**Notes on urban redevelopment in China: Fangzhicheng, Xian**

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A top-down approach to redevelopment often sees a coalition of government and developers instead of considering the benefits for the affected residents and the preservation of the values of historic neighborhoods. In contrast, a bottom-up approach empowers local residents and enables them to benefit relatively more from a project.

**Introduction**

Urbanization has been one of the major driving forces of China’s dramatic socio- economic changes since the opening-up reform in 1978. The economic restructuring after China’s accession into the World Trade Organization in 2001, and the growing importance of the headquarters economy have further pushed Chinese cities to compete with one another to attract investments and to promote themselves in domestic and global city systems (Chan & Poon, 2012; Li, 2011). In addition, the traditional socio-economic management system at the city level has changed radically, presenting new challenges to urban governance. For example, in the late 1990s, urban residents lost their right to free housing. Meanwhile, the loosening of the ***hukou*** (household registration) system, which once restricted domestic migration, has also compelled cities to take measures to accommodate the rapidly growing population of rural-to-urban migrants.

By the end of 2010, more than 153 million rural-to-urban migrant workers lived and worked in towns and cities (MLSS, 2011). The level of urbanization increased from 18% in 1978 to 52% in 2011, and for the first time in Chinese history, the population of urban residents exceeded that of rural residents (Chan, 2012). This trend is projected to continue and the urbanization level is expected to reach 70% by 2050 (United Nations, 2008). Suburbanization and inner-city redevelopment have been the two main approaches to accommodating the growing demand for urban space and facilities. Inner-city neighborhoods have been partially or completely demolished and rebuilt into high-end business and residential properties in the process of ‘‘new- build gentrification’’ (He, 2010).

The histories of some cities in developed countries such as Britain and the United States have shown that inner-city issues (such as congestion, pollution, and crime) have resulted in the migration of middle-income households and businesses to the suburban fringe (Power & Wilson, 2000; Weaver, 1960). Inner-city redevelopment programs are complicated and relatively unattractive to real estate developers because of regulations on heritage conservation, slow cost recovery, resistance from property owners and tenants and other difficulties (Boston & Ross, 1997). However, many Chinese cities have fewer restrictions, and some of these can be bypassed illegally or with the payment of a penalty. In addition, the demand for properties in the inner cities is driven by a shift toward central business district (CBD)-centric, service-sector employment as well as a concentration of public resources and services in the more established inner-city areas. Although China has only recently become an upper-middle-income country, real estate prices in some cities are no less excessive than are those in some established global cities (Wang, Yang, & Liu, 2011b). This lack of a price differential has made the Chinese inner cities hotspots of international and domestic investment and redevelopment.

Redevelopment practices in China often involve the demolition of most buildings – or even whole neighborhoods – in a contentious and controversial process. For instance, residents have been relocated involuntarily or even forcibly (Wu, 2004a), and a large number of violent – and even fatal – incidents have occurred during housing demolition (Wu, 2012).

**The emergence of property-led redevelopment in transitional China**

In China, all urban land is owned by the state. A land market was largely absent for nearly four decades until the 1987 land reform, which legalized paid transfers of urban land use rights. This reform dramatically changed the pattern of land development and the spatial structure of Chinese cites by spurring urban development (Wu & Yeh, 1997). However, redevelopment projects were not attractive to the emerging private developers because regulations required on-site replacement of demolished housing and the provision of community facilities, in addition to imposing numerous fees and charges (Dowall, 1994). These regulations resulted in a low level of inner-city redevelopment activity after the land reform despite a rapidly increasing demand for properties (Wang & Murie, 1999).

In the 1990s political change reconstructed and decentralized decision-making. Decision-making authority on local affairs was transferred from the central government to provincial and city governments (Heikkila, 2007). Since then, these governments have been allowed to formulate and implement their urbanization strategies, including (re)development projects, with little intervention from the central state. Taxation reforms also gave increased autonomy in fiscal management to local governments who were able to find new ways to increase revenue (Wang, Zhang, Zhang, & Zhao, 2011a; Wu, 1999). One of these mechanisms exploits inner-city land resources, which have high commercial value and the potential to generate fiscal income. Chinese cities have gradually adopted the financing model applied in Hong Kong, Seoul, and Singapore, which allows developers to provide compensation for buildings and urban land given up for redevelopment (Leaf, 1995; Zhang, 2000). This property- led (re)development approach has since become the norm, applied to meet the growing demand in the emerging property and land markets (Cao, 2009; Chen, Guo, & Wu, 2011).

Inner-city property-led redevelopment in the Chinese context involves much more than rekindling degraded local economies and beautifying the built environment. It is a battlefield, with enormous benefits for different parties and groups in the emerging market economy, and contains elements inherited from the planned economy. For property developers, redevelopment provides opportunities for considerable capital gains. For local governments, it attracts capital inflow, boosts employment, increases tax revenue, and strengthens governance. For some government officials, it provides opportunities for rent seeking and corruption. Redevelopment also delivers political premiums to those climbing the career ladder in a bureaucratic system that privileges the physical growth of cities. Many residents affected by redevelopment are forced to fight for compensation and live uncertain lives because their houses (and often their livelihoods) are demolished.

Local state and developers are usually perceived as sharing the goal of smoothing operations and preventing disputes in inner-city redevelopment. Communities and individuals fight against these potentially colluding parties to empower themselves because community organizations are excluded from urban (re)development (Zhang, 2002).

**State-owned work unit neighborhoods (Danwei)**

Mixed work unit compounds, most of which were built in the pre-reform era, are run by state-owned enterprises (SOEs) under the organizational structure of **Danwei**, or the socialist work-unit, which performs both production and residential functions (Bray, 2005). These compounds were the dominant units in the pre-reform urban economy and society. Some large compounds aiming for maximum self-sufficiency became sub-centers within walled boundaries. Since the 1990s the national reform of the state sector has bankrupted and restructured a large number of SOEs. Consequently, many of these compounds have deteriorated significantly. Given that the state owns these compounds, it can dispose of land use rights with nearly absolute control and can easily make these former industrial sites available for redevelopment (He et al., 2009).

**Example – Fangzhicheng, Xian, Shaanxi Province**

Xi’an has been a city since the eleventh century BCE and is the capital of Shaanxi province in the relatively underdeveloped north-western region.

Fangzhicheng (literally, ‘‘City of Textiles’’) in eastern Xi’an has a population of approximately 160,000 within an inner-city area of 5.3 square kilometers. Financed and built by the central government in the 1950s, it was once one of the largest mixed industrial and residential compounds in north-western China. During this period Fangzhicheng accommodated five large state-owned textile mills and numerous supporting institutions and factories. These mills provided workers and their families with lifetime jobs, discounted foods, accommodations, education, healthcare and recreation facilities. From the 1950s to the 1980s this area was widely perceived by the locals as one of the best places to work and live in the province (Cheng & Beresford, 2012). However, well into the reform era, Fangzhicheng failed to compete with the private textile enterprises in the coastal area. Since the mid-1990s some mills have reduced or ceased production, and many workers were asked to take compulsory leave with a small living allowance. In 2008 the central government handed Fangzhicheng over to the local government, which subsequently bankrupted four mills, and retrenched nearly 10,000 workers after paying them some compensation. The city government of Xi’an was under pressure from the central and provincial governments to maintain social stability among the disgruntled laid-off workers. The city government faced an urgent need to revitalize the degraded and poverty-stricken city of Fangzhicheng and to create reemployment opportunities. However, these opportunities relied on external capital because of the local government’s shortage of fiscal funds.

Due to its proximity to a newly opened subway station, and because of the growing demand for housing in the surrounding area, several developers and businesses (such as supermarkets and department stores) expressed interest in investing in the redevelopment. In 2008 the local government announced its plan to redevelop the compound into a mixture of new residential, business, and industrial buildings. The Fangzhicheng Integrated Development Office (IDO) was established to manage the redevelopment process. For the first time in the history of the city’s urban management the local government granted almost full administrative and approval powers to the IDO.

As the state-endorsed representative, the IDO worked to build a close relationship with the developers involved in the land acquisition, planning, and implementation phases of the redevelopment process. For example, the IDO borrowed nearly 204 million yuan from a developer to acquire land. In return, the developer was given priority in its obtaining of land and project management (Cheng, 2011). The lack of transparency in the trading of land use rights at the local level by SOEs and state agencies has troubled the central state for a long time (Xu, Yeh, & Wu, 2009).

Meanwhile, laid-off workers’ benefits and interests were undermined under the coalition of the IDO and developers, as illustrated by one of the sub-projects that was designed to transform a self-built residential village (Zijiancun) accommodating nearly 400 households on 8000 square meters of state-owned land. The village was full of multistory brick houses built in the 1950s by workers who did not have access to public housing because of insufficient supply. Initially, most households welcomed the redevelopment. They were eager to move out of the dilapidated village and to receive in-kind or monetary compensation for the full floor areas of their houses, most of which were 100–180 square meters. In July 2011 the residents were told that full compensation would be provided for only 20 square meters of each house, and the households would be entitled to purchase discounted off-the-plan apartments at 50% of the market price for any floor area exceeding 20 square meters. To receive the discount, the workers had to pay approximately 100,000–250,000 yuan in additional costs in two instalments. This price was unaffordable to the vast majority of households, which had been in severe financial difficulty since the late 1990s.

The residents protested against the low compensation and asked for community participation and empowerment. Subsequently, the residents resisted the authorities and developers by initiating collective and individual actions, lodging formal and informal protests, forming rights groups, and presenting legal challenges (Ho, 2005). They held demonstrations, posted petitions in Fangzhicheng and online to increase public attention, and invited journalists to the village. The residents also pointed out that the policymaking processes driving the demolition decisions and compensation schemes had not followed the central government’s policy, which required consultative meetings with the residents and the publication of compensation schemes for public comment for a minimum of 30 days. They also learned that, according to an internal document issued in 1956, the status of private houses was recognized by the Ministry of Textiles (MOT, the former management of Fangzhicheng), although the residents did not have property deeds.

Planned development in Fangzhicheng

The IDO response was;

First, in the name of maintaining social stability, online petitions were deleted from local websites, and media inquiries were prohibited through the local government’s publicity department to ‘‘limit and solve the issues within Fangzhicheng’’.

 Second, the residents’ claims for private property rights were rejected by the IDO because the MOT was disbanded in 1993 and the document had expired. Thus, these claims were illegal under the current laws.

Third, compensation levels were increased slightly. Because the households did not hold property deeds, they were told that the compensation was appropriate.

Fourth, to get residents to sign the demolition agreement, the IDO installed loudspeakers in the village to broadcast the announcement repeatedly, and officials from the IDO, as well as managers from the mills, visited the households to justify the importance of the redevelopment process and the legitimacy of the already scheduled demolition.

Fifth, the IDO decided to present a hard line to demonstrate its control over Fangzhicheng to outside developers and investors, who might have been concerned about the negative effects of workers’ resistance on their business operations. The residents were told that there was no room for negotiation on the increased compensation. Households that hesitated to sign the agreement were threatened by the IDO’s demolition branch with the prospect of losing their electricity and water supply – a method widely used in China to threaten dingzihu (literally, ‘‘nail households’’) who refused to sign agreements and move.

Sixth, the laid-off workers who maintained their labor affiliations were told that they might be given priority for re-employment in the restructured mills if they signed the agreement, and that they would be entitled to an on-site low-rent apartment if they could not afford to buy a new one.

These measures broke the resistance and increasing numbers of households decided to accept the terms after realizing that there was little hope for better compensation. More than 20 real estate projects valued at over $3 billion have since been built.