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China's Changing Urban Geography: A Review of Major Forces at Work*

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The Chinese urban landscape is vibrant, diverse, and sometimes puzzling. This essay outlines the major forces that constitute and reconstitute this landscape. Persistence of the soft budget constraint is important. However, this should be seen in conjunction with the increasing role taken on by urban municipal governments, which is many times strengthened by the land leasing system. Place promotion and image building are targeted not only at transnational corporations, but also at state-owned enterprises (SOEs) and large private enterprises. The influx of foreign direct investment (FDI) and the corporate reforms have brought about much wider income spreads and the formation of a new urban middle class. This, together with the housing reform of 1998-99 and reforms in the financial sector, has added a choice dimension to the urban spatial form. At the same time, the reforms have also produced a new class of urban poor struggling to cling to the dwindling stock of dilapidated danwei *(work unit) housing.*

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The past quarter-century has witnessed phenomenal urban growth in the world's most populous country. The sheer scale of China's urban transformation has caught the attention of scholars both within and outside the country, and geographers have been among the first to seriously examine China's urbanization. Urban geography in China is thriving. Yan Xiaopei (**閻小培**), in a review paper published in 1994,[1] pointed out that the bulk of urban geographical studies in the Chinese-language literature were on the urbanization process, i.e., rural-to-urban transformation, and on the changing urban hierarchy. Relatively little had been written on the internal structure of the city. The situation was very much the same in the English-language literature. However, the picture today is quite different. Strenuous efforts have been made over the past decade or so to depict the changing patterns of urban land development and to unravel the salient forces that underlie these changes. Attempts have also been made, at least in the English-language literature, to situate the study of Chinese cities within broader urban studies, with a view to enriching and further developing mainstream urban theories.[2] The Chinese-language literature on urban space has also flourished. Recent examples

[1]Yan Xiaopei, "Maixiang ershiyi shiji de Zhongguo chengshi fazhan yu chengshi dilixue" (Urban development and urban geography in China toward the twenty-first century), *Jingji dili* (Economic Geography), 1994, no. 4.

[2]See, for example, Deborah S. Davis et al., eds., *Urban Spaces in Contemporary China: The Potential for Autonomy and Community in Post-Mao China* (Washington, D.C.: Woodrow Wilson International Center for Scholars, 1995); John R. Logan, ed., *The New Chinese City: Globalization and Market Reform* (Oxford: Blackwell, 2002); and Laurence J.C. Ma and Fulong Wu, "The Chinese City in Transition: Towards Theorizing China's Urban Restructuring," in *Restructuring the Chinese City: Changing Society, Economy, and Space*, ed. Laurence J.C. Ma and Fulong Wu (London and New York: Routledge/Curzon, 2005), 260-71. Solinger and Chan argue, however, that to date much of China urban studies remains rather conventional in its approach, with little reference to the current cultural turn in social sciences and contemporary cultural theories. See Dorothy J. Solinger and Kam Wing Chan, "The China Difference: City Studies under Socialism and Beyond," in *Understanding the City: Contemporary and Future Perspectives*, ed. John Eade and Christopher Mele (Oxford: Blackwell, 2002), 204-21.

are volumes by Gu Chaolin (**顧朝林**),[3] Chai Yanwei (**柴彥威**),[4] Wang Xingzhong (**王興中**),[5] and Feng Jian (**馮健**).[6] While geographers constitute a significant intellectual force in the study of Chinese cities, contributors to this voluminous literature include also scholars from other disciplines, such as economics, sociology, urban planning, and anthropology.

This paper will firstly review and synthesize some of this fast-developing literature, with a view to identifying the major threads of China's urban spatial fabric. Because of the author's own disciplinary background, there is a natural bias toward contributions by geographers. However, important contributions from scholars of other social sciences will also be incorporated. Given the gradualist nature of the reform, the paper will highlight the legacy of the initial thirty years of the People's Republic of China (PRC): the centrally planned economy and the associated *danwei* (**單位**, work unit) system and institutionalized urban-rural divide. Reference will then be made to China's local growth coalition, one that is much more powerful than those observed in the West. The introduction of the system of paid transfer of land-use rights in urban areas in the late 1980s has produced huge rent gaps, which have become a major driving force propelling urban expansion and redevelopment. Finally, some salient emerging forces are outlined that are beginning to impact on China's urban landscape: rising incomes, the growth of a new urban middle class and the new urban consumerism, migrants from the vast rural hinterlands and the "village-in-city" phenomenon, cessation of welfare allocation of housing and residential structuring, enterprise reform and the problem of *xiagang* (**下崗**, stepping down from duty) workers and retirees living on pensions,

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[3]Gu Chaolin, *Quanqiuhua yu Zhongguo chengshi fazhan* (Globalization and urban development in China) (Beijing: Shangwu yinshuguan, 1999).

[4]Chai Yanwei, *Chengshi kongjian* (Urban space) (Beijing: Kexue chubanshe, 2000); and Chai Yanwei, *Zhongguo chengshi de shikongjian jiegou* (Time-space structure of Chinese cities) (Beijing: Beijing daxue chubanshe, 2002).

[5]Wang Xingzhong, *Zhongguo chengshi shehui kongjian jiegou yanjiu* (A study of the structure of social space in Chinese cities) (Beijing: Kexue chubanshe, 2000).

[6]Feng Jian, *Zhuanxingqi Zhongguo chengshi neibu kongjian chonggou* (Restructuring of the internal space of Chinese cities in the transition period) (Beijing: Kexue chubanshe, 2004).

and the state's identification of the real-estate industry as an economic anchor. The interaction of these forces, which operate on all geographical scales and involve the national and local governments, enterprises, and individuals and their families, is producing a highly complex, dynamic, and yet often bewildering urban landscape that contains elements of China's socialist past as well as those characterizing advanced market economies.

The Political Economy of the First Thirty Years of the PRC and Its Legacy

One element of the neoclassical model of the city of the Alonso-Muth type that has attracted major criticism is its assumption of malleable urban spatial structures.[7] Even among economists, it has long been recognized that the urban built environment exhibits a high degree of spatial fixity, durability, and interdependency.[8] Once built, the pattern of urban land use will stay unchanged for tens or even hundreds of years. Alterations can only be made at great cost. Moreover, spatial externalities abound. The use of a given land parcel depends to a significant extent on the use of adjacent parcels as well as on the general distribution of land use in the city, including the network of urban highways and public transport that

[7]The Alonso-Muth model, which dominated urban economic studies for much of the 1960s and 1970s, incorporates space, as measured by distance to the city center, in articulating competitive equilibrium in an urban setting. In the model households attempt to maximize utility through consumption of housing and non-housing goods subject to the budget constraint, which is not given but varies with distance to the place of work, and firms attempt to maximize profit by optimizing allocation of land, capital, and labor, the relative prices of which vary with transport cost. Land use in different parts of a city is determined by competitive bidding by prospective land users. The resultant urban space is one in which land and housing price and also land use intensity and population density decline monotonously from the city center. See William Alonso, *Location and Land Use* (Cambridge, Mass.: Harvard University Press, 1964); and Richard Muth, *Cities and Housing: The Spatial Pattern of Urban Residential Land Use* (Chicago: University of Chicago Press, 1969). A general criticism of the Alonso-Muth model is given in Shoukry T. Roweis and Allen J. Scott, "The Urban Land Question," in *Urbanization and Urban Planning in Capitalist Society*, ed. Michael Dear and Allen J. Scott (London: Methuen, 1981), 123-58.

[8]Mahlon R. Straszheim, *An Econometric Analysis of the Urban Housing Market* (New York: National Bureau of Economic Research, 1975).

knits the different parts of the city together. In short, urban land development is highly path-dependent. Current land use is a product of past land use; in turn, current land use affects future land use. Moreover, investments in urban infrastructure are not only costly but also require long gestation periods before they are fully functional. Long planning horizons are needed. All these argue that urban development has to be examined with respect to the city's historic specificities.

In the case of China, the need for a tour of the past is all the more important because of the transitional nature of China's economy. With the beginning of the reform period in late 1978, China unmistakably embarked on a marketization drive, but the road to a market economy has proved arduous and at times even circular. It was not until the Third Plenum of the Chinese Communist Party's (CCP) Fourteenth Central Committee held in 1994 that China formally proclaimed the establishment of a socialist market economy as its long-term developmental goal.[9] However, note the incongruence in terminology. China's reforms are not meant to topple socialism; rather, their purpose is to augment it. The political-economic structure that was institutionalized in the early days of the PRC has remained largely intact to date. From the outset, China's reforms have been gradual. "Feeling one's way across the river" (**摸著石頭過河**) is a vivid description of how the late patriarch, Deng Xiaoping (**鄧小平**), introduced the reform.

Danwei

To understand the unfolding spatial relations in Chinese cities today, one has therefore to study the spatial relationships that characterized Chinese cities in the past, in particular, the urban spatial relations in the pre-reform or socialist period. In socialist China, enterprises, or work units (*danwei*) in general, constituted the basic unit of spatial organization in

[9]Christine P.W. Wong, "China's Fiscal Reform in 1994," in *China Review 1995*, ed. Chi Kin Lo, Suzanne Pepper, and Kai Yuen Tsui (Hong Kong: Chinese University Press, 1995), 20.1-13.

an urban area.[10] Two types of *danwei* may be identified. The first is *qiye danwei* (**企業單位**) or major productive enterprises under the supervision of their respective ministries in the State Council (**國務院**). The second is *shiye danwei* (**事業單位**) or Party/government and quasi-government organizations. The latter include residents committees, education and research institutions, hospitals, unions, etc. Regardless of its exact type, a *danwei* was more than an employment organization and economic unit. It used to be also a spatial entity, having its own compound, which was typically formed by carving out a distinct space in the former new urban district of the city, serving both as a workplace and a place of residence. As such, a *danwei* was also a place of intensive socialization, facilitating the inculcation and reinforcement of socialist ideology. Practically every worker and his/her family in urban China were attached to a *danwei*, which, on behalf of the state, redistributed social surplus in the form of in-kind benefits: housing, health care, pension, etc. Furthermore, through its own Party echelon, the *danwei* helped strengthen the Party-state's control over society by closely monitoring *danwei* members' political and social behavior and facilitating the launching of various political campaigns. In this sense, *danwei* in China were a constituent part of the socialist state.

The Centrally Planned Economy

Kornai argues that in a socialist planned economy the overriding concern of an enterprise is to meet the production targets set by the state; more specifically, the annual production plan.[11] This leads to fierce competition among enterprises in order to get hold of scarce resources. Moreover, enterprises are faced with only the soft budget constraint. The ability to cut

[10]Chor-pang Lo, "Socialist Ideology and Urban Strategies in China," *Urban Geography* 8, no. 5 (1987): 440-58; and Martin K. Whyte and William L. Parish, *Urban Life in Contemporary China* (Chicago: University of Chicago Press, 1984). Lo's paper, based on information available at the time, provides a highly idealistic depiction of socialist ideology. However, his description of the Chinese urban space as one composed of a pre-1949 core, an inner suburb of largely independent *danwei* compounds, and an outer ring of suburban farmlands, is quite an accurate depiction of pre-reform and early-reform China.

[11]Janos Kornai, *Economics of Shortage* (Amsterdam: North Holland, 1980).

costs and make a profit is of secondary importance, as compared with fulfilling the production plan. Endemic to the system is an investment hunger—enterprises have an insatiable appetite for resources. This, in turn, produces perennial shortages of all kinds. At the same time, rigidities in the system, including the absence of formal exchange mechanisms, encourage or even force enterprises to hoard resources. This results in extensive wastage. Slack and shortage coexist in a socialist planned economy.

Tang applies Kornai's thesis to an analysis of urban development in pre-reform China.[12] He points out that there was a severe shortage of urban or serviced land; yet the overall land utilization rate was low. Enterprises, which built not only production plants but also housing and associated amenities for their workers, would attempt to grab as much land as possible whenever the opportunity arose. The granting of land to an enterprise and hence urban land development, however, was tied to capital construction investment, which would have to be decided at the annual budgetary exercise of the State Planning Commission (**國家計畫委員會**) where the enterprise's mentor, its supervisory ministry in the State Council, would fight for resources on its behalf.

The outcome of the annual budgetary exercise was less than certain, and this aggravated the land hoarding behavior. The subservience of urban land production to capital construction projects also meant that urban land development was piecemeal and uncoordinated, as the land production decision was essentially made at the center, i.e., in Beijing (**北京市**), and not at the municipal government level. Haphazard urban development was inherent in the production system. Paradoxically, urban planners in China, who worked for the municipal government, had very little control over the urban development process in a planned economy. Under China's administrative hierarchy, the large state enterprises had to report only to their supervisors, i.e., the respective ministries. Seldom would they pay attention to the municipal government, which was way down in the ad-

[12]Wing-shing Tang, "Urban Land Development under Socialism: China between 1947 and 1997," *International Journal of Urban and Regional Research* 18 (1994): 395-415.

ministrative hierarchy. The uncertainty of the annual budgetary exercise and the preoccupation with meeting production targets also meant that resources allocated to a given enterprise for a "nonproductive" purpose such as the provision of workers' housing would likely be diverted to actual industrial production. Certainly not all such funds would be diverted, and productive enterprises did manage to produce a sizeable stock of *danwei* housing in the first thirty years of the PRC. Invariably, however, *danwei* housing looked monotonous and dull, as the standardized development of three- or four-story walk-up apartment blocks with minimal decoration of building facades served to save development costs. Moreover, there was a severe housing shortage, and the housing stock was seriously undermaintained.

The socialist state in general would tolerate shortage, but only up to a point. Beyond that, investment hunger and the insatiable chase after scarce resources would exert too much pressure on the economy, resulting in runaway inflation and frequent breakdowns in both the sphere of production and the sphere of circulation. Periodically, the state would be forced to put a brake on the economy, and a phase of consolidation would set in. Planned capital construction projects might be called off suddenly. Even those that had already begun would come to a sudden halt. Curiously, economic cycles do not disappear under socialism. In the Chinese case, the economic cycles experienced since the founding of the PRC have been more pronounced than those experienced in market economies. Pronounced cycles of economic expansion and contraction add to the uncertainty and haphazardness of the urban development process.

China's economy today, of course, can no longer be characterized as one of shortage. However, the structure of the centrally planned economy stayed largely intact until the enterprise reform of 1994.[13] In fact, the gradual introduction of market elements in the 1980s, which produced a dual price structure—coexistence of planned and market price—together

[13]Chi-wen Jevons Lee, "The Reform of the State-Owned Enterprises," in *China Review 1996*, ed. Maurice Brosseau, Suzanne Pepper, and Tsang Shu-ki (Hong Kong: Chinese University Press, 1996), 263-82.

with the persistence of the soft budget constraint, actually aggravated the problem of investment hunger and enterprises' chasing after scarce resources. The reform measures introduced in 1994 were aimed at transforming state enterprises, which were an extension of the state, into business undertakings in the true sense. State enterprises now have the right to identify their own developmental goals, to formulate their own system of remuneration, to form joint ventures with other enterprises and venture into new productive activities and areas of operation, to become shareholding companies listed on the stock exchange, to engage in acquisition and merger activities, and, of course, to compete in the domestic and international markets on their own behalf. What were formerly state-run enterprises (**國營企業**, *guoying qiye*) have now become state-owned enterprises (SOEs, **國有企業**, *guoyou qiye*) if the state still maintains a controlling proportion of their shares.

The annual budgetary exercise is no longer the place where resources are allocated to enterprises. In this sense the centrally planned economy has ceased to exist. However, the state, both at the central and local level, and in conjunction with the state-owned commercial banks, often acts as the final underwriter of investment decisions. The soft budget constraint persists. In fact, the problem of investment hunger as measured by fixed capital investment as a percentage of gross domestic product (GDP) is more severe today than it was in the pre-reform period.[14] Land, of course, is a major scarce resource chased after by the enterprises. To the enterprises, profit maximization is paramount. Many have thus ventured into real-estate development either on their own or by forming joint ventures with developers, capitalizing on the land formerly assigned to them in con-

[14]Wang Haibo, quoted in Chan's study of China's urbanization over the period 1949-82, reports that the rate of capital formation was above 25 percent for most years in the pre-reform period and topped 33 percent for some years. According to the *China Statistical Yearbook*, the capital formation rate over the period 1978-80 averaged 36.4 percent. However, in 1993 it reached 43.6 percent. This rate declined somewhat in subsequent years, but it picked up again in the early 2000s. In 2003 the capital formation rate once again reached 42.3 percent. See Kam Wing Chan, "Economic Growth Strategy and Urbanization Policies in China, 1949-1982," *International Journal of Urban and Regional Research* 16, no. 2 (1992): 275-305; and National Bureau of Statistics, *China Statistical Yearbook 2004* (Beijing: China Statistics Press, 2004), 65.

junction with capital construction projects. In a sense, then, the piecemeal and haphazard nature of urban land development continues in the form of large-scale redevelopment of *danwei* compounds as major real-estate projects. Furthermore, investment hunger manifests as land hunger and the so-called *quandi* (圈地) or land encirclement movement. This contributes significantly to the sprawling and rather chaotic urban development that the casual visitor to China would observe today. Also, the pronounced economic cycles associated with the investment hunger have resulted in pronounced periodicity in urban development. I shall come back to this point later.

Institutionalized Urban–Rural Divide

Another major legacy of China's socialist era is institutionalized urban-rural divide. Much has been written on China's household registration or *hukou* (戶口) system, which until quite recently divided China's population into two main categories: agricultural and nonagricultural or rural and urban.[15] Other than setting annual production targets and grain procurement, which forced the farmers to sell agricultural produce at artificially low price in exchange for overpriced industrial products—the so-called scissors difference in pricing—China's centrally planned economy largely left the agricultural sector alone. Only the urban industrial enterprises would be allocated needed resources in the annual production plan. Likewise, only people with nonagricultural *hukou* status in the urban areas would be directly taken care of by the state. More specifically, the state would assign individual urbanites to work in enterprises and other *danwei*,

[15]See, for example, Kam Wing Chan, *Cities with Invisible Walls* (Hong Kong: Oxford University Press, 1994); Kam Wing Chan, "Post-Mao China: A Two-Class Urban Society in the Making," *International Journal of Urban and Regional Research* 20, no. 1 (1996): 134-50; Kam Wing Chan, Ta Liu, and Yunyan Yang, "*Hukou* and *Non-hukou* Migrations in China: Comparisons and Contrasts," *International Journal of Population Geography* 5 (1999): 425-48; Si-ming Li, "Population Migration, Regional Economic Growth, and Income Determination: A Comparative Study of Dongguan and Meizhou, China," *Urban Studies* 34, no. 7 (1997): 999-1026; and Tiejun Cheng and Mark Seldon, "The Origins and Social Consequences of China's *Hukou* System," *The China Quarterly*, no. 139 (September 1994): 644-68.

which would then provide the workers and their families with various kinds of benefits. In addition, the state would provide urbanites with grain rations. The peasants, i.e., people with agricultural *hukou* status, were left on their own. In particular, they had to produce the grain for their own consumption. None the less, because of this, peasants, or rather the rural collectives to which the individual peasants belonged, could claim ownership of land.

In post-reform times, the *hukou* system as a constraining factor on population mobility has weakened substantially. Grain rationing was phased out in the late 1980s, and the People's Communes (**人民公社**), which helped to tie the farmers to the land, were dismantled in 1983. As a result China's surplus agricultural workforce began to migrate to the major cities and to the more prosperous Pearl River (**珠江**) and Yangtze (**長江**) deltas *en masse*. Hundreds of millions of former peasants have now settled in cities and towns. Without proper *hukou* status, however, these new urban settlers can only be second-class citizens. Normally they can only take up jobs that people with proper *hukou* status do not want to do. These jobs are much less secure and do not carry the usual benefits such as housing and retirement benefits that *danwei* would provide for permanent workers.

For the urban-bound migrant, finding a place to live in the city is not easy. The usual *danwei* housing is off-limits unless the migrant becomes a domestic worker. The private housing stock was exceedingly small before the late 1990s and was not an option for the migrant settler either. Fortunately, thanks to the special land tenure system under which peasants or village authorities were allowed to claim land ownership rights in an otherwise state monopoly of land, in the early reform period peasants and village authorities located on the city outskirts began to build housing on the land they owned and to rent it out to migrants. The legal status of such housing is dubious, as peasants in theory are only allowed to build housing for their own use on special land plots known as *zhaijidi* (**宅基地**) assigned to them by the village authorities. However, the income from renting such housing would probably be many times higher than what could be derived from cultivation. As such, building housing for migrants amounts to rent-seeking on the part of the local peasants. In many cases this provides

the peasants with their only source of income, as much of their land would have been taken over by the urban municipal government for various development projects.

In this way distinct migrant communities have emerged on the former urban periphery. The term "*chengzhong cun*" (**城中村**) or "village-in-city" has been coined to denote such communities when subsequent urban developments have engulfed the former villages. Zhejiang Village (**浙江村**) in south Beijing, which is now a community of more than a hundred thousand, is probably the most thoroughly studied village-in-city.[16] However, all the major cities in China today have similar villages, many of which have comparable populations. Wu, for example, documents the distribution of migrant populations in Shanghai (**上海市**). Proliferation of villages-in-city poses a serious challenge to urban planners.[17]

Devolution of Decision-making Power and the Local Growth Coalition

Above, I discussed the role played by state enterprises and other *danwei* in structuring urban space and urban life, particularly in pre-reform China. I also pointed out how the project-specific urban land development of the pre-reform period—which constituted an integral part of socialist central planning—is continuing under land re-commodification since the reforms. In this section, I examine in greater detail aspects of China's reform, especially the devolution of decision-making power to enterprises and local governments, and how this has affected urban housing provision, and hence urban residential space.

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[16]Xiang Biao, "Beijing youge Zhejiangcun" (There is a Zhejiang Village in Beijing), *Shehuixue yu shehui diaocha* (Sociology and Social Survey), 1993, no. 3:68-74; and Qiu Youliang and Chen Tian, "Wailai renkou jujiqu tudi liyong tezheng yu xingcheng jizhi yanjiu" (A study of land use and formation mechanisms of migrant enclaves), *Chengshi guihua* (Urban Planning), 1999, no. 4:18-22.

[17]Weiping Wu, "Migrant Residential Distribution and Metropolitan Spatial Development in Shanghai," in Ma and Wu, *Restructuring the Chinese City*, 222-42.

Enterprises

China's reform began with the introduction of the contract responsibility system (**承包責任制**), which was first applied to the agricultural sector and subsequently extended to the urban industrial sector. Under this system, once they had fulfilled the production targets set by the economic plan, enterprises were allowed to sell their products at market rather than planned price, and were also allowed to retain the profits thus generated. This provided enterprises with a greater degree of control over the resources at their disposal. At the same time, the dual price structure and the increasingly marketized environment, which the enterprises had little experience in dealing with, brought about uncertainties both in the supply of raw materials and in the selling of the product. Wu, among others, has argued that in the early phases of the reform, under an increasingly uncertain operation environment, enterprises needed to secure the support of their workers.[18] They did this by offering better in-kind benefits such as housing. Thus, the 1980s and 1990s witnessed major urban housing construction booms. Despite the rhetoric of commodification and marketization, the role of *danwei* in urban housing provision was actually strengthened in the 1980s and perhaps until very late in the 1990s.[19]

China has experimented with a series of reforms in the housing provision system. Beginning from the late 1980s, *danwei* were discouraged from constructing their own housing. Instead, under the banner of comprehensive development, real-estate development companies were established to build housing for sale in the market. Housing thus built could be termed "commodity housing."[20] Unlike the former *danwei* housing, which as a rule was located within the *danwei* compound, commodity housing developments are scattered over the city and generally take the form of

[18]Fulong Wu, "Changes in the Structure of Public Housing Provision in Urban China," *Urban Studies* 33, no. 9 (1996): 1601-27.

[19]Si-ming Li, "The Housing Market and Tenure Decision in Chinese Cities: A Multivariable Analysis of the Case of Guangzhou," *Housing Studies* 15, no. 2 (2000): 213-36; and Si-ming Li, "Housing Consumption in Urban China: A Comparative Study of Beijing and Guangzhou," *Environment and Planning A* 32 (2000): 1115-34.

[20]Ibid.

xiaoqu (小區) or small districts, with each *xiaoqu* comprising a dozen or so housing blocks consisting of perhaps several hundred flats. In comparison with *danwei* housing blocks, commodity housing blocks exhibit much greater variations both in terms of external design and internal layout, so as to cater for different segments of the market. Commodity housing projects are also provided with much better communal facilities such as playgrounds and landscaped gardens. Thus, the development of the real-estate industry has brought much more vibrancy and color to the Chinese urban landscape.

Yet housing commodification before the end of the 1990s was very much a half-hearted endeavor. For much of the 1980s and 1990s, *danwei* constituted the single most important buyers of commodity housing, as they bought flats for allocation to their workers. While rental occupancy remained the norm, with the intensification of the housing reform which called for housing privatization, an increasing number of these flats were sold to the workers at subsidized prices. Such housing was termed "*danwei* reform housing." Land availability alone dictated that most new housing was located on the urban peripheries. Hence, the housing construction boom resulted in suburban expansion. By assigning new commodity housing flats to their workers, *danwei* have acted as an important agent of suburbanization.[21] Unlike in most Western cities, individuals and their families have played a largely passive role in the outward movement to the suburbs in urban China, at least up to the late 1990s.[22]

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[21]Si-ming Li and Yat-ming Siu, "Residential Mobility and Urban Restructuring under Market Transition: A Study of Guangzhou, China," *Professional Geographer* 53, no. 2 (2001): 219-29; Si-ming Li and Yat-ming Siu, "Commodity Housing Construction and Intra-Urban Migration in Beijing: An Analysis of Survey Data," *Third World Planning Review* 23, no. 1 (2001): 39-60; Si-ming Li, "Housing Tenure and Residential Mobility in Urban China: A Study of Commodity Housing Development in Beijing and Guangzhou," *Urban Affairs Review* 38, no. 4 (2003): 510-34; Si-ming Li, "Life Course and Residential Mobility in Beijing, China," *Environment and Planning A* 36 (2004): 27-43; and Youqin Huang and William A.V. Clark, "Housing Tenure Choice in Transitional Urban China: A Multilevel Analysis," *Urban Studies* 39, no. 1 (2002): 7-32.

[22]Yixing Zhou and Laurence J.C. Ma, "Economic Restructuring and Suburbanization in China," *Urban Geography* 21, no. 3 (2000): 205-36.

The Local Government

A multilevel contract responsibility system was introduced to regulate central-local fiscal relations in the early reform period.[23] At the national level, the provinces were required to remit either a fixed sum or a given percentage of their revenue to the center; beyond that, they were allowed to retain whatever revenue they could generate within their respective jurisdictions. Similar arrangements were made between provinces and their sub-provincial administrative units. This arrangement accorded localities at all levels much greater financial powers. It also encouraged the localities vigorously to pursue economic growth. Local governments have since become a potent economic force in China's modernization drive.

Their much enhanced financial powers have allowed local authorities to exert increasing influence on the state enterprises located within their jurisdictions as well as on the local branches of the state commercial banks. With fewer resources coming from the center, and in an increasingly turbulent operation environment, the state enterprises themselves have also sought new mentors. Increasingly they seek support from local governments. A growth coalition comprising the local government, state enterprises, and local branches of state commercial banks began to emerge as early as the mid-1980s.[24] Chinese economists term such coalitions *zhuhou jingji* (**諸侯經濟**) or "dukedom economies."[25] In the English-language literature, the term "local state corporatism" has been coined to describe such a phenomenon, although the latter primarily refers to enterprising local governments at the town and township level whereas the former is

[23]Yehua Dennis Wei, *Regional Development in China: States, Globalization, and Inequality* (London and New York: Routledge, 2000); and Christine P.W. Wong, ed., *Financing Local Government in the People's Republic of China* (Hong Kong and New York: Oxford University Press, 1997).

[24]Jieming Zhu, "Local Growth Coalition: The Context and Implications of China's Gradualist Urban Land Reforms," *International Journal of Urban and Regional Research* 23, no. 3 (1999): 534-48; and Jieming Zhu, "From Land Use Right to Land Development Right: Institutional Change in China's Urban Development," *Urban Studies* 41, no. 7 (2004): 1249-67.

[25]Shen Liren and Dai Yuanchen, "Woguo zhuhou jingji xingcheng jizhi biduan he genyuan" (The origin and adverse consequences of the dukedom economy in China), *Jingji yanjiu* (Economic Research), 1990, no. 3:12-19.

mainly applied to regional protectionism at the provincial level.[26] The contract responsibility system seriously eroded the financial position of the center vis-à-vis that of the localities. In 1994 China implemented major fiscal reforms, which called for the introduction of a system of tax sharing between the center and the provinces, with a view to re-asserting the center's financial position and hence its control over localities.[27] Yet subsequent developments suggest that local governments at all levels continue to play a highly important role in charting local economic growth.

It has been argued that under economic globalization, local governments in the West have become major players in the articulation of productive capital.[28] At the urban level, the city hall has joined forces with various segments of capital to constitute a growth machine.[29] In transitional China, local government assumes an even greater role. To a significant extent the political prospects of city mayors and other top local government officials are measured by their success in fostering economic growth. Local governments learn from each other, while competing for resources. Success stories are transplanted from one locality to another. The budget constraints confronting local governments are even softer than those faced by state enterprises. Access to the financial resources of the local branches of state commercial banks allows the local governments to undertake ever more grandiose projects. Under such circumstances, duplication of investments over space, and hence severe wastage, is prevalent.

An outstanding example is the construction of economic and technical development zones (ETDZs, **經濟技術開發區**), science parks, and the like. Cities all over the country have set up sprawling ETDZs, mostly

[26]Jean C. Oi, "Fiscal Reform and the Economic Foundation of Local State Corporatism," *World Politics* 45, no. 1 (October 1992): 99-126.

[27]Wong, *Financing Local Government in the People's Republic of China*.

[28]Kevin R. Cox, ed., *Spaces of Globalization: Reasserting the Power of the Local* (New York and London: Guilford, 1997); and David Harvey, "The Urban Process under Capitalism: A Framework for Analysis," *International Journal of Urban and Regional Research* 2, no. 1 (1978): 101-31.

[29]John R. Logan and Harvey L. Molotch, *Urban Fortunes: The Political Economy of Place* (Berkeley: University of California Press, 1987).

on the city outskirts. Even small towns and villages have their own development zones. According to the *People's Daily*, by late 2003 there were a total of 3,837 ETDZs.[30] Of these, 232 were established with approval from the State Council, 1,019 with approval from provincial governments, and the rest were approved only by lower-level authorities, including town governments and village committees. Recently, there has been a frenetic drive to construct "university towns." Guangzhou (**廣州市**), Zhuhai (**珠海市**), Shenzhen (**深圳市**), Nanjing (**南京市**), and even smaller places such as Langfang (**廊坊市**, in Hebei Province **河北省**) and Ningpo (**寧波市**, in Zhejiang Province) are building their own university towns. Massive amounts of money have been pledged for this kind of construction. Investment in the Guangzhou University Town tops RMB 12 billion. Even the Langfang University Town will cost RMB 5 billion.[31] Municipal governments are also attempting to beautify the urban landscape and build business centers to lure investment.[32] Such efforts have effectively transformed formerly monocentric cities to polycentric cities.[33]

Paid Transfer of Land Use Rights and the Rent Gap

A major reform measure that underlies much of China's urban transformation is the formal adoption in 1988 of a system of land leasing or paid transfer of land use rights.[34] Theoretically, under the land leasing system, all urban land belongs to the state. Upon payment of a price to the state (as represented by the urban municipal government), however, the individual

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[30]*Renmin ribao* (People's Daily), November 19, 2003.

[31]RMB stands for *renminbi* (**人民幣**), the Chinese currency. China Central Television International website, January 28, 2005.

[32]Fulong Wu, "Place Promotion in Shanghai, PRC," *Cities* 17, no. 5 (2000): 349-61.

[33]Laurence J.C. Ma, "Urban Transformation in China, 1949-2000: A Review and Research Agenda," *Environment and Planning A* 34 (2002): 1545-69.

[34]Anthony C.O. Yeh and Fulong Wu, "The New Land Development Process and Urban Development in Chinese Cities," *International Journal of Urban and Regional Research* 20, no. 2 (1996): 400-421.

user now becomes a leaseholder. He/she will be granted the "right of alienation" for a period—usually forty years for industrial and commercial use and seventy years for residential use—as stipulated in the land lease. That is to say, the leaseholder can develop the land parcel according to land lease stipulations and dispose of the land parcel in full or in part on the open market.

Smith, in his analysis of land gentrification in inner city neighborhoods in the United States, introduces the concept of rent gap, which refers to the difference between the rent/price of a given land parcel under existing use and the rent/price of the land if it is redeveloped as a gentrified neighborhood.[35] In the Chinese case, land was previously given to the end users (i.e., the *danwei*) free of charge. Moreover, once assigned, land was taken out of circulation and hence commanded zero rent. However, the introduction of the land leasing system has re-commodified urban land. This has resulted in the reemergence of the urban rent gradient and produced huge rent gaps. This is because once the land parcel enters the market, there is the potential to capture the value of the land if it is redeveloped to its "highest and best" use.[36]

The existence of huge rent gaps means firstly that there are now substantial incentives for the individual enterprise to capitalize on the land it controls, so it redevelops the *danwei* compound either on its own or by forming a joint venture with a developer. In theory, prior approval by the planning and land administration bureau of the urban municipal government is required, and the enterprise concerned has to pay the former a land premium in order to convert the administratively granted land into leased land. In practice, however, large state enterprises are in a rather strong position vis-à-vis the municipal government to negotiate a good deal and pursue their own development plans. It is likely that project-specific urban

[35]Neil Smith, "Towards a Theory of Gentrification: A Back to the City Movement by Capital Not People," *Journal of the American Planning Association* 45 (1979): 538-48.

[36]Fulong Wu, "Urban Restructuring in China's Emerging Market Economy: Towards a Framework for Analysis," *International Journal of Urban and Regional Research* 21, no. 4 (1997): 640-63.

development characteristic of the pre-reform period will resurface under land marketization. In other words, piecemeal and uncoordinated urban development is as much an ingredient of the urban built environment in the new market setting as it was under the previous centrally planned economy. Clearly, the way in which the different parties—the individual *danwei*, the local municipal and district governments, and the developers—play the property development game and divide up the rent gap has far-reaching implications for urban development in China.[37] However, to date, very little has been written on how exactly the game is being played out. This is obviously an area that requires further research.

The rent gap also means that there are immense incentives for urban municipal governments to acquire land from rural collectives and to expand the city horizontally so that they can sell more land and generate more funds. Such a phenomenon may be termed "land feeding land." The law only requires the municipal government to pay the affected rural collectives or peasants the equivalent of a certain number of years of crop yield.[38] The rural collective or peasant concerned has to surrender the land to the municipal government upon requisition request. The amount the municipal government actually pays may be somewhat higher than the minimum required, but as a rule it will be far below the value of the land were it to be under urban use. Even this payment is not guaranteed, however. Often the municipal government just issues an IOU, something that has caused a tremendous sense of grievance among peasants.

Throughout the 1990s and early 2000s many cities have revised their master development plans, calling for the doubling, tripling, or even quadrupling of the built-up area of the city. Guangzhou has done this; so have Shenzhen and Zhuhai. The latter currently has a built-up area of one

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[37]Fulong Wu, "The Game of Landed-Property Production and Capital Circulation in China's Transitional Economy, with Reference to Shanghai," *Environment and Planning A* 31 (1999): 1757-71.

[38]Si-ming Li, "A Comparative Study of the Urban Land Use Patterns in Guangzhou and Hong Kong," in *Resources, Environment, and Regional Development*, ed. Chi-keung Leung, Chi-yung Jim, and Dakang Zuo (Hong Kong: Centre of Asian Studies, University of Hong Kong, 1989), 385-408.

hundred square kilometers, and the new master plan calls for further expansion to seven hundred square kilometers. Many large cities have also been active in enlarging their jurisdictions, annexing surrounding counties and county-level cities. Examples include the annexation of Panyu (**番禺市**; Panyu was given county-level city status around 1990, as were the other localities mentioned below) and Huadu (**花都市**) by Guangzhou; Shunde (**順德市**), Nanhai (**南海市**), and Gaohe (**高鶴縣**) by Foshan (**佛山市**); and Huiyang (**惠陽市**) by Huizhou (**惠州市**).

These moves have virtually obliterated the urban development plans drawn up by the annexed cities. For example, before annexation, all major transport networks in Panyu merged at Shiqiao (**市橋鎮**), then Panyu's city center. Since annexation, however, Panyu has become a district of Guangzhou, and there has been a deliberate attempt to reorient the transport networks and urban development as a whole toward Guangzhou's central business districts (CBDs).[39] Redefining the jurisdiction boundary obviously impinges on the course of urban development of the entire metropolitan area, and on the position of the metropolitan area in the national urban hierarchy. Currently, there is growing interest in the broader urban studies literature on how geographical relations are scaled. Given the magnitude of change that is taking place, a study of the changes in the administrative hierarchy in China and their urban development implications will certainly enrich theories of geographical scale.[40]

With the land leasing system, land-related revenues have become the single most important source of income for municipal governments, which were formerly deprived of development funds. In this way, it has mitigated some of the effects of the 1994 fiscal reform which enhanced the

[39]Traditionally, Guangzhou's city center was located near Haizhu (**海珠**) Bridge on the banks of the Pearl River. In the 1980s a new business center began to develop in the northeast corner of the city around the Garden Hotel. In the early 1990s the Guangzhou municipal government built a new CBD in the former eastern suburb of Tianhe (**天河區**) focusing on Guangzhou East Railway Station. Now the Guangzhou municipal government plans to build yet another CBD, Haizhu New Town, on the banks of the Pearl River to the south of the existing Tianhe CBD.

[40]Carolyn Cartier, "City-Space: Scale Relations and China's Spatial Administrative Hierarchy," in Ma and Wu, *Restructuring the Chinese City*, 39-58.

fiscal position of the center, largely at the expense of the localities. With income generated from land leasing, municipal governments are now in a much better position to finance all sorts of infrastructural development projects, so as to improve the business operation environment and the image of the city, with a view to attracting domestic and overseas investment. Of course, some of the funds generated through land sales are spent on showcase projects such as impressive government buildings that do little to serve local residents or to foster economic growth.

New Dimensions of Spatial Differentiation in Cities

In this section I discuss some emerging forces that are helping delineate China's new urban space. More specifically, I focus on three major dimensions: the scramble for building the headquarters economy and the emerging central business district (CBD), the rise of the urban middle class and the increasing prevalence of gated residential communities, and the plight of the new urban poor. Very little has been written on some of these topics, in particular the efforts of urban governments to build a headquarters economy and the coming of the auto age to China. The discussion below is meant to be speculative, with a view to highlighting important developmental trends as well as pointing to possible avenues of future research.

Headquarters Economy

The "world city" is an eye-catching concept, and urban governments in China have in recent years made strenuous attempts to position their cities as such. A major indicator of a city's position in the world city hierarchy is its ability to become either the corporate or regional headquarters of major enterprises, preferably multinational enterprises.[41] Recently, the term *zongbu jingj* (**總部經濟**) or "headquarters economy" has become

[41]John Friedmann, "The World City Hypothesis," *Development and Change* 17, no. 1 (1986): 69-83.

quite fashionable among Chinese scholars.[42] The various image-building endeavors of urban governments discussed above, which are aimed at attracting both domestic and international capital, can be seen as attempts to build a headquarters economy.

Certainly, underlying all these attempts is economic globalization, a major manifestation of which is the massive inflow of foreign direct investment (FDI) to China in recent years. Almost all of the world's major transnational corporations now have a presence in China. Their subsidiaries in China are called "foreign-funded enterprises" (FFEs). The enterprise reform of 1994, which made possible the formation of multi-location and even multinational enterprises in China, is also important. State-owned enterprises such as the China Petrochemical Corporation (Sinopec, **中國石油化工集團**) and Bank of China (BOC) groups (**中銀集團**), for example, have developed into major multinational enterprises. In addition, the 1994 reform also formally recognized private enterprises as an important constituent component of the "socialist market economy." The number of private enterprises has since grown by leaps and bounds. As of 2002, there were altogether 49,200 private industrial enterprises of substantial size in the country, as compared with 29,400 state-owned enterprises and 27,500 collectively-owned enterprises.[43] Some private enterprises have become major multi-plant, multi-location, and even multi-business corporations, employing tens of thousands of workers. A few are listed on the Shanghai and Hong Kong stock exchanges.

While there is a sizeable literature on headquarters location in the West,[44] relatively little is known about the choice of headquarters location

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[42]Li Jian, "Zongbu jingji yu quyu jingji fazhan yanjiu" (Studies on headquarters economy and regional economic development), *Jingji tansuo* (Economics Inquiry), 2004, no. 12: 16-17; and Zuo Liancun, "Guoji ziben liudong yu Guangzhou liyong waizi" (International capital flow and utilization of foreign capital in Guangzhou), *Guangzhoushi caimao guanli ganbu xueyuan xuebao* (Journal of Guangzhou Finance and Trade Management Institute), no. 72 (2004):16-20.

[43]*China Statistical Yearbook* (2003), 23.

[44]Donald Lyons and Scott Salmon, "World Cities, Multinational Corporations, and Urban Hierarchy: The Case of the United States," chap. 6 in *World Cities in a World System*, ed. Paul L. Knox and Peter J. Taylor (Cambridge: Cambridge University Press, 1995).

among Chinese firms. None the less, to a corporate giant, whether it is a transnational corporation based in the United States or Europe, or a major SOE or domestic private enterprise, corporate image is important. Having its own national headquarters located in one of the nation's premier cities, such as Beijing or Shanghai, and housed in an imposing high-rise, high-tech office tower is instrumental in enhancing its company image. These major companies generally also have their regional headquarters in urban hubs, such as Nanjing, Chengdu (**成都市**), and Xi'an (**西安市**). They are joined by second- and third-tier companies which also want to improve their company image.

The headquarters economy affects China's urban hierarchy. It also helps transform the urban landscape. Headquarters facilities include not only office space, but also a spectrum of related facilities: convention and exhibition centers, high-class hotels and restaurants, theaters and other entertainment centers, and luxurious condominiums. Today, the old commercial cores of major cities in China are rapidly evolving into modern CBDs, with high-rise office and hotel towers dominating the skyline. In many cities, attempts have been made by the municipal government to build brand-new CBDs, often in what were once the suburbs. An obvious example is the Pudong District (**浦東區**) of Shanghai. Guangzhou and Beijing have also built new financial and commercial districts.[45]

The Emerging Urban Middle Class

One of Deng Xiaoping's famous sayings was "let some people and some regions get rich first." In reform-era China, regional and income disparity has increased substantially. In the early phases of the reform the main beneficiaries were those who stayed outside the formal state sectors, particularly proprietors of small undertakings or *getihu* (**個體戶**), in addition to those who had access to inside connections and were able to profit from the dual price structure. The earnings of salaried staff remained

[45]Piper R. Gaubatz, "Globalization and the Development of New Central Business Districts in Beijing, Shanghai, and Guangzhou," in Ma and Wu, *Restructuring the Chinese City*, 98-121.

tightly controlled by the state. Thus, there occurred the phenomenon of *tilao daogua* (體勞倒掛) or "mental-manual reward reversal," whereby a surgeon might earn less than a barber.[46]

This situation has long since changed. Under the enterprise reform of 1994, SOEs were allowed to formulate their own remuneration packages. Today, enterprises in China—including SOEs, private enterprises, and FFEs—generally pay their management staff quite handsomely. Built into the remuneration packages of top managers are not only high salaries and handsome bonuses but also stock options that could be worth tens of thousands, if not millions, of RMB. Many firms are also willing to offer professionals and technicians quite high rates of pay and fringe benefits so as to attract high-caliber personnel. Monthly incomes exceeding RMB 10,000 are now quite common. According to a survey of human resources, the average monthly salary of managers in China is RMB 5,566. For those with a doctorate, the average is RMB 16,542, and for MBAs it is RMB 9,931.[47] To stay competitive, the *shiye danwei*, or government and quasi-government organizations, have also raised the salaries of their professional workers to comparable levels.

Thus, Chinese cities today are witnessing the emergence and rapid growth of a new urban middle class of managers and professionals.[48] With this comes urban consumerism and corresponding urban social and economic spaces: trendy stores, high-class restaurants and entertainment centers, etc.[49] Moreover, for the first time in the history of the PRC, housing choice, both in the sense of choosing where and what kind of dwelling to reside in and of deciding the appropriate form of tenure, has become a meaningful concept. As part of the housing reform measures that were introduced by the State Council in 1998, it was stipulated that beginning

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[46]Deborah S. Davis, "Inequalities and Stratification in the Nineties," in Lo, Pepper, and Tsui, *China Review 1995*, 19.1-25.

[47]*Xianggang jingji ribao* (Hong Kong Economic Journal), November 4, 2004. At the current rate of exchange, US$1 = RMB 8.1 approximately.

[48]Luigi Tomba, "Creating an Urban Middle Class: Social Engineering in Beijing," *The China Journal*, no. 51 (July 2004): 1-21.

[49]See note 45 above.

from 1999, the practice of welfare allocation of housing would cease. The SOEs and *shiye danwei* would no longer provide subsidized housing for rent, nor would they sell their housing to workers at highly discounted prices. Instead, individual workers would be asked to purchase directly from the market. At about the same time, reforms in the banking sector made mortgage loans readily available. To help them with their mortgage repayments, workers usually receive a housing subsidy on top of their monthly salary.[50]

The last two years of the twentieth century witnessed a massive disposal of *danwei* housing to sitting tenants, which resulted in a sudden surge in the rate of home ownership. The direct purchase of commodity housing on the market by individual families has dominated the housing scene in the early 2000s. An increasing proportion of such purchases are conducted through mortgage loans. The much increased income levels and the availability of mortgage loans encourage the new urban middle class to move out of the *danwei* compound to seek better housing in well-equipped housing estates and to become homeowners in the true sense. The conferment of full property rights to former buyers of *danwei* reform housing, which amounts to conferment of windfall profits, has facilitated this move.[51]

Gated residential estates comprising up-market condominium apartments and in some cases also townhouses and single family homes have been built to cater for the needs of the middle class and the new rich.[52] The arrival of the age of the private car, furthermore, has had a wide-ranging impact on the place where people live and the way cities are organized. Families in urban China today are eager to acquire the much increased

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[50]Youqin Huang, "Housing Markets, Government Behaviors, and Housing Choice: A Case Study of Three Cities in China," *Environment and Planning A* 36 (2004): 45-68.

[51]Deborah S. Davis, "The Non-economic Consequences of Chinese Housing Reform" (Paper presented at the International Conference on Managing Housing and Social Change, City University of Hong Kong, April 2001); and Li, "Housing Tenure and Residential Mobility in Urban China."

[52]Youqin Huang, "From Work-Unit Compounds to Gated Communities: Housing Inequality and Residential Segregation in Transitional Beijing," in Ma and Wu, *Restructuring the Chinese City*, 192-222.

mobility offered by the private car. Reports indicate that in the first half of 2004, more than a hundred thousand private cars were sold in Guangzhou.[53] Similar sales have been reported for Beijing, Shanghai, and other cities. With the availability of the private car and with much improved urban highway networks, people now have a much wider choice of residential locations. Meanwhile, American-style suburban shopping centers are making major inroads into the Chinese urban landscape. Detailed empirical studies are needed to ascertain how the availability of the private car has changed the spatial and housing preferences of individuals and households in urban China.

Ma argues that China urban studies should emphasize the continuously powerful Party-state as the ultimate decision-maker.[54] However, given the recent changes in the remuneration and housing provision systems, the increasing role of the individual and the household as a choice-maker in a market economy should not be discounted. Recently, there has been a growing interest in adopting the choice-theoretical framework for the study of residential location and relocation in Chinese cities.[55] Most studies to date are based on data collected prior to or just after the full implementation of the 1998-99 housing reform. As such, the bulk of research findings so far have failed to assign a central role to the individual or the household in housing location behavior. Li, for example, based on a household survey conducted in 1996, found that in the open-market sector in Guangzhou, which was probably the most mature in the country at that time, the income elasticity of housing demand was only 0.02.[56] Housing consumption in Guangzhou was hardly responsive to income change. Moreover, other important determinants of housing choice in market econ-

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[53]*Ming Pao* (Hong Kong), November 3, 2004.

[54]Ma, "Urban Transformation in China, 1949-2000," 1545-69.

[55]Li, "The Housing Market and Tenure Decision in Chinese Cities"; Li, "Housing Consumption in Urban China"; Li and Siu, "Residential Mobility and Urban Restructuring under Market Transition"; Li and Siu, "Commodity Housing Construction and Intra-Urban Migration in Beijing"; and Fulong Wu, "Intra-urban Residential Relocation in Shanghai: Modes and Stratification," *Environment and Planning A* 36 (2004): 7-25.

[56]Li, "The Housing Market and Tenure Decision in Chinese Cities."

omies, such as stage in the family life cycle,[57] also failed to manifest as significant variables in determining housing consumption in Guangzhou in the mid-1990s.

In order to have a better idea about how people choose their place of residence in a truly market setting, Wang and Li make use of the stated preference approach to elicit the choice behavior in Beijing and Guangzhou, respectively, today.[58] Their findings show that in Chinese cities there is a strong demand for central locations. The willingness to pay or bid price function falls off quite sharply away from the city center. In addition to accessibility to the city center, district or community reputation is also an important variable in the choice of residence. As expected, in a truly market setting, income is a highly significant variable structuring housing choice. In Guangzhou, for example, low income people are more reluctant to move to outlying areas, reflecting their reliance on public transport. Age also has a strong effect on location choice. More specifically, younger people generally prefer the new district of Tianhe, while older people are more concerned with neighborhood security and familiarity.

The New Urban Poor

The corporate reform, together with the massive influx of foreign capital and the rise of the private sector, has produced a new urban middle class. At the same time, however, it has also produced a new class of urban unemployed. Many long-serving workers have been sacked by SOEs under the pretext of "resource optimization." The Chinese use the term *xiagang* instead of *jiegu* (**解雇**, layoff) to describe this phenomenon, presumably because the former sounds less offensive.[59] The latter part

[57]William A.V. Clark and Frans M. Dieleman, *Households and Housing: Choice and Outcomes in the Housing Market* (New Brunswick, N.J.: Center for Urban Policy Research, Rutgers, State University of New Jersey, 1996).

[58]Donggen Wang and Si-ming Li, "Housing Preferences in a Transitional Housing System: The Case of Beijing, China," *Environment and Planning A* 36 (2004): 69-87; and Donggen Wang and Si-ming Li, "Housing Reform, Socioeconomic Differentials, and Stated Housing Preferences in Guangzhou, China," *Habitat International* (forthcoming).

[59]There is perhaps a fine difference between *xiagang* and layoff, as *xiagang* workers still

of the 1990s witnessed massive layoffs of SOE workers. Yu estimates that as of the end of 1998, the cumulative number of *xiagang* workers reached 30 million.[60] In one eastern suburb of Chengdu alone, reports hold that more than 140,000 workers are out of work.[61] Along with the recent influx of migrants, the *xiagang* workers and their families, who used to be protected under the *danwei* system, are fast becoming a new class of urban poor.

Retirees living on fixed pensions have a similar fate. High inflation, especially in the 1980s and early 1990s, has eroded much of the purchasing power of their pension income. Worse still, since the corporate reform, enterprises have been eager to dispose of their pension and other retirement benefit obligations. Bankruptcies and mergers mean that many enterprises have ceased to exist. Retirees of these enterprises no longer have a *danwei* to take care of their welfare needs. Many old people have thus joined the new urban poor.

For much of the 1980s and 1990s the Chinese urban housing reform focused on raising the rents of public housing (i.e., housing provided by the *danwei*) and selling it off at discounted prices to the workers.[62] Obviously, the *xiagang* workers and retirees had a hard time paying the ever escalating rents, let alone being able to buy the reform housing offered by the *danwei*. These residents became trapped in a dwindling stock of dilapidated *danwei* housing. Worse still, three or four years after "stepping down from duty," *xiagang* workers might even find themselves evicted from their former *danwei* premises and left homeless. An understanding of the plight of *xiagang* workers and retirees living on fixed pensions is central to depicting

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receive monetary payment, usually at no more than RMB 200 to 300 per month, and continue to be entitled to some in-kind benefits, such as housing, provided by the *danwei* for a number of years. See Yu Faming, *Xiagang zhigong laodong guanxi wenti toushi* (Perspectives on the problem of *xiagang* workers) (Beijing: Jingji kexue chubanshe, 2000).

[60]Ibid., 14.

[61]Peng Guo, Lin Hong, and Zhong Xiuling, "Cujin xiagang shiye renyuan zaijiuye de sikou yu duice" (Measures to provide jobs to the unemployed), *Tongji yu juece* (Statistics and Policymaking), no. 169 (2004): 62-63.

[62]Ya Ping Wang and Alan Murie, "Commercial Housing Development in Urban China," *Urban Studies* 36, no. 9 (1999): 1475-94.

the dimensions and forces underlying residential differentiation and segregation in urban China today.

Real-Estate Development as an Economic Growth Point

Municipal governments in China have assumed increasing importance in the delineation of local developmental paths. Yet this does not mean that one can ignore the central government in Beijing. In fact, the Party-state continues to play a dominating role in formulating policies that determine the growth trajectories of the national economy and that affect the livelihood of every individual in the country. One such policy which has immense implications for urban development is the identification of the real-estate sector as an economic anchor and growth point.

It has long been recognized, especially among Marxian writers, that real-estate development in general and housing construction in particular is closely tied to various productive sectors in the economy. Housing consumption stimulates the consumption of a variety of consumer durables: home furniture, electrical appliances, automobiles, etc. Baran and Sweezy have argued that the promotion of home ownership and suburban living, and hence investment in the urban built environment such as the construction of urban freeways, has been instrumental in solving the accumulation crisis in capitalism.[63] More specifically, home ownership promotion and suburbanization brought prolonged economic growth to the United States in the immediate postwar period. Harvey, in his theory of capital circuits, hypothesizes that in addition to the primary circuit of production and accumulation, there is a secondary circuit of fixed capital constituted by the urban built environment and its associated consumer durables.[64] On top of these two circuits there is a third circuit which involves the formation of human capital and the development of science and technology. Harvey

[63]Paul A. Baran and Paul M. Sweezy, *Monopoly Capital: An Essay on the American Economic and Social Order* (London: Penguin, 1966).

[64]Harvey, "The Urban Process under Capitalism," 101-31.

argues that in periods of accumulation crisis in the primary circuit, i.e., when the economy is in recession, there is a tendency for capital to switch from one circuit to another; in particular, from the primary circuit to the urban built environment. State institutions, including appropriate legal frameworks and the finance industry, which creates "fictitious capital," help facilitate this switch.

Although in the above theories the state is seen as an active agent in fostering the suburbanization process, governments in the West seldom openly acknowledge investment in the built environment or the promotion of home ownership as an economic policy tool. In the case of China, however, the State Council, in 1998, openly promulgated the idea of anchoring economic growth through the promotion of housing and related consumption, especially the purchase of private cars. This point was reiterated in subsequent policy statements, such as the report to the National People's Congress (NPC, **全國人民代表大會**) by Zeng Peiyan (**曾培炎**), head of the State Development and Planning Commission (**國家發展計畫委員會**), on March 6, 2002. State Council Circular No. 18 issued in 2003 reaffirmed the anchoring function of the real-estate industry in the national economy.[65] Typically, scholars in China attempt to support and elaborate state policies.[66] Examples of recent works by Chinese scholars that elaborate the policy of using housing as an economic anchor include those by Zhao Tong (**趙彤**)[67] and Yang Taikang (**楊太康**).[68]

China's real-estate industry in general, and housing construction in particular, has registered phenomenal growth in recent years. According to

[65]Gu Yunchang, "Weilai Zhongguo fangdichanye fazhan de tiaozhan yu jiyu" (Challenges and opportunities of the development of China's real-estate industry in future), *Chengshi kaifa* (Urban Development), 2004, no. 12:8-11.

[66]Wing-shing Tang, Si-ming Li, and Reginald Yin-wang Kwok, "Space, Place, and Region and the Study of Contemporary China," in *China's Regions, Polity, and Economy*, ed. Si-ming Li and Wing-shing Tang (Hong Kong: Chinese University Press, 2000), 3-34.

[67]Zhao Tong, "Ershiyi shiji Zhongguo jingji xinde zengzhangdian" (New growth points of the Chinese economy in the twenty-first century), *Jiaotong keji yu jingji* (Communications, Technology, & Economy) 6, no. 3 (2004): 70-71.

[68]Yang Taikang, "Xinyong yu shichanghua jingzheng: fangdichanye guifan fazhan de xindongyin" (Credit and marketized competition: new forces in regulating the development of the real-estate industry), *Jingji zongheng* (Economic Crossing), no. 179 (2004): 107-8.

Gu Yunchang (**顧雲昌**), whether in terms of the amount of investment, housing completions, or sales, the annual rate of growth was more than 20 percent throughout the period 1998-2003.[69] In fact, even before the 1998 housing reform, real-estate investment had already exhibited phenomenal growth.[70] Total housing floor space in cities increased from 1,130 million square meters in 1985 to 2,000 million square meters in 1990, 3,100 million square meters in 1995, and 4,410 million square meters in 2000.[71] In Shanghai, according to the 2000 Population Census, 36.8 percent of the housing stock was constructed in the 1980s, and a further 55.5 percent in the 1990s.[72] Similar astonishingly high figures were registered in Beijing and other major cities. It was pointed out above that most of the new housing was constructed in the form of *xiaoqu* or residential estates on the urban periphery. The central core in many cities, however, has also experienced extensive redevelopment.

It is subject to debate whether or not this massive increase in real-estate construction, and hence the rapid expansion of the city both horizontally and vertically, represents a switch of capital from the productive sectors to the urban built environment so as to mitigate the accumulation crisis.[73] Certainly, with the persistence of the soft budget constraint, periodic overaccumulation is even more pronounced in China's semi-marketized economy than it is in most capitalist economies. Above, it was argued that the investment hunger manifests as land hunger. Evidence so far suggests that instead of showing anti-cyclical movements, as is the case in most Western economies, real-estate speculation has contributed significantly to the overheating of the economy. Frenetic land speculation in an environment of investment hunger often results in exceedingly high

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[69]See note 65 above.

[70]Wu, "The Game of Landed-Property Production and Capital Circulation"; and Anne Haila, "Why is Shanghai Building a Giant Speculative Property Bubble?" *International Journal of Urban and Regional Research* 23, no. 3 (1999): 583-88.

[71]*China Statistical Yearbook* (2003), 394.

[72]National Bureau of Statistics, *Tabulation of the 2000 Population Census of the People's Republic of China* (Beijing: China Statistics Press, 2003), 1850-52.

[73]Wu, "Urban Restructuring in China's Emerging Market Economy."

levels of vacancies, huge tracts of abandoned agricultural land that are being hoarded by developers, half-completed development projects, and in short, chaotic and wasteful development.[74] This raises the question of economic and environmental sustainability. Currently, the Chinese government is attempting to contain growth in the real-estate sector so as to cool down the overheated economy.[75]

Conclusion

Chinese cities are growing exceedingly rapidly and are being transformed at a phenomenal rate. New economic and technological development zones, science parks, and university towns, as well as luxurious gated communities are springing up in the suburbs of almost every major city. At the same time, *danwei* compounds in the former outer rings of the built-up areas as well as the pre-1949 inner city cores are undergoing rapid redevelopment. Glossy office towers, high-rise condominium apartments, luxurious hotels, landscaped boulevards, and pedestrian malls are fast replacing the monotonous urban landscape that characterized pre-reform China. Urban consumerism is making a strong appearance. There is clear evidence that urban municipal governments are attempting to plan the city as a better place to live as well as a better place to anchor capital. Attempts have been made to give cities a modern and orderly appearance. However, order often ends abruptly in chaos. Sidewalks suddenly become motorcycle throughways, pedestrian subways are turned into vendors' paradises, and side-by-side with newly constructed luxurious housing estates equipped with swimming pools, tennis courts, and other amenities are the "villages-in-city," with their densely packed buildings of dubious legal status erected in a highly irregular manner and mixing industrial and resi-

[74]Koon-kwai Wong and Xiaobin Zhao, "The Bureaucratic Behavior on Land Apportionment in China: The Informal Process," *Environment and Planning C* 17 (1999): 113-26.

[75]*Xianggang jingji ribao*, March 17, 2005.

dential activities in an exceedingly unhygienic environment.

The Chinese urban landscape is vibrant, diverse, and at times confusing and puzzling. While urban development in general is path-dependent, in the case of Chinese cities a tour of the past is all the more important given the gradualist nature of the reform. The urban-rural divide associated with the *hukou* system, in conjunction with the possibility of suburban farmers appropriating potential rent gaps, contributes to the formation of the village-in-city. However, of greater importance is the persistence of the soft budget constraint. Investment hunger under land re-commodification manifests itself as land hunger. Urban governments in China are eager to capitalize on the rent gap produced by land re-commodification, and one way of doing this is to annex neighboring counties so as to enrich the land bank. SOEs, too, are eager to capitalize on the rent gap by redeveloping the *danwei* compounds for residential and commercial projects. Uncoordinated and piecemeal developments tied to capital investment projects characteristic of the pre-reform period have somehow resurfaced under land re-commodification. The investment and land hunger also results in frenetic real-estate speculation and pronounced periodicity in urban land development. This is further aggravated by the recognition of the real-estate industry and the associated promotion of car ownership as economic anchor points by the Chinese government.

The availability of land-related incomes allows urban municipal governments to undertake all sorts of place promotion and image-building projects: landscaped boulevards, pedestrian malls, sports centers, imposing public squares, etc. A major objective of presenting a modern and vibrant outlook is to attract international capital. However, place promotion projects are also targeted at the SOEs, which have undergone corporate transformation, and large private enterprises. The headquarters economy is seen to be a key to economic growth and gaining status in the urban hierarchy. The influx of FDI and the corporate reforms have also brought much wider income spreads and the formation of a new urban middle class. This, together with the housing reform of 1998-99 and reforms in the financial sector, has accorded the individual and the household a much greater role in deciding where to live and under what tenure form. Personal choice

adds a new dimension to the urban spatial form. At the same time, however, the widening income disparity and the increasing number of workers who have been laid off by the SOEs, who with retirees make up a rapidly ageing population, mean that large segments of China's urban population are now trapped in the dwindling stock of dilapidated *danwei* and pre-1949 housing. An uneasy and unstable juxtaposition of different socioeconomic spaces tends to characterize the Chinese urban mosaic today.

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