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# Urban Restructuring in China's Emerging Market Economy: Towards a Framework for Analysis\*

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## Introduction

The main objective of this article is to develop a framework for understanding urban restructuring in post-reform China. It is hoped that the framework will reveal how the built environment evolves logically through the *urban process* (Harvey, 1978) defined by the political economy, thus providing a unified explanation for *both* socialist and post-reform built environments. Seen as such, urban restructuring is understood as a response to the changing logic brought about by the new political economy. To understand the dramatic changes, one needs to trace the process back to its classical form of state socialism. A thoughtful theoretical generalization of the dynamics under state socialism can thus help further appreciation of post-reform economies. Despite existing theory on the socialist city (e.g. French and Hamilton, 1979; Andrusz *et al.*, 1996), the transition currently taking place in reforming socialist economies is so profound and widespread that it deserves further theoretical treatment. Faced with practical problems in reality, the temptation to draw conclusions from policy statements is huge. Without a framework of understanding, many concrete observations, although each of them contains a degree of truth, may not always lead to a genuine picture of what is happening. It is important to distinguish between what has been stated from the point view of socialist ideology, i.e. the objective of government policy, and what can be made possible in reality, i.e. the constraint that has led to the formulation of such policies. The latter question touches on the basic configuration of society and its inherent political economy.

With the understanding that a wide diversity of local contexts exists, this paper will mainly focus on the experience of post-reform urban China. Urbanization in China has long been a mysterious issue because of the apparent contradiction between state policies and the practical imperatives behind them. The distinctive features of socialist urbanization, summarized by Szelenyi (1996) from the experience of eastern European countries, are generally applicable to China as well. Apparently, the socialist city achieved industrialization with less concentration of the urban population, or, in Szelenyi's thesis, these industrial cities were 'underurbanized'. Associated features are less urbanism, less diversity, hence less marginality. Consequently, a distinctive urban structure, best depicted by Szelenyi (1996: 303–7), has been formed. The low rate of

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urbanization has been achieved through purposely formulated state policy. For example, China adopted a policy of tight control over rural-urban migration and the growth of large cities. Seemingly, this policy would reduce rural-urban difference and produce more balanced development. Nevertheless, the growth policy in fact helped to maximize industrialization and to reduce the cost of urbanization (Chan, 1992). The state compulsory purchase of agricultural products at low prices has contributed to capital accumulation in the industrialization process.

Similarly, at the intra-urban scale, the high accumulation strategy was enforced through suppressing urban service employment, constraining labour reproduction costs and promoting self-contained urban development. It was believed that to prevent a wanton increase in the cost of reproducing labour power, the work-unit that employed the workforce should be responsible for its reproduction. Thus, the surplus value would not be shared by other sectors of non-material production. From this understanding, it can be seen that the homogenous distribution of social classes and the non-existence of any separation between workplace and residence were in fact by-products of a specific mode of production and reproduction, which was mainly achieved through the state work-unit system (Wu, 1995; 1996). Consequently, the administrative allocation process has created a structural bias which cannot be eliminated through planning itself (Szelenyi, 1983). In the Chinese case, the bias engendered inequalities between state-owned and collective-owned enterprises (Lee, 1990) and inequalities between workplaces to which urban residents were affiliated.

Economic reforms begun in 1979 have profoundly changed the previous dynamics of urbanism. However, unlike eastern European countries, China has not pursued massive privatization of state property. Rather, it has adopted partial and gradual reforms which have mainly involved decentralizing the right of control and management of state property (including housing and land). The partial nature of the reform process is reflected in the delay in reforming state-owned enterprises and the state's (more precisely, in fact, various state work-units') involvement in housing provision and land development. Thus, the situation in China is not one of pure market transition (Nee, 1989) but of a mixed economy based on partial reform (Bian and Logan, 1996). The epochal transition has been underway since 1992. Particularly related to urban development is the new policy that vigorously pursues reform of urban land and investments, making new fiscal arrangements with local governments and opening up the economy. The growth of real estate has been accelerated by the stimulative macroeconomic policy and a boom in aggregate demand as well as both domestic and overseas speculative capital. The cyclical overheat of urban development was slowed down by a new economic stabilization policy introduced in 1994, indicating that partial reform has reached its limit at this stage. The control of state property has seen further decentralization, in the case of real estate, from municipalities to urban districts and from state work-units to state employees, raising the inevitable question of property rights. In reality, pragmatic and ambiguous solutions such as 'partial ownership' have been invented. Unlike initial reform policies, which mainly involved pragmatic changes in planning management so as to increase economic incentives for production and enable more effective implementation on a local scale, the 1992 reforms began to touch on some fundamental issues of the configuration of society. Clearly, the work-unit system which is founded on state-owned enterprises is now under serious challenge. This requires an in-depth study on how production is organized, how the built environment is produced, and what legacies remain from previous urban development.

Recently, a rapidly burgeoning literature has begun to explore various aspects of China's real estate development (e.g. Dowall, 1993; 1994; World Bank, 1993; Chen, 1996; Wang, 1995; 1996; Tang, 1994; Wu, 1996; Chiu, 1995; Zhu, 1994; Yeh and Wu, 1996; Zhou and Logan, 1996; Wu and Yeh, 1997). While each explains one facet of the process, these studies as a whole raise the need for a conceptual framework. For example,

Dowall (1994) notices that in most Chinese cities the government requires on-site replacement of demolished housing, the provision of additional community facilities, and the payment of numerous fees and charges. He suggests that new regulations should allow real estate companies to pay cash compensation for buildings and land given up for redevelopment. The World Bank (1993) has made similar observations concerning the compensation of residents who actually do not own the land, arguing that the compensation is unjustifiably high. On the other hand, we were informed that large development companies have begun to dominate urban redevelopment in Beijing (Deng, 1995), that informal self-help housing is not properly compensated in the case of inner-city redevelopment and that the community-based (e.g. urban street office) industry is facing being dismantled (Zhang, 1997), and that planning goals are in practice being 'undermined by the exigencies of the growing real estate industry' (Lu, 1997: 59; Leaf, 1997; Abramson, 1997). Here, the question is what standard of compensation should be followed? Municipalities exact a land premium from developers through land leasing. Are they exacting a premium that is unjustifiably high? Although the central government urges that land leasing should be 'transparent' (Research Team of the Ministry of Construction, 1993), local governments persistently prefer negotiation to auction. A large part of the land premium is still paid through contributions to community facilities, which are referred to as 'physical land rent' in Chinese literature (Wang, 1992; Deng, 1995). This raises the question of why municipalities prefer lease conditions for 'planning gain' to a monetary land premium? What has made cash compensation to original residents so difficult? The matter is further complicated by the involvement of state work-units in housing provision. It seems that, with the hardening of budget control, state enterprises may no longer be able to continue to provide housing for their employees. What will the consequences be? To answer these questions, one needs to explore the behaviour of the actors involved in urban redevelopment and the relationships that have been formed in the broad urban process beyond the real-estate sphere.

Another example is related to the sale of 'commodity housing'. Chen (1996) finds that the prevailing housing price to rent ratios are significantly higher than the rational level for both subsidized and free-market housing. Such a distortion has created strong disincentives for an urban resident to become a homeowner. Yet what is the institutional context that has driven housing prices beyond the 'rational' range of equilibrium? To answer this question, again one may need to consider such issues as the persistence of the work-unit system and its involvement in purchasing 'commodity' housing through retained profit. One explanation may be that the prices in a housing market are not merely determined by households but by work-units which have not yet become subject to 'hard-budget' parameters. Another explanation may be that those who hold key positions in a work-unit system may divert public funds to housing consumption. Alternatively, it may indicate that social stratification in urban China is truly becoming so large that, although overall income inequality did not increase, the *nouveaux riches* are able to afford luxury accommodation at a price comparable to that of advanced capitalist cities. If the latter is the case, what is the institutional reason that prevents the ratio from moving toward its rational equilibrium range? Is it simply because, if it were true, the rent would rise beyond the affordability of the massive labour force? Or, because the price of commodity housing does not reflect the genuine demand for accommodation? The recent burst of price bubbles shows that commercial housing production has not been targeting the genuine demand for accommodation. The phenomenon suggests the need for an understanding of the underlying process.

In view of the accumulated empirical data on housing and land development in China, a conceptual model would be both possible and plausible. This study represents a modest effort in this direction. It should be understood that this paper is not itself intended to answer the questions mentioned above but recognizes that, in order to do so, a wider perspective and framework is needed.

## Relevant theoretical insights

Previous studies have shown that the socialist city has some unique features (e.g. Fisher, 1962; French and Hamilton, 1979). These studies generally emphasized the importance of socialist ideology and planners. However, it has been shown that 'gatekeepers' in capitalist societies are constrained by the broader structure of society. This has led to a political-economic analysis of the urban process (Harvey, 1978). Seemingly, the political economy approach focuses on the capitalist city and is not applicable to the socialist city because all its arguments are based on explicitly 'capitalist' criteria. In fact, the approach is not only relevant to analyses of capitalism but indeed any political-economic system. It is a powerful tool to analyse the socialist city as well because it comprehends cities in a unified theoretical instance and transcends the ideological 'uniqueness' of specific social forms. Moreover, the political economy approach is not necessarily equivalent to the 'structuralism' which ignores actual dynamics and institutional settings. As will be shown later, the approach requires an understanding of how various components are *configured* into a 'workable' institutional setting. Only through in-depth examination of the institutional setting can one acquire a better understanding of the 'political economy' which defines rather than determines the role of each institutional component. Otherwise, the ideological 'labelling' exercise would face considerable difficulty in explaining the diversity of various socialist cities. What follows is a brief depiction of four elements related to the analysis.

### *Capital switching*

The usefulness of the political economy approach is that it links the built environment with more general commodity production. For example, Harvey (1985) attributes the 'restless formation and reformation of geographical landscapes' to the imperatives and contradictions inherent in capitalism. Of particular relevance is his theory of capital circuits (Harvey, 1978). The theory emphasizes city building as a central element in the overall dynamics of capitalism. Seeking for excessive profit inevitably leads to overaccumulation crises. In response to such crises the capital switches from the primary circuit, in which the means of production and construction are produced, to the secondary circuit of fixed-assets and the production of the built environment. The switch thus provides an outlet for idle capital and contributes to the survival of capitalism. The argument implies that the switching is dependent upon the condition of overaccumulation within the sphere of production. In his later study, Harvey (1989a) has elaborated on capital-switching theory by pointing out the autonomy of the financial system through a flexible mode of accumulation. The switching thus becomes a new strategy to combat tendencies to a falling rate of profit.

This later development of capital switching theory is more compatible with recent empirical studies (King, 1989a; 1989b; 1989c; Beauregard, 1994). Subsequent empirical studies reveal that, although the underlying cause of switching is debatable, the dominance of capital in city building is becoming increasingly apparent. As Beauregard (1994: 730) pointed out, 'it is not the switching of accumulated capital from the primary to the secondary circuit that is the issue, but the manipulation of capital to alter the value of the built environment without consideration of either the economic viability of investments or the contribution of such investment to the development of society'.

### *The structure of building provision*

Emphasis on the importance of the economic base does not mean that the institutional setting is irrelevant. The narrow focus on capital is contended by Ball (1986a; 1986b) who put forward the concept of 'the structure of building provision' which considers a

wider range of factors in urban development. According to Ball (1986a: 158), the structure of provision 'describes a historically given process of providing and reproducing the physical entity, housing: focusing on the social agents essential to that process and the relations between them'. Ball generalizes the production and consumption of a building as 'provision', which is not merely a physical process but also a social process in which social relations are formed into a structure — the structure of provision. The provision thesis provides a perspective for empirical research rather than a theory of explanation. The usefulness of the perspective is that it is neither fixed nor static. The structure can be country-specific and historically dynamic and vary with different types of provision. The emphasis on the role of social agencies in the structure certainly makes an important distinction between production and provision.

### *Rent gap*

Rent gap theory provides a dynamic perspective on land rent and urban development (Smith, 1979; 1996; Clark, 1995). The rent gap is not 'a break-even point in real estate accounting'; rather, it is a 'political economic theory of uneven development on the urban scale' (Clark, 1995: 1489). The rent gap refers to a disparity between capitalized ground rent and potential ground rent. The capitalized ground rent, or the actual ground rent, depends on the site's current intensity and type of land use, while the potential ground rent of a site is the rent that could be obtained if the site were put to the 'highest and best' use. A rent gap arises as a logical and 'rational' outcome of the operation of land and housing markets. Smith (1996) sketches the emergence of a rent gap along with the historical decline of the inner city. In this context, the generation of a rent gap is associated with the capital devalorization process. Besides the primary process of capital devalorization which 'diminishes the proportion of the ground rent able to be capitalised', the rent gap can also be created 'by continued urban development and expansion which has historically raised the potential ground rent level in the inner city' (Smith, 1996: 68). Fundamental to the creation of a rent gap is a 'spatial fix' of capital in the built environment (Harvey, 1978), which means that the original investment tends to lock in the form of the immobile structures that have been implanted. Harvey (1978: 124) describes this phenomenon as a paradox in that 'spatial structures are created which themselves act as barriers to further accumulation'. The resistance of previous investment to land-use restructuring builds up the gap between capitalized land rent and potential land rent.

### *Property right*

Political economy analysis is concerned with the form of ownership, particularly in the sphere of production. Property right, the right to derive income from productive assets (Walder, 1992), represents an economic institution that governs transactions in the economy. From North's (1981) institutional explanation of economic growth, it can be seen that advanced capitalism is quite different from an idealized free market model. Similarly, application of this concept to the socialist city will bring us closer to the reality of how the economy was planned and coordinated than any abstract concept. It is shown that in planned economies the right to operate a productive asset and derive income from it is widely dispersed across a hierarchy of government jurisdictions (Walder, 1992). This explains why the role of the state work-unit system is so critical (Walder, 1986). This understanding suggests from another perspective why the investigation of capital movement is important, largely because the urban process, similar to social stratification, is subject to processes of taxation and finance which can be viewed as 'a result of the opportunities and constraints provided by a special configuration of property rights' (Walder, 1992: 527). Specifically concerned with social stratification, Walder (1992) analysed three aspects of the exercise of property rights by government jurisdictions: the fiscal structure of the state, the taxation process and the investment process.

The four elements of political economy analysis discussed above have their logical consistency. Each of them goes beyond pure economics and touches on the mode of production and social relationships (not only based on individuals but also the institutions they are affiliated to). The four aspects emphasized — capital movement, relations among social agents, the disparity between capitalized and potential rents, and a bundle of rights of 'property' — are interrelated under or integrated within a wider political-economic system. For example, the movement of capital is largely driven by the particular incentive provided by a specific property right and is realized or 'manipulated' through social agencies who execute their particular rights. The creation of the built environment — a set of property rights — is a spatially 'fixed' form, reflecting the relationship between these agencies. It may thus have impacts on certain rights, either creating or restricting the ability to execute them. For example, in the case of rent gap, the right of appropriating all economic benefit associated with ownership is differentiated from the actual 'right' of capitalizing it. This change in the specific attributes of ownership has created a new incentive which defines the movement of capital in the next phase.

## **Relevance to Chinese cities**

The inspiration provided by the political economy approach suggests that, to understand the built environment, it is critical to examine the general processes of production and reproduction associated with it, in which money and finance are key factors. In a socialist city, city building cannot be isolated from the basic operation of its economy and related capital movement. For example, land in pre-reform urban China was allocated through administrative methods. Obviously, the principles and 'rules of the game' applied in the process are critical to understanding the urban structure. However, from the political economy point of view, it would be enlightening if the principles and rules themselves could be understood logically in a broad framework of socialist production and reproduction.

How is the provision thesis relevant to the Chinese context? Unlike the managerialism approach, the provision perspective understands the actors through their interactions during the development process, which is itself very complex (Gore and Nicholson, 1991). This is true in the Chinese context as well. For example, the notion of 'administrative allocation of land' is somewhat misleading, implying that, under such a system, the state owns land and allocates it freely to enterprises. It is inaccurate to simplify land acquisition as a process in which the state acquires farmers' land and allocates it to land users. Who is the state — sectoral departments of the central government, municipalities, or state enterprises? What are their respective roles in land development? To answer these questions, one needs to investigate the actual land development process. The literature on China's urban land development has begun to increase recently (e.g. Dowall, 1994; Zhu, 1994; Tang, 1994; Yeh and Wu, 1996). Yet, substantial efforts need to be made in order to develop a theoretical understanding that could be generally comparable with the models reviewed by Gore and Nicholson (1991). The perspective on the structure of building provision should help to clarify certain of the more mysterious aspects of the process.

Is it possible to apply rent gap theory to Chinese cities? A planned economy is substantially different from the one in which rent gap theory was originally developed. Nevertheless, as mentioned before, rent gap theory is a political-economic analysis of urban land. It is not real estate accounting (Clark, 1995). Critical to the theory is the distinction between different meanings of land value, ground rent and land price. Marx's labour theory of value suggests that the value of a commodity is measured by the quantity of socially necessary labour power required to produce it. The value can exist independently from a market. Only in a market is the value translated into price — its

exchange value. The ground rent is a reduction from the surplus value created on the site. And 'capitalized ground rent is the actual quantity of ground rent that is appropriated by the landowner, given the present land use' (Smith, 1996: 62). Although ground rent is a real presence, it could be intangible. For example, in the case of owner-occupancy of housing, ground rent is capitalized only when the building is sold in a market, thus, it appears as part of the sale price of the house. Therefore, the rent gap theory may be applicable in other economies. Kovacs (1994) and Smith (1996) show that the rent gap is a useful concept to explain gentrification in Budapest.

In China, the state owns urban land. Although there was no land market, the rent was still present. The rent is claimed by the state when a state enterprise turns its products over to the state. This argument can be illustrated with the example of the appropriation of land rent from state-owned shops. A shop in a central location can sell more goods than one in a less convenient place. The output of the shops differs, although both operate in the same way. In this situation, although rent exists, it is irrelevant to the shops because the state appropriates all the rent. Therefore, the rent seems not to exist. Rent only matters when the reward to a shop is calculated based on its output. For example, since economic reform, shops have been allowed to retain their profits. Subsequently, they have begun to compete for land, which has made the hidden ground rent transparent. Clearly, ground rent exists in a planned economy. It has only become apparent and meaningful since the establishment of a land market. Here, a gap between capitalized and potential rent may exist. In the pre-reform era, underinvestment through the administrative allocation of land and the fixity of the built environment inherent in project-specific development pushed down the rent that could be capitalized. Since the constraint on land transactions has been lifted by land reform, the potential rent has been pushed up, thus, enlarging the rent gap.

The concept of property right can shed light on the critical issue of resource allocation in a planned economy. Property right in a general sense refers to 'a bundle of rights' which constitute the relations among persons and institutions with regard to an asset (Marcuse, 1996). Under this general definition, property right certainly exists in state socialism. Seemingly, under socialism the state owns the production and most durable consumption factors. Since public ownership is the predominant form of ownership, the discussion of property right appears meaningless. However, if property right is seen as a bundle of rights, the *de jure* and *de facto* rights separate out in state socialism. While the state possesses a nominal property right, the actual occupancy of state property is widespread over various sectoral departments, jurisdictions, institutions and state work-units. Marcuse (1996: 135) pointed out that under socialism 'rights of use ... equalled or exceeded in many ways those conventionally associated with 'ownership', and certainly were far stronger than those associated with conventional tenancy in the United States'. This understanding opens up the need to investigate the *actual* form of resource control and its bargaining process among governments. Through the concept of property right, the trajectory of economic reform becomes much clearer. The reforms, while retaining certain aspects of property right held by the state, have been redistributing other rights from central government to local governments, from the latter to state enterprises and overseas investors and developers, and more recently from government units to semi-government companies and individual consumers. This redistribution process has effectively created new capacities and incentives for these property rights, and consequently fiscal and budgetary practices have to be re-tuned. If we view the process of establishing socialism as one of creating new types of owner, limiting certain attributes of ownership such as the right to make profit from it, and distributing rights of control among users and the state, the reforming process becomes not only 'a redefinition but also a redistribution of rights from one set of social relations to others' (Marcuse, 1996: 183). Seen as such, the struggle for control over inner urban land during redevelopment, for example, can be better understood.

## A political-economic analysis of the urban process in state socialism

This section analyses three aspects of the urban process in state socialism. First, I examine the basic production process in the socialist city and the inherent features associated with it. Then, I analyse how the process defines the production of the built environment. Finally, the creation of a rent gap in the inner city is discussed.

### *The logic of production*

Like its capitalist counterparts, the socialist enterprise has a strong thrust for expansion, although the phenomenon stems from a different root — the shortage economy. Fundamentally, expansion is a necessary condition for survival in a competitive society, no matter whether the competition is through a market mechanism or administrative methods. Under the socialist management system, because of the absence of market signals, the performance of an enterprise has to be assessed by its output value, regardless of whether the output is able to match the demand, i.e. whether the output value is capable of being 'realized'. As such, the production of an enterprise is not constrained by the demand but rather, according to Kornai (1992), the bottleneck of resource input. As long as an enterprise is able to take resources from the state, the enterprise can organize production and, ultimately, enlarge its output. In this situation, because state enterprises have a huge thrust for expansion and they do not care whether their output is sufficiently realizable in monetary form to reinvest in production, there is a huge demand for investment or input, to which Kornai refers as 'investment hunger'.

Under normal circumstances, an enterprise should create an output value that is larger than the input value. The difference between input and output is the surplus value. The word 'surplus' here is not necessarily associated with exploitation. The latter only refers to a situation in which the surplus is captured and distributed in an unjust way. There is no need to deny that a socialist enterprise does extract surplus value from the production process. It is also appropriate to apply the political economy approach to dissect the system.

Control of social surplus in any society is a means of generating power. The dominance of the state stems from its role in the concentration of surplus and in resource allocation. The control of surplus is determined by the mode of ownership. Private property rights over production material and labour as a commodity allow capitalists to capture the surplus. However, along with the development of advanced capitalism, the right of monopoly is constrained either by way of the state regulatory machine (to apply planning permits and confirm zoning, for example) or the state's redistributive exaction. The capitalist state plays a role of redistribution, which leads to collective consumption. Public ownership means, theoretically, that the surplus should belong to the society as a whole. But, here the actual right of *disposal* rather than nominal ownership matters. As will be seen, under socialism many aspects of property right are blurred and dispersed widely over jurisdictions, government departments and state work-units. The socialist state is an apparatus that undertakes both the capture and redistribution of social surplus.

The justification for surplus concentration lies in an efficient and planned use of surplus, thus avoiding a societal crisis of uncoordinated growth. Surplus concentration enables the state to reinvest in strategic areas, to satisfy social 'needs' and to speed up industrialization. In fact, a certain degree of social control over surplus (redistribution) is inevitable in any society. For example, state intervention is widely justified by welfare economics: the necessity to combat externalities and for the provision of social goods. The crisis — particularly overaccumulation at the societal level — has transformed free market capitalism into a mixed economy combined with the Keynesian state.

In the case of China, the extraction and concentration of social surplus are achieved through the *state work-unit system*, which mainly consists of state enterprises and

institutions. The system is configured as such to efficiently extract surplus from the production circuit and turn it over to the state. The system allows a very effective transmission of commands from the state — essential to the operation of the planned economy; while the planned economy guarantees the work-unit's monopoly status in resource allocation, thus ensuring that the system can effectively control state-employed labourers. Due to the non-existence of the market or societal welfare, resources cannot be obtained outside the work-unit system. As a result, a structural dependence has been created. The work-unit system and the planned economy tend to reinforce each other.

The logic of production has led to two seemingly contradictory characteristics: a highly centralized process of production and a decentralized, self-contained and fragmented process of labour reproduction. In contrast to capitalist cities where the separation of job and residence is prevalent, the socialist city is configured with *overlapping* production and reproduction spaces. In the case of Chinese cities, the two processes have been integrated through the basic cell of the society — the state work-unit. The configuration reflects the fact that under predominant state ownership the distinction between the state and society has become blurred. The nominal ownership of state property has become meaningless. Instead, the *de facto* rights are the survival foundation for any social unit in a competitive environment — not in a market but rather in the planning arena. The desire for control of resources drives state enterprises to expand for myotic and local interests, sometimes in contradiction to the interests of society as a whole.

The logic of production provides a better understanding of the puzzling planning process. Arguably, here it suggests that rather than explaining how the central planning process shapes the economy, light should be shed on how the configuration of the economy defines the framework and the *possible* operations of planning. It has been said that the socialist economy is a centrally planned economy. In many ways this statement is inaccurate. Firstly, economic decision-making is not necessarily highly centralized at the central level (e.g. Beijing). Secondly, planning, though influential, did not eliminate markets, for example, the market for daily necessities. Thirdly, the economy often grows along a fluctuating and not well 'planned' trajectory.

A natural question is why does public ownership require the state's direct involvement and planning? Too often researchers believe that in a centrally planned economy planning is a strictly top-down process. This assumption neglects the other facet of the process — bargaining between governments and their subordinate work-units. The above perspective suggests that the planning is a process of bargaining and reaching consensus. Its main purpose is to combat myotic expansion, to constrain the behaviour of state work-units, and to concentrate surplus and prevent it from being wasted. Interestingly, a plan is often based on an *ad hoc*, so-called 'comprehensive balance' (sectoral vs. territorial; central vs. local; sectoral vs. sectoral; local vs. local), rather than on the projection of demand or societal 'needs'. Decision-making is spread widely across various government departments and their subordinate work-units.

How and why does the need for money and markets (e.g. consumption commodities) still exist in socialist economies? Although regulated and distorted by planning, these markets are similar to those in capitalism (a market is a market, after all). Transactions in these markets involve commodities with relatively well defined property rights. The coordination of this type of commodity production does not need to resort to the planning process (in fact, socialism has *never* been able to reach its ideal form of communism where even consumption materials would be publicly owned and allocated according to 'need'. In such a case, the coordination would be an unimaginable task.). Only those products that belong to the state in name but are possessed by various state work-units require planned intervention. The work-unit has a tendency to grab others' resources. On the other hand, a state enterprise is not sensitive to the rise of input cost because it can eventually transfer the cost to the state. Thus, no matter how high the cost, the enterprise

still attempts to get hold of resources. Without planning constraints, there would be an escalation of charges. Chinese planners vividly describe this behaviour as 'lifting money from the left pocket [of the state] to the right pocket [of the state]'. For example, in terms of labour reproduction, if this task were assigned to a local government, it could simply exaggerate the cost of reproduction, a practice that is similar to 'taxing' state work-units. Thus, the state has to prevent various branches from 'taxing' each other. The argument developed thus far has come close to that of North (1981) who emphasized that greater clarity and enforceability of private property rights could substitute government regulation to produce more efficient coordination. Here, central planning is seen as a product of the desperate need for coordination under regimes with a wide dispersal of public property rights. This is why transactions of production materials and durable consumption goods that belong to the state (e.g. housing) are based to a much greater extent on a planning process than daily necessities (e.g. food). The critical link between the behaviour of excessive expansion and state ownership is the 'soft budget' discussed by Kornai (1992). The work-unit is indifferent towards the input cost because it can transfer the cost to the state. Moreover, it tends to overestimate the value of its products so as to draw other work-units' resources under its control. If every work-unit behaves in the same way, it becomes a no-win situation. Eventually, the state — the boss of the competitive units — has to step in and set a limit.

Surplus wastage and dispersal are constant threats to state ownership. This tendency demands a centralized planning process and requires a special method to be adopted in the production of the built environment. In a planning system, investments are controlled on a sectoral basis. The state allocates capital construction investment (CCI) which includes the productive investment for the main part of a project and the non-productive investment for facilities and services attached to it.

#### *Production of the built environment*

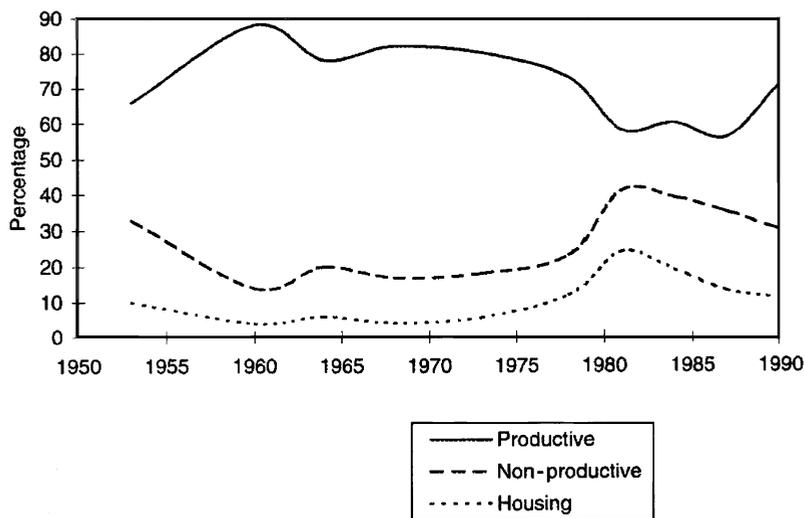
The concentration of social surplus, if an outlet could not be found, would lead to an overaccumulation crisis. In capitalism, this is manifested in a variety of guises such as overproduction of commodities, falling rates of profit, surplus capital either as idle productive capacity or as money capital lacking opportunities for profitable employment, and surplus labour (Harvey, 1978). Why then does the concentration of surplus not result in the same problem in socialist states? In capitalism, an overaccumulation crisis in the production circuit is eased through switching capital to the creation of the built environment. Capital flow is realized through 'the existence of a functioning capital market and, perhaps, a state willing to finance and guarantee long-term, large-scale projects with respect to the creation of the built environment' (Harvey, 1978: 107). Comparatively, the socialist state has a much larger capability of rerouting capital movement. Tactics adopted are transferring capital to less developed regions, extensive rather than intensive development, internal circulation within industrial sectors and, finally, free allocation of materials that have become indispensable for labour reproduction if the principle of equal-value transactions cannot lead to the continuation of the 'normal' mode of labour reproduction. This last tactic is only adopted when there are no other options. For example, when dealing with labour reproduction, housing has to be provided free. During this process, planning plays a critical role. Planning restrains the tendency towards overproduction and diverts the capital to new construction projects. In a market situation, overproduction is immediately felt in the lack of demand and piling-up of stocks. However, planning can only temporarily delay the problem. It cannot solve it. Over a certain limit, accumulated stocks block the movement of capital. Then, the state has to channel the capital away from the original project. However, unlike the capitalist city, whenever possible the capital would be kept in the production circuit. Why?

As mentioned, the socialist economy is a shortage economy (Kornai, 1992). As such, the overaccumulation thesis would seem to be irrelevant. In fact, the problem is disguised

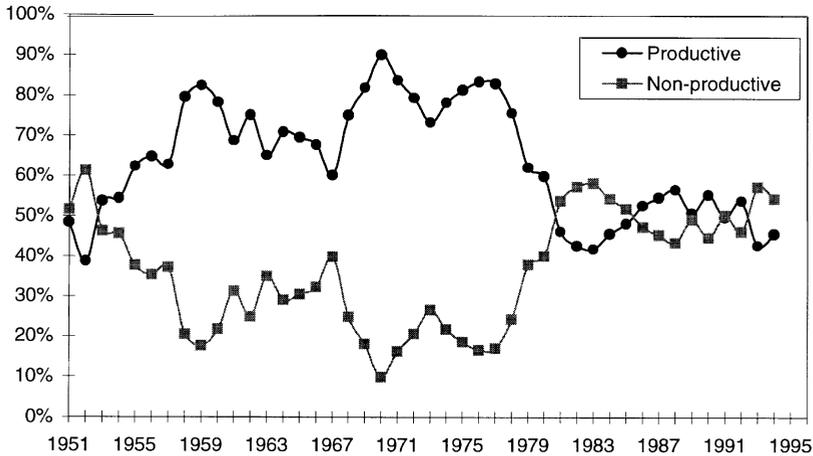
by the tactics mentioned above. The term 'over-' is relative to the demand, measured by the principle of commodity exchange based on equal value. However, if the exchange is not based on equal value, the problem may become a 'shortage' in respect to the availability of the commodity. This is a strange manifestation of overaccumulation. Taking housing as an example, if housing allocation in a socialist economy were based on its value, there would be an absolute 'overproduction' problem no matter how small the amount of housing produced, because a state employee could not afford the price. Obviously, the products are exchanged not according to their value (building a house takes far more socially necessary time than producing a bottle of milk does).

The logic thus creates a structural tendency towards *underinvestment* in 'non-productive' areas, among which is the production of the built environment. Here, the framework reveals that the 'non-productive' label is not simply a matter of ideology but refers to that which is *unproductive* in money movement. It is a 'black hole' in the capital circuit. Revealed through the money movement, underinvestment in the inner city is clearly the norm rather than the exception. Figures 1 and 2 represent the changes in the structure of productive/non-productive investment in China in general and in Guangzhou in particular. It can be seen that suppressing non-productive investment had been a constant feature before economic reform. In fact, the state was suppressing non-productive investment even during the *normal* and flourishing cycle. When this had reached its limit or when the political system encountered various crises, a policy of so-called 'remedy, reconsolidation, or readjustment' would have to be used to release the valve. This can be seen from the period of the early 1960s and the time immediately after Deng Xiaoping took power. The fluctuation is a result of the state's shift in policy to combat the 'bottleneck' of infrastructure and related social problems. The production of consumption space is in constant 'shortage', which means that under the circumstances production could only be effectively carried out by the user of the product, i.e. *project-specific development*.

To sum up, the central mechanism of a socialist system is to concentrate social surplus and allocate the surplus to strategic state projects. Although infrastructure contributes to the production process in society as a whole, calculated on the project



**Figure 1** Changes in the structure of productive and non-productive investment in China, 1952–90



**Figure 2** Changes in the structure of productive and non-productive investment in Guangzhou, 1951–95

basis, it represents a ‘loss’ of capital. Viewed through this specific form of ‘accounting’, investment in infrastructure brings no return: the more local government invests, the heavier the burden of maintenance and other expenditures. For a long time, the central state prevented local states from levying taxes on state enterprises. Infrastructure development was financed through the state capital construction system. Local governments had to submit a request to higher authorities for resource allocation.

#### *Creation of the rent gap*

With the above understanding, this subsection seeks to answer some questions: why in the pre-reform era were there so few urban redevelopment projects; why did on-site compensation to residents become a general ‘code’ of practice during urban redevelopment; and what are the implications for the new situation after economic reform?

The on-site arrangement of original residents proved to be a great obstacle to redevelopment schemes. Relocation of households was extremely difficult. Simply, residents were reluctant to move to peripheral areas. An understanding of the production of the built environment, however, reveals how this ‘preference’ has been shaped by the specific development process. Underinvestment in infrastructure and service facilities led to congestion and queues. Public transportation was the main method of commuting, which severely restricted the commuting distance. The unit cost — measured either in money or the time expended on a painstaking journey — was much higher. Low wages meant that it was critical for residents to access heavily subsidized services. As mentioned, welfare and services were mainly provided by work-units, causing the *fragmentation* of consumption space. Work-unit services are not accessible to those who are not affiliated to the workplace. In terms of spatial distribution, municipally provided services were mainly found within a city proper, while suburbs saw more work-unit services. Consequently, a move to the peripheral area meant a huge loss to residents.

The above discussion has mainly focused on the reluctance of residents involved in urban redevelopment. Viewed from the provision side, redevelopment projects also had difficulty in finding housing to relocate residents. Due to the absence of a housing market, projects were responsible for developing new housing in other locations themselves, which meant that they had to undertake both development and redevelopment works. Budget and timing were both difficult.

So far, attention has been focused mainly on technical reasons. Through the logic of production and the creation of the built environment, the lack of redevelopment in the inner city can be better understood. In a shortage economy, state work-units had a natural tendency to grab new resources. As shown, the basic organization of production is configured to extract and concentrate surplus *effectively*. As a result, labour, when it leaves the production process, becomes a pure burden — a reproduction cost. Labour reproduction had to be subsidized by the state and had to be carried out by those work-units that had actually utilized the workforce in the production. Housing, for example, is a necessity for labour reproduction. The extraction of surplus is so thorough that it kills any opportunity for real estate production. In capitalism, a real estate enterprise is just like any other firm producing commodities. Although real estate markets have some special features, transactions are based on market principles. In the case of state (work unit) socialism, however, housing could no longer be a form of commodity, *nor* a product which could possibly be produced through the logic of socialist production. That is, it was impossible to assign the task to a state enterprise which only undertook real estate development for residents. Deeply embedded in the structure, this phenomenon is in fact a strange manifestation of the socialist state's overaccumulation. Housing had to be given free. Housing had to be pure social welfare — a collective consumption, yet organized through cellular communities (e.g. work-units' living quarters). Work-units, whenever possible, always favour green rather than brown development.

A consequence of disinvestment in the inner city is the creation of the rent gap. Although it is difficult to compare current rent with the potential rent under the 'highest and best' use, it is possible to compare present rent with the rent under a 'better' use (not in a normative sense). Table 1 indicates such a likely rent gap. It can be seen that the rent obtained from the black market is much higher than current subsidized rent. The investigated cases represent a loophole in rent management. The state has suffered from subsidizing rent. Superficially, the state could determine to what extent the rent should be

**Table 1** *Rent gap between subsidized and black market rents: selected cases in Beijing, 1994*

Case no.	Floor space m <sup>2</sup>	Subsidized rent (RMB)	Black market rent (RMB)	Rent gap (ratio)
1	15	1.56	1,200	769.2
2	31	4.76	1,500	315.1
3	45	3.82	900	235.6
4	30	3.50	600	171.4
5	11	1.87	300	160.4
6	16	3.85	450	116.9
7	14	1.31	400	305.3
8	15	2.81	600	213.5
9	35	3.23	1,000	309.6
10	17	2.30	600	260.9
11*	1,487	320.00	275,000	859.4
12*	60	39.14	30,000	766.5
13*	400	285.94	120,000	419.7
14*	172	48.56	120,000	2,471.2
15*	35	94.26	60,000	636.5
16*	140	77.66	135,000	1,738.3
17*	11	3.36	15,000	4,464.3

\* Leased by work-unit.

Source: Compiled from Deng (1995).

'capitalized'. It could be raised, for example, to the level of the black market rent. If this were the case, the discussion of rent gap would become meaningless. In reality, however, this would be impossible. Because the basic production process remains unchanged, the state cannot withdraw from subsidizing, thus, determining a low 'capitalized' land rent. That is, the level of capitalized rent has been 'fixed'. Under state ownership, capitalizing land rent even becomes *unnecessary* because the state is the owner of surplus value as well as land. Land rent is a deduction from the surplus value. Capitalizing land rent would only reduce the surplus value. Since the extraction of surplus value has already been accomplished during the production process, it becomes unnecessary to capitalize rent.

## Urban restructuring in an emerging market economy

'Restructuring' in literature often refers to profound social, economic and political changes, implicit in later capitalism (e.g. Harvey, 1989a). The process involves a wide range of changes in the mode of production, accumulation and economic relations. More specifically, it refers to: the shift from fordism to postfordism; increasing international and intercity competition; the introduction of new information technologies, and unprecedented mobility of capital and a flexible accumulation mode; the emergence of global cities; a growing polarization of society and a decline in the organizational power of the working classes; the changing role of the state from managerialism to entrepreneurialism; and the proliferation of local resident groups.

As will be shown, restructuring is in fact a worldwide phenomenon in the late twentieth century. While restructuring under late capitalism has attracted wide research attention, the other side of the coin — the change in the post-socialism — has largely been unexplored. As it is impossible to be exhaustive in this short article, I shall mainly focus on the process related to the transformation of the built environment, i.e. urban restructuring. Our speculation on the process will touch on three main themes in the Chinese context: the change in the political economy (decentralization and the introduction of a market mechanism), the change in the organization of urban development (from project-specific to comprehensive and real estate development), and the integration with Western economies under a global economy (the increase of foreign investment). In particular, the analysis is intended to reveal the changes in the underlying dynamics discussed in the previous sections.

It has been said that profound changes have been brought about by the economic reforms. However, it is worth noting that reform is not a well designed 'social engineering' project, rather, it includes *ad hoc* policies in response to crises. The pragmatism upheld by reformists reflects the nature of reform. The problem then was perceived as one of coordination (planning is less responsive to demand) and of motivation (overcentralization of revenue causing low morale in local governments and enterprises); but not as a problem of property right or a problem embedded in the logic of production. It was hoped that the market, not the planning, could be the panacea. Before examining what the responses are, let us first review what crises confronted the reform government.

A series of crises occurred in the late 1970s. Besides obvious political reasons (the Cultural Revolution), these crises had accumulated from the specific mode of production. Firstly, squeezing agricultural surplus through compulsory state purchase, and differential prices between agricultural and industrial products virtually destroyed the vitality of the agricultural sector where the whole package of reform policies began. Secondly, development through a high rate of accumulation and a heavy industrialization strategy caused a severe redundancy of employment. Industrial sectors were simply unable to absorb unemployed labourers. When the problem could not be solved through 'hidden unemployment' within enterprises, urban youth had to be sent to the countryside. Thirdly, the suppression of 'non-productive' investment led to decreasing standards of

infrastructure and a housing shortage. On the other hand, project-specific development caused redundant construction, regardless of economic scale. Moreover, the coordination of different projects managed by various sectoral departments became increasingly difficult. On top of all this, at the same time, the state was confronted with a severe fiscal deficit resulting from the subsidy on agricultural production, the assistance for unemployed urban youth, and the overheated importation of equipment. In short, it was the contradiction in the logic of production rather than purely ideological issues that drove 'the national economy to the brink of bankruptcy'.

What has changed in the logic of production and the production of the built environment since economic reform? The strategy of the reform can be generalized as 'the state regulates the market and the market guides enterprises'. Thus, the reform at the beginning was clearly not aimed to restructure public ownership of the means of production. The basic mechanism of surplus generation has remained unchanged. Rather, in response to the crises, reform policies deregulated the central planning control and decentralized economic decision-making to state enterprises and localities. While the work-unit system remains largely unchanged, the decentralization has switched capital circuits and, consequently, reorganized the production of the built environment.

#### *Political economy of decentralization*

Decentralization was triggered by the severe fiscal deficit in the late 1970s. Through its attempt to disperse expenditure to localities, the state inevitably gave localities the autonomy of revenue mobilization. To encourage localities to open up revenue sources, a flexible 'fiscal responsibility system' allows them to retain additional revenue. As a result, the role of the central state has been reduced and investment sources have been diversified.

One direct consequence of decentralization is the diminishing role of state budgetary control and economic planning. Budgetary revenues decreased from 76.4% in 1978 to 53.6% in 1990 (State Statistical Bureau, 1993). About half the revenues now come from extra-budgetary sources. The changing composition of state revenues indicates that the role of the state in direct capital allocation is decreasing. As a result, investment sources are diversified. So-called 'self-raised funds' (SRF), referring to funds collected by localities and enterprises, are now increasingly fuelling urban development. In 1992, SRF accounted for 51.2% of investment in fixed assets (State Statistical Bureau, 1993). In terms of capital construction investment (CCI) which is the investment to state enterprises for a production purpose, state budgetary investment decreased from 77.8% in 1978 to 10.2% in 1992.

The emergence of SRF accelerated the collapse of the centrally planned economy. Not uncommonly, SRF is collected in 'grey areas' through retaining profits from self-managed projects, thus managing to avoid the state audit system. The mushrooming of SRF enables new projects to be funded outside state resource allocation. Project registration in the Economic Planning Commission (EPC), which was the central mechanism of economic planning, becomes unnecessary, because resources can be obtained from markets. Clearly, SRF itself begins to regenerate more SRF.

Decentralization reflects a profound transformation in the political economy of this country, namely, *from sectoral dominance to localization*. Sectoral dominance here refers to the feature wherein production and reproduction are mainly organized through the hierarchy of an administrative system reaching from sectoral departments of the state (central government) down to state enterprises. Commands were transmitted along a hierarchy built on functional divisions. Thus, territorial organizations, such as municipalities, were not the basic unit for organizing economic development. Instead, the state work-units under the supervision of sectoral departments undertook both production and reproduction activities. Functional branches of local government were more responsible to their supervisory departments than to the major. This structure of building provision severely discouraged municipalities from organizing urban development.

SRF has broken or at least reduced the vertical linkage between state enterprises and their supervisory departments. Thus, decentralization has paved the way for reorganizing urban development. Municipalities are beginning to charge enterprises for the use of urban infrastructure. In so doing, they can at least cover costs or even bring additional profits. Enterprises, having more autonomy now, have begun to compare the costs of self-organized development (e.g. direct bargaining with farmers during land acquisition) and comprehensive development. They are now willing to use SRF to obtain serviced land and housing from the municipality.

#### *Reorganizing the production of the built environment*

The change in the political economy has certainly opened up the possibility of adopting new ways of urban development. Generally, there have been two principal changes in the organization of development: the emergence of municipally-managed comprehensive development, and the introduction of a land leasing system and real estate development. Nevertheless, the change in urban development should not be viewed in a simply deterministic way. The prelude to the new organizational forms was actually initiated by the *practical* problems facing the reform government: a housing shortage and low efficiency in the use of urban land. Suppressing housing investment has decreased housing floor space per capita and caused the housing shortage. Since decentralization, the state budgetary investment has been significantly reduced, consequently the state has been unable to launch a major increase in housing investment. A practical solution was to ask work-units and individuals to contribute capital to housing development. This was one of the basic motivations behind housing commercialization. Various housing reform schemes have been formulated. Generally these schemes require enterprises, local governments and individuals to share the cost of housing development. As a result, new housing development projects are no longer funded by the vertical state hierarchy. The projects need a new method of coordination, which has driven housing production towards comprehensive development.

The second practical issue is the low efficiency in land use and overoccupation of agricultural land. Although in name the state owns urban land, in reality land management was far from unified. Under the project-specific development, land was actually held by various state projects. The fragmentation of land management forced work-units to occupy as much land as possible because as long as a parcel of land was occupied, the land would retreat from the allocation process. This produced a prevailing shortage within the land-use system (Tang, 1994). The problems of excessive encroachment of agricultural land and low efficiency in land uses have forced the state to control land loss and to devise a new mode of land management. Comprehensive development and land leasing were invented for these specific purposes.

After a long delay, the government finally came up with a pragmatic solution — the separation of land-use rights from ownership of land *per se*. The Seventh People's Congress held in 1988 made the paid transfer of land-use right official. The municipal land administration bureau was chosen as the state representative to manage land leasing.

The establishment of the land leasing system has strengthened the status of the municipality as the manager of state land. In practice, administratively-allocated land and rural land must first be acquired by municipalities before their use rights can be transferred. The market for leased land is largely regulated by the city government because the municipality can decide the amount and location of land leasing. As such, municipalities can now exert more influence on urban formation than before.

#### *The local-global link: the overseas capital*

The increase of foreign investment in China has been the most dramatic manifestation of the open-door policy. Over the past decade, foreign direct investment (FDI) has increasingly linked the Chinese economy to the outside world. In 1983, there were only

470 signed contracts for FDI, amounting to US\$ 1732 million. In 1992, the number increased to 48,764 and FDI was US\$ 58,124 million (State Statistical Bureau, 1993).

The significance of foreign investment is not only due to its sheer size but also because it is an external resource. It has a high mobility over localities. Decentralization has stimulated localities to obtain external resources and to organize urban development. The mobility of FDI has led to fierce intercity competition. Gradually, FDI has been gaining increasing bargaining power. In the early days of economic reform, overseas capital largely concentrated on industrial sectors. Since land reform opened up the real estate sector to overseas investors, the structure of foreign investment has shifted. The real estate sector has now become the second largest area in terms of absorbing foreign investments. Moreover, the land reform has made municipalities the representative of state land property. Under the new land system, the land premium is shared by the central and local governments. In order to increase their share of a land premium, local governments encourage investors to contribute to community facilities instead of making a cash payment so that the land premium would become less tangible. During the negotiation of 'planning gain', localities are often willing to compromise on land use control. The participation of overseas capital in urban development has transformed the behaviour of local governments towards so-called 'entrepreneurialism' (Harvey, 1989b).

The newly emerging entrepreneurialism in China is different from state managerialism in that the former carries out its activities with reference to an external market force which is increasingly independent of manipulation by state officials, although both managerialism and entrepreneurialism emphasize the contribution of decision-makers in critical positions. Specifically, under state entrepreneurialism, the norms, the gains and losses, tasks and objectives, and the methods and possible tactics are heavily *conditioned* by the market, which in turn is more deeply defined by the underlying urban process. Harvey's (1989a; 1989b) seminal account of 'postmodernity' in general and entrepreneurialism in particular provides a useful guide to further research on similar changes in urban management in China's transitional situation.

It should be noted that in China's real estate sectors, overseas Chinese investors in Hong Kong, Taiwan and Singapore play an important role. Studies show that FDI location is heavily influenced by pre-existing kinship ties (Leung, 1993) and newly developed 'social-networks' (Eng and Lin, 1996). The affinity between culture and language is another explanatory factor. For example, the effectiveness of an overseas Chinese investment project is achieved through the interpersonal networks established between investors and local officials (Hsing, 1996). However, further studies should be devoted to examining how *guanxi* (interpersonal relations) are defined as part of the complex rules of the game in order to appreciate the *limit* of the irrationality of the phenomenon. The task obviously cannot be achieved by a single paper, but it is worth noting that the exact force leading to the creation of *guanxi* is at the same time limiting its influence. Walder's (1995) thesis of 'local governments as industrial firms' shows how decentralization and the clarification of property rights began to 'harden' the soft budget and regulate local governments' behaviour. It is not yet known for the time being whether the overall behaviour of local governments is becoming more rational or irrational in the new circumstances, despite the available accounts of 'gift culture' in China. This also indicates the need for a framework to piece together the whole picture from the puzzling phenomena.

## Transformation of the built environment — a descriptive model

So far, our discussion has mainly focused on the non-physical aspects of urban restructuring. What changes in the built environment have been brought about by the restructuring process? What follows is a rather schematic attempt to explain the

historical evolution of the internal structure of Chinese cities. The model is not a definitive description of what every city experiences. This schema is, however, meant to provide a general explanatory framework within which each city's concrete experience can be understood. As wide diversity exists among localities, the schema can be seen as a continuous spectrum, at one end of which is located coastal open cities like Beijing, Shanghai and Guangzhou, while cities in the inner areas are distributed at the other end.

### *The pre-reform built environment*

The logic of production in the pre-reform era consisted of state enterprises' huge thrust for expansion, sectoral dominance in surplus concentration and the prevention of capital dispersal, and overlapping production and reproduction spheres. These features were described in a policy statement as 'transforming the consumptive city into a productive city', which has been widely noted (e.g. Whyte and Parish, 1984; Lo, 1987).

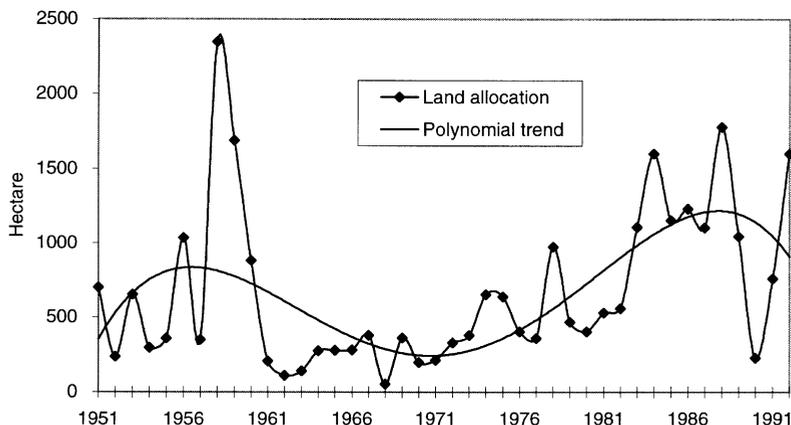
As such, urban development was mainly driven by industrial projects. Small satellite towns with specialized employment structures were set up in suburbs. Self-contained communities were a typical feature of the pre-reform built environment. The determining factor in this phase was the plan-led industrialization. During this phase, demolition of existing buildings was rare. The fragmentary land ownership meant a complicated bargaining process, frustrating any attempts to redevelop the built-up area. The relocation of residents was not only difficult but also meaningless. Provision in-kind was the norm rather than the exception. Thus, new constructions tended to locate wherever vacant land was available, regardless of land-use compatibility. These factors largely contributed to mixed land uses in Chinese cities.

Due to the suppression of non-productive investments, industrial projects had to rely on existing facilities in the city proper. Reliance on public transportation severely limited the maximum commuting distance. Thus, on the one hand, apart from large state projects, developments were spatially 'hooked' in the urbanized area. On the other hand, it became increasingly difficult to obtain vacant land inside the city because the serviced land, as long as it was being produced, was captured by the state work-units. This dynamics has produced a constrained and continuous extension of urban edges. Figure 3 represents the change in land allocation in the city of Guangzhou. It can be seen that since the period of the 'Great Leap Forward' in 1958, the quantity of land allocation has been decreasing. The trend showed that city growth was constrained during the 1960s and 1970s. Until the late 1970s the city had seen no obvious urban expansion. Developments generally surrounded the existing urban built-up area and formed a belt of new industrial areas. The pattern of land use generally is different from the neoclassical, monocentric urban model which assumes that the central area is the employment location and that surrounding the city are the belts of residential use according to income differentiation. Instead, Chinese cities saw layers of industrial use surrounding central residential areas, although the separation between industrial and residential uses was less obvious.

### *The post-reform built environment*

As mentioned earlier, economic reform has brought major changes in money movement and organizational forms of urban development. The participation of overseas capital in the real estate sector has accelerated land reform which in turn has opened up the possibility of capitalizing potential ground rent. Consequently, these changes have brought about a transformation of the built environment.

The post-reform built environment is characterized by two major changes: *land restructuring* and *polycentric development*. The former involves the creation of an embryonic central business district (CBD), gentrified communities and the conversion of old residential areas to commercial uses. The latter includes the emergence of large



**Figure 3** Changes in the quantity of land allocation in Guangzhou, 1951–91

residential communities on the urban fringes, the establishment of development zones and new subcentres.

The rent gap has now become an important factor in fuelling land use restructuring. Decentralization has also led to increasing demand for office space, because economic decisions are being made independently of the government. Large cities have seen a flood of headquarters and offices for both domestic firms and foreign companies. Since 1992, when real estate development in China began to accelerate, a new feature of redevelopment has appeared in cities like Shanghai, Beijing and Guangzhou. The size of redevelopment projects is increasing, often involving demolishing a whole block of old residential buildings. These 'packaged' developments have dramatically changed the urban landscape. The growth of real estate sectors at this stage was fuelled by the escalating speculative demand for luxury accommodation and high-ranking offices. The bubble finally burst in 1994 when a tighter microeconomic policy was adopted.

The emergence of gentrified communities is one manifestation of the reshaping of social areas. Gentrification here refers to the displacement of original residents by new wealthier buyers of commercial housing through redevelopment of central areas. The adoption of off-site compensation in urban redevelopment has begun to drive public housing tenants to peripheral areas where the land is cheaper. Since the substitution of real estate development for project-specific development, the close connection between workplace and residence has been broken. Residential differentiation has begun to appear at the intra-urban scale. In Beijing, it is reported that 'native Beijingers' have been gradually replaced by 'newcomers' who work in central government and military organizations (He, 1992). In Shanghai, the clustering of high-quality commercial housing is obvious (Yeh and Wu, 1995). In Guangzhou, luxurious residences follow Hong Kong's design styles and methods of management. These new residences are no longer called 'new village' or 'new town', but 'garden' and 'court' (for example, the 'elite-elegant-garden').

Polycentricity is another facet of the post-reform built environment (Wu, forthcoming). In the past, the size of residential development was limited because project-specific development only served a single state work-unit. The reorganization of development methods has led to the emergence of large residential communities in peripheral areas. The lease of large plots of undeveloped rural land to foreign investors has sped up the expansion of the built-up area. As a purposely formulated strategy, urban planning encourages expansion. In order to attract foreign investment, development zones have been established, which form the backbone of subcentres. Decentralization also stimulates polycentric urban development because district and county governments under

the metropolitan government (the municipality) attempt to draw developments to their jurisdiction. They have begun to invest in decentralized infrastructure, particularly intercity highways and intercounty trunk roads, which is another factor contributing to polycentric development.

## Concluding remarks

The aim of this article has been to explore urban restructuring in post-reform China through a broad framework. The analysis shows that the current urban built environment cannot be separated from its past. What the reform has brought about is a logical alteration of previous dynamics — this is because the reform itself is a response to the crises embedded in the past dynamics. The framework draws its insights from relevant studies on contemporary capitalist cities, particularly the theory of political economy on urban processes and capital switching, the structure of building provision, the rent gap and the concept of property right. Summarily, the insights suggest that the production of the built environment should be understood through the 'law' that governs the behaviour of basic cells of society. Equally important is the need to analyse how this logic defines actual forms of development organization, namely, the structure of building provision, how property rights are redistributed along with development, and how social relations are fixed in the built environment.

The framework broadly outlined in this paper suggests that a further research agenda is needed to develop specific, testable hypotheses for empirical research. Generally, these hypotheses are related to the urban process and urban forms. A carefully designed investigation, for example, can be conducted to study the actual movement of capital either at a historical scale, or focusing on the recent burst of the bubble of real estate growth, which may lead to findings of an empirical nature comparable to those of King (1989a; 1989b; 1989c). As for the rent gap, a detailed break-down of profits at the project-level may shed light on the exact range of the rent gap and on who gains and who loses (both in monetary and potential terms) during inner-city redevelopment. Results could thus be comparable to those in Badcock's (1989) study of rent gap in Australian cities. Needless to say, the data is the critical issue in the empirical studies of reforming socialist economies. Such data are unlikely to exist in any statistical yearbooks. The information can only be obtained through social surveys or questionnaires. It can be foreseen that along with the further opening up of China, survey data should soon be available to outside researchers (e.g. Li and Tang, 1996), enabling a boom of empirical studies. As for changing urban forms, studies must be conducted at the *microscopic* level of land parcels, invested projects or population census tracts. Wide evidence can also be obtained from processing aerial photographs, urban land cadastral records, large scale urban maps and satellite images.

This study shows that the basic logic of production in socialist China required a specific mode of coordination (the economic planning process) and a specific mode of configuration (the work-unit system). Manifested in the production of the built environment is project-specific development. The structural tendency towards disinvestment engendered a rent gap, which laid down the foundation for the phase of redevelopment when the constraint on land transactions was lifted through land reform.

As an *ad hoc* response to the crises, the reform has led to decentralization which has rerouted the movement of capital from a vertical linkage to a horizontal network. The retained profits of enterprises have opened up the possibility of reorganizing urban development through comprehensive and real estate developments. Municipalities have begun to undertake collective consumption. The new land leasing system has established the municipality as the manager of urban land. The flood of overseas capital under a global economy is accelerating the shift to a new dynamics of urban development. With

its increasing involvement in city building, foreign investment represents a new element in the structure. Consequently, complicated relations between state work-units, municipalities, the central government, overseas investors, original residents and farmers have formed. The *game of appropriating the rent gap* has become a major factor responsible for the transformation of the built environment in the post-reform era.

For example, under the new political economy, the central and local governments' dispute over the distribution of land premiums is obvious. The municipality, as the actual manager of state property, has resorted to intangible forms of 'planning gain' to increase its share. This has reduced the transparency of land leasing and provided opportunities for corruption. Other examples are unregulated land use changes, both in central areas and on the urban fringes. The new land system allows the municipality to control the land for leasing. However, this has met with resistance from current land users and farmers who also ask for a share in the benefit. They can achieve this by resorting to 'illegal' developments in black land markets, such as bartering land for housing, cooperative business relations and unregulated land-use conversions. Various methods to evade payment of land premiums to the municipality have been invented, triggering complicated legal disputes over these developments. For example, farmers have begun to develop commercial housing projects on rural land. These projects have not applied for planning permission from the planning authority nor paid land premiums to the land administration bureau, and are thus illegal. However, projects may still proceed if they can find a means of cooperating with work-units that want to allocate housing to their employees. Of course, the 'commodity' housing produced as such cannot obtain proper certificates of real estate right, but sometimes users may only care about actual usage.

Without reforming state enterprises, merely substituting planning control with a market mechanism does not *automatically* remedy the defects of the economy. The contradiction in a socialist market economy lies between the persistence of the socialist logic of production and related state work-unit system, and the emergence of labour reproduction through market forces. The system of work-units, which was calibrated for extracting surplus value, worked quite effectively under the strict planning control. Recent decentralization and the introduction of markets have driven the system away from what it was designed for. State work-units have begun to divert investments from production to consumption. Recent experience in housing reforms clearly shows this dilemma: although the state has successfully diversified the burden of housing investment into various work-units, thus avoiding a state budget crisis in monetary form, the policy has forced work-units to become more deeply involved in public housing provision (Wu, 1996). To some extent, this has contributed to a widespread decline of state enterprises. The loss has forced the state to pump money into these enterprises to save them from bankruptcy, which in turn has exerted a heavy burden on the state fiscal balance. The change only delays the crisis in the short-term of what is a long-term problem.

By virtue of the context, redevelopment favours big builders who have either *de facto* rights to existing urban land property or huge capital that enables them to assemble property from small occupants. Although the rent gap is huge, the input required to capture the gap is also enormous. The resettlement of original residents is just one of such inputs. Attracted by the rent gap, overseas capital shows its willingness to cooperate with municipalities whose behaviour is now increasingly entrepreneurial under the new scheme of revenue mobilization and retention. A potential 'coalition for development' is being formed. Intercity competition for inward investment forces localities to compromise on development control. Currently municipalities are putting a great deal of effort into site-clearing for 'packaged developments' (such as the Orient Plaza in Beijing). The phenomena discussed so far suggest their *worldwide* nature (see Knox, 1992 on 'packaged development'; Harvey, 1989b on entrepreneur behaviour; Logan and Molotch, 1987 on growth machines and development coalitions). Unlike in advanced

capitalism, the Chinese case is witnessing low participation and weak local resistance after the long period of central control. In this sense, the vulnerable have become *truly* vulnerable.

Urban restructuring also raises a normative question of justice (Harvey, 1992). Through the long period of low wages and sacrifice for state construction, the surplus value has been 'fixed' in the built environment. The creation of the rent gap is, to a certain extent, due to the state having pursued extensive rather than intensive development. The chance of redevelopment has been held back by the structural force of the system. Now only money can capture this opportunity and the economic return expected is promising. Appropriate criteria should be formulated and a transparent procedure should be adopted in rent-gap capturing. Some studies show that those who have been working in public sectors simply cannot afford the huge difference between the subsidized rent and a black market rent (He, 1992; Deng, 1995). In China, urban redevelopment projects, *reluctantly* adopting compensation in-kind, have not yet created the social problems that have accompanied inner-city rehabilitation in the United States (see Smith, 1996 for a thorough discussion). Compensation to residents who are not the owners of the land has no legal validation, but is legitimate. Continuing insights and empirical studies are needed to shed light on urban restructuring in post-reform socialist economies.

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