Australia, state or municipal level governments in the US play key roles in implementing PPP projects.¹⁴¹ Although the US is not among the most mature PPP markets, it

Reggio Calabria (Italy), May 18-20, 2016 (June 10, 2016): 257-64, doi:10.1016/j.sbspro.2016.05.361.

¹³⁸ Hui Chen, *Public-Private Partnership Guide*, 25.

¹³⁹ Liu et al., "Identifying Critical Factors," 704.

¹⁴⁰ Macdonald and Cheong, *The Role of Public-Private Partnerships*, 22-25, 56-61.

¹⁴¹ Hui Chen, *Public-Private Partnership Guide*, 26.

presents good examples dealing with different types of historic structure and effective models of PPPs. The conservation and adaptive reuse of the Brooke Army Medical Center (BAMC) in San Antonio, Texas is one of the earliest heritage PPP projects.¹⁴² The major structure involved is *BCLOT*. Another project focusing on an urban historic site is the Presidio of San Francisco in California. Through a gradual implementation of a *BCO* (*Buy-Conserve-Operate*) PPP, the Presidio has been successfully transformed from a derelict landscape to a new form of National Park and a National Historic Landmark District.¹⁴³ American heritage PPPs also cover single buildings. In the project of the Old General Post Office in Washington, DC, a *BCLOT* is applied to provide the building with new functions.¹⁴⁴

Exploring worldwide heritage PPP applications presents various characteristics of practice in different countries and areas. These experiences suggest that various types and institutional structures of PPPs can create successful practices, provided they are appropriate to the specific circumstances. It also can be recognized that the development of heritage PPPs is a gradual learning process, involving unavoidable failure. The literature on heritage PPP application is based on case studies more than policy analysis. My work evaluates both successful and problematic cases, and then applies them as a reference for exploring key policy factors in the contexts of Beijing. I choose cases based on types of PPPs that have the greatest potential to be applied in Beijing, a perspective of case selection that is seldom considered by the literature.

¹⁴² Donovan Rypkema, *PPPs and Heritage Buildings: Two US Examples*, Paper presented at “Taking Public-Private Partnerships forward: New opportunities for infrastructure development in transition economies,” the United Nations Economic Commission for Europe and Vnesheconombank, Moscow, October 21, 2008, https://www.unece.org/fileadmin/DAM/ceci/ppt_presentations/2008/ppp/Moscow/rypkema.pdf. Accessed December 2, 2016.

¹⁴³ Macdonald and Cheong, *The Role of Public-Private Partnerships*, 44-48.

The Presidio of San Francisco, <http://www.presidio.gov>. Accessed December 2, 2016.

¹⁴⁴ Rypkema and Cheong, *a practitioner's guide*, 21.

3.3 Media Review

One of the top priorities of the Chinese government is promoting One Belt, One Road (OBOR), China's ambitious trans-Eurasia and cross-ocean trade strategy. As reports by Xinhua Net, OBOR is not only the central topic receiving consensus in the National People's Congress, the highest organ of state power in China, but also the focus of China's foreign policy in 2015. As a national strategy, the Belt and Road initiatives are an important part of the government work report, delivered by Premier Li Keqiang.¹⁴⁵ International media also broadly cover OBOR. DW, a Germany media outlet indicates that "Beijing has earmarked forty billion dollars in the state's own Silk Road Fund. The Asian Infrastructure Investment Bank (AIIB) founded in 2014 has also contributed a two-figure billion-dollar amount to the initiative."¹⁴⁶ By indicating the initiative is "a debt-financed infrastructure development strategy", the Economist Intelligence Unit (EIU) points out that the core emphasis of this strategy is infrastructure development.¹⁴⁷ In the 13th Five-Year Plan for Economic and Social Development of the People's Republic of China, the government stresses the development of seven emerging industries of strategic importance, including software, environmental protection equipment, biology and medicine, communication equipment, new energy, cloud computing and robotics.¹⁴⁸ Heritage conservation and management is obviously not on the list. As the capital city of China, Beijing follows the country's logic in policy priority.

Heritage conservation faces the long lasting challenge of lacking adequate funds. In Beijing,

¹⁴⁵ Edited by Bo Xiang, "China Headlines: China Pools Strength on Belt and Road Strategy," March 12, 2015, http://news.xinhuanet.com/english/2015-03/12/c_134062249.htm. Accessed December 3, 2016.

¹⁴⁶ Deutsche Welle, "China's Ambitious Silk Road Strategy," December 21, 2015, <http://www.dw.com/en/chinas-ambitious-silk-road-strategy/a-18933290>. Accessed December 3, 2016.

¹⁴⁷ The Economist Intelligence Unit, "Featured topic: One Belt, One Road," <http://www.eiu.com/topic/one-belt-one-road>. Accessed December 3, 2016.

¹⁴⁸ Sohu News, "Focus of the 13th Five-Year Plan," October 27, 2016, http://m.sohu.com/n/424228423/?_trans_=000115_3w. Accessed December 3, 2016.

for example, since 2012, the amount of special funds for preserving cultural relics and historic districts has been increased from RMB 150 million (US \$24 million) to RMB one billion (US \$157million).¹⁴⁹ The majority of historic buildings and sites that are managed by government entities, however, still receive limited annual allocations. These are rarely sufficient for conservation, not to mention routine maintenance and operation. The *Beijing Times* reports that “half of the historic buildings in Beijing have potential safety hazards and lack preservation funds.”¹⁵⁰ The *Beijing Youth Daily* states that “over 1,000 historic gardens in Beijing are confronted with the threat of disappearance.”¹⁵¹ The media coverage shows how pressing the need is to find alternative funding sources.

Through reviewing major media coverage, it is clear that the Chinese government’s priorities are on other issues rather than conservation of cultural heritage. Moreover, there is a huge gap between the demand and supply of funds to conserve and manage urban heritage sites in Beijing due to the government’s budgetary constraints. Therefore, there is an urgent need for Beijing to apply an effective tool like PPPs in heritage conservation to both relieve the government’s budgetary pressure and save invaluable cultural heritage.

¹⁴⁹ Weekly of China’s Cultural Relics, “The historic preservation work in Beijing has realized significant achievement,” January 12, 2016, <http://www.ccrnews.com.cn/index.php/Xinwenzixun/content/id/59252/typeid/387.html>. Accessed September 26, 2016.

¹⁵⁰ Xuejian Chen, Jiaao Wang, “Half of the historic buildings in Beijing have potential safety hazard and lack preservation fund,” *Beijing Times*, July 25, 2015, <http://news.qq.com/a/20150725/001632.htm>. Accessed September 26, 2016.

¹⁵¹ Zewei Li, “1,094 historic gardens in Beijing are confronted with the threat of disappearance,” *Beijing Youth Daily*, September 25, 2015, <http://news.qq.com/a/20150925/006837.htm>. Accessed September 26, 2016.

Chapter 4 Case Studies

Cases studied in this section are categorized as successful or problematic examples. Some of the problematic ones also have positive aspects. Hence, my thesis does not define them as unsuccessful. The major case study, the Zhizhu Temple complex in Beijing, is analyzed as a successful example here. But it still needs to be improved in several aspects. Thus, lessons learned from other examples shed light on how to improve project implementation. Through this analysis, further suggestions for carrying out heritage PPPs in Beijing's contexts are clarified.

For all cases, municipal governments are the primary actor representing the public sector. Even though some cases involve the participation of the central government, their roles are complementary, such as providing financing and regulation. Moreover, not all heritage sites among cases studies are municipal level significant sites. Some of them have been listed on a higher level protection list. However, this does not affect the dominant role played by the municipal government as the representative of the public sector. In this sense, it is reasonable to claim that all cases studied are municipal level cases, which are comparable and concepts from them are adaptable to Beijing's contexts.

The ownership issue relates to property rights, a crucial concern for PPPs, and could affect power distribution among different levels of governments. Cases included in this section have different ownership situations. It turns out that ownership does not decide the outcome of a heritage PPP even if it is an important issue worth considering. In this way, I briefly mention the

ownership condition of each case. For comparison, each case is analyzed within a similar framework, composed of PPP type, site description, project structure (governance and financing sources), partners and their roles, ownership, outcomes, and lessons valuable for Beijing.

	PPP Type	Site Description	Project Structure	Partners and Roles	Ownership	Outcomes	Lessons
Zhizhu Temple Complex	BCLOT (Build-Operate-Lease-Operate-Transfer)	A courtyard with Dugang Hall, later factory additions, and original monks' dormitories; Multiple level of significance.	Governance: a private company established by three partners manages the site through a twenty year lease; Financing: the private sector.	Public: BMACH, oversight; Private: Dong Jing Yuan company, build, conserve, lease, and operate; Third: Buddhist Association of Beijing, propoerty owner.	Third sector	Successful	Appropriate conservation and reuse of the site
Nottingham Lace Market	Joint-Venture	Once the center of the world's lace industry, with impressive examples of nineteenth century industrial architecture; National level of significance.	Governance: the joint-venture company, Lace Market Development Company (LMDC) manages the site; Financing: three sectors worked together.	Public: Nottingham City Council, the owner of some buildings, and oversight; Private: LMDC, finance and operate; Third: Lace Market Heritage Trust, raise funds.	Mixed ownership	Successful	Appropriate roles of the public sector
Sydney Harbor YHA	CBFO (Conserve-Build-Finance-Operate)	Australia's largest urban archaeological site and also one of the most important colonial archaeological sites; State level significance.	Governance: Youth Hostels in Australia operates the site through a 99-year lease. The public and private sectors jointly manage the archaeological perspective of the site. Financing: YHA Ltd.	Public: Sydney Harbor Foreshore Authority, owner of the land and heritage buildings, oversight; Private: YHA Ltd, conserve, design, finance, construct, and operate.	Public sector	Successful	Creative input from the private sector
Rancho Los Alamitos	BCLOT (Build-Operate-Lease-Operate-Transfer)	The site of historic Ranch & Gardens with a long history reflecting the evolution of Southern California; National level of significance.	Governance: operated by Rancho Los Alamitos Foundation through a thirty year lease; Financing: the city and the foundation.	Public: the City of Long Beach Building & Planning Department, finance, and oversight; Private: unimportant players; Third: the Foundation plays the key role, conserve, build, finance, and operate.	Public sector	Successful	Important roles of the third sector
Zhang's Garden		A newly built heritage National AAA tourist attraction.	Governance: Zhang owns and manages the site; Financing: mainly by Zhang.	Public: the municipal government, providing support; Private: Zhang, build, conserve, finance, and operate.	Private sector	Problematic	City-branding
Linden Center		An adaptive reuse project on a heritage site called Yang's Compound; National level of significance.	Governance: an American couple, Brian Linden and his wife, operates the site through a lease. Financing: maily by the private sector.	Public: the municipal government, providing support; Private: Linden couple, build, conserve, finance and operate.	Public sector	Problematic	City-branding, and community engagement

Figure 4.1: Summary of Case Studies

Successful Cases

The Zhizhu Temple complex in Beijing is analyzed as a major case. Three other cases are discussed in a less detailed way. They are Nottingham Lace Market in UK, Sydney Harbor YHA, in Australia and Rancho Los Alamitos Historic Ranch and Gardens in the City of Long Beach, USA. Heritage PPP types employed in these three cases have the greatest possibility of being used in Beijing's context.

4.1 Zhizhu Temple Complex in Beijing, China

4.1.1 Summary of the Case

Heritage PPP type

BCLOT (Build-Conserve-Lease-Operate-Transfer)

Site Description

The Zhizhu Temple complex is a Tibetan Buddhist Temple site with 260 year history. It is located along the northeast walls of the Forbidden City. The specific address is No.23 Shatan Bei Jie, Dongcheng District, Beijing. The site is a courtyard with Dugang Hall in the center, and later factory additions and original monks' dormitories located on the east and west sides of it. Dugang Hall is the only heritage remains of it. Once a home to one of the revered religious leaders, Living Buddha Changkya Khutukhtu II in the Qing Dynasty, the Zhizhu Temple has great social values in the religious history of China, as well as the architectural and historic values incorporated in the wooden structure and Sanskrit paintings. It was designated by the Beijing Municipal Administration of Cultural Heritage (BMACH) as a municipal cultural relic preservation unit in 1984. The site was used for manufacturing after 1949 and was in a dilapidated condition before

the PPP project began in 2007.

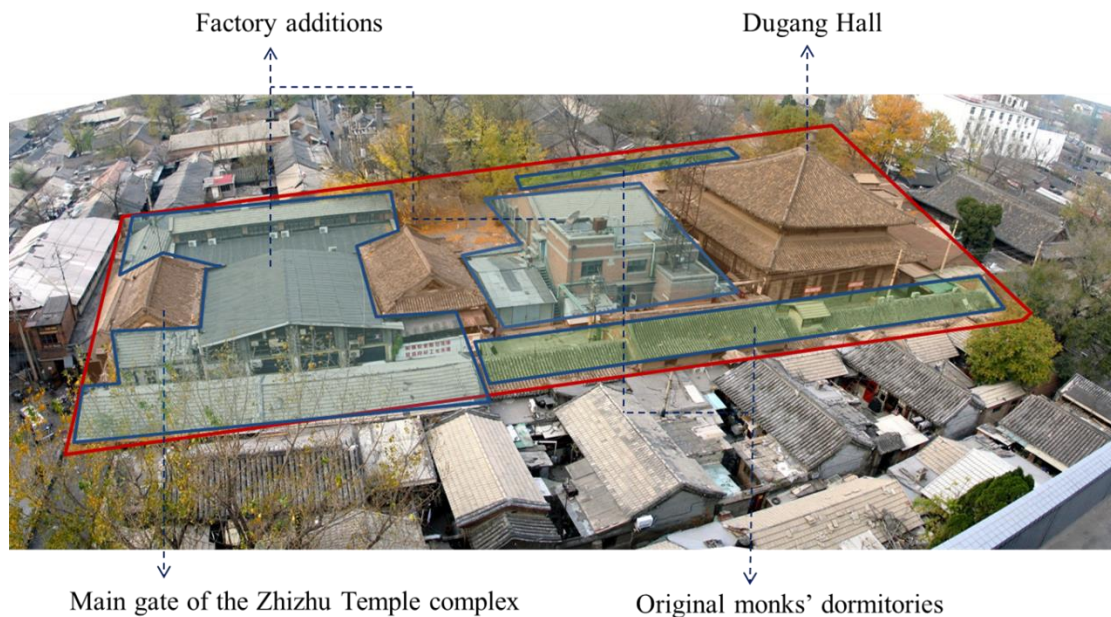


Figure 4.2: Birdseye View of the Zhizhu Temple Complex Before Restoration, November 2003

Project Structure

The private sector in this case is Dong Jing Yuan Company led by a Belgian entrepreneur and co-managed by two Chinese partners. The company signed a twenty year lease in 2007 with the property owner, Buddhist Association of Beijing, and received permission from the BMACH to conserve the complex. The private sector financed the project. The major source of the money was from three partners of the company and investors brought in through their personal contacts.

Partners and Roles

Public sector: BMACH. Its main role is to oversee and review the conservation and adaptive reuse process of the project.

Private sector: Dong Jing Yuan Company led by a Belgian entrepreneur. As the lessee of the site, it conserves the cultural heritage, builds necessary new buildings for adaptive reuse and operates the site. Thus, it takes the roles of “build”, “conserve”, “lease”, and “operate” as shown in

the *BCLOT* structure. The company will transfer the site back to the owner based on the current contract. It may also continue operating the site by renewing the lease before its expiration date.

Ownership

Buddhist Association of Beijing is the property owner. All its major leaders are nominated by the municipal government. It operates at the will of the government. Due to land policy, the ownership of all lands in China belongs to the government. For religious use, the government can transfer the use right of the land to a religious organization for a certain period of time. The government reserves the right to reacquire the land and the site in the future. In this way, the organization is practically a representative for the government. Although the organization belongs to the third sector, the typical role of the third sector in heritage PPPs does not appear in this project.

Outcomes

Through the project, not only the cultural heritage, the Dugang Hall is carefully restored based on the principle of “repair as in the past”, with its major historical layers of different periods have been preserved. The current use of the site, including a restaurant, hotel, and gallery produce financial returns to support its future preservation work. These new functions also make the heritage an attraction for the public.

4.1.2 Detailed Analysis of the Case

History

The Zhizhu Temple complex was erected as part of a Tibetan Buddhist three-temple complex built in the mid-18th century. They were, Zhizhu, Songzhu and Fayuan Temples, sited from the

west to the east. The formation of the three-temple complex was completed in 1756.¹⁵² After 1949, most of Beijing's 3,000 temples, including the Zhizhu Temple and its neighboring structures, were converted for civilian use and successively occupied by various companies and factories. In the 1970s, when Dongfeng TV factory occupied the three-temple complex, it tore down half of the Songzhu Temple and almost the entire Fayuan Temple, only leaving the Zhizhu Temple relatively complete, but occupied by two different companies. This caused serious damage to three-temple complex. During the 1980's, religious reforms in the country allowed the building property rights to be 'returned' to the Buddhist Association of Beijing.¹⁵³ In 1984, the BMACH designated the Songzhu and Zhizhu Temples together as a municipal cultural relic preservation unit. However, due to historical reasons, some companies remained in the complex, under an agreement to pay rent to the Buddhist Association of Beijing.¹⁵⁴ As a result of a long-term neglect, the Zhizhu Temple was in seriously damaged condition.¹⁵⁵ In 2005, the BMACH sent notice to property owners at the time, the Buddhist Association of Beijing, about the potential safety hazards of the heritage site. As the supervision and administration department, the BMACH could only urge, rather than order them to implement relevant measures. Finally, the BMACH gave permission to the property owner, the Buddhist Association of Beijing, to attract nongovernmental capital to restore the cultural relics.

Under this background, three partners, Belgian entrepreneur Juan van Wassenhove, and the Chinese veterans of the local film industry, Fan Lin and Li Chow, signed a twenty year contract

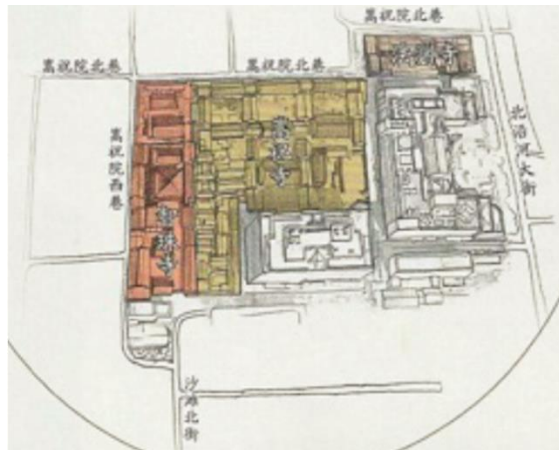
¹⁵² Jinze Cui, "The history of Songzhu Temple and Zhizhu Temple: The Reincarnation of Three Temples," *Chinese Heritage* (October 2013), 76.

¹⁵³ State Council of the People's Republic of China, *A report on the implementation of the housing policies for religious groups*, July 6, 1980.

¹⁵⁴ Cui, "The Reincarnation of Three Temples," 80.

¹⁵⁵ *Ibid.*, 72-83.

(2007-2027) with the property owner by using the partners' company name, Dong Jing Yuan. After receiving permission to conserve and operate the site, the trio began this heritage PPP project lasting four years from 2007 to 2011.¹⁵⁶ As the core person and the leader of the rehabilitation project, van Wassenhove, a banker for many years, has always been passionate about art and architecture.¹⁵⁷ Besides him and his partners, the rehabilitation group also included a professional construction team led by Guangwei Zhao, and experts in conserving traditional paintings such as Guo Tang.¹⁵⁸



Zhizhu (red), Songzhu (yellow), and Fayuan (pink) temples, 1756

Figure 4.3: Three Temple Complex, 1756

Restoration Process

Van Wassenhove and his partners began the preservation project on the basis of a holistic scheme designed by a professional architectural heritage preservation and design institution. They reported every major preservation step to the BMACH, the major heritage administration at the municipal level, and all the drawings and measurement were validated by it.

¹⁵⁶ Cui, "Reinvestigation of conservation and reuse of Zhizhu Temple in Beijing."

¹⁵⁷ Xi Yu Architecture Space Academic Salon, "Inspiration of Dongjingyuan Case—Ancient cityscape preservation and old town transformation," May 16, 2015, <http://www.aiweibang.com/yuedu/26484583.html>. Accessed September 10, 2016.

¹⁵⁸ CCTV News Probe Documentary, *The Controversy of Zhizhu Temple*, eds. Junying Hao, August 1, 2015, <http://tv.cntv.cn/video/C10435/8660c7182bf74a359dcf9f18750ef858>. Accessed September 20, 2016.

The first step was to remove piles of rubble and debris, which had been crammed into the space of the courtyard area of Zhizhu Temple, leaving it almost invisible. It took them two to three months to get rid of hundreds of truckloads of rubble through the narrow Hutongs (a type of narrow street or alley) around it, to make room for the construction team to work. After that, the team planted new pine trees and laid grass to absorb water that improved the water drainage after rainfall, to reduce the old problem of the building being damp. In order to do the work well, four construction teams were contacted and van Wassenhove was satisfied with the last one, whose manager was Guangwei Zhao, an engineer from Beijing Rishengda Construction Enterprises Group. Co., Ltd. As judged by van Wassenhove, he was very responsible and had good analytical abilities. When problems emerged, he tried to present several specific solutions, rather than only speaking generally.¹⁵⁹ Van Wassenhove required that all the original materials should be kept as much as possible and those only partially or superficially damaged should be reused. Tiles and timber pieces dismantled were numbered one by one, and put back in their original places after the whole frame had been strengthened and made secure. Several major efforts of reinforcement included resetting the tilted, twisted tenons to their original positions and glue or iron hoops applied to reinforce the columns. Due to the historic value embodied within these materials, van Wassenhove required all of them to be cleaned. For some seriously damaged parts which could not be used again because of potential safety hazard, new ones made with similar materials from other destroyed buildings were employed to replace them. But all these “new” parts were hidden in invisible places, such as inner layers of tiles, to maintain the coherence of the antiquated appearance.

¹⁵⁹ Ibid.



Figure 4.4: Courtyard and Exterior of Dugang Hall, Before and After Restoration

Another main step was to repair the ceiling of the Dugang Hall. After they dismantled the false ceiling which was installed about sixty years ago, the original wooden ceiling was revealed in a seriously burnt condition. Dugang Hall had suffered a major fire in 1961, and half of the beams had been burnt to black and some major rafters had been burnt to within five centimeters, one third of the original size. Due to this accidentally discovered burnt ceiling, the construction team decided to dismantle the ceiling first and reinstall it after reinforcement. This method is only used for seriously damaged wooden components such as the ceiling in this case. The way they did it was as follows: first, conservators sorted and numbered all the elements of the ceiling; second, they replaced the destroyed pieces with ones made of new materials. Finally, they reinstalled the ceiling precisely based on the original design. The structure of the main hall's top part is a traditional timber roof with grey clay tiles that were adorned with a small stupa at its apex. For the stupa, each of its ruined bricks was fixed by putting steel reinforcing bar behind it and then laying it back in its original position, with only a few missing bricks having to be made anew to fill in the gaps.



Figure 4.5: Interior of Dugang Hall, Before and After Restoration

The final major step was to repair each individual ceiling panel in the interior. On these painted wooden panels, the original Sanskrit paintings and letterings were barely visible under decades of dust and grime, and most panels had been seriously weathered. Strictly conforming to the rule of “repair as in the past”, van Wassenhove insisted on repairing the paintings in the traditional way. He found Guo Tang, a master in ink painting and colored painting repair, to lead the following project phase, one of the most delicate phases.¹⁶⁰ He embraced the challenge and enlisted his support voluntarily.

Under the lead of Guo Tang, the team carefully performed the whole process: wetting, immersing, cleaning, sterilizing, drying, gluing and reassembling. This single phase took the team several months to complete. In the gluing process, in order not to harm the fragile paintings, they followed the traditional method of applying ‘you hui’ (a combination of oil ash made of tung oil, fine sand and lime) as glue with fine hemp on newly carved panels. According to the numbers on the back of different original panels, the team reassembled the cleaned pieces in place. Of all the wooden panels that his team removed from the ceiling, seventy were fully repaired. As for those totally damaged panels, they decided not to cover them with new panels, leaving some voids to give viewers a new way to appreciate the upper part of the building above the ceiling.



Figure 4.6: Repair of Paintings on Ceiling Panels

¹⁶⁰ Jiaqi Ma, “The Making of the Temple Hotel,” July 8, 2015, <http://chinabuildingrestoration.com/building-restoration/making-temple-hotel>. Accessed March 15, 2017.

With great efforts and patience, the project, lasting four years, was completed in 2011. It was a huge undertaking: 400 truckloads of rubble had been removed through the narrow hutongs; 80 cubic meters of new wood had been brought to the site to replace unstable timber columns and beams; more than 200 painting panels were delicately repaired and reassembled; a total of 81 timber columns, and 1,400 square meters of timber roof were replaced, as well as 60,000 roof tiles.¹⁶¹

Adaptive Reuse Mode

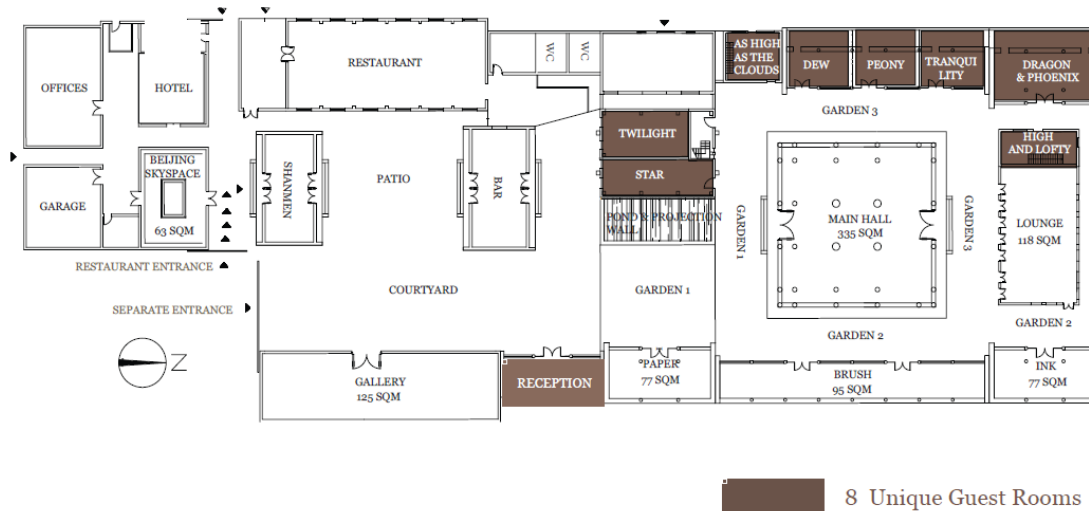


Figure 4.7: The Plan of the Zhizhu Temple Complex

The basic adaptive reuse idea for the Zhizhu Temple complex is to transform it into a cultural destination. The complex has been divided into several functional areas: the Temple Hotel and Temple Restaurant Beijing (TRB) are transformed from the two additions of the TV factory and the original monks' dormitories. Dugang Hall, the core of this cultural heritage complex, is reused in a conservative way. The partners chose to leave it mainly as a cultural place for free art exhibitions and occasionally use it for commercial purposes, such as holding press conferences, or product launches. The general rule here is that any activities held in Dugang Hall would cause no

¹⁶¹ CCTV News Probe Documentary, *The Controversy of Zhizhu Temple*.

harm to the structure and materials. In addition to these three major parts of the complex, the screen wall (Yingbi) located in front of Dugang Hall is used as a backdrop for projecting art films and art installations. The courtyard together with the hotel creates harmonious outdoor and indoor space for galleries and exhibition of contemporary arts.

TRB is a “French style” restaurant in which no open fire is used. This choice of cooking approach is a consideration for avoiding potential fire danger to the wooden structure of nearby Dugang Hall. Its latest interior design was led by Hassell, an Australian firm behind the Shangri-La Hotel Sydney and Four Seasons Resort Hualalai. The design thinking weaves the building’s evolution from ancient to modern into the restaurant’s design: for instance, the bar-lounge area preserves the original stone archway, wooden beams and painted ceiling panels but incorporates sleek contemporary furnishings.¹⁶²



Figure 4.8: Temple Restaurant Beijing

The Temple Hotel is a boutique hotel that combines both historic architecture and contemporary art. The eight guest rooms showcase a mélange of contemporary decor and historic touches, like original wood and flooring. The "Monk's Quarters," containing three guestrooms, are housed in the original monks' dormitories, while four suites are located in the adjoining buildings of the original TV factory.¹⁶³ The largest room of all is "Dragon and Phoenix," the imperial suite

¹⁶² Michael Martin, “New Capitalist Bling in Beijing,” November 15, 2011, <http://www.JetSetReport.com>. Accessed October 19, 2016.

¹⁶³ The Temple Hotel Beijing, the *Pamphlet for Hotel Guestrooms*, 2016.

that occupies a former Qing Dynasty Monk Quarter.¹⁶⁴

The site is also the home to several ongoing contemporary art installations utilizing both the indoor and outdoor spaces. One of the most well-known installations which has been running since 2013 is the ‘Gathered Sky’ light exhibition by artist James Turrell. It is now opened to the general public every Sunday at sunset in an independent room south of TRB and costs RMB 100 (around US \$16) per person to visit the show. Since the Zhizhu Temple complex has provided a unique context that suited light exhibition very well, it is planned by Turrell to use it as a permanent place for this exhibition.



Figure 4.9: The Temple Hotel

These two primary business operations, TRB and the Temple Hotel, offer economic support for further preservation and rehabilitation of the Zhizhu Temple complex and make its sustainable development possible.

This project won a UNESCO Asia-Pacific Award for Cultural Heritage Conservation in 2012.¹⁶⁵ This annual award, which began in 2000, is a distinguished and selective one UNESCO to praise excellent efforts done by the private sector or by public-private initiatives. The appraisal focuses on the extension of application of architecture after the preservation stage. It is also a strong demonstration for successful adaptive reuse as exemplified in this case.

¹⁶⁴ “All About Asia,” *Luxury Travel Advisor*, December 2, 2015, <http://www.luxurytraveladvisor.com/china/all-about-asia>. Accessed September 10, 2016.

¹⁶⁵ United Nations Educational, Scientific and Cultural Organization (UNESCO), “2012 UNESCO Asia-Pacific Heritage Award Winners,” November 29, 2015, <http://www.unescobkk.org/culture/heritage/awards/previous/2012/>. Accessed March 10, 2017.

4.1.3 Appropriate Reuse Applied in the Project

The basic ideology applied in this heritage PPP project is that the preservation of cultural heritage is the first priority. Other considerations including economic development are considered secondary. Reasonable economic revenue which can support sustainable conservation of architecture is necessary. However, it should not be deemed as the most important or even the single theme as many so-called heritage conservation projects adopted in China do.

The major principle for restoration employed in the project is “repair as in the past”.¹⁶⁶ It is a much more difficult approach for preserving heritage sites. The team members have given their best efforts to use the original material. Such an approach can not only preserve the original materials, but also revive the traditional building craftsmanship to a certain extent. Preservation of these two major parts of a heritage site is a sustainable mode of conservation, and a truly meaningful method.

Another working logic employed in the case was to preserve historic layers. A cultural heritage site with a long history as shown in this case has experienced various historic periods, such as the Qing Dynasty and periods after the establishment of People’s Republic of China, during which different users had altered the site for different purposes. Some changes have already become part of its history. As van Wassenhove said, he did not want to subjectively choose which aspects of the buildings should be retained or discarded.¹⁶⁷ This ideology leads to a relatively comprehensive demonstration of the remains of various historic periods. For instance, within the Dugang Hall, Sanskrit ceiling panels share the same space as Cultural Revolution slogans “united,

¹⁶⁶ Shouwen Chen, “Cultural Heritage Conservation has no National Boundary,” *Xin Min Evening Newspaper*, September 12, 2016, <http://www.wenwuchina.com/a/16/252792.html>. Accessed March 17, 2017.

¹⁶⁷ CCTV News Probe Documentary, *The Controversy of Zhizhu Temple*.

alert, earnest and active”.¹⁶⁸ Presentation of diverse historic layers in the same complex also creates a charming environment for people to feel the wonderful braid of space and time.

The approach of adaptive reuse was connected to the historic meaning of the architecture. It gave the Temple a new life rather than create a museum-style, frozen time piece. As van Wassenhove explained to the audience during an event, “the objective was not only to respectfully repair a former imperial temple, but also to give the buildings a new lease on life.”¹⁶⁹ Adaptive reuse is also a kind of art. A saying from Guo Tang, an expert in traditional painting and the leader of the ceiling panels restoration in Dugang Hall, is an excellent interpretation for appropriate adaptive reuse: “Art is not discovery. Art is to know how to use the tradition in order to create.”¹⁷⁰

Conservation is a long-lasting process, not just the completion of a certain phase of project. As said by one of their partners, Fan Lin, they planned to keep on repairing for at least another twenty years.¹⁷¹ Even though the quality of the work is good after immediate completion, over time, it may require maintenance. For instance, the new paint on one of the columns in the main hall began to peel off one year after the project’s completion. The team reapplied paint immediately. With this kind of responsible attitude, the sustainable development of the temple can be guaranteed, thus ensuring the soul of the cultural heritage will always be there.

¹⁶⁸ Ma, “The Making of the Temple Hotel.”

¹⁶⁹ Ibid.

¹⁷⁰ Ibid.

¹⁷¹ Ibid.

4.1.4 Challenges

Although the Zhizhu Temple complex project presents a good example for interpreting an effective heritage PPP, potential challenges connected to it are also worth exploring for further improvement.

The government played a limited role in this case. In this project, the function of the private sector has been presented sufficiently, which is a good demonstration for appropriate roles that the private sector can take. However, the public sector represented by the municipal government should have been a more active participant since this project is centered on a municipal cultural relic preservation unit. Even though not currently owning the site, the government could have shown support for the project through providing partial funding or at least streamlining the approval process for adaptive reuse. Additionally, the BMACH should employ more strict punishment for the wrongdoings of temporary lessees or oversee the owner conserving the heritage site. Sound preservation and supportive measures from the government will definitely serve as a driving factor for other sectors to engage in a heritage PPP.

The environment created by the media and public voices was not healthy enough for supporting a heritage PPP in Beijing. As a creative practice, heritage PPP projects are not well known by the general public. Misunderstandings could be easily aroused due to the involvement of commercial activities in a heritage site. Even if being a successful case that won a UNESCO award, the Zhizhu Temple complex project caused a media disturbance lasting from late 2014 to the first half of 2015. Irresponsible descriptions of the Dong Jing Yuan Company suggested the illegal occupation and management of the Zhizhu Temple complex followed the major partners. In reality, the target of media criticism was another company, which operates the Songzhu Temple

complex. The fact that it shares the same address with the Zhizhu Temple complex and is only separated by a wall caused the confusion.¹⁷²

The disturbance would not have happened if the public and private sectors had assumed more responsibilities. For the private sector, van Wassenhove and his partners could have provided public education about their whole rehabilitation process much sooner, and managed the media relationship at a relatively early phase. For the public sector, it is necessary for the government to inform the general public of the facts about heritage PPPs and seek to manage the media environment to insure the coverage is reported to reflect the truth rather than just acting as eye-catching tools.

4.2 Nottingham Lace Market, Nottingham, UK

Heritage PPP type

Joint-Venture Company

Site Description

Located east of Nottingham's city center, the Lace Market is a historic quarter-mile square area of Nottingham, England. It was the center of the world's lace industry during the British Empire and is now a protected heritage area.¹⁷³ The area is full of impressive examples of nineteenth century industrial architecture, typical Victorian style with densely packed four-to-seven-story red brick building lined streets.¹⁷⁴ It was designated in 1974 as a Conservation Area

¹⁷² Cui, "Reinvestigation of Zhizhu Temple."

¹⁷³ Latitude Website, "Latitude and longitude of Lace Market,"

<http://latitude.to/map/gb/united-kingdom/cities/nottingham/articles/45025/lace-market>. Accessed Dec. 15, 2016.

¹⁷⁴ Ibid.

of Outstanding National Importance and declared an Industrial Improvement Area in 1979.¹⁷⁵



Figure 4.10: Lace Market Area



Figure 4.11: Adams Building in the Nottingham Lace Market

Project Structure¹⁷⁶

The primary governing body is the Lace Market Development Company (LMDC). It was created in 1989 as a Special Purpose Vehicle (SPV) to enable a PPP between the city, county councils and private investors to conserve and finance the projects. This joint-venture company has fifty percent local authority ownership and fifty percent private ownership with four developers equally sharing it. Sharing similar definitions with China's, the joint venture structure

¹⁷⁵ Macdonald and Cheong, *The Role of Public-Private Partnerships*, 34.

¹⁷⁶ *Ibid.*, 35.

in this case is applicable to Beijing. In 1991, the Lace Market Heritage Trust (LMHT) was created by various Lace Market organizations to work side by side with the LMDC.

Three sectors worked together to finance this PPP project. Public funding came from the European Regional Development Fund, English Partnerships, Urban Development Grants, City Council, National Lottery, and Heritage Lottery Fund. They are national and local level funds or grants. Private funding came from the LMDC through the financing of the developers who hold shares. Funding from the Lace Market Heritage Trust is the major third sector financing source. All the funding was directed to both individual buildings and public infrastructure.

Partners and Roles¹⁷⁷

The public sector: Nottingham City Council (NCC) is the major actor. Its roles included being the owner of various heritage buildings and implementing project governance through the LMDC. Several other municipal and federal agencies also participated in the project. They mainly served to provide subsidiary funding to private owners.

The private sector: LMDC was co-owned by the public and private sectors. It mainly served as a vehicle for the private sector represented by developers to engage in the PPP project. Its roles included financing and project governance chiefly through working and contracting with other private actors.

The third sector: LMHT is the main representative. Its role was to raise funds as a complementary source for the other two sectors.

Ownership

The area has mixed ownership with some historic buildings owned by private owners and

¹⁷⁷ Anthony J. Morris, "Planning and Change in an Industrial District: The Case of Nottingham's Lace Market," *Planning Practice & Research* 6, no. 1 (Spring 1991): 9.

some owned by the public sector.

Outcomes

Through successful adaptive reuse of historic buildings, the project realized a mixed use development including residential and commercial use. The former warehouse buildings are now converted into apartments, bars, restaurants and shops.¹⁷⁸ Distinguished examples are as follows. The largest lace factory, the Adams Building, was converted into a continuing education college. Shire Hall was adapted as the Galleries of Justice Museum.

Lessons Valuable for Beijing's Contexts

Public sector support facilitated the PPP project. NCC provided financial assistance to individuals and organizational tenants to carry out conservation projects. NCC also directed funds toward upgrading surrounding infrastructure, such as streets and lights. These buy-in activities served as the municipal government's commitment and are important for drawing other sectors' investments.

The adjustment process of the public sector's policy is exemplary. In the 1970s, the city council adopted a functional conservation strategy. It intended to preserve the traditional character of the area by limiting the building function to clothing and textile industries. Even if office building rent is much higher than that of an industrial warehouse, the government refused to rent the building as offices. This strategy turned out to be a failure since limiting function did not revitalize economic development and there was a lack of financial revenue to maintain physical preservation. In the 1980s, the city council actively changed its policy to allow converting buildings into restaurants, small business and offices. By recognizing the necessity of

¹⁷⁸ The official Tourism Website of Nottinghamshire, "The Lace Market – Nottingham," <http://www.experiencenottinghamshire.com/the-lace-market>. Accessed December 15, 2016.

reconstructing the area's economic base, the public sector further set up two PPP organizations, Nottingham Development Enterprise (NDE) in 1988 and the LMDC in 1989. The LMDC acted as a key organization in conserving and reusing buildings in the Lack Market area. In the 1990s, the government began to develop the area's tourism potential and successfully maintained a balance between conservation and economic development for the basic PPP logic. Keeping a flexible attitude toward changes during the long-term project period and balancing authenticity issues with market forces and demands assure the successful role played by the public sector.¹⁷⁹

4.3 Sydney Harbor YHA, Sydney, Australia

Heritage PPP type

CBFO (Conserve-Build-Finance-Operate)

Site Description

Located in the Rocks, Sydney's earliest urban area, the site is Australia's largest urban archaeological site and also one of the most important colonial archaeological sites in Australia. It is listed on the New South Wales State Heritage Register.

Project Structure

After the archaeological investigation and public tendering process, the Sydney Harbor Foreshore Authority (SHFA) chose the proposal submitted by the Sydney Harbor YHA of YHA Ltd. (Youth Hostels in Australia) in 2006. Through a ninety-nine year lease with SHFA, YHA Ltd. operates Sydney Harbor YHA as one of its network of hostels across Australia. It also constructed

¹⁷⁹ Steven Tiesdell, "Tensions between Revitalization and Conservation," *Cities, Economic Regeneration Strategies in British Cities*, 12, no. 4 (August 1, 1995): 231–241, doi:10.1016/0264-2751(95)00040-S.

the Big Dig Archaeology Education Center for conserving, managing and interpreting the heritage site. The construction took a year to finish (2008-2009). SHFA, the public sector representative, and YHA Ltd, the private sector representative, jointly managed the archaeological perspective of the site. SHFA oversaw the site and coordinated with other planning and heritage agencies due to the strict regulation of heritage conservation in Australia.

Financing sources almost fully came from YHA Ltd. The total amount used was US \$28 million. Approximately US \$7.8 million was financed directly by YHA Ltd., US \$1 million was financed by a hostel development loan from YHA Australia, and US \$19.2 million was a loan from the Westpac Banking Corp. Moreover, a proportion of the tax paid by each overnight guest staying at Sydney Harbor YHA is allocated to a fund to provide support for ongoing conservation, interpretation, and management of the archaeological remains.

Partners and Roles

The public sector: SHFA, a division of New South Wales Department of Planning, is the major actor representing the public sector. Its roles included landowner, the owner of heritage buildings on the site, planning authority, and project guidance. It also cooperated with other planning and heritage agencies to oversee and the site.

The private sector: YHA Ltd. As the lessee of heritage buildings at the site, its roles included “conserve”, “design”, “finance”, “construct”, and “operate”.

Ownership

The public sector fully owns the site.

Outcomes

The project combines affordable tourist accommodation with an on-site education center,

while conserving a significant archaeological site in situ. It maintained free public access to the Center and increased visitation to the site.

Lessons Valuable for Beijing's Contexts

This heritage PPP project provides an effective way to conserve and reuse a sensitive archaeological site, to which the private sector contributed a lot through its creative input. First, the design of new construction wisely preserved and reused the archeological site. "A lightweight, steel framed building hovers above the remains, allowing visual access to eighty-five percent of the site at the ground level."¹⁸⁰ The approach of employing a series of pillars to raise the building off the ground minimizes contact with the remains. Second, a variety of engaging heritage interpretation methods and educational programs about Sydney's early history is offered at the education center. Programs like simulated digs provide students beneficial and interesting learning experiences. Third, the 354-bed youth hostel has successfully attracted a large number of domestic and international guests to visit the site. Therefore, it enlarged the influence of the site and drew more attention to it. This project vividly presents how effective and creative the private sector could be to conserve and reuse a heritage site through a PPP project.

This example shows a government's appropriate role when it does not highly engage in a heritage PPP. Aside from encouraging private investment and commercial activity, the government (SHFA) instituted rigorous heritage controls to ensure authenticity and best practice in the project. The government should always bear such a responsible attitude as the bottom line no matter how deep it engages in a heritage PPP project. For heritage PPPs, even though the government cannot always act as a major player to lead projects, it should provide adequate support through

¹⁸⁰ Macdonald and Cheong, *The Role of Public-Private Partnerships*, 67.

regulation and/or direct financing.



Figure 4.12: Exterior of Sydney Harbor YHA



Figure 4.13: The Big Dig Site, 2008



Figure 4.14: The Education Center Being Built, September 2009

4.4 Rancho Los Alamitos Historic Ranch and Gardens, Long Beach, California, USA

Heritage PPP type

BCLOT (Build-Conserve-Lease-Operate-Transfer)

Site Description

The site of historic Ranch & Gardens is a seven-and-a-half-acre site that has a rare history of more than 1,500 years of continuous occupation, which stretches from Native American settlement before 500 AD through to the Bixby family who gifted the site to the City of Long Beach in 1968. It reveals the early Tongva presence, the Spanish and Mexican periods, the ranching and farming era, and the imprint of twentieth century development. The history of the site and the people who have called it home over time deftly reflect the evolution of southern California. The site is a viable and significant historic resource. It is listed on the National Register of Historic Places.

Project Structure

The site is owned by the City of Long Beach and operated by the Rancho Los Alamitos Foundation, a nonprofit organization. The foundation began operating the site based on a twenty year Management Agreement with the government signed in 1986. Then in 1995, the partnership was restructured as a thirty year lease arrangement.

Currently, the City funds about forty-five percent of the general operating budget and the Foundation raises the remainder from grants, membership income, investment income, and general contributions. The Foundation neither charges admission to the site nor engages in site rentals. Over the years, the Foundation has built a reserve fund for general operating support in

case income from the site is not sufficient, but the reserve has never been called upon. The Foundation also manages a separate set of budgets for special projects and keeps these monies in a restricted fund, which cannot be accessed for general operating income. The monies held are invested and the interest earned goes back proportionately to each individual project. There are thirty or more different sources at least.

Partners and Roles

The public sector: the City of Long Beach Building and Planning Department is the major public actor. Its roles include partially providing general operating budget, oversight, and reviewing the master plan of the site.

The private sector: private actors mainly consist of donors. They also include people who built new structures on site or conservationists who assist the conservation work.

The third sector: the Rancho Los Alamitos Foundation plays the key role in this project. As the lessee of the site, it conserves, builds necessary new construction, finances, and operates the site.

Ownership

The public sector fully owns the site.

Outcomes

An enormous amount of original features, such as the Barns Area, Ranch House and Historic Gardens, are well restored, and the site is presented as a viable and significant historic resource. The Rancho Center, a US \$18 million project completed in 2013, is mainly used as an interpretation and education center. The PPP allows for much more cost-effective execution of projects than if all projects had to be executed through the public sector.

In 1989, the Foundation prepared a nationally recognized comprehensive Master Plan for the site. It spans all aspects of the site, from educational outreach and image building, to physical repairs and complete restoration projects. The Master Plan detailed 168 recommendations, and the city took two years to review and approve the plan. To date the Foundation has fully executed 166 of them. It also utilizes the Historic Building Code and adheres to the highest standards of conservation and restoration.

Lessons Valuable for Beijing's Contexts

The most important lesson that can be learned from this project is how a non-profit organization plays an effective role in a heritage PPP project. Rather than complementary support, the Foundation in the example acts as the leader of the project. Through employing abundant fund-raising tools and effective operation, the foundation has fully developed its potential in a heritage PPP and become a necessary liaison between the public and private sectors.

The third sector is an emerging market in Beijing, which has great potential to develop in the future. Plus, as suggested by the Getty Report, countries in the initial stage of PPP market maturity like China can turn to third-party NGOs to assist in the role of administrator.¹⁸¹

¹⁸¹ Macdonald and Cheong, *The Role of Public-Private Partnerships*, 28.



Figure 4.15: The Ranch House



Figure 4.16: The Rancho Room (Interpretation Center)



Figure 4.17: The Historic Garden

Problematic Cases

Regarding problematic examples, they do not have clear structures and cannot be recognized as qualified heritage PPPs in terms of the criteria of my thesis. Thus, although for comparison, this section is discussed based on the similar framework for successful cases, the element of heritage PPP type is not analyzed.

4.5 Zhang's Garden, Dali, Yunnan, China¹⁸²



Figure 4.18: The Bai Ethnic Traditional Buildings at Zhang's Garden



Figure 4.19: The Zhaobi (Screen Wall) and the Western-Style Building at Zhang's Garden

¹⁸² Zhao, "Branding Dali City," 109.

Site Description

Zhang's Garden was established as a tourist site in March 2008, located five kilometers from Dali Old Town.¹⁸³ Covering 5,300 square meters with 4,700 square meters of architecture, Zhang's Garden is recognized by the local government as the largest Bai ethnic architectural complex in Dali. It is now a national AAA tourist attraction. As his private project, Jianchun Zhang, a famous local entrepreneur, combined the Bai ethnic residential style and the western style to create a newly built “heritage”, which is different from traditional Bai architecture.

Project Structure

Zhang spent eight years and more than US \$8 million on constructing the site. The municipal government actively supported this project since it is a potential city-branding tool for Dali. The government sold the land use right to Zhang at a low price, invested around US \$6 million to improve the nearby built environment by upgrading roads, building a 3,000-square-meter car park and a new farmer’s market. The government also helped with advertising the project through adding the site to the Dali One-Day tour and sent Zhang to attend tour fairs held both domestically and internationally to promote the site.

Partners and Roles

The public sector: the municipal government is the major actor of the public sector. Its roles included selling the land use right to Zhang at a low price, investing to improve the infrastructure around the site and advertising the site.

The private sector: as the representative of the private sector, Zhang takes full responsibilities for building, conserving, financing, and operating the site.

¹⁸³ Yunnan Tourism Website, “The Family Zhang' Garden in Dali,” <http://en.ynta.gov.cn/Item/2297.aspx>. Accessed December 17, 2016.

Ownership

The site is owned privately.

Outcomes

Both Zhang's Garden and Dali City have obtained rising popularity. The site has improved the city's competitiveness among Chinese tourist cities by attracting more visitors and winning a higher number of A-rated attractions.

Lessons Valuable for Beijing's Contexts

Negative aspects: Instead of spending money on real historic Bai architecture, the government contributed a lot to newly-built "heritage" architecture. This project presents a local government's emphasis on tourism development rather than heritage conservation. The government's support may be due to the private connection between local government officials and Jianchun Zhang, rather than the project itself.

Positive aspects: First, this project indicates some proper roles the public and private sectors could take in a heritage PPP. For example, the municipal government's support in the form of upgrading infrastructure around the site and providing a discounted price to the private investor are helpful. Financing and operating the site are proper responsibilities that the private sector could assume. Second, the function of a PPP in branding a city could have good effects through employing official media activities by the public sector and advertising efforts by the private sector.

4.6 Linden Center, Dali, Yunnan, China¹⁸⁴

Site Description

Located at No. 5 Chengbei, Xizhou Town, Dali City, Yunnan province, the Linden Center project was implemented at a real heritage site, originally known as Yang's Compound. It was originally built in 1947 by Pingxiang Yang, a local Bai entrepreneur, and became a public property later. It has been used as military barracks, a hospital and kindergarten since its establishment.¹⁸⁵ Due to its complete traditional stone works and wood features, Yang's compound was designated as a national heritage site in 2001. An American couple, Brian Linden and his wife, rented the site from the government at a low price in 2008. After restoration, the local government allowed them to reuse the site as a boutique hotel. When restoring the site, the Linden team basically kept the original structure. Then the team renovated the site based on modern standards and included modern elements like a bar in the hotel.

Project Structure

After renting the site from the local government, the Linden couple spent US \$170,000 on restoration and maintenance. Hence, the private sector took the major responsibility of financing the project while the government indirectly supported the project by offering a low rental price. As a heritage hotel, the Linden Center's guestrooms charge as much as six times more than other hotels with a similar level of comfort. It generates substantial profits.

Partners and Roles

The public sector: the municipal government was the major representative. It contributed to the project by renting the site to the private sector at a low price and reviewing the reuse proposal.

¹⁸⁴ Zhao, "Branding Dali City," 109-111.

¹⁸⁵ The official Website of the Linden Center, <http://www.linden-centre.com/thelindencentre>. Accessed December 17, 2016.

The private sector: as the representative of the private sector, the Linden couple takes full responsibilities for conserving, financing, and operating the site.

Ownership

The site is owned by the public sector

Outcomes

The Linden Center and Dali City have received much more attention after the project was finished. After this project, the government planned to apply the Linden model to other heritage sites such as Baochengfu, through cooperating with the Linden team.

Lessons Valuable for Beijing's Contexts

Negative aspects: inappropriate conservation work and over-commercializing a heritage site are major reasons for the criticism that this project received. The inappropriate conservation reflects the government's ineffectiveness in overseeing and regulating the project. Moreover, the municipal government plans to relocate occupants from other historic Bai houses and turn them into tourist sites. The fact that the Linden team cooperates with the government in heritage PPPs may reveal its real identity as being the assistant to the government's misconduct rather than serving as a conservationist. Additionally, the lack of transparency in all information as regards funding and profits may further reveal the personal connection between Linden couple and the local government.

Positive aspects: First, this project demonstrates the government's positive attitude in cooperating with the private sector in conserving and managing a heritage site. Though with some problematic aspects, the government's interest in continuing cooperation with the private sector in other sites proves the possibility of heritage PPPs in a Chinese city. Second, the private sector

invested some creative input in the project. Valuable practice included encouraging local community participation through activities such as bakery workshops and Bai music concerts. Last, the private sector has done a good job in marketing the site through English and Chinese media including *The Wall Street Journal*, *The New York Times*, *China Daily*, and *Sina.com*. They actively promoted the site through delivering talks and organizing foreign trips to Dali city. These efforts facilitated creating a positive site image.



Figure 4.20: Linden Center



Figure 4.21: A Guestroom at the Linden Center

Both successful and problematic cases shed light on how to improve Beijing's contexts in developing an effective framework of heritage PPPs. Valuable lessons learned from case studies laid a foundation for my recommendations.

Chapter 5 Policy Review

This chapter provides the review of the conservation system and PPP policies at the national level in China and the local level in Beijing. Guidelines from international organizations are analyzed to provide key aspects for developing an effective PPP framework. Based on these, challenges and opportunities facing Beijing are presented. They act as a foundation for providing recommendations about what improvements are needed to develop effective heritage PPPs.

5.1 Conservation System in China

5.1.1 Conservation System at the National Level

China's system of heritage conservation is divided into two levels: national and subnational (provincial and municipal). The legislative framework is a combination of laws and regulations at these two levels. General laws and administrative regulations are established at the national level. Correspondent bylaws and rules are legislated within provincial and municipal jurisdictions. At each level, conservation work is primarily assumed by two parallel administrative systems: cultural heritage and urban planning.¹⁸⁶ At the national level, ancient monuments and historic sites are solely managed under the State Administration of Cultural Heritage (SACH). Other areas including historic and cultural cities and historic districts are jointly managed by two systems. Other related ministries include the Ministry of Finance, the National Development and Reform

¹⁸⁶ Lin Wang, "The Comparative on the Protection System for the Historical Heritage in China and Abroad," *City Planning Review*, no. 8 (2000): 50, doi:10.3321/j.issn:1002-1329.2000.08.012.

Commission, and the Ministry of Urban-Rural Development. In 1985, China ratified the *Convention Concerning the Protection of the World Cultural and Natural Heritage*. To date, China has fifty World Heritage Sites, ranking second in the world. Thirty five are cultural heritage sites, eleven are natural heritage sites, and four are cultural and natural (mixed) sites.¹⁸⁷ National level government agencies pay special attention to the conservation of World Heritage Sites since they are great cultural and tourism resources. Sites with a lower level of significance are mainly managed by subnational governments.

One national law and one national regulation act as general guidance for heritage conservation work in China. They are the *Law of the People's Republic of China on Protection of Cultural Relics* (Law of China on Cultural Relics)¹⁸⁸ and the *Regulations for the Implementation of the Law of the People's Republic of China on Protection of Cultural Relics*.¹⁸⁹ Besides laws and regulations, the *Principles for the Conservation of Heritage Sites in China*, a cooperative project based on international experience, has been widely adopted as a guide for managing cultural heritage sites in China.¹⁹⁰

¹⁸⁷ UNESCO World Heritage Center, "Properties inscribed on the World Heritage List, China," <http://whc.unesco.org/en/statesparties/cn>. Accessed March 7, 2017.

¹⁸⁸ Standing Committee of the National People's Congress, <http://www.china.org.cn/english/environment/34304.htm>. Accessed March 1, 2017.

¹⁸⁹ State Council of the People's Republic of China, adopted at the Eighth Executive Meeting of the State Council on May 13, 2003, promulgated by Decree of No. 377 on May 18, 2003, and effective on July 1, 2003, http://www.unesco.org/culture/natlaws/media/pdf/china/china_regimplawprotclt_entof. Accessed March 15, 2017.

¹⁹⁰ ICOMOS China, *Zhongguo wen wu gu ji bao hu zhun ze = Principles for the Conservation of Heritage Sites in China*, Rev. ed, Beijing Shi: Wen wu chu ban she, 2015, http://hdl.handle.net/10020/gci_pubs/china_principles_2015. Accessed March 1, 2017.

5.1.2 Conservation System in Beijing

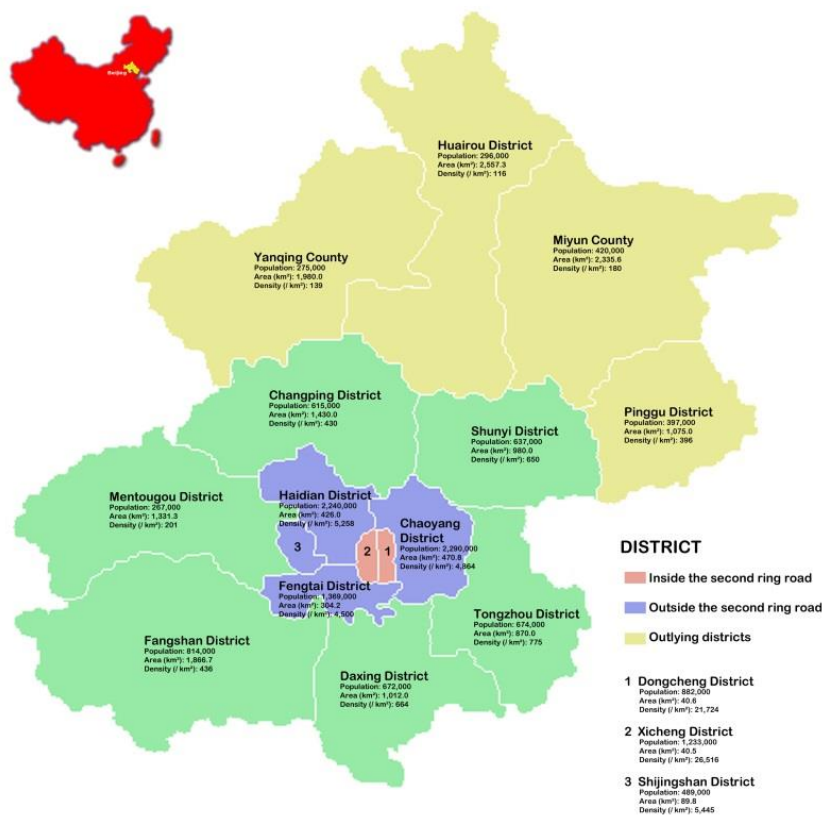


Figure 5.1: Distribution of Districts in Beijing

5.1.2.1 Conservation Practice

Beijing is governed as a direct-controlled municipality under the national government with sixteen urban, suburban, and rural districts. It has been a city for more than 3,000 years and has served as the capital for more than 800 years, covering five imperial dynasties: Liao (938–1122), Jin (1122–1215), Yuan (1267–1367), Ming (1368–1643), and Qing (1644–1911). As the core of urban heritage, the Old Beijing area was mainly constructed in the Ming and Qing Dynasties. Yue Zhang provides a perfect description of the special layout of Old Beijing:

Based on the Chinese design philosophy of hierarchy, symmetry, and unity, Beijing is divided into four roughly concentric encirclements, each surrounded by a city wall. The Forbidden City, the residence of the imperial family, was located in the geographic center. It is surrounded by

the Imperial City, which enclosed private gardens, lakes, and workspace reserved exclusively for the ruling family and high-ranking bureaucrats. The Inner City in the north contains more residences, mostly of noble families and high-ranking bureaucrats, and the Outer City in the south hosts more commerce. A central axis of 7.9 kilometers runs south to north, with the most significant monuments situated along it.¹⁹¹

The typical residential house in Old Beijing is called Siheyuan, or courtyard house. It is comprised of four one-story residences surrounding a central courtyard. The representative road in Old Beijing is called a Hutong, a narrow lane lined by Siheyuans. Many Hutongs, extending south to north and west to east, create a street pattern like a chessboard. Siheyuans and Hutongs serve as the soul of Old Beijing. The gray color of residential houses and city walls provides a harmonious background for the yellow-roofed and red-walled palaces. This aesthetic integrity amazed the American urban planner Edmund Bacon and he described Old Beijing as “possibly the greatest single work of man on the face of the earth.”¹⁹²

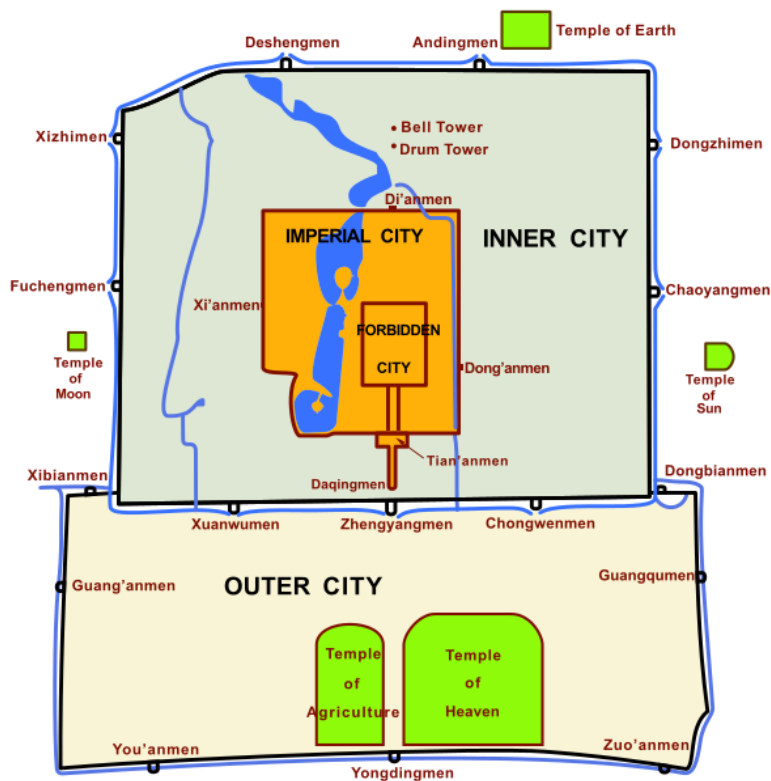


Figure 5.2: Old City Area in Beijing (Old Beijing) Forms a "凸" Shape

¹⁹¹ Yue Zhang, "Beijing Bureaucratic anarchy and symbolic preservation," 25.

¹⁹² Ibid., 26.

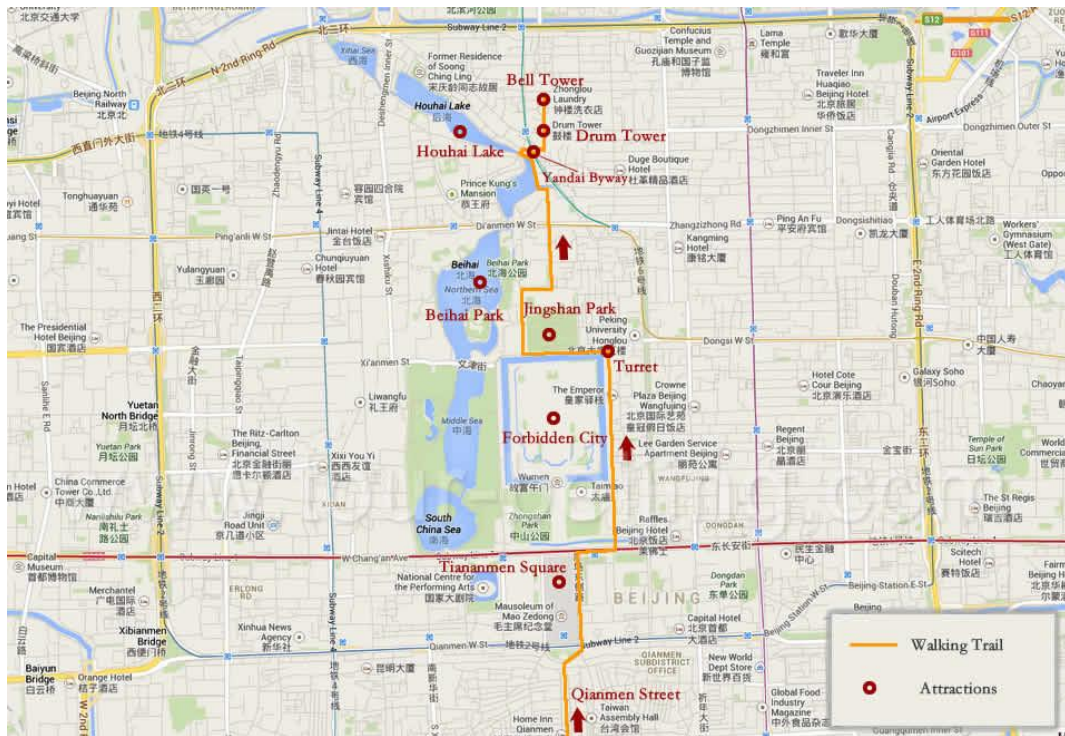


Figure 5.3: Beijing Central Axis

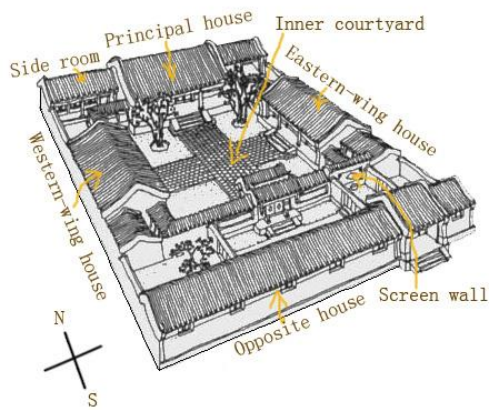


Figure 5.4: Siheyuan



Figure 5.5: A Typical Hutong in Beijing

Beijing's heritage conservation started in the late 1950s. The evolution of the practice follows the development trend of major international charters. The *Athens Charter for the Restoration of Historic Monuments* (1931) proposed the concept of preserving ancient monuments with historic values.¹⁹³ The *Venice Charter for the Conservation and Restoration of Monuments and Sites* (1964) presented principles and methods for conserving and restoring historic buildings.¹⁹⁴ The *Charter for the Conservation of Historic Towns and Urban Areas* (Washington Charter, 1987) raised new concepts of preserving historic towns and urban areas.¹⁹⁵ These international charters show the enlargement of the scope of conservation, from ancient monuments to historic buildings, as well as from a single historic building to the setting, and historic districts and areas. Following this international trend of conservation and based on the *Law of China on Cultural Relics*, Beijing's heritage conservation work has experienced three major stages. The first stage is 1949-1981, in which the government mainly focused on preserving historic buildings and sites. The second stage began in 1982. In that year, the State Council of the People's Republic of China published the first list of twenty four historic and cultural cities, among which Beijing was listed as the top. The cultural relics department started to care about the holistic value of the Old Beijing area, and its relationship with other parts of Beijing. In 1990, the Beijing government announced the first list of twenty-five historic districts. Since then, three levels of conservation work, including historic buildings and sites, historic districts, and the historic city, have been established.

¹⁹³ Adopted at the First International Congress of Architects and Technicians of Historic Monuments in Athens, Greece in 1931, <http://www.icomos.org/en/charters-and-texts/179-articles-en-francais/ressources/charters-and-standards/167-the-athens-charter-for-the-restoration-of-historic-monuments>. Accessed March 3, 2017.

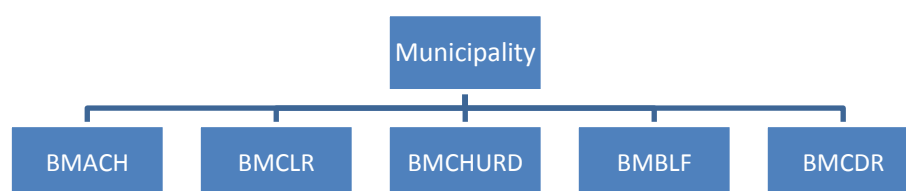
¹⁹⁴ Adopted at the Second International Congress of Architects and Specialists of Historic Buildings in Venice, Italy on May 31, 1964, https://www.icomos.org/charters/venice_e.pdf. Accessed March 3, 2017.

¹⁹⁵ Adopted by International Council on Monuments and Sites (ICOMOS) General Assembly in Washington, DC, October 1987, <http://m.wendangku.net/doc/0dbc8d806137ee06eff918ff.html>. Accessed March 4, 2017.

5.1.2.2 Conservation Policies

Governance in Beijing's Cultural Heritage Sector

As mentioned in Chapter Two, urban preservation in Beijing is within the province of five functional bureaucracies at the municipal level, which are involved in different aspects of the work.



BMACH: Beijing Municipal Administration of Cultural Heritage

BMCLR: Beijing Municipal Commission of Land and Resources

BMCHURD: Beijing Municipal Commission of Housing and Urban-Rural Development

BMBLF: Beijing Municipal Bureau of Landscape and Forestry

BMCDR: Beijing Municipal Commission of Development and Reform

Figure 5.6: Five Government Agencies Involved in Cultural Heritage Urban Preservation in Beijing

The BMACH is in charge of municipal historic monuments and heritage sites. The BMCLR is responsible for designating historic districts and making preservation plans. The BMCHURD has the authority to issue demolition certificates and construction permits. The BMBLF takes care of the green space and natural scenery in heritage sites or preservation areas. The BMCDR supervises the allocation of land and funds in urban plans.¹⁹⁶ For three levels of conservation work, all five agencies have overlapping responsibility. Generally speaking, the BMACH has more power over historic buildings and sites. The BMCLR, the BMCHURD, and the BMCDR are more powerful in terms of historic districts and the historic city.

Aside from municipal level agencies, district governments and sub-district government

¹⁹⁶ Edited by author, based on Yue Zhang, "Beijing Bureaucratic anarchy and symbolic preservation," 37-38.

agencies are also involved in the urban preservation work. They together form the three tiers of local administration in Beijing. For example, in the Shichahai historic district, the Xicheng district government has a big role. Under it, two local administrative agencies—the Shichahai Scenic Area Administration (SSAA) and the Shichahai Street Administrative Office (SSAO)—are in charge of the daily affairs of the district.¹⁹⁷ The SSAA takes care of physical conditions of the area and the SSAO is responsible for daily issues of inhabitants and communities.

Historic Buildings and Sites

According to the *Law of China on Cultural Relics*, there are three levels of significance for historic buildings and sites: National Major Heritage Protection Units, Provincial Major Heritage Protection Units, and Municipal/County Major Heritage Protection Units. Among the first level sites, some are already designated as World Cultural Heritage Sites. As the capital city in China, Beijing is considered a province-level urban administrative division having corporate status and power of self-government or jurisdiction. Therefore, the municipal level sites in Beijing actually have the same level of significance as Provincial Major Heritage Protection Units. Subsequently, district/county level sites in Beijing belong to the third level. Beijing has the full power to manage the second and third level sites and actively cooperates with the central government to conserve the first level sites. The Beijing municipality is mainly responsible for the municipal level heritage sites (second level) and local governments (district governments) take responsibility for the district/county level sites. Based on this system, Beijing has already developed seven lists of 128 important historic sites at the national level, eight lists of 357 historic sites at the municipal level,

¹⁹⁷ Yue Zhang, “Beijing Bureaucratic anarchy and symbolic preservation,” 55.

and 756 sites at the district/county level. Apart from them, Beijing also produced eight lists of 402 expansion-prohibited zones around heritage sites or districts. Fifty-six buried areas for underground relics are also listed in the conservation system.¹⁹⁸

Among the national level sites, seven are World Cultural Heritage Sites: the Great Wall, the Summer Palace, the Temple of Heaven, the Forbidden City, the Grand Canal, the "Peking Man" site at Zhoukoudian and the Ming Tombs. For these highest level of heritage sites, the Beijing government has paid great attention to them in order to tap into their tourism values. For example, Beijing has carried out continuous restoration work on the Forbidden City and the Summer Palace. In 2002, Beijing moved out the companies which had long occupied the site of the Temple of Heaven and tore down all the additions. It invested RMB fifty million (about US \$ 667million) to restore the site which was as large as 4,850 square meters. In order to improve the environment around the "Peking Man" site at Zhoukoudian, Beijing closed three production lines of cement, nineteen slate factories and seventeen mines. Since 2000, Beijing has increased investment in conserving the Great Wall. By 2010, the amount invested was over RMB 4,000 million (about US \$615 million).¹⁹⁹ For the World Cultural Heritage Sites, Beijing has also issued some specific rules. To name a few, *Beijing the Great Wall Management Approach*, *Beijing the "Peking Man" site at Zhoukoudian Management Approach*, and the *Stipulations for Strictly Controlling Constructions in the Areas around the Summer Palace and Yuanmingyuan Imperial Garden*.²⁰⁰

For conserving other heritage sites which cover the majority of the heritage resources, Beijing has mainly employed methods like listing and designation. Although the government still

¹⁹⁸ BMACH, "Data on protection units."

¹⁹⁹ Xiumei Li, "Observation and Thinking on Recent Cultural Heritage Conservation in Beijing," *Academic Journal of Beijing Administrative College*, no.6 (2010), 84, doi:10.3969/j.issn.1008-7621.2010.06.016.

²⁰⁰ Xinhua Net, "The Capital of Cultural Heritage Shouldered Historic Responsibility," June 22, 2004, http://news.xinhuanet.com/house/2004-06/22/content_1538572.htm. Accessed March 5, 2017.

strives to invest a lot in conservation, the budget is limited to cover a large number of sites. Moreover, development pressure and fundamental problems of property rights often lead to inappropriate reuse. Since 2012, the amount of special funds for preserving cultural relics and historic districts has been increased from RMB 150 million (about US \$24 million) to RMB one billion (about US \$157million). RMB 150 million is for supporting significant projects at state and municipal levels and RMB 850 million is for district/county level heritage sites.²⁰¹ These numbers show increased spending by the government. However, although many sites have been restored, much more are destroyed at an even faster pace. In 1949, there were more than 7,000 Hutongs in Beijing. By the 1980s, there were only 3,900 left. Over recent years, the disappearing pace of Hutongs is around 600 per year due to increasing speed of redevelopment of Old Beijing.²⁰²

In November 1981, Beijing issued the *Beijing Cultural Relics Protection Management Approach*,²⁰³ the first policy document for heritage conservation. It has been replaced by the *Administrative Measures of Implementing Law of the People's Republic of China on Protection of Cultural Relics for Beijing (Measures)*, which acts as the general rule for conserving and managing heritage sites in Beijing.²⁰⁴ This policy document has some specific regulations. For example, it requires that the construction work to take place in heritage sites be implemented based on the requirements of the BMACH.²⁰⁵ Thus, the BMACH is the major agency responsible

²⁰¹ Bin Li, Xiaoguang, Liu, Xiangxin Kong, and Manzi, Zhang, "Do you understand the account for preserving capital cultural heritage?" <http://www.weidu8.net/wx/1000148650519943>. Accessed March 4, 2017.

²⁰² Beijing News, "Experts wrote together to World Heritage Conference," July 6, 2004, <http://news.sohu.com/2004/07/06/63/news220866301.shtml>. Accessed March 25, 2017.

²⁰³ People's Government of Beijing Municipality, adopted at Seventh Beijing People's Congress Sixteenth Meeting in 1981 and ineffective now, <http://baike.baidu.com/item/北京市文物保护单位管理办法>. Accessed March 25, 2017.

²⁰⁴ People's Government of Beijing Municipality, adopted by Standing Committee of the Twelfth Beijing People's Congress on September 13, 2004, and effective on October 1st, 2004, <http://baike.baidu.com/item/北京市实施《中华人民共和国文物保护法》办法>. Accessed March 25, 2017.

²⁰⁵ *Ibid.*, Article 13.

for heritage conservation. Other agencies also have the power to regulate relevant issues.²⁰⁶ However, as for demolition, the BMACH has little power to prohibit it when a historic building does not comply with the bigger plan of economic development. Another major issue for the *Measures* is its articles are too general and so many do not provide specific and clear guidance. In this way, its effectiveness is further impaired. For instance, it only mentions reuse of a heritage site in Article Nine and Sixteen, and without stating the standards for appropriate reuse.²⁰⁷

Historic Districts

The Beijing municipality has issued three lists of historic districts (HDs). The first list, publicized in 1990 and amended in 1999, contains twenty five HDs, mainly covering the Old City area.²⁰⁸ In 2002, the Beijing municipality approved the *Plans for the Protection of Twenty Five Historic Districts*. The second list of fifteen HDs was confirmed in 2002 and plans were issued in 2004.²⁰⁹ In 2005, the third list of three HDs was announced and plans have been compiled since 2012.²¹⁰

Due to the historic significance of the Old City, the government has paid great attention to the first list of HDs. The total area is 1,038 hectares, covering seventeen percent of the Old City. Adding areas of expansion-prohibited zones, the total area is 2,383 hectares, covering thirty-eight percent of the Old City.²¹¹ Fourteen of the twenty five HDs are located within the Imperial City,

²⁰⁶ Ibid., Article 3.

²⁰⁷ Ibid., Article 9&16.

²⁰⁸ People's Government of Beijing Municipality, *Plans for Protection of Historic Districts in the Old City Area of Beijing*, <http://www.law-lib.com/lawhtm/1999/34541.htm>. Accessed April 2, 2017.

²⁰⁹ Qianlong News Website, "Protection Plan for the Second List of Historic Districts is Completed," April 26, 2004, <http://news.sohu.com/2004/04/26/85/news219958538.shtml>. Accessed April 3, 2017.

²¹⁰ Beijing Daily, "Three New Historic Districts were Established in Beijing," January 7, 2013, <http://collection.sina.com.cn/yjjj/20130107/094598758.shtml>. Accessed on March 5, 2017.

²¹¹ Edited by Beijing Planning Committee, *Plans for the Protection of Twenty-Five Historical Districts*, adopted by the People's Government of Beijing Municipality in February, 2017, <http://www.bjww.gov.cn/2005/8-3/14366.html>. Accessed March 5, 2017.

in which the Forbidden City lies. Seven of them are within the Inner City. Among them, Nanluoguxiang, Shichahai, Guozijian are the most famous. Four other areas are distributed within the Outer City, including Qianmen and Liulichang, formerly noted traditional commercial areas. Previous preservation work only focused on preserving temples and palaces. Historic district conservation includes vernacular buildings and traditional neighborhoods. These two focuses have completed the Old City conservation, facilitating the establishment of the conservation mode of “point-line-plane” in Beijing.

With expert guidance, the *Plans for the Protection of Twenty-Five Historic Districts* provide scientific instruction for conserving HDs. First, it offers clear principles. Protecting historic authenticity, operating gradual improvement of building quality, making new construction compatible with the original environment, and opposing large-scale destruction and reconstruction, help lay a good foundation for practice. Second, it offers specific opinions on distinguishing area function, plans for accommodating population density, and the classification of buildings at a site. To a great extent, employing different methods on different kinds of buildings assures appropriate intervention. Third, it cares about the environment, proposing preservation suggestions for green space. Planning details like the percentage of Hutongs with different widths are also covered. Another complementary document, the *Plans for the Protection of the Historical Cultural Relics of the Old City of Beijing and for the Areas under Control* further analyzes the historic features and values of each HD. It also provides directions for practical work.²¹²

However, reality has clearly shown the gap between the expert guidance and practice. District governments ignored expert opinion. As a result, the Shichahai HD is now a tourist site with

²¹² People's Government of Beijing Municipality, adopted in April 1999, <http://www.bjww.gov.cn/2005/8-3/14310.html>. Accessed March 6, 2017.

raucous bars. Traditional vernacular buildings have mostly been torn down or fully restored. The Nanluoguxiang HD is fully commercialized. Although the basic layout of Hutongs is maintained, totally restored historic buildings have become food chain stores which only attract visitors who want fun and bustle. The Qianmen HD has had an even more miserable destiny. With an awkward strategy of attracting first class worldwide brands, the buildings in the area have been entirely reconstructed to imitate the Qing Dynasty style. Today, it not only has difficulty attracting famous brands, but also has lost its attraction to visitors. It is a forgotten place that has forever lost its former charm as a traditional commercial hub for the people of Beijing.

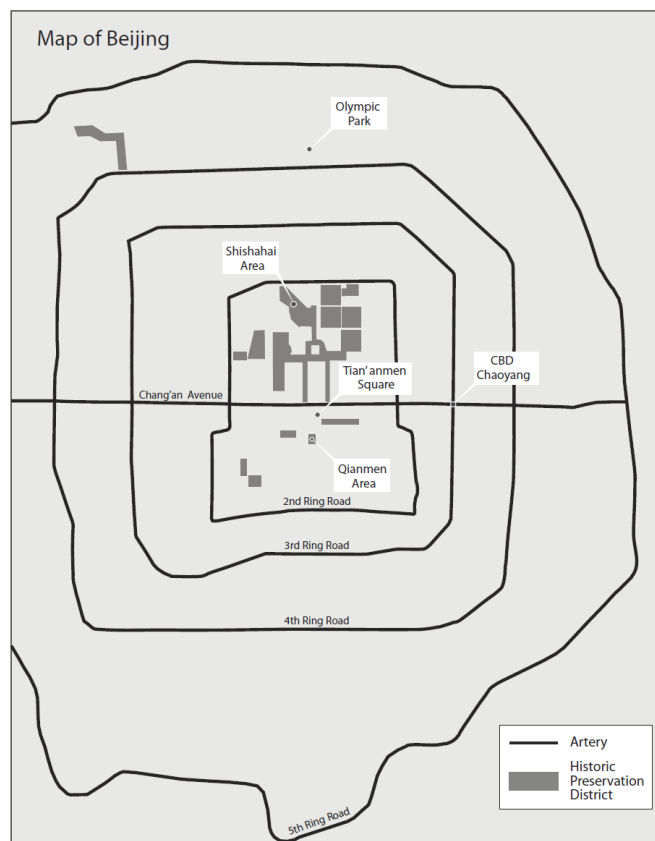


Figure 5.7: The First List of Historic Districts in the Old City Area in Beijing

Historic City

Based on the conservation of HDs, and heritage buildings and sites, the Beijing municipality has further strengthened the conservation of the whole city and issued a series of planning

documents as guidance. The *Plans for Protection of the Famous Historical Cultural Metropolis of Beijing* (2002), the *Overall plans for the Metropolis of Beijing* (2004-2020), and the *Regulations of Protection of the Famous Historical Cultural Metropolis of Beijing* (2005) form the basic framework of the system. The *Plans for the Famous Historical Cultural Metropolis of Beijing during the period of 2011-2015* (the Plans 2011-2015) provides a summary for past work.²¹³ Generally speaking, the policy for the Old City includes protecting and developing the axis, protecting the chessboard-like road network and the layout of Hutongs, inheriting and developing the architectural configurations and colors, managing height of structures, increasing urban squares, and preserving the historical water systems of rivers and lakes, the urban scenic lines, the symmetrical structures on the street, and ancient trees.

Beyond formulating principles, the Beijing government hopes to attract nongovernmental capital. In the *Plans 2011-2015*, the government aims to build a platform for investment and financing, and establish a legal mechanism to engage nongovernmental capital.²¹⁴ The ultimate purpose is to formulate a mechanism of government and private sector cooperation in conserving cultural heritage. This lays a foundation for the application of heritage PPPs.

5.2 PPP Policies in China

Since PPPs are still in the development process, national level policies are more complete and I mainly examine them. Policies at the Beijing level are briefly explained. This approach can provide a comprehensive presentation of the overall policy environment in Beijing. In May 2014,

²¹³ People's Government of Beijing Municipality, adopted on October 16, 2002, promulgated by Jing Zhneg Fa [2002] No. 27, <http://zhengwu.beijing.gov.cn/ghxx/sewgh/t1206698.htm>. Accessed March 5, 2017.

²¹⁴ Ibid.

a national PPP-specific agency, China PPP Center, was established by the Ministry of Finance of the People's Republic of China, representing a new round of PPP development. For three consecutive years since 2015, the issue of PPPs has been included in the *Report on the Work of the Government*. In the 2017 Report, PPP was once again recognized as systematic reform to promote modernization of governance, an important aspect of reform for the supply side.²¹⁵ After three years, the mechanism of establishing PPP policies has begun. Some key rules and regulations have demonstrated the Chinese government's positive attitude towards a healthy framework.

5.2.1 PPP Policies at the National Level

The Ministry of Finance of the People's Republic of China (MOF) and the National Development and Reform Commission of the People's Republic of China (NDRC) are two central government agencies that lead PPP policy formation. In 2014, the MOF issued two policy documents which act as fundamental guidance for PPPs in China. They are the *Circular of the Ministry of Finance on Issues concerning the Promotion and Application of the Public-Private Partnership Mode* (Cai Jin [2014] No.76)²¹⁶ and the *Circular of the Ministry of Finance on Issuing the Operational Guidelines for Public-Private Partnership Mode* (the *Operational Guidelines*) (Cai Jin [2014] No.113). According to the *Operational Guidelines*, establishing a PPP project requires five procedures: recognition, preparation, procurement, implementation, and transfer. The concept of nongovernmental capital is limited to domestic and foreign business entities, excluding state-owned enterprises.²¹⁷ The NDRC issued the *Guiding Opinions of the*

²¹⁵ Economic Daily, "Why does promoting legal PPPs an urgent issue?" March 23, 2017, <http://finance.sina.com.cn/roll/2017-03-23/doc-ifycsukm3262492.shtml>. Accessed March 25, 2017.

²¹⁶ Ministry of Finance, issued on September 23, 2014.

²¹⁷ Ministry of Finance, Article 2, issued on November 29, 2014, http://www.mof.gov.cn/zhengwuxinxi/caizhengwengao/wg2014/wg201412/201505/t20150511_1229650.html.

National Development and Reform Commission on Carrying out Public-Private-Partnership (Fa Gai Tou Zi [2014] No. 2724).²¹⁸ Attached were *Guidelines for Contracts*, in which the NDRC has expanded the concept of nongovernmental capital to include state-owned enterprises.

In next year, 2015, the NDRC, the MOF, and other relevant departments issued more policies to improve the PPP development environment. In the *Notice of the National Development and Reform Commission and the China Development Bank on the Relevant Work Concerning the Promotion of the Development Financial Support for Public-Private Partnership* (Fa Gai Tou Zi [2015] No.445) , the NDRC offers favorable terms to nongovernmental capital. For example, the length of maturity can be extended to thirty years and the loan interest rate can be given a special discount.²¹⁹ In May 2015, the *Notice of the General Office of the State Council on Forwarding the Opinions of the Ministry of Culture and Other Departments on Effectively Implementing Government Purchase of Public Culture Service from Social Forces* (Guo Ban Fa [2015] No.37) was issued. With this document, the Ministry of Culture of the People’s Republic of China and the MOF set up a benign environment to encourage PPP development in the cultural field. The attached *Guiding Catalogue for Government Purchase of Public Culture Service from Social Forces* covers the public culture field, which could be considered to include cultural heritage conservation and inheritance.²²⁰ In December 2015, the MOF issued the *Notice of the Ministry of Finance on Implementing the Policy of “Awards in place of Subsidies” for Public-Private Partnership Projects* (Cai Jin [2015] No. 158). Here, the MOF offers financial awards to the

Accessed March 25, 2017.

²¹⁸ National Development and Reform Commission, Article 7, effective on December 2nd, 2014, http://www.sdpc.gov.cn/gzdt/201412/t20141204_651014.html. Accessed March 14, 2017.

²¹⁹ National Development and Reform Commission, and China Development Bank, Article 6, effective on March 10, 2015, http://www.sdpc.gov.cn/gzdt/201503/t20150317_667601.html. Accessed March 14, 2017.

²²⁰ General Office of the State Council, Article 3.1, effective on May 5, 2015, http://www.mof.gov.cn/zhengwuxinxi/zhengcefabu/201505/t20150512_1230137.htm. Accessed March 14, 2017.

private sector for engaging in new PPP projects. The awards will be given proportionately for different investment amounts. For example, projects with an investment amount of below RMB 300 million (around US \$46 million) will be given an amount of RMB three million (around US \$462,000). Projects with the investment of between RMB three million and one billion (US \$154 million) will be offered RMB five million (around US \$770,000). For projects with investment over RMB one billion, RMB eight million (around US \$1,232,000) will be given.²²¹

Then, in 2016, policies aiming at further improving legal and financial conditions for PPP development were announced. In early January, the *Law of the People's Republic of China on Public-Private Partnership*, the consultation paper of the first law in the PPP field, was published²²². In the year before, the NDRC, the MOF and several other state agencies together had issued the *Measures for the Administration of Concession for Infrastructure and Public Utilities*.²²³ It both conflicts and overlaps with the January 2016 document. In July 2016, Premier Li Keqiang of the State Council required the Legal Affairs Office of the State Council to lead the combination of these two policies in order to promote a healthy environment to activate nongovernmental capital participation.²²⁴

Financial advancement can also be seen. In December 2016, the *Notice of the National Development and Reform Commission and Securities Regulatory Commission on Promoting Securitization of Infrastructure Public-Private Partnership Projects* (Fa Gai Tou Zi [2016] No.

²²¹ Ministry of Finance, Article 1.1, effective on December 8, 2015, http://jrs.mof.gov.cn/zhengwuxinxi/zhengcefabu/201512/t20151217_1618394.html. Accessed March 14, 2017.

²²² Ministry of Finance, issued on January 8, 2016, <http://www.pppcenter.org.cn/xydt/xyxw/201601/121543Eay.html>. Accessed March 15, 2017.

²²³ Ministry of Finance, National Development and Reform Commission et al., effective on July 1, 2015, http://www.sdpc.gov.cn/zcfb/zcfbl/201504/t20150427_689396.html. Accessed March 15, 2017.

²²⁴ China Business News, "Li Keqiang: Legal Affairs Office of the State Council should lead the legislation of PPPs," July 11, 2016, <http://www.pppcenter.org.cn/xydt/mtbd/201607/083030cLQ.html>. Accessed March 14, 2017.

2698) was issued.²²⁵ It played a positive role in revitalizing stock assets and improving the liquidity of PPP assets, and accordingly it promoted the development of PPPs. In February and March of the following year, the China PPP Center cooperated with the Tianjin Financial Asset Exchange and the Shanghai United Asset and Equity Exchange to set up a PPP asset exchange platform. It will facilitate the implementation of the five procedures for the PPP process.²²⁶ Other policies like the *Circular of Ministry of Finance on Printing and Distributing PPP Expert Database Regulations* (Cai Jin [2016] No.144) show the government's support for improving the professional skills needed to manage PPP projects.²²⁷

PPPs in the cultural field have also progressed. In June 2016, the *Notice of Organizing the Work of Submitting and Selecting the Third List of Model Public-Private Partnership Projects* (Cai Jin [2016] No.47) was circulated.²²⁸ This was the first time that the MOF cooperated with the Ministry of Culture on potential PPP projects that include the area of cultural resource conservation and reuse. This document shows direct support for developing heritage PPPs in China.

The division of responsibility between the MOF and the NDRC is an important issue. It gained some clarification in late 2016 through two policy documents: the *Notice of the National Development and Reform Commission on Implementing Public-Private Partnership Projects well in Traditional Infrastructure Fields* (Fa Gai Tou Zi [2016] No. 1744) and the *Notice of the Ministry of Finance on Deeply Promoting Public-Private Partnership in Public Service Fields*

²²⁵ National Development and Reform Commission, effective on December 21, 2017, http://www.ndrc.gov.cn/zcfb/zcfbtz/201612/t20161226_839035.html. Accessed March 14, 2017.

²²⁶ China PPP Center, "PPP transaction platform was established," March 1, 2017, <http://www.cpppc.org/zh/pppyw/4762.jhtml>. Accessed March 14, 2017.

²²⁷ Ministry of Finance, effective on December 30, 2016, http://jrs.mof.gov.cn/zhengwuxinxi/zhengcefabu/201701/t20170109_2517068.html. Accessed March 15, 2017.

²²⁸ Ministry of Finance, effective on June 8, 2016.

(Cai Jin [2016] No.90).²²⁹ The responsibility of the NDRC is recognized as infrastructure, including energy, transport, water, environment protection, agriculture, forestry and significant municipal engineering. The MOF is responsible for public service, including education, science and technology, culture, sports, health care, senior care, and tourism. In the same year, according to the *Notice of the General Office of the State Council on Establishing the Leading Group for Reforming the Government Purchase Service* (Guo Ban Fa [2016] No. 48), a Leading Group was set up to lead PPP policy work in the MOF, with the Vice Premier of the State Council as the group leader and the Minister of Finance as the vice group leader.²³⁰

5.2.2 PPP Policies in Beijing

According to the project database of the China PPP Center, by the end of 2016, Beijing had eighty nine PPP projects, with an investment of RMB 245.62 billion (around US \$35.39 billion).²³¹ In Beijing, PPP projects cover municipal engineering, environment protection and ecological construction, transport, tourism, health care, senior care and culture. Nine are municipal level PPP projects, with the investment amount of RMB 161.09 billion (around US \$23.21 billion), accounting for 65.5% of the total investment. Eighty are district/county level projects, amounting to RMB 84.53 billion (around US \$12.18 billion) and accounting for 34.5% of the total investment. For these projects, thirty six have successfully attracted nongovernmental capital, with an investment of RMB151.8 billion (around US \$21.87 billion). The proportion of nongovernmental

²²⁹ National Development and Reform Commission, effective on August 10, 2016, http://www.sdpc.gov.cn/gzdt/201608/t20160830_816403.html.

Ministry of Finance, effective on October 11, 2016, http://jrs.mof.gov.cn/ppp/zcfbPPP/201610/t20161013_2434849.html. Accessed March 15, 2017.

²³⁰ General Office of the State Council, effective on June 27, 2016, http://www.gov.cn/zhengce/content/2016-06/27/content_5085957.htm. Accessed March 15, 2017.

²³¹ China PPP Center, "Database," <http://www.cpppc.org:8082/efmisweb/ppp/projectLibrary/toPPPMap.do>. Accessed March 14, 2017.

capital for Beijing has reached 40.45%, above the national average level of 26%. Among these thirty six projects, twenty one have obtained capital from private enterprises and mixed-ownership enterprises, accounting for 58%. The corresponding investment amount is RMB 116.2 billion (around US \$16.74 billion), accounting for 76.5%.²³² Moreover, eleven of eighty nine projects have been selected as model PPPs by the MOF, with the amount of RMB 166.97 billion (around US \$24.06 billion).

Beijing follows the national policy mechanism. The Beijing Municipal Financial Bureau (BMFB) and the Beijing Municipal Commission of Development and Reform (BMCDR) are the two agencies managing PPPs. In 2015, the General Office of the People's Government of Beijing Municipality issued the *Implementation Opinions on Generalizing the PPP Mode in the Public Service Field* (Jing Zheng Ban Fa [2015] No. 52).²³³ It lays a foundation for later policy documents by offering support for project land use, credit system construction, and oversight, etc. As a result, the BMFB issued a series of complementary bylaws and rules, including the *PPP Operational Guidelines*, the *Government Purchase Regulations*, and the *Guidelines for Value for Money*. It also published some specific rules for water and health care. Cooperating with the BMCDR, the BMFB also issued documents like the *Notice of Collecting PPP Experts*.²³⁴

The support for PPP development in Beijing can be seen from three perspectives. First, the Beijing municipal government offers financial support, by listing the government investment in the financial budget. In 2016, the BMFB issued *Beijing Promoting Award Fund for Public-Private*

²³² Beijing Commercial Newspaper, "The sign up rate of Beijing PPP projects has gone beyond 40%," January 5, 2017, <http://www.ceweekly.cn/2017/0105/176614.shtml>. Accessed March 25, 2017.

²³³ General Office of the People's Government of Beijing Municipality, effective on November 26, 2015, <http://www.pppcenter.org.cn/zcfg/dfzf/201511/185412ki3.html>. Accessed March 15, 2017.

²³⁴ Beijing Municipal Financial Bureau, and Beijing Municipal Commission of Development and Reform, *Notice of the BMFB and the BMCDR on publicly Collecting Public-Private Partnership Experts* (Jing Cai Jing Er [2016] No. 603), issued on April 18, 2016, <http://www.cpppc.org/zh/pppxmzs/3405.jhtml>. Accessed March 15, 2017.

Partnership Regulations (Jing Cai Jing Er [2016] No. 510). The Fund contained a RMB 15.8 million (around US \$2.27 million) in 2016 and plans to offer RMB 7.2 million (around US \$1.04 million) in 2017 for various PPP projects.²³⁵ For further financing, Beijing actively seeks support from the China PPP Fund and is planning to set up its own PPP fund under the national fund. Second, Beijing has streamlined approval procedures. According to the *Notice of Promoting Supply Side Reform and Measures for Supporting Nongovernmental capital* (Jing Zheng Fa [2016] No. 29), PPP projects without government investment only need to go through an examination and list the project on the record. For projects with governmental investment, steps are also reduced. The project proposal review and feasibility study report are combined.²³⁶ Third, Beijing emphasizes expertise. In order to do so, the BMFB has established the Beijing PPP Promoting Center. It has also formed a linkage between municipal and district level financial agencies, and a coordination mechanism among municipal level government agencies.

5.3 Guidance of PPPs from International Organizations

As indicated by the Getty report, the experiences of pioneering international organizations such as the United Nations Economic Commission for Europe (UNECE), and the World Bank (WB), the Asian Development Bank (ADB), and the Inter-American Development Bank (IDB) in building capacity for promoting PPPs in the developing world are extremely useful. The guidance these organizations provide and the criteria they use to govern their own decisions about funding

²³⁵ Beijing Municipal Financial Bureau, effective on April 7, 2016, <http://www.pppcenter.org.cn/zcfg/dfzf/201604/183110RIK.html>. Accessed March 16, 2017.

²³⁶ People's Government of Beijing Municipality, effective on July 23, 2016, <http://zhengce.beijing.gov.cn/library/192/33/50/48/438659/78678/index.html>. Accessed March 16, 2017.

could be valuable if adapted to an emerging market's contexts.²³⁷

5.3.1 Comparing Guidelines for an Effective PPP Framework

In the tenth session of the Committee on Innovation, Competitiveness and Public-Private Partnerships held from 23rd to 25th May 2016 in Geneva, the UNECE proposed *Draft Guiding Principles on Good Governance in People-First PPPs for the UN Sustainable Development Goals*. This is a revision of the UNECE's *Guidebook on Promoting Good Governance in PPPs* published in 2008. "People-first PPPs" focus on improving the quality of people's life through sustainable public and private sector cooperation.²³⁸ Heritage PPPs match this focus very well since the core of heritage conservation is advancing human development.

Governance is the key aspect for developing an effective framework of PPPs. Based on the UNECE's guidebook, seven principles for promoting good governance are policy, capacity-building, improving legal framework, risk, PPP procurement, putting people first, and the environment.²³⁹ Multilateral development banks including the WB, the ADB, and the IDB indicate that "there is no single 'model' PPP framework."²⁴⁰ But they summarize primary elements as policy, institutional regulation, financial management, program governance and legal framework. Specifically, in *How to Engage with the Private Sector in Public-Private Partnerships in Emerging Markets*, the WB offers a detailed analysis of three key aspects of building an effective PPP framework. In Chapter Three, "Setting the Framework", the WB discusses policy

²³⁷ Macdonald and Cheong, *The Role of Public-Private Partnerships*, 75.

²³⁸ United Nations Economic Commission for Europe (UNECE), *Draft guiding principles on good governance in people-first public-private partnerships for the UN sustainable development goals*, Tenth session Committee on Innovation, Competitiveness and Public-Private Partnerships (Geneva), 8, May 23-25, 2016, http://www.unece.org/fileadmin/DAM/ceci/documents/2016/CECI/ECE_CECI_2016_CRP_1.pdf. Accessed March 16, 2017.

²³⁹ UNECE, *Guidebook on Good Governance*, v.

²⁴⁰ Asian Development Bank (ADB) et al., *Public-Private Partnerships Reference Guide: Version 2.0*, 66.

rationale, implementation framework, and legal and regulatory framework.²⁴¹ These correspond to first three elements mentioned by the UNECE. In Chapter Four “Selecting Projects” and Chapter Five “Financing PPP Projects”, the most important factor is managing risk, which matches the fourth element raised by the UNECE. Fairness and transparency are also vital issues for the fifth component of the UNECE’s guidebook.²⁴² The last two elements proposed by the UNECE are unique.

After examining guidelines for PPPs from both development banks and the UNECE, I find that they share essential factors, even though they employ different verbiage and frameworks to discuss these guidelines. The UNECE’s theory is cutting edge and matches the essence of heritage conservation. Therefore, to review China’s PPP mechanism and Beijing’s context for developing heritage PPPs, I use the UNECE’s principles as major standards and complement them with the WB’s specific guidelines.

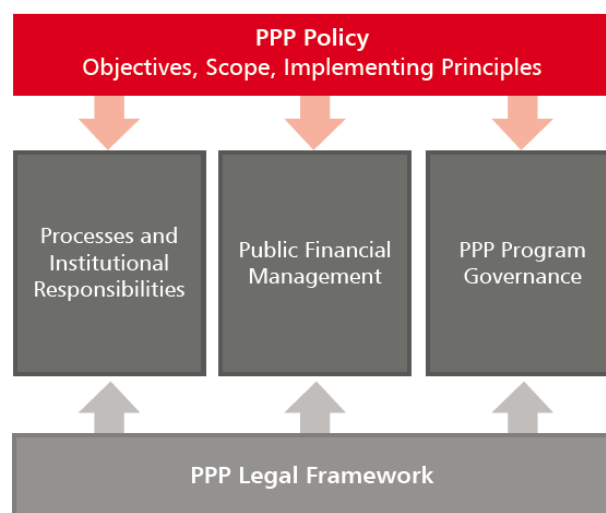


Figure 5.8: PPP Framework Overview

²⁴¹ Edward Farquharson, Clemencia Torres de Mästle, E.R. Yescombe, and Javier Encinas, *How to Engage with the Private Sector in Public-Private Partnerships in Emerging Markets* (Washington, DC: World Bank Public-Private Infrastructure Advisory Facility, 2011), 15-76, <https://library.pppknowledge.org/PPIAF/documents/16>. Accessed March 17, 2017.

²⁴² Ibid.

5.3.2 Review of China and Beijing’s Contexts based on International Principles

As mentioned in Chapter Three, the PPP Market Maturity Curve shows China is in the first stage of developing a PPP framework. In order to gain progress, building good governance is the key. “Governance refers to the processes in government actions and how things are done, not just what is done. It covers the quality of institutions and their effectiveness in translating policy into successful implementation.”²⁴³

Stage One	Stage Two	Stage Three
<ul style="list-style-type: none"> • Define policy framework • Test legal viability • Identify project pipeline • Develop foundation concepts (PSCs etc) • Apply lessons from earliest deals to other sectors • Start to build marketplace 	<ul style="list-style-type: none"> • Introduce legislative reform • Publish policy and practice guidelines • Establish dedicated PPP units • Refine PPP delivery models • Continue to foster marketplace • Expand project pipeline and extend to new sectors • Leverage new sources of funds 	<ul style="list-style-type: none"> • Fully defined, comprehensive “system” established • Legal impediments removed • PPP models refined and reproduced • Sophisticated risk allocation • Committed deal flow • Long-term political consensus • Use of full-range of funding sources • Thriving infrastructure investment market involving pension funds and private equity funds • Well-trained civil service utilises PPP experiences

Figure 5.9: Three Stages of PPP Development

5.3.2.1 Policy

“Principle One – The PPP process requires coherent policies that lay down clear objectives and principles, identifies projects, sets realistic targets and the means of achieving them, with the overall aim of winning the support of the population for the PPP approach.”²⁴⁴

The initiative of developing PPPs is to meet the market demand of infrastructure. This gives

²⁴³ UNECE, *Guidebook on Good Governance*, 13.

²⁴⁴ *Ibid.*, 18.

the Chinese government clear economic objectives. The government also has social objectives for promoting PPPs. In the *2017 Report on the Work of the Government*, Li Keqiang, Premier of the State Council, once again emphasized the purpose of PPPs is to benefit people.²⁴⁵ The issue of PPPs has been included in the *Report on the Work of the Government* for three consecutive years, which is clear evidence of the Chinese government's determination to integrate PPPs into its overall policy. However, there is inadequate care for public opinion and social equity. To further specify Principle One, the WB indicates the policy rationale the private sector expects to see as follows:²⁴⁶

- The public policy rationale for using PPPs;
- The guidelines that the public sector will use to select, prepare, and procure PPP projects in a consistent way;
 - The determination of who approves what and when throughout the process of project selection, preparation, and procurement;
 - The process of resolving disputes (often set out in legislation or in sector regulations, but often—in more detail—in the contract itself);
 - The arrangements for monitoring the contract after it has been signed.

PPP policies in China and Beijing cover almost all of the above aspects. However, consistency and clearance between different policies are not adequate to provide plain guidance. Although issues of who, what and when are regulated in the policy documents of both the MOF and the NDRC, separate execution subjects have already weakened the clarity of these regulations. For example, contracts issued by the MOF and the NDRC respectively are different in operability, and participants. The separate Operational Guidelines issued by the two agencies are also not consistent. For choosing nongovernmental capital, the MOF prefers to employ the *Government Procurement Law of the People's Republic of China (2014 Amendment)*,²⁴⁷ while the NDRC

²⁴⁵ Bokang Ding, "2017 will experience rational and prosperous development of PPPs," <http://business.sohu.com/20170309/n482863811.shtml>. Accessed March 16, 2017.

²⁴⁶ World Bank, *How to engage with the Private sector*, 16.

²⁴⁷ Order No.68 of the President of the People's Republic of China, adopted at the Twenty-eighth meeting of the Standing Committee of the Ninth National People's Congress of the People's Republic of China on June 29,

inclines towards the *Bidding Law of the People's Republic of China*.²⁴⁸ For analyzing the feasibility of a PPP project, the MOF tends to judge based on the method of Value for Money and a project's financial affordability. The NDRC employs feasibility study research to make a decision.²⁴⁹ Moreover, although the process of resolving disputes is mentioned by the MOF in the *Operational Guidelines*, it is briefly summarized as referring to arbitration and civil procedure, rather than a comprehensive system. Similarly, the MOF fails to offer specific procedures for monitoring the contract. The Chinese government has also formulated a model PPP project database to act as examples, but most of them are for infrastructure PPPs. The database is set up mainly from a technical perspective. Sole dependence on it may cause the government to fail in providing clear procedure guidance.

5.3.2.2 Capacity-Building

“Principle Two – Governments can build the necessary capacities in a combined approach which establishes new institutions and trains public officials while at the same time using external expertise.”²⁵⁰

In order to enhance the skills of public officials, the Chinese government set up a PPP-specialized unit, the China PPP Center, and also engaged the private sector consultation for technical, legal and financial skills. According to the WB, a successful PPP unit can understand

2002, effective on January 1, 2003, http://www.npc.gov.cn/wxzl/wxzl/2002-07/10/content_297298.htm. Accessed March 15, 2017.

²⁴⁸ Order No.21 of the President of the People's Republic of China, adopted by the Standing Committee of the Ninth National People's Congress at the Eleventh Session on August 30, 1999, effective on January 1, 2000, http://www.npc.gov.cn/wxzl/gongbao/2000-12/05/content_5004749.htm. Accessed March 15, 2017.

²⁴⁹ Yikan Chen, “How do the MOF and the NDRC Divide Projects worth One Billion?” *China Business News*, October 14, 2016, <http://finance.sina.com.cn/china/gncj/2016-10-14/doc-ifxwvpaq1248378.shtml>. Accessed March 20, 2016.

²⁵⁰ UNECE, *Guidebook on Good Governance*, 23.

both how government processes and administration works and how the market works.²⁵¹ Mainly acting as a technical-support unit under the control of the MOF, the Center is capable of understanding government and administration. Policy research, training, informational statistics, international communications are all aspects the Center covers. But as for understanding the market, staff primarily from the government may not accomplish this task well. As pointed out by the UNECE, “skills can be greatly enhanced by the systematic gathering of PPP case studies.”²⁵² The Center has wisely been doing this work since its establishment in 2014. It aims to support the management of the project preparation process. But work like setting up demonstrative PPP projects is not enough to lead the practice of local governments and private investors.

Aside from the government, the Center has limited connections with players in other sectors. It may have connected with the private sector through holding commercial seminars, but the third sector is almost completely neglected. Experts and consultants are engaged in the review process, but with a much smaller role compared to the government, their function is constrained to judging a PPP project. Public staff in the Center may also lack practical training opportunities since they mainly stay in the office to do required research.

5.3.2.3 Improving Legal and Regulatory Framework

“Principle Three – Investors in PPPs need predictability and security in legal frameworks, which means fewer, simpler and better rules. In addition, the legal framework needs to take account of the beneficiaries and empower them to participate in legal processes, protecting their

²⁵¹ World Bank, *How to Engage with the Private Sector*, 25.

²⁵² UNECE, *People-first PPPs*, 17.

rights and guaranteeing them access in decision-making.”²⁵³

The first critical view of the principle is that “fewer, simpler, and better” are standards for judging a PPP legal framework. Based on the previous review of China’s and Beijing’s PPP policies, it is evident that there is a big gap between the standards and China’s situations. Two systems made by the MOF and the NDRC are the biggest cause for the current situation. For each system, its rules are also complex. Areas like concession, tax, competition, procurement, and company laws directly affect PPP framework.²⁵⁴ It is reasonable that the MOF has formulated related policies, but the match between these policies with those already existing needs to be improved.

The second key aspect of the principle is creating predictability and security in PPP legal framework. A critical point for doing this is investor right protection. Policies assuring the government’s payment responsibility are good examples of the Chinese government’s efforts. Moreover, progress can also be felt in the issue of property rights. In November 2016, the Central Committee of the Communist Party of China and the State Council issued the *Opinions on Better Protection of Property Rights*.²⁵⁵ This is the highest level of guidance about property rights issued so far. It clearly states that China should provide equal protection to public and non-public properties. It also indicates that the government will consider designing the renewal of land rights and offering fair and square compensation to people whose lands were expropriated. In December 2016, the MOF and seven other government agencies issued the *Opinions on Enlarging Domains of Compensated Use of State-Owned Lands* (Guo Tu Zi Gui [2016] No.20). According to this

²⁵³ UNECE, *Guidebook on Good Governance*, 29.

²⁵⁴ *Ibid.*

²⁵⁵ Central Committee of the Communist Party of China, and the State Council, released on November 4, 2016, http://news.xinhuanet.com/politics/2016-11/27/c_1119999035.htm. Accessed March 15, 2017.

document, the central government encourages local governments to engage private investors through leasing land use rights or selling equity.²⁵⁶

The third crucial point indicated by this principle is empowering citizens to use the legal process. “Good governance also means the practice of extending the rule of law to groups who for various reasons do not have access to laws to protect their rights.”²⁵⁷ To improve public participation, China has a long way to go. Sad experiences of heritage conservation in Beijing clearly indicate the absence of public opinions.

Complemented by the WB, the last important aspect is that the balance between flexibility and strictness in legal and regulatory framework is vital to pursue.²⁵⁸ In terms of flexibility and strictness, China’s situation is complex. Judging from the amount of policy documents and areas covered by them, one may believe that China has a strict legal system. However, the fact that some areas are covered repetitively and some are left neglected presents some policy gaps, which allow the existence of unwanted flexibility. Appropriate flexibility which can offset policy gaps is seldom seen in China’s PPP policies.

5.3.2.4 Risk

“Principle Four – PPPs allow risk which is most able to be managed by the private sector, to be transferred to them. However, governments also need to accept their share and help to mitigate those allocated to the private sector in mutual support.”²⁵⁹

The core of this principle is balancing risk allocation. The original intention of PPPs is to

²⁵⁶ Ministry of Finance, National Development and Reform Commission, et al., Article 2.1, effective on December 31, 2016, http://www.mlr.gov.cn/zwgk/zytz/201701/t20170120_1427388.htm. Accessed March 15, 2017.

²⁵⁷ UNECE, *Guidebook on Good Governance*, 32.

²⁵⁸ World Bank, *How to Engage with the Private Sector*, 19.

²⁵⁹ UNECE, *Guidebook on Good Governance*, 36.

transfer all risk from the public to the private sector. But the key to a successful partnership is the government's sober recognition of its responsibility to take some risks. The government needs to assume political risk by itself and it also needs to provide support for the private sector to assume market risk. Over several decades of developing PPPs and with policies initiated since 2014, the Chinese government has shown its resolution to formulate an effective PPP framework. PPP has expanded from into many public service fields, which gives further confidence to the private sector. Importantly, the government has offered financial support. Itemizing government payment into the budget, promoting the securitization of PPP projects, and establishing the China PPP Fund are all positive measures. Support in the form of long-term sustainable financing is the objective that the government should work towards. When this objective is realized, the PPP financing market will mature.

Flexibility is emphasized again in the area of risk allocation by both the UNECE and the WB. The 2008 financial crisis has taught us to be ready to face unknown new challenges. Thus, flexibility design in the PPP system allows for adjustments over the long life cycle of projects.²⁶⁰

5.3.2.5 PPP Procurement

“Principle Five – The selection of the bidder should be undertaken following a transparent, neutral and non-discriminatory selection process that promotes competition and strikes a balance between the need to reduce the length of time and cost of the bid process and, acquiring the best proposal. Along these lines, corruption should be penalized as well.”²⁶¹

The three key words for this principle are transparency, neutrality, and non-discrimination. As

²⁶⁰ UNECE, *People-first PPPs*, 23.

²⁶¹ UNECE, *Guidebook on Good Governance*, 46.

indicated by both the UNECE and the WB, transparency can be achieved by information disclosure. China has issued relevant policies and established the platform to disclose project information, but the information disclosed there is very basic. Updates during the project process are not reflected on the platform in a timely fashion. Important information like supplier evaluations and contract award criteria are not easy to find. Neutrality is mainly realized through independent monitoring systems and domestic tribunals. PPP policies in China already included monitoring and arbitration, but simply and without detailed guidance. The current framework lacks a definite supervision system. Both external and internal monitoring is weak. Non-discrimination refers to fair competition between different types of nongovernmental capital for winning a PPP project contract. Although China has policy support for non-discrimination, penalties for corruption are not clarified in PPP policies.

5.3.2.6 Putting People First

“Principle Six – The PPP process should put people first by increasing accountability and transparency in projects and through these improving people’s livelihoods, especially for the socially and economically disadvantaged.”²⁶²

This principle once again puts emphasis on transparency and accountability. Through policies like information disclosure, the Chinese government is trying to build stronger governmental accountability. It is not a short journey and reform is a gradual process. More patience should be allocated for the government. The scope of PPPs has been enlarged to more public service fields like health care, senior care, education, culture. When heritage conservation is formally included,

²⁶² Ibid., 59.

people-first PPPs will continue the advancement of the maturity of the PPP market.

5.3.2.7 The Environment

“Principle Seven – The PPP process should integrate the principles of sustainable development into PPP projects, by reflecting environmental considerations in the objectives of the project, setting specifications and awarding projects to those bidders who fully match the green criteria.”²⁶³

The principle also shows the advancement of UNECE PPP principles. People first and caring about the environment are not only guidelines for developing effective PPPs, but also provide emerging markets like China a great opportunity to catch up with mature markets. Too much economic growth is occurring at the expense of the environment.²⁶⁴ For existing PPP projects in China, the government has not paid enough attention to the environment. Heritage PPPs offer the government the opportunity to focus on the true needs of people and the environment. With these two elements, the government holds the key to sustainable development. An effective PPP framework will be the natural outcome.

²⁶³ Ibid., 64.

²⁶⁴ UNECE, *People-first PPPs*, 21.

5.4 Opportunities and Challenges for Establishing Heritage PPPs in Beijing

Opportunities	Challenges
A. The big market for PPPs is basically formed and some projects have been tried in the cultural field	A. There is a conflict between heritage conservation and economic development
B. The government actively mitigates risk for the private sector to encourage private investment participation	B. Multi-agency management and complex policies impair the effectiveness of the current system
C. The accountability of the government in promoting PPPs has improved	C. Adaptive reuse is not appropriately and explicitly regulated.
	D. Some key issues of PPPs are inexplicit, including procedures, the mechanism of monitoring and dispute resolution, and the legal framework
	E. Potentiality of the investment from the private sector is not fully tapped
	F. Capacity-building for the public sector needs to be adjusted
	G. People-first ideology does not exist in current urban preservation in Beijing

Figure 5.10: Summary of Opportunities and Challenges

5.4.1 Opportunities

After three years of practice, a preliminary system of PPP policies has been set up. Policy regulations, operational guidelines, contracts and standards are already established.

A. The big market for PPPs is basically formed and some projects have been tried in the cultural field. According to the China PPP Center, by the end of 2016 the MOF PPP database included 11,260 projects, covering eighteen fields: energy, transport, water, ecological construction, environmental protection, municipal engineering, town development, agriculture, forestry, science and technology, affordable housing, tourism, health care, senior care, culture, sports, and social insurance. The total investment amounts to RMB 13.5 trillion (around US \$ 1.95 trillion). Among these projects, PPPs in the cultural field amount to 7.2%. Resource conservation and town development are also related to heritage conservation. PPP projects in these areas have increased, which has laid a foundation for the development of heritage PPPs. Contracts have been signed for 1,351 PPPs at an investment of RMB 2.2 trillion (around US \$317 billion). Moreover,

the MOF has selected 743 PPP model projects. The investment for them is RMB 1.86 trillion (around US \$268 billion). These model projects cover thirty provinces and all eighteen fields.²⁶⁵

B. The government actively mitigates risk for the private sector to encourage private investment participation. The biggest effort has been put into the financing. Listing the government's payment responsibility in the mid-term budget, promoting securitization of PPP projects, and establishing the China PPP Fund are all positive measures which can make the private sector more confident in long-term investment. Investment for government-pay and government-and-market-mixed pay projects has already reached RMB 8.9 trillion (around US \$1,282 billion) accounting for 66% of all PPP projects. This has had a driving effect on nongovernmental capital. According to the Center, the number of projects invested in by private enterprises and foreign corporations accounted for 50% and corresponding investment achieved 45% of the total.

The establishment of RMB 180 billion (around US \$26 billion) in the China PPP Fund in 2016 provided financial support for significant PPP projects.²⁶⁶ It is also testament to creative financial measures. To create this Fund, the MOF cooperated with ten financial and investment organizations like the China CITIC Group, trying to narrow the capital gap of PPPs through long-term equity investment. This Fund aims to act as a driver for attracting other nongovernmental capital, rather than an investment expecting huge rewards. By the end of 2016, the Fund had successfully invested RMB 51.7 billion (around US \$7.4 billion) through direct investment and sub-funds in nine provinces. The total investment is RMB 800 billion (around US

²⁶⁵ China PPP Center, "Database," <http://www.cpppc.org:8082/efmisweb/ppp/projectLibrary/toPPPMap.do>. Accessed March 27, 2017.

²⁶⁶ China News.com, "How does the Guiding Fund guide PPs?" March 8, 2017, http://www.cpppf.org/content/details_24_394.html. Accessed March 27, 2017.

\$115 billion). Project fields include culture and town development.²⁶⁷

The issue of property rights has also been addressed. The central government has promised to provide equal protection to public and non-public properties. It also encourages local governments to engage in private investment through leasing land use rights or selling equity.

C. The accountability of the government in promoting PPPs has improved. First, the issue of PPPs has been included in the *Report on the Work of the Government* for three consecutive years. The enlargement of PPP employment from traditional infrastructure fields to many public service fields including culture has further increased the confidence of the private sector. These are all signals of PPP policy stability. Second, the government strives to provide a platform for fair competition among state-owned, private, and foreign enterprises. Third, to a certain extent, the information disclosure system has improved the transparency of project implementation and also spread opportunities for private sector participation. In the *Notice of Issuing Interim Measures of Information Disclosure on Public-Private Partnership Comprehensive Information Platform* (Cai Jin [2017] No.1), the disclosure content, channels and oversight method of PPP projects have been clarified.²⁶⁸

5.4.2 Challenges

A. There is a conflict existing between heritage conservation and economic development. Prioritizing economic development can destroy historic resources. It cannot be denied that the Beijing 2008 Olympic Games caused the government to use the HD designation to create a better image. However, after designating areas within HDs which could not be destroyed, the

²⁶⁷ Ibid.

²⁶⁸ Ministry of Finance, effective on March 1, 2017, http://jrs.mof.gov.cn/zhengwuxinxi/zhengcefabu/201701/t20170124_2526998.html. Accessed March 16, 2017.

government demolished old residential houses outside HDs. Also, profit maximization drove the government to come up with other strategies to deal with historic resources, through either restoration, or reconstruction imitating historic styles. Therefore, HD boundaries only served as a dividing line for seemingly different strategies, but led to similar results; demolishing traditional houses to advance economic development.

B. Multi-agency management and complex policies impair the effectiveness of the current system. For PPPs, at the national level, co-administration by two government agencies, the MOF and the NDRC, can easily cause problems in PPP management. Infrastructure fields mainly administered by the NDRC and public service fields primarily managed by the MOF have many overlaps. Moreover, policies issued by the MOF for PPP related areas like taxes, concessions, and company laws have inconsistency with original laws issued in those areas. At the local level, the BMFB and the BMCDR also together manage PPP implementation in Beijing.

In Beijing, functional fragmentation caused by multiple agencies severely jeopardizes the effective process of urban preservation. The fragmentation has caused two serious problems. One is turf wars between agencies for good resources. Even though each agency has its own power jurisdiction, the boundaries between them are disputable. Moreover, heritage buildings, sites and HDs are all concepts connected to many aspects and it is hard to divide them completely. For example, a heritage site managed by the BMACH unavoidably refers to the land policy and property issue, which fall under the jurisdiction of the BMCLR and the BMCHURD. HDs have more complex situations, which may refer to all five agencies. Under such circumstances, different agencies tend to compete for larger management power over a valuable heritage site, especially within a HD. The decision and implementation processes will be seriously delayed.

Aside from municipal level multiple agencies, competing for economic interest also happens between the district government and sub-district government agencies. But none of them care about solving the problem of the area. Having extra ineffective agencies can only add complications.

Another problem is that this multi-agency system also creates blank areas of policy making. When new issues about cultural heritage emerge, specific stipulations of agency power fail to create a flexible system to consider them. This is exactly what happens to HDs in the Old City area in Beijing. Although Beijing already has HD preservation plans, the concrete implementation procedures are absent. The BMCLR is only responsible for making the plans, not implementing them. The BMCHURD's jurisdiction is about demolition and construction while the BMCDR takes responsibility of overseeing the allocation of land and funds. The BMACH and the BMBLF cannot engage in the urban preservation practice if there are no monumental buildings or green space in a HD. In this way, no agency is responsible for comprehensive urban preservation. This power vacuum makes the district governments, whose priority is to make profits through real estate development, become real decision makers. This issue is the direct cause of the sad result of the disappearance of Old Beijing, the invaluable resource that far beyond short-term economic values.

The multi-agency mechanism also lacks flexibility to tackle new challenges in a timely fashion. For instance, commercial activities in HDs were a new issue in Beijing when bars first emerged in Shichahai in 2003. Back in that time, there was a vacuum of policy that could not regulate this new issue. No regulations give the district government a chance to act based on its will.

C. As the core of heritage PPPs, adaptive reuse is not appropriately and explicitly regulated. This condition will severely affect the development of heritage PPPs. For policy documents briefly mentioning heritage reuse, their narrow domain absolutely cannot apply to various heritage sites and meet the demands of societal and economic development.

D. Although many regulations and rules have been issued, some key aspects are still inexplicit. One aspect is about procedures for PPP projects. Since policies are distributed among a large volume of documents issued by different governmental agencies, it is hard for an operating entity to master all these policies. Policy complexity contributes to project development stagnation. Despite the fact that a PPP project has five major steps, many projects remain stuck in the first step. For example, the project of the Doudian Passenger Station was initiated as early as January 2015, but until now is still in the first stage, recognition.

Another aspect is about the mechanism of monitoring and dispute resolution. Some policy documents only briefly cover them. But the government has not made much progress in formulating a comprehensive system. Much of the government's attention has still been placed on attracting nongovernmental capital. Moreover, an effective PPP legal framework has not been built. The government has just taken some initial steps like issuing the consultation paper for PPP laws.

E. Potentiality of the investment from the private sector is not fully tapped. One important reason is that the mutual trust between the public and the private sector has not been fully constructed. One major contributor is inadequate information disclosure. Although the government has disclosed some basic project information, key information like supplier evaluation and contract award criteria are not open.

For heritage conservation, another vital reason for failing to attract nongovernmental capital is the unbalanced condition between conservation responsibility and the government's support. The private sector needs to assume a large responsibility in conserving a heritage site and suffer many use imitations while the government provides little financial and technical support. Accordingly, huge risk and little rewards drive away possible private investment.

F. Capacity-building for the public sector needs to be adjusted. The China PPP Center, the PPP-specified unit, takes the major responsibility for public sector capacity building. However, its staff is mainly from the MOF. Without adequate participation of experts from the private and third sectors, incomprehension of market in different fields easily happens. Especially for heritage conservation, professionals are necessary to offer valuable information. Setting up a demonstrative case database is useful. But too much dependence on it and failing to provide clear and direct operational guidance are not effective for building capacity for all sectors. Moreover, cooperating with the third sector is almost neglected by the Center. Such capacity-building is not comprehensive. The Center staff also seldom employs the method of "learning by doing" through participating in projects. Mainly using a research approach further confines their understanding of the real market.

G. It is a pity that people-first ideology does not exist in current urban preservation in Beijing. The district government, the real decision maker in a HD "preservation" plan, primarily used three criteria to choose a proposal: creating a good image, making the district government's efforts more visible, which links to their promotion, and increasing rents of the land which brings revenues in a short period.²⁶⁹ Qianmen and Shichahai areas are representative HDs in displaying

²⁶⁹ Yue Zhang, "Beijing Bureaucratic anarchy and symbolic preservation," 48.

their philosophy. For the Qianmen HD, the district government invested in building two new roads, which cut through the HD and sacrificed many residential houses in their vicinity. The rise in rent caused commercial gentrification. Old restaurants and markets left the area. This project also led to “the displacement of 12,000 families, which accounts for more than sixty percent of the total population displaced in that period.”²⁷⁰ Experts’ opinions have been consulted, but they are just window dressing to increase the legitimacy of the project, rather than being adopted in final decision making. For the Shichahai HD, the district government “encourages the growth of bars without regulations on their number and quality.”²⁷¹ It even replaced the old street market with the new Lotus Lane to facilitate the increase of bars. These activities directly speeded up the commodification of the Shichahai area. The proposal of the district government not only caused gentrification, but also brought about associated problems like the loss of public space, the noise of bars and increasing traffic jams caused by Hutong tours.²⁷²

²⁷⁰ Ibid., 52.

²⁷¹ Ibid., 57.

²⁷² Ibid., 60.

Chapter 6 Recommendations

According to the analysis in the previous chapters, developing an effective framework of heritage PPPs for conserving urban heritage sites in Beijing is feasible. The efforts made by the three sectors have created opportunities. However, numerous challenges presented call for solutions. Based on the findings through policy reviews and case studies, a series of policy-related and research-based recommendations are offered as follows.

Policy-Related Recommendations	Research-Based Recommendations
A. Combining Heritage Conservation with Economic Development	<div style="background-color: #4a86e8; color: white; padding: 5px; border-radius: 5px;">For Public Sector</div> <ul style="list-style-type: none"> • Clarifying Criteria for Appropriate Adaptive Reuse • Tackling the Issue of Property Rights to Mitigate Major Legal Risk • Always Showing the Government's Support for Other Sectors' Work • Cultivating a Healthy Media Environment and Conducting Public Education
B. Centralizing Power, Simplifying Procedures, and Increasing Flexibility	
C. Strengthening Capacity-Building	
D. Formulating Comprehensive Mechanism of Monitoring and Dispute Resolution	
E. Targeting Heritage PPPs at Sustainable Development	<div style="background-color: #4a86e8; color: white; padding: 5px; border-radius: 5px;">For Private and Third Sectors</div> <ul style="list-style-type: none"> • Providing Creative Input to Heritage PPPs • Actively Involving in Heritage PPPs
F. Taking Measures to Fully Tap the Potentiality of the Private Sector	

Figure 6.1: Summary of Recommendations

6.1 Policy-Related Recommendations

A. Combining Heritage Conservation with Economic Development

To function well in realizing a harmonious relationship between heritage conservation and economic development, heritage PPPs need institutional support at first. The government can

begin offering such support by constructing a new evaluation system for official promotion. A series of criteria, like improving living conditions of older neighborhoods, providing affordable housing, engaging public opinion, and caring about sustainable development, is useful for leading officials to do the right work. Old standards for choosing project proposals, like easy and quick, creating good images, making the government's work visible, and generating short-term revenue at the sacrifice of historic resources, should be totally abandoned. Meanwhile, wrongdoings like setting up real estate companies in any forms, causing new social problems such as forced migration to other areas, solely focusing on tourism development, and selecting a project based on personal connections to the government should be prohibited. If violated, officials should receive serious punishment. The internal and external monitoring system should play a role here to assure the implementation of the punishment.

The next step is to create heritage PPP model projects. It is important for each district government in Beijing to set up at least one heritage PPP project to demonstrate a sustainable way of conserving heritage and simultaneously creating economic values. If combined with town revitalization, it is highly possible that heritage PPPs can contribute to income growth, employment creation, poverty reduction, and overall economic advances as suggested by the ADB.²⁷³ Among different reuse modes, providing workplaces for creative industries and traditional craftsmanship are easy to realize and valuable for preserving intangible cultural heritage. Successful demonstrations are also beneficial for cultivating tourists' appreciation for heritage. Tourists will gradually lose interest in historic pastiche sites. Thus, the tourist demand can incentivize the generation of more successful heritage PPPs.

²⁷³ Steinberg, "Revitalization of Historic Inner-City Areas in Asia," 46.

B. Centralizing Power, Simplifying Procedures, and Increasing Flexibility

Centralizing Power

Infrastructure and public service are difficult to separate, so the power of general management for all PPP projects should be centralized in a single agency. Since the Ministry of Finance (MOF) has the uppermost responsibility recognized by the central government, it can be the leading department for general PPP work. All general guidelines and standard contracts issued by it should act as authoritative policies to follow. The MOF's cooperation with other agencies like the National Development and Reform Commission (NDRC) and the People's Bank of China should serve as complementary support, rather than creating policy overlaps. The specific representative of the government in a PPP project can be the functional department in the field. For heritage PPPs in Beijing, the Beijing Municipal Administration of Cultural Heritage (BMACH) can be the major player.

Five bureaucracies at the municipal level in Beijing only take responsibility for one or several related aspects of cultural heritage preservation. None of them have the full power to manage preservation issues. I suggest setting up a new government agency to take full responsibility. An alternative would be to empower the BMACH with full responsibility. It has the closest connection to preservation issues compared with the other four agencies. At the same time, a corresponding adjustment of responsibilities of the other four bureaucracies should occur to ensure the effective implementation of the improved governance framework. Due to their strong economic-benefit-first principle, agencies like the Beijing Municipal Commission of Land and Resources (BMCLR), the Beijing Municipal Commission of Housing and Urban-Rural Development (BMCHURD) and the Beijing Municipal Commission of Development and Reform

(BMCDR) should only be empowered in a limited way to manage heritage PPPs. Necessary integration of different jurisdictions will need to be implemented.

The power distribution between the three tiers of local administration, the municipal government, district government and sub-district government, should be cautiously designed. The operational power should be left to the district or sub-district government. But the municipal government must play a strong and effective role of oversight. The higher level of government should have the veto power for misconduct of the lower level of government. If necessary, simplification of agency levels through combining district and sub-district governments can be considered.

Simplifying Procedures

Once an issue has been covered by the MOF, no repetitive regulations should be issued. Combining and simplifying overlapping documents should be implemented to offer a simpler guidance for the private sector. For example, the concept of concession proposed in the *Measures for the Administration of Concession for Infrastructure and Public Utilities*²⁷⁴ should be clarified with the concept of PPPs. The Beijing government has placed emphasis on streamlining unnecessary approval procedures for PPP projects. But some crucial aspects like land use should be given more consideration.

Increasing Flexibility

Due to the fast rate of changes in society, emerging new demands in the public service and infrastructure fields, and the long-term nature of PPP projects, all partners should be flexible in

²⁷⁴ National Development and Reform Commission, Ministry of Finance, Ministry of Housing and Urban-Rural Development, Ministry of Transport, Ministry of Water Resources, and People's Bank of China, promulgated by order No. 25, effective on June 1, 2016, http://www.sdpc.gov.cn/zcfb/zcfbl/201504/t20150427_689396.html. Accessed March 17, 2017.

their roles and responsibilities. Often as the leading sector, the government should formulate policies with sufficient flexibility to tackle challenges. To achieve the balance between flexibility and strictness, empowering the highest level of authority to a single entity, like the MOF, is a possible method. When new challenges happen, the MOF has the authority to address them and issue new policies if necessary. During the temporary period that adjustments are formulated, the MOF should act as the only agency to manage new situations. In this way, there would be minimal policy gaps. For minor changes, adjustments to current policies are enough. For significant alterations, new policy documents are needed. The MOF is the agency responsible for the flexibility of general PPP policy. For the heritage field, a specific agency like the BMACH should be empowered to have flexibility to address changes. Balancing authenticity issues with market forces and demands is the bottom line for heritage administration to provide appropriate flexibility in policy making.

Generic regulation as opposed to sector-specific rules is preferred by the private sector.²⁷⁵ Operational guidelines and standard contracts are necessary for clear guidance while discretion for sector-specific rules or adjustments for contracts should be left to specific agencies. For heritage PPPs in Beijing, the MOF and the Beijing Municipal Financial Bureau (BMFB) provide general guidelines, the BMACH should accommodate detailed adjustments for project design and implementation. In this way, the general legislation could guarantee policy predictability while sector specific rules would provide proper flexibility.

²⁷⁵ UNECE, *Guidebook on Good Governance*, 30.

C. Strengthening Capacity-Building

To realize this, the work of the China PPP Center should be improved from several aspects. First, external experts from the private and third sectors should be actively engaged in the project management system. The government should further develop various channels that can create a close connection with these two sectors. The third sector plays an increasingly important role in realizing people-first heritage PPPs. Having frequent dialogues with third sector experts should be formulated as a mechanism. Second, setting up a more independent review process is necessary for promising the effectiveness and fairness of heritage PPPs. Experts should be offered sufficient discretion for project review. Third, as commonly agreed to by the UNECE and the WB, “learning by doing” is the best solution for PPP education. Public officials working for the Center should be sent to specific projects and work together with the private sector. For heritage PPPs, this action may be the fastest way to establish a mutual understanding between the public, private and third sectors.

D. Formulating a Comprehensive Mechanism for Monitoring and Dispute Resolution

A method for multi-tiered dispute resolution can be considered. Conciliation through mediation, and expert consultation should be added as alternative choices. Arbitration should be considered as the last resort, rather than the only approach.

Monitoring is a key part in maintaining the quality of a PPP project. More detailed procedures should be considered by the MOF. The China PPP Center can set up a specific division for monitoring. Specifically, for internal supervision, the agencies responsible for general

management should monitor specific work at the same level. A higher level of functional agency should monitor the relevant work of the lower level agency. The MOF has the highest level of supervision within the government system. The functional department should also supervise the quality of the service and product offered by other partners. For example, for a PPP implemented at a municipal level heritage site in Beijing, the BMACH's work should be monitored by both the State Administration of Cultural Heritage (SACH) and the BMFB. The MOF should monitor the SACH and the BMFB. At the same time, the BMACH should monitor the conservation work of the private and/or third sector and make sure the adaptive reuse complying with relevant policy. For external supervision, consulting firms from the third sector can play a role. The MOF can set up a database for sharing the degree of accountability of these organizations. This database would provide a reference for different level of governments when they intend to cooperate with a consulting organization. With the maturity of the market, external monitoring organizations can work independently to monitor government agencies.

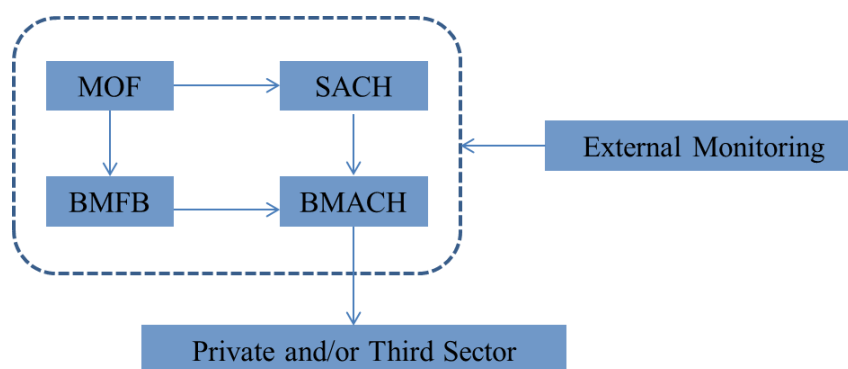


Figure 6.2: Suggested Internal and External Monitoring

E. Targeting Heritage PPPs at Sustainable Development

The development of heritage PPPs involves concepts of “putting people first” and conserving the environment. It is, therefore, a tool for sustainable development. Bearing consistent meanings with these two notions, heritage PPPs can not only act as a model field for PPP application, but also can help China to catch up with mature markets in terms of sustainability.

In order to realize a “people-first” ideology, it is important for heritage PPPs to engage public participation. This is an issue China does not address very well. Some people criticize that the public sector in China is a synonym for the government. Heritage PPPs provide a good opportunity to improve this situation. Heritage sites are usually located in urban neighborhoods and the surrounding communities are the most direct stakeholders. Thus, consulting public opinion, especially ideas from those stakeholders, should be established as a standard procedure, which is beneficial for project development. Communities may raise wise reuse proposals and indicate how to execute projects so that they positively affect the community’s life. Typical concerns of the public can be clearly recognized through channels like public hearings. Another important factor for promoting “people-first” heritage PPPs is mitigating the negative effect of gentrification as seen by historic district development in Beijing. Providing affordable housing and making it part of the evaluation system for local officials can be an effective tool. Future work analyzing Beijing’s financial market is necessary for developing further policy suggestions. With efforts to promote “people-first” concepts, heritage PPPs can act as a good demonstration for caring about social equity.

For environmental conservation, the government should integrate green criteria in project selection. Retrofitting and reuse of historic buildings has proven to be energy-saving and

environmentally friendly.²⁷⁶ Thus, promoting green criteria is applicable to heritage PPP projects. Contracts should not only contain clauses respecting historic value, but also environmental factors. Moreover, traditional building techniques that are ecologically friendly can be applied to improve old neighborhoods or develop new buildings. Therefore, through reviving these techniques, heritage PPPs are helpful in creating a new market for the private sector. Green Bonds are another tool worth developing. It is a type of corporate bond which provides funding for projects aiming at positively affect the environment and climate change.²⁷⁷ In this way, it can provide financing for supporting sustainable development. This is also an important step to develop a healthy long-term capital market. China issued two relevant policies, the *Notice of the General Office of the National Development and Reform Commission on Issuing the Guidelines for the Issuance of Green Bonds* (Fa Gai Ban Cai Jin [2015] No. 3504)²⁷⁸ and the *Catalogue for Green Bonds Supporting Projects*.²⁷⁹ Heritage PPPs can fall into categories of clean energy and ecological protection. Lending the money financed by Green Bonds to support heritage PPPs is a possible channel to enlarge financing sources and the influence of heritage PPPs.

F. Taking Measures to Fully Tap the Potentiality of the Private Sector

In order to achieve this goal, the government should consider alleviating the market risk assumed by the private sector mainly through offering financial support and control of land

²⁷⁶ Anthony G. Bigio, Rana Amirtahmasebi, and Guido Licciardi, *Culture Counts : Partnership Activities of the World Bank and Italian Development Cooperation on Cultural Heritage and Sustainable Development – Report* (Washington, DC: The World Bank, July 1, 2013), 40, <http://documents.worldbank.org/curated/en/180971468163171229/Culture-counts-partnership-activities-of-the-World-Bank-and-Italian-Development-Cooperation-on-cultural-heritage-and-sustainable-development-report>. Accessed March 18, 2017.

²⁷⁷ The National Development and Reform Commission, *Notice of the General Office of the National Development and Reform Commission on Issuing the Guidelines for the Issuance of Green Bonds*, effective on December 31, 2015, http://www.ndrc.gov.cn/gzdt/201601/t20160108_770926.html. Accessed March 18, 2017.

²⁷⁸ Ibid.

²⁷⁹ Green Finance Committee, China Society for Finance & Banking, issued on December 22, 2015, <http://www.szse.cn/UpFiles/largepdf/20160422160911.pdf>. Accessed March 18, 2017.

speculation, cultivating appropriate expectations of the private sector, and providing information disclosure.

As for managing risk allocation, a wise guidance comes from the UNECE. The government should “shift the focus from a negotiated allocation of risks between the parties versus a shared analysis of the intrinsic resilience of a project to deliver and meet its ‘goals’.”²⁸⁰ I strongly suggest the Chinese and Beijing government use it as the highest guidance.

Financial support from the government can be further improved by developing a comprehensive financial system. The positive outcome is receiving more trust from the private sector. Traditional instruments including subsidies, debt, tax exemptions, and guarantees should continue to be used. However, due to the mismatch between short-term bank debt or trust funds and the financing need of long-term projects, depending on traditional tools only is problematic. More creative instruments are worth testing. First, equity participation can not only offer active public involvement, but also help achieve a more favorable ratio between equity and debt.²⁸¹ The joint-venture structure can be widely employed for heritage PPPs. The ratio of the private capital should be increased since it can provide the private sector greater reward opportunity. Most existing joint-venture companies managing national heritage sites are mainly controlled by the government and state-owned enterprises, while private capital only holds a small share of capital. Second, securitization of heritage PPPs should be considered since it is a channel to engage more extensive private participation. Financial tools like structural financing and mezzanine financing are also worth trying. Third, Beijing can set up sub-funds under the China PPP fund in heritage area to support heritage PPP development. Last, the Beijing government should strengthen

²⁸⁰ UNECE, *People-first PPPs*, 24.

²⁸¹ UNECE, *Guidebook on Good Governance*, 41.

cooperation with multilateral development banks like the WB and the ADB. Their experience and rich financial tools can facilitate financing heritage PPPs in China. When the market become more mature, it is possible for the government to seek financial assistance from other types of banks in China.

Aside from developing financial mechanism, managing relevant risk is important. Land price increases resulting from the retention of land outside the market is a risk driving away private investments.²⁸² Measures like zoning or administrative control of the land prices can be effective in mitigating the risk and encouraging private investments.

It is critical to cultivate the demand side of the heritage PPP market. After a period of high-speed economic development, many private corporations in China have accumulated sufficient wealth. Some of them are seeking new markets in which to invest. Under such circumstances, it is reasonable to motivate nongovernmental capital to have multiple objectives like exerting social impact, rather than solely focusing on profit maximization. The more private investors accept this new philosophy, the more nongovernmental capital will be ready for use. It is important to make the private sector realize that heritage PPPs can bring it reasonable to plenty of financial returns through cultural real estate development or adaptive reuse mode. Social impact and brand marketing can also indirectly lead to profit making or value adding. Other potential benefits include obtaining new profitable opportunities in other markets through establishing a good relationship with the government. One valuable tool worth learning is Transfer of Development Rights (TDRs), which is a zoning technique used to permanently protect cultural resources by redirecting development that would otherwise occur on these resource lands to areas

²⁸² Eduardo Rojas, "Revitalization of Historic Cities with Private Sector Involvement: Lessons from Latin America," in *Historic Cities and Sacred Sites Cultural Roots for Urban Futures*, edited by Ismail Serageldin, Ephim Shluger, and Joan Martin-Brown (Washington, DC: World Bank, 2001), 398.

planned to accommodate growth and development.²⁸³ Since TDRs can provide the private sector other development opportunities, this tool can be a good incentive.

Fully tapping nongovernmental capital is greatly dependent on the private sector's trust for the government. Information transparency contributes to such trust building. Some improvements for information disclosure can be considered. First, criteria about supplier evaluation and selection should be stated clearly and be easy to find. Individual heritage PPP opportunities should be announced openly and available to all interested parties. Second, the balance between information disclosure and commercial secrecy should be realized. The evaluation standard can not be undermining the commercial interest of the private sector and at the same time it should protect all stakeholders.²⁸⁴ Last, corruption can easily impair fair completion among different types of nongovernmental capital. Heavy penalties can act as effective control measures.

6.2 Research-Based Recommendations

6.2.1 Recommendations for the Public Sector

A. Clarifying Criteria for Appropriate Adaptive Reuse

It is necessary for the government to clarify criteria for appropriate adaptive reuse as soon as possible. This is the basic guidance for the work of the private or third sector and it is also useful to alleviate its risk in addressing a heritage site. Based on the case of the Zhizhu Temple complex, the pilot heritage PPP project discussed in Chapter Four, I recommend that the criteria of appropriate reuse of a heritage site as follows.

²⁸³ Conservation Tools. Org., "Transfer of Development Rights," <http://conservationtools.org/guides/12-transfer-of-development-rights>. Accessed April 3, 2017.

²⁸⁴ UNECE, *People-first PPPs*, 18.

The basic ideology should be treating heritage preservation as the top priority. Other considerations like economic development should be viewed as secondary. In other words, heritage conservation standards cannot be sacrificed for short-term profit. Although it is necessary that the private sector should design reuse methods to create sustainable economic rewards, maximization of economic interest is not the aim of heritage PPPs. The major goal of employing valuable heritage resources as unique assets is to create adequate rewards to support future maintenance and rehabilitation work. However, maintaining heritage resources in good condition can create substantial financial returns, even much better than expectations.

Reasonable rehabilitation is the foundation of the following steps. The case shows that “restore as in the past” and maintaining major historical layers are rational measures. The rule of “restore as in the past” requires conserving the complete structure of a heritage site. Different from facadism and refurbishment, which partly or totally employ new materials and try to imitate original historic architecture through contemporary technologies, this method respectfully preserves the whole building, from external appearance to internal structure. Such a process can not only save original materials but also revive traditional building craftsmanship. Full conservation of major historic layers is a good method of respecting history and presenting authenticity. Moreover, presenting diverse historic layers in the same complex can also create a charming environment for people to feel the wonderful braid of space and time. Arbitrary choices of historic layers without consulting experts should not be allowed for a heritage PPP.

Appropriate reuse strategies should aim at incorporating the architecture into current living environments and promise continuous economic return. The reuse method should be connected with the historic meanings of the property. Specific parts that mainly keep aesthetic and historic

values should be kept as a public good and little change should be made. As for other areas like an addition that has no direct relationship with the core value of cultural heritage, its new function can be a commercial and creative one. Bold ideas can be used here as long as they are harmonious with the function of the entire property. For reuse selection, English Heritage, a renowned third sector organization in the heritage field, provides good guidance. Uses should be “demand-led, rather than purely heritage driven -- residential, retail, leisure, hotel, educational, cultural, workshop, community, office and storage uses are all components of successful reuse in heritage case studies”.²⁸⁵ At the same time, heritage buildings may have some structural limitations like ceiling heights.²⁸⁶ In order to preserve the structural integrity of heritage buildings with a high level of significance, it is not appropriate to modify them in a large way in order to cater to certain reuse purposes.

The foundation of heritage PPPs is continuous conservation. Rather than just completing a common scope of work, a heritage PPP project is a long-lasting process. Even if the quality of the work looks good after immediate completion, it will decline over years. Cultural heritage is the core of a project. Continuous conservation is not only a demonstration of responsible attitudes by the private or third sector but also a necessity for creating economic benefits to sustain the project.

B. Tackling the Issue of Property Rights to Mitigate Major Legal Risk

The issue of property rights closely relates to security considerations of the private sector. Since there is little possibility for the government to change the condition of land ownership in China, policy reforms can be considered primarily for structures on land. Ongoing reform for

²⁸⁵ English Heritage et al., *Heritage Works*, 27.

²⁸⁶ *Ibid.*

clarifying specific rights of buildings on a site should be conducted. Heritage PPPs provide an excellent opportunity for the government to test separation of ownership and use rights between different sectors. Through increasing mutual understanding of value systems among different sectors and transferring partial rights originally monopolized by the government to them, a well-constructed and executed heritage PPP can resolve the ambiguity about property rights. For urban heritage sites, property rights should be addressed according to various economic and non-economic values, and the degree of being public or private goods. Thus, PPPs can not only act as an effective tool to address urgent problems like development pressure brought by urbanization, budgetary constraints and inappropriate reuse, but also assume a bigger mission to act as a driver for formulating new policies of property rights.

Besides following the general rule of exploring appropriate separation of a series of property rights, there are two other specific measures the government can consider taking. One is about owner or lessee selection. Although owned by the public sector, many heritage sites are not directly managed or are even ignored by the government due to various reasons like budget and significance. For them, the government should actively use heritage PPPs to transfer relevant rights to potential lessees or even owners. Appropriate choices are those that have both economic power and willingness to conserve and reuse the site. This method can avoid many potential problems such as those encountered by the three partners in the case of the Zhizhu Temple complex. Another measure would be offering enough discretion for decision making to the real player. For heritage sites that are owned by the government or others as shown in the case, the government should promise the private or third sector that engaged in a heritage PPP to have sufficient discretion for selecting adaptive reuse modes as long as the decision complies with the

criteria. Nominal owners like the Buddhist Association of Beijing should not generate barriers. To support appropriate reuse, flexibility is allowed when conflicts with previous regulations emerge.

C. Always Showing the Government's Support for Other Sectors' Work

No matter who has ownership over a site, support from the government is a prerequisite for the implementation of a heritage PPP. Recognition of this principle assures the success of the case of the Nottingham Lace Market. Support can be presented in different forms depending on the site significance. Active support includes providing financial assistance to stakeholders in other sectors and directing funds toward upgrading surrounding infrastructure. When the government does not have a major role in a project, its support can be shown through providing effective supervision, and streamlining the approval process to encourage the practice. For the government, not playing a role in a heritage PPP project is unacceptable.

D. Cultivating a Healthy Media Environment and Conducting Public Education

As a novel thing, the development of heritage PPPs is easily discouraged by public misunderstanding. Thus, it is necessary for the government to inform the general public of facts about heritage PPPs. The most common confusion between a PPP and privatization should be clarified at the very beginning. It is also essential to regulate the media environment to insure the coverage is reported to reflect the truth rather than just acting as sensationalist tools. Moreover, if employed effectively, the official media can become a good tool to promote a heritage site and brand a city.

6.2.2 Recommendations for the Private and Third Sectors

A. Providing Creative Input to Heritage PPPs

Vitality of the private and third sectors derives from their understanding of the market. Based on the expertise, they can raise creative adaptive reuse strategies as shown in the case of the Sydney Harbor YHA. Those strategies are valuable in both solving tough problems for conservation and producing impressive economic returns. Areas like conservation techniques, interpretation approaches, promotion, and local community engagement are all possible for providing new thinking. The private and third sector should try their best to present creativity. It is the best assurance for their investment return and the greatest contribution they can provide for heritage conservation.

B. Actively Participating in Heritage PPPs

Nongovernmental agencies are characterized as being dynamic, flexible, and better engaged with a greater diversity of interests and communities.²⁸⁷ As an emerging sector in Beijing, the third sector can receive fast development by acting as an effective catalyst for the cooperation between different partners in heritage PPP projects. Engaging with a project facilitates the third sector to achieve its general goal of promoting civil society and specific goal of heritage conservation. At the initial state of developing PPP markets, both the Chinese and Beijing government have a willingness to enhance their credibility through engaging third sector participation. Based on this encouraging environment, the third sector can contribute to a heritage PPP through many channels. It can help disseminate policy information and take the role of

²⁸⁷ Mike Raco, and Katherine Gilliam, "Geographies of Abstraction, Urban Entrepreneurialism, and the Production of New Cultural Spaces: The West Kowloon Cultural District, Hong Kong," *Environment and Planning A* 44, no. 6 (June 1, 2012): 1436, doi:10.1068/a44411.

monitoring a project. It also can be directly involved in designing and implementing a heritage PPP or even take the leading role as the foundation did in the case of Rancho Los Alamitos.

6.3 Conclusion

Through the literature review, case studies, and policy reviews whose findings are summarized in the previous chapters, my thesis has demonstrated that heritage PPPs can, and should play a big role in conserving urban heritage sites in Beijing. If the policy and research recommendations presented in this chapter are properly addressed, heritage PPPs will serve as an effective tool to solve the seeming dichotomy between heritage conservation and economic development. Policies assuming a more integrated and multidisciplinary approach facilitate the presentation of the fact that urban heritage sites, as value-added catalysts, can enhance and even lead economic growth. Economic progress in return subsidizes cultural revival.

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