

From Negotiation to Auction—
Land-Conveyance Reform in China and Its Institutional and Social Impacts

by

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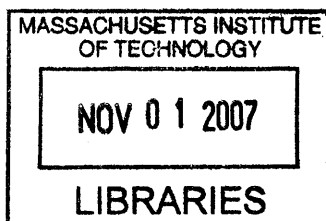
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ROTCH

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Abstract:

The land market and the associated land-development-control mechanism in China have been experiencing a series of reforms since the 1990s, of which Land Conveyance Reform (LCR) in 2004 is a very recent and an important one. LCR—the formal procedure to transfer the land-use rights (LURs) from the government to other users—has been used together with land use planning as institutional tools to generate and distribute the revenues for both local municipal government and real estate developers. Meanwhile, a large-scale government-led deindustrialization has been going on since 1995 in city of Beijing, where many State-Owned Enterprises (SOEs) were relocated from downtown Beijing to suburbs or other cities.

I studied the change of the LCR from the former negotiation approach to the current auction approach. I analyzed its institutional impact on the land-use planning decision-making process and its social impacts on the deindustrialization process, specifically, the economic and social condition of working staff of SOEs. I conducted an empirical study in Beijing to investigate both institutional and social impacts.

The LCR has caused an institutional shift in the land-use planning process, from the former “developer-coordinated process” to the current “local government-coordinated process.” However, that shift did not solve the social problems caused by deindustrialization and SOE privatization; instead, it just slows down the occurrence of the problems.

Thesis Supervisor: Karen R. Polenske
Title: Professor of Regional Political Economy and Planning
Thesis Reader: James Hamilton
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ABBREVIATIONS:

BCIMC- Beijing City Infrastructure Management Committee
BCP- Building Construction Permit
BEC- Beijing Economic Committee
BITDC- Beijing Industrial Technology Development Center
BLMB- Beijing Land Management Bureau
BLRMC- Beijing Land Reserve and Management Center
BMCDR- Beijing Municipal Commission of Development & Reform
BPC- Beijing Planning Committee
BUPC- Beijing Urban Planning Committee
BUPI- Beijing Urban Planning Institute
China- People's Republic of China
DDCP- Detailed Development Control Plan
EIA- Environment impact assessment
FAR- Floor-area-ratio
GDP- Gross Domestic Product
LCR- Land Conveyance Reform
ILD- Initial land developer
ILDT- Initial land development
IRN- Industry Relocation Newsletter
LDCM- Land-development-control mechanism
LMR- Land Market Reform
LPEC- Land Price Evaluation Committee
LUP- Land Use Permit
LUPP- Land-Use Planning Permit
LUR- Land-Use Right
MC- Ministry of Construction
MLR- Ministry Land Resource
ORATP- One report and two permits
PDR- Planning Design Requirement
SOE- State-owned enterprise
SSRR- Site Selection Recommendation Report
TIA- Traffic impact assessment

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CHAPTER 1

INTRODUCTION

1.1 Research Background

Economic reforms since 1978 have brought fundamental changes to the social and economic development of the People's Republic of China (China). As China restructures its socialist economy, market mechanisms are gradually replacing central-planning controls in many segments of the economy. One key component of the rapidly growing Chinese economy is the large-scale urban redevelopment in many Chinese cities, which converts the former land uses in downtown areas into supposedly more economically efficient uses.

Land resources, the largest asset of the state, were traditionally administrated and allocated by means of central planning—land was owned by the government and normally administratively allocated free to users without any charges. It was not until the Land Market Reform in the late 1980s that the Land-Use Right (LUR) as a concept of transferable land leasehold came into existence. Since then, a new era of lawful transactions of urban land has been opened, facilitating a large amount of urban development in most Chinese cities, especially in the cases of the relocation of state-owned enterprises (SOE). The need for urban land reform and the setting-up of the urban land market arose because land had to be economically utilized in order to provide a source of revenue to both central and local governments and create social wealth for the whole nation (Zhu 2005).

As a result, the interventions on the land market and the land-development-control mechanism, which regulates the process and the outcome of urban land redevelopment, are changing the political dynamics both among various agencies at local municipal level, and between local government and central government. In addition, in the cases of downtown SOE relocation, which is happening in many big Chinese cities, they are also reshaping the social landscape in the downtown areas.

The land market and the associated land-development-control process have been experiencing a series of reforms since the 1990s, of which the Land Conveyance Reform (LCR) in 2004 is a very recent and an important one. Land conveyance—the formal procedure to transfer the LUR from the government to other users—experienced a major reform on August 31, 2004, in a regulation that mandates that all land transactions after that date must be conducted through auction, while tender and negotiation were used as two additional alternatives before that.

Beijing, as the capital city of China, is a good example for the empirical study. It traditionally had large amounts of industrial land in the downtown area, of which many were SOEs. Many of those SOEs were relocated to suburbs or other cities since the mid 1990s and that left lots of vacant industrial land for downtown redevelopment in Beijing. These redevelopments are changing the downtown social structure and the spatial distribution of low-income people, of whom many are the

working class of SOEs. The original *danwei*¹ communities adopted in the planned economy period has broken down—they are being replaced by the new commercial housing in most of the residential redevelopment cases.

1.2 Research Objectives

Because the LCR is a very recent policy, there are very few studies about it. Many scholars (Yeh 2005, Zhu 2003, Xu 2000) participated in the initiation and encouragement of this reform, because the land auction is a transparent market process that will increase the price of the leased land. However, my initial research shows that besides the increased land price, there are significant impacts on the institutional settings of the land-development-control mechanism. This institutional impact changed the way of converting industrial land into other uses, thus greatly affected the people who used to live in *danwei* communities.

Therefore, there are three general objectives of this research. First, the historical review on land-market reforms and land-use policy evolution will provide us a better understanding of the context of China's rapid urbanization and economic development. The evolution derives from the land property-right reform, land-conveyance reform, and land-use-regulation reform. All these made land in China not only a means of production, but also an economic commodity that can be transacted.

¹ State-owned enterprises in socialist countries, or *danwei* in China, are a link in social redistribution chains. The *danwei*, literally meaning work unit in English, is a profound socialist institution that used to be essential and is, to a certain extent, still important to Chinese urban residents. The function of *danweis* is more than just organizing required production. They are a mechanism through which the state distributes socialist welfare to workers (Zhu, 2005)

Second, the study of the LCR and its institutional impacts helps to establish the link between the study of the land market and the study of the land-development-control mechanism, understanding what the interactive relationship between these two is. This link has been little studied. The empirical study in Beijing also shows the changing dynamics among various existing agencies and newly established agencies during the land-redevelopment process.

Third, the focus on the social impacts of LCR demonstrates what the social cost of large-scale downtown redevelopment is specifically, the changing social structure caused from the land-use policies being adopted. I investigate the land-use policy's impacts on low-income people, while most of analysts have studied the low-income people from a housing-policy perspective. I also investigate an alternative non-market approach in Beijing in order to understand what the social outcomes of the industry relocation were.

1.3 Research Questions and Hypothesis

In the research, I examine the impact of the LCR on both the institutional settings of the land-development-control process and the social outcomes of SOE relocation.

My empirical study mainly has two parts: (1) an institutional study of how the LCR from the negotiation approach to the auction approach affects the interaction among stakeholders during the land-conversion decision-making process, and how this

change affects the benefits' redistribution among various agencies, and (2) a social-impact study of how the LCR affects the living conditions of working-class people during the SOE relocation process, in two ways: (a) affordability of new housing development for the original working class and (b) access to social services.

1.3.1 Research Questions

I define the land-development-control mechanism as the decision-making process that involves those in the public sector, private sector, and residents, to analyze and recommend the way to transfer present land uses to the future uses. This mechanism has strong influences on land prices, and the real estate market development, producing much revenue for the local and central government. It also affects the way that real estate developers interact with government. More importantly, the mechanism has been closely linked with the social outcomes of the relocation of SOEs and their working-class people. Therefore, it is important to study the following questions:

- (1) How does the LCR from negotiation to auction affect the institutional setting of the land-conversion decision making process and the local land-development-control mechanism?
- (2) Does negotiation still exist in this new approach, and if it does, does it differ from before? What is the role of the SOE in the new mechanism?

(3) Has the new land-development-control mechanism improved the affordability of downtown Beijing for low-income SOE staff? If not, why not?

For the institutional-impact analysis, I review the former land–development-control process and differentiate the changing roles of the existing agencies and new agencies. I especially focus on the role of planning agencies and land agencies during this new process, studying their interaction with other city agencies and developers. For the social-impact analysis, I focus on the housing part of the original SOE land. I use the concept of “inclusionary zoning” to test the social impacts on the working class. Inclusionary zoning is a zoning resolution widely used in the United States that requires or encourages private market-rate housing developers to provide or pay for affordable housing units. (Kayden 2005)

1.3.2 Hypothesis

I hypothesize that the LCR from the traditional negotiation method to an auction method strengthened the intervention of the municipal government during the land-development-control process, thus bringing more consideration to the working-class people in SOEs. However, the current land-use planning mechanism in China, specifically the Detailed Development Control Plan (DDCP), could not fundamentally solve these social problems, in terms of providing both housing and social services to low-income staff.

1.4 Methodology

To test my hypothesis, I use both qualitative and quantitative methods. I use three types of qualitative research methods (interviews, case studies, and literature review), while for the quantitative method, I collected data on industrial land conversion in Beijing and relate it with other employment and investment data. I compare the difference of various parameters before and after the LCR. My research is composed of two parts: (1) an empirical study of the relationship among SOEs, developers, local government, and planning authorities after the LCR; and (2) a study of how the LCR is related with the deindustrialization process in Beijing, and how that impacted the *danwei* system after the LCR, which affected the working class of SOEs. I use qualitative methods for the first part, including interviews with government officials, specific case studies on SOEs, and a historical review of land-use regulations. For the second part, I use both qualitative and quantitative methods, which include a survey in Beijing and a case study of the Beijing Textile Plant (*Jing Mian*).

Beijing as the capital city of China has a large amount of industrial land in downtown areas, specifically, near the east fourth ring road. Most of that industrial land has been redeveloped into residential uses and office uses. Therefore, it serves as a case to illustrate the social and institutional impacts of the LCR. The case of Beijing also helps me to give explicit explanations on the government regulations on urban land leasing and the impact on the outcomes of the market reform. The policy implications regarding land-use policy and impacts on the working class from this

research could also be of great value to policymakers, developers, and other parties in this reform process.

1.5 Data

I obtained macro economic indices such as Gross Domestic Product (GDP), population density, SOE employment, and investment on real estate development from the statistical bureaux of the state and Beijing municipal government. At the micro level, I obtained urban land-leasing data on LUR sales from the Beijing Land Reserve and Management Center and the existing literature. I used data of SOE relocation and industrial land conversion in Beijing from the Beijing Industry Adjustment Plan and Beijing Master Plan (2004- 2020). I obtained Beijing Textile Plant data from interviews with the plant managers and planners in Beijing Planning Institute, as well as from the Planning Report on Beijing Textile Plant, provided by the Beijing Planning Institute.

1.6 Organization of the Study

This study is organized into 6 chapters:

In Chapter 1, I provide an outline of this research, which consists of the introduction of the study, research objectives, research question and hypothesis, research data, and the methodology used in this study.

In Chapter 2, I describe the background of LCR—the historic review of the evolution of land policy in China and the existing literature on key issues. It consists of land property rights, land conveyance, and land market reform. I also review the land-use planning system in China.

In Chapter 3, I propose a conceptualized framework for the analysis of research problems and the hypotheses to be tested with the empirical model. I also provide five major arguments to show the logic of the framework, given the unique land and planning context in China.

In Chapter 4, I first explore the deindustrialization process in Beijing since the mid 1980s, including the industry relocation and industrial land conversion to provide a picture of industrial land redevelopment before and after the LCR. Then, I study the institutional impacts of the LCR, from various institutional perspectives.

In Chapter 5, I present an empirical study on social impacts of the LCR and deindustrialization process in Beijing. Finally, I conducted a unique case study of non-market development as an alternative approach to that of market development.

In Chapter 6, I summarize the research findings and contribution together with the existing limitations in this study. I also provide some further policy implications and suggestions for future research.

CHAPTER 2

EVOLUTION OF LAND POLICY AND LITERATURE REVIEW

To provide a context for the LCR as well as the deindustrialization process, I briefly review the land market reform since the late 1980s and the land-use planning system in China.

2.1 Introduction

As China conducts various economic reforms and restructures its socialist economy, market mechanisms are gradually replacing central-planning controls in many segments of the economy. This transformation is also reflected in both its urban land market and the land-use planning mechanism.

The land-market reform in the late 1980s made land in China not only a means of production, but also an economic commodity that can be transacted. The reform has greatly reshaped the decision-making process for central government, local government, and developers. It also led to a tension between the central government and local municipal government in terms of distributing the revenues from the land market and redevelopment of downtown areas. For the land-market reform, major changes occurred: land property rights and land-conveyance method.

Land-use planning, legally named as Detail Development-Control Plan (DDCP) in China, is the key element determining what land uses and land-use intensity is

allowable for the new development. It is the way for municipal governments to intervene in local land development. Land-use planning has experienced institutional changes over the past two decades. The change is driven by the changing economic system and by two new organizations—the local developmental state and *danwei*-enterprises (Zhu, 2005).

2.2 Land Market

The overall economic reforms and the open-door policy implemented in China in the late 1970s have helped drive the urban land reform towards a market orientation. The need for urban land reform and the setting-up for the urban land market arose because land had to be economically utilized in order to provide a source of revenue to both central and local governments and create social wealth for the whole nation (Zhu 2005). Urban land, which traditionally functioned as a public asset in China, has been experiencing major changes since 1980s. The changes include property rights and the land-conveyance method.

2.2.1 Land Property Right

Beginning with the creation of socialist China in 1949, the central government collected land from former private owners and controlled it as state-owned assets. At that time, the local government allocated land to various users through administrative allocation, which means that land was allocated free to users without any charges (Yeh, 2005). Most SOEs obtained their land through this method, and, many have

occupied that land since then. However, urban land was not considered to be a commodity according to Marxist principles of socialist people's ownership; thus, economic transactions of land were deemed illegal between owner and users.² The free administrative allocation system created much land squandering—land users tend to ask for much more land than they actually needed. (Zhu, 2005)

In the late 1980s, land reform started in several southern cities in China. Early practices occurred in Shenzhen and Guangzhou, which leased land to some foreign investors. It was not until the First Session of the Seventh People's Congress in 1987 that paying for the transfer of land-use rights (LUR) was made official. The clause "The right to the use of land may be transferred in accordance with law" was added to Article 10, Section 4 of the constitution. This amendment was approved by the National People's Congress on April 12, 1988. (Tang 1989, Yeh, 2005) After that, there are three main types of land ownership in China: (1) rural land, which is collectively owned by farmers; (2) administratively allocated land—urban land, which is owned by the state but occupied by SOEs through administrative allocation; and (3) leased land—urban land, which is owned by the state but the LURs are transferred to the users through a payment (Yeh, 2005). The transition in China has been a gradualist approach, which has led to a dual land market—the coexistence of both a leased land market and administratively allocated land.

² Clause 4, Article 10 of the 1982 Constitution stipulates: "Urban land belongs to the state...No organization or individual may appropriate, buy, sell, or lease land, or unlawfully transfer it in any way."

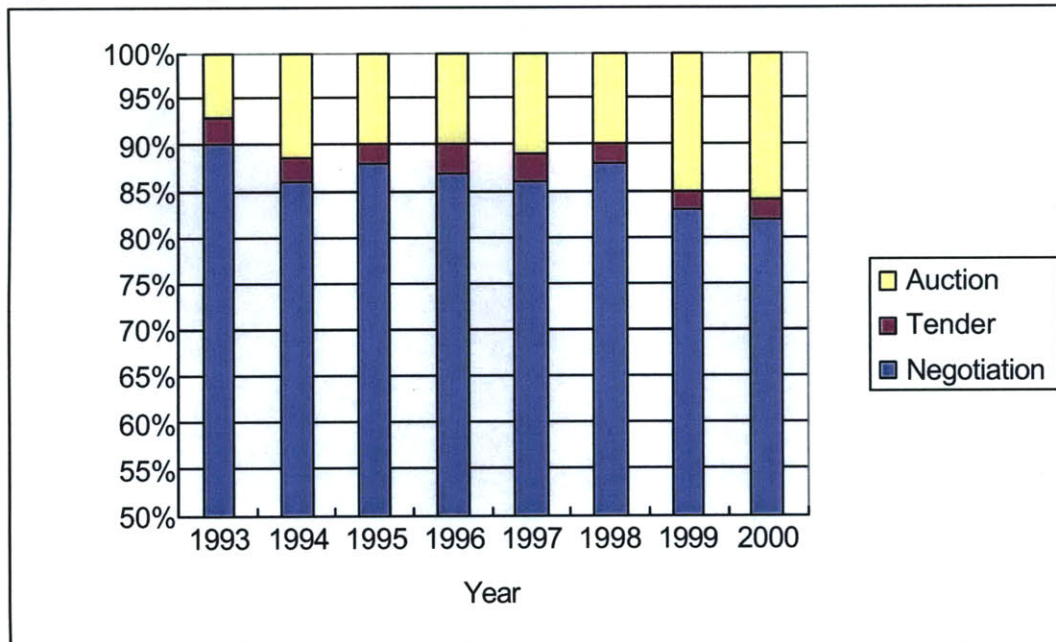
2.2.2 Land Conveyance

Land conveyance is the formal procedure to transfer a LUR from the government to land users. Three methods were used before 2004 for land conveyance: negotiation, tender, and auction. Negotiation refers to the selling of the land leasehold through negotiations between two parties: the local government as a seller and developers as buyers. Compared to negotiation, tender (developers are invited to join and propose a price for the land and the highest price is selected) and auction (through an open land-auction market) are the two ways that allocate land through the market mechanism. These two methods tend to have higher prices for selling the land leasehold than negotiation. However, in 2000, they occupied a lower percentage in the whole land-conveyance market—less than 20% for both of them, while negotiation occupied more than 80% (Figure 2-1) (Yeh, 2005). Take the city of Shenzhen as an example, during 1988-1999, 36.4 sq. km. (square kilometers) of land was allocated through land leasing of which 97.7% was by negotiation. (Zhu, 2005)

Since 2002, a series of regulations were announced and put into use by the Ministry of Land Resource and State Council about the LCR. The Decree No. 11 from Ministry of Land Resource announced that all land conveyance after August 31, 2004 has to be through an open-market auction instead of negotiation. These changes greatly affected the land-conveyance market, and made the land transaction a more transparent process, and increased the land price. However, very few studies have

been done on these LCR and their impacts on land redevelopment in downtown areas in China.

Figure 2-1: Comparison of Land-Conveyance Methods in China, 1993- 2000



Source: Yeh, 2005

2.3 Land-Use Plan

In China, there is a two-tier structure of urban planning: master planning and development-control planning. Master planning usually deals with micro-level strategic issues of a city, and the Master Plan has to be approved by upper-level government officials.³ Development-control planning deals with specific land development in urban areas and is supposed to regulate the functional and physical outcomes of the development. Development controls in China—called “zoning

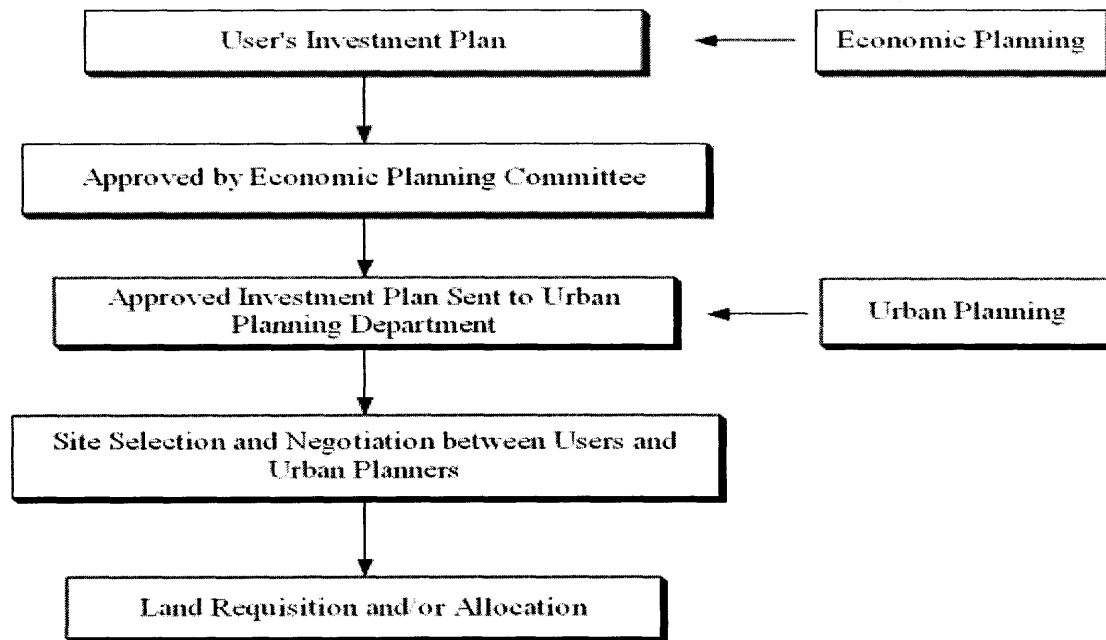
³ The master plan of big cities has to be approved by the State Council.

regulations” in the United States—has more direct effects and stronger legal impacts on influencing or encouraging specific land-development outcomes than master planning. However, development-control planning is not conducted only by planning authorities in municipalities. Rather, it is a long and complex mechanism that involves different city agencies, developers, SOEs, and they need to interact with each other in various ways, depending on in which step of the work and city the case is. I call this mechanism the “institutional setting” of development-control planning and it affects the physical and economic outcome of land development. The institutional setting of the land-development-control mechanism differs from before and after the economic reforms in late 1970s.

Before the Economic Reforms

Socialist development was highly centralized by a central-planning system. The urban land had to be given to specific users with public ownership. Most of those uses are specific public projects, which first need to be approved by the Economic Planning Commission (EPC). Land users could then apply to urban-planning authorities for site-selection approval and finally pay the compensation fee to the original land occupier (Figure 2-2). Urban planning authorities have very limited power during this process.

Figure 2-2: Land-Allocation Process in China Prior to 1979



Source: Zhu, 1999

After the Economic Reforms

City-planning authorities began to play a stronger role after the economic reforms.

The “one report and two permits” system is used as the legal procedure of transferring the land use from the original use to the proposed one. According to the *1989 City Planning Act*, prior permission is required before implementing all land-development projects, whether the developers of these projects obtain land from administrative allocation or from the land market. Developers need to submit development proposals, which should include the proposed land uses, development density, and open space. All development proposals are vetted by the local planning authorities under the supervision of city governments. The planning authority, through the “one report and two permits” system depicted in the *1989 Act* evaluates

development proposals according to the planning intention in the city plans and other government requirements or considerations (Ng and Xu, 2000). I include a detailed analysis of the process in Chapter 4.

CHAPTER 3

CONCEPTUAL FRAMEWORK AND MAJOR ARGUMENTS

For establishing the theoretical framework for the empirical study of institutional and social impacts of LCR in Beijing, I use five major arguments: property rights, institutional, legal, fiscal, and deindustrialization. I explain them later in this chapter.

3.1 Conceptual Framework

In the transition period of China's urbanization, both central and local governments have been trying to navigate the direction of reform towards a market-oriented approach through various policies and reforms. Urban land, as one of the key state assets, has not only become a means of production through a series of reforms, but also an important revenue resource for local and central government. The reforms and policies made related with land market and land-use regulation have greatly shaped the behavior of the government, developers, and SOEs; thus, they have become a key institutional tool for changing the political structure and dynamics. The social impacts of these reforms—specifically, the condition of SOE staff, in the case of SOE relocation and downtown industrial land redevelopment—have usually become the externality of the land reforms. However, this externality could either become a barrier or a driver for the land reform, and sometimes, for the more fundamental political reform, depending on how the social impact is treated by the government.

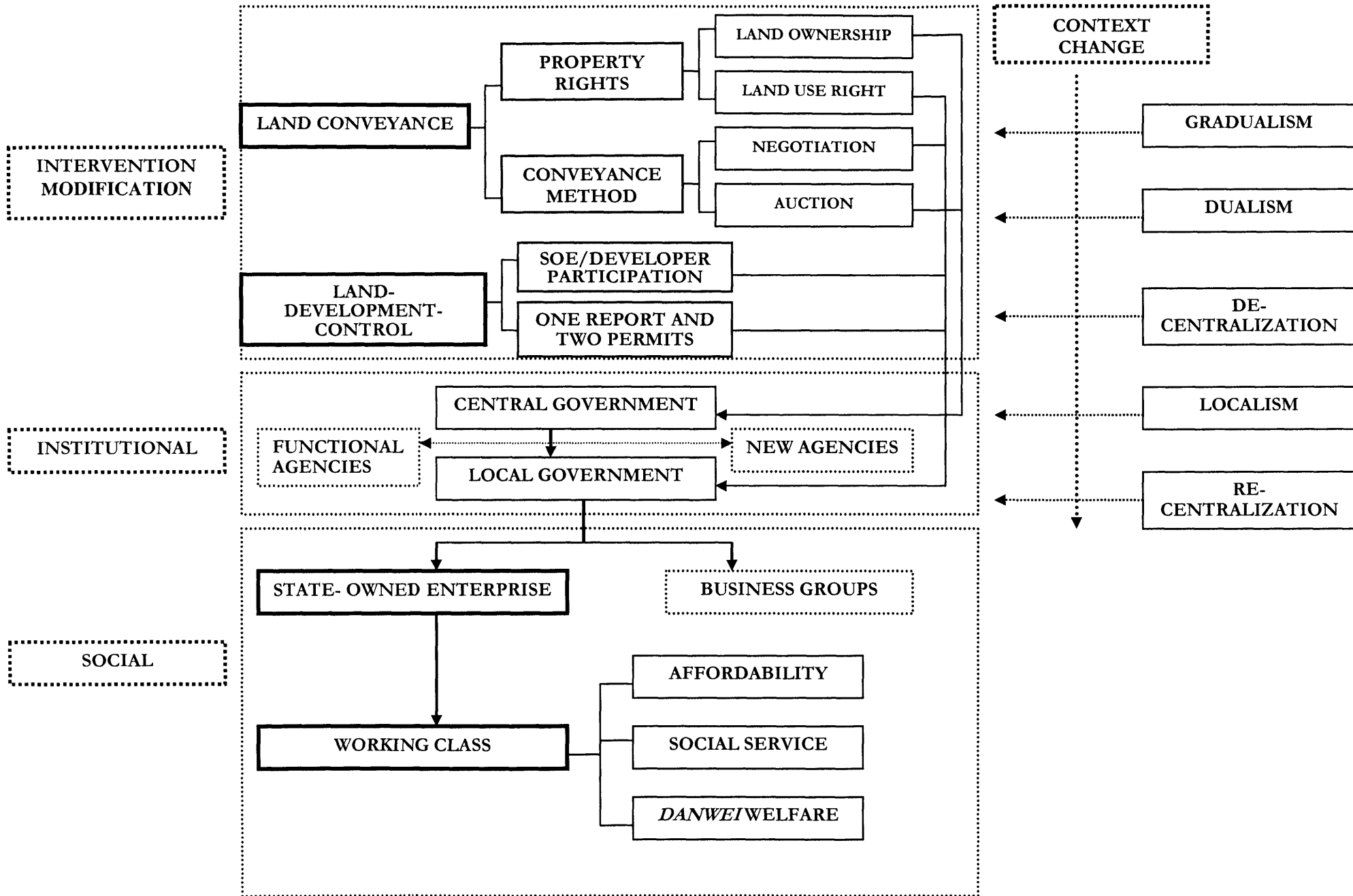
Therefore, the study framework is composed of three parts: (1) intervention modification, (2) institutional impacts, and (3) social impacts. They are linked by the two major organizations in this reform process—local governments and SOEs. I place the study in the context of the institutional change: from Gradualism to Dualism, and to Decentralization, and to Localism, and to the most recent Recentralization. (Figure 3-1)

3.1.1 Intervention Modification

In order to examine the impacts of the land conveyance reform (LCR) as the intervention from local government in the land development process, I explore other related interventions. In this first part, I examine the interacting relationships among these interventions caused by the LCR.

The intervention in land development in China consists of two steps: the land conveyance and the land-development-control mechanism. Land conveyance is the formal procedure to transfer the Land-Use Right (LUR) from the government to the potential users. Land conveyance, especially in the context where urban land is a public asset, is essential in affecting the future use of the redevelopment. In this study, I categorize it into two aspects: land property rights and land-conveyance method. The LCR belongs to the land-conveyance method, but is closely related with land property rights and the land-development-control mechanism. The different

Figure 3-1 Conceptual Framework: Institutional and Social Impacts of Land Conveyance Reform in China



conveyance methods lead to different interactions and dynamics among the government, developer, and SOEs. Property rights are the matters of liability—they are supposed to regulate the specific rights and responsibilities for the land users, although this is not yet the case in China.

Land-development control is the decision-making process that involves the public sector, private sector, SOEs and residents to analyze and recommend the way to transfer present land uses to the future uses. It includes the government-led land-use planning and land-use regulations process as well as developer and SOE participation. The government-led land-use planning and regulation process in China, known as “one report and two permits,” is the formal process to review previous land uses and propose new uses, including several key parameters for new development, such as land uses, floor-area-ratio (FAR) and building height. This process involves various local government agencies, and differs depending on the conveyance method.

3.1.2 Institutional Impact

Since the fiscal reform in the 1990s, political benefits and financial revenues have become the two major reasons driving the reform in central and local governments. LCR as the way of changing the conveyance method from negotiation to auction has influences on both political and financial patterns among governments. It thus leads to the institutional change of the land-development-control mechanism and in the way different government agencies work with each other.

During this land-conversion process, various government agencies are involved: central government, local municipal government, functional agencies, and some emerging agencies. Each of them has its own scope and responsibilities, which empowers them to be unique in the land-development-control process. The local government agency, specifically, the urban planning authority plays an important role during this process.

3.1.3 Social Impact

The third part of the framework is the social-impact analysis. The previous two parts of the study of the land-policy reform itself and its institutional impact among the government agencies have set up a good context to analyze the social impacts, which appear as either a positive or negative externality of the land policy reform, depending on how “social” is defined and how “impact” is treated.

Chinese cities have been experiencing a government-led large-scale deindustrialization process in the last decade. SOEs have been relocated from downtown areas to suburbs or other cities, leaving large amounts of vacant industrial land in downtown for redevelopment (Polenske, 2005). My study focuses on the social impacts of LCR on the working staff of the SOEs during SOEs’ relocation process, and more specifically, on the mid and low-income staff. Since the central government-led reform and restructuring to the SOEs, the working staff of SOEs have become the

marginalized people in China's transitional society. Especially when the deindustrialization has been used as a strategy to finance the industry restructuring, three aspects of working class are essential parameters of the social impact: (1) the affordability of the original site in downtown for the SOE staff, (2) the provision of social services for low-income staff, and (3) the provisions of the *danwei*⁴ welfare system.

3.2 Major Arguments for the Framework

The reason and logic of this conceptual framework build on China's unique urban and institutional context, which I outline in the following five major arguments: (1) property rights, (2) institutional, (3) legal, (4) fiscal, and (5) deindustrialization. I do not use all of these arguments for this analysis, but just for establishing the framework. Rather than using the arguments for a broad discussion of these perspectives, I focus on specific points related with the framework of this study.

3.2.1 Property-Rights Argument

I argue that the land-conveyance mechanism, including both the land property-rights system and conveyance method, does have an influence on the land-development-control process. Land conveyance, especially in the context of ex-Socialist countries where urban land is publicly owned or where the land property right is experiencing

⁴ State-owned enterprises in socialist countries, or *danwei* in China, are a link in social redistribution chains. The *danwei*, literally meaning work unit in English, is a profound socialist institution that used to be essential and is, to certain extent, still important to Chinese urban residents. The function of *danweis* is more than just organizing required production. They are a mechanism through which the state distributes socialist welfare to workers (Zhu, 2005)

the transition from poorly defined to clearly defined, is essential in affecting the future use of the redevelopment. It also affects the way the decision is made on that type of redevelopment.

Before the Land Market Reform (LMR) in China, urban land was not allowed to be transferred to other users as a commercial commodity. The LMR created the concept of Land Use Right (LUR) and differentiated that with the concept of land ownership. The LUR, which could be purchased by individual land users, is fundamentally the long-term land leasehold, while ownership of urban land, which has to be state-owned, is more like a political and ideological symbol during China's transition period. Therefore, the first-round distribution of LURs to various SOEs after the LMR was actually the process of distributing the public assets from the notion of "state" to certain State-owned entities. The notion of the LURs and land ownership was not well defined since the beginning of the LMR—that created more flexibilities and opportunities for the government during the transition period (Oi, 1999). However, it also brought numerous conflicts and problems between SOEs and government in the recent decade when many of the SOEs want to relocate and transfer their LURs.

A better defined land property-rights system, on the one hand, will affect how the land-development-control process could intervene on the land users, and more importantly, what compensation or costs government needs to make to enforce that intervention. On the other hand, the conveyance method, as the formal process and

regulation of how the LURs should be transferred from government to land users, will influence the participation method by government agencies, developers, and SOEs before the well-defined land property rights system is established.

3.2.2 Institutional Argument

The land-development-related institutional settings in China are unique and are changing. Land-use planning and land-use regulations are major government actions used by the state to intervene in the redevelopment of vacant SOE land in urban areas. However, the notion of “government” actually consists of various agencies at various levels, all of which participate in the land-development decision-making process in different ways. After the Land Market Reform, the land redevelopment, specifically, the conveyance of LURs, has become the major revenue sources for the government (Yeh, 2005). In the transition period from a traditional Socialist ideology to a market approach, the evaluation by political officials is usually related to the local economic performance; therefore, the land redevelopment is associated not only with revenue generation, but political performance as well.

However, the Land Market Reform opened a new era of market-mechanism land development, but did not clearly define the land property rights. This ambiguous land property rights system and the local institutional settings have led to many conflicts among agencies. The LCR is, on the one hand, changing the dynamics, benefit distribution, and development rights among these agencies; thus, it becomes the

reason why an “institutional impact” will exist. On the other hand, the tension has existed between the central government and local municipal government since the beginning of China’s open door policy in 1979 (Table 3-1).

Table 3-1: Institutional Change in China Since 1979

Institutional Change	Period	Events
<i>Gradualism</i>	Late 1970s to present	China’s economic reform
<i>Dualism</i>	Late 1970s to present	Consequence of the <i>Gradualism</i>
<i>De-centralization</i>	Mid 1980s to present	Fiscal Reform
<i>Localism</i>	Late 1980s to early 2000s	Land Market Reform
<i>Re-centralization</i>	Early 2000s to present	A series of corruption investigations from central government to the officials in some major cities in 2004

Source: Author’s conclusion and Zhu (2005)

Gradualism was used as the approach during earlier reform period in order to ensure the stability during China’s transition. *Dualism* has become one of the consequences of that approach and was reflected on many sectors, including the land market. The leased land that is transferred through the market approach and administratively allocated land that is given to SOEs and agencies free of charge coexist in China’s land market (Yeh, 2005). The Fiscal Reform in the mid 1980s and Land Market Reform in the late 1980s have led to a *De-centralization* and therefore *Localization*—local municipal government since the 1980s had more pressure, motivation, and jurisdiction to obtain the economic development and fiscal capacities. The recent land reforms and several arrests to the very high-level officials indicate the *Re-centralization*, which has been going on since the year 2000.

3.2.3 Legal Argument

For the legal context in Beijing of the LCR adopted in 2004, I argue that although the planning-related laws and regulations have improved, they are still inadequate. The land-development-control mechanism does not have a strong legal support in terms of the procedure and decision making.

LUR provides land users the right to develop the land in certain ways that are allowed by the government land-use plan. The right to develop the land is the legal component of land rights and should be defined by land-use planning, which regulates the land market according to how land should be developed (Zhu 2005). Therefore, the inappropriate government intervention on the land uses actually intervenes in the legal land-use rights of individuals, which are protected by the land-transaction contract. In the United States, if the intervention is in such a way that it causes economic hardship to the property owners, then, such an intervention is called a “regulatory taking.”

The land-development intervention, as explained before, consists of two steps: land conveyance and land-development-control mechanism. Before LCR was adopted, the laws and regulations related with these two types of intervention were extremely inadequate: land property rights were not well defined; negotiation was widely used as the conveyance method to transfer the LURs, which caused numerous conflicts;

many land conveyances were conducted not through the legal land market, but the illegal black market (Yeh, 2005); and more importantly, there is no law or regulation about the specific procedure and mechanism of the land-use planning process, which is the key component of land-development-control. Land-use planning is highly discretionary and decision-making in the planning process is not transparent at all (Zhu, 2005).

Two major actions improved the situation at the land-conveyance stage: the LCR adopted in 2002 and the Property Law, which was drafted in 2005 and is currently being reviewed by the central government. The new Property Law aims to protect the private ownership of certain properties and assets. The land property rights will also be better defined in that law, so that the boundary will be drawn between “appropriate intervention” and a “regulatory taking.” The LCR regulates the specific way of transferring the LURs, which is through land auction.

However, the land-development-control related law and regulations did not improve since then (Table 3-2). During the land-use planning process, local planning authorities do not have legal support for their decision-making; thus, they are often affected by the higher level government officials in municipal government or other agencies. The discretionary and illegal decisions were made sometimes made in order

Table 3-2: Major Planning and Planning-Related Regulations in Beijing

	Planning Law/Regulation	Planning-Related Law/Regulation
Central	<p>City Planning Act (1989)</p> <p>Method of City Planning (1991)</p>	<p>Land Management Law (1986, revised in 1988, 1998, 2004)</p> <p>Regulation of Land Acquisition for State Construction (1982)</p> <p>Environmental Protection Law (1989)</p> <p>Provisional Regulations on Transferring Land-Use Right of State-Owned Land in Cities and Towns (1990)</p> <p>Temporary Regulation of Land Management for Foreign Investment (1990)</p> <p>Real Estate Management Act (1995)</p> <p>Regulations on Transferring Land Use Right of State-Owned Land Through Land Auction (2002)</p>
Local	<p>Temporary Regulation of Beijing Urban Construction and Planning Management (1984-1992)</p> <p>Beijing City Planning Regulation (1992- present)</p>	<p>The Working Procedure of Administratively Allocated Urban Construction Land (1996)</p> <p>Beijing Temporary Regulations on Transferring Land Use Right of State-Owned Land Through Land Auction (2002)</p> <p>Management Method of State-Owned Construction Land in Beijing (2005)</p> <p>Temporary Method on Land Reservation and First Level Development (2005)</p>

Source: Author's survey and Xu and Ng (1998)

to maximize the government's or some officials' profits, while neglecting the public interest.⁵ Although some appeals from land users were accepted by the court in late 1990s, it does not help the legal environment, because China adopted the Continental Law system instead of the Common Law, much of which was by custom and precedent rather than by written code.

3.2.4 Fiscal Argument

When I examine the land policy reform in China, I find that one of the fundamental drivers for it is actually the motivation of local municipal government to gain more revenues. The Land Market Reform in the late 1980s captured that motivation and made urban land as the key implementation tool to realize such revenues. However, what created this motivation were the changing fiscal relationships between central and local government, which happened before the Land Market Reform.

The central government in China since 1949 had a considerable control over various fiscal issues like: fiscal policy, budgetary authority, fiscal management systems, and some extraordinary fiscal powers. It also adopted a unified budget and presided over a budgetary process that includes the budgets of the central government, the provinces, and sub-provincial units. It was not until the *Cultural Revolution* in 1966-1976 that the local government began to acquire more autonomy through greater

⁵ A study by Xu (2001) showed that during the period of 1992-1996, the mayor of Guangzhou issued at least 2000 memos to the city planning authority to request planners to follow his suggestions in dealing with development applications. (Xu, 2001, Zhu, 2005)

budgetary authority, longer contractual periods, and greater responsibility than before for managing budgetary surpluses and deficits (Oksenberg, 1991). A process of fiscal and state administrative decentralization was initiated as early as the 1980s as part of China's *Open Door* policy. The local governments were considered the key factor for the implementation of China's reform. Since then, local governments began assuming primary responsibility for local economic and social development. They obtained authority to determine prices, approve or disapprove the creation of new firms, and make major investments with bank loans or local extra-budgetary funds (Liu, Tao, 2004). Qian and Weingast (1998) emphasize that it was due to the fiscal reform that local governments achieved the motivation and incentive to foster local economic development and expand the tax base.

3.2.5 Deindustrialization Argument

I focus my land policy studies on the deindustrialization process, specifically, the relocation process of industrial SOEs. SOEs, also called *Danwei*-enterprises in China⁶, are special entities in the Socialist context. Before the *Cultural Revolution*, on the one hand, they were responsible for nearly all the manufacturing production for the newly established communist China and hired most of the urban employees. On the other hand, they also provided various kinds of social services for their staff. The dual role of production and social welfare provider made them the essential mechanism through which the state distributed socialist welfare to workers (Zhu, 2005). A well-

⁶ Danwei is the pronunciation in Chinese. In some literature, it is called "work-unit".

developed and vivid description about *danwei*-enterprises is hard to find, but John Friedmann's (2005) conclusion gives us some sense:

Until well into the reform period, the *danwei* was a self-contained, walled compound that enshrined not only a productive enterprise or service institution such as hospital or university, but also a "small society" that provided for a complete way of life and personal security into old age. The efficient use of resources was not a major operational criterion of the *danwei*. Labor mobility was minimal, and children who grew up in the compound would typically inherit their parents' jobs on their retirement or be reassigned to other tasks within the unit. Among those who belonged to the *danwei*, there was substantial material equality: they all ate out of the same pot, so to speak, but the world beyond the gate had only a shadowy existence for them.

However, this ideal socialist model began to break down after the 1980s, especially from the 1990s—the *danwei*-enterprises began to be closed or transferred into joint ventures due to political and social considerations. What went with this revolution was the change of ideology from the former "single state-owned assets system" to the later "multiple-ownership system." Because the *danwei*-enterprises were essential to the Socialist China's economy before its reform period, many of them were located in downtown areas. Therefore, the deindustrialization process in the past decade has caused many of the SOEs to be relocated from downtown to city suburbs or even to other cities and regions.

This government-led deindustrialization process has created much vacant industrial land in the downtown area of many big Chinese cities; meanwhile, it has also created considerable unemployment and labor relocation. It has been changing the social and

economic landscape of Chinese cities and has not been deeply studied (Polenske, 2005). By focusing on the SOEs relocation, we can understand some of the impacts of the recent land policy reforms.

CHAPTER 4

EMPIRICAL STUDY OF THE INSTITUTIONAL IMPACTS OF THE LAND CONVEYANCE REFORM

To explore the deindustrialization process in Beijing and the institutional impact of the LCR, I begin by studying the socioeconomic development in Beijing, to provide the context of LCR. For the institutional impact part, I compare the old and the new land-development-control mechanism and analyze their impacts on how various agencies work together during the land-development decision-making process.

4.1 Deindustrialization in Beijing

As the capital of the country and one of China's biggest cities (currently over 15 million population), Beijing has a long history of over 2000 years. It became the capital of China in 1949, when China was established. Before the open door policy in 1978, Beijing was the model city of a socialist planned economy—strong planning control has been the prominent feature of its urban land use (Deng, 2003). Since then, Beijing has been initiating various reforms on land markets, housing markets, and land regulations. In addition, Beijing had a large amount of industrial land, especially in the inner city, with most industries being relocated in the recent decade.

4.1.1 Beijing Socioeconomic Development

As of 2007, the total land area in Beijing is 16,410 square kilometers (km²). Beijing municipal government governs 18 districts and counties and has over 15 million population (Table 4-1; Figure 4-1). From the old city, inner city, outskirts, to suburbs,

the various “ring roads” are set up every two kilometers as the spatial framework of the urban development. The 2nd Ring Road defines the old city area and the latest ring road is the 6th Ring Road which was built to connect various suburbs. Among the 18 districts: four districts are designated as old city area, which is the area within the 2nd Ring Road: *Xi Cheng*, *Dong Cheng*, *Chong Wen*, and *Xuan Wu*; four districts are designated as inner city area⁷: *Chao Yang*, *Feng Tai*, *Shi Jing Shan*, and *Hai Dian*; and the other ten districts are suburbs: *Da Xing*, *Tong Zhou*, *Shun Yi*, *Men Tou Gou*, *Chang Ping*, *Fang Shan*, *Ping Gu*, *Huai Rou*, *Mi Yun*, and *Yan Qing*.

Table 4-1: Demographics by Districts of Beijing in 2005

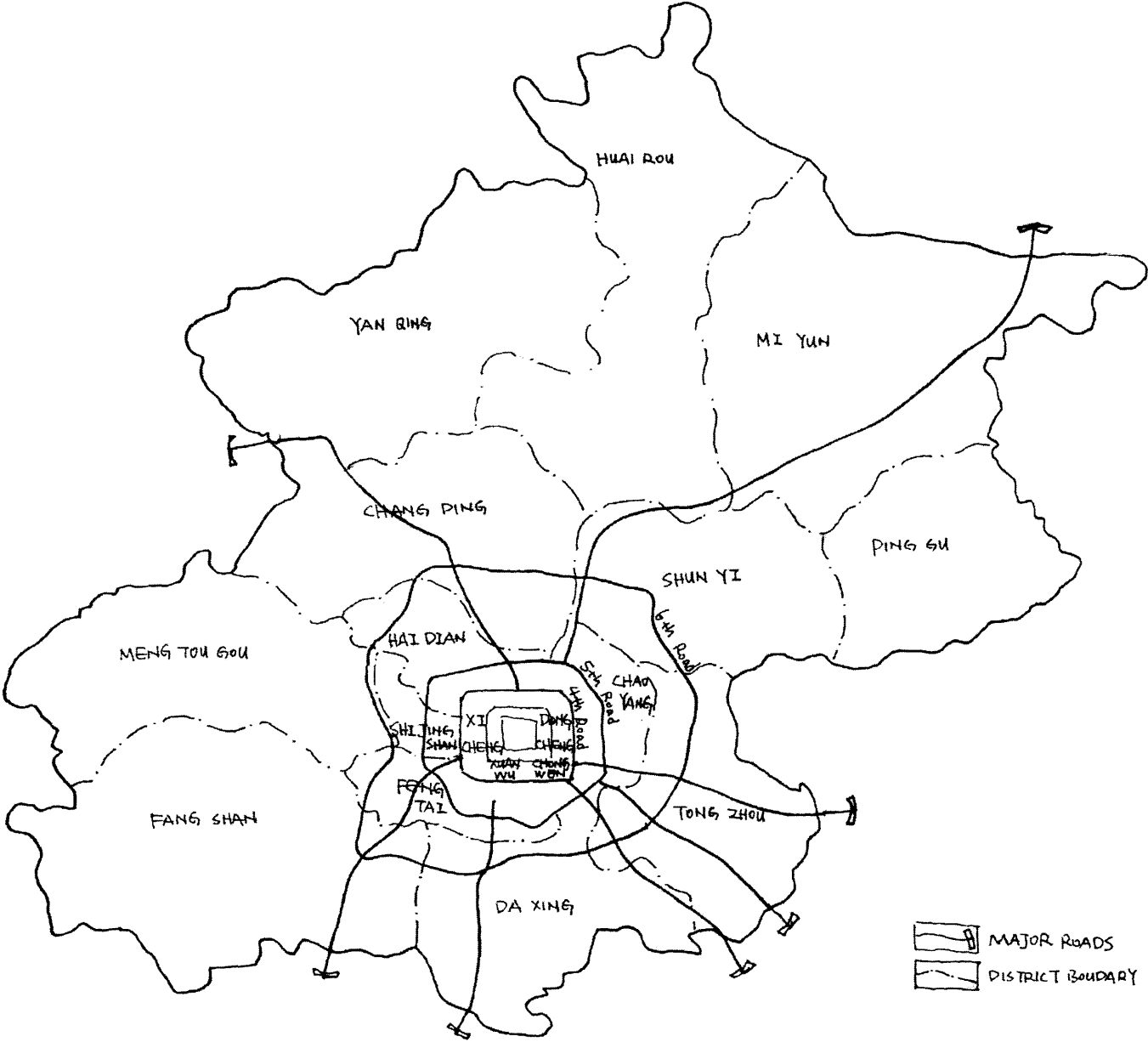
	Population (in 1,000 persons)	Land Area (sq.km*)	Population Density (persons/sqkm)
Dongcheng	612	25.4	24,113
Xicheng	757	31.6	23,940
Chongwen	358	16.5	21,670
Xuanwu	530	18.9	28,133
Chaoyang	1711	455.1	4,742
Fengtai	974	305.8	3,185
Shijingchan	350	84.3	4,150
Haidian	1918	431.0	4,450
Mentougou	238	1450.7	165
Fangshan	784	1989.5	394
Tongzhou	629	906.3	694
Shunyi	559	1019.8	548
Changping	4.2	1343.5	359
Daxing	5.6	1036.3	546
Pinggu	4.5	950.1	447
Huairou	3.3	2122.6	143
Miyun	4.2	2229.4	198
Yanqing	2.6	1993.7	139

Source: Beijing Statistics Year Book, 2005

Note: Sq.km. = square kilometers.

⁷ The boundary of the inner-city, named Central City in Beijing, kept changing during time due to the spatial development of the city. In the latest version of the Beijing Master Plan, it roughly refers to these four districts and the old city area.

Figure 4-1: District Locations in Beijing

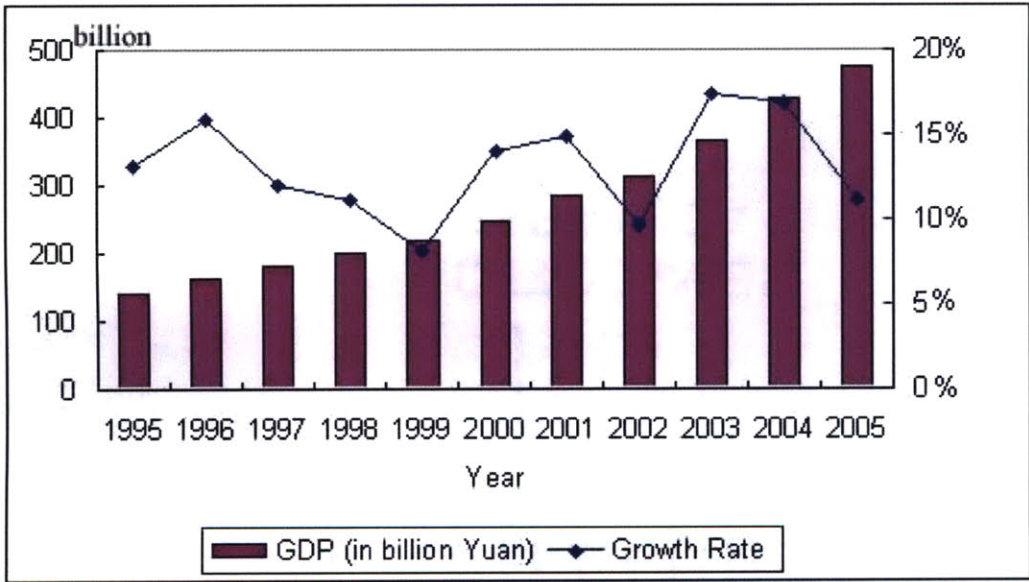


Source: Author's sketch

Like many other Chinese cities, Beijing has been experiencing rapid economic growth as well as urban development. In the past decade, the gross domestic product (GDP)

of Beijing has increased from 139.5 billion yuan⁸ in 1995 to 475.9 billion yuan in 2005. The annual GDP growth rate is more than 10% and overpasses that of China's (Figure 4-2). The GDP per capita increased from 10,261 yuan in 1994 to 31,613 in 2003, while the household disposable income increased from 4,731 yuan in 1994 to 13,882 yuan in 2003 (Figure 4-3). One major component of this economic growth was the real estate development, which was driven by the land market and land policies.

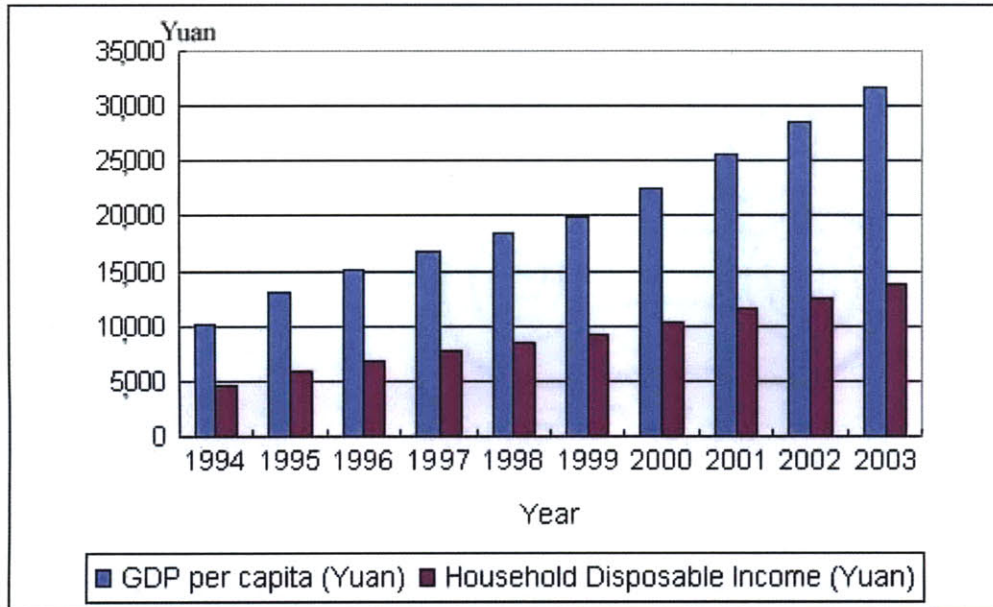
Figure 4-2: GDP Volume and Growth Rate in Beijing, 1995-2005



Source: Beijing Statistical Bureau, and Sun (2005)

⁸ Yuan is the name of the Chinese currency, also called RMB. 1 yuan equals 7.8 U.S. dollar in January, 2007.

Figure 4-3: GDP per capita and Household Disposable Income in Beijing, 1994-2003



Source: Beijing Statistical Bureau, and Sun (2005)

4.1.2 Deindustrialization Process

Beijing as the capital city of China also plays an important role in its industrial development due to the fact that Socialist China emphasized the importance of production during its early period. First, I discuss the historical industrial pattern and then, the current deindustrialization process.

4.1.2.1 Industrial History

The history of major industrial development in Beijing began in the early 1950s. During the 1949 to 1959 period, several industry sectors were developed in various locations of the city: the cotton textile cluster in the east suburb, the electronics cluster in the north-east suburb, the mechanical, chemical, and metallurgy cluster in

the south east. Most of these industries were located in the outskirts or suburbs at that time when the city was mainly within the old town area, which is defined by the 2nd Ring Road now. Those industries provided many employment opportunities as well as production for the newly established country.

From the 1960s to 1970s, after nearly two decades of industrial development, on the one hand, the following major industries of the city became the essential ones: automobile, iron and steel, petroleum and chemical, construction materials, mechanical, and electricity. On the other hand, because the city had been sprawling over time, some of the industries that were originally located on the outskirts began to be included in the urban area. Problems like congestion, pollution, and land-use compatibility began to occur.

4.1.2.2 Relocation Policy

The relocation of factories in Beijing started from 1985, due to the fact that many of the inner-city industries produced considerable pollution and created many environmental problems for the communities. Since then, the Beijing municipal government initiated three stages of relocation and has relocated more than 200 projects from the inner-city area (IRN, BEC, 2000) (Table 4-2). The first stage went from 1985 to 1994: 65 projects were relocated; total land converted was 0.316 square kilometer (sq. km). During this period, no specific regulations were put forward to

intervene in the industry relocation. Most relocation projects were small-scale and poorly funded. However, it did help to decrease the inner-city industry pollution.

Table 4-2: Industry Relocation Policy and Stage in Beijing (1985-2005)

Stage	Relocated Projects	Land Converted (10,000 sq. m)	Land Converted per year (10,000 sq. m)	Regulations
1985- 1994	65	31.6	3.2	
1995- 05.1999	59	171.8	34.4	Implementation Method of Relocating Industries of Pollution or Annoying Residents in Beijing (1995)
06.1999- 2005*	134*	613*	102.2*	Implementation Method of Relocating Pollution Industries and Industry Restructuring (06.1999) Relocation Scenario of Industry Relocation within the 4 th Ring Road (08.2000)

Note: *: No data are available after 2000; data used for this period are from the proposal in 1999 by the Beijing Economic Committee.

Source: “Industry Relocation Newsletter”, Beijing Economic Committee, Beijing Development and Reform Committee, 2000

From 1995, the second stage relocated 59 projects and converted 1,718 sq. km.

industrial land. The average land area converted per year for the second stage (0.34 sq. km.) was even bigger than the total land area converted from 1985 to 1994. It was due to the adoption of the “Implementation Method of Relocating Industries of Pollution or Annoying Residents in Beijing” (1995), which required the industries in inner-city with heavy pollution, which were producing a strong negative externality to the surrounding communities and residents had to be relocated.

It was not until June 1999, when the “Implementation Method of Relocation Pollution Industries and Industry Restructuring” (06.1999) was adopted, that the large-scale industry relocation began to take place in Beijing. There are no data on how many factories were relocated and how much industrial land was converted since 1999, but the data for the period of January to August, 2000 could give us a sense: during that 8-month period, 24 relocation projects were approved by the Beijing Economic Committee (BEC), 14 relocation projects were approved jointly by BEC, Beijing Planning Committee (BPC), Beijing Urban Planning Committee (BUPC), and Beijing City Infrastructure Management Committee (BCIMC). The total land converted during this period was 0.46 sq. km. The “Adjustment Plan for Industrial Location in Beijing” (12.1999) by the BEC proposed that 134 projects were to be relocated during the 10th Five-Year period (from 2000- 2005), totaling 6.13 sq. km of land area converted. However, I assume the real number in Beijing is larger than shown in 1999. One important reason is that after Beijing’s successful bid for the 2008 Olympic Games in 2001, both the central and municipal government initiated larger-scale industry relocation in Beijing in order to achieve a “Green Olympics” for 2008. I have not been able to get precise data to verify this assumption.

4.1.2.3 Industrial Land Conversion

During the various stages of the deindustrialization process in Beijing, lots of industrial land was converted into residential or commercial uses. There are no data available to show the spatial and numeric change of industry land conversion in the

inner-city area; however, the following information could indicate the spatial pattern of industry locations in Beijing over the time.

In 1995, before the large-scale relocation took place, there was 264 sq. km of industrial land in metropolitan Beijing, of which 115 sq. km was located in the central city area and 149 sq. km in the suburbs (Table 4-3). Obviously, a greater percentage of the industrial land was in the central city area compared to its land area, which is much smaller than the suburbs. In addition, the central city area had more enterprises and higher industrial output compared to the suburbs. Within the central city area, specifically, *Chao Yang*, *Hai Dian*, and *Shi Jing Shan*, are three districts that have a strong industrial base as well as more industrial land.

In 1999, there was 28.3 sq. km. industrial or industrial-enterprise land within the 4th Ring Road, which was 8.7% of the total land area within the 4th Ring Road (Table 4-4). Of that, nearly half (13.7 sq. km) was between the 3rd Ring Road and the 4th Ring Road. From the “Adjustment Plan for Industrial Location in Beijing” (12.1999), there was more than 8 sq. km. industrial land converted within the 4th Ring Road from 1999 to 2003.

In 2003, after the large-scale industry relocation process of 1999, there were only four

Table 4-3: Industrial Enterprises Location in Beijing (1995)

	District	Number of Enterprises	Percentage of Beijing (%)	Industrial Output in 1995 (10 million Yuan*)	Percentage of Beijing (%)	Industrial Land Area (10 thousand sq.meter)	Percentage of Beijing (%)
Central City Area of Beijing**	Dong Cheng	379	3.5	26.2	2	421	1.6
	Xi Cheng	540	5.0	28.9	2.3	878	3.3
	Chong Wen	338	3.2	21.0	1.6	302	1.1
	Xuan Wu	314	2.9	24.3	1.9	551	2.0
	Chao Yang	1962	18.3	330.9	25.8	3856	14.5
	Feng Tai	821	7.7	76.4	6	1572	5.9
	Shi Jing Shan	256	2.4	151.4	11.8	2249	8.5
	Hai Dian	1306	12.2	219.9	17.2	1709	6.5
	Total: Central City	5916	55.2	879.0	68.6	11538	43.4
Non-Central City Area of Beijing	Meng Tou Gou	306	2.9	14.2	1.1	2095	7.9
	Fang Shan	544	5.2	159.1	12.4	4823	18.2
	Chang Ping	716	6.7	34.8	2.7	1751	6.6
	Shun Yi	647	6.0	50.5	3.9	1785	6.7
	Tong Zhou	517	4.8	35.3	2.8	1233	4.7
	Da Xing	809	7.6	28.9	2.3	1110	4.2
	Ping Gu	351	3.3	24.5	1.9	470	1.8
	Huai Rou	336	2.2	28.3	2.2	594	2.2
	Mi Yun	294	2.7	21.1	1.6	660	2.5
	Yan Qing	276	2.6	6.6	0.5	397	1.6
	Total: Non-Central City	4796	44.8	403.3	31.4	14918	56.6
	Total	10712	100	1282.3	100	26456	100

Note:

1. * 1 Yuan = 8.23 U.S. Dollars

2. ** Central city area refers to area defined by Beijing Master Plan (2004)

Source: Beijing Industry Adjustment Plan, Beijing Economic Committee, December 6, 1999

Table 4-4: Spatial Pattern and Land Resource of Industrial Enterprises within the 4th Ring Road in Beijing, May, 1999

	Enterprises	Within 2 nd Ring Road		2 nd -- 3 rd Ring Road		3 rd —4 th Ring Road		Within 4 th Ring Road		Percentage of Area within the 4 th Ring Road (%)
		Number of Firms	Land Area (sq.m)	Number of Firms	Land Area (sq.m)	Number of Firms	Land Area (sq.m)	Number of Firms	Land Area (sq.m)	
1	Municipal Industrial Enterprises	96	1329745	93	4544352	108	8130087	297	14004184	4.32
2	Municipal Non-Industrial Enterprises	24	1371034	67	1492772	83	2460978	174	5324784	1.64
3	District Enterprises	100	590681	76	496773	74	618421	250	1705875	0.53
4	National or Military Enterprises	12	3761306	25	1019281	25	2521075	62	7301662	2.25
	Total	232	7052766	261	7553178	290	13730561	783	28336505	8.74

Note:

1. Municipal Industrial Enterprises and District Enterprises refer to those whose land area is above 1000 sq. meter.
2. National or Military Enterprises refer to those owned by Central government or Military Department whose land area is above 1000 sq. meter.
3. 121 former municipal industrial enterprises were converted to District Enterprises, total land area of which is 1.2 million sq. meter.

Source:

Beijing Industry Adjustment Plan, Beijing Economic Committee, December 6, 1999

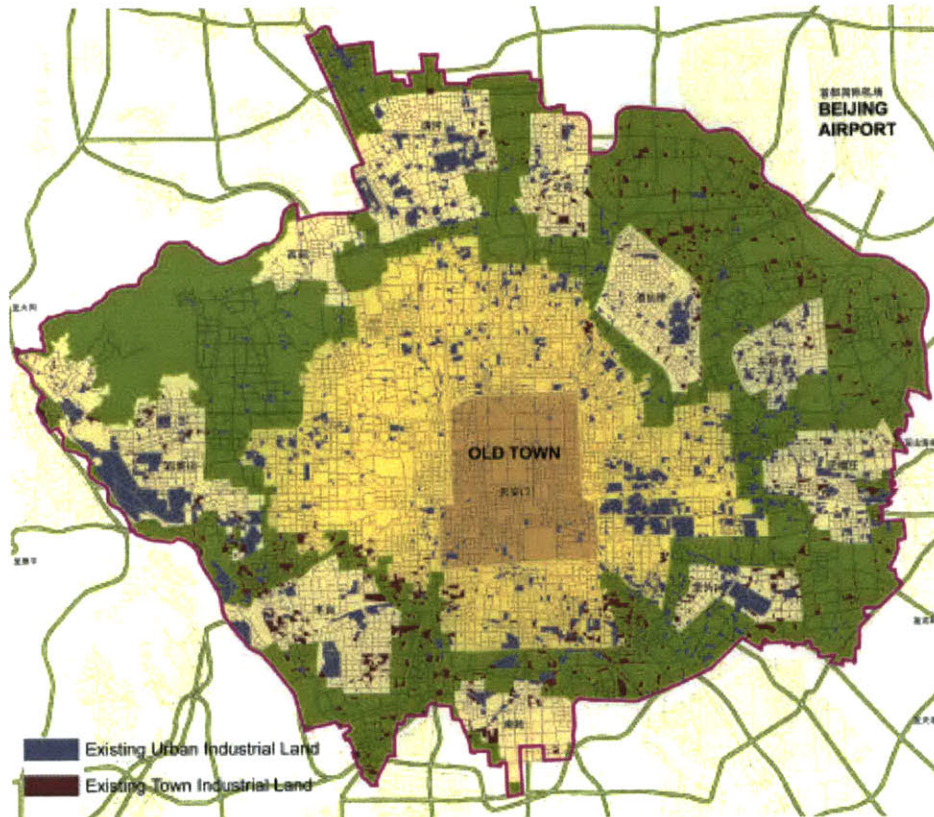
major industry clusters left in the central city area of Beijing⁹: Beijing Capital Iron and Steel Group in the west; Beijing Electronic Group in the north east; Beijing Chemical Plant Group in the east; and Beijing Coke Plant in the south east. (Figure 4-4) Three of them with the exception of the Beijing Electronic Group were proposed to be relocated in the next five to ten years in the latest Beijing Master Plan. (Figure 4-5). Note that the industries remaining in Beijing are proposed by 2020 to be clustered into just a few groups, whereas in 2003, they are scattered throughout the city.

4.2 Institutional Impact

The land-development-control mechanism (LDCM) has become a major institutional and financial tool for local government to get both political support and financial revenues. The LDCM in China is a discretion-based mechanism instead of regulation-based mechanism due to the context of transition period in China. Since the open-door policy and reform, *Gradualism* was taken as the reform approach, which led to the current transition period. In this context, “ambiguity” is the characteristic of the LDCM—the ambiguous land property rights, the ambiguous land conveyance method, the ambiguous land use planning process, and the ambiguous decision-making process of industry relocation. Some scholars (Oi, 2001, Zhu, 2005) argue that ambiguity provides flexibility for the local governments and is essential in the transition period. However, the recent Land Conveyance Reform (05, 2002) and the

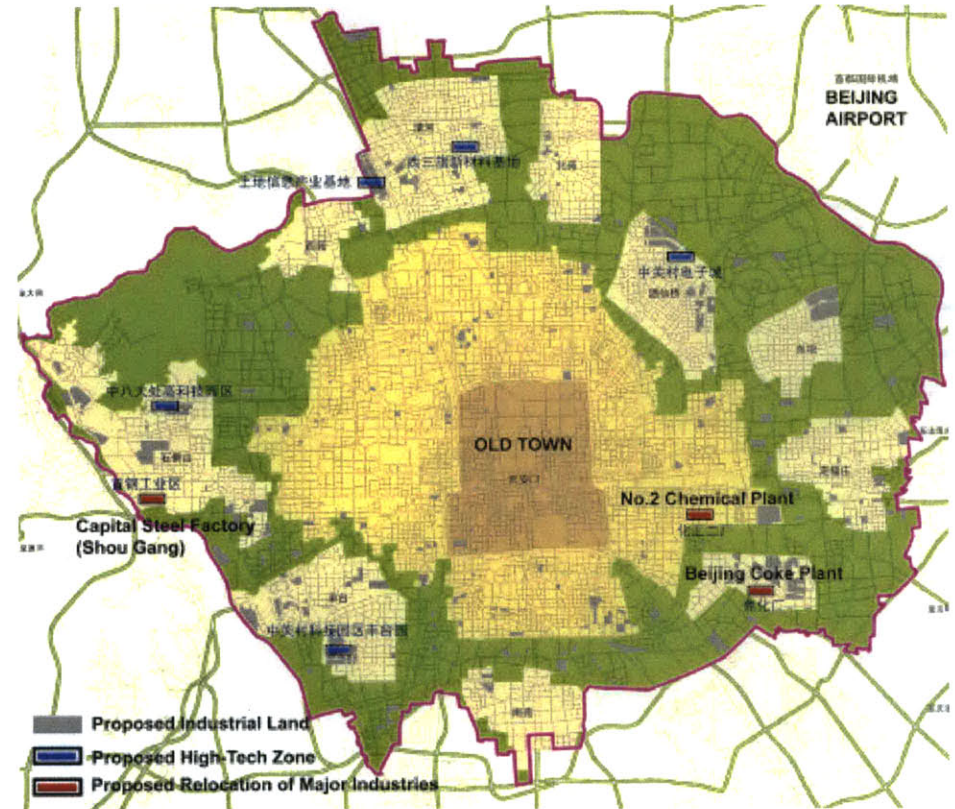
⁹ Interview with planners from Beijing Planning Institute in June, 2006.

Figure 4-4: Existing Industrial Land Location in Beijing (2003)



Source: Beijing Master Plan (2004- 2020)

Figure 4-5: Proposed Industrial Land Location in Beijing (2020)



Source: Beijing Master Plan (2004- 2020)

newly approved “China Property Law” (03, 2007) have been put forward to bring a more well-defined land-conveyance market.

Do these changes indicate the ending of China’s transition period? My answer is: no—I argue that the better-defined land conveyance market did not lead to the fundamental change in the LDCM, which is supposed to be closely linked with the land conveyance in the context of the Socialist country. However, the better-defined land-conveyance market did bring an institutional shift in the land redevelopment process and pushed the transition period towards a more government- controlled environment with more institutional negotiations among various agencies and ministries.

The LCR was adopted through the Decree 11 of the Ministry Land Resource (MLR) in May, 2002. The decree regulates that the LUR of for-profit land uses¹⁰ has to be transferred through land auction, instead of through the negotiation approach, which was allowed before. August 31, 2004 was used as the deadline of transferring LURs through negotiation in Beijing. Specifically, three types of auctions are allowed in the new approach: sealed bid auction (*zhaobiao*), open bid auction (*paimai*), and initial public offering (*gupa*). For the sealed bid auction: the municipal or town government needs to announce the bidding information in advance and invite relevant developers and legal entities to the process. The evaluation can be based on

other factors besides land price. For the open bid auction: the municipal or town government needs to announce the auction information and whoever offers the highest price get the bid. For the initial public offering: former land users should announce the information of the site as well as the deadline of price offerings in the Beijing Land Reserve and Management Center (BLRMC). The BLRMC needs to update the information once they get new price offerings from developers, and they will issue the LUR to the one who gets the offer before the deadline. All these three methods differ from the previous auction approach, which decided the land price through the negotiation between developers and SOEs.

4.2.1 Transition of the Land-Development-Control Mechanism

There are two central elements in the LDCM during the land-redevelopment process in China: the Detailed Development Control Plan (DDCP) and the “one report and two permits” (ORATP) system. The DDCP is the legal process for the local government to regulate and control the outcome of the development, using land-use planning and land-use regulations as means. It usually includes the intervention on allowable land uses, Floor Area Ratio (FAR), building height, building set-back distances, building density, major road exits, required public facilities and other specific elements¹¹. The ORATP is the process for the local urban planning authority to review land-use applications from individual land users. “One report” refers to the

¹⁰ For-profit land uses refers to the specific uses like retail, commercial, residential, entertainment, and etc. (Decree 11, 2002)

¹¹ DDCP is similar to the Zoning Regulations in the United States.

Site Selection Recommendation Report (SSRR); “two permits” refer to the Land-Use Planning Permit (LUPP) and the Building Construction Permit (BCP).

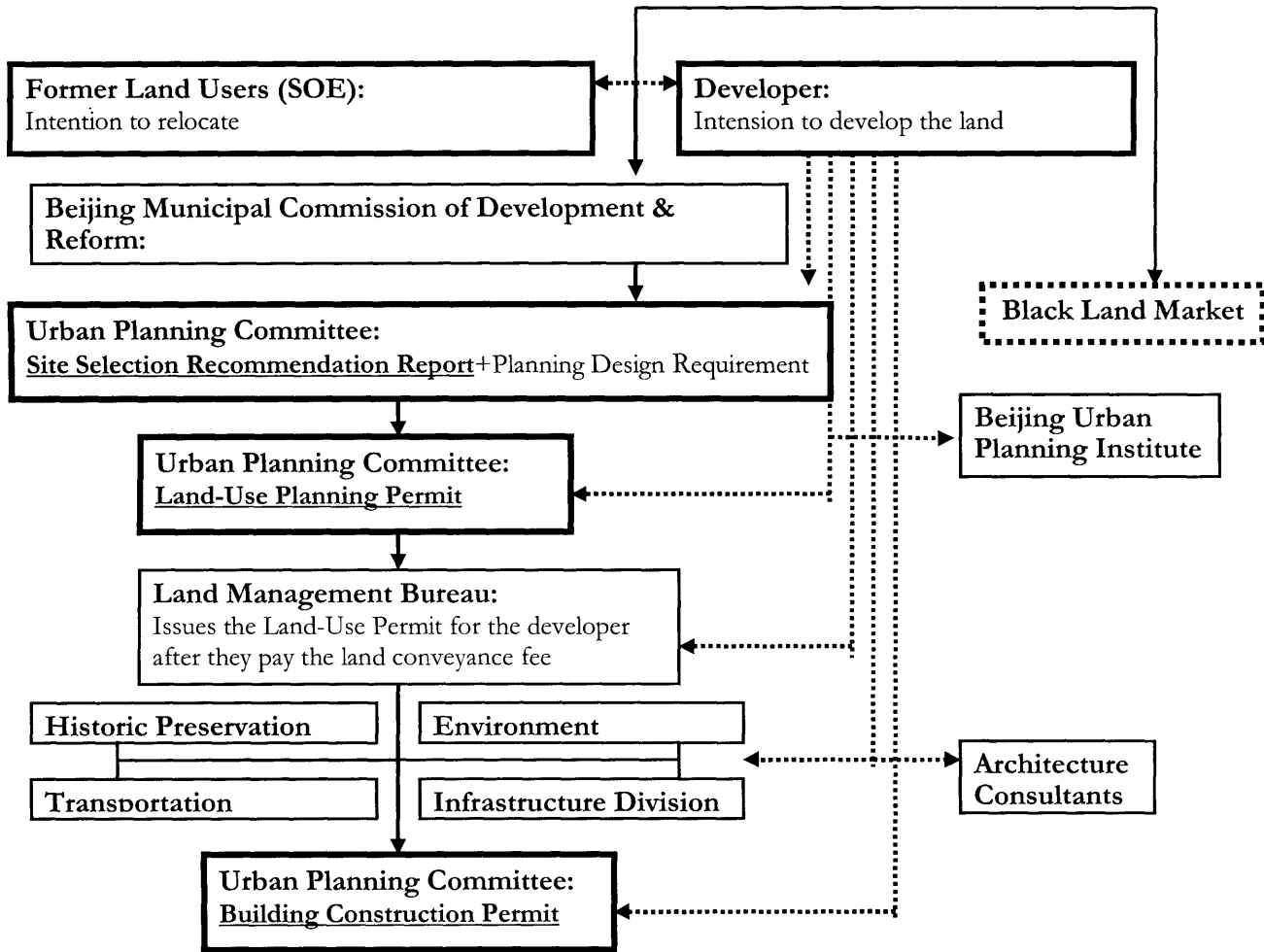
4.2.1.1 Before LCR—Under Negotiation Approach

Before the LCR, most of the land conveyance was conducted through negotiation. The highest percentage was conducted through negotiation in the cases of SOE land conveyance. I review the procedure of LDCM before the LCR, using negotiation approach as land-conveyance method.

Most SOEs in Beijing acquired their land through the earlier administrative-allocation—land was given to them from the government free of charge. Technically, administratively allocated land is not marketable unless special permission is granted by governments at or above the county level. In addition, SOEs have to pay a certain amount of land premium to the government before they have the right to dispose of land (Xu, 2001). In reality, many SOEs just sold the LURs to the developers with or without approval from the government. Therefore, for those LURs that were transferred without government approval, they will go through the black market, which is an illegal underground land market. These illegal LUR transfers are widespread in Chinese cities (Wang and Li, 1997; Sun and Tang, 1997; Dowall, 1993; Ng and Xu, 1996; Zhang and Wu, 1994; Bao, 1997, Yeh and Wu, 2005). For the LURs transfers, which get approved by the municipal government, they need to go through the conveyance procedure and LDCM, which is reviewed below (Figure 4-6).

During the industrial land-conversion process, the SOE who is the former land user will either have an intention to relocate or be ordered to relocate by the local government due to the environmental reasons (*Implementation Method of Relocation Pollution Industries and Industry Restructuring*, 1999). The SOE will find a developer or several developers who potentially have an interest in buying the land. After their discussions of the land price and other compensation issues, the SOE will select one developer who could provide the best offer. The SOE then needs to apply for approval of the relocation project from the Beijing Municipal Commission of Development and Reform (BMCDR). The application needs to provide the plan of relocation, industry restructuring plan, as well as the way to compensate the staff. After the project is approved by the BMCDR, the SOE as the land user needs to go to the BUPC to get the SSRR, which is usually issued together with the Planning Design Requirement (PDR). In reality, the developer usually goes to the BUPC instead, because SSRR and PDR are supposed to review the proposed use and relevant control requirements of the site, which are directly associated with the economic benefits of the developer. Once the SSRR and PDR are issued, the developer will apply for the LUPP to the BUPC. The LUPP provides detailed regulations on what land uses are allowed for future development on the site and

Figure 4-6: Pre-LCR Land-Development Control Mechanism in Beijing- Negotiation Approach



Note: The dotted arrow line refers to the back-and-forth negotiation process.

Source: Author's interview with planner in Beijing Planning Institute in June, 2006; January, 2007; and Ng and Xu (2000)

other guidelines like site boundary, FAR, building height and etc. During the process, the DDCP needs to be conducted by the Beijing Urban Planning Institute (BUPI) if the site did not have one before. The DDCP is supposed to reflect the government's intervention on the site for the purpose of public interests. However, the BUPI is hired by the developer to conduct the DDCP for the site; BUPI needs to consider both the SSRR from BUPC as well as the benefit of the developer. After the LUPP is issued, the developer could then go to the Beijing Land Management Bureau (BLMB) to apply for the Land Use Permit (LUP) after they pay the land conveyance fees. It is not until the developer get the LUP from BLMB that it has the right to develop the land in ways that are allowed by LUPP. The developer will then hire architecture consultants to conduct the architecture design and construction design for the site, meanwhile contacting various agencies to review the potential impacts of the project, in terms of environmental, traffic, infrastructure, and historic preservation. The architects need to modify the design and planning to accommodate the comments from these agencies. The developer finally needs to collect evaluation memos from relevant agencies before they turn back to the BUPC with the design to apply for the BCP. The developer could finally begin the construction work after they get the BCP.

4.2.1.2 After LCR—Under Auction Approach

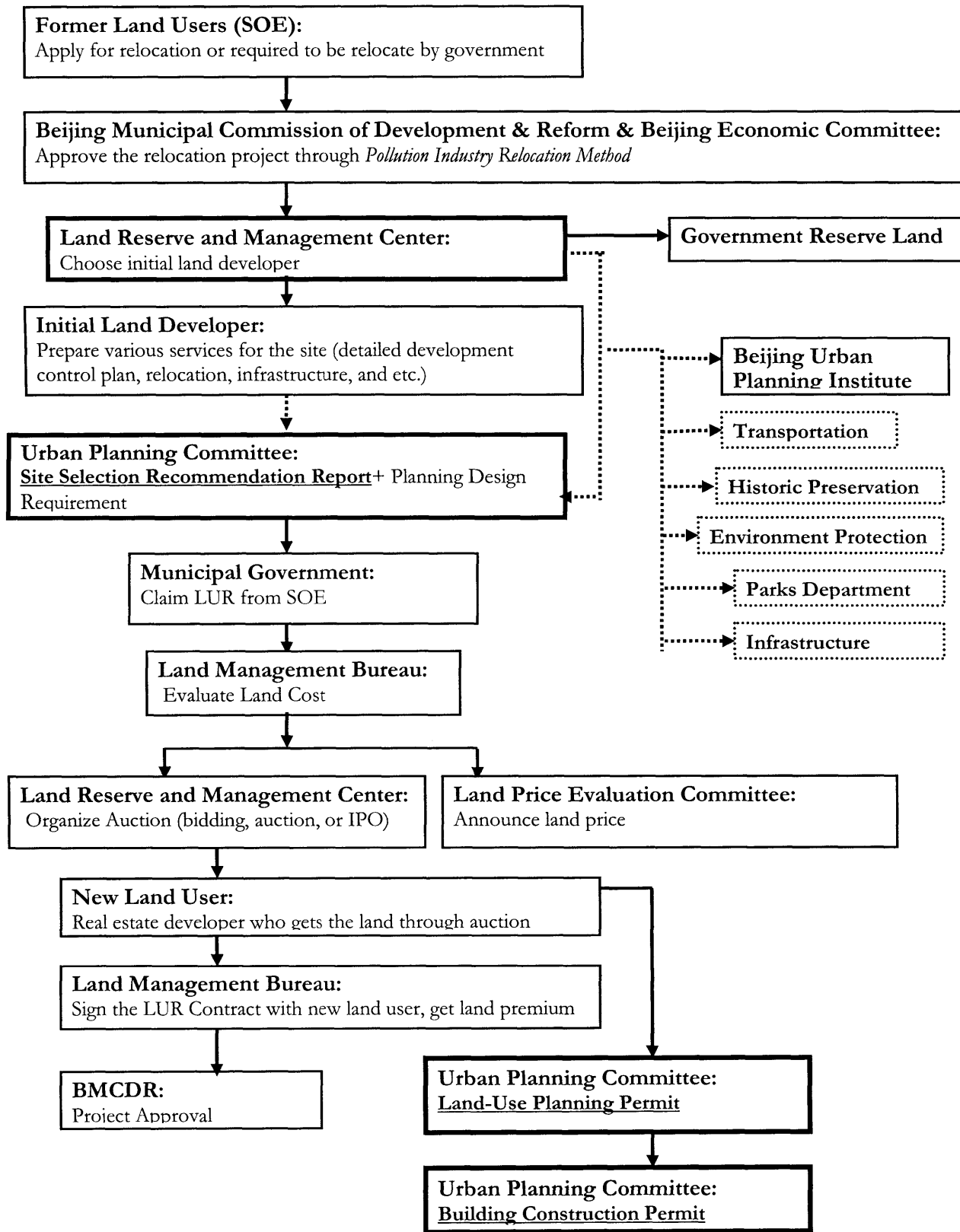
In the new approach, the SOE that intends to relocate needs to apply to the BMCDR and the Beijing Economic Committee (BEC). Both BMCDR and BEC review the relocation application and check with the *Implementation Method of Relocation Pollution*

Industries and Industry Restructuring, (1999), Beijing Master Plan (2004), and the annual land-supply plan (Figure 4-7). Once the application is approved, the application is transferred to the Beijing Land Reserve and Management Center (BLRMC), which is a newly established agency within the BLMB in 2001, especially for the land-conveyance market after LCR. The BLRMC discusses with the SOE and the Beijing Industrial Technology Development Center (BITDC) to decide which of the two ways the SOE will follow:

One is to transfer the LUR back to the local government, specifically, the BLRMC. In this case, the land is reserved by the local government and put into conveyance market when necessary; the other way is to transfer the LUR to another real estate developer through the land auction.

If the SOE decides to transfer the LUR to the local government as part of the government reserved land, compensation to the SOE is negotiated between the SOE and BLRMC. If land conveyance is the selected approach, the BLRMC at first organizes the initial land development (ILD). ILD is the legal process for local government to claim the LUR from land users and make various preparations for the land to be ready for auction, including providing infrastructure, organizing resident relocation, collecting legal documents from various agencies, and conducting DDCP for the site (Decree 540, BLMB). BLRMC has the legal authority to do the ILD; however, it does not have the capacity in terms of the financial and human resources.

Figure 4-7: Post-LCR Land-Development Control Mechanism- Auction Approach



Source: Author's conclusion from the Decree 541, Land Development and Land Auction Procedure Instruction, 2005

Therefore, an initial land developer (ILDP) is chosen by the BLRMC through a bidding process.

The ILDP then provides various site services, including having the BUPI conduct the DDCP for the site, if it was not done before. The ILDP also contacts the BUPC and relevant agencies in order to find the ideal land uses and development pattern. The SSRR is issued if relevant agencies agree with the proposed scenario or do not disagree with the existing DDCP. At this stage, the LUR of the SOE is returned to the municipal government. Before the land is put into the auction market, the land price needs to be determined for the auction. The BLMB evaluates the cost of the project. The Land Price Evaluation Committee (LPEC) which consists of BLRMC and BMCDR announces the land price for the auction. The BLRMC finally organizes the auction, using one of the three methods: sealed bid auction (*zhaobiao*), open bid auction (*paimai*), and initial public offering (*guapai*).

It is not until the land auction that the new land user—the real estate developer—is selected as the legal entity to develop the industrial site and convert it to other uses that are allowed by DDCP. The new land user needs to go to the BLMB to pay the land premium and sign the LUR contract. The new land user also needs to go to BUPC to get the LUPP and BCP after the DDCP is confirmed and construction drawings are approved.

4.2.2 Institutional Shift of the ORTP

The industrial land-redevelopment process is a process of revenue generation and revenue distribution for the local municipal government. As stated above, the LCR from the negotiation approach of selling the LURs to the auction approach has changed the way that various government agencies as well as former and new land users participate in the land-conversion process. This change has caused an institutional shift for one of the central elements of LDCM: ORTP, from the former “developer-coordinated process” to the current “BLRMC-coordinated process.”

ORTP as the formal land-use review procedure for all legal land redevelopment in an urban area affects the jurisdiction of each agency who participates in the decision-making process. More importantly, the ORTP process also provides the possibility for the informal negotiations, which sometimes greatly shape the land-use decisions, both before and after LCR. In this context, “negotiation” is reflected by different types between different agencies, among which land conveyance through “negotiation” just refers to the negotiation between developer and government in terms of the land price. One of the other key negotiations besides the land price negotiation is the negotiation on the DDCP of the site, specifically, on the future land use and the FAR of the new development. These two parameters decide what kind of development is allowable and how much floor area could be built—they are directly related with how much revenue the real estate developer can get from the new development on the site.

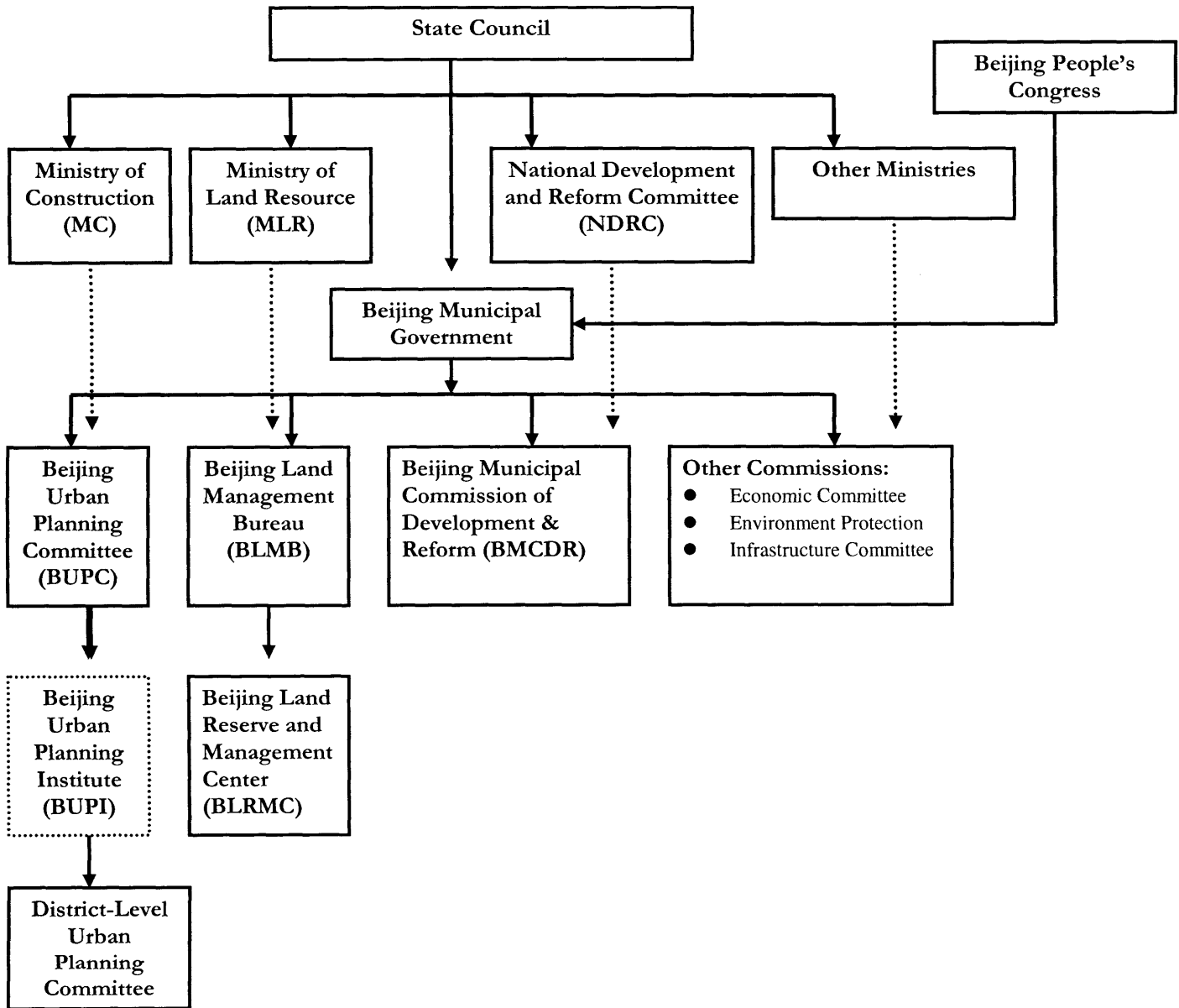
In the negotiation approach before the LCR, the BUPC and BUPI played important roles deciding the DDCP of the site, which strongly affected by the developer. When the developer initially negotiates with the SOE about the relocation and compensation, the developer might know what they want to do on the site. However, they do not know what they will be allowed to do if the DDCP of the site was not conducted before. Therefore, having a profitable DDCP for the site is what they care about most. It thus becomes the driver for them to take the lead in applying for the SSSRR, PDR, and LUPP from the BUPC, while that is supposed to be done by the SOE who was the former land user. The developer usually hires the BUPI to conduct the DDCP for the site and uses that to negotiate with the BUPC. The BUPI is a unique entity in Beijing's transition period. In Chinese cities, a planning institute is not a purely private-for-profit planning organization, although making profits is one of their major tasks. Most planning institutes used to belong to the municipal planning authority, which is the government agency in charge of the physical planning of the city. Since the reform in China, most of the planning institutes began to split from the planning authority, and not be directly controlled by the government. However, until now (2007), only a very limited number of them have restructured the management and become private for-profit planning firms, which is not the case in Beijing. When the BUPI conducts the DDCP for the site, they need to consider both the "public interests" and the "client interests", which in many cases conflict. The BUPC thus is essential in proposing and approving the allowable development

outcome of the site. The decision usually goes back-and-forth for many rounds among the BUPC, the developer, and the BUPI, until it is finally decided.

For the auction approach after the LCR, the DDCP has to be conducted before the land is put onto the auction market and transferred to the new land user, because the DDCP is one important factor of the auction price. Therefore, the real estate developers, whose profits are directly related with the DDCP, have no opportunities to intervene in the DDCP process as they did in the old system. They could not participate in the LDCM process until they get the land from the auction and then go to the BUPC for the LUPP and BCP. However, the land-development control parameters were decided by the BUPC and BUPI in the form of the SSRR and PDR before the auction. The process is coordinated by the BLRMC instead of the real estate developer.

The BLRMC belongs to the BLMB and was established in 2001 for the municipal government to improve its control of the land market in Beijing. All the LUR auctions have to be organized by the BLRMC. This institutional setting greatly enhanced the importance of the BLMB in the LDCM, while compared to pre-LCR period, the BUPC plays major roles. The BLMB belongs to the Ministry of Land Resources (MLR), while the BUPC belongs to the Ministry of Construction (MC) (Figure 4-8). Before the LCR, the MLR focused on the land conversion from rural

Figure 4-8: Planning-Related Administrative Agencies in Beijing



Source: Author's survey

land to urban land; the MC was in charge of the urban land redevelopment, including DDCP and ORTP. The LCR also implies the shift of the scope of MLR from the pervious rural land conversion to urban land conversion—the BLMB thus has major institutional power over urban land conversion.

The institutional shift, however, cannot be implemented without the relevant mechanisms designed to intervene in the ORTP and DDCP process. In the auction approach, the ILDT is such a mechanism, which ensures the legitimate involvement and intervention of the BLMB. During the ILDT process, the government, specifically the BLRMC, is responsible for claiming the LUR from the SOE, coordinating among related agencies about the DDCP for the site, and relocation of the residents. This work used to be done by real-estate developers after they negotiate with the developer and agree on getting the LUR from the SOE. After the LCR, this work was institutionalized by the local government, and the BLMB was designated as the responsible agency.

4.2.3 DDCP and DDCP Amendment

The LCR brought changes to the institutional settings of the LDCM and the ORTP during the industrial land redevelopment process in Beijing. These changes from the “developer-coordinated process” to the “BLRMC-coordinated process” increase the government control over the industrial land-redevelopment process. They greatly limit the former “development-oriented DDCP”, which takes financing of the

redevelopment and developer benefits as the major considerations for proposing the DDCP. Meanwhile, they potentially empower the local governments and planning authorities to consider bring more social, ecological, and environmental considerations than before when they propose the DDCP. However, the LCR and changes in LDCM did not lead to any fundamental changes to the DDCP proposal and amendment process itself. The process is still discretionary and arbitrary.

In 1999, in order to implement the Beijing Master Plan (1992-2010), the BUPC initiated a large-scale DDCP for downtown Beijing, which regulated the type of land uses allowable for the 324-sq. km. area. Since then, for the land conversion on a site that has the existing DDCP already conducted, a DDCP Amendment application needs to be issued if the developer or the local government thought the former DDCP does not reflect the new changes happening on or around the site and thus need updated considerations and review of other possibilities of the redevelopment. The new Beijing Master Plan (2004-2020) was approved by the State Council in 2004, following another larger-scale DDCP that was conducted by the BUPC and BUPI since 2006. The DDCP Amendment is the major form of land-use planning in the built area of Beijing, like many other big cities in the United States.¹²

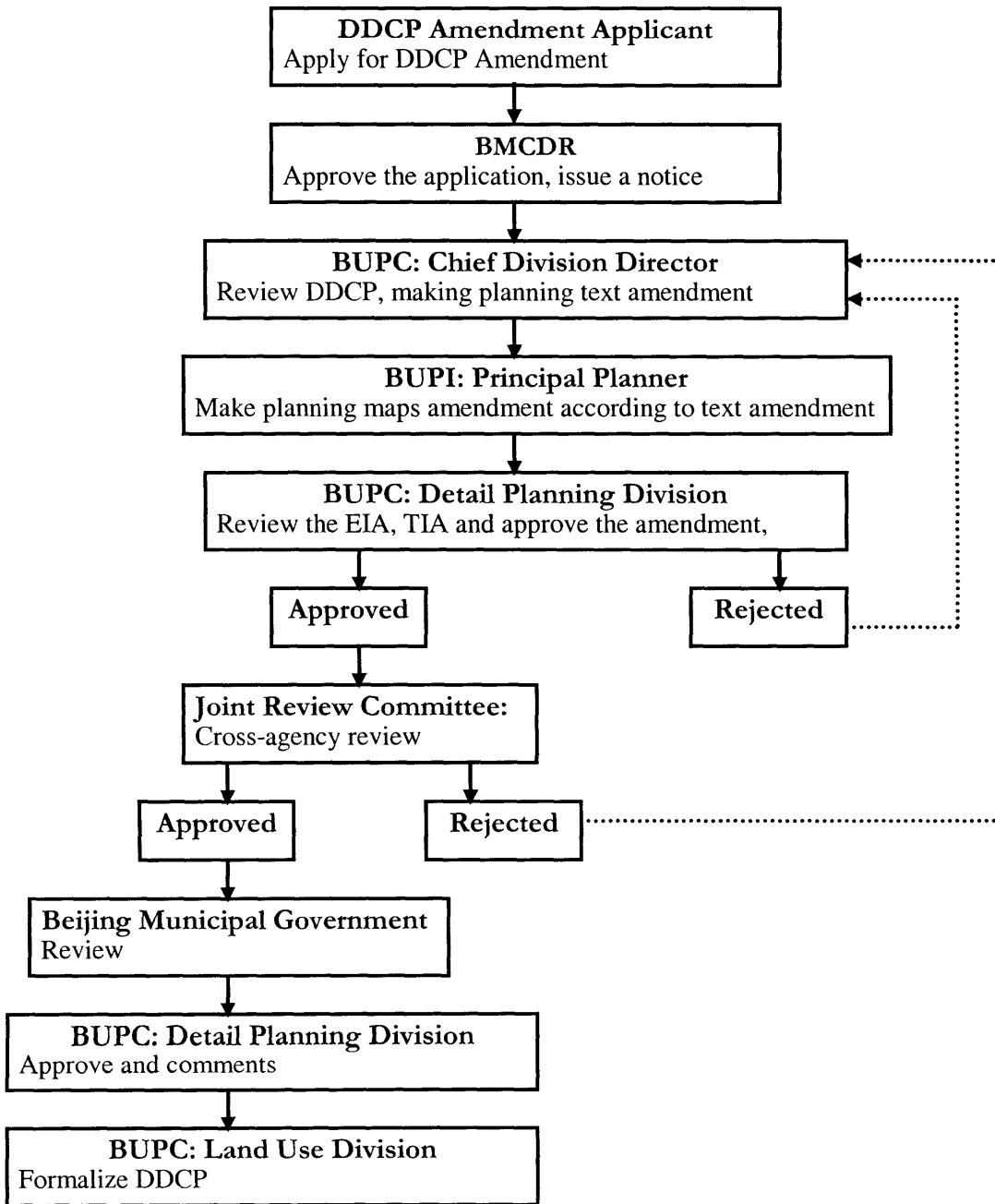
¹² DDCP Amendment, named “rezoning” in the United States., occupies the majority of the land-use planning work of the New York City Department of City Planning.

The DDCP Amendment is a formal process that regulates the involvement of specific agencies. It did not change after the LCR (Figure 4-9). A DDCP Amendment applicant needs to initiate an application and submit it to the BMCDR. Once approved, the BUPC and BUPI need to review the existing DDCP as well as the application and make a text amendment and a map amendment. The amendments together with the environment impact assessment (EIA) and traffic impact assessment (TIA) are passed onto the Detail Planning Division at BUPC. The Detail Planning Division either approves or rejects the amendment. The approved amendment will be reviewed by the cross-agency Joint Review Committee, consisting of seven relevant agencies: infrastructure, parks, historic preservation, environment protection, transportation, urban planning, and planning institute.

The Joint Review Committee meets to go through the application and the amendment and decides whether or not the amendment should be approved. The approved amendment then goes to the municipal government, the Detail Planning Division of the BUPC, and, finally, it is made into a formalized DDCP by the Land Use Division of BUPC.

The decisions of DDCP Amendment on development parameters like land uses, FAR, and building height are within the technical jurisdiction of the BUPC, because it is the city planning agency that is in charge of the physical planning of the city. However, those decisions are far more than just the technical ones—they influence

Figure 4-9: DDCP Amendment Procedure in Beijing



Source: Author's interview with planner in Beijing Planning Institute in June 2006 and January 2007

the social and political landscape of the communities; thus, ideally they need involvement of various groups in the municipal government, developers, and residents. Despite the impacts the LCR brought to the LDCM and ORTP, the DDCP Amendment procedure did not change—it is still a highly BUPC-controlled discretionary process, although it has interactions with various city agencies. In addition, there are many problems with the process that caused much informal negotiation during the process: the voting system is not specified; the cross-agency DDCP review system is not well regulated, etc. Furthermore, the DDCP Amendment procedure does not provide for the legal enforcement of the decisions and regulation of the process. Therefore, the DDCP Amendment is *de jure* a land-use decision-making process coordinated by the BUPC with regulated involvement from various groups, while it is *de facto* an arbitrary process, which is highly discretionary and affected by other city agencies and various informal factors.

Because of these features of the DDCP Amendment procedure in Beijing, the LCR did not lead to the procedural improvement of it, while changing from the former “bottom-up application” to the “institutional negotiation.” Before the LCR, the DDCP Amendment applicant who has to initiate the amendment process was in most cases the developer, who wants to get the LUR from the SOE. While the application is reviewed by the BUPC and BUPI, the developer sometimes reached the higher-level government officials through their personal connections. In some cases, the higher-level officials indicated to the BUPC certain kinds of “requests” for the

DDCP Amendment.¹³ The process therefore consisted of the formal “bottom-up” applications from developers and the informal “top-down” indications from higher-level officials. After the LCR, developers do not become the major type of applicants for the DDCP Amendment because they are not involved in the LDCM process until they win the land auction, while the DDCP Amendments are usually done before that, if necessary. Therefore, the BUPC and BUPI got far fewer DDCP Amendment applications from developers after the LCR.¹⁴ The applicants have been shifting from developers to the city agencies, including the BUPC or BUPI, BLRMC, or various ministry bureaus that govern the former land-user SOE, depending in which sector it is categorized. The motivation for these agencies to initiate the DDCP Amendment for the industrial land varies among various agencies, as well as differs from that of developers. Those motivations and the type of informal and formal negotiation process among the agencies are extremely important for deciding the future development scenario of the site; however, it is out of the scope of this study and thus is not discussed here.

4.2.4 Transition of Land-Supply Mechanism

The Land Market Reform in the late 1980s, on the one hand, has successfully made urban land into a commercial commodity and led to a rapidly growing real estate market in Beijing and other Chinese cities. On the other hand, the real estate

¹³ The former Mayor of Beijing (1983-1992), Chen Xi-Tong was arrested due to the corruption, among which many were related with land-development projects in Beijing.

¹⁴ Interview with planners from the BUPI in June, 2006.

development has resulted in an increasing demand for land. In 2005, the total amount of real estate investment reached RMB 152.5 billion in Beijing and had an average annual growth rate of 40% in the past 20 years (Sun, 2005). Urban industrial land as the scarce resource in Beijing became the major factor for real estate development and the increasing housing price. It thus led to the fact that many real estate developers bought more land in advance at a low price through negotiating with SOEs and reserved that land for many years until the real estate market became far more active. Because small-scale developers do not have the financial capacity to reserve much land, the supply of the urban land could be monopolized by several major large-scale real estate developers if the government does not intervene in this market. The monopolization of the land supply in the markets that have a huge demand augmented the real estate price.

The LCR regulated the land-supply mechanism by establishing the government-led land-reservation market. Once the SOE plans to relocate from downtown to other regions, the municipal government, specifically, the BLRMC, at first negotiates with the SOE about whether the SOE wants to sell the LUR through a land auction, or sell the LUR to the BLRMC. In the latter case, the BLRMC negotiates with the SOE about the land price, and then transfers that land into government-reserved land. Such land goes to the municipal land-reservation bank and is put into the land-auction market by the government through the annual land-supply plan (Table 4-5).

Table 4-5: Land Supply Plan of Beijing, 2006 (hectare)

	Total amount of land to be supplied	Newly expanded land	Amount of land of for-profit development
Dongcheng	50	0	30
Xicheng	50	0	30
Chongwen	65	0	40
Xuanwu	70	0	30
Chaoyang	490	250	280
Haidian	330	180	180
Fengtai	260	110	150
Shijingchan	85	30	60
Mentougou	50	20	20
Fangshan	200	110	100
Tongzhou	390	215	200
Shunyi	360	180	180
Changping	200	110	110
Daxing	380	200	180
Pinggu	80	40	40
Huairou	100	50	60
Miyun	80	40	40
Yanqing	40	15	20
Total	3500	1700	1800

Source: Decree 174, Beijing Land Management Bureau, 2006

These impacts on the institutional settings of land conversion process are crucial to the land redevelopment in downtown areas in many cities. It also plays important roles shaping the social outcome of some *danwei* communities' redevelopment.

CHAPTER 5

THE SOCIAL IMPACTS—CASE STUDY OF BEIJING COTTON TEXTILE FACTORY

The large-scale deindustrialization and the LCR created many social impacts. I focus on the condition of working staff of SOEs. I examine these laborers with the context of the privatization of SOEs in China since the 1990s, which led to the abolishment of the socialist social welfare and social-service mechanism: *danwei* system. Therefore, the working class has been facing dual challenges simultaneously: the decrease of their access to the social service and social welfare as well as the burden to be relocated from subsidized housing in the downtown area to commodity housing in the suburbs. The challenges do not fit in with China's gradual reform approach and have caused many protests and criticism from below. I argue that the key reason for the dual challenges is China's unique situation—the deindustrialization process goes hand-in-hand with privatization of SOEs since the mid 1990s. My research shows that the LCR does not solve the problem; instead, it just slows down the occurrence of the problems. Finally, I study the redevelopment of Beijing Cotton Textile Factory (Jing Mian¹⁵) *danwei* community as the only example in Beijing to still keep a large number of low-income staff in the downtown area. I explore reasons for that decision in order to compare with previous findings.

5.1 Social Transition from *Danwei* Community to Market Community

China has won praise for its economic development since 1978, particularly in the recent decade, when it plays more important roles in the regional economics, after the Southeast Asia Financial Crisis. However, it also received much criticism for its emerging social and environmental problems, especially for marginalization of the low-income people during the transition period. Since the beginning of the communist rule, gradualism was used as the approach and principal to guide the reform in order to ensure political and social stability. This approach was also used for the reforms to China's biggest production sector—SOEs, since they hired the majority of employees before the reform. The privatization of SOEs has changed the way the State provides social welfare and social service to the public. The former socialist welfare mechanism—*danwei* system was gradually abolished. This transition has been fundamentally reshaping the social landscape in most Chinese cities.

However, my research links this social transition with the other essential issue—deindustrialization as the spatial relocation process of SOEs. The impacts on the low-income SOE staff do not come from either of these two issues; instead, they come from both of them, which happened simultaneously in the past decade.

5.1.1 Privatization of SOEs

In Maoist China, the SOE was intended to be not merely an organization for production but a *danwei*, an almost self-sufficient economic and social community that

¹⁵ Jing Mian is the Chinese name of Beijing Cotton Textile Factory.

provided most of the social welfare and social service its members needed (Lee, 2000). The existence of the *danwei* fitted in with the socialist political ideology after 1949—the state has the social obligations to ensure employment opportunities to a large number of people, while guaranteeing basic services for these workers through egalitarian distribution of resources, even at the cost of tight political control limiting the freedom of choice for the individual. *Danwei* provides social welfare that constituted core parts of the state sector under socialism—education, health care, retirement benefits, unemployment insurance, and pensions. *Danwei* communities, where most of the SOE staff lives are usually planned together with hospitals, schools, community centers, and entertainment and cultural facilities that are owned and managed by the SOEs. People call a *danwei* community a “small society,” because it usually includes various services needed for daily life, which are spatially clustered. Before the reform, SOE labor force constituted a rather privileged group with better job security, wages, and welfare benefits than non-SOE workers (Lee, 2000).

However, the mechanism of socialist *danwei* began to conflict with the general economic growth goal set up by China’s reform in 1979. SOEs failed to make profits for the state, while sharing the strong burden of providing social services to a large number of surplus working staff. Especially since the 1990s, a large number of SOEs began to lose money for the state. By 1996, more than one-third were operating at a deficit, while others that were listed as profit makers in accounting ledgers actually

were incurring losses. These two categories accounted for 63% of all SOEs (Yeh 1998, Lee 2000). Take Beijing as an example, even in 2004, after many years' SOE reform, there was still 37% SOEs that were loss-making enterprises (Table 5-1). These SOE problems greatly affected China's economic growth and thus become the driver of SOE reform in the 1990s, which later led to large-scale SOE privatization and deindustrialization.

Table 5-1: Number of Loss-Making SOEs in Beijing, 2004

	Total Number of Enterprises	Loss-making Enterprises	Percentage of Loss-making Enterprises
Of Total: Central-government SOE	344	124	36.0%
Local-government SOE	987	370	37.5%
Of Total: Light Industry	537	234	43.6%
Heavy Industry	794	260	32.7%
Large Enterprises	34	4	11.8%
Of Total: Medium Enterprises	193	32	16.6%
Small Enterprises	1,104	458	41.5%
Total	1,331	494	37.1%

Source: Beijing Statistical Yearbook 2005

The SOE reform was initiated by the central government and focused on economic restructuring and technical innovation of the enterprises. Through the reform, some SOEs have been changing the way of producing products with the input of new technologies from other regions or abroad. The reform started from the early 1990s and was institutionalized after the Fifteenth Communist Party Congress in September 1997. During that congress, the central government established a legal structure that allowed for privatization and even bankruptcy of SOEs (Weller, 1999). The Chinese

Communist Party (CCP)'s Fifteenth National Congress devised a new orientation for the reform of SOEs, with an emphasis on boosting productivity, using the joint stock system to clarify ownership, and improving the performance of state-owned economic entities (C.M. Yeh, 1998).

The SOE reforms since the 1990s also led to the abolishment of the *danwei* system. In 1995, Ministry of Finance, Ministry of Economics and Trades, Ministry of Education, Ministry of Health, and Ministry of Labor jointly issued a legal document to initiate the separation of the production function and social-service-provision function for SOEs (Xinhua News, 2002). The document suggested the former SOE-owned *danwei* hospitals, *danwei* schools, and other *danwei* facilities to be transferred to the local government or to the market. In addition, social welfare like retirement insurance and pension began to be provided through the market mechanism. The document suggested it would take two to three years for SOEs in developed regions and three to five years for SOEs in less-developed regions to conduct these transfers. In 2004, the State Council issued another announcement to initiate the second-round *danwei* system reform for the following five years, focused on central-government-controlled SOEs.¹⁶

¹⁶ http://chinacast.xinhuanet.com/2005-01/18/content_3587355.htm

As a result, the unique and significant service sector within the SOEs has been shrinking since then. In the early 1990s, before the SOE reform, about 15% of the SOE staff was engaged in providing the services as part of the *danwei* system. Examples include the education and health care in about 18,000 schools with 6.1 million students, 19,000 nurseries, as well as 224,000 hospitals. About 20% to 35% of SOE assets were devoted to the provision of social services.¹⁷ After the reform, the SOEs no longer provided these social services to the staff; instead, the provision of services was put onto the market, either through a developer or other agencies.

5.1.2 Deindustrialization

The privatization of SOEs in China was a huge challenge to its socioeconomic structure, as well as to its political stability. SOEs constitute a large percent of the labor force in China and work as the basic social unit of people's daily life. Although the privation process has been conducted very carefully under the *gradualism* principal in order to ensure the social and political stability, there were many protests from SOE working staff and low-income people since the 1990s. Therefore, there must be other reasons which led to the marginalization of SOE staff during the SOE privatization process. I argue that the deindustrialization process was the major one.

Before the SOE reforms, the *danwei* workers usually lived together in one or more specific locations, which was planned by the SOE, known as *danwei* community.

¹⁷ *China Society* (Zhongguo Shehui), 1998, pp.37-38

Within these communities, workers could stay at subsidized *danwei* housing, and share various social services and facilities provided by the *danwei* at a lower-than-market rate. In the late 1990s, due to the new national housing policy, most of this *danwei*-subsidized housing was sold at a fairly low price to the staff who formerly stayed there (Weller, 1999).

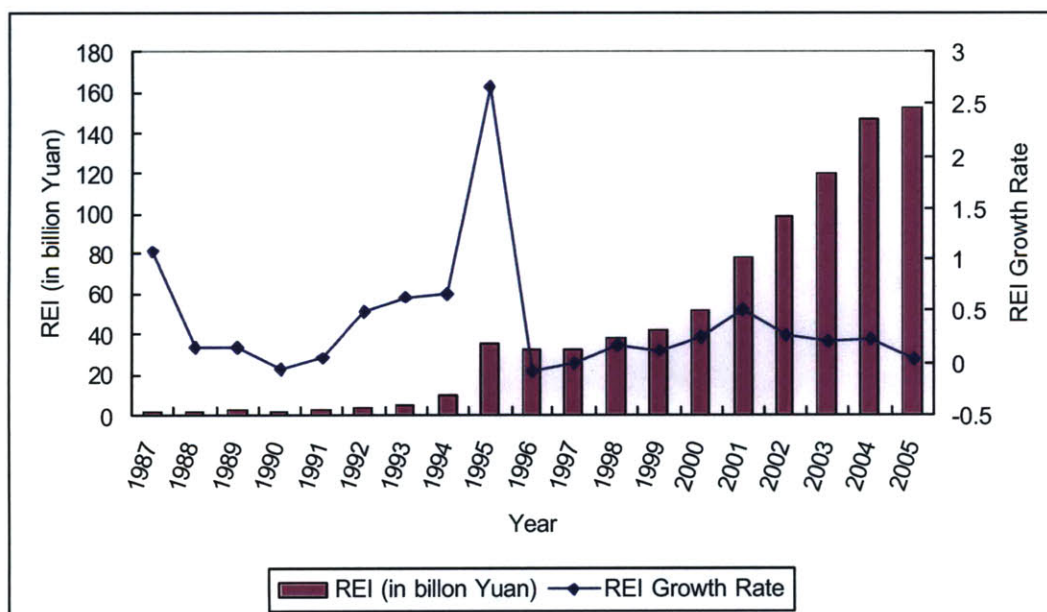
From then on, the *danwei* staff supposedly had the ownership of the housing, while the land ownership of the *danwei* communities still belonged to the state. This model of the *danwei* community greatly decreased the living cost of the staff since they could get very affordable social services in the community. In addition, because many of the SOEs are located in downtown Beijing, especially the manufacturing SOEs, on the east side: Chaoyang District, staff have easy access to other various services and retails in the downtown area. The demand created by the large amount of manufacturing-SOE staff made the downtown part of Beijing more affordable than other cities without SOE staff living in the downtown, both in terms of housing and social services. The role of *danwei* communities in providing subsidized housing to their staff also reduced the need for public housing, housing owned and subsidized directly by the central or local governments (Francis, 1996). In 1983 for instance, 25.5% of all housing was owned by the government, 17.0% was owned by individuals, and 57.5% was owned by SOEs. (Yang, Wang, 1992)

However, the social and economic landscape of downtown Beijing has been changing due to the deindustrialization process, in which many manufacturing SOEs and related *danwei* communities were relocated from downtown Beijing to the suburbs or other regions. There are various reasons for this large-scale deindustrialization process in Beijing, among which environmental concerns and SOE privatization are two major ones. The SOEs in downtown Beijing, especially manufacturing SOEs, produce much pollution in the city, causing huge social costs and environmental concerns, both domestically and internationally. The pollution of these SOEs includes air, solid-waste, water, and land, which has caused many environmental problems in the city. The other reason for deindustrialization in Beijing is the SOE privatization. Most downtown SOEs that were making losses experienced the privatization and reform process, in which many of them need to obtain new equipment, technologies, more skilled workers, and improved management methods. However, they have limited financial resources to initiate the reform in the enterprise, but they usually own the LUR of a large piece of industrial land, which is located in downtown Beijing. This became a good funding source, especially after the mid 1990s, when the real estate market became considerably more active, and land conveyance became the major way to transfer the LURs. Many SOEs sold the land of their factories to other commercial developers and relocated to the suburbs where they could get cheaper land. The land price gap was usually used to pay off the debt as well as to finance the SOE reform. Therefore, to some extent, deindustrialization in

Beijing worked as a financing tool to initiate the central government-led SOE reform and privatization.

Deindustrialization has created a large amount of land available in downtown Beijing for redevelopment, especially from the mid 1990s to 2003 when plenty of industrial land was converted to other uses, such as residential, commercial, and retail. It has led to a rapidly growing real estate market and has greatly augmented housing prices in Beijing. In the late 1980s, the real estate investment in Beijing was below 3 billion yuan each year. The investment in the real estate market had its first sharp increase in 1995, increasing from 9.72 billion yuan in 1994 to 35.58 billion yuan in 1995 (Figure 5-1). The investment kept rising in Beijing's real estate market, and reached 152.5 billion yuan in 2005, which was nearly 84 times than that of 1987.

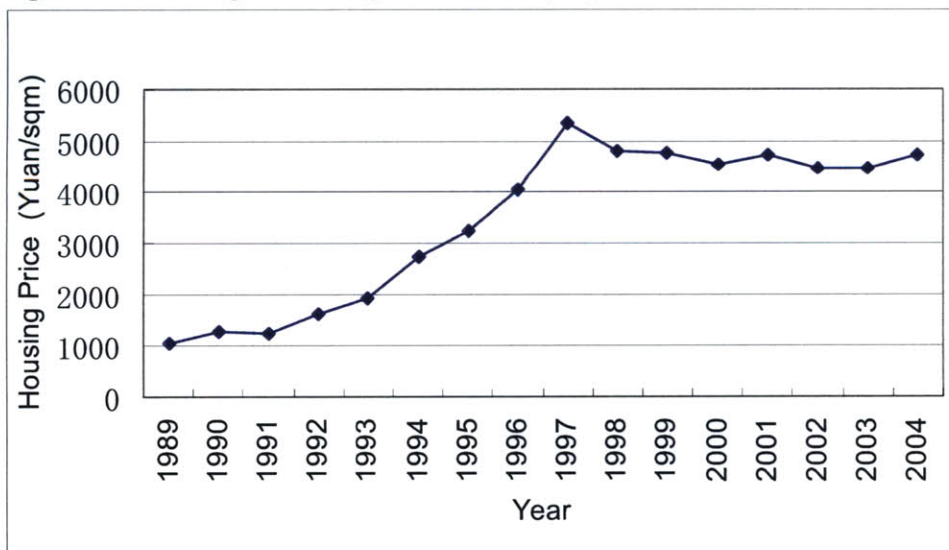
Figure 5-1: Real Estate Investment in Beijing, 1987-2005



Source: Beijing Statistical Bureau, Sun (2005)

The increasing investment in the real estate market has also led to housing prices that are much higher than before the deindustrialization. The average housing price was below 2,800 yuan per square meter before 1995 (Figure 5-2). In 1996, after a sharp increase of investment in the real estate market, the housing price also experienced a big increase, from 3,226 yuan per square meter to 4,057 yuan per square meter. It kept rising until 1997 when the price reached 5,357 yuan per square meter and began to drop after that. However, this just reflects the housing price across the whole city, while I assume the housing price of downtown Beijing would reflect a different pattern, which probably kept rising even after 1997. The major reason for the housing price drop in Beijing after 1997 was due to the large amount of lower-price housing built in the suburbs to accept the residents relocated from downtown area.

Figure 5-2: Average Housing Price in Beijing, 1989- 2004



Source: Beijing Statistical Yearbook, 2005

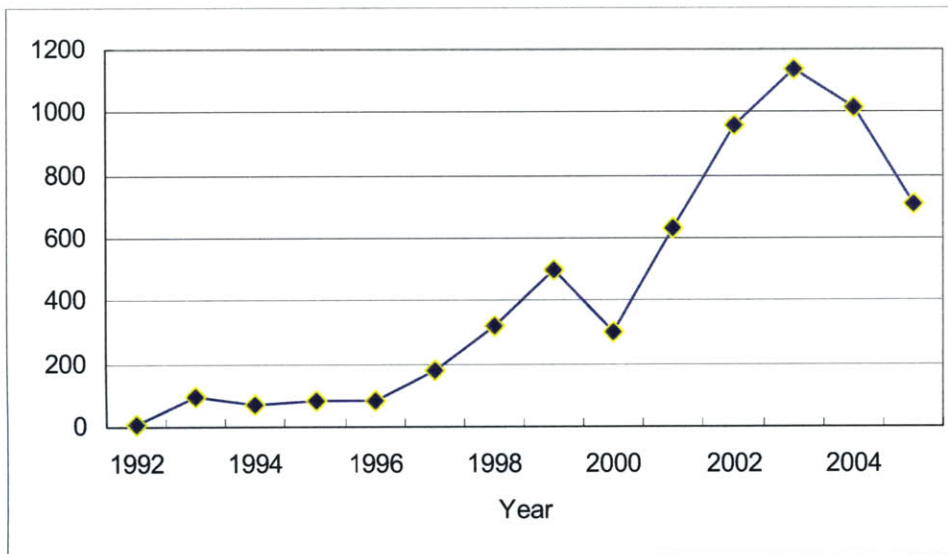
Therefore, the working staff of SOEs have been facing dual challenges during this transition period. The privatization of SOEs in Beijing has abolished the traditional *danwei* system, which decreased the provision of subsidized social service and social welfare formerly provided by the SOEs. The deindustrialization has brought a much less-affordable housing market in downtown Beijing, while the working staff have to move out of the subsidized downtown *danwei* housing and relocate to a comparatively affordable suburb area. This social and economic transition was supposed to be conducted gradually in order to ensure the political and social stability. Unfortunately, the two processes happened nearly simultaneously in Beijing, which has caused considerable burden for the SOE staff.

The SOE privatization started from the early 1990s and was institutionalized after the Fifteenth Communist Party Congress in September 1997. The number of sales of LURs reflects the number of industrial relocation and thus reflects the process of deindustrialization (Figure 5-3). As we can see, the deindustrialization through land conveyance market started from the early 1990s, and it experienced a sharp increase in 1997, right after the Fifteenth Communist Party Congress. (Lee, 2000)

5.1.3 Working Class of SOEs

It is important to study the employment status of the staff during the SOE privatization and deindustrialization process, because that indicates the condition and

Figure 5-3: Number of Sales of Land Use Rights in Beijing, 1992- 2005



Source: Ding (2003), BLRMC, and Sun (2005)

demand of the SOE staff for housing and other goods after the deindustrialization, and thus could help to check the economic effect of the land-use policy.

One of the root causes of the SOE unprofitability is the retention of superfluous workers (Lee, 2000). In May 1997, the State commission for Economic Restructuring (SCER) predicted that 15-20 million surplus workers in the state sector would lose their jobs by 2000, and, in turn, estimated the total number of surplus workers in SOEs at 54 million, close to one-half of the total work-force (Hassard, Morris, Sheehan, 2002). In 1998, the Labor Ministry announced that the urban unemployment—exclusive of laid-off workers—is about 5.7 million, which is 3.1% of the labor force. According to various estimates, the hidden unemployment reached 20 million, about 12% of all urban workers (Table 5-2).

Table 5-2: Labor Forces and Estimated Unemployment in China, 1996 (million)

	Rural	Urban	Total
Total Population	860	340	1,200
Labor Force			834
Employed	490	148	689
Unemployment	40- 67.2	5.7 (3.1%)	
Hidden Unemployment	120- 180 (31%)	20 (12%)	140- 200 (27%)

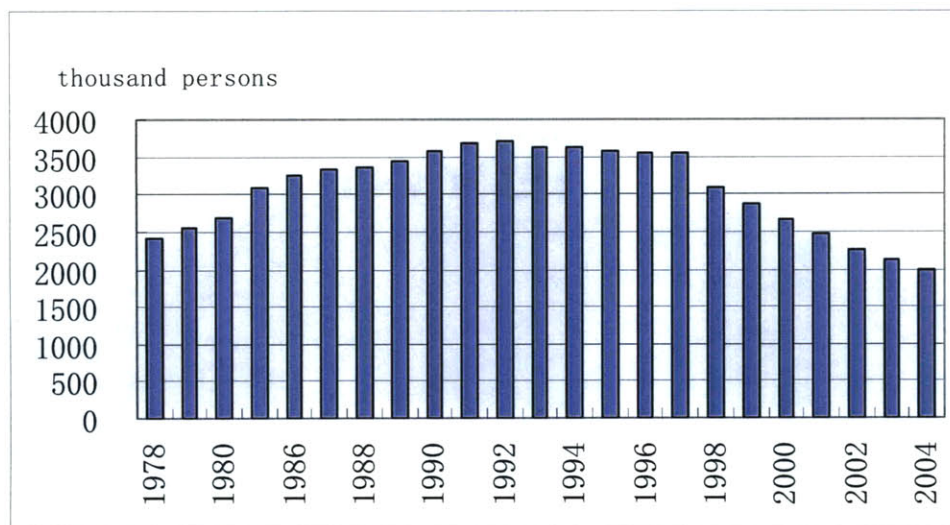
Source: Lee, 2000

In Beijing, there has also been a significant decrease in the SOE employment since 1992, when there was a peak in employment. There was a 46.3% of decrease in employment, from 3.7 million in 1992 to 1.9 million in 2004 (Figure 5-4). Looking specifically at the second-sector SOEs, which include most of the industrial SOEs, there was also a decrease in employment from 1992, except after 2000, due to a change of the classification of employment (Figure 5-5).

However, the unemployment discussed above does not include some other types of laid-off workers who literally lost their opportunities to work at the SOE. There are usually six ways to terminate the labor relationship with the SOE staff.¹⁸ (1) A one-time payment (*mai duan gong ling*): the SOE and staff negotiate and terminate the labor contract, the SOE needs to make a one-time payment as the compensation to the staff, which equals the average annual salary of pervious year times the number of the years this staff has worked in the SOE. (2) Policy retirement (*zheng ce xing tui xiu*): the

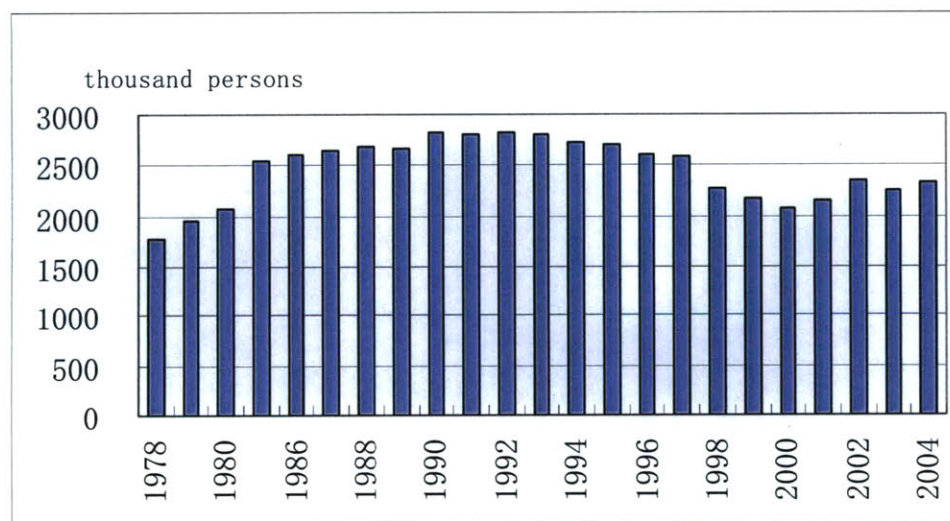
¹⁸ Interview with Mr. Weiyi Yang, the General Secretary of Beijing Printing Group, January.10, 2007

Figure 5-4: Employment in State-Owned Enterprises in Beijing, 1978- 2004 (thousand persons)



Note: Data from 1981-1984 not available
 Source: Beijing Statistical Yearbook, 2005

Figure 5-5: Employment of the Second Sector in State-Owned Enterprises in Beijing, 1978- 2004 (thousand persons)



Note: (1) Data from 1981-1984 not available
 (2) From 2001, related indicators of employment have been adjusted
 Source: Beijing Statistical Yearbook, 2005

staff who work at a toxic or polluted working environment can apply to retire before the age of 60 (which is the normal retirement age), and once they are formally retired, they can get various social welfare benefits provided by either the municipal government or the market. (3) Local transfer (*jiu di an zhi*): transfer the staff from the SOE to the new tertiary sectors developed by this SOE and get wage from that new entity. (4) Voluntary termination: the staff voluntarily terminates the labor contract with the SOE, and find own ways to make a living or find other jobs. (5) Internal retirement (*nei tu*): staff could retire within the SOE before the age of 60 and get part of social welfare until they formally retire and then get the social welfare from the municipal government or the market, and (6) laid-off workers (*xia gang*): staff stop working for the SOE, but are still retained by the original SOE with partial wage, until they either retire or get back to work once there are jobs available.

China still cannot be said to have a functioning labor market (Child, 1994; Ding and Akhtar, 2001, Ding et al., 2000; Warner, 1995, 1999). There is very limited mobility for SOE staff—the SOE staff traditionally do not transfer to other SOEs once they start working at one SOE. They learned specific skills in the SOE and many of the skills are not easily transferred. Therefore, it is difficult for them to find another job after they lose the job from the SOE. In addition, many of the SOE staff are low- or mid-income people, especially in the manufacturing SOEs—many of them do not have much saving even after 30 years of working in the SOE. The average wage of manufacturing SOE staff in Beijing in 2004 was 23,977 yuan, while the average wage

for all sectors was 34,009 yuan (Table 5-3). The huge social and economic transition has caused many impacts on the SOE staff, many of which are negative. Although the “stability” is one of the three key factors together with “security and corruption” for central government to evaluate the SOE leaders,¹⁹ no appropriate policies, especially the land-use policies, have been made to solve these problems.

Table 5-3: Average Wage and SOE Wage for Each Sector in Beijing, 2004 (RMB)

	Average Wage	SOE Wage
Farming, Forestry, Animal Husbandry and Fishery	14,677	20,979
Mining	20,392	18,606
Manufacturing	22,338	23,977
Electricity, Gas, Water Production	41,854	51,723
Construction	20,606	26,017
Transportation	24,628	25,125
Information and Computer Service	62,200	64,930
Wholesale Trade	27,264	36,514
Hotel and Restaurant	17,965	19,138
Finance	80,785	78,046
Real Estate	27,675	29,104
Tenancy and Commercial	26,516	21,048
Technical Service	41,160	43,773
Environment Engineering	25,609	26,759
Resident Service	16,735	25,203
Education	32,625	34,280
Health Care and Social Welfare	39,678	42,571
Culture	38,817	44,438
Public Management	38,038	38,243
Average	29,674	34,009

Source: Beijing Statistical Yearbook 2005

¹⁹ Interview with Mr. Weiyi Yang, the General Secretary of Beijing Printing Group, January.10, 2007

5.2 Social Impacts of Land Policy

The former land-use planning system, known as the LDCM in China, was highly discretionary and arbitrary (Zhu, 2005). It did not deal with the various social and housing issues caused from the deindustrialization process as well as the SOE privatization process. In that period, the low- and middle-income SOE staff usually lost the job during the SOE privatization process, and they had to relocate to outskirts or suburbs during the deindustrialization process, where they need to purchase the market-rate housing instead of former subsidized *danwei* housing and have less access to the diverse subsidized social services which they could get from the downtown.

The result has been a loss of social cohesion in downtown Beijing and the unbalanced development of employment-generating uses and residential uses. Many industries moved to the suburbs, which created both unemployment and labor relocation. Residential and commercial activities were proposed as new uses on the industrial sites, which brought more residents into the downtown despite the fact that job opportunities were being moved out to the periphery or even to other regions. There has been a 1.8% job loss—60,893 jobs—in the central downtown area of Beijing within one year from 2003 to 2004, while there was a 16.8% job increase—175,817 jobs—in the suburbs of Beijing from 2003 to 2004 (Table 5-4). I assume the data between 1997 and 2003—the period when there were much more land conveyance and redevelopment—were much larger than this, which indicated the larger

unbalanced development in downtown Beijing. This fact was due to the former LDCM discussed in the previous chapter. The LDCM before LCR in 2004 was a “developer-coordinated process”, which emphasized the benefits to the real estate developers because they were coordinating the DDCP Amendment application process and negotiating with various government agencies in terms of the planning parameters including land uses, FAR, etc.

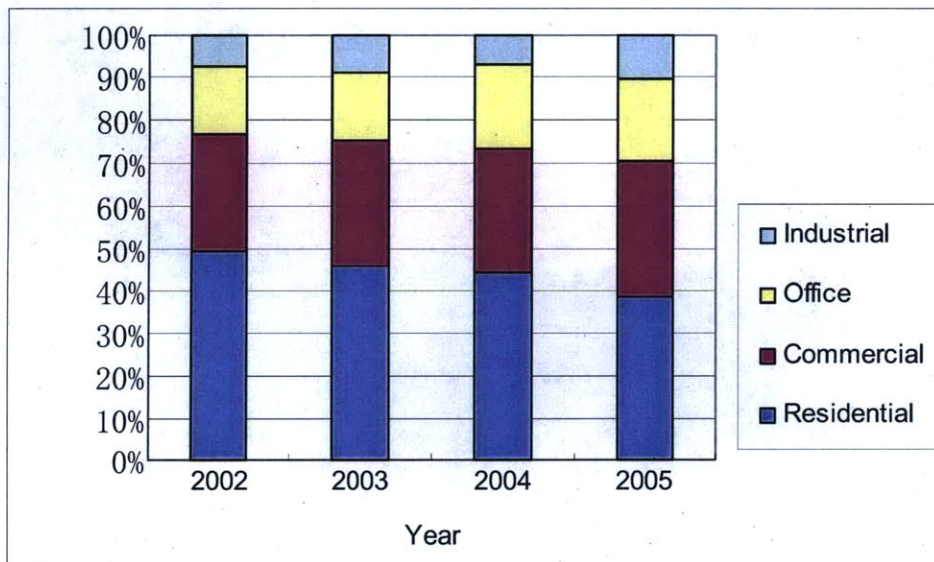
Table5-4: Employment in Each District in Beijing, 2003-2004

		2003	2004	Employment Change (2004-2003/2003)
Central-Town Beijing	Dongcheng	349,199	336,364	-3.7%
	Xicheng	477,399	472,416	-1.0%
	Chongwen	125,272	92,344	-26.3%
	Xuanwu	238,049	197,219	-17.2%
	Chaoyang	727,536	745,271	2.4%
	Fengtai	382,350	377,517	-1.3%
	Shijingchan	152,389	141,969	-6.8%
	Haidian	837,174	865,375	3.4%
	Central Total	3,289,368	3,228,475	-1.9%
Suburbs Beijing	Mentougou	60,877	56,375	-7.4%
	Fangshan	135,957	154,528	13.7%
	Tongzhou	116,595	169,461	45.3%
	Shunyi	150,195	203,669	35.6%
	Changping	159,129	198,522	24.8%
	Daxing	185,823	180,320	-3.0%
	Pinggu	67,983	66,577	-2.1%
	Huairou	58,348	70,369	20.6%
	Miyun	71,442	80,887	13.2%
	Yanqing	40,054	41,512	3.6%
	Suburb Total	1,046,403	1,222,220	16.8%
Total Beijing	4,335,771	4,450,695	2.7%	

Source: Beijing Statistical Yearbook, 2005.

Since the LCR from negotiation approach to auction approach, there has been an institutional shift for the land-use planning process: from the former “developer-coordinated process” to the current “BLRMC-coordinated process”. It has led to more municipal government’s intervention during the land-redevelopment process. It potentially enables the government to solve the issues that appeared due to the SOE privatization and deindustrialization process, specifically, to provide housing and social services for the low and middle-income SOE staff after the former *danwei* community and the SOE were relocated. After the LCR, smaller percentages of residential uses were proposed while more commercial and office land uses which could generate jobs were proposed in order to balance the job and housing rate in Beijing (Figure 5-6).

Figure 5-6: Urban Land Leasing by Land-Use Type in Beijing, 2002- 2005



Source: BLRMC, and Sun (2005)

However, I found that after the LCR in 2004, there were literally no cases in which municipal government and planning agencies successfully retained a certain amount of SOE staff in the downtown Beijing, where the original SOE and *danwei* communities are located, through land conveyance and redevelopment.²⁰ After the SOE and *danwei* communities were relocated, the land was usually redeveloped to market-rate housing or commercial uses with certain type of social services that were only accessible to the residents who could afford to stay in the area—the LCR did not fundamentally solve this problem.

5.3 Alternative Non-Market Approach: Beijing Cotton Textile Factory

Beijing Cotton Textile Factory (Jing Mian, as it is pronounced in Chinese) is the only large-scale SOE and *danwei* community redevelopment case in Beijing, in which a high percentage of low-income staff were retained in the new housing development on the original site in downtown. The development and planning were conducted in a unique alternative way, which was not through the land conveyance in the market and thus not applicable to many other enterprises or cities. I explore the experiences and lessons to be learned in order to analyze this alternative land-redevelopment approach.

5.3.1 History and Introduction

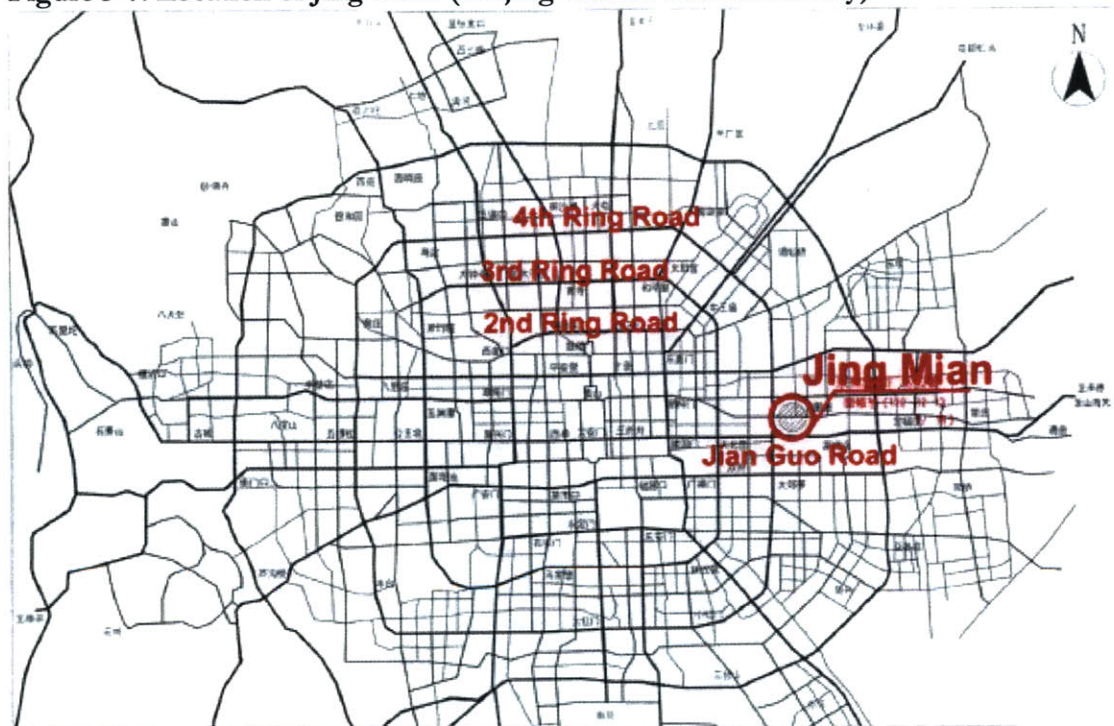
²⁰ Through interviewing with various planners, developers, and SOE managers in Beijing from June, 2006 to January, 2007.

Jing Mian was established in the mid 1950s, during China's first Five-Year Plan period in Beijing. During that time, the textile industry was considered one of the key industries in China as well as in Beijing. A large amount of skilled staff moved to join Jing Mian from Shanghai, Tianjin, and Qingdao to "contribute to building the textile industry in the capital." In the 1950s, it was the most important textile industry cluster in Beijing, and it had more than 150,000 staff since its establishment at that time.

The spatial pattern of Jing Mian is a relatively typical example of the *danwei* system. The three Jing Mian plants (No. 1, No. 2, and No. 3) and the three corresponding Jing Mian *danwei* communities are located adjacent to each other in *Chao Yang* district, the east part of Beijing (Figure 5-7). The three plants are located east of the East 4th Ring Road, north of *Jian Guo* Road, west of *Shi Fo Ying* Road, and south of *Chao Yang* Road. The three communities are located just across the *Chao Yang* Road, east of the East 4th Ring Road, north of *Chao Yang* Road, South of *Er Dao* Creek, and West of the *Shi Fo Ying* Road (Figure 5-8). The staff of each plant live in each *danwei* community, and spend less than five minutes walking to work. The three communities occupy 81 hectares of land, and there were various social services within the communities, including hospitals, schools, and community centers. In the 1960s and the 1970s, some staff moved to other areas of the city, and some newly recruited staff moved to Jing Mian communities. In the 1990s, a couple of high-rise buildings were developed in order to accept more staff.

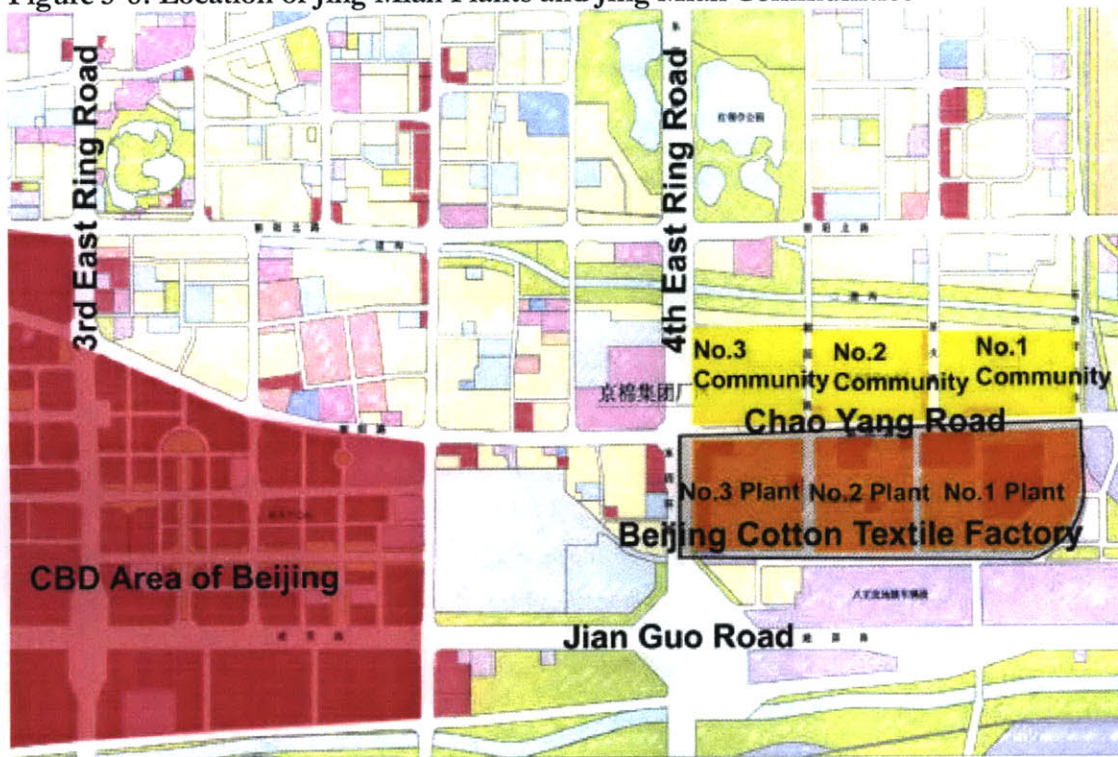
In the 1950s, when Jing Mian was established, the location was on the outskirts of the city. As time went on, the urban sprawl in Beijing, especially in the 1990s when the 3rd Ring Road and the 4th Ring Road were built, has extended the downtown boundary to Jing Mian's location. Currently, Jing Mian is just one block away from the Central Business District (CBD) of Beijing. Beginning from the mid 1990s, the textile industry in China experienced a huge fall and many textile plants

Figure 5-7: Location of Jing Mian (Beijing Cotton Textile Factory)



Source: Land-Use Plan of Jing Mian Area, Beijing Planning Institute, 2002

Figure 5-8: Location of Jing Mian Plants and Jing Mian Communities



Source: Land Use Plan of Jing Mian Area, Beijing Planning Institute, 2002

factories were not well managed and could not make a profit. Jing Mian factories began to be relocated to the suburb *Shun Yi* district in the late 1990s. Jing Mian sold the land of the No. 3 plant to the *Zhong Yuan* real estate group (using the negotiation method) in 2001. This land conveyance helped Jing Mian to repay the debt and loans they had and facilitated the relocation and purchase of new equipment.²⁴ In 2005, after the LCR, Jing Mian sold the land of the No. 1 plant to Beijing *Shou Chuang* a major real estate firm in Beijing, through the land auction method. Until January 2007 when I was investigating the plant, only the No. 2 plant was still running. The land of the Jing Mian plants were planned mostly for residential uses, with some social

²⁴ Interview with Mr. Lin, the General Manager of Jing Mian Group on January 11, 2007.

service uses, such as a high school and a hospital. A couple of gated housing projects were already developed when I was doing surveys there in January 2007—they were mid or high-end housing development with an average price of 8,000-10,000 yuan per square meter.

Different from the commercial housing development on the three Jing Mian plants, the three Jing Mian communities had their own social and demographic conditions. The redevelopment of these communities started from mid 1990s and experienced many difficulties. The three communities were developed in the 1950s, together with the plants, in order to accommodate the staff recruited from Beijing and other cities. Since then, many residential buildings were built for new Jing Mian staff. Most of the residential buildings in the community are three- or four-floor buildings and were built in the 1950s. There are also some five- or six-floor buildings, which were built in the 1970s and the 1980s. Several high-rise residential buildings were developed in the 1990s. The total building floor area is 1 million square meters, among which 8.6 million square meters is residential use and 1.4 million square meters is social service use.

In 2002, there were 16,448 households living in the three Jing Mian communities, among which 12,000 households were Jing Mian staff. Most of them are either technical staff or retired staff of Jing Mian. They live in a poor condition—among the 12,000 Jing Mian staff households: 3,385 of them need to share kitchen and

bathroom with others; 2,600 of them have less than six square meters of living space per person. Among the total 164 buildings, 96 of them were classified by the government as “under poor and dangerous condition.” Like many other SOEs, numerous Jing Mian staff either lost their jobs or became laid-off workers during the Jing Mian restructuring and deindustrialization process. Those staff would prefer to stay in the downtown area where they can get more social services and easy access to transportation, and are close to their social network, instead of being relocated to suburbs. Before the redevelopment, Jing Mian staff, who stayed in the three communities conducted a survey, and more than 90% of them wanted to stay in downtown. However, the current land use planning system in Beijing makes it extremely difficult for either the SOE or developer to accommodate a large number of SOE staff in the new development on the original site without any incentives. The LCR in 2004 did lead to more government intervention during the land-use planning process. Nevertheless, the incentive system was not established and that left the fundamental problems unsolved.

Finally, in the current plan, 87% of the Jing Mian households would be able to move back to the new housing development on the site, and that is due to the collaboration between Jing Mian and Beijing municipal government. They adopted a unique way that is not through the land-conveyance market like most other redevelopment projects are supposed to do.

5.3.2 Planning Process

In 1999, Beijing Urban Planning Institute and Beijing Urban Planning Committee approved the “Detail Development-Control Plan for Downtown Beijing”, which covered Jing Mian communities. In that plan, the residential buildings in this area have the building-height limit of 18 meters and maximum FAR as 1.6. However, as one of the features of the Beijing land-use planning system, that plan did not consider the relocation of the Jing Mian staff; thus, the plan did not create any incentive to retain some on the original site after the redevelopment. During that period, Decree No. 87 issued by Beijing Municipal Government was used as a major legal document to compensate the residents for their relocation. Residents got compensation according to the size of their former apartment, which was usually very small. The compensation they got from the government did not let them purchase a new apartment on the original site; instead, they could only go to suburbs where the housing price might be a little bit cheaper. Because a high percentage of residents expressed the interest of not moving to other areas after the redevelopment, Decree No. 87 was not very useful in Jing Mian case.

In 2000, Beijing Municipal Government issued another regulation “Decree No.19” which is also called “housing reform and improvement” (*fang gai dai wei gai*). Decree No. 19 provided opportunities for SOEs to develop the land by themselves instead of by real estate developers through land conveyance, in order to retain some SOE staff in the downtown. This regulation was used before Jing Mian in some downtown

residential area revitalization projects. The managers of Jing Mian applied to the Beijing municipal government for using this policy to redevelop the three communities due to the large demand from the staff.

In 2001, several city leaders of Beijing approved the application and expressed strong support to Jing Mian leaders. Jia Qing-Lin, the former general secretary of Beijing, Liu Qi, the former mayor of Beijing, and Wang Guang-Tao, the former deputy mayor of Beijing all approved the application and forwarded memo to various city agencies. After that, Jing Mian established its own development corporation to take specific redevelopment work. Jing Mian also submitted a DDCP amendment application to the Beijing Urban Planning Institute and requests an amendment to the DDCP which was approved in 1999. Beijing Urban Planning Institute conducted feasibility studies and various meetings and finally approved this application in August, 2002. The new building-height limit was adjusted to 80 meters instead of 18 meters; the FAR was adjusted to 3.5 instead of 1.6. In addition, some part of the Jing Mian No. 3 community was allowed to be put on the land-conveyance market and sold to developers through land auction and to be developed by real estate developers. This was also requested by Jing Mian in order to finance the redevelopment and construction. Since then, the development corporation within Jing Mian has been constantly negotiating with each household about the compensation and options of moving back. The corporation aims at retaining 11,393 Jing Mian staff households in the new housing development, which will be 87% of the total households (Table 5-5).

Table 5-5: Floor Area and Household Budget for Jing Mian Community Redevelopment

	Total Area	Planned Area	Reserved Area	Note
Total Floor Area (10 thousand sq.m)	158.34	122.01	36.33	
Residential	134.32	102.99	31.33	
For Jing Mian staff	106.03	85.45	20.58	
For commercial sales	28.29	17.54	10.75	
School	4.44	4.44	0.00	
Social Service	19.43	14.43	5.00	
Infrastrcture	0.15	0.15	0.00	
Total Households	17,007.00	13,147.00	3,860.00	
For Jing Mian staff	14,196.00	11,393.00	2,803.00	75 sq.m/household
For commercial sales	2,811.00	1,754.00	1,057.00	100 sq.m/household
Total Population	54,423.00	42,071.00	12,352.00	3.2 persons/household

Note: sq m = square meters

Source: Detail Development-Control Plan for Jing Mian Community, Beijing Urban Planning Institute, 2002

The living space of the staff is improved in the new housing projects, depending on how individual staff negotiate with the development corporation. Generally, for staff who used to stay in a room between 20 and 30 square meters, an apartment with two bedrooms is offered; for staff who used to stay in a room between 30 and 40 square meters, an apartment with three bedrooms is offered; for staff who used to stay in a room over 40 square meters, an apartment with three bedrooms is offered, and additionally, the staff is offered either cash or another apartment, depending on how big the former room is.

Staff who agree on the compensation will temporarily move to other rental places until the new apartments are built. However, the negotiation process between

individual staff and the Jing Mian was very complicated and greatly affected the redevelopment process of the three communities, but that analysis is beyond the scope of my research.

CHAPTER 6

CONCLUSION

I have made several unique contributions to the field of land-use policy changes in China, which I first summarize and then I indicate the limitations of the study and future work needed.

6.1 Contributions

In this study, I examine the recent land-use policy changes in China and their institutional impact on the land-use planning process as well as social impacts on the ongoing deindustrialization process. My empirical study in Beijing provides some interesting data about the deindustrialization since the 1990s, especially, the condition of the SOE staff who were facing dual challenges during China's transition period. I also conducted many interviews of various agencies, SOE managers, developers, SOE staff and scholars to analyze how the land conveyance reform affected the institutional settings of the land redevelopment process. I answer several questions and contribute the following to the land-use knowledge for China:

- (1) I study the history and the motivation of the ongoing deindustrialization process in Beijing which mainly started from the mid 1990s. By comparing various data on industrial land conversion, factory location, industrial output and major industry sector, I outline the big picture of the industrial land conversion and

redevelopment. In addition, for background, I explore the legal and institutional context.

(2) I study the institutional impacts of the land conveyance reform by focusing on issues like land property rights, legislation, as well as relevant city agencies and developers. The industrial land-redevelopment process is a process for the Beijing municipal government to generate and distribute revenue. The land-conveyance reform from the negotiation approach of selling the LURs to the auction approach has changed the way that various government agencies as well as former and new land users participate in the land-conversion process. This change has caused an institutional shift for one of the central elements of the LDCM: ORTP, from the former “developer-coordinated process” to the current “BLRMC-coordinated process.”

(3) The working class of SOEs in China has been facing dual challenges simultaneously: the decrease of their access to the social services and social welfare as well as the burden to be relocated from the subsidized housing in the downtown area to commodity housing at suburbs. The challenges do not fit in with China’s gradual-reform approach and have caused many protests and criticism from below. I argue that the key reason for the dual challenges is China’s unique situation—the deindustrialization process goes hand-in-hand with privatization of SOEs since the mid 1990s. My research shows that the LCR does

not solve the problem; instead, it just slows down the occurrence of the problems. The redevelopment of Jing Mian communities successfully retained a high percentage of low-income staff in downtown Beijing. However, it was conducted in a unique non-market way, which might not be applicable to most other industrial land redevelopment.

6.2 Limitations and Future Research

During my survey in Beijing, it was difficult to get specific information on industrial land conversion. No comparable data for the same geographic area were available. The industrial land data I finally used were from various sources and covered different geographic areas. However, it gave me a big picture of the deindustrialization process. In addition, I could improve the study by obtaining more micro-level data on spatial pattern of employment as well as micro-level data on SOE staff, such as income changes, living costs, and access to social services.

Moreover, my study does not capture the informal dimensions of the land-development-control mechanism. That is beyond the scope of my research; however, it is extremely important and greatly affected both interactions among various agencies and relocation of the SOE staff. Other analysts should study this in the future.

The LCR and related land policies in China greatly reflect the political and social outcome, especially in the current deindustrialization and downtown redevelopment period. Relevant studies on these topics will be extremely useful, and my initial exploration lays the foundation for future studies.

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APPENDIX

Photos of Jing Mian Communities

All the photos were taken by Zhiyu Chen on January 11, 2007.



Photo 1

The Jing Mian No.2 community under redevelopment. (The residential buildings far in the photo were developed by real estate developer on the Jing Mian plant).



Photo 2

Newly built residential buildings for Jing Mian staff in Jing Mian No.3 community. (The 6-floor residential building was not removed because there were 2 households in that building who have not accepted the compensation from Jing Mian.)

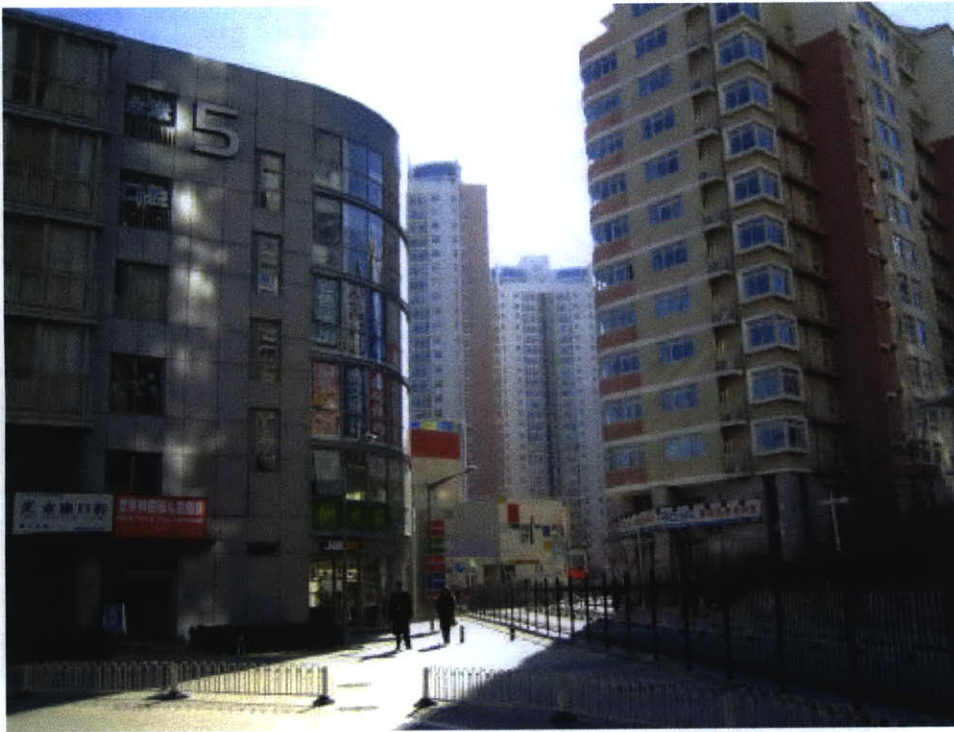


Photo 3

The high-end gated community developed by real estate developer on the Jing Mian plant.



Photo 4

The new retail and social service developed by real estate developer on the Jing Mian plant, which is not quite affordable to the Jing Mian staff.



Photo 5
Typical existing residential buildings in Jing Mian communities, which were built in the 1950s.



Photo 6
Existing alley and landscape in the Jing Mian No.2 community, which will be destroyed after the redevelopment.



Photo 7

Existing high-rise residential building in Jing Mian community which was built in the 1990s. (These buildings will be retained in the new plan.)



Photo 8

Existing health-care facility in Jing Mian community (mixed use with residential building).



Photo 9

Existing residential building in Jing Mian community which will be demolished soon. (The cross on the window indicates that the household has agreed on the compensation and has moved out)



Photo 10

Existing informal-sector retail and social service in Jing Mian community, run by individual household. (Such a tiny corner retail provides lots of daily service residents need.)



Photo 11
Existing entertainment facility in the Jing Mian community—a kid playing outdoor “snooker” game.



Photo 12
Existing major open space in the Jing Mian community.