

Marketization of State-owned Enterprises and Commercialization of Land Use in Chinese cities: A Case Study of Beijing

Introduction

Chinese cities have been undergoing significant transformation in the recent decades because of deepened market reforms and increased interaction with the forces of globalization. Formerly considered as the site of extensive industrialization in response to the ideological and strategic imperatives of socialist regime under Maoist era, cities in China have since the 1990s become the center of pervasive and rampant process of land (re)development and the theatre in which the 'game' of landed-property production and capital circulation is perennially played out, mainly as a response to the urban land reform and the gradual emergence of urban land and housing market (Yeh and Wu, 1996; Wu, 1999; Wong and Zhao, 1999; Xie et al, 2002; Zhu, 2002; Ho and Lin, 2003; Ding and Song, 2005; Lin and Ho, 2005; Xu et al, 2009).). Although frontier expansion through the conversion of agricultural land into construction land has been at the forefront of China's urban land development process because of its contribution to the fast increase of urban built-up area and municipal revenue, equally significant is the unprecedented scale and speed of the re-development of existing urban land with which the earlier pattern of industry-dominated urban land use structure formed in the socialist era was dramatically reshaped to clear space for luxury apartments, office buildings, commodity housing and other high-profile, mega projects (He and Wu, 2005; 2005; Xu and Yeh, 2005; Zhu, 2005; Li and Song, 2009; Shin, 2009).¹

A notable phenomenon among such redevelopment process is the commodification of industrial land occupied by state-owned enterprises (SOEs hereafter) through the spatial relocation of their old industrial establishments from the inner city to the outskirts of the urbanized area, or what is termed as "downsizing the manufacturing sector and boosting the tertiary sector" ("*tui er jin san*") in the Chinese literature. As the dominant organizational instruments for the central planners to achieve the strategic imperative of rapid industrialization, SOEs under the old land management system were allocated the use rights of large land lots with no time limit and free of charge for both production purpose and social welfare functions including employee housing, health clinics, day-care centers, and schools etc. Free granting of land use rights to SOEs has led to the presence of huge stock of factories and storage facilities in the city center, a distinctive feature of the land use pattern in many Chinese cities that distinguishes them from western cities in industrialized countries (Yang and Wu, 1996; Wu and Yeh, 1999). It has been reported that in the early 1990s, industrial land use, including storage facilities, accounted for 20-30 percent of the land in Chinese cities, a percentage far higher than in most capitalist cities at the time, while residential land use accounted for less than 50 percent of all urbanized land (Ding, 2003). Sporadic information for some large cities estimated that the urban core of the Beijing municipality was home to 55 percent of Beijing's state-owned factories and nearly 60 percent of the

¹ It has been reported that China as a whole saw some 330 million m² of housing demolished during the Ninth Five-Year Plan Period (1996-2000).

state-owned factories were located in the central part of Shanghai municipality in the early 1980s (Hsing, 2010, p. 36). The recent data released at a conference by the minister of Land and Resources in 1999 revealed that SOEs occupied a land area of around 0.7 million hectares in 1998, accounting for near 48 percent of urban built-up areas in that year (People's Daily, 1999). As urban land users, SOEs not only held the use and management rights over the land they occupied, but acted as *de facto* owners who could make decisions about the exchange and transfer of the land they occupied, becoming what Hsing (2010) called "socialist land masters" (p. 34). With the quickening pace of continuing industrialization, urban expansion and economic diversification in the era of intensified global competition, the enormous amount of land resources controlled by SOEs has since the late 1990s become the subject of active transactions in both legal and black market, partly because the ideological relaxation over ownership restructuring of SOEs and the policy mandate to speed up the reform of SOEs has encouraged the transfer and circulation of land use rights to finance the privatization and reorganization of SOEs and partly because the booming demand in the real estate market since the second half of the 1990s has created huge profitable asymmetry between the low premium paid for the administratively allocated land and the high land transaction price in open market for arbitrage. Anecdotal evidences found in Beijing, Shanghai, Guangzhou, Shenyang, Dalian and many other cities suggest that the redevelopment of SOEs-occupied land has become a widely accepted practice of "place making" and "place promotion" with which the underutilized land occupied by low-value added industrial sectors in urban districts was vacated to attract volatile investments and host high-value added tertiary sectors (Wu and Yeh, 1999; Zhou and Ma, 2000; Zhu, 2002; Lin, 2003; Xu and Yeh, 2005; Yin et al, 2005). Statistical data recorded by the ministry of land and resources showed that over 50 percent of illegal transfer or sale of land uses rights in 2003 were incurred by SOEs and government agencies (Lin and Ho, 2005; Xu et al, 2009). The pervasive and rampant redevelopment of SOEs-occupied land not only threatened to undermine the monopolistic role of local government in land supply and reduce the municipal revenue income that can be derived from the secondary market of the transfer of land use rights, but also had the negative effect of inducing disorderly pattern of urban spatial structure that deviates from the original blueprint of urban development plan (Ding, 2003; Ma, 2004; Zhu, 2005). The phenomenon of SOEs-centered land redevelopment has thus presented challenges to planners and decision makers for the formulation and implementation of innovative policies, which have in turn demanded for the knowledge and understanding of the nature and dynamics of this on-going process.

Literature Review

Despite the recognition of the facts that the complex land development processes "have been given little attention in the social scientific literature" (Healey and Barret, 1990, p. 89) and that studies of China's land are "fragmented and isolated" (Ho, 2005, p. 8), there exist continuing attempts to understand the pattern and process of land development in the context of continuing industrialization and rapid urbanization. The main issue to be investigated by this research is situated in the interface of two important lines of ongoing scholarly enquiry, namely the process of China's urban redevelopment, and the dynamics of ownership restructuring in Chinese state industry.

1) Process of Urban Redevelopment in China

Massive urban land redevelopment in Chinese cities characterized by the destruction of complete urban neighbourhoods of pre-1949 origin and work-unit compounds built in the socialist era and the erection of high-profile official buildings and commercial complexes in the new or reconstructed CBD has already attracted great attention from scholars within and without the country. Various explanations have been generated to document and understand China's phenomenal urban transformation, or more vividly urban revolution (Ma and Wu, 2005, Wu et al., 2007)

Land Policy Reform

Some studies associate the process of urban redevelopment with the policy of paid transfer of use right for urban land introduced in 1987 (Yeh and Wu, 1999; Ding, 2003). As it stands, this policy allows the price to obtain the user right of a piece of urban land to be negotiated between a potential user/developer and the current occupier (Yeh and Wu, 1996; Lin and Ho, 2003). The newly introduced urban land market and the re-emerging land rent gradients are believed to be the key force driving the spatial restructuring in the inner city in the pursuit of maximum land use efficiency and "rent gap" as the difference between a property's capitalized ground rent and its potential ground rent (Wu, 1997). For example, Wu and Yeh (1997)'s case study of Guangzhou revealed that there has been significant acceleration of urban redevelopment in Guangzhou since the adopting of the new land-leasing system in 1987. The introduction of land values by the land reform has facilitated the urban redevelopment in the old urban districts in Guangzhou that was difficult before land reform because of the huge costs of relocating and paying compensation to the sitting residents. Ding's (2004) analysis of urban spatial development in Beijing also identified a pattern of decreasing land prices and land development intensity with distance to the city core as a reflection of the impact of emerging land market and land policy reform. This general explanation, however, is inadequate to account for the specific phenomenon of the redevelopment of SOEs-occupied land.

Urban Growth Politics

The second explanation argues that urban redevelopment in Chinese cities has been very much influenced by property-led redevelopment (He and Wu, 2005; Zhang and Fang, 2004; Yang and Chang, 2007). According to this perspective, the decentralization of decision-making power in post-reform China has increased the influence of local governments and has led to the adoption of an entrepreneurial stance in the management of local state activities. The entrepreneurial orientation of government activities has facilitated the formation of an informal coalition with different interest groups of "land-based elites" pursuing common interests in local economic growth and wealth accumulation. In the common effort of transforming the city into a growth coalition, local government and domestic and foreign property developers tap into the expanding property market to extract exchange value by converting urban land into a higher and better use. For example, He and Wu's (2005) case study of Xintiandi in Shanghai revealed that privately funded and property-led urban growth coalition between resource-deficient local government and ever-expanding private developers had significantly enlarged the scale of urban redevelopment and quickened the pace of urban renewal in the long neglected inner

cities. In a similar vein, Yang and Chang's (2007)'s investigation of Taipingqiao urban redevelopment project in Shanghai uncovered the new mechanisms of public-private partnership underlying China's urban redevelopment, a model what they called "rent gap seeking regime" between district government and foreign capital emerged during the process of urban restructuring. While highlighting the presence of market-oriented mechanism as the major force leading to a profound change in the organization of urban construction and land provision in Chinese cities, this explanation has placed too much emphasis on the private sector assuming a leading role in rebuilding inner-city areas by providing financial resources and managerial skills. The emphasis on the private sector was often accompanied by the changing role of the public sector and state agencies, which, based on the experiences in western advanced countries, increasingly became an enabler or facilitator, focusing on removing supply-side constraints and providing incentives and financial subsidies to attract private capital. With few notable exceptions, little is known about the role of "socialist land masters" (state agencies, military establishments, state units etc) (c.f. Hsing, 2010) who had great incentives to control and compete for land as a valuable asset for political ambition as well as financial gains.

Ambiguous Property Rights

The third explanation argues that the desire to capture land asset on the open domain and to transfer ambiguous property rights into secure ones has become part of the driving force of urban redevelopment in China (Zhu, 2005). According to this perspective, the right to use was accorded a higher position than the rights of ownership in socialist systems. In post-reform China, the decentralization of decision-making power to SOEs have consolidated their control of the land assets freely allocated to them during the socialist past and strengthened their incentives to actively pursue their own interests. Moreover, China's gradualist land reforms that failed to delineate a clear notion of the ownership of land use rights among the land users from the pre-reform period has driven *danwei* land-holders to transform provisional and uncertain control over land, which is legally unprotected owing to incomplete property rights, into physical assets or proceeds, which are more secured for the users and are more transferable in the open market (Zhu, 2002). In other words, ambiguous property rights over urban land occupied by *danwei* has created opportunities for actors involved in the development process, other than the state, to compete for assets left in the open domain, which in turn drives the redevelopment of central city in urban China. Zhu's (2002, 2005) case study of Shanghai pointed out that the active participation of *danwei* land-holders was the key force to kick-start the restructuring of the central city in Shanghai and was responsible for Shanghai's property glut in the 1990s. Although this interpretation based on a framework of the relationship between a clear delineation of property rights and development efficiency provides a reasonable account of the urban redevelopment realities in Chinese cities, it nevertheless generates little insights into the driving forces underlying the uneven pace of urban redevelopment over time and across space. It remains unexplored why SOEs-occupied land in some places experienced earlier redevelopment than in other places.

2) Dynamics of Ownership Structuring in Chinese State Industry

On the other hand, research on the ownership restructuring of Chinese state industry has investigated the political and economic forces that have led to the uneven reform and change in the

state sector since the mid-1990s (Lin and Zhu, 2001). Several explanations have been proposed to understand the economic and socio-political factors affecting the dynamics of government-initiated ownership restructuring programs in China (Guo and Yao, 2005; Garnaut et al., 2005; Liu et al., 2006).

The first explanation emphasizes the role of hardened budget constraint confronted by SOEs during market transition (Cao et al., 1999). It argues that the fiscal and monetary recentralization in the 1990s contributed to the significant hardening of budget constraints on local governments which prevented the latter from subsidizing loss-making SOEs and strengthened their incentives to restructure SOEs under their administrative purview.

The second explanation attributes the dynamics of ownership restructuring in Chinese SOEs to market liberalization and the intensification of cross-regional competition (Li et al., 2000). It is argued that market liberalization allows for more entry of private firms and intensifies the competition faced by SOEs, which reduces the contribution of SOEs to local fiscal income and motives local government to initiate ownership restructuring in order to shed financial burden. This is especially the case for local governments with poor financial situations that were incapable of assuming the burden of financing money-losing SOEs.

The third explanation emphasizes the importance of excessive debts and redundant laborforce as the obstacles to the ownership restructuring in Chinese state industry (Lin and Zhu, 2001; Garnaut et al., 2005). It is believed that the process of ownership reform cannot move forward without addressing the issues of worker resettlement and bank debt repayment (Liu et al., 2006).

In sum, existing studies of China's ownership reform have suggested that the high-powered local governments' incentives to trade ownership for local economic growth and the institutional constraints of labor resettlement to maintain social stability have characterized the restructuring of SOEs in China since the second half of the 1990s. While illuminating the dynamics of organizational transformation in Chinese state industry during the transition of the political economy from plan to market, this broad stream of literature is overwhelmingly focused on the readjustment and recombination of capital and labor under different ownership forms. Comparatively little has done to investigate the spatial pattern and process of urban land redevelopment closely related to such ownership transformation.

Based on the above literature review and drawing upon the insights from the integrative framework developed by Wu (1997), this article posits that there exists logical relationship between the pattern and process of urban land redevelopment on one hand and the political and economic logics shaping the incentives and constraints facing the restructuring of SOEs on the other hand. More specifically, three working hypotheses can be derived for empirical testing.

H1: Small and medium sized SOEs are more likely to experience earlier redevelopment of their occupied land assets than their larger counterparts

H2: SOEs situated in more liberalized product markets are more likely to experience earlier redevelopment of their occupied land assets than those in regulated markets

H3: SOEs with more contribution to local fiscal income and employment provision tend to experience land redevelopment later than those in the lower strata of local policy agenda

These three hypotheses will be tested in the following sections through a case study of urban land redevelopment process in Beijing.

Ownership Restructuring of Chinese State Industry and Urban Land Redevelopment

Before going into the detailed case study, it is imperative to provide a brief review of the ownership transformation process taking place in post-reform China. China's policies toward ownership rights differed drastically between two stages, namely market liberalization (1978-1992) and ownership reform (1993-present) (Lin and Zhu, 2001; Jefferson and Su, 2006). The issue of ownership and property rights was not on the agenda of economic reform in the early stage of market transition. The policy focus at that time was placed on improving the productive efficiency of SOEs by initially decentralizing managerial decision-making autonomy and strengthening financial incentives and later by adopting long-term managerial contracts with pre-specified financial targets (Naughton, 1995).

Market liberalization policy in the early stage of economic reform had generated limited effects on the performance of state-owned sector. Despite negligible improvement in total factor productivity, state-owned sector had experienced deteriorating financial performance as a result of increasing competition from non-state sector and persistent softness in budget constraints. The enlarged performance gap between incumbent state sector and burgeoning non-state sector had led to a reorientation of reform strategy by central government in 1993 when the Third Plenum of the Fourteenth Chinese Communist Party Congress endorsed the establishment of a modern enterprise system as the mainstream reform program to fulfill the declared objective of building a "socialist market economy" (Lin and Zhu, 2001). Ownership and property rights came to the center of reform policy in the new stage and the central government appeared to opt for a retreat/retain (2-R) strategy under the guiding slogan of "grasping the big ones, letting the small ones go" (Green and Liu, 2005). State ownership is expected to retreat from sectors where private-sector firms are already active, barriers to market entry are low and the performance of state firms is generally poor. As a result, many small and medium sized SOEs were privatized. At the same time, the central government has been emphasizing the retention of dominant public ownership in sectors considered as pillar of the national economy through corporatization program that aims to turn SOEs from public sole proprietorship into shareholding entities that are independent in decision-making, diverse in ownership without serious erosion of public ownership, and fully guided by markets (Lin and Zhu, 2001; Zhang, 2004). In accordance with this purpose, the notion of state ownership has been redefined to include not only solely state ownership, but also mixed ownership forms in which the state held a controlling interest.

The ownership restructuring of Chinese state industry was characterized by three features. *First*, small and medium sized SOEs were restructured in the early years of ownership reform as result of state policy of "grasping the big ones, letting the small ones go". It had been reported that by the end of 1998, more than 80 percent of small state firms at the level of the county or below had gone through ownership restructuring. *Second*, SOEs under the administration of local governments were restructured

earlier than those controlled by central government. In a survey reported in Liu et al. (2006), while less than one quarter of the centrally controlled SOEs in the sample experienced ownership restructuring, more than one half of their local counterparts were already privatized by the mid-2004 (p. 2019). Third, SOEs in marketized sectors were restructured earlier than those in other sectors as a result of the central policy of strategic readjustment (*zhanlue tiaozheng*). In particular, SOEs were withdrawn from the majority of competitive industrial sectors and were concentrated in a few strategically important sectors such as tobacco, petroleum, metallurgy, electricity, finance etc. It has been reported that 72.1 percent of the industrial profits of state sector in 2001 came from four sectors, namely petroleum and gas extraction, tobacco processing, ferrous metal smelting, and the processing and supply of electric power (Yusuf et al, 2006, p. 109).

[Figure 1 and 2 here]

These reform policies have led to a dramatic restructuring of China's state industry. As shown in Figure 1, starting from mid-1990s, both number and employment of the state sector in China had displayed a sign of decrease. The declining trend is more conspicuous in 1997 when The CCP's 15th Congress relaxed ideological constraints over the privatization of the majority of SOEs. The restructuring of loss-making SOEs, together with the promulgation of central policy that abolished in-kind housing allocation in 1998, had stimulated domestic demand for housing and contributed to the shift of capital from the production circle (primary circuit) to the circle of the built environment (secondary circuit) (c.f. Harvey, 1978). This is clearly seen from Figure 2 that the share of real estate investment in total urban fixed assets investment in Beijing exhibited a trend of stable increase since 1998. The commodification of urban space has begun to show its powerful effect on economic growth since the late 1990s as a result of the crisis of earlier SOEs-centered accumulation regime. As is shown in Table 1, beginning from 1995, the contribution by SOEs to the municipal tax income in Beijing had decreased dramatically from 48% to no more than 4% in 2008. Meanwhile, business tax that is levied mostly on service-oriented business, such as transport, construction, restaurants, entertainment and real estate etc, began to play a great role in municipal tax income at a ratio around 40 percent during the past decade.

[Table 1 and 2 here]

The spatial manifestation of this regime transition was the closing down and relocation of traditional manufacturing industries as reflected in the declining share of urban construction land for industrial land use from 27.47% in 1998 to 23.67% in 2008 at the national level (Table 2). Theoretically, the state work-units whose land was acquired through administrative allocation were not allowed to transfer or rent their land use rights to other users or use them for a mortgage. The only way for their occupied land to enter commercial market is to pay a retroactive land premium to the municipal government, as stipulated in the "*Provisional regulation of Administratively Allocated Land use rights*" in 1992. In line with state regulations, the minimum amount of the premium is set at 40 percent of the market price for the concerned land lot. In reality, localities have implemented this policy differently, ranging from 10 to 90 percent of the market price (Wu et al, 2007, p. 36). In recent years, in order to facilitate the ownership restructuring of SOEs, land policy regulation were relaxed to allow SOEs to lease the land-use rights of allocated land or use such rights as equity investment in the newly restructured

firms without paying a lump-sum land premium to local government, as stipulated in the “*Provisional Regulations on the Administration of Allocated Land Use Right during State-owned Enterprises Reform*” in 1998. The newly established joint-stock firms cannot transfer the land in the market until they pay the land premium in lump-sum or land rent by installment within 5 years. This policy relaxation for the restructuring of SOEs has provided a legal platform for the redevelopment of SOEs-occupied land that is often characterized by superior location and large quantity. However, because of the retroactive conveyance fee (*bujiao churangjin*) is substantial that may significantly reduce the financial gains of SOEs and Danwei that wish to sell the land, it is not uncommon for incumbent occupiers of urban land to sell their land use rights to other users in the black market to capture rising land prices (Lin and Ho, 2005). A common form of illegal land transaction is through joint venture formation in which the original land users contribute the administratively allocated land to exchange for housing or other benefits through illegal constructions on the administratively allocated land (Wu et al, 2007).

Urban Land Redevelopment in Beijing

As the capital city of China, Beijing has a land area of 16808 sq. km and contains 16 districts and 2 counties (Figure 3). The central city of Beijing includes 4 districts with about 87.1 sq. km, accounting for 0.57 percent of the total land area. Historically as a political and cultural center, Beijing was not a typical economic or industrialized locale before 1949. The establishment of the new Public represented a new era in the city’s development. Following the central government’s guideline, the inner city of Beijing municipality was redeveloped to transform Beijing from a capitalist “consumer city” into a socialist “productive city” (Lo, 1987). Beijing’s industrial base was strengthened during the Maoist era with its industrial output value increasing 171 times from 1949 to 1978 (Wei and Yu, 2006). To accommodate such strategic orientation, economic planners allocated centrally located land to high-profile SOEs in the 1960s and 1970s. The industrial ownership structure in Beijing was heavily dominated by SOEs. In the early 1990s, the output of SOEs still accounted for 62.7 % of the total gross industrial output value (BJSB, 1991).

[Figure 3 here]

The process of urban redevelopment in Beijing can be divided into three different stages, namely 1980-1992, 1992-2000 and after 2000. The relocation of industrial enterprises in the inner city started in the mid-1980s with the promulgation of “Notice about the preferential policy toward relocating wasteful enterprises” by the Beijing municipal government (Chen, 2009). Driven mainly by the concern for environmental improvement, the early pace of land redevelopment was very slow in that only 171 factories were relocated by 1990. The method of relocation was mainly based on administrative decree and most of the relocated enterprises were small and medium sized ones at or below municipal level. In this early stage, urban frontier expansion was the main theme of land development. In fact, during the 7 years from 1985 to 1992, the urban built-up area in Beijing doubled (Ding, 2003).

[Figure 4 and 5 here]

The pace of industrial relocation was quickened in the 1990s with the deepening of SOEs reform, the strategic orientation of Beijing urban planning toward the development of high-tech industry and service sector, and the emergence of urban land market. Urban land redevelopment was the main feature at this stage, as manifested in the minor change of urban construction land (Figure 4). In one respect, land market in Beijing started to emerge in 1992 but sales of land use rights grants did not really take off until 1997. Structurally, there was a steady shift from a production center to service center in which the development of finance, insurance, and real estate, tourism and many other tertiary sectors was strongly encouraged (Figure 5). Within the ten years from 1990 to 2000, the share of secondary industry in municipal GDP declined from 52.4% to 32.7%, while the share taken by tertiary industry rose dramatically from 38.8% to such a high level of 64.8% (BJSB, 2001). Institutionally, starting from early 1990s, Beijing municipal government began to emphasize SOEs reform, aiming at transforming SOEs into market-oriented enterprises and focusing on attracting both domestic and foreign private investors to infuse capital and introduce modern corporate governance mechanism into SOEs (Wei and Yu, 2006). As a result, the ratio of SOEs' output value to total output value in Beijing municipality decreased significantly from 62.7% in 1990 to 28.7% in 2000. According to one report, during the years from 1993 to 2000, about 2747 factories were relocated out of the third and fourth ring road (Chen, 2009). Land redevelopment at this stage occurred mainly in central city in general and CBD in particular (Figure 6).

[Figure 6 and 7 here]

The process of redevelopment of SOEs-occupied land entered its third stage in the new millennium when urban construction land experienced dramatic expansion in the early three years (Figure 4). The successful bidding for the 2008 Olympics in July 2001 was one of the most important factor stimulating Beijing's urban (re)development at this stage. As evidenced in Figure 7, the share of urban construction land for industrial/storage purpose in Beijing decreased from 22% at the turn of the century to 16.7% in 2003. Moreover, the share of urban construction land for roads and squares, and green space increased significantly from 7.3% and 9.1% in 2000 to 13.6% and 13.2% respectively in 2005, a clear reflection of the effect brought about by the hosting of Olympic Games.

[Table 3 here]

Since the hosting of a successful Olympic Games was regarded by both municipal and central government as a top event that aimed to promote the image of Beijing and the whole nation, the relocation of those large, strategically important but also polluting SOEs were put on the policy agenda of urban redevelopment. In order to prepare for a "green" Olympics, Beijing has setup priorities and action plans to relocate polluting SOEs to outer suburban areas. In 2002, Beijing targeted to move 40 polluting factories out of the fourth ring road (Feng and Zhou, 2003). If the shift of the share of industrial value-added in GDP is used as a proxy to measure the extent of land redevelopment characterized by "*tui er jin san*", the spatial pattern revealed in Table 3 found that the locus of urban land redevelopment has changed from central city to inner suburban area, in particular Chaoyang and Shijingshan districts. More specifically, at this stage, the focus of redevelopment was laid upon two major industrial areas in urban district, namely southeast industrial area including the Second chemical factory, Beijing organic chemical factory etc that occupied an area of 4.6 sq. km and Shougang in Shijingshan

district involving an area of 8.5 sq. km and the resettlement of 22 thousand employees. These two areas hosted a number of large and powerful SOEs in Beijing's two pillar industries, namely steel and chemical. As Beijing established land reserve system in 2001, the redevelopment projects involving these areas often followed a dual mode characterized by granting developers/occupiers partially the development rights at subsidized prices much more favorable than market prices on one hand and conveyance in the open market on the other hand.

Case Study: Redevelopment of Shougang Area

Initially founded in 1919, Shougang experienced its rapid expansion in the Maoist era with the increase of land area from 2 sq. km to 7 sq. km. While the discussion of relocation had lasted for several decades, Shougang was not restricted in the expansion of its productive capacities. According to the early assessment report by urban planners based on local carrying capacity, the annual production capacities of Shougang was limited to no more than 3 million. However, its actual production capacity reached 8.7 million in 2003. Shougang's resistance to relocation and restructuring was partly because of its significant contribution to local fiscal income and partly because of its large number of affected workers that may pose great challenge to social stability. In its heyday, the tax and profits contributed by Shougang accounted for around one quarter of municipal tax revenue. In addition, it was estimated that if relocated to other places, over 0.1 million employees and their affiliates will be affected. Moreover, as central SOEs, Shougang was characterized by high positionality in the party-state bureaucracy and more powerful control over the land it occupied that often went beyond the control of Beijing municipal planners. These features made the redevelopment of Shougang area a mission impossible during the years before 2000.

Several factors have emerged to promote the redevelopment of Shougang area in the new century. One is the declining importance of Shougang in terms of its tax contribution. In 2004, the tax income collected from Shougang accounted for only 1.5% of municipal tax revenue (Ju, 2009). In contrast, tax revenue from real estate industry, construction industry and finance industry had surpassed that from Steel industry (Ju, 2009).

Second, steel industry is characterized by significant economies of scale. However, because of its heavy influence on Beijing's living environment, the expansion of on-site production capacities was subject to critical interrogation and resistance from urban practitioners. Diseconomy of scale has become a severe obstacle to the market performance of Shougang which in turn strengthened its incentive to initiate organizational restructuring.

Third, the successful bidding for the 2008 Olympic Games had served as the "last straw" that gave impetus to both Shougang and Beijing municipal government to set a schedule for the relocation of factories. In order to fulfill the declared objective of holding a "green" Olympics, Beijing municipal government had agreed to pay a huge amount of 50 billion yuan for the relocation of Shougang (Zhu, 2008).

References

- Beijing Statistical Bureau (BJSB). 2008. Beijing tongji nianjian 2008 (Beijing Statistical Yearbook 2008). Beijing: China Statistical Press.
- Beijing Industrial Promotion Bureau (BJIPB). 2006. *Beijingshi "shiyiwu" shiqi gongye fazhan guihua* (Industrial development plan of Beijing municipality during the tenth five-year plan period). <http://www.beijing.gov.cn/zfzx/ghxx/sywgh/t712447.htm>
- Ding, C. 2003. Land policy reform in China: assessment and prospects. *Land Use Policy* 20, 2, 109-120.
- Ding, C. and Song, Y. 2005. *Emerging land and housing markets in China*. Cambridge: Lincoln Institute of Land Policy.
- Feng Jian, Zhou Yixing, Wang Xiaoguang and Chen Yang. 2003. 1990 niandai Beijing jiaohua de zuixin fazhan qushi jiqi duice (The latest development trend of suburbanization in Beijing since the 1990s and its countermeasure). *Guihua Yanjiu (Planning Study)*, 13-29.
- He, S. and F. Wu. 2005. Property-led redevelopment in post-reform China: a case study of Xintiandi redevelopment project in Shanghai. *Journal of Urban Affairs* 27, 1-23.
- Ho, P. 2001. Who owns China's land? Property rights and deliberate institutional ambiguity. *China Quarterly* 166, 394-421.
- Ho, S. P. S. and G.C.S. Lin. 2003. Emerging land markets in rural and urban China: policies and practices. *The China Quarterly* 175, 681-707.
- Hsing, Y.T. 2006. Land and territorial politics in urban China. *China Quarterly* 187, 1-18.
- Ingram, G.K. 1998. Patterns of metropolitan development: what have we learned? *Urban Studies* 35, 1019-1035.
- Lichtenberg, E. and Ding, C.R. 2009. Local officials as land developers: urban spatial expansion in China. *Journal of Urban Economics* 66, 1, 57-64.
- Lin, G.C.S. 2003. Towards a post-socialist city? Economic tertiarization and urban reformation in the Guangzhou metropolis, China. *Eurasian Geography and Economics* 45, 1, 18-44.
- Lin, G.C.S. and S. P. S. Ho. 2005. The state, land system and land development processes in contemporary China. *Annals of the Association of American Geographers* 95, 2, 411-436.
- Lin, G.C.S. 2009. *Developing China: land, politics and social conditions*. New York: Routledge.
- Lin, G.C.S. 2010. Understanding land development problems in globalizing China. *Eurasian Geography and Economics* 51, 1, 80-103.
- Logan, J. (Ed.), 2002. *The new Chinese city: globalization and market reform*. Oxford: Blackwell.

- Ma, L. J.C. 2002. Urban transformation in China, 1949-2000: a review and research agenda. *Environment and Planning A* 34, 1545-1569.
- Ma, L. J.C. 2004. Economic reforms, urban spatial restructuring and planning in China. *Progress in Planning* 61, 237-260.
- Ma, L.J.C. and Wu, F.L. (Ed.), 2005. *Restructuring the Chinese city*. London: Routledge.
- Ma, Laurence J.C. 2009. China's authoritarian capitalism: growth, elitism and legitimacy." *International Development Planning Review*, 31 (1): i-xii.
- Man, J. Y. and Hong, Y.H. (Ed.), (Forthcoming). *Local public finance and taxation on land and property in China*. Cambridge, MA: Lincoln Institute of Land Policy.
- McGee, T.G. et al (2007) *China's urban space: development under market socialism*. London: Routledge.
- People's Daily. 1999. *Guoqi xianzhi tudi ke yifa zhuanrang: guotuziyuanbu tichu kuoda tudi ziyuan shouquan jingying fanwei (Idle land of State-owned enterprises could be transferred by law: the ministry of land and resources advocates enlarging the scope of authorized operation of land resources)*. November 9.
- Shin, H. B. 2009. Residential redevelopment and the entrepreneurial local state: the implications of Beijing's shifting emphasis on urban redevelopment policies. *Urban Studies* 46, 13, 2815-2839.
- Tao, R., Su, F.B., Liu, M.X. and Cao, G.Z. 2010. Land leasing and local public finance in China's regional development: evidence from prefecture-level cities. *Urban Studies* March, 1-20.
- Wu, F. L. 1999. The 'game' of landed-property production and capital circulation in China's transitional economy, with reference to Shanghai. *Environment and Planning A* 31, 1757-71.
- Wu, F. L. and Yeh, A.G.O. 1999. Urban spatial structure in a transitional economy: the case of Guangzhou, China. *Journal of the American Planning Association*. 65, 4, 377-394.
- Wu, F.L. 2002. China's changing urban governance in the transition towards a more market-oriented economy. *Urban Studies* 39, 7, 1071-1093.
- Wu. Fulong. 2008. China's great transformation: Neoliberalization as establishing a market society. *Geoforum*, 39, pp. 1093-1096.
- Wu, F.L., Xu, J. and Yeh, A.G.O. 2007. *Urban development in post-reform China: state, market and space*. London: Routledge.
- Wong, K. K. and Zhao, X. B. 1999. The influence of bureaucratic behavior on land apportionment in China: the informal process. *Environment and Planning C* 17, 113-126.
- World Bank. 1993. *China: urban land management in an emerging market economy*. Washington, DC: The World Bank.

- Xie, Q. S., A. R. G. Parsa and Redding B. 2002. The emergence of the urban land market in China: evolution, structure, constraints and perspectives. *Urban Studies* 39, 8, 1375-98.
- Xu, J. and Yeh, A. G. O. 2005. City repositioning and competitiveness building in regional development: new development strategies in Guangzhou, China. *International Journal of Urban and Regional Development*. 29, 2, 283-308.
- Xu, J., Yeh, A. and Wu, F. 2009. Land commodification: new land development and politics in China since the late 1990s. *International Journal of Urban and Regional Research* 33, 4, 890-913.
- Yang, C. and C. Wu. 1996. *Zhongguo tudi shiyong zhidu gaige shinian (China's land use system, ten years of reform)*. Beijing: China Land Press.
- Yeh, A. G. O. and Wu, F. 1996. The new land development process and urban development in Chinese cities. *International Journal of Urban and Regional Research* 20, 330-353.
- Yin, H. T., Shen, X. P. and Zhao, Z. 2005. Industrial restructuring and urban spatial transformation in Xi'an. In *Restructuring the Chinese city*. L. J. C. Ma and F. Wu, ed. *Restructuring the Chinese city*, 1-20. London: Routledge.
- Zhou, Y. and Ma, L. J.C. 2000. Economic restructuring and suburbanization in China. *Urban Geography* 21, 3, 205-236.
- Zhu, J. M. 2002. Urban development under ambiguous property rights: a case of China's transition economy. *International Journal of Urban and Regional Research* 26, 1, 41-57.
- Zhu, J. M., 2005. A transitional institution for the emerging land market in urban China. *Urban Studies*, 42, 8, 1369-1390.



Figure 1 Marketization Process of SOEs in China, 1990-2008

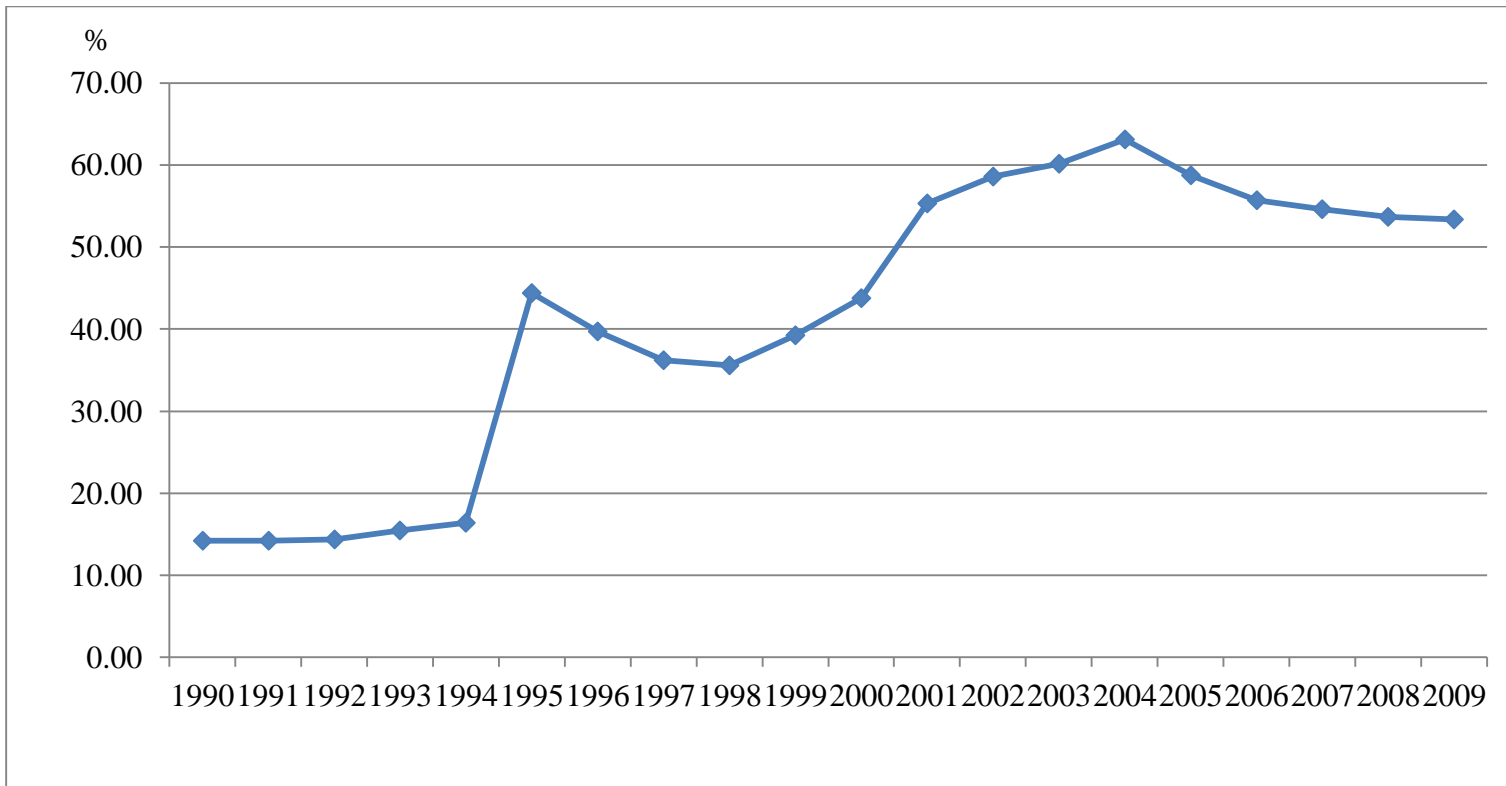


Figure 2 The Share of Real Estate Investment in Total Urban Fixed Assets Investment in Beijing, 1990-2008

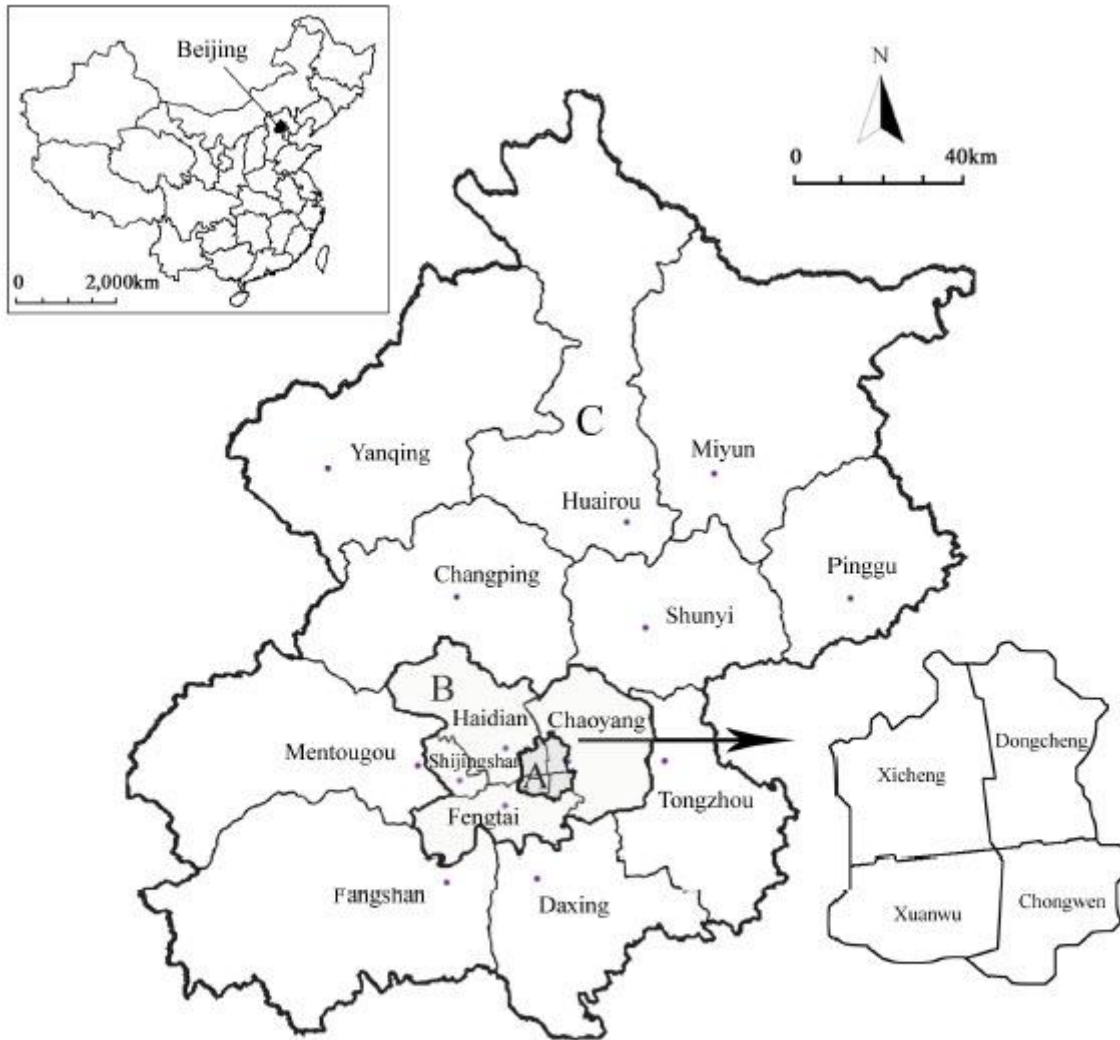
Table 1 Structure of Tax Income in Beijing Municipality, 1990-2008 (100 million Yuan)

	Business Tax		Tax from above-scale Industrial Enterprises		Tax from SOEs		Total Tax Income
	Amount	Percentage	Amount	Percentage	Amount	Percentage	
1990	27.95	29.66	46.8	49.67	39.7	42.13	94.23
1991	30.78	30.60	52.3	52.00	43.2	42.95	100.58
1992	35.86	32.44	59.9	54.19	48.7	44.06	110.54
1993	52.07	35.14	71.7	48.38	54.8	36.98	148.19
1994	45.63	37.86	89.5	74.26	62.1	51.52	120.53
1995	64.46	39.45	107.7	65.91	79.2	48.47	163.4
1996	81.61	40.54	89.4	44.41	59.2	29.41	201.32
1997	97.54	41.36	100	42.41	64.8	27.48	235.82
1998	113.00	41.51	113.3	41.62	60.3	22.15	272.23
1999	128.86	40.89	114.8	36.43	61.2	19.42	315.10
2000	149.05	39.98	129	34.60	58.7	15.75	372.79
2001	181.35	38.18	142.5	30.00	51.3	10.80	475
2002	227.79	42.19	156.5	28.99	48.4	8.97	539.87
2003	263.69	44.77	183.7	31.19	42	7.13	588.96
2004	333.16	45.86	244.4	33.64	31.4	4.32	726.50
2005	383.76	43.31	269.6	30.42	32.7	3.69	886.13
2006	460.99	42.81	316.8	29.42	34.7	3.22	1076.82
2007	601.06	41.87	359.6	25.05	62.1	4.33	1435.67
2008	651.78	36.71	380.9	21.45	67.2	3.78	1775.58

Table 2 Structure of Urban Construction Land in Major Chinese Cities, 1998-2008

	1998			2008		
	Total (sq. km)	Industrial & Storage (sq. km)	Share of Industrial & Storage (%)	Total (sq. km)	Industrial & Storage (sq. km)	Share of Industrial & Storage (%)
Total	20507.55	5632.66	27.47	39140.46	9264.74	23.67
Beijing	488.28	108.98	22.32	1310.94	327.74	25.00
Tianjin	371.23	119.96	32.31	640.85	187.45	29.25
Shenyang	197.94	56.92	28.76	370	80	21.62
Harbin	205.03	58.93	28.74	340.33	86.44	25.40
Shanghai	1116.41	318.67	28.54	1824.56 ^a	528.25	28.95
Nanjing	144.33	31.79	22.03	596.98	166.97	27.97
Wuhan	235.91	66.98	28.39	480	132	27.50
Guangzhou	274.6	87.78	31.97	895	245.75	27.46
Chongqing	295.15	81.76	27.70	694.05	149.99	21.61

a . data in 2004



A - Central City Districts; B - Inner Suburban Districts; C - Outer Suburban Districts & Counties

Figure 3 Study Area of Beijing

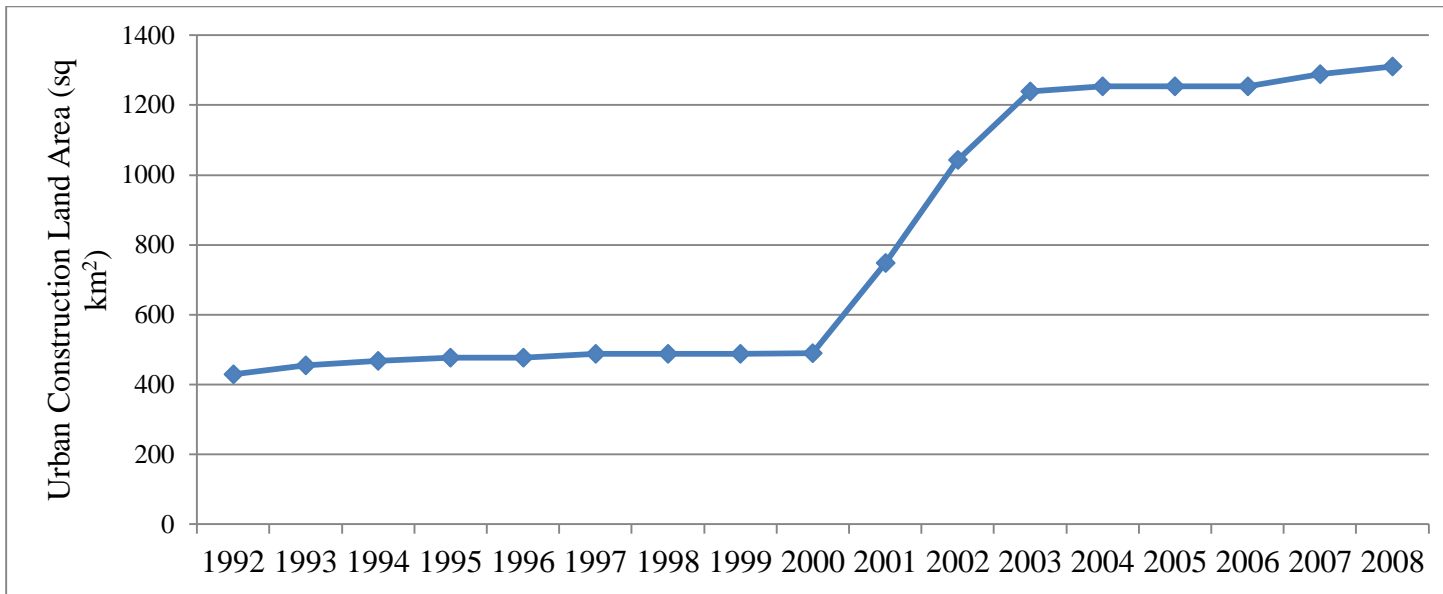


Figure 4 Expansion of Urban Construction Land in Beijing, 1992-2008

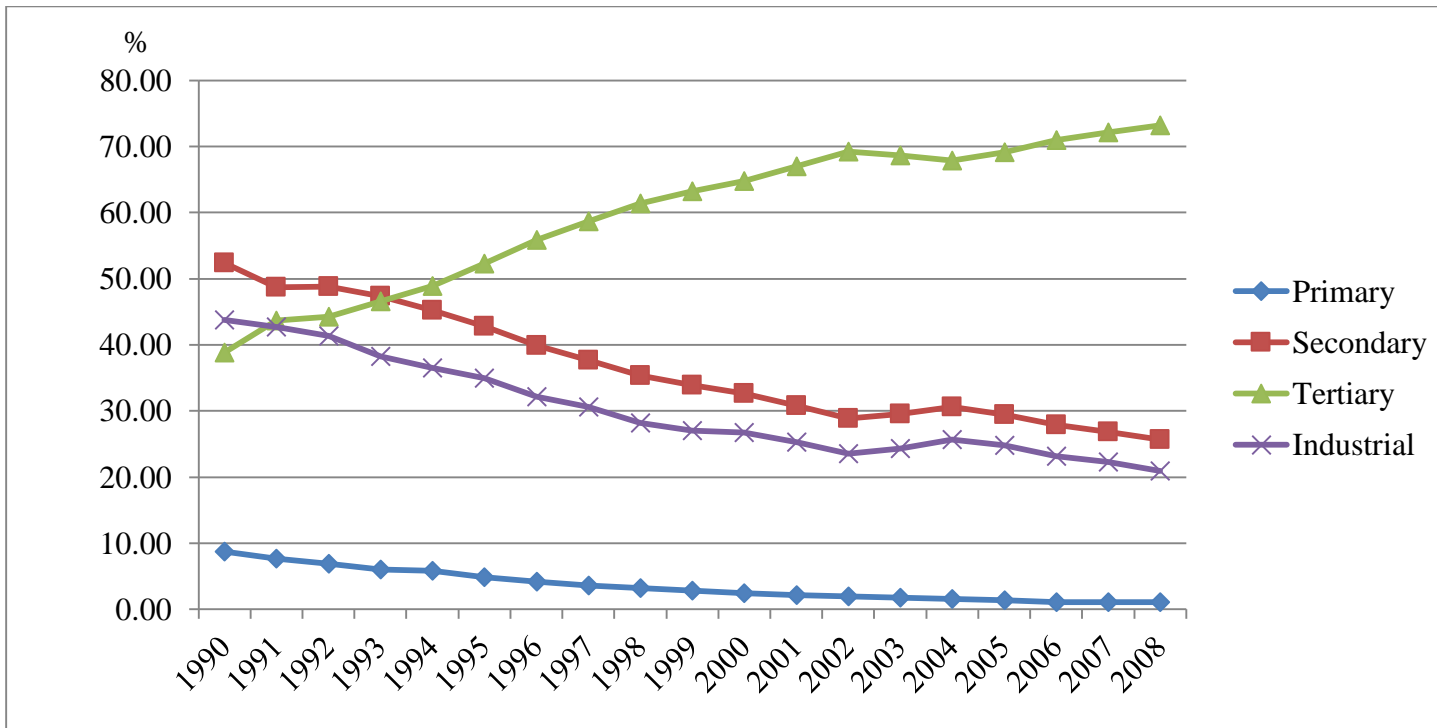


Figure 5 Temporal Change of Industrial Structure in Beijing Municipality, 1990-2008

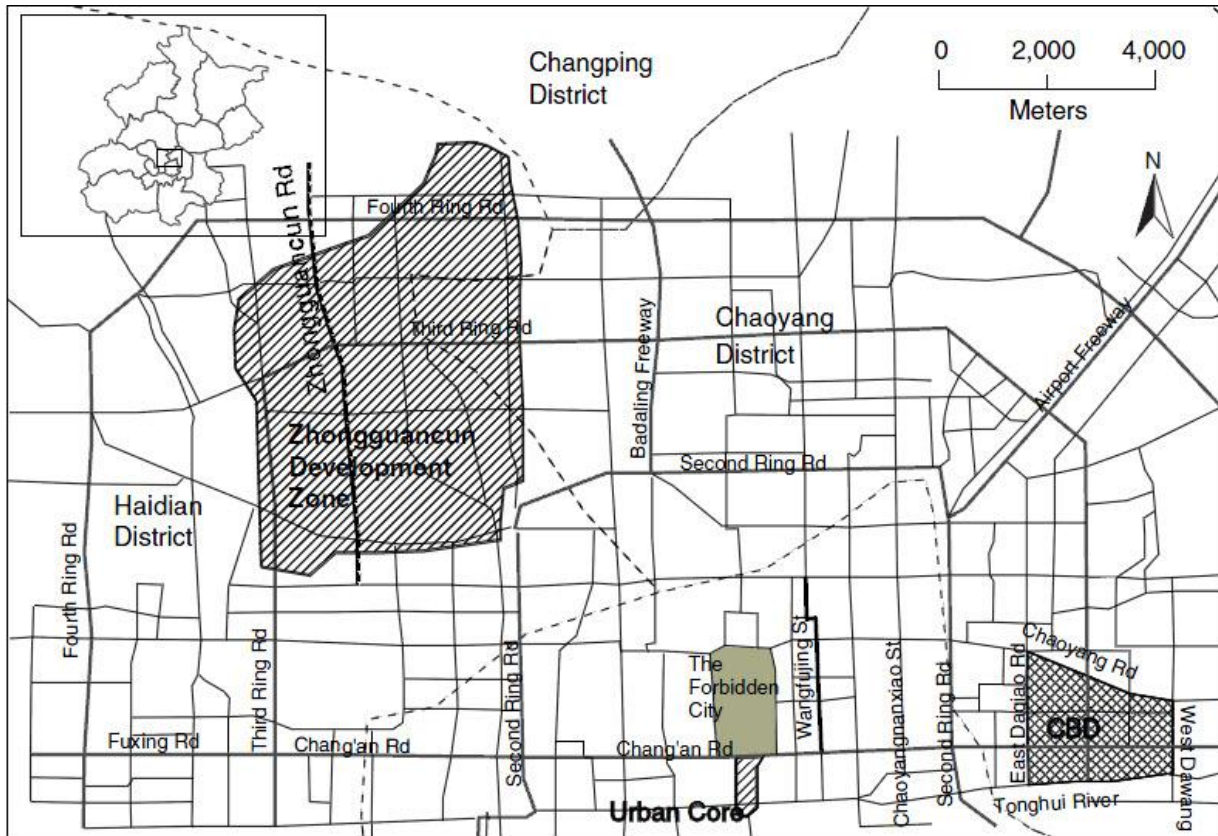


Figure 6 Location of Beijing CBD

Source: Wei and Yu (2006)

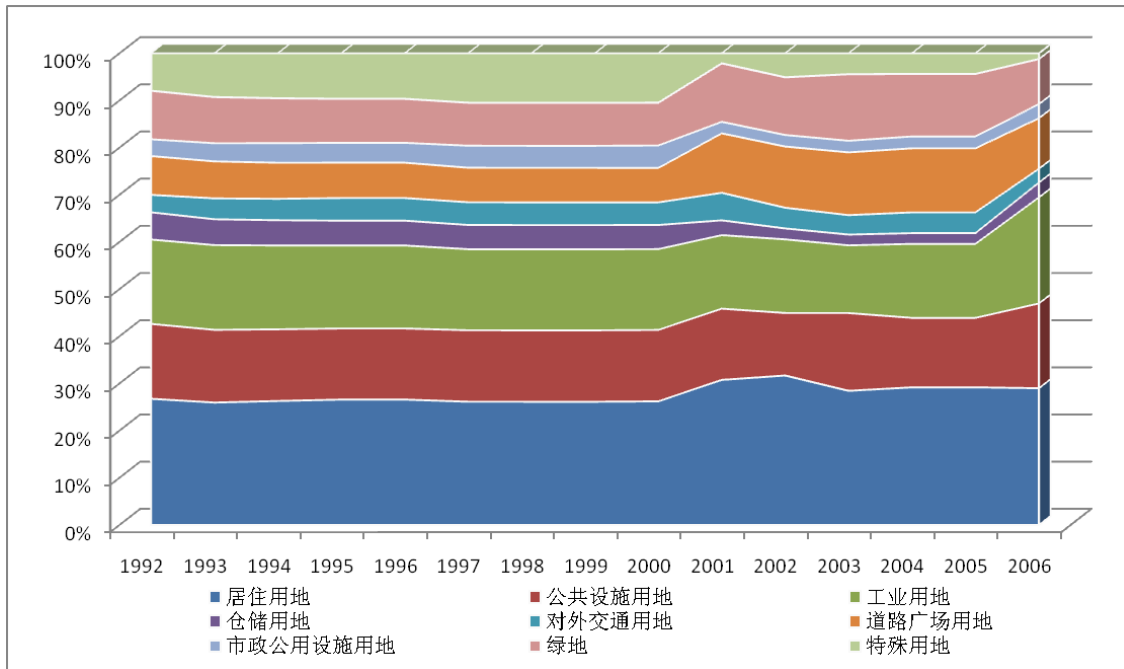


Figure 7 Structure of Urban Construction Land in Beijing, 1992-2006

Table 3 Change of the Share of Industrial Value-added in GDP, 2000-2008 (%)

		2000	2008	2000-2008
Central City	Dongcheng	10.38	2.14	-8.24
	Xicheng	11.82	9.34	-2.48
	Chongwen	19.34	9.67	-9.67
	Xuanwu	11.37	4.84	-6.53
Inner Suburb	Chaoyang	27.62	10.39	-17.23
	Fengtai	19.84	17.58	-2.26
	Shijingshan	75.53	60.35	-15.18
	Haidian	19.21	14.68	-4.53
Outer Suburb	Mentougou	46.63	46.86	0.23
	Fangshan	44.78	39.91	-4.87
	Tongzhou	33.02	38.80	5.79
	Shunyi	45.61	47.33	1.72
	Changping	35.25	43.41	8.16
	Daxing	31.81	38.33	6.52
	Huairou	43.81	49.98	6.16
	Pinggu	29.72	31.93	2.21
	Miyun	40.32	34.18	-6.14
Yanqing	16.06	15.87	-0.19	