

Urban processes in the face of China's transition to a socialist market economy

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Abstract. In this paper the urban process in the face of China's transition to a market economy is examined from the perspective of political economy. Before economic reform, China operated a centrally planned economy. Production activities were organized on the basis of sectoral departments of the central government, and the reproduction of labour was carried out through self-contained development. The dominance of the state stemmed from its role in resource allocation. Economic reform, launched in 1978, introduced market mechanisms to urban processes in China. Through fiscal, housing, and land reforms decisionmaking was decentralized. Under so-called 'comprehensive development', municipalities are now required to organize urban development. The state has lost its dominant status in budgetary investment. Self-raised, extrabudgetary funds increased rapidly. Work units still extract surplus value efficiently but have had to become the major purchasers in housing markets because workers in the public sector cannot afford housing. The persistence of state ownership in the mode of production makes it unlikely that market forces will play a leading role in urban development in China.

1 Introduction

To date, most authors in urban planning and studies have noted that the socialist city can easily be distinguished from the city under a capitalist market economy (French and Hamilton, 1979; Grava, 1993; Miliutin, 1974). Chinese cities have been proven to be no exception (Kwok, 1981; Lo, 1980; 1987; Pannell and Welch, 1980; Xie and Costa, 1991). However, much attention has been paid to the built environment. For example, the intensity of land use at the city centre is relatively low (Dowall, 1993; Li and Chu, 1987; Lo, 1987) compared with that in the central business districts of capitalist cities. Explanations provided so far by other authors have been concentrated on the role of conscious planning action based on socialist planning principles (Fisher, 1962; Ma, 1979; Xie and Costa, 1993). The other side of the coin—the underlying urban process—has been neglected. It is argued in this paper that the distinct built environment was not arbitrarily configured by 'socialist planners' but evolved logically from a political economy, just as its capitalist counterparts evolved from a different political economy. The argument becomes much clearer from the theoretical development used to explain the formation of capitalist cities (Gore and Nicholson, 1991; Lake, 1983).

In this paper I use Harvey's (1978; 1985) definition of the urban process, which implies the creation of a material physical infrastructure for production, circulation, exchange, and consumption. A perspective of political economy is adopted to analyze the changing urbanization process in the face of China's transition to a socialist market economy. In the next section, the perspective of political economy taken and the resulting hypothesis is summarized, with particular emphasis on capital circuits in the urban process. In section 3, the urban process before economic reform is examined. In section 4 I focus on the changes that the economic reform has brought, and in sections 5 and 6 these changes are elaborated upon. Finally, in section 7 I discuss the contradiction of a socialist market economy.

2 Perspective and hypothesis

2.1 Perspective

The political economy approach can be dated back to the classical economists of the 18th and 19th centuries (Barnes, 1990), particularly to the work of Ricardo and Marx. The political economic approach sheds light on issues beyond pure economics; they are derived from political analysis. The central issues include value, production and reproduction, and distribution among social groups. Thus, a study of urban development should involve an analysis of the capitalist mode of production, which is a structure that articulates forces and relations of production including technical methods by which production is carried out and the social relationships between classes as defined in their role in directing and carrying out production (Hindess and Hirst, 1977). According to Harvey (1985), profit motivation is the basic impetus for urban development in capitalist cities. To create a more efficient arena for circulation, the city was built, and is continuously being destroyed and rebuilt. Capital, as argued by new Marxians, is the architect of urban spatial structure (Badcock, 1984). Thus, to understand the structure of the city, it is imperative to analyze the movement of capital. Harvey (1978) proposed that capital flows through a series of circuits. Surplus value is generated in production where capital moves in what is referred to as the primary circuit. The dynamics of urbanization is rooted in the shift of capital from the primary to the secondary circuit.

The significance of Harvey's capital circuits is that the theory links the built environment to commodity production. It reveals that urban construction is part of the total activity that is constrained by the capitalist mode of production. Second, the theory indicates the importance of analyzing capital movement as the shaping force of urban structure. Recently, limitations to the political economy approach have begun to be recognized (Sayer, 1992), yet I believe that it provides a useful perspective because the socialist government is constrained by its political economy when it selects alternative policies.

2.2 Hypothesis

My hypothesis can be stated as follows. In socialist China before the reforms, because of the mode of public ownership, production processes from which surplus value was extracted were highly centralized. After extraction the surplus value was allocated by the central government to various ministries for socialist construction, especially for industrialization, which became the dominant factor in the formation of the built environment. Because of the sectoral arrangement of resources, labour reproduction was self-contained and fragmented within work units. After the 1979 economic reforms, municipalities began to participate in labour reproduction. Market elements have been introduced in some sectors, such as the commercialization of housing. Yet without making changes to the mode of public ownership and the state work-unit system in production processes, the transition to a socialist market economy will promote neither economic efficiency nor social justice in the urban process.

3 The urban process under the centrally planned economy

Since 1949 China has established a socialist system and has operated a *centrally* planned economy. By centrally planned I mean that most economic decisions were made within the central government and then commands were sent down along administrative hierarchies to state work units. Basically, there are two routes for the transmission of decisions. One is the sectoral path, the other is the system of so-called 'territorial' organizations. In this process, the territorial organizations, or

the localities, play a limited role in terms of the organization of production and labour reproduction. The distinct features of its political economy can be summarized as the dominance of state ownership and a bureaucratic system of work units. The dominance of state ownership has been widely noted as the basic characteristic of a socialist system, but the system of work units still needs much exploration. Researchers have begun to recognize the importance of state work units (Perry and Wong, 1985; Walder, 1986; Whyte and Parish, 1984). [In the next section a number of issues will be discussed to see how these two features reinforce each other, which will lead to a generalized model of the urban process under a centrally planned economy.]

The dominance of state ownership is so distinctive that it has concealed the fragmentation within the system. The state controlled the main source of employment (figure 1), yet labour mobility was extremely low not only because of various residential permit systems imposed by the state (Bornstein, 1985) but also because of the rigidity of personnel management.

Urban land was administratively ‘allocated’ without payment, tax, or rent (Nan and Xiao, 1992), yet the municipal real-estate bureau could control only a limited percentage of urban land. Most urban land was occupied by state work units (table 1). In fact, new urban land was converted from rural land by the work units themselves after obtaining a nominal approval from the municipal planning bureau. Municipalities did *not* allocate land to work units.

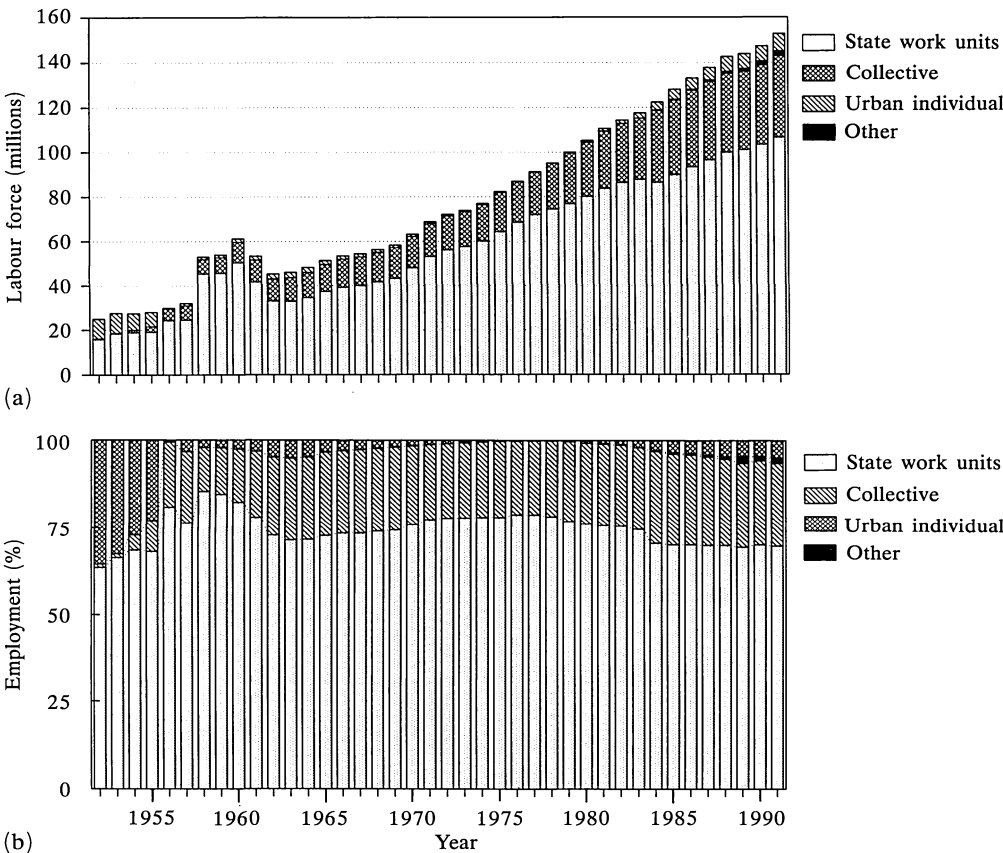


Figure 1. (a) Growth and (b) structure of urban employment in China, 1952–91.

Table 1. The structure of land ownership in Shanghai in 1982 (source: Gao, 1987).

	Area (thousand mu ^a)	Percentage
Private housing site	20	11.8
Agricultural land of people's commune	30	17.6
Land of state work-units	100	58.8
Land of municipality bureau of real estate	19	11.2
Other	1	0.6
Total	170	100

^a 15 mu = 1 ha.

The same was true of the allocation of production materials. Important materials were allocated by the state, and the approval of large investment projects was also controlled by the state planning commission (tables 2 and 3).

After the 1956 socialist transformation the quantity of private housing was drastically reduced. In Changsha the figure decreased from 64.6% of total housing in 1949 to 13.7% in 1975 (figure 2) (Zhang et al, 1992), and in Xian it decreased from nearly 100% to only 10% in 1985 (Y P Wang, 1993). But the 1985 national survey of housing revealed that the municipal housing bureau owned only 9% of housing stock; state work units occupied 75% of the total. In fact, reproduction of labour was carried out through self-contained and project-specific development.

Investment in projects was divided into productive investment (PI) and non-productive investment (NPI) (for a definition, see State Statistical Bureau, 1992). The division of PI and NPI was not a simple matter of statistics but reflected the nature of the political economy. The PI was controlled on a sectoral basis to maintain effective production, then NPI was allocated proportionally to guarantee that labour was always available for state construction. The state deliberately reduced NPI to ensure maximum productivity. Before 1979 the NPI did not exceed 20% (figure 3).

Table 2. The percentage of key materials allocated by the state (source: World Bank, 1990, page 61).

Material	1979	1984	1988
Steel	77.0	66.0	46.0
Timber	85.0	40.0	25.9
Coal	58.9	50.0	43.5
Cement	35.7	25.0	13.6

Table 3. Investment limits (in million yuan) of projects that can be approved by provincial governments. Projects above the limit should be approved by central government (source: World Bank 1990).

	Provincial government	State Planning Commission (central government)
Before end of 1984	< 10	> 10
From 1985 to February 1987	< 30	> 30
From March 1987 to December 1989		
general	< 50	> 50
energy, materials, and transportation	< 50	> 50
From 1990	< 30	> 30

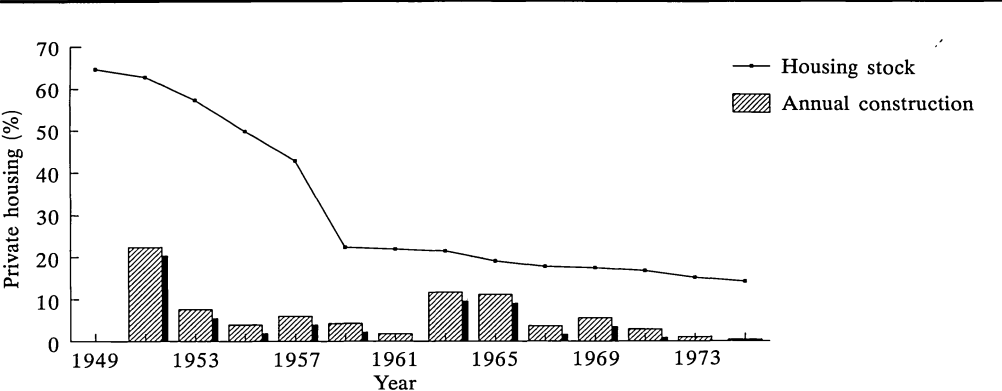


Figure 2. Changes to the ownership structure of housing in Changsha, 1949–75.

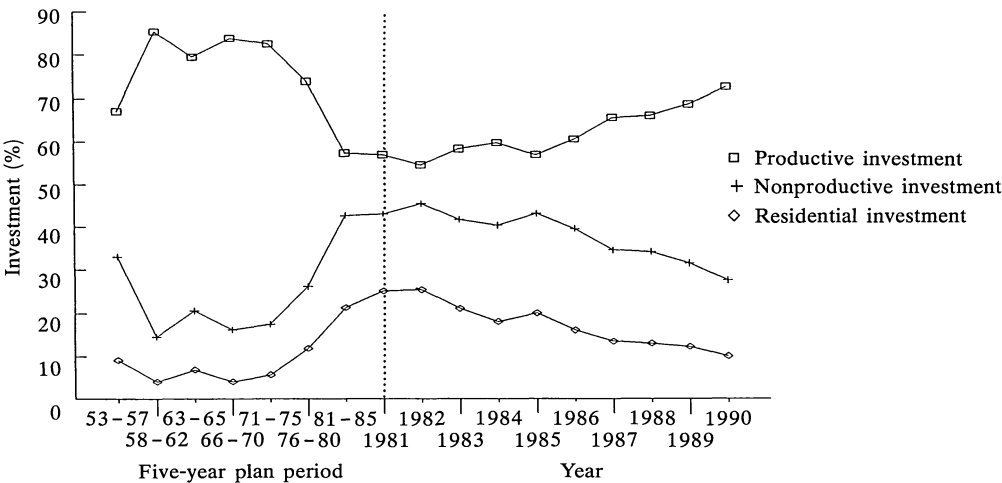


Figure 3. Changes in the levels of productive and nonproductive investment in China, 1953–90.

The importance of state work units in the organization of production and reproduction was obvious. Most enterprises were owned by the state and managed by various sectoral departments of the central government. Under the socialist fiscal policy, enterprises were required to turn over all profits to their supervisory government agencies to receive investment later from respective government departments in accordance with the five-year and annual plans.

The revenue of local government was limited. Investment in the reproduction of labour came from a higher administrative level, through the NPI, and was dependent on the PI. The situation continues in some cities. In Nanjing, from 1979 to 1989 state investment formed 70% of total investment, whereas the municipality invested only about 22%. The gross value of industrial output (GVIO) of large and medium-sized enterprises belonging to central government accounted for 60%–90% of total GVIO (Cui and Wu, 1991). This feature of fragmented reproduction of labour is in contrast to the collective consumption in capitalist cities (Castells, 1977). A natural question to ask, though, is why the socialist system placed the state work units into a position of such importance. The answer to the above question is related to the economic growth strategy, which was characterized by high rates of accumulation (Chan, 1992). The rate of accumulation for most years has been over 25%, with the

highest reaching 43.8%, which is much higher than that of other socialist countries such as the former Soviet Union. The strategy has had a profound impact on urbanization in China. The socialist logic of economic development, argued by Chan (1992), is to maximize industrialization and to minimize the cost of urbanization. One measure is to suppress the expansion of urban service employment and promote the self-contained method of reproduction of labour. The number of retail, catering, and service trade units, measured by number per capita and total number, decreased after 1949, and reached its lowest point in 1978. Other evidence is provided by the decreasing standards of housing. A survey of six large cities in China showed that the area of living-floor-space per capita decreased from around 4 m² in 1949 to 3 m² in 1965, the year before the Cultural Revolution (1966–76) (figure 4). To endow work units with responsibility to reproduce labour by themselves is a possible way of preventing a wanton increase in the cost of reproducing labour power. Thus the surplus value would not be shared by those departments of nonmaterial production.

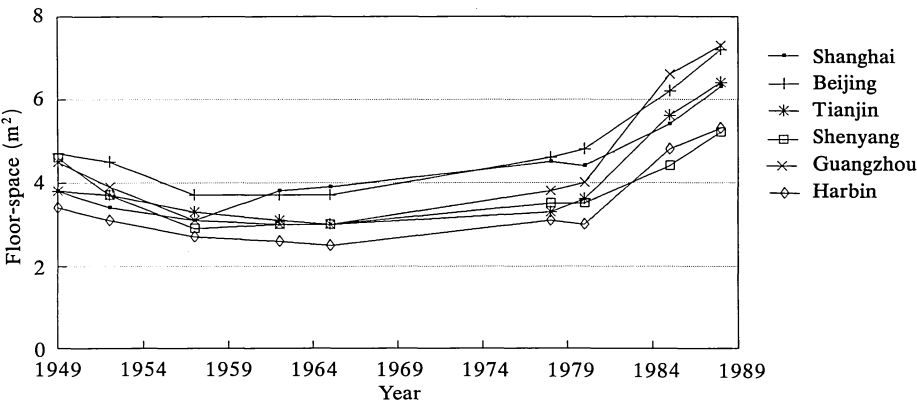


Figure 4. Changes in living-floor-space per capita in selected cities, 1949–88.

The high accumulation strategy was workable because before 1978 labour compensation was low. The wage, as reported by the World Bank (1992), was virtually static. The giving of in-kind benefits and rationing for basic goods were practised extensively. The national price policy monopolized agricultural products and set a very low price. The largest living expense was food, whereas rent took no more than 2% of expenditure and since 1983 has been decreasing (table 4). Rent collected was inadequate to cover even the minimal costs of maintenance. Housing was invested through capital construction investment (CCI) allocated to work units from the state.

In addition, the system of work units proved to be the most stable and static system, able to concentrate surplus value and finally to produce central authority. The cadres on various levels of work units were integrated by the role of resource allocation.

From the above discussion I will now generalize a model of the urbanization process. The political economy of socialist cities in China may be viewed more clearly through a set of money circuits (figure 5). The interaction occurred mainly between the state and the work units. Work units effectively extracted surplus value from the production circuit and turned over most of the surplus (m) to the state, and the state would later relocate the capital [both productive and nonproductive investment, and wages ($c + v$)] to the work units. The allocation was based on the

principle of so-called ‘comprehensive balance’ that defines development priority and the ratio among various sectors. The work units received money investments to reproduce labour and to continue production. Labourers received a very low wage (v), which was mainly for food and clothes. Some of these consumer goods were provided through the municipality at very low prices and were heavily subsidized. However, most services, such as housing, medical care, catering, education, and recreation, were provided directly from the work units (most work units still organize a ‘spring tour’ and an ‘autumn tour’). In other words, the capital investment from the state was divided into PI plus NPI, and wages, v . Because wages were very low, the municipality had virtually no financial capacity to provide social services.

Table 4. Changes in the pattern of private expenditure (in yuans per person) in urban China, 1957–90 (sources: State Statistical Bureau, 1986; 1991).

Year	Total	Food	Clothing	Daily articles	Rent	Water and electricity	Trans- portation	Rent as % of total
1957	222.00	129.72	26.64	12.20	5.16	3.24	5.01	2.32
1964	220.68	130.68	24.24	13.20	5.76	3.84	3.21	2.61
1981	456.84	258.84	67.56	43.68	6.36	4.44	5.12	1.39
1982	471.00	276.24	67.68	43.44	7.08	5.04	6.6	1.50
1983	505.92	299.52	73.56	45.72	7.68	5.76	6.96	1.52
1984	559.44	324.24	86.88	50.64	7.80	6.24	7.56	1.39
1985	732.24	390.36	112.32	81.48	7.92	7.56	8.4	1.08
1986	798.96	418.92	113.04	88.92	7.20	8.88	8.4	0.90
1987	884.40	472.93	121.09	100.57	7.74	10.32	9.1	0.88
1988	1103.98	567.01	153.21	148.62	7.83	12.32	9.12	0.71
1989	1210.95	659.96	149.15	133.97	8.82	16.2	10.16	0.73
1990	1278.89	693.72	170.88	129.12	9.36	19.8	13.52	0.73

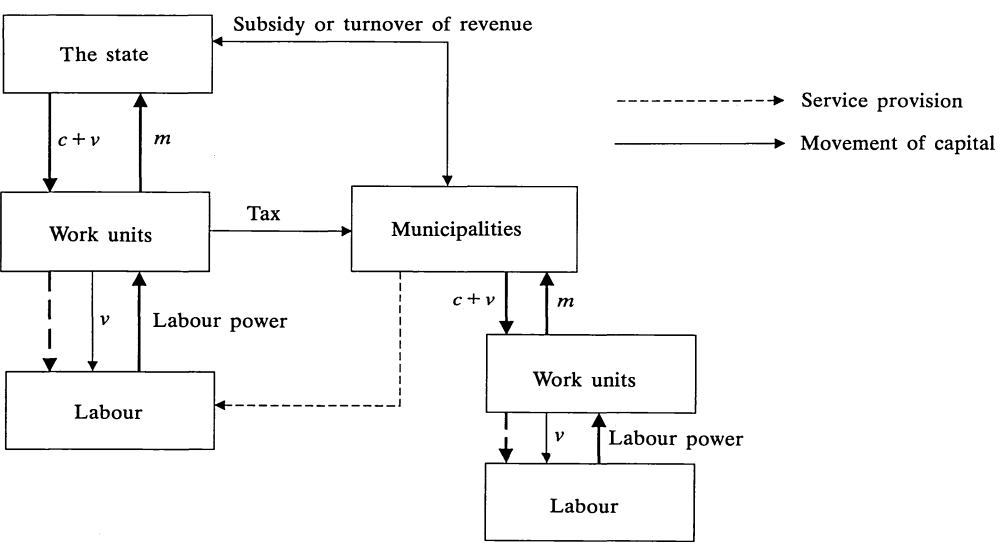


Figure 5. Movements of money in urbanization processes before economic reform in China. Note: the thickness of the arrows refers to the importance of the interaction; the thicker the line the more important the interaction; c , capital (productive plus nonproductive investment); m , surplus; v , wages.

Municipalities in the socialist state play a very complicated role. They have two different functions. One is the provision of infrastructure to accommodate industrial projects from the state, which is somewhat similar to the function of municipalities in a market economy. Yet this role is rather limited. The other role is as organizer of production and in this respect the municipalities are similar to the state. Municipalities own enterprises as does the state. They collect profits from enterprises in the municipality and investment in them. As in the case of the state the investment is divided into PI and NPI. After receiving all surplus from enterprises, they should turn over a certain proportion to the state. However, when there is a need to construct municipal infrastructure both for state enterprises and for municipal enterprises, municipalities receive investment capital from the state. This investment is managed under specific items in the national account. As services are provided at prices too low even to cover the costs there is a lack of incentives to build service facilities and there is much conflict in the construction of such facilities in the municipalities. A municipality is reluctant to invest local revenue for state enterprises. The inadequate provision of services in turn reinforces project-specific development. In other words, to facilitate production, each project has to provide for investment in services and infrastructure.

Before economic reform, municipalities played essentially a very limited role in the organization of production and reproduction activities. For example, the municipality could not intervene in the internal land use of those enterprises belonging to central government. Land-use management in China was in fact achieved through the management of industrial locations. Site selection thus became a critical step in shaping an ideal urban structure. In other words, land-use planning did not directly operate on the land plots but rather on development projects. This process has shaped Chinese cities differently from Western cities in many respects, as revealed by numerous studies, as mentioned above (Dowall, 1993; Kwok, 1981; Li and Chu, 1987; Lo, 1980; 1987; Ma, 1979; Pannell and Welch, 1980; Xie and Costa, 1991).

4 Economic reform and the changing political economy

The Third Plenary Session of the 11th National Congress of the Chinese Communist Party (CCP) launched a series of reforms and opened China to the outside world. The economic reform introduced markets to China. Ever since, the political economy has been in transition from a centrally planned economy to a socialist market economy. By socialist market, I mean that the public ownership of the means of production and the distribution principle of 'to each according to his work' play a dominant role, whereas other economic sectors and forms of distribution play supplementary roles (*China Daily* 1993); the production of consumption materials is privatized.

In the beginning, the reformists upheld a pragmatic view about markets, which perhaps could be best generalized by Deng Xiaoping's words—"no matter a black or white cat, it is a good cat as long as it can catch a mouse". In 1987, former Prime Minister Zhao Ziyang generalized the strategy of the reform as, "the state regulates the market and the market guides enterprises". The strategy eventually led to a dual-track system with the coexistence of plan and market (Smith, 1989). In the 14th National Congress of the CCP, Jiang Zemin, the general secretary of the CCP, announced "the acceleration of economic reform while establishing a socialist market economy" (Jiang, 1992, page 1). Although China speeded up decontrol and let the market play an increasingly greater role in regulating the nation's economy, the basic socialist system remained unchanged. The reform of state enterprises lagged behind other reforms. Privatization of state property needed to be slow in

order to prevent social disturbances. Redistribution of social wealth was to be carried out within the scope of public endurance (Zhou and Yin, 1993). As will be shown in the following discussion, the continuation of the work unit system has become one of the obstacles in the way of further economic reforms.

From the perspective of political economy, what has changed in China since the initiation of economic reform? First, the generation of surplus value remains unchanged in the sense that there has been no substantial increase in wages. Yet the movement of money has been changed. Because of the fiscal deficit of the state, fiscal policy has significantly changed. Revenue collection and expenditure have become decentralized. Local governments have begun to undertake production organization. Second, local governments are sharing an increasingly greater portion of the surplus because they have begun to participate in the process of reproduction of labour. So-called 'comprehensive development' is encouraged in which municipalities develop housing and service facilities and encourage work units to 'purchase' such facilities from them. More recently, real-estate markets that have evolved from the comprehensive development have been formed. A new urban process thus has emerged in China (figure 6). In the following sections these two aspects will be examined.

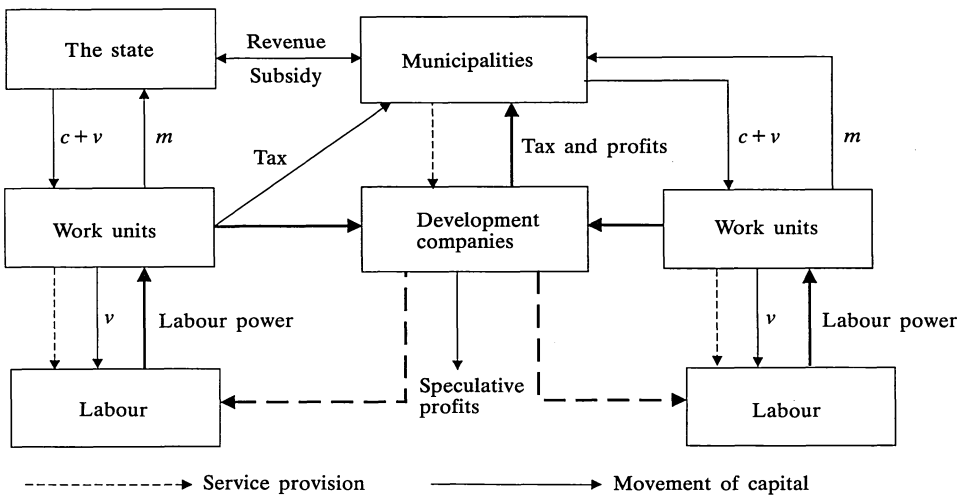


Figure 6. Movements of money in urbanization processes after economic reform in China. Note: see figure 5.

5 Fiscal deficit and decentralization of investment

In this section, I will first review fiscal policies in China since 1949, and then show how fiscal deficit in 1979 triggered off a series of fiscal reforms and eventually led to decentralization of investment. As a result, in the money circuits in the organization of production, the municipalities as localities became more important than before.

Since 1949 China has adopted a highly centralized fiscal policy. Local revenues have been centralized to the central government and then redistributed through the state budget. This policy has guaranteed that the central government could carry out effectively its development priorities and initiate large key projects in interior regions and redistribute national productive forces. Through economic planning, the central government could control national expenditure. However, the policy has

also brought some side effects. Local governments became indifferent toward economic development, and capital was used inefficiently. Precious capital was turned over and allocated, taking a long time to circulate, and could not be put into PI when economic development required it.

There were efforts to relax central control during the ‘Great Leap Forward’ (1958–60) and the economic adjustment period (1971–74). However, these efforts were not successful because decentralization soon led to overheating of the economy, redundant construction, blocked resources, and localism. Local governments used discrete funds to invest in those projects that could generate more local revenue regardless of comparative advantages. Under the planned economy, prices were distorted and did not reflect resource scarcity and contribution to the national economy. Therefore those projects vigorously invested in by local governments could not lead to a balanced growth in the national economy. When these problems became very serious, the central government had to adopt recentralized policies to return to stable economic growth and to emphasize central authority. Thus economic growth in China has witnessed cyclic changes, from relaxation of control to rapid growth, and then from overheating to tight control. Generally, before economic reform, the characteristic of fiscal policy required all revenue to be concentrated in the central government and redistributed on the basis of the state budget (*tongshou tongzhi*). If revenues exceed expenditure, local governments can retain a certain portion to arrange investment by themselves, but the capital under the authority of local governments is very limited.

Since 1979, because of the adoption of a series of reform policies, state expenditure has increased greatly. In that year the state raised the prices of agricultural products, adjusted the wages of workers, and arranged assistance for unemployed urban youth. The state deficit reached 17.06 billion yuan at the end of 1979 (figure 7). The central government tried to disperse the burden of this deficit to local governments. Local governments were allowed greater discretion to arrange revenues, yet at the same time some expenditure items were required of them.

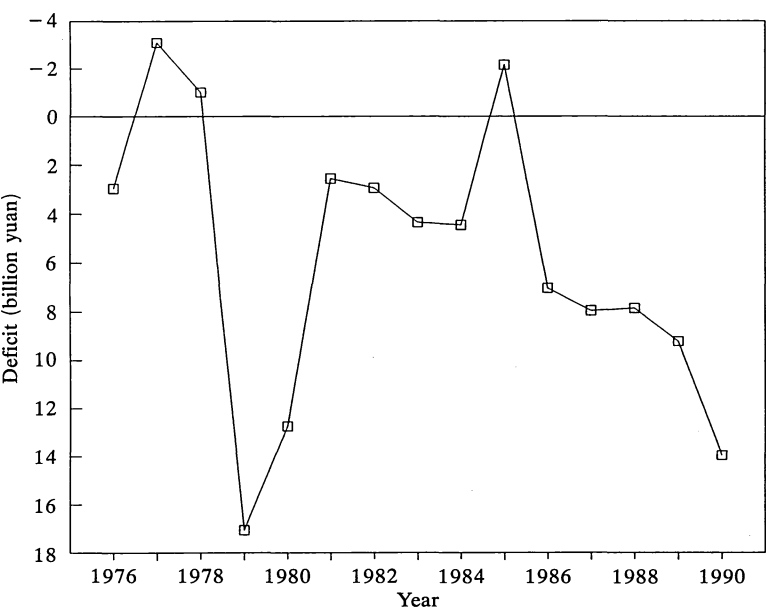


Figure 7. The state fiscal deficit, 1976–90.

The new fiscal policy could be generalized as a division of responsibility for revenues and expenditure. The organization of production was shifted from ministries in central government to provinces and municipalities. The revenues were divided into three categories, namely, the fixed revenue, the fixed portion of revenue, and additional revenue.⁽¹⁾ The expenditure was divided on the basis of administrative subordination. If local revenues surpassed local expenditure, a certain proportion of the surplus was to be submitted to the central government. If local revenues were less than local expenditure, the central government would reallocate a certain proportion to make up the deficiency. The proportion divided between the central government and local governments would be set on the basis of the current fiscal situation and would not be changed during the subsequent five years. Thus, those local governments that raised more revenue were able to spend more. Jiangsu province submitted 58% of its revenue to the central government in 1977, and in 1978 it submitted 61%. The proportion was not changed after that.

From 1985 to 1987 the fiscal policy was modified. The new policy emphasized the integration of responsibility with rights and encouraged local governments to open up revenue sources and to reduce expenditure. First, the new scheme divided revenues into fixed central revenue, fixed local revenue, and shared revenue. The division of revenue items clearly stated the rights of local government for the first time. Before the adoption of this policy, there was much bargaining between central and local government during the economic planning and implementation of the budget. Second, the base of revenue and expenditure was resettled according to the 1983 figures. The fiscal policy of 1979 greatly increased the incentives of local governments to use the revenue they generated themselves and improved their fiscal situation. As local revenues increased, the central government thought it was time to increase the minimal base to be turned over to the state. Third, local governments were to try to establish a fiscal balance by themselves. After the base was set up, they were responsible for managing revenues and expenditure. In the following years, the central revenues occupied an average of 39% of the total revenue received and 43% of fiscal expenditure (Dai and Xu, 1992). Since 1988 the fiscal policy has continued and improved. Various schemes have been invented to meet different local situations.

Although the fiscal reform has improved the national fiscal situation, the deficit is still a serious problem, reaching 13.96 billion yuan in 1990. The loss of state enterprises and subsidies to urban residents amounted to one third of national expenditure in the late 1980s. About one third of state enterprises operate in financial deficit. Four indexes are applied in China to measure the efficiency of an enterprise: profit per 100 yuan of fixed assets, the ratio of profit to investment, the

⁽¹⁾ The fixed revenue is the revenue fixed by central government, which is used by local government. Because the revenue was fixed in terms of sources and amount, local governments did not make efforts to find new sources of revenue or collect more revenue, because if more revenue was collected, the part that surpassed the fixed amount would have to be turned over to the central government. Thus a so-called fixed portion of revenue was proposed. A certain fixed proportion of the revenue was to be partially used by local governments. The more revenue that was collected, the more local governments could use. But among the newly opened revenue sources, local government could only retain a certain proportion. The policy encouraged local government to open different sources of revenue and to raise more revenue. The additional revenue was the new revenue opened by local governments and totally used by local governments. The central government gave total discretion to local government for the collection of the revenue. For example, if investment for some projects come totally from the self-raised funds of local governments, revenue raised from the projects could be retained by local government as additional revenue.

ratio of tax to investment, and the ratio of profit to output value. Compared with the 1979 figures, the four indexes in 1990 decreased by 31.07%, 61.65%, 35.54%, and 38.86%, respectively (Cheng, 1992). The loss of state enterprises reduced the revenue sources. The state will have to make up these losses from the enterprises by subsidizing them through expenditure.

Along with the continuation of economic reform, the financial problem has become a serious factor that hinders the success of changing from a planned economy to a market economy. The financial deficit rose to 23.75 billion yuan (US\$4.1 billion) in 1992. If debts are also taken into account, the deficit in 1992 was 90.5 billion yuan (US\$16 billion), accounting for 3.8% of that year's gross national product (X Y Wang, 1993). In July 1993, the central government launched a series of macroeconomic measures, including the tightening of credit controls, eliminating unlawful real-estate dealing, and closing down chaotically operated development zones. It became clear that the fiscal system urgently needed to deepen the reform measures. A reform package was introduced in China in 1993 during the 3rd Plenum of the 14th Central Committee of the CCP to set up a central and a local taxation system. Those taxes relating to macro regulations are to become central taxes and those closely related to local economies are to become local taxes. The central finance department is to set up special funds for economic construction to help local governments build public utilities where they seem necessary.

The fiscal reform has had profound implications. First, local revenues increased rapidly. The proportion of local revenue in total revenue also increased. Local governments now have more discretion to arrange investment and to promote regional economies. Yet the fiscal reform has also encouraged local government to expand production without considering the efficient use of resources. Most projects have been concentrated on light industries that may produce more profit. Those provinces that have resources now try to set up factories by themselves to agglomerate and ramify production instead of supplying to those regions that have a higher level of technology. The problem of duplication of production has emerged. The specialization of regional economies has been neglected and even retrogressed. Localism has become a serious problem. Such a situation is referred to by Chinese economists as a 'duke economy', where provinces seem to be independent kingdoms.

In addition, the role of the state budget has diminished. The budgetary revenues decreased from 76.4% in 1978 to 53.6% in 1990. The change of composition of state revenues indicates that about half of the revenues come from extrabudgetary sources, and the role of the central government in direct capital allocation is decreasing. As a result, investment sources are diversified. The CCI of state enterprises comes largely from extrabudgetary sources (table 5). In 1990 only 21.34% of total CCI was issued from the state budget. If other forms of ownership were to be taken into account, the portion of capital that is controlled by economic planning would be even smaller. One indicator is the investment in fixed assets of the whole society (IFAWS), which refers to the amount of work done in construction and purchase of fixed assets, each expressed in monetary terms. In accordance with China's planning management system, the IFAWS includes four parts, namely, investment in fixed assets of state-owned enterprises, investment of collectively owned enterprises, investment in housing by individuals in cities and towns, and investment in fixed assets by individuals in rural areas. In 1957 the state budget occupied 88.2% of the IFAWS. The percentage remained as high as 62.2% in 1978. However, it decreased dramatically to only 6.8% in 1991.

Self-raised funds (SRF) (*zhichou zijin*) are an important source of IFAWS. The ratio of state budgetary funds to SRF changed from 1.94:1 in 1978 to 0.26:1 in 1985, and to 0.13:1 in 1991 (State Statistical Bureau, 1992). SRF refers to the funds raised through various ways by work units themselves, including the retention of profits of those projects outside budgetary control, short-term liabilities, and bonds from staff. SRF, unlike stocks and mutual funds in a market economy, cannot be transacted. Although a stock market has recently been vigorously tested in China, the capital from the stock market still does not form the main part of investment available. In perfectly competitive markets, production factors are allocated to reach an equilibrium such that marginal output in different areas will be equal. Capital flows from one area to another area that has a higher marginal output. However, SRF does not follow such a market mechanism, for there is no way for the funds to be traded to other users. Not uncommonly, such funds are collected through methods in a 'grey area' that avoids monitoring by the state auditing system. It is in the work units' interest to hide the funds they collect. Thus, the mushrooming of SRF is the legacy of the planned economy in its current transition period. Centrally planned control has been relaxed, yet a market mechanism has not been fully set up to fill the vacuum.

Table 5. Changes in the composition of state revenue and capital construction investment (CCI), 1978–90 (source: State Statistical Bureau, 1992).

Year	Extrabudgetary revenue		State budget investment in CCI	
	billion yuan	percentage	billion yuan	percentage
1978	34.71	23.26	38.92	77.82
1979	45.29	29.8	39.69	75.82
1980	55.74	34.8	30.01	53.69
1981	60.11	37.2	22.26	50.26
1982	80.27	42.5	23.25	41.85
1983	96.77	44.4	29.60	49.82
1984	118.85	44.8	35.97	48.40
1985	153.00	45.4	38.12	35.48
1986	173.73	44.3	41.74	35.49
1987	202.88	47.3	43.85	32.65
1988	227.00	47.7	38.17	24.25
1989	265.88	48.7	32.33	20.84
1990	270.86	46.4	36.36	21.34

6 Comprehensive development and the establishment of a real-estate market

In this section I will show that comprehensive development has for the first time led to municipalities being a factor in labour reproduction. The establishment of a real-estate market has transformed the internal circuits between work units and labourers into triangular interactions, by adding a third component—development companies, which are to a certain extent influenced more by the municipality than by the sectoral departments of the central government.

In the early 1980s it was begun to be recognized that China needed to establish a real-estate market. There are several reasons for this need. First, as nonproductive sectors, housing and services have been neglected for a long time. In the late 1970s the housing shortage became a serious problem. It was thought that the commercialization of housing could ease the problem. Second, self-contained development wastes resources. Work units built their own residences, hindering the development of a national architectural industry. Third, free land allocation leads

to the occupation of more land than is needed. Fourth, since the decision to form a decentralized economy and to take development initiatives it has become difficult to manage various projects. The previous project-specific management is no longer feasible. As well as the above considerations, two practical reasons may have provided the impetus for change. First, housing investment became a burden on national fiscal expenditures. As individuals' incomes increased, more money was spent on food, clothes, and household appliances, which has led to a rise in the price of consumer goods. Housing reform has been an attempt to channel household saving into housing investment. Second, since 1979, joint ventures were set up. The Law of Sino-Foreign Joint Venture, enacted in 1979, stipulated that a land occupation fee should be charged. Land was for the first time considered as a production factor.

The commercialization of housing began in 1982. Old housing was sold to individuals at discount prices, and rent was raised to stimulate individuals to buy housing. However, because the gap between housing prices and wages still remained great, the demand for housing by individuals has been limited. The area of floor-space of commercial housing sold in 1992 reached 38.122 million m², among which 12.49 million m² were sold to individuals. The percentage of housing bought by individuals has been low, 38.2% nationwide in 1992 (table 6). Work units have become the major customer in housing markets. In Shanghai before 1984 most commercial housing was supplied through state construction. However, after 1984 real-estate companies became the major suppliers (figure 8). Thereafter, the sale of commercial housing increased rapidly (figure 9). Nevertheless, most commercial housing was sold to work units. Only 15% was sold to individuals, of which 63% was sold at full market prices (figure 10).

Land privatization began in 1987. To be less politically sensitive, a land-lease system was adopted. The state authorizes municipalities to transfer land-use rights to land users through payment. The user rights can be transacted in markets later.

Table 6. The sale of commecial housing in major cities in China, 1992 (source: *Nanfang Real Estate* 1993, page 15).

	Total sold (thousands m ²)	Prices to individuals	
		percentage	yuan m ⁻²
Beijing	1530.2	5.93	1612.65
Tianjin	434.5	18.90	1109.85
Shanghai	603.0	22.27	1630.37
Shenyang	790.8	12.36	1138.37
Dalian	818.6	20.81	1247.86
Changchun	346.7	13.55	1278.74
Haerbin	606.1	18.49	1550.00
Nanjing	248.0	5.60	1524.32
Ninbo	438.8	41.44	681.41
Xiamen	202.3	55.25	2455.38
Qindao	350.9	18.75	912.78
Wuhan	388.6	16.45	733.99
Guangzhou	1448.3	55.40	1513.14
Shenzhen	1157.9	36.48	2751.13
Chengdu	654.3	10.15	710.11
Chongqin	167.9	21.39	851.04
Xian	249.7	19.77	752.56
China	38122.1	38.19	

Three methods of transfer are adopted: negotiation, bid, and auction. Until now, land has been transferred overwhelmingly through negotiation. This method is preferred by local governments because it gives maximum security. The premium obtained is divided between central and local government. Foreign investors have been one of the major customers in land markets. Hence, local governments try to

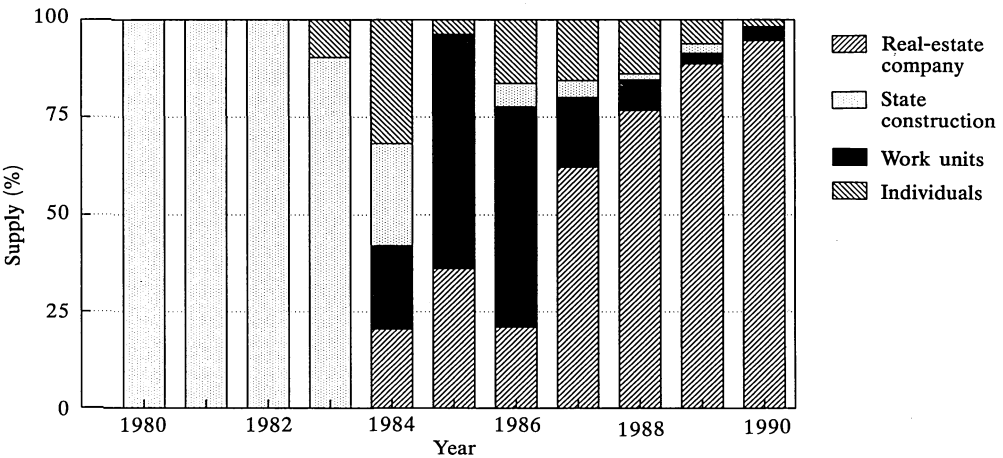


Figure 8. The supply of commercial housing in Shanghai, 1980–90.

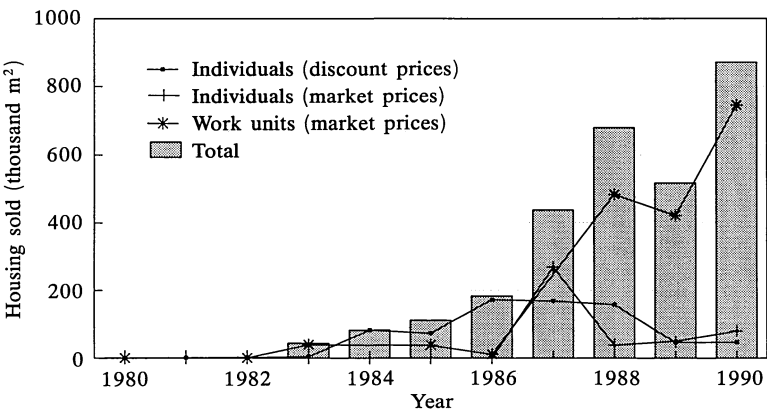


Figure 9. The sale of commercial housing in Shanghai, 1980–90.

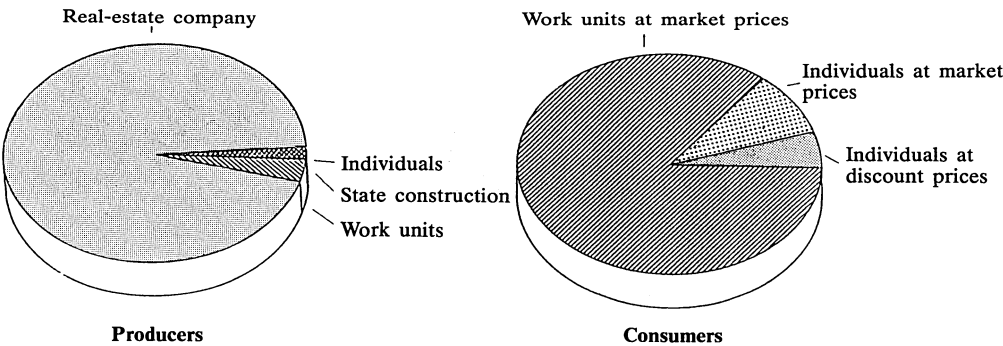


Figure 10. Producers and consumers of commercial housing in Shanghai, 1990.

conceal the actual revenues as much as possible and compete with each other to lease more land and attract more foreign investment. By the end of 1991, a total of 2500 ha of land were leased, the premium of which reached 2.24 billion yuan (US\$0.448 billion). Since Deng Xiaoping's southern tour in 1992, the pace of land leasing has quickened. By the end of 1992 the Chinese government earned 50 billion yuan (US\$8.7 billion) by leasing land rights to investors. Guangdong province earned 9.4 billion yuan (US\$1.6 billion), or about 45% of its annual revenue, by leasing 7000 ha of land (Liang, 1993).

Housing and land reform are aimed at establishing real-estate markets in China. Despite a booming of transactions and soaring prices, the reforms seem not to be successful in setting up a true real-estate market. The real-estate market is monopolized by the state and a few governmental companies. True development is held back by a lack of protection through the legal system. Underdevelopment of law and enforcement leaves ample opportunities for speculation and corruption. Moreover, the development of real estate is not an outcome of demand from individuals. State enterprises cannot afford the market price of land and have to resort to administrative allocation. In 1991, 409.5 km² of rural land was acquired for urban use. Up to the end of 1992, 1500 parcels had been leased out, consisting altogether of 35 km² (Chinese Ministry of Construction, 1993). Only 8.5% of land was allocated through the paid transfer of land-use rights. The soaring prices of housing enlarged the gap between housing prices and wages in the public sector. Some reform schemes have suggested the issuance of housing coupons to workers (Fong, 1989), but these schemes have not achieved the success expected. Because of the rigidity of the work-unit system, workers in the public sector remain untouched by the benefits of housing reform.

7 Conclusions: the contradiction of a socialist market economy

In this paper I have illustrated that the perspective of political economy is very useful in understanding the urban process in socialist China. The fragmented nature of labour reproduction is required to maximize the level of industrialization yet at the same time it minimizes the rate of urbanization. Even the new pragmatism that opened the way for economic reform has its roots in the political economy. The fiscal deficit in 1979 and the 1980s meant that the former centrally planned economy could no longer be continued. A series of reforms were at least partially aimed at solving this urgent and practical problem. Housing commercialization, the paid transfer of land-use rights, and the decentralization of fiscal policy were initiated to absorb money spent on consumer goods, to open up new revenue sources, and to maintain national fiscal balance. The changing socialist political economy has made it imperative to adopt a reform ideology.

The urban process of the socialist city in China consists of two interrelated aspects. First, there is the highly centralized process of production, in which the work-unit system extracts surplus value effectively through suppressing wages in cash and services. Yet the surplus value is depreciated during the turnover and allocation of capital, in particular during the neglect of comparative advantages and economic scale and soft budgetary expenditures. Second, there is a self-contained, fragmented process of labour reproduction. The city is a cluster of isolated work units. The growth of a city depends on the number of projects that the city receives from the central government. Urban space in China, unlike the separation of job and residence prevalent in capitalist cities, is configured to satisfy rapid industrialization and a low-cost reproduction of labour and has a lack of horizontal linkages and municipal services. Thus the political economy of Chinese cities is characterized

by a seemingly contradictory nature; being both cellular (Donnithorne, 1972) and overcentralized (Lyons, 1987). The widely noticed homogeneous distribution of social classes is in fact a by-product of the system of work units in the political economy. The phenomenon does not imply that the socialist city is homogeneous. The socialist city does witness residential differentiation, but along a dimension different from that evident in capitalist cities—that is, it is differentiated by work units. This differentiation was aggravated after work units became the main purchasers in property markets (Wu, 1993).

Economic reform changed significantly the political economy of Chinese cities. Diversified investments, because of the state fiscal deficit, triggered the growth of localities. Decentralized decisionmaking and enterprise autonomy have stimulated work units to spend self-raised funds to improve living conditions. Reproduction of labour is now achieved through collaboration between work units and municipalities. The supply of housing and services has become more market-orientated than before, but the demand still comes largely from work units. The role of work units is thus reinforced. The new real-estate development has thus been pushed forward by profit motivation rather than being based on the genuine needs of individuals. The rigidity of state enterprises forms an obstacle to the establishment of real-estate markets in China. The changing political economy, especially the diversification of investments, the growth of localities and the emergence of real-estate markets, significantly altered the urban process of the nation. The interaction between enterprises and the state has decreased, whereas the role of municipalities has increased. The self-contained way of development is diminishing, as revealed by the emergence of commercial housing communities. Yet the role of enterprises in China is still substantially different from the role of independent firms in capitalist cities in that the Chinese enterprises undertake many 'concrete' tasks of labour reproduction. Chinese cities have undergone restructuring through a variety of mechanisms which will have far-reaching implications for the internal urban structure and for peoples' living conditions.

Other than obvious reasons, such as lack of macroeconomic control and legal provision, the unhealthy frenzy of real-estate growth trading since 1992 reveals a contradiction in the socialist market economy: that is, the socialist ownership of the means of production with the aim of a collective reproduction of labour. In other words, the persistence of the work-unit system conflicts with an effort to establish real-estate markets. Privatization seems to be a hard task for the Chinese government, for, as a socialist system, state property is owned by all the people. After a long period of low wages the surplus value has been fixed in the built environment. Injustice would occur if these properties were distributed without fair criteria. It is this contradiction rooted in the present political economy that calls for continuing intellectual insights to shed light on the issues of the urban process in China's transition to a socialist market economy.

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