

## **‘Entrepreneurial’ Local State:** *The implications of Beijing’s shifting emphasis on urban redevelopment policies*

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## Abstract

The entrepreneurial nature of local government activities has significantly influenced socio-economic and spatial changes in urban China. It was against this backdrop that property-led redevelopment projects were implemented in Beijing since 1990 by a programme whose very success depended on the participation of developers and prospective homebuyers as major financial contributors. By the end of 1999, roughly one-fifth of Beijing's inner city households were directly hit by this programme. In 2000, however, a new redevelopment policy was introduced in Beijing, and has received an increasing policy emphasis since then. This new policy aims at supplying affordable housing on government-provided land so that it increases existing residents' re-housing rate. In this context, this paper aims at analysing the implications of this shifting emphasis on Beijing's urban redevelopment policy to examine if the local government has become less entrepreneurial, thus giving more weight to promoting a more socially inclusive approach. Through a detailed examination of two case studies of inner city redevelopment projects, the paper argues that the entrepreneurial nature of the local state has remained consistent and characterises the revised redevelopment strategy, and that the entrepreneurial state activities are largely supported by the local state power to dispose of urban land use rights, which effectively makes the local state as part of urban rentiers as de facto landlords.

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## **1. Introduction**

The central role of the local state in mainland China has been identified as having implemented market-oriented reform policies, and led the nation's unprecedented economic growth during the reform period. The state-led development has been interpreted by pundits as local state corporatism (Oi, 1995), state entrepreneurialism (Duckett, 1998) or local developmental state (Zhu, 2004b), all focusing on the entrepreneurial nature of local state activities that are geared towards local economic growth. The decentralisation of decision-making power has increased the influence of local governments, and led to the establishment of an entrepreneurial stance of local state activities. Entrepreneurial spirit has captured the nation to such an extent that managers, entrepreneurs and professional groups seem to be more highly appreciated than workers and peasants whose alliance was behind the establishment of the People's Republic (Gittings, 2006). In the real estate sector, the entrepreneurial orientation of government activities has been sometimes interpreted as having formed an informal coalition with land-based interests such as (both domestic and foreign) real estate developers (Fang and Zhang, 2003; Zhu, 1999, 2002). It is argued that the informal coalition has tapped on the expanding property market to extract exchange value by converting urban land into a higher and better use, supported by the institutional reform to the commodification of urban lands.

It is against this backdrop that the urban redevelopment policies are produced and implemented since the early 1990s. Urban redevelopment in Chinese cities has been very much influenced by property-led redevelopment (see for example, He and Wu, 2005), and Beijing has been no exception. Beijing's property-led redevelopment has been facilitated since 1990 by what has been referred to as the Old and Dilapidated Housing Redevelopment Programme (hereafter ODHRP). A municipal survey of housing conditions in Beijing conducted in 1990 revealed that more than one quarter of inner city dwellings required urgent attention due to their structural instability and severe deterioration (Liu, 1991, p.16). The mayor of Beijing gave a speech at the end of April 1990, signalling a major shift in the direction of the city's urban renewal strategy towards a greater adoption of market principles (Beijing Municipal Government, 1990). The particular programme devised thereafter was the ODHRP, and this programme was distinguishable from its preceding renewal strategies by the fact that its very success depended heavily on the participation of real estate capital and the prospective homebuyers

as major financial contributors (He and Wu, 2005; Shin, forthcoming; Zhang and Fang, 2003). Between 1991 and 1999, the number of ODHRP projects increased from 37 to 279 (Fang and Zhang 2003). According to an official estimate, the total number of Beijing residents whose dwellings were demolished as part of ODHRP projects reached 160,900 households by the end of 1999 (UCCBMPPCC et al. 2003). Given that most ODHRP projects targeted dwellings in inner city districts, this meant that roughly one fifth of all the inner city households were directly affected by the redevelopment.<sup>1</sup> Residents were presented with re-housing or relocation rental dwellings (Fang and Zhang, 2003). The official line was, however, to encourage off-site relocation by means of combining suburban new estate development with inner city redevelopment (Beijing Municipal Government, 1994). It was estimated that less than one third of those residents displaced in the 1990s were re-housed, and the majority of the remaining households relocated to suburban estates assigned by developers (UCCBMPPCC et al., 2003).

In 2000, after ten years' implementation of the market-oriented redevelopment, *weigai dai fanggai*, which could be literally translated as 'redevelopment accompanied by housing improvement' (Beijing Municipal Government, 2000). While the more market-oriented approach was still in place, this new approach has received a growing emphasis in subsequent policy documents. Its main feature was to supply affordable housing instead of commercial housing so that it becomes more affordable for existing residents' purchase of re-housing flats. The affordable housing programme (known as *jingji shiyongfang* in Chinese) was originally proposed by the central government to make homeownership more affordable for low- and middle-income households through subsidies to real estate developers (Lee, 2000). The affordable housing programme commenced in 1999 with an aim of building flats on government-allocated lands, and the housing price was regulated by local authorities. To the extent that the *weigai dai fanggai* approach aimed at a high re-housing rate, it was deemed more socially inclusive. This feature was in a strong contrast with the dominant approach of market-oriented redevelopment.

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<sup>1</sup> This is based on the total number of permanently registered households in the four inner city districts of Beijing, which was approximately 787,000 households with the average household size of 3.08 persons per household (Beijing Municipal Government, 1991).

In this context, this paper aims to analyse the implications of this shifting emphasis of Beijing's urban renewal policy. Two main questions are considered. Firstly, does this revised redevelopment policy suggest that the local government has become less entrepreneurial, thus giving more weight to its governmental function to promote a more socially inclusive approach? Secondly, does this policy shift reflect the change in the way in which land-based interests come together to promote urban growth and real estate development? Through a detailed examination of two case studies of redevelopment projects, the paper shows that the revised redevelopment policy is not inherently different from the city's market-oriented practices throughout the 1990s, and that needs to be understood in the context of local entrepreneurial activities that characterised local states in the course of promoting local economic growth. The paper also argues that the entrepreneurial state activities are largely supported by the local power to dispose of urban land use rights, which in fact makes the local state as part of urban rentiers as de facto landlords.

Few literatures have made a critical evaluation of urban redevelopment policies in Chinese cities during the reform period, and there has been lack of empirical studies to gain an insight into the actual redevelopment processes. Available literatures on urban redevelopment in Chinese cities address the issue of high development costs as the barrier to developers' active participation (Dowall, 1994), potential problems associated with residents' suburban resettlement (Leaf, 1995), residents' legal disputes upon displacement (Johnson, 2004), and the coalition of land-based interests engaged in urban redevelopment (Fang and Zhang, 2003; He and Wu, 2005; Zhang and Fang, 2003). Other literatures on more region-wide processes of urban development during the reform period focus on the development of or transition to new cities under the influence of globalisation and marketisation (Gaubatz, 2005; Logan, 2002; Ma, 2002; Wu, 2000, 2003). It is explained that the transition entails the establishment of a new post-socialist, accumulation regime with the development of an entrepreneurial state (Wu, 2003). "*The game of appropriating the rent gap*" (Wu, 1997, p.660; original emphasis) seems to lead the changes in the urban built environment, defining the way in which different actors behave in the transitional phase of urban political economy. Some interpret the changing urban politics in the process of institutional transformation (that is, marketisation, fiscal decentralisation and land reform) as having contributed to the growth of local growth coalition in which the entrepreneurial local state and developers coalesce to maximise opportunities to obtain development gains (He and Wu, 2005; Zhang, 2002; Zhu, 1999). While these studies provide a useful framework to reflect upon urban redevelopment processes in Chinese cities, there is a

general absence of empirical studies that examine how a particular policy or a set of urban policies make impact upon urban residents. This gap is what this paper aims to fill in.

The remaining part of this paper is consisted of five sections. Firstly, the paper discusses the transition of urban governance in the developed world from managerialism to urban entrepreneurialism that promotes property-led redevelopment through public-private partnerships. This is followed by the discussion on the changing governance in Chinese cities. The third section describes the progress of urban redevelopment in the two case studies to provide an overview. The fourth section critically examines the nature of the redevelopment policy shift. The final section sums up discussions and draws a conclusion.

## **2. Property-led redevelopment and the entrepreneurial state**

Property-led redevelopment has become a governing strategy in post-industrial cities particularly during the last two decades of mounting policy interests in establishing public-private partnerships for carrying out urban regeneration (Healey et al., 1992; Jones, 1996; Quilley, 1999). The private sector assumed a leading role for rebuilding inner city areas where problems of declining industry, decaying infrastructure, poverty concentration and social polarisation were prevalent (Edwards, 1984; Gore, 1991; UN-Habitat, 1993). In other words, the private sector has become “a legitimate provider of public policy initiatives,” providing finance that used to be largely in the domain of local authorities (Healey et al., 1992: 217). As the public sector’s direct intervention in urban renewal and housing development was substantially curtailed, public-private partnership was seen as a way of tapping the private sector’s financial resources and managerial skills (Cameron, 1992).

The emphasis on the private sector was accompanied by the changing role of the public sector, which increasingly became an enabler or facilitator, focusing on removing supply-side constraints and providing incentives and financial subsidies to attract private capital. In this process, it is argued that there has been a major shift in urban governance from managerialism to entrepreneurialism (Griffiths, 1998; Harvey, 1989; Quilley, 1999). The managerial form of governance, according to Griffiths (1998, p.42), is characterised by state resource allocation and bureaucratic organisation of social services delivery on the basis of social welfarism. Structural changes (such as the economic recession, declining basis of manufacturing industry in traditional metropolitan areas, and changes in

employment structure and relations) have led to the erosion of the Keynesian accumulation regime and thus, the erosion of the basis of managerialism. These have resulted in the emergence of urban entrepreneurialism. According to David Harvey, urban entrepreneurialism is a new form of class alliance for cities to survive and succeed in the new environment of diminishing territorial barriers for global capital movement and of intense inter-urban competition for jobs, resources and private capital investment (Harvey, 1989). David Harvey notes:

“The new urban entrepreneurialism typically rests, then, on a public-private partnership focusing on investment and economic development with the speculative construction of place rather than amelioration of conditions within a particular territory as its immediate (though by no means exclusive) political and economic goal”  
(Harvey, 1989, p.8)

External pressures for the change include intensifying inter-urban competitions. It is argued that the property-led characteristic of urban regeneration has been strengthened due to the deepening process of globalisation as cities are driven to compete with each other to successfully bid for intergovernmental funding or “pin down increasingly fleet-footed capital” (Weber, 2002, p.531). Place promotion and urban re-imaging through ‘flagship’ projects have become dominant themes of urban regeneration (Bianchini et al., 1992; Wilkinson, 1992). As Quilley noted, “There has been a pervasive homogeneity in the models of urban regeneration pursued by western cities since the 1980s” (Quilley, 1999, p.189). Waterfront redevelopment and the creation of civic centre and shopping malls are the oft-cited examples (Cook, 2004). Within local contexts, the increasing rent-gap in decaying inner city areas provided opportunities for land-based interests (or urban rentier class to use John Logan and Harvey Molotch’s term) to capitalise on exchange value by transforming decaying urban space into a higher and better use (Logan and Molotch, 1987; Smith, 1996). Development projects in this case often tend to take on the form of ‘value-free’ economic growth promoted by the land-based interests or a growth machine (Logan and Molotch, 1987; Molotch, 1976).

The transition from urban managerialism to entrepreneurialism, however, should not be equated with the withdrawal of the state. The ‘speculative construction of place’ under entrepreneurialism entails risks, which are absorbed by the local public sector (Harvey, 1989, p.7). In fact, according to Harvey, “it is this feature of risk-absorption by the local (rather

than the national or federal) public sector which distinguishes the present phase of urban entrepreneurialism from earlier phases of civic boosterism in which private capital seemed generally much less risk averse” (ibid, p.7). In other words, public sector subsidies ensure “private sector manoeuvrability...especially in areas of high risk” (Healey et al., 1992, p.218). Throughout the 1980s and early 1990s, both local and central government initiatives to enhance private sector participation had “a remarkably consistent approach with the promotion of private investment and confidence by both financial pump priming and the removal of constraints” (Jones, 1996: 205). The transformation from managerialism to urban entrepreneurialism in countries like the UK is thus government-led, fuelled by local authorities that strive to maintain its limited autonomy in times of centralisation of control by the central government. As O’Toole and Usher argued:

“Not only has central government remained highly active in promoting and sustaining partnership, but local government, the original object of exclusion, has become increasingly entrepreneurial as it has fought to maintain its position in the public policy arena of economic development” (O’Toole and Usher, 1992, p.219)

### **3. Urban (re-)development in Chinese cities and land-based interests**

Cities experiencing their economic transition to a post-socialist market economy are often grouped together and referred to as ‘transitional cities’. Debates about transitional cities often concern whether or not they represent a qualitatively different path of urban development. Fulong Wu disapproves this, asserting that “Transitional cities are not themselves a prototype of something qualitatively different from the emerging neoliberal city. Indeed, transitional cities are *variants* of the latter, based on historical and geographical contingencies” (Wu, 2003, p.1337). This perspective helps us understand the emergence of entrepreneurial and profit-seeking behaviour of local governments in cities like Beijing, Shanghai and Guangzhou, which compete for inward investment and foster local economic growth while still bound by ‘historical and geographical contingencies’.

The real estate sector in Chinese cities has been one of the major growth poles, and the municipalities’ endeavour to attract and increase investment resulted in the strengthening of urban place-making, re-imagining and intense transformation of urban land uses through property (re-)development. This endeavour has been enhanced through the process of

decentralisation of state power to make economic decisions and to share tax revenues between central and local governments, thus increasing the degree of local autonomy for resource mobilisation and economic planning (Wei, 1996). Through the decentralisation, the state control over budget and economic planning became weaker, with the state budgetary contribution to the national investment in fixed assets declining, for instance, from 28.1% in 1981 to 2.7% in 1996 (NBS China, 2002, Table 6-3 and 6-7). Through the decentralisation, the sources of investment in urban built environment have been diversified. While the state budgetary contribution rate has decreased substantially as mentioned above, the balance was supplemented by the increase in funds 'self-raised' by local governments and locally based enterprises (Wu, 1997, p.654). The increasing share of self-raised funds in the investment in fixed assets and capital construction "enables new projects to be funded outside state resource allocation" (ibid.). The decentralisation has fostered localization in terms of investment flow. Various fees are now charged by municipal governments upon the use of land and urban infrastructure by enterprises (ibid, p.655). The local governments have also gained greater control over state-owned enterprises throughout the 1980s and 1990s. The control rights over state-owned enterprises were gradually transferred from their supervisory central government agencies to local governments: "By 1994, it was estimated that local governments at various levels controlled approximately 65% of the assets of all state-owned enterprises" (China Reform Foundation, 1997 cited in Li and Lian, 1999, p.178).

Decentralisation has also led to the intense competition for finite resources among localities, which is more like a zero-sum game, leading to the hierarchical ordering of cities depending on their strength to attract inward investment of both domestic and foreign capital (Logan et al., 1999). This is closely related with the inter-urban competition among Chinese cities to take advantage of the Open Door policies and the gradualist state-led absorption of Chinese cities in globalisation processes (Wu, 2001, 2002). The investment structure of Beijing's urban redevelopment projects in the 1990s represent the heavy influence of foreign capital. For instance, due to lack of state funds allocated for Beijing's ODHRP projects, the Beijing municipal government, and subsequently district governments, encouraged the use of foreign investment. Between 1990 and 1997, 68.1% of total investment in ODHRP in Beijing's inner city districts came from foreign investment. In Dongcheng District (where the two case study neighbourhoods for this paper are situated), the share was even higher, reaching 84.3% (Luo and Zhou, 1998, p.5).

In the process of implementing reform measures such as decentralisation, local governments under fiscal pressure became more entrepreneurial in the way that reflects the legacy of the party state, combining uniquely with the newly arrived market environments. For instance, Jane Duckett finds in her study of Tianjin's real estate management and commerce departments that "market reform has created opportunities and constraints for officials in these departments that have led them to see business as a viable way of solving their financial and staffing problems" (Duckett, 1998, p.153). It is argued that this model of state entrepreneurialism emerges as part of "the entrepreneurial activities of state officials aimed at producing profits for their bureaux" (ibid, p.155). Oi (1995) notes that the institutional changes in the reform era "blended the entrepreneurial and governmental roles of local governments" (p.1139), resulting in the use of local administrative bureaucracy for facilitating market production, and for funding corporate growth often through preferential allocation. This indicates that under the increased fiscal pressure, the local state activities are becoming entrepreneurial, and the local state transforms itself from a regulator of local enterprises to their advocates to maximise local interests (pp.1144-46). The promotion of local interests rather than national interests runs through the arguments of other researchers who focus on the way in which a strong bonding occurs among newly emerging land-related interests while pursuing property rights reform to allow the transaction of state-owned land use rights (He and Wu, 2005; Zhang, 2002; Zhu, 1999, 2002). For instance, Zhu (1999) argues that 'informal local urban regimes' have been established, which "compete for local growth by capitalising on financial gains from urban land and property development" (p.546). The informal coalition is said to have emerged as a result of ambiguous property rights under gradual urban land reform that failed to delineate a clear notion of land use-right ownership among the land users from the pre-reform period (Zhu, 2002). A similar growth-oriented alliance appears to have formed not only in big cities but also at less developed country levels for the promotion of cross-border economic development zones (Luo and Shen, 2004).

#### **4. Market-oriented, property-led redevelopment of the Xinzhongjie neighbourhood**

For this analysis, I take two empirical case studies. Two cases are the redevelopment projects in two inner city neighbourhoods, Xinzhongjie and Haiyuncang, both situated in one of Beijing's inner city districts called Dongcheng District. The redevelopment of the

Xinzhongjie neighbourhood corresponds to the market-oriented ODHRP (hereafter Xinzhongjie model), and the redevelopment of Haiyuncang neighbourhood refers to the revised ODHRP, that is *weigai dai fanggai* (hereafter Haiyuncang model).

The case study of the Xinzhongjie neighbourhood redevelopment is discussed in-depth herein so as to help us gain a detailed understanding of the municipality's market-oriented ODHRP so that it can be contrasted with the case study of revised OHDRP for a more vivid understanding about how these two approaches differ from each other.

#### **4.1 Project overview**

Location-wise, the Xinzhongjie neighbourhood lies just outside the eastern section of Beijing's second ring road, situated across the Worker's Stadium. Its redevelopment was representative of Beijing's redevelopment practices in the 1990s, that is, market-oriented commercial redevelopment led by both local and foreign real estate developers. In total, 8.5 hectare of dilapidated neighbourhood was initially subject to redevelopment (Editorial Committee of Beijing Dongcheng District, 2000, p.330). The total construction space, as envisaged at the project outset by the district government was 255,000 square metres, leading to an average floor-to-area ratio of 300%. The whole project aimed at transforming the existing neighbourhood into a mix use to combine residential, retail and business functions.<sup>2</sup> The neighbourhood was divided into six districts (Districts A to F), and the neighbourhood redevelopment was phased in. The first phase redevelopment subjected Districts A and D, and lasted about two years from the residents' displacement at the end of 1999. The completion of the first phase resulted in four high-rise blocks of commercial flats (named as the Sun City estate) in Districts A and D whose combined surface area reached 2.3 hectare. The second phase was yet to start as of March 2007 (see Figure 1).

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<sup>2</sup> Unless otherwise mentioned, the source of information on the status and progress of Xinzhongjie neighbourhood redevelopment in this sub-section is from the Dongcheng district government news web site (<http://www.bjdch.gov.cn/>), and also from the author's interview with a former manager affiliated with China Homes Limited who wished to remain anonymous.

## **4.2 Partnership with local and foreign capital**

The work was carried out by the alliance of the local government, local developers and foreign investors who collaborated to execute the project. Homebuyers, who contributed their money through off-purchase of redevelopment flats, could also be regarded as part of the alliance of the land-based interests (see Figure 2). Here, the local authority, in a narrow sense, refers to Dongzhimen Street Office that directly administers the neighbourhood affairs, but more broadly speaking, would also include the district government who was given a more autonomous status in terms of administering the transaction of land use rights. The local representative of the foreign investment was China Homes Limited (hereafter China Homes). The foreign investment itself originated from two overseas investors, one of which was a US-based insurance company, Prudential Financial, which held 100% share of the Bermuda-based PRICOA China (Residential) Ltd. China Homes was a subsidiary of PRICOA China (Residential). The other overseas investor was Tan & Tan Developments Berhad, a Malaysia-based investor. A joint venture was established between China Homes Limited and a locally based real estate developer (Beijing Zhonghong Real Estate Company Ltd.; hereinafter Beijing Zhonghong) in order to carry out Xinzhongjie's first phase redevelopment, and was named as Beijing Huaju Workers' Gymnasium Real Estate Development Company Ltd. (hereinafter Beijing Huaju).

Developers behind the Xinzhongjie project were proud of the overseas investment, advertising in their marketing posters that the Sun City realises the life style of other global cities like Paris and Rome. They were also proud to illustrate that the Sun City project was backed by a Fortune 500 company as the major investor. China Homes held 95% share of the newly established Beijing Huaju in order to take full operational control of the company. Beijing Zhonghong held the remaining 5%, but their role was essential as they held the land development right, secured from the local government. The joint venture invested at least one third of the total project costs to meet the minimum investment requirement as per related government regulations. The rest of the project costs were financed through the sales of Sun City flats. The former manager at China Homes commented:

“30% of the total project costs were required to be invested as minimum capital by us investors. This was used for the payment of land premium after the project lands were granted, and also for some upfront construction costs. Two thirds of the total

project costs were then financed by the bank mortgages and down payment by the homebuyers.”  
(Former manager at China Homes Limited)

The land lease in the case of the Xinzhongjie redevelopment was through negotiation instead of market competition through a bidding process, which was the most widely utilised method in Beijing for the most period of the 1990s. For example, in 1996, only 3.7% of newly developed lands were leased out through tender or auction, while the rest were transacted via negotiation. In major cities such as Beijing, Shanghai and Tianjin, there was no case of tender or auction (Wu, 2001, pp.276-277). The predominance of price negotiation as a land lease method over tender or auction has led to the arbitrary determination of land value, increasing the risk of land transaction through arbitrary decision-making and possibly corruption and informal relationship.

The use of foreign investment and the densification led to the changing landscape from a low-rise dilapidated neighbourhood to a high-rise modern estate. Upon completion of the first phase redevelopment, the total construction space built on the land parcel of 23,000 square metres reached nearly 140,000 square metres, resulting in the floor-to-area ratio of about 610%. This was much higher than the originally envisaged 300%. The orientation of the district government towards the real estate development and its strong emphasis on the sector for its economic development would explain such preference of high building density. For the developers, the increased built density would be equal to higher returns to their investment. As for the local authority, the transformation of the neighbourhood provides the basis of increased tax revenue, and proves the competitiveness of its administrative capacity.

#### ***4.3 Local residents' permanent displacement***

The neighbourhood redevelopment has been an effective process that threatened existing residents' way of living. When old and dilapidated neighbourhoods are subject to market-oriented real estate redevelopment, the majority of existing residents are much more likely to face permanent displacement from their neighbourhoods due to unaffordable prices of redeveloped commercial flats. Developers' commercial interests would prevail, assisted by the local authority. This is exemplified by the Xinzhongjie redevelopment. When the Sun City estate was proposed as the end product of the Xinzhongjie redevelopment, local officials at the Dongzhimen Street Office projected that only about ten to twenty per cent

of local residents would be re-housed upon project completion. Upon project completion early 2002, a far less number of residents could afford to be re-housed: only about twenty households (or 3.6 per cent) out of 550 displaced came back for re-housing.

The permanent displacement of local residents was due to the affordability problem caused by the high sales price of completed commercial flats. Although local residents were given a preferential price, which was one third less than the average market price, the sales price was still far beyond their reach. For instance, a two-bedroom family unit with a construction space of 110 square metres would have cost about 600,000 yuan, resulting in the price-to-annual household disposable income ratio of sixteen to one for an average Beijing household, and thirty to one for a household belonging to the bottom twenty per cent of income decile distribution (Beijing Municipal Bureau of Statistics, 2003). Even if they could afford to purchase a flat by mobilising their available financial resources and/or relying on their social network, the living costs would be too high to sustain long-term residence. Of the twenty re-housed households at Xinzhongjie, it was found that fourteen households moved elsewhere within the next eighteen months. The interviews with two of the remaining households suggested that they moved out due to the difficulties in meeting the high living costs in high-rise apartments.

As for the permanently displaced households, their post-displacement housing experiences were expected to be conforming to 'market-oriented practices', that is, either house buying or private renting, as they were left with cash compensation only. This was due to the major change in the compensation method in 1998, which imposed cash-based cash compensation instead of in-kind compensation. Before 1998, urban households displaced from their neighbourhoods due to redevelopment and land use change were given in-kind compensation, which meant that they were provided a relocation dwelling where they could continue their pre-displacement housing tenure. This practice faced a complete change in 1998 when the central government called for the termination of all types of in-kind housing benefits. The municipal measure for redevelopment compensation, announced in 1998 (Beijing Municipal Government, 1998), called for the implementation of cash-based compensation. Although the announcement allowed the provision of relocation dwellings under certain conditions, the dominance of cash-based compensation was what local frontline officials understood.

#### **4.4 The local state as an enabler**

The experiences of the Xinzhongjie redevelopment showed that Beijing's redevelopment was executed within the policy framework of a partnership with real estate capital (in this case, both local and foreign) for the transformation of dilapidated neighbourhoods into commercial high-rise estates of much higher building density. Real estate developers and local government made a contractual relationship for the land lease and redevelopment of the Xinzhongjie neighbourhood. The Sun City project was a success from the local authority perspective that opted for the transformation of its built environment into a modern cityscape. The local authority's inadequate financial resources and expertise to manage such a large-scale development in the locality were compensated by the participation of foreign investment through the establishment of a joint venture with a local private developer. To do this, the local authority made use of its business network to bring together domestic and foreign developers.

The Sun City project had favourable conditions such as high density, high sales price, good location and thus possibilities of high returns to investment, which were attractive for the developers to participate. It exemplifies the formation of local alliance of land-based interests that brought together the local government, domestic and foreign real estate developers whose stakes were in realising development profits. This practice has increasingly become a common practice in urban China in transforming old neighbourhoods in good locations with a high land value, where high returns to capital investment are promising (Wang, 2003, p.258). The intense investment in the real estate sector in the 1990s presented opportunities to extract market rents from urban land and dwellings (Wu, 1997). Global inward investment made a significant contribution to urban restructuring in cities like Shanghai, facilitated by the institutional and economic reform that enabled revenue generation from selling urban space (Wu, 2000). The case of Sun City project in the Xinzhongjie neighbourhood is a typical example of how foreign investment was invited to take part in the city's redevelopment projects. The local residents in this process gave away their 'right to space' to make way for the entry of developers and more affluent homebuyers.

### **5. 'State entrepreneurialism' and the revised ODHRP**

The Planning and Construction Committee of Dongcheng District Government

acknowledged that the cost structure of ODHRP projects was not rationale, stating that one third of the total project cost was due to development-related taxes, while another third was incurred by residents' displacement and relocation (Planning and Construction Committee of Dongcheng District Government, 1998, p.17). Having piloted the approach in selected neighbourhoods, several neighbourhoods were chosen as exemplary cases for the official implementation of the revised approach. Haiyuncang neighbourhood, discussed herein, was among them. In this section, the Haiyuncang model is used interchangeably to refer to the revised ODHRP.

### **5.1 Project overview**

In order to implement this revised ODHRP, local authorities assumed a more pro-active role. The district government transformed one of its bureaus to establish Dongcheng Housing Development Corporation (hereafter Dongcheng HDC), and it was this public agency that acted as the principal developer for the Haiyuncang redevelopment. Demolition and construction works were contracted out. Local officials estimated that 1.5 billion yuan was spent in total for the project (CCHS, 2004). The project finance was to come from both the local government and residents' contribution (that is, payment for their re-housing flats). The exemption of land use charges, which applied to the construction of affordable housing, also provided the reason for price deduction compared to other commercial housing sales.

The project area for the Haiyuncang redevelopment reached 26.8 hectare (Dongcheng District Government of Beijing, 2002, p.256). The official notice for residents' displacement and demolition was disseminated on 18 May 2001. Displacement and demolition works took place within less than fifty days, and was praised by the then deputy mayor of Beijing for being swift. According to the information from the Haiyuncang neighbourhood committee, 5,319 households in total (12,252 people) were displaced. This also indicated that the average population density of the neighbourhood before displacement reached about 45,939 people per square kilometre, which exceeded by far the average population density of Dongcheng District (25,847 people per square kilometre in 2002) (Beijing Municipal Bureau of Statistics, 2003). The building work took approximately fifteen months, and the original residents' re-housing started in November 2002 (Dongcheng District Government of Beijing, 2003). Figure 3 shows the façade of

medium-rise completed blocks in the southern part of the redeveloped neighbourhood.

### **5.2 High re-housing rate**

Re-housing flats were for sales only, thus prohibiting any buy-to-let practices. According to an official at the Housing Management Department of the Dongzhimen Street Office, the sales price of a self-contained flat for Haiyuncang redevelopment project was set at a ceiling of 5,000 yuan per square metre. The full price of a completed three bedroom re-housing flat with a construction space of seventy five square metres would cost approximately 375,000 yuan, equivalent to about eleven years' accumulation of an average Beijing household's annual disposable income. The original residents in Haiyuncang, however, could enjoy discounts by taking into account their working years and the construction space of their original dwellings. Long-term housing loans were arranged by the local government in accordance with the related regulations (Beijing Municipal Government, 2000).

The Haiyuncang neighbourhood committee specified that, among the 5,319 households displaced from the neighbourhood, 3,716 households (10,880 people) were re-housed in the neighbourhood upon project completion. This led to the re-housing rate of seventy per cent, which was very high compared to the re-housing rates in other market-oriented redevelopment projects such as the Xinzhongjie redevelopment. Those residents who did not choose the re-housing option received cash compensation, and were to find a dwelling on their own, which included the purchase of affordable housing in a suburban estate outside the north-eastern section of the fifth ring road. The arrangement was made by the Dongcheng district government:

“Our district government has an affordable housing estate at Tiantongyuan area in Changping district...Here, we issue a certificate, and the residents take it to go and relocate in that area. The sales price is 2,650 yuan per square metre...That's relatively cheap. If you are not satisfied with the place, you can go to other places on your own and choose a house, somewhere in Chaoyang or Daxing. For example, if you are particularly worse off and cannot come back for re-housing, you can relocate to these areas, as the houses there are cheap, but nobody went there. It was too far away.”

(Haiyuncang neighbourhood committee leader)

The high re-housing rate achieved in the Haiyuncang model was received as a positive feature by local residents. In order to see how much a household would have to pay to be re-housed and how much the same household would have received if it chose cash compensation, I took the example of a Haiyuncang neighbourhood committee leader whose family was also re-housed upon project completion. Her family was a four-person household, which used to live in a non self-contained dwelling with a construction space of thirty two square metres, and was re-housed in a three-bedroom flat with a construction space of around seventy five square metres. The total amount her family had to pay reached 130,000 yuan, which was only about one third of the full price of an affordable housing flat of the same size in Dongcheng district.<sup>3</sup> If her family had chosen cash compensation instead of re-housing, she would have received only about 190,040 yuan, which was far inadequate to buy even a one-bedroom affordable housing flat whose minimum space was about forty five square metres.

### **5.3 Raising people's degree of accepting redevelopment**

The high prospect of re-housing in the Haiyuncang model seemed to have appealed to local residents. The residents living in Xinzhongjie's second phase redevelopment area were particularly attracted by this, as they have witnessed in front of their eyes the fate of their neighbours' permanent displacement brought by a more profit-oriented redevelopment. They were in favour of the Haiyuncang model that would allow them a better chance to stay put in the city where all the social services of high standard could be within easy reach. For instance:

“It should be *weigai* with *fanggai* for us. Here, it was only *weigai* (that is, redevelopment) without *fanggai* (that is, housing improvement). It was just redevelopment, building

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<sup>3</sup> The detailed methods for estimating the re-housing prices and cash compensation could be found on the district government's web site that showed information on the guideline for carrying out the revised ODHRP in Jiadaokou neighbourhood (Dongcheng District Government of Beijing, 2001a). Because this neighbourhood was based in Dongcheng district and its redevelopment commenced at the same time as the work in Haiyuncang, the guideline could be safely assumed to have applied to Haiyuncang redevelopment as well.

commercial flats. This kind of redevelopment is not right. Towards all of us, there should not be any profits involved”

(54-year-old laid-off female resident)

“The best option is to have the *weigai* (that is, the Haiyuncang model in this context). In the case of *weigai*, all that required is to pay one hundred thousand odd yuan. If you ask me to pay more than two or three hundred thousand yuan (that is, in the case of the Xinzhongjie model), that is not possible. I think *weigai* is more considerate for us... I just hope it's going to be re-housing on site, because I am really well-acquainted with this community. I am used to living here. Environment, transport, all very convenient...”

(44-year-old female resident living on income support)

This favourable view was, however, with no clear reference to how they would finance the purchase if re-housed. For those who were re-housed in Haiyuncang, long-term loans from the housing provident fund (hereafter HPF) were arranged for qualified residents. Just before re-housing started, 1,894 applications (that is, about half the re-housed households) from Haiyuncang were approved, the total loan amount reaching 245 million yuan (Dongcheng District Government of Beijing, 2001b). It was not known, however, how many applicants failed to receive the housing loans. To qualify for the HPF loans, it is essential for applicants to have a stable job and income. They should also have kept their HPF accounts for at least preceding twelve months, into which they must have contributed consecutively during the last six months (Beijing Ribao 2003). The 44-year-old female interviewee above, for instance, had no member of her family who was in possession of a HPF account, and thus was not eligible for the formal sector loan.

Resorting to formal sector housing loans also involved commitment to monthly loan payment that might be beyond one's household income capacity. For instance, the neighbourhood committee leader whose family borrowed 60,000 yuan to pay for her 130,000 yuan re-housing flat, was paying back 600 yuan each month by spreading the loan repayment over ten years in instalment. For a family in Beijing whose income level belonged to the bottom twenty per cent of the income decile distribution, this would constitute about one third (thirty seven per cent) of monthly household disposable income (Beijing Municipal Bureau of Statistics, 2003).

#### **5.4 Reducing the backlog of urban redevelopment**

The implementation of the Haiyuncang model has, however, substantially reduced the backlog of urban redevelopment in inner city districts and near sub-urban areas, freeing up state-owned lands for more profitable and commercial use. Between 1991 and 1995, the total number of residents displaced by urban redevelopment projects in Beijing as a whole reached approximately 100,000 households (Beijing Municipal Government, 1996: 272). During the next five-year period between 1996 and 2000, the total number of displaced residents amounted to about 83,000 households, less than what was achieved in the previous period (Beijing Municipal Government, 2001: 279). With the implementation of the new approach as applied to the Haiyuncang neighbourhood, however, the total number of Beijing residents in inner city and near suburban districts, whose dwellings were demolished due to redevelopment, reached 93,000 households in 2001, which surpassed the number of residents affected by redevelopment during the previous five years (Beijing Municipal Government, 2002, p.234).

In Dongcheng district where the Xinzhongjie and Haiyuncang neighbourhoods were located, the official estimate indicates that redevelopment activities as well as residents' large-scale displacement peaked in 2001 and 2002 when the Haiyuncang model was in full scale implementation. The total number of displaced residents in 2001 alone amounted to approximately 22,500 households (roughly 65,000 people). The report was proud to state that this figure exceeded the total number of residents displaced during the previous ten years, implying the efficacy of the new Haiyuncang model of urban redevelopment (Dongcheng District Government of Beijing, 2002). This meant that about twelve per cent of the residents in Dongcheng district were displaced in one year in 2001. As shown in Table 1, about one quarter of all the formally registered residents in Dongcheng district were affected by the redevelopment projects between 2000 and 2005.

#### **5.5 The entrepreneurial local state**

Beijing's urban planning guideline aims at reducing overall population density in inner city districts by approximately fifteen per cent by 2010. The completion status of the Haiyuncang neighbourhood indicated that the displacement of existing residents did accompany the reduction in population density of the project area as a whole. According to the summary of the Haiyuncang neighbourhood committee, the number of total

residents displaced from the Haiyuncang neighbourhood reached 12,252 (5,319 households) with the population density of 45,939 people per square kilometre. Upon completion of the neighbourhood redevelopment, the population density for the project area as a whole decreased slightly to 40,795 people per square kilometre (see Table 2).

A closer examination of each sub-district and its population density, however, indicates that the post-redevelopment residential areas (that is, District A and District D) experienced substantially higher density post-redevelopment. For instance, District D, where medium-rise residential blocks were built on the total surface area of 12.81 hectare (0.13 square kilometres), accommodated 7,800 residents (2,600 households). This resulted in its population density of 60,890 people per square kilometre. District A turned out to have a much higher density, as high-rise flats were constructed on a smaller land.

What happened was that re-housed residents were squeezed into a much smaller neighbourhood as the public housing corporation set up by the district government reserved some of the appropriated lands for infrastructure provision or property development to create business/commercial uses. The residents' complaints regarding the substantially increased density were heightened in a recent court hearing that took place on 13 March 2005. According to a local newspaper report, the Beijing City Planning Committee was accused of having tacitly increased the density of four high-rise blocks (Block Nos. 1, 4, 6 and 9) in District A by adding one storey without raising the building height (Jinghua Shibao, 2005). Homeowners filed a collective law suit against the municipal government, claiming that such design changes were not explained to them, and were contrary to what was presented at the time of signing the re-housing contract before displacement.

The reserved land, District B, was then subdivided and leased out by the Dongcheng Housing Corporation to business enterprises and developers, which looked for available lands to provide well-accessed business premises or carry out profitable real estate development in strategic inner city locations. The data from the Beijing Municipal Bureau of State Land and Resources indicated that these companies included CapitaLand China (a wholly owned subsidiary of a Singaporean real estate developer, CapitaLand Limited) and Beijing Mobile Communications. The land use premium seemed to have been quite phenomenal. For instance, CapitaLand China signed a contract to lease a plot of 1.47 hectare for business and commercial development, and the land use charge paid amounted

to 175.8 million yuan, which was equivalent to about twelve per cent of the officially estimated total projects costs of the Haiyuncang redevelopment (Huaxia Shibao, 2004). Beijing Mobile Communications had to pay 89.4 million yuan for leasing a plot of 1.25 hectare. Why the land lease was cheaper for Beijing Mobile Communications in comparison with CapitaLand China is not known. It could be because CapitaLand China envisaged mixed use real estate development while Beijing Mobile Communications proposed office development for its own use. It could also be because CapitaLand was a subsidiary of an overseas developer while Beijing Mobile Communications had a more intimate network with the municipal government.

This practice of Dongcheng Housing Development Corporation indicates that its performance was in the same manner as private developers and was making development gains under the disguise of carrying out socially more inclusive goals of re-housing original residents. This suggested that the local authority itself turned into a business-oriented entrepreneurial entity that paid more attention to profit and revenue maximisation and relatively less attention to the housing welfare of residents within its jurisdiction. About 1,600 households had to be permanently displaced to make way for this profit and revenue maximisation strategy, which involved domestic and foreign capital as well as the local government (see Figure 4). Re-housed residents also became part of the land-based interests as their financial contribution was essential for project implementation, and they received benefits of property redevelopment.

## 6. Conclusion

This paper has examined the change in Beijing's urban policy employed by the Beijing municipality to implement city-wide urban renewal activities. Urban renewal in Beijing, like in other Chinese cities, largely consisted of wholesale demolition and redevelopment of existing dwellings. The Xinzhongjie model discussed in this paper represented the city's market-oriented ODHRP implemented since the early 1990s, replacing dilapidated dwellings with high-rise commercial flats at the expense of displacing most local residents. This commercial approach to neighbourhood redevelopment invoked widespread disapproval among local residents, and hence, disapproval of those parties taking part in the alliance of land-based interests. The Haiyuncang model, on the other hand, seemed to advocate the value of social inclusion at a first glance by emphasising original residents' re-

housing. In practice, however, it could be interpreted as a way of maximising real estate development activities in inner city districts of Beijing. Existing residents were squeezed into a much smaller neighbourhood, while the local district government released the rest of the existing neighbourhood to market entities who searched for strategic inner city locations to build their business premises. The entrepreneurial behaviour of the local state remains persistent, and the 'state entrepreneurialism' remains to be "an important new dimension of state activity" (Duckett, 1998, p.153).

In reform China, it is argued that the moral capacity of local governments as social protectors and market regulators is often challenged as local officials are increasingly under pressure to meet the various requests from 'socialist land masters' (that is, de facto owners of urban lands) and achieve local economic accumulation (Hsing, 2006). It could perhaps be this moral imperative that led to the production of the revised Haiyuncang model by the Beijing municipality. In mainland China, the pre-reform practice of land ownership and its allocation for use was based on the principle of 'socialist people's ownership', which in effect entrusted the right to control and dispose urban land to the state as an embodiment of public interests (Zhu, 2004a, p.1251). The case of the Haiyuncang model shows that the local state maintains its role as an 'embodiment of public interests' but in a very entrepreneurial way that has been consistent for many years. Thus, the moral imperative lures residents to be more receptive to city-wide demolition, making urban land use change more effective and efficient.

The commodification of urban lands, however, was coupled with the establishment of "ambiguous property rights", which led to the "de facto control of assets but without complete legal responsibility" (Zhu, 2002, p.54). Unlike the pre-reform experience of administrative allocation of urban lands, the transfer of land use rights in market ways provided enormous revenue-raising opportunities for the public sector, helping local governments pursue their own development programmes. For example, the sales revenue of land use rights in Beijing reached, according to the official statistics, thirty two per cent of total municipal government income in 1995, and twenty one per cent in 1996 (Li, 1999, p.196).

The entrepreneurial activities by local authorities were made possible in the Haiyuncang model largely due to their power to dispose urban land use rights, which was devolved to the local district government in the early 1990s. Through this power, local authorities have

remained largely as an enabler and facilitator of redevelopment processes in inner city districts while implementing market-oriented ODHRP programmes since its inception. The Xinzhongjie model illustrates their enabling role as the local district government sought financial assistance from overseas investors to realise the neighbourhood's redevelopment. In the Haiyuncang model, the local district government was more proactively entrepreneurial, became part of local entrepreneurs or part of 'urban rentiers', and presented urban redevelopment to be more attractive to local residents. In this process, the risks entailed by urban redevelopment were absorbed effectively by the local government, safe-guarding the interests of land-based alliance. By offering more affordable re-housing flats, part of local residents joined the land-based interests as their financial contribution was essential for project implementation, and they received benefits of property redevelopment. The Haiyuncang model also won support from the general public by re-packaging redevelopment programmes as being more socially inclusive. As a result, the municipality would succeed in fastening the pace of urban redevelopment of dilapidated inner city neighbourhoods so that modern flats could replace shanty dwellings, business interests have access to strategic locations, and modern landscape could be achieved for the preparation of the 2008 Olympic Games. This would result in local authorities gaining a large amount of land lease revenues, property- and development-related taxes that could be fed back into urban infrastructure provision to upgrade urban functions. Therefore, the revised ODHRP model since 2000 has been put forward to serve the interests of land-based alliance that is consisted of real estate capital, the local government and relatively affluent members of local population.

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## Figures and Tables

Figure 1. View of the Sun City estate behind undeveloped dilapidated dwellings (photograph by the author)



Figure 2. Land-based interests in Xinzhongjie's first phase redevelopment

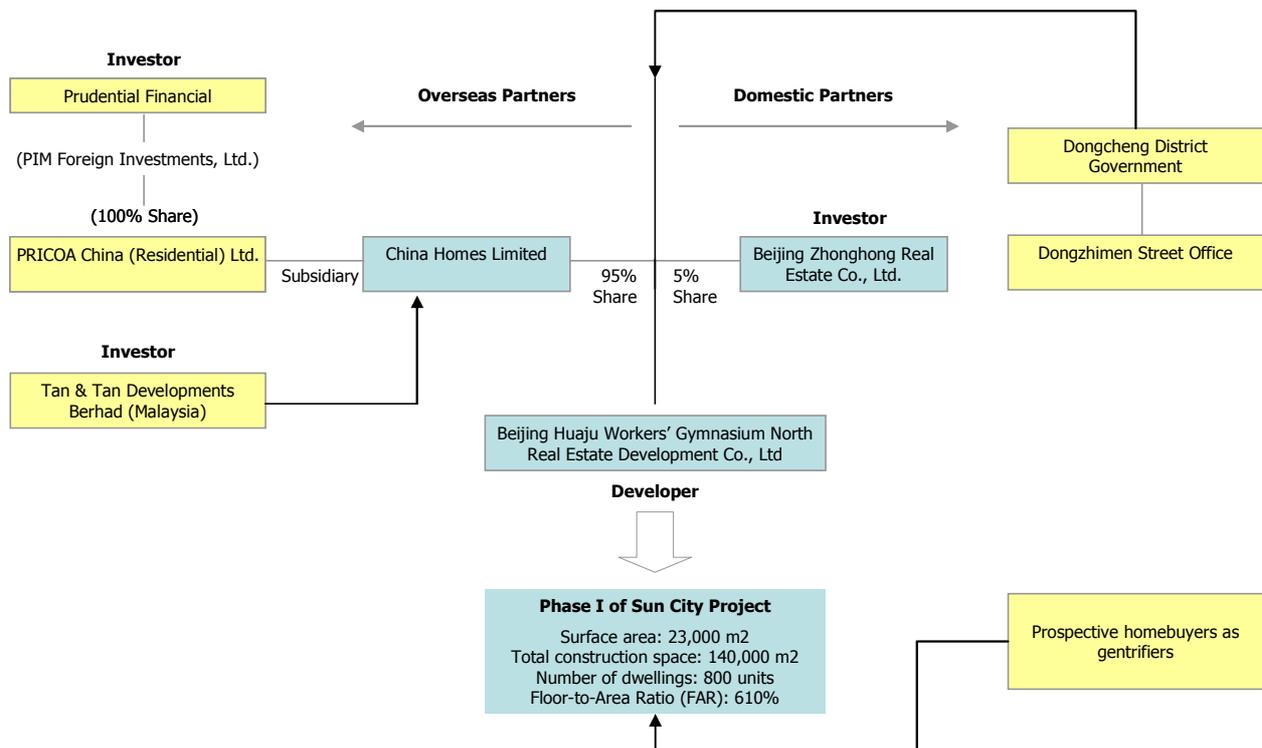


Figure 3. View of medium-rise blocks in the southern part of redevelopd Haiyuncang (photograph by the author)



Figure 4. Land-based interests in property-based Haiyuncang redevelopment

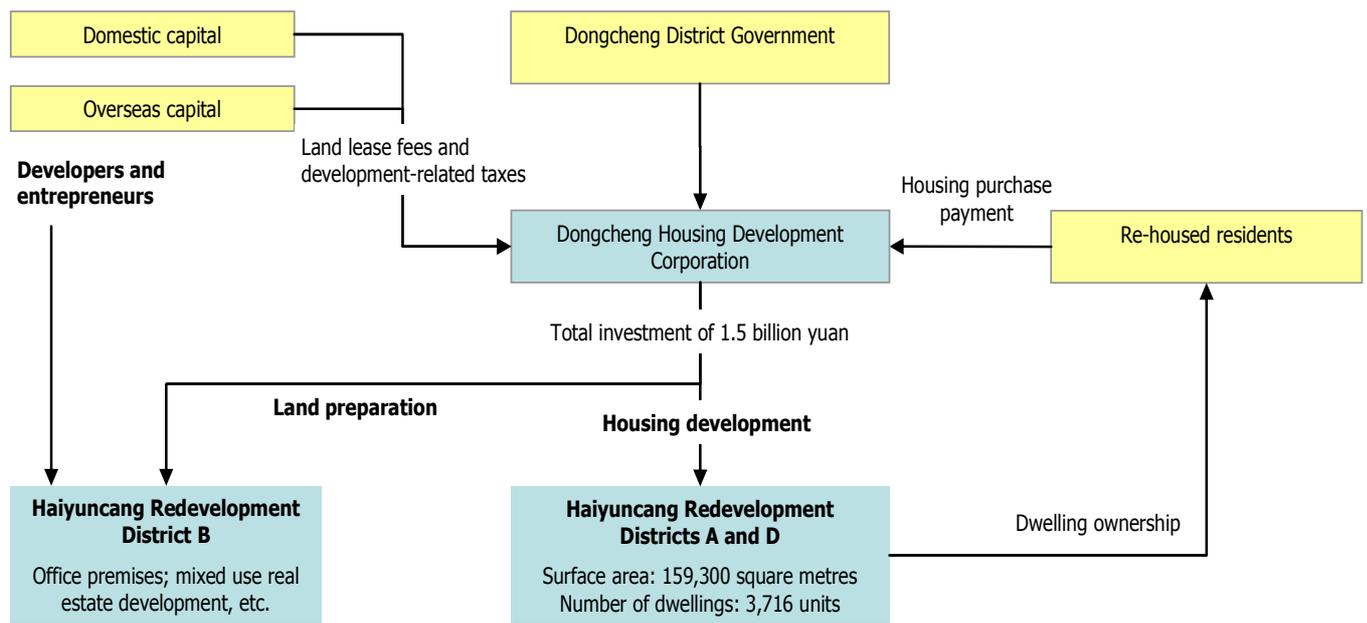


Table 1. Scale of residents' displacement in Dongcheng District in Beijing

Year	2000	2001	2002	2003	2004	2005	Total
Displaced residents (households)	3,712	22,500	13,000	2,399	2,949	3,012	47,572
% of total formally registered residents <sup>(1)</sup>	2.0%	12.2%	7.0%	1.3%	1.6%	1.6%	25.7%

Note:

(1) Based on the 2002 Census result that there were 536,000 people formally registered in the district. The average size of a household in Beijing is assumed to be 2.9.

Source: Dongcheng District Yearbook (each year)

Table 2. Pre- and Post-redevelopment land use details for the Haiyuncang redevelopment

Pre-redevelopment				Post-redevelopment					
Number of residents (h/h)	Surface area (people)	Density (km <sup>2</sup> )	Density (people/km <sup>2</sup> )	Districts	Number of residents (h/h)	Surface area (people)	Density (km <sup>2</sup> )	Density (people/km <sup>2</sup> )	Built form
5,319	12,252	0.27	45,939	Total	3,716	10,880	0.27	40,795	
				District A	1,116	3,080	0.03	98,718	High-/medium-rise; residential
				District D	2,600	7,800	0.13	60,890	Medium-rise; residential
				District B	-	-	0.04	-	Business/commercial
				Public use	-	-	0.07	-	Infrastructure (roads, etc.)

Source: Haiyuncang neighbourhood committee; Dongcheng District Yearbook 2001