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**POWER ALLOCATION AND REFORM
EFFICIENCY:
THE DISTORTIONS IN URBAN RENOVATIONS
IN CHINA, 1992-2012**

HE GANG

SINGAPORE MANAGEMENT UNIVERSITY

2022

**POWER ALLOCATION AND REFORM EFFICIENCY:
THE DISTORTIONS IN URBAN RENOVATIONS**

IN CHINA, 1992-2012

HE GANG

**Submitted to Lee Kong Chian School of Business
in partial fulfillment of the requirements for the
Degree of Doctor of Business Administration**

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2022

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I hereby declare that this PhD dissertation is my original work and it has
been written by me in its entirety.

I have duly acknowledged all the sources of information which have been
used in this dissertation.

This PhD dissertation has also not been submitted for any degree in any
university previously.



HE Gang

August 12, 2022

ABSTRACT

POWER ALLOCATION AND REFORM EFFICIENCY:

THE DISTORTIONS IN URBAN RENOVATIONS

IN CHINA, 1992-2012

HE GANG

The world has been paying close attention to the achievements of China's industrialization and urbanization since it started reform and opening up in 1978. However, there have been considerable controversies about the repetitive development plans in major Chinese cities and the rough demolition and reconstruction in old urban areas. Systematic explanations for the underlying causes and in-depth studies are limited, especially on the division of powers, responsibilities, and interests between the government and the market especially from 1992 to 2012, when old city reconstruction swept across China. This paper focuses on the temporal and regional differences in land property rights systems, the examination and approval authority, and the development rights for the old city reconstruction during this period. This paper analyzes the institutional factors and incentive mechanisms of large-scale old city reconstruction and discusses the short-term incentive compatibility and follow-up adverse effects of such large-scale reconstruction.

This paper first introduces a theory to closely analyzes the relationship between urban land and housing property rights, the examination and approval authority for the old city reconstruction, and the old city reconstruction and development rights, and suggests that the land property right system and authorization under relevant regulations play a key role in the process. From the legal perspective,

urban land property rights are held by the state and retained and exercised by the central and local governments on behalf of the state, who are the real controllers of old city reconstruction. Therefore, there is no essential difference in urban housing property rights attached to state-owned urban land involved in the old city reconstruction. From the perspective of administrative authorization, the central and local governments share the same interests in accelerating the large-scale old city reconstruction. Therefore, the examination and approval authority for the old city reconstruction has been authorized to lower levels and mainly held by local governments at or above the county level or, to be more specific, the local government departments in charge of land and urban construction. Thus, there exists distortions in property rights, examination and approval authority, and development rights.

The paper then applies the theory to explain why large-scale old city reconstruction occurred China's major cities from 1992 to 2012. Through the comparison between cases in Beijing, Shanghai, Guangzhou, and Chongqing, it is found that the local governments with legal and administrative authorization are the real controllers of old city reconstruction in China's state-owned system of land property rights though the number of urban residents is huge. Holding the examination and approval authority, local governments define the boundaries of old city reconstruction and decide how to allocate reconstruction and development rights among local urban construction and housing management departments, local urban construction state-owned enterprises, Hong Kong-invested enterprises, foreign-invested enterprises, and private real estate companies. As a result, there is a de facto progressive relationship among property rights, examination and approval authority, and development rights

involved in old city reconstruction, and players other than local governments have limited influence on the decision-making in old city reconstruction.

The theory further sheds light on the regional differences in old city reconstruction around China. Comparative analysis also shows that there are both similarities and differences in old city reconstruction in cities across China. Super mega-cities such as Beijing and Shanghai prioritized large-scale old city reconstruction before expanding into new areas. In contrast, some other mega-cities, such as Guangzhou and Chongqing, started the initial old city construction, focused on the industrial development and new urban expansion around the city proper, and then shifted to old city construction. Through the old city reconstruction and new urban expansion, local governments saw economic growth and obtained increased revenues; local officials got promotions and sought rents with power; enterprises harvested commercial benefits; residents improved their living conditions due to property appreciation. All parties also achieved incentive compatibility during large-scale old city reconstruction. However, the power and responsibility mismatch between the government and the market has also left adverse consequences from old city reconstruction, leading to unsustainability of such mismatch, and forcing China to re-explore a new model of old city reconstruction from 2012. The incentive mechanisms for public officials and the administrative system have yet to be adjusted by deepening the reforms.

Keywords: old city reconstruction; land property right; incentive compatibility; urban renewal

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ACKNOWLEDGEMENT

I could not help but breathe a sigh of relief at seven o'clock on the evening of July 7, 2022, when I finished the last revision of this doctoral dissertation, for which the writing lasted for five years. I have been engaged in paperwork daily, but no previous paper is comparable to the importance of this dissertation and the time consumed for it.

From choosing the topic to completing this dissertation, I benefited from the meticulous guidance of many professors from CKGSB and SMU. Without their help, I would never have completed this study, which seemed to be uncomplicated but turned out to be really challenging. Five years have passed since I consulted Professor Chenggang Xu about the topic of my dissertation in May 2017. In March 2018, I discussed the dissertation proposal's framework with Professor Fali Huang. In April 2019, I revised the proposal's framework with major changes by following the suggestions given by Professor Xu. When COVID-19 was raging in August 2020, I consulted Professor Xu and Professor Huang about the dissertation's framework via email and online conferencing. In February, June, October, and December 2021, with the specific instructions from Professor Xinyu Fan, the dissertation proposal was revised several times. In April 2022, Professor Huang, Professor Xu, Professor Fan, and Professor Q Forrest Zhang approved the dissertation proposal. With specific guidance from Professor Fan, I worked on this dissertation step by step. At the end of June this year, I summarized the opinions of Professor Huang and Professor Fan and finally completed the final revision. Besides the selfless help given to me by the professors in the research for and writing of this dissertation, I am also grateful for the consistent patient explanation and specific help from Wei Yao, who

oversaw facilitating the doctoral dissertation project.

Though the whole process was long, and I felt deeply anguished, I was deeply gratified and proud when this process finally ended. This comes not only from my deeper understanding and mastery of the paradigm and requirements of academic research but also from the knowledge of how to break up the whole into parts and complete seemingly challenging tasks in a persistent and well-organized manner. After five years of extensive reading, thinking, review of knowledge, and collection of information, I had a deeper understanding of China's urbanization and old city reconstruction and began to form a more logical analysis framework and a more speculative perspective of research. Though everything still has room for improvement, I believe I have made obvious progress in my study compared with five years ago. This makes me more confident in keeping observation and meditation in the future, and I am more fascinated by systematic academic research. This is the most important aspiration and gift given to me by the teachers of CKGSB and SMU in the past five years.

In fact, I decided to complete a Doctor of Business Administration (DBA) program at the end of 2013. Though I had close contact with most top business schools in China because of my work, I firmly and chose CKGSB, hoping to learn from the world-class faculty of this business school and looking forward to sharing ideas with Chinese entrepreneur-students with entrepreneurial and innovative spirits gathering at this business school. I sincerely thank Xiaoyan Yang for giving me great support and help and for introducing me to Dean Bing Xiang and Professor Long Chen. Finally, I was enrolled in the second session of the "Entrepreneur Scholar Project" in CKGSB in October 2014, turning my

CKGSB dream into a reality.

The partner of the DBA program later changed, and the classes were merged. We became the second session students of CKGSB DBA, went through the change of the program's partner smoothly under the leadership of Professor Jin Liu, and became students of the CKGSB-SMU DBA program. The changes we went through were memorable. Our class teacher Juanjuan Wang, program curriculum director Wei Wang, and the teachers involved in the program, Kun Yang, Dongmei Lan, Yi Cao, Jia Liu, Linna Li, Huan Xu, and Zhe Li, have all given me full trust, support, and help. With professionalism and efficiency, they, together with other prominent professors with outstanding academic achievements in CKGSB, constitute the foundation and competitiveness of this young local business school in China and make me very proud as a student of CKGSB.

After dozens of discussions and gatherings in the past eight years, from 2014 to now, I am delighted to meet with a large group of outstanding entrepreneurs and start-up founders whose exploratory spirit, pragmatism, thinking, and research have given me important aspirations. For example, the sharpness of thinking and research efficiency of Yufeng Chi, "Dr. No.1" of CKGSB DBA, the generosity and systematic cooperation of Wenyong Lei, "Dr. No.2", and the far-sighted thinking and innovative practice of Chao Fang, "Dr. Monitor," all gave me great incentives and kept me working on my dissertation topic selection and research. I also want to thank Rui Wang, Ya Zhang, Shumeng Tong, Yanhong Jiang, Yuanyuan Fan, Ziwen Wang, Jun Hu, Guangyu Wang, Ming Dong, Yingming Zhao, Hankun Zhao, Ziqiang Sun, Yidan Chen, Zhichun Xie, Hongxin Wu, Jiansheng Jiang, Guojun Shen, Junhao Zheng, Weigong Zhang,

Minglun Zhang, Dong Yu, Weixiang Zhang, Yuzheng Wang, Yonghong Fan, Yong Zhang, Xiaochuan Wang, Jun Liang, Yinyu He, Bingxu Zheng, Fangxin Cai, Li Huang, Chaoyang Huang, Xinhua Liu, Huiyong Ren, Ya Shen, Zhixiong Liu, and others. Your trust and friendship make me feel warm.

To be honest, the eight-year study and the five-year dissertation writing have far exceeded my expectations. During this extended period, I spent much time listening to lectures, studying at different places, participating in various activities, reading, research, and writing. I had limited time to be with my family, and I feel deeply sorry for them. However, my parents in my hometown in Sichuan and my wife and daughter in Beijing have shown the greatest understanding and given me the most encouragement and support in my study and dissertation writing at CKGSB. They are the powerful spiritual motivation and emotional support for me to persist in completing this work. When I was writing this epilogue, my daughter, who was in an internship in the summer, asked with a smile: "Dad, have you really finished writing your dissertation?" I said yes, I hope my belated dissertation defense can be successfully completed this summer, and then I will be able to start the long-planned new journey of reading, research, study, and writing, which makes me look forward to the future.

It is 8:30 on the evening of July 7, 2022, and it is time for me to finish this long epilogue and acknowledgment. July 7 is the National Shame Day of our nation. I will never forget the miserable history of China when it suffered from poverty, weakness, and aggression. July 7 also marked a turning point in my life. I will never forget the stress and expectation I bore 33 years ago when I was participating in the college entrance examination in Weiyuan County Middle School, Sichuan in 1989. I have been lucky and benefited in the great era of

China's reform and opening up. I was admitted to the Department of International Politics of Renmin University of China in 1989, graduated four years later, and joined the International Department of People's Daily. I have been working in professional media organizations since then. In the meantime, I went to the Graduate School of the Chinese Academy of Social Sciences to study for a master's degree in journalism in 1995. In 1999, I went to the Cranfield School of Management, U.K. to study for an MBA. I have kept improving my knowledge system and thoughts, turning continuous learning into a personal habit. Finally, I got the opportunity to study for a doctoral degree at CKGSB and SMU, which made me happy and at ease.

I am deeply grateful to all the teachers and classmates who have given me encouragement and help in the past eight years. I believe that the completion of this doctoral dissertation will open a new stage for me to study, think and research. I will continue to work hard.

Chapter I

Introduction

China has maintained fast economic growth and unprecedented industrialization and urbanization for 40 years since China's reform and opening-up in 1978. According to the Bulletin of the Seventh National Census, China's urbanization rate has soared from 17.9% in 1978 to 63.89% by the end of 2020, the world's fastest urbanization in the same period. The total built-up area in Chinese cities has increased from 20,214 square kilometers in 1996 to 60,721 square kilometers in 2020, also the world's fastest growth (See Table 1 of the Appendix). From 1990 to 2010, most major cities in China underwent large-scale reconstruction and expansion. The built-up area of Shanghai, Beijing, Guangzhou, Chongqing, Chengdu, and other major cities increased by 1 – 4 times while the urban population increased by more than 70% (See Table 2 of the Appendix). Joseph Stiglitz, professor of economics at Columbia University, proclaimed that two significant forces would shape global prosperity in the 21st century: urbanization in China and U.S. technological innovation and that China's urbanization will be a locomotive of regional economic growth and will produce the most important economic benefits.¹

From the urbanization process in China in the past 40 years, it has been found that the cities have constantly been expanding into new areas while carrying out large-scale old city reconstruction successively. During the 20 years from 1992 to 2012, the speed and scale of old city reconstruction in major Chinese cities increased significantly, and many cities almost completed old city

¹ China Development Forum, March 28, 2008

reconstruction during this period and carried out large-scale new urban expansion. In the economic development history around the world, old city reconstruction is a significant development process that most modern countries have gone through, involving various interests related to economy, society, history, culture, and other aspects. Government institutions, decision-makers, economic entities (enterprises or individuals), land and house owners, and urban residents are all related to the process. The old city reconstruction is the embodiment of social progress and a significant turning point in local economic development and urban planning and has an essential impact in various respects.

In the 20 years from 1992 to 2012, how did China's large and medium-sized cities achieve such a large-scale old city reconstruction in such a fast pace? Was this solely the willpower of local governments, or was this the consensus of both the central and local governments? What was the relationship between this and the nature of urban land property rights and urban housing property rights in China? How did the division of legal and administrative powers and responsibilities between the central government and the local government give rise to the authorization level by level to local governments in the examination and approval authority for old city reconstruction and planning? What factors were pushing the old city reconstruction and development rights to be granted to different development entities in different phases? What were the economic and institutional arrangements and administrative incentive mechanisms behind the phenomenon? What consequences have this old city reconstruction model in the 20 years brought to China's urban construction and administrative system? Why did new and conspicuous changes in China's old city reconstruction model appear after 2012?

Many types of old city reconstruction have appeared around the world. In some old cities, part of the old urban areas got relative complete preservation, restoration, and limited development in the form of historical and cultural relics. For example, in the old urban areas of Paris, the old city reconstruction was largely reparative reconstruction and partial demolition. However, it did not change the city's original layout and planning, and architectural styles. This practice has been generally recognized. Some other cities, such as London, Frankfurt, New York, Beijing, and Shanghai, have gone through relatively large-scale old city reconstruction, including demolishing, re-planning, and complete reconstruction because of the need for economic development and people's livelihood. This practice has raised many controversies due to noticeable changes to the original plans and architectural styles. However, no matter which model is adopted, it usually takes a long time for planning, discussions, review and approval decisions, reconstruction, and development, because old city reconstruction often involves complicated property ownership and interest games and requires careful coordination of the positions and interests of all sides. It is challenging to complete a specific old city reconstruction project or demolition and reconstruction in a short period. For example, it took more than 15 years to go through the proposal, demonstration, and demolition of the Tokyo "Roppongi" commercial renovation project. The final construction took only less than two years (Shi & Lang, 2013). It was just one commercial project in Tokyo's old town.

China's urban modernization, which is different from other countries, has widely appeared in public reports as a specific manifestation of China's economic growth and development miracle and occasionally in academic

research. As for such a scale and speed of old city reconstruction, the existing literature is short of an in-depth examination of whether the government or the market is the primary driver behind the scene, especially the division of powers and responsibilities between the government and the market as well as the weighing of efficiency in socio-economic development.

This paper tries to, through observation and analysis in the context of the state-owned land property right system in China, understand how the administrative system defines the hierarchy and powers and responsibilities and how it coordinates and interact with market entities to produce a powerful coordination for growth and realize maximal benefits for the government and incentive compatibility among stakeholders. Could this inherent relationship explain the speed and scale of China's old city reconstruction and the institutional obstacle to China's long-term economic and social development? This paper examines and analyzes the changes in the two rights and one power involved in the old city reconstruction in China from 1992 to 2012 and the institutional factors and incentive mechanism that supports the large-scale and rapid old city reconstruction in various cities during this period, and then discusses the consequent impact. This paper also attempts to analyze the possible significant adjustments in the future of the old city reconstruction model formed during the period.

Specifically, the two rights are urban land property rights and various housing property rights schemes, and old city reconstruction and development rights obtained by various entities; the one power is the examination and approval authority of governments at various levels for old city reconstruction. The land property right relates to the basic institutional arrangement of an economy; the

decision-making relates to the resource allocation model of an economy; the subject relates to the dominant role of an economy at the micro level. Institutional arrangements, resource allocation, and the dominant role at the micro level constitute the division of powers and responsibilities and the benefit-sharing arrangement of an economy.

First, the state owns the land involved in the old city reconstruction of China according to China's constitution and other laws. This is China's most important arrangement of the basic property rights system. How important is this to the analysis of old city reconstruction? Three main types of urban housing property rights are involved in the old city reconstruction: private property, public property, and common property rights. The ownership, asset valuation, circulation, and trading patterns of different houses differ. How are they constrained by the system of state-owned urban land property rights? Secondly, why did the examination and approval authority for the old city reconstruction in major cities of China rest with local governments at or above the county level and local departments in charge of land and urban construction? For major old city reconstruction projects, applications are required to be submitted to provincial governments and provincial land and urban construction authorities; for particularly significant old city reconstruction projects, applications are required to be submitted to the central government and land and urban construction authorities. Are there conflicts of interest between government departments at different levels? Finally, how have old city reconstruction and development rights in China's major cities been obtained by local departments of urban construction and housing administration, local state-owned enterprises, Hong Kong-invested enterprises, foreign-invested enterprises, and private real

estate companies in different phases? What is the relationship between this and the types of market entities at the micro level and economic operation mechanism in the Chinese market?

This paper's comprehensive analysis of specific cases shows that, from 1992 to 2012, large-scale old city reconstruction was carried out rapidly in major cities in China. This scene was likely related to the state-owned nature of urban land property rights as the fundamental factor though also influenced by urban residents and the general public to certain degrees. At the same time, an apparent mismatch is observed in land property rights, housing property rights, reconstruction and development rights, and reconstruction decision-making rights and mainly reflected in the following three aspects:

First, the state-owned nature of urban land property rights dictates the absence of housing property rights. Due to the state-owned nature of urban land property rights, the governments at various levels, exercising such rights on behalf of the state, are not required to consider the intention of holders of various housing property rights. Instead, they plan, review, and approve old city reconstruction based on the final authority over land property rights. As a result, land possessors and house owners are unable to assert their full rights in old city reconstruction. Second, local governments have obtained sufficient examination and approval authority for the old city reconstruction. Local governments and departments in charge of land and urban construction have replaced land owners in making direct decisions on land planning, use, evaluation, transfer, and prices. They have encroached upon the property rights owners, making direct decisions and pushing forward enforcement of housing appraisal, demolition, and compensation. It led to the continuous expansion of

the examination and approval authority and the frequent occurrence of rent-seeking and corruption. Third, the government has ensured the maximization of its benefits despite changes in development rights in old city reconstruction. When work performance was of top priority, the old city reconstruction should highlight the public attribute and be public welfare or low-profit projects mainly taken by the government or the local state-owned enterprises. As the scale of old city reconstruction increased, the governments were facing capital pressure in general, so the right for urban development and related interests were sold off massively to foreign-invested enterprises. Later, many private enterprises were encouraged to enter the market through real estate market-oriented reform and the "bidding, auction, and listing" of old city reconstruction projects. In the end, the old city reconstruction, which first highlights the public attribute, has become a real estate development project with a priority on the commercial attribute. It has not only pushed up land prices and housing prices but also changed the urban skyline. It has also enabled the government to obtain huge revenues and taxes from land and created employment opportunities.

In 1998, China began to carry out the housing system reform and real estate development to the market, thereby opening the land market, old city reconstruction, and new urban area construction simultaneously. The "golden decade" from 1998 to 2008 of China's real estate market started, and the real estate industry became a pillar industry of China's economy. At the same time, China's urbanization process was accelerated, with the permanent urban population rising rapidly from about 30% in the early 1990s to 40% at the beginning of the new century and exceeding 50% in 2015². It can be said that

² Bulletin of the Seventh National Census of China, National Bureau of Statistics, May 21, 2021

in the past 20 years, many Chinese cities have achieved comprehensive old city reconstruction; many investments have been attracted; many private funds have been invested in old city reconstruction; local economies have achieved relatively rapid growth; officials have achieved remarkable political achievements; the public has also benefited enormously.

At the same time, however, due to the unsustainability of fairness and transparency, the old city reconstruction has become the driving force of the short-term GDP growth of each region and failed to achieve the long-term economic growth of each region, nor has it benefited most stakeholders. Corruption, such as the money-for-power trade that grew out of the reconstruction of the old city, has been fermented and existed for a long time since 2012 with virtually incalculable potential social losses. It can be said that in the 20 years from 1992 to 2012, the old city reconstruction across China became more common, involving the interests of the people, the scale of investment, the participation of enterprises, and the role of the government. The incentive mechanisms for local officials, which took GDP growth as the primary performance indicator, urged local governments and officials to favor the interests of enterprises involved in the old city reconstruction and, in fact, encouraged official corruption.

On the other hand, the incentive mechanisms for local officials in the Chinese mainland have undergone new changes since the reform and opening up in 1978. This partly explains the drive to expand the economy and GDP over the past 30 years. However, it also provides a key entry point to observe the widespread interest links between local officials and non-state-owned enterprises. The institutional corruption implied in it is the focus of the follow-up reform.

Therefore, the economic and social background of China's rapid old city reconstruction from 1992 to 2012 cannot be ignored. With the improvement of agricultural production efficiency, the acceleration of the transfer of rural surplus labor to large, medium, and small cities and towns, and the rapid development of manufacturing and service industries, China's economic growth and urbanization rate increased, which became an inevitable driving force of old city reconstruction. It is not hard to understand why local officials and social capital quickly formed alliances to gain business interests and political performance in the process, which led to much corruption.

This study starts with the real estate property rights, administrative examination and approval authority, and development rights. The theoretical basis is the incentive compatibility in the mechanism design theory. The relationship between the relevant stakeholders in the old city reconstruction involves two different models: government-led and market-led. The market-led type is subdivided into foreign-capital-led and private-enterprise-led models. This study focuses on how the government-led model transferred to the foreign-capital-led and private-enterprise-led models in old city reconstruction.

To further confirm the previous hypothesis, this paper examines how the basic institutional arrangement of state-owned urban land property rights led to the absence of owners of various types of urban housing property rights in major Chinese cities in the old city reconstruction from 1992 to 2012. Then it analyzes the division of powers and responsibilities among central and local governments at various levels concerning the examination and approval authority for the old city reconstruction, particularly why the institutional offside of local governments existed. Finally analyzes the incentive dislocation of the old city

reconstruction and development right among different market entities. By analyzing the mismatch in these rights and power, this paper tries to explain the rapid speed of old city reconstruction in China from 1992 to 2012, why three distinct phases existed in China's old city reconstruction during this period, and why substantial regional differences were observed.

The large-scale old city reconstruction appearing in Beijing, Shanghai, and other big cities from 1992 to 2012 fell roughly into three phases by time and entities who obtained the development right. The first phase extended from 1992 to 2000. The core characteristic of this phase was that local governments and state-owned enterprises dominated reconstruction and development, and the government spent some money promoting some model projects. The second phase extended from 1998 to 2002. The core characteristic of this phase was the introduction of Hong Kong-invested enterprises with the financial strength to carry out large-scale old city reconstruction and development. Local governments and officials got both nominal and real benefits and achieved better performance. The third phase extended from 2002 to 2012. The core characteristic of this phase was that a faster and larger cycle of land finance was realized in a more market-oriented way. Government departments were responsible for plan approval; local state-owned enterprises were responsible for demolition and tier-1 land development; private enterprises and other non-state-owned players invested funds to complete the commercial development of old city reconstruction projects. The government achieved various results, such as revenues from land sales, GDP growth, and creation of jobs, while officials achieved better performance, got promoted, and had the opportunity to obtain illegal gains through rent-seeking and other corruptive practices.

The progressive relationship between property rights, examination and approval authority, and development rights in old city reconstruction explains the rapid large-scale old city reconstruction in three phases in Beijing, Shanghai, and other big cities from 1992 to 2012. It also enables analysis of why Guangzhou, Chongqing, and some other big cities did not facilitate large-scale old city reconstruction concurrently with other cities during this period. They first expanded urban construction by requisitioning and transforming large areas of rural land in the suburbs into new urban areas, introducing related manufacturing and service industries, giving priority to expanding the industrial scale, and expanding the real estate market in new urban areas. The local governments achieved faster economic growth, land finance, tax revenue increase, and job creation and delivered a noteworthy performance. These cities then started to facilitate old city reconstruction with specific practices different from those of other big cities that give priority to old city reconstruction from the start.

Therefore, the main innovation and contribution of this research is the application of incentive compatibility theory to the old city reconstruction of China's major cities from 1992 to 2012. This paper makes a systematic study on the phenomena of the absence of the ownership of urban land and housing, the offside of the examination and approval authority of local governments, and the dislocation of the development right of the old city reconstruction. It explains the institutional reasons and the beneficial guidance for the emergence of the mismatches in power allocation and the unsustainability of this model of old city reconstruction and renewal. It has analyzed the process of China's reform and economic development from another perspective, the challenge and

necessity of the transformation of the social and economic functions of the government.

The rest of this paper consists of the following sections. The Second Chapter summarizes the relevant literature on urban development and official incentives. The Third Chapter introduces the research method and analysis framework. The Fourth Chapter is based on the comparative case analysis to elaborate on changes in land property rights, examination and approval authority for the old city reconstruction, and development rights and the three phases. The Fifth Chapter analyzes the regional differences based on the internal logic that Guangzhou, Chongqing, and some other big cities temporarily slowed down old city reconstruction and gave priority to the expansion of new urban areas to attract investment in this phase under the dominance of state-owned urban land property rights and then analyzes the differences in practices of old city reconstruction. The Sixth Chapter discusses the consequences of the mismatch in property rights, examination and approval authority, and development rights in old city reconstruction, and how to improve the urban planning and construction and the related administrative appraisal system. The Seventh Chapter summarizes the discussions and points out the innovative ideas and deficiencies of this study as well as thinking on the follow-up research.

It is worth noting that the data of this study are collected from publicly available data, information, and literature. From a personal point of view, it is only for academic discussion and does not represent the position of the author's institution. The author is solely responsible for any error contained herein.

Chapter II

Definitions and Literature Review

China's critical transformation from a traditional planned economy to a market economy started in 1992. Decentralization from the central government to the local governments and from the government to the market has become a trend since then: local governments gained increased autonomy, and the market got considerable freedom, which also marked the start of the continuous development of China's market economy (Wu, 2009). Within the administrative system, this kind of decentralization mainly involves changes in the division of powers and responsibilities between the central and local governments. As a result, the market economy developed strongly from 1992 to 2012, while governments at all levels still had full power in economic and social affairs. The only difference was that many powers previously exercised by the central government were gradually delegated to local governments at various levels, such as provinces, cities, and counties, through laws, regulations, and administrative authorization. Especially county-level governments gained considerable autonomy in local economic development. This led to de facto competition between counties in regional economic development in China (Zhang, 2007).

As a result, local governments had considerable autonomy in decision-making and resource allocation in connection with regional economic planning, industrial distribution adjustment, old city reconstruction, and new urban expansion. Though urban planning and reconstruction were subject to the approval of superior authorities, they received support from superior authorities, even with special funds or policy concessions, as plans of old city reconstruction,

new urban expansion, and investment promotion were likely to drive economic growth. They shared the same objectives for local economic development and GDP growth. Government departments at different levels had a tacit and consistent understanding of economic growth goals. Therefore, the examination and approval authority of local governments on issues of local economic and social development, such as the old city reconstruction, was actually the coordinated opinions of the whole administrative system. Fundamentally, that was one of the administrative and institutional conditions under which large-scale old city reconstruction occurred throughout the country from 1992 to 2012.

The key reason why local governments have full authority for planning, examination, and approval over such important issues as old city reconstruction is that the constitution and other laws of China provide for the state-owned urban land property rights system. This system fundamentally defines those who own the urban land have the real decision-making power for old city reconstruction. The detailed regulations on urban housing demolition promulgated by the central government determine the extent and speed of old city reconstruction and the models and criteria of housing demolition. They also determine who can get the development rights in old city reconstruction by specifying which levels of government get the real authorization from superior government departments. The common understanding and actions of local public officials in plan examination and approval for old city reconstruction were continuously strengthened by the incentive mechanism for public officials during the period, becoming an administrative force driving large-scale old city reconstruction. The pace of old city reconstruction varied from city to city in terms of timing and geographical location. The basic logic was always based on

China's state-owned urban and rural land property rights system and the consistency in understanding central and local governments in economic and social development affairs. This is true whether the priority was given to old city reconstruction or urban expansion and then investment promotion before old city reconstruction.

Thus the main concepts in this study are: powers and responsibilities and division of powers and responsibilities; land property rights and urban housing property rights; land finance and local government interests; old city reconstruction and incentive compatibility; analysis of regional differences in old city reconstruction. The core issue and fundamental institutional arrangement encompassing all these are mainly the state-owned nature of land property rights in China and the concerted seeking of interest maximization by governments at all levels.

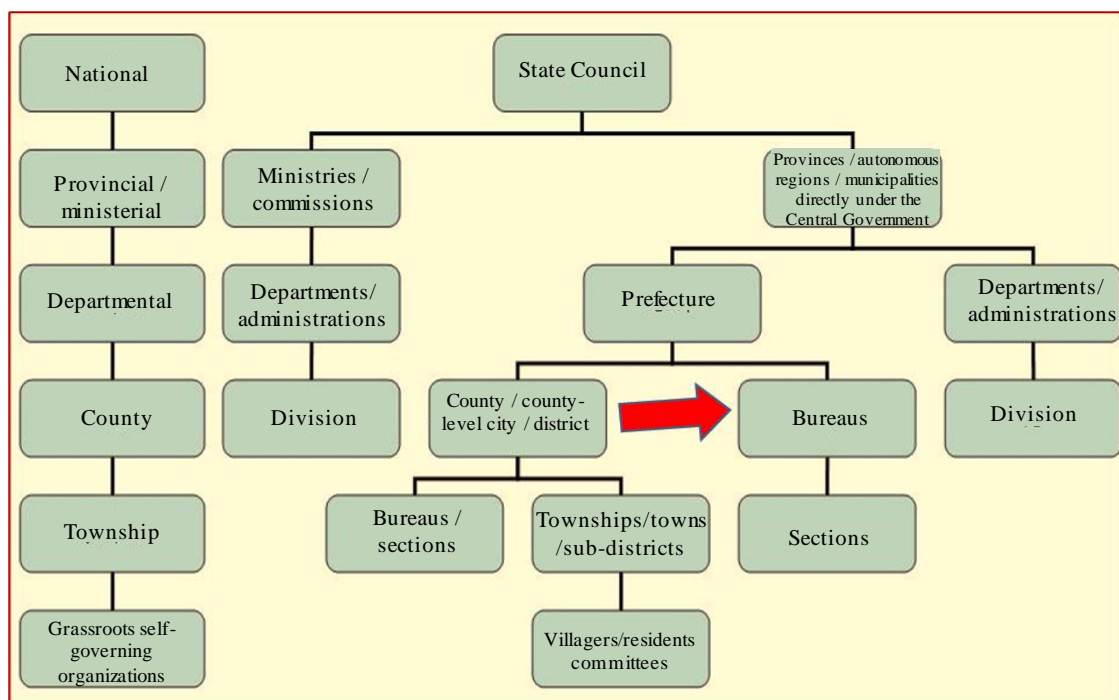
2.1 Definition of Concepts: Power and Responsibilities

As far as this study is concerned, we differentiate powers and rights. The examination and approval authority for the old city reconstruction is power, while land property rights, housing property rights, and old city reconstruction and development rights are rights.

"Power" refers to a coercive political power or a dominating power within the scope of duties. For example, the powers of government for examination, approval, and taxation are administrative or economic powers, which may derive from authorization under the law or authorization by superiors to subordinates. From the legal perspective, the government's powers derive from the authorization under the constitution and are regulated by administrative law.

There is not a unified substantive administrative code in China, but some specific laws regulate the powers of the government. For example, the *Administrative Organization Law* regulates the organizational structure and authorization of governments at all levels (See Figure 1); the *Civil Servant Law* regulates the administrative powers of government officials; the *Legislative Law* taking effect in 2005³ determines how governments and legislative bodies at all levels formulate laws and regulations; the *Administrative Licensing Law* and the *Administrative Punishment Law* regulate the regulatory powers of government departments in specific fields.

Figure 1: Organization Structure of Chinese Governments at All Levels



(Drawn from public information)

As for urban reconstruction and development, the *Land Administration Law*⁴

³ Legislative Law of the People's Republic of China, the official website of the National People's Congress, March 18, 2015

⁴ Land Administration Law of the People's Republic of China, the official website of the National People's Congress, September 5, 2019

adopted in 1986 provides that the state may expropriate or requisition land for public interests according to the law by granting compensation. The law also provides that the specific powers of the state are vested in the State Council. The master urban development plans of municipalities directly under the Central Government shall be submitted to the State Council for approval, and master urban development plans of other cities shall be submitted to the provincial-level authorities for approval. However, the powers exercised by the State Council on behalf of the state are actually authorized to lower levels within the administrative system under the *Administrative Organization Law* and relevant administrative regulations. Specifically, within the scope of the approved master urban development plans, the administrative examination and approval authority in old city reconstruction is actually delegated to the administrative agencies at the city/district/county level and exercised by city, district, or county majors and local urban construction and land authorities. It is worth noting that the *Land Administration Law*, as amended in 1998, explicitly authorizes local governments and natural resources authorities to take back state-owned land use rights for old city reconstruction and other public interests in implementing urban development plans. After that, the *Regulations on the Administration of Urban House Demolition*,⁵ promulgated by the State Council on June 13, 2001, clearly provide and authorize the departments in charge of housing demolition of local governments at or above the county level to supervise and manage the urban housing demolition activities in their respective jurisdictions. The most important power is to issue housing demolition permits. Once housing demolition permits are obtained, the entities are allowed to

⁵ Order No. 305 of the State Council of the People's Republic of China, the official website of the Chinese Government, June 13, 2001

demolish all houses within the scope covered by old city reconstruction plans. In fact, this gives independent examination and approval authority to local governments at the county level to determine the scope of old city reconstruction, demolition area, and compensation standards in old city reconstruction. However, many disputes related to demolition arose as there was no clear compensation standard for demolition. On January 20, 2011, ten years after the implementation of the regulation, the State Council promulgated the new *Regulations on Housing Expropriation and Compensation on State-owned Land*⁶. On the one hand, it is clearly stipulated once again that "the people's governments at the city/county level are responsible for housing expropriation and compensation within their respective jurisdictions." On the other hand, it further provides for the use and procedures of expropriation, compensation standards, and relocation conditions and clearly requires the provision of resettlement first before demolition. Thus, it provides a more specific and reasonable policy basis for local governments to plan and implement old city reconstruction programs. The examination and approval authority of city/county governments and relevant government departments is restricted.

"Rights" refer to the rights and interests enjoyed by citizens or legal persons according to the law. In the economic field, the most typical is property rights, such as private housing property rights. Other examples include concessions and rights to carry out specific commercial operations. For example, state-owned, foreign-invested, and private enterprises have the right to develop and operate urban land. They can benefit from development and operation when

⁶ Order No. 590 of the State Council of the People's Republic of China, the official website of the Chinese Government, January 21, 2011

allowed to carry out old city reconstruction. Again, from the legal perspective, the norms related to rights derive from the constitution and other relevant laws and regulations. Take land property rights in China as an example. China's *Constitution* of 1982 clearly provides that the subjects of land property rights can only be the state or peasant collectives in China, and no other organization or individual may hold land property rights. According to the *Land Administration Law* adopted in 1986, the People's Republic of China resorts to socialist public ownership of land: ownership by the whole people and ownership by collectives. In ownership by the whole people, the State Council represents the state in administering the land owned by the state. No unit or individual may occupy, trade, or illegally transfer land by other means. Land use rights may be transferred under law. The state has introduced the system of compensated use of land owned by the state. The law also clearly provides that the state shall own land in urban districts. This deals with the land property rights involved in old city reconstruction. Similarly, the powers exercised by the State Council on behalf of the state may be authorized to lower levels within the administrative system under the *Administrative Organization Law* and relevant administrative regulations. Specifically, urban land property rights involved in old city reconstruction are delegated to the administrative agencies at the city/district/county level and exercised by local urban construction and land authorities as authorized (Bian & Li, 1998). Meanwhile, the urban housing property right on the state-owned land in old urban areas is also an important private property right that should be protected by law. However, this right was often not exercised generally during old city reconstruction. Especially after the State Council promulgated the *Regulations on the Administration of Urban*

House Demolition in 2001, the relevant departments of local governments at the city/county level may approve and issue demolition permits without obtaining the consent of the existing property owners. Instead, the entities with demolition permits are to negotiate relevant demolition standards and relocation methods with the owners of the houses. The housing demolition may start even if no complete agreement is reached on the compensation or relocation. As a result, disputes over demolition and violence in demolition were not uncommon all over the country. That is, under relevant laws and regulations, the house owners were unable to exercise their rights of raising objections or conducting negotiations in connection with demolition standards and settlement methods in many cases of old city reconstruction plans of the local government. They were, in fact, deprived of such rights.

"Responsibilities" refer to responsibilities and duties. Responsibilities refer to what should be done, which may be commitments to others or mandatory obligations defined by professional requirements, ethics, laws, or regulations. They involve consequences if they are not appropriately handled. Duties refer to tasks and associated responsibilities that a person holding a post in an organization must undertake, that is, the responsibilities that should be fulfilled in his or her post. As for urban land management and use, the *Land Administration Law* has detailed constraints on administrative departments at all levels regarding master urban plans, land use norms, and changes in land use. There are many constraints related to the expropriation of agricultural land, which is subject to approval by local administrative departments at different levels. The expropriation and change in use of permanent cultivated land are even subject to approval by the State Council. However, local administrative

departments were vested administrative and legal authorization greater than the responsibility for old city reconstruction within the scope of master urban development plans under the *Regulations on the Administration of Urban House Demolition* promulgated by the State Council in 2001. This regulation contains vague provisions on the urban protection involved in old city reconstruction, especially the responsibility for historical and cultural inheritance. Relevant cultural and cultural heritage authorities cannot impose rigid constraints on the local governments regarding responsibility. The regulation is also unclear about the responsibility determination in critical matters such as plan approval, compensation for demolition, and relocation methods in old city reconstruction. This actually leaves a relatively large room for decision-making for local governments in plan approval and demolition implementation in old city reconstruction. As their powers are greater than responsibility, this is a typical case where powers are disproportionate to responsibilities. Local governments transfer responsibilities for demolition and disputes during demolition, such as those arising from violent demolition, improper compensation, and delayed relocation, through the administrative examination and approval authority of issuing demolition permits. Local governments have no clear responsibility for supervising whether demolition entities have earnestly implemented the relevant demolition regulations, paid compensation for demolition in full promptly, carried out demolition and relocation appropriately, or for urging their implementation. This further exacerbates the imbalance in local governments' division of powers and responsibilities and encourages the arbitrariness of demolition entities during demolition.

"Division of powers and responsibilities" refers to a practice of governments

and enterprises to strengthen management and improve work efficiency in administration by clearly defining the rights and responsibilities of managerial personnel at all levels. The relationship between the central and local governments often involves the division of powers and responsibilities for taxation, administrative expenses, and other critical matters. For example, the division of national tax and local tax directly involves the division of powers and responsibilities with local governments. Matching powers and responsibilities is the basic principle of division of powers and responsibilities. That is, the powers being vested should be proportionate to the responsibilities being undertaken to avoid too much power and too little responsibility or vice versa. Further studies show that, in a mismatch between powers and responsibilities, the agency or department bearing excessive responsibilities while holding insufficient powers usually strives to expand their powers proportionate to their responsibilities. As for the division of powers and responsibilities between the central and local governments, the ultimate embodiment of power is the entitlement to revenues. Most of the tax revenues are held by the central government, and a small portion of the tax revenues are ascribed to local governments. While the reduction in responsibilities is impossible, the wisest choice for local governments is to seek non-tax revenues. Land finance has become an inevitable choice for local governments when facing a mismatched division of powers and responsibilities. They try to obtain various incomes from land development, urban construction, and real estate development through old city reconstruction and new urban development. There is also a legal basis for dividing powers and responsibilities between the central and local governments in urban planning, development, and construction.

According to the *Land Administration Law*, the State Council is responsible for examining and approving master urban development plans of municipalities directly under the Central Government and provincial-level cities. At the same time, provincial administrative departments are responsible for examining and approving the master urban development plans of local cities. The State Council and the provincial administrative departments allocate construction funds to the next level under them, but most of the funds are raised by local governments. Because not all the funds for local urban construction come from superior administrative departments, local governments and state-owned enterprises bear the costs and raise funds from diverse sources. Therefore, local governments have considerable autonomy in determining how to build the cities and priorities in development. After plan approval and allocation of construction funds, the superior administrative departments usually leave local governments to decide the methods of fundraising for urban construction. Local governments track the implementation of the master urban development plans and decide whether to grant supplementary approval for urban development and construction beyond the original master urban development plans. With the division of powers and responsibilities, superior governments and the government departments usually support the old city reconstruction plans and new urban expansion plans proposed by the local governments. Superior governments even give the green light to some projects beyond the scope of specifications and plans rather than imposing constraints and hindrances in the old city reconstruction planning and approval application of the lower-level local governments.

2.2 Land Property Rights and Urban Housing Property Rights

The nature of urban land property rights is a fundamental topic in discussions

of old city reconstruction around China. This issue is manifested in the inconsistency between laws and regulations and the actual administrative authorization. Essentially, it is about the question of whether China has an entirely state-owned land system or a partially state-owned land system. According to the constitution and other laws of China, the state owns the land in cities, while collectives own the land in rural areas except for that which belongs to the state as prescribed by law. Many people think that not all land belongs to the state in China on this ground. However, rural collectives do not hold the ultimate property rights of rural land from the perspective of the concept of property rights and the ultimate ownership, especially when it comes to the right to control, such as land use and change. Instead, it is a flexible authorization of state-owned land property rights for specific use in rural areas. According to relevant laws and regulations and administrative authorization, rural land is no longer owned by rural collectives once the use of rural land changes. They are not used as agricultural land or peasants' homesteads. Whether rural land is changed into construction land, commercial land, or industrial land, the new land ownership rests in the state. Individuals or entities allowed to use such land only have the right to use it within a specified period without property rights of the land. Therefore, the ultimate property right of all land is held by the state in China.

In the old city reconstruction, the urban land in the built-up area has already been held by the state according to the *Land Administration Law*. Though there are different types of urban housing property rights, the completely state-owned nature of urban land property rights dictates that all the types of urban housing property rights on state-owned urban land should be subordinated to the basic

institutional arrangement of property rights, with urban land being owned by the state. That is, different types of urban housing owners are unable to exercise their housing property rights fully and completely, let alone influence the change of use and land use right of the state-owned land where their houses are located. Because of the state-owned nature of land property rights, local governments, as authorized by the central government, can exercise the plan examination and approval authority according to the law when the urban land use is changed in old city reconstruction around China. That is, no one except superior administrative departments can stop local governments from re-planning the state-owned urban land and making relevant decisions on old city reconstruction.

Different from the entirely state-owned nature of urban land property rights in China, the vast majority of countries around the world recognize private ownership of land. According to incomplete statistics, as of 2000, only seven of the world's more than 180 sovereign countries do not recognize private ownership of land, including China, North Korea, Cuba, Vietnam, and other countries (Xu, 2011; 2013). All OECD countries generally recognize the private ownership of land. In their view, there is no way to market economy transition without private land ownership. China is one of the few countries that adopt full public ownership of land. However, the specific land property rights fall into two categories: state-owned land in built-up cities and collectively-owned land in rural areas, which is actually an indirect form of state ownership. Private ownership of land is forbidden in China, and individuals can only apply for specific land tenure and specific land use right for specific use.

The local governments and land administrations are the decision maker who has

the right to decide who is to use or operate a particular land tenure, at a particular price and on a particular condition, rather than the state, the specified land owner in the constitution and relevant laws, or the central government and the land administration that represents the state. As a result, the ultimate ownership held by the state involves two critical real property rights: the right to operate the land and the land use right, and the latter is the key. According to Shaopeng Zhang et al., this is an independent real property right, also known as "land property right" (Zhang, 1998). Independent land property rights, based on the right to operate the land and the right to use the land, have become a "land property right" that local governments really want to have decision-making and disposal rights. Due to the lack of clear ownership of land as well as the vague definition of land property rights, local governments make use of the lack of a strict and reasonable division between "public land" and "commercial land" to conduct extensive land property rights operations in maximizing local financial interests (Liu, 2011). As long as the authorization from the central and superior governments remains, local governments have a considerable decision-making space in the old city reconstruction.

The land supply is rigid, and the space for expansion is limited in the built-up urban areas, accentuating the land scarcity in the old urban areas. Planning and reconstruction with limited land for different uses have become an important issue for local governments in the development of the old urban areas. This scarcity implies significant asset value for local governments, which, therefore, bear important powers and responsibility for decision-making and examination and approval in reconstruction and development. This scarcity also has important commercial value for individuals and enterprises. Whether

reconstruction and development are possible, who should carry out reconstruction and development, and what costs will occur in reconstruction and development also involve the division of responsibilities and rights between enterprises and individuals. In the planning and reconstruction of old urban areas, governments, enterprises, and individuals may have different purposes in using urban land and space, so fierce competition exists between stakeholders for the land and space in old urban areas. This increases land prices during old city reconstruction and development, so the owners of land property rights have a strong power (Storper, 2020). In contrast, the holders of various types of housing property rights on state-owned urban land have significantly less say than the agents of urban land state-owned property rights in deciding whether to carry out old city reconstruction, how wide the demolition will be, and what standards and methods are applied to demolition and relocation.

With land property rights held by the state, loopholes have been found in the specific land administration in various cities through analyzing China's urban land administration system. The most important question is whether the specific claims of land property rights owners, such as property rights, use rights, and management rights, should be combined or allocated to different entities for realization. If they are allocated to different entities, do these entities have consistent or conflicting interests and allow maximum incentive compatibility? In principle, the owners of land property rights are naturally the owners of the use rights and management rights. However, it is hardly possible for the same entity to hold all three rights in the state-owned land system. Scholars have proposed that the "separation of the three rights" in the urban land property rights system should be promoted. That is, land ownership, the right to use, and

the right to management belong to different persons. On behalf of the state, the central government exercises the ultimate ownership of urban land; enterprises and institutions may, with the approval of the state, have the right to the use of urban land for a fee; local governments exercise the right of land management on behalf of the state according to law. In such a system with the separation of the three rights, the absolute rent of land management belongs to the central government, and the differential rent belongs to the local governments (Yuan, 2004). However, there are controversies and gaps in related literature concerning how to separate these three rights and what standards should be applied to determine absolute rent and differential rent.

It is safe to say that the ownership of urban land property rights is a fundamental issue in old city reconstruction. It involves the power and responsibility relationship between the central and local governments, thus affecting the division of interests between the central and local governments. It also constitutes the active authorization, incentive compatibility, and interest consistency between the central and local governments. Though the state owns urban land property rights and the central government administers land use on behalf of the state, local governments with legal and administrative authorization administer the determination of land use, transfer of land use, and acquisition of benefits. From the perspective of law and property rights, whether to authorize the central government or local governments to administrate state-owned land makes no difference because local governments are considered branches of the central government. With authorization from the central government under the law and administrative system, local governments possess the legal right to use and manage local urban land. This consistency of

authorization and interests between the central and local governments in the property rights of state-owned land is also a critical factor in understanding the planning, demolition, scale, and progress of old city reconstruction and allowing governments at all levels to reach consensus about these matters.

As to the housing property rights in the old city reconstruction, the urban land ownership and the corresponding housing property rights should be consistent and match each other. However, the imperfection of China's property ownership registration system, the imperfection of land registration methods, and the unstandardized circulation of the real estate and property resulted in different subjects of the real estate and property and the conflict of rights in the end (Tao, 2004). During the old city reconstruction, the urban house dismantlement separates the land ownership from the housing ownership. Negotiation about compensation is not needed for the land belonging to the state, while there is a need for the houses on the urban land. Because the diversity of housing property rights and the interpretation for land usage are also different, which might be for public or commercial interests, the corresponding housing demolition compensation may be very different. However, the *Regulations on the Administration of Urban House Demolition* taking effect in 2001 authorizes local governments at or above the county level to have considerable decision-making autonomy in the old city reconstruction and demolition without thorough consideration of the opinions of urban housing owners beforehand. The conflicts of interest among the governments, the demolishing entities, and the owners of the demolished buildings arising from old city reconstruction plans, relocation, and compensation from demolition are becoming more and more intense, and the social contradiction is especially prominent with frequent

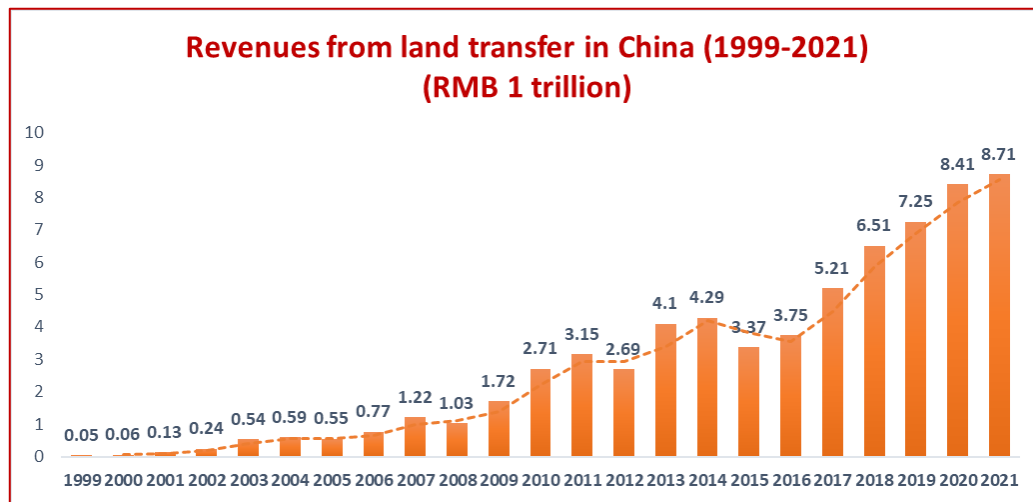
occurrences of forced demolition (Tang, 2007). It is necessary to analyze further whether there are solely conflicts of interests between local governments and owners of different housing property rights or whether it is possible for them to share interests when sufficient compensation for demolition is made. The value of properties is likely to increase in old city reconstruction.

Based on the above literature, the "separation of the three rights" of the ownership, the right of use, and the right of management of urban land have resulted in significant deviation. It means that, under the law and administrative authorization level by level, local governments have more dominance and decision-making power over vague land property rights, including urban land use rights and management rights. However, there is not sufficient research on whether the dominance of local governments in decision-making is consistent with or contradicts the interests of superior governments, especially in large-scale old city reconstruction. Moreover, there is not sufficient research on diverse housing property rights and the compensation question in old city reconstruction, and what inevitable connection exists between the "separation of the three rights" of the urban land. There is also no systematic monographic study on space, offside, overstep, and no limit of the decision-making power by local governments in the development and how local governments have obtained total dominance.

2.3 Land Finance and Local Government Interests

During the administrative system reform, the duties have been disproportionate to financial power after the re-division of powers and responsibilities between the central government and local governments in 1994. To match their duties,

local governments often have a strong motivation to seek additional fiscal



revenues. To drive development and urge local governments to assume more duties, the central government acquiesces in, even encourages, local governments broadening their sources of revenues through policy permission or administrative authorization. In contrast, the central government's fiscal revenues are guaranteed. Land finance has become the most important source of non-tax revenues for local governments in China since 1994, especially after 1998. According to the statistics maintained by the Ministry of Land and Resources, the revenues from national land transfer soared from RMB 50 billion in 1999 to RMB 3.15 trillion in 2011, an increase of more than 600 times in 12 years, and kept increasing to a larger scale after 2012. The nationwide revenues from land transfer in 2021 were 3.2 times those in 2012 mainly as a result of new urban expansion rather than old city reconstruction (See Figure 3). It is safe to say that the key motive for local governments to promote the scale and speed of urban construction from 1992 to 2012 was to seek an increase in revenues of local governments from land finance, which is the most important interest of local governments, by facilitating either old city reconstruction or new urban expansion.

Figure 2: Revenues from Land Transfer in China (1999-2021)

(Source: Ministry of Land and Resources and Ministry of Finance)

A fundamental cause for local governments in China to choose land finance as a source of the revenue increase was the tax-sharing reform in 1994 that redefines the financial power and duties between the central and local governments. Most of the fiscal revenues are included in the national tax and a small part in the local tax. After that, the total tax revenues ascribed to local governments and their increase were far from meeting the expenditures for promoting rapid economic development and social livelihood. That is, there was a de facto mismatch between financial power and duties of local governments, which had to their sources of revenues in addition to certain transfer payments from the central government. This led to the controversial "land finance," which means local governments obtain huge revenues from transferring land use rights by developing real estate and operating land use. Here, economic decentralization can be seen as a fundamental institutional change for understanding China in transition. It was precisely the tax-sharing system reform in 1994 that led to the asymmetry of financial power and duties between the central and local governments. The positive effect of a certain degree of local financial autonomy on local economic growth is evident to all. The more autonomous the region, the faster the economy grows. This is also the internal driving force of the continuous growth of local government revenues, including land sales revenues (Chen, 2010). Relevant empirical tests have also found that it is the Chinese-style decentralization system between the central government and local governments and the unequal division of powers and responsibilities between the central and local governments that have encouraged local

governments to grab out-of-budget fiscal revenues by "distorted means," while the local competition system has further driven local governments to adopt active land finance strategies (Wu & Li, 2010). Further studies show that the tax-sharing reform that started in 1994 gave more financial power to the central government, while local governments assumed more duties. Local governments gradually turned to a development model focusing on land expropriation, development, and transfer, thus giving rise to land finance and land-centered urban expansion, which was an unexpected consequence of the reform (Sun & Zhou, 2013).

From the statistical data, after the reform and opening up in 1978, the development and utilization of land in China's major cities showed an overall growth trend, while their scale and models of land development and utilization differ from each other in different phases due to different factors. Some cities prioritized re-planning and reconstruction of the old urban areas and then expanding into new urban areas; others carried out initial old city reconstruction, quickly shifted their focus to the expansion of new urban areas and attracting investment, and then reconstructed the old urban areas again. According to the regression analysis of Minghong Tan et al., from the end of the 1980s, there are three main factors influencing the development and utilization of urban land in China: urban population, regional economic growth, and improvement of the urban environment (Tan et al., 2003). Among them, regional economic growth is far more fundamental than urban population and urban environment improvement in driving urban land expansion. It is the internal cause of shifting to the dominance of commercialization in old city reconstruction and new urban expansion around the country and the core driver for enthusiasm of local

governments in fast large-scale old city reconstruction.

To understand urbanization in China from the perspective of the driving mechanism, Li et al. (2012) finds that the prominent features of urbanization in China are government-led, large-scale planning, and overall promotion. The old city reconstruction is one of seven models that are promoted specifically. To realize the fairness and justice of urban growth, how to respect the objective economic law more and promote the positive interaction between the government and the people is still a significant problem to be studied and solved. In urban land development and utilization, Liu (2012) compared the spatial pattern, driving mechanism, and management policy of different academic schools on urban land use expansion. From the decision-making process and driving mechanism in the course of urban land development, the emphasis has shifted from advocating the free operation of the land market to wise management. Therefore, the development of urban land use in China should strengthen the primary position of the market mechanism on the one hand and the macroeconomic regulation and control ability of the government on the other hand.

Motivating local government officials is important to facilitate local economic development and urban construction effectively. The research on the incentive mechanism of the Chinese official system is a research focus of domestic and international economics circles. From this point of view, many scholars explain that after China's reform and opening-up, especially since the 1990s, each region's economy in competition with each other to achieve rapid development was an important factor. In the opinion of Cheung (2011), this kind of competition for investment with a degree of autonomy across China, especially

at the county level, can be seen as the key to breaking the planned economy. Behind this are the consistency in understanding of economic development goals by central and local governments and the incentive compatibility in various aspects from facilitation of economic development. Further research comes from the applied analysis of mechanism design theory, that is, why did such an incentive mechanism with actual utility emerge in China in the 1990s? Xu (2011) focused on how China's repressive "decentralized totalitarianism," That is "a totalitarian system with separation of powers to regions," inherited from the Cultural Revolution, transformed into a "decentralized authoritarianism," or "authoritarianism system with separation of powers to regions," in which private enterprises are the majority, and the economy developed moderately.

In this process, the incentive mechanism for the Chinese official system has also been solved. Scholars such as Chenggang Xu, Yingyi Qian, and Eric Maskin have found that in the early years of China's reform and opening up, the highly centralized political government encouraged local governments with large amounts of administrative and economic resources into a sort of competition to match GDP growth rates. Since the ranking contest is directly linked to the promotion of officials, many local governments have actively innovated the ways and means of reform and even taken risks, thus promoting reform and economic development (Qian & Xu, 1993; Maskin et al., 2000; Roland & Xu, 2006). That is, the local governments, based on the full use of the single-oriented incentive mechanism, dare to push through the limits in fiscal revenue and other matters, and various enterprises have got what they want and become the driving force of economic growth. According to the "hierarchical political

incentive model between local and central governments" established by Shilei Wang and Jun Li, there are incentive mechanisms for local governments to volunteer to improve physical infrastructure. Studying the absolute performance appraisal of government officials in a neoclassical growth model, they find that under a relatively perfect incentive implementation mechanism, a key driver of increased investment in local infrastructure is incentives, such as promotion, for local government officials. By adding more factors into the study, such as the relative performance evaluation, the posterior reward and punishment mechanism and expectation faced by the local governments, the risk attitude and the promotion probability of the local governments under the promotion incentive, as well as the distinction between homogeneous risk and heterogeneous risk, it proves the inevitability of local governments to increase infrastructure investment under the guidance of the incentive mechanism (Wang & Zhang, 2008). Here, infrastructure investment in a broad sense includes, or at least involves, large-scale investment in old city reconstruction in major cities. While these investments may come from the state sectors or outside, the goal is to accelerate and scale the local reconstruction of old cities. It may also explain why local governments played an active role in large-scale old city reconstruction by forced demolition or using administrative resources during the 20 years from 1992 to 2012. The benefits that local governments can reap and the promotions that local officials may receive are unprecedented, which led to the unprecedented speed and scale of the old city and urban reconstruction. After redefining the relationship between the central and local governments, the Chinese government has adopted a single indicator of GDP as the core indicator of official performance. Thus, the central and local governments can coordinate

their stances on old city reconstruction, new urban expansion, and other issues beneficial to local economic development and reach relevant decisions quickly. With the central government withdrawing its authority over local affairs, local governments have greater autonomy over local economic and social development, so some scholars even think that China's economic development from 1992 to 2012, in fact, "more and more operated like a federal system" (Zheng, 2006). By any definition, the core change is the stimulation of local vitality through local empowerment and local competition (Qian & Weingast, 1997). However, the retreat of central power in local affairs does not mean the real weakening of central power. Instead, the central government adopts an institutional arrangement that can be called "governing at a distance" to maintain local oversight. This kind of supervision is to give the local governments more development decision-making power, driving efficiency of reform and development.

In China, the supervision of governing at a distance is mainly embodied in two aspects: the unconditional leadership of the party over local affairs, the power of the central government over the personnel of local superiors, and local superiors over the personnel of subordinates. Since the 1990s, in the selection and appointment criteria for officials from the central government to the local authorities, "economic development performance," represented by the GDP index, has been the leading indicator. It will undoubtedly encourage local officials to find ways to create better economic performance and faster urban growth, leading to better evaluations and promotions (Li & Zhou, 2005). This explains the heavy reliance on GDP indicators at both the central and local levels. Scholars have found that the organizational structure to ensure the

effectiveness of the incentive mechanism for officials depends on four conditions, among which the various levels of officials forming an "M-form organization," which is self-contained at different levels of the organization, is far better than the "U-form organization" of the former Soviet Union to solve the problem of incentives for officials (Maskin et al., 2000). The empirical research of scholars shows that the competition among local governments plays an important role in China's economic growth and conforms to the core goals for economic development set by the central government. As for its sequela, it needs further analysis.

GDP-oriented local competition does have serious consequences. Under a GDP-based system, local officials work to develop the economy at all costs. As a result, the promotion rate of local officials is often positively correlated with the severity of local pollution (Jia, 2012). By studying the urban data in China from 2004 to 2010, scholars have found that the performance demands of local officials do have a significant positive impact on local environmental pollution levels (Yu et al., 2015).

In addition to economic growth and increased pollution, whether this positive correlation also exists in the broader context of regional economic development and social restructuring remains to be further studied. For example, from 1992 to 2012, a crucial period in China's accelerated urbanization, urban construction, and real estate development became the backbone of China's economy. As for the relationship between this and the large-scale old city reconstruction in China's major cities during the same period, especially the full support of local governments and officials for the participation of non-state-owned enterprises in old city reconstruction, there is no systematic research on what kind of

institutional factors and interest factors at present.

Based on the existing research, a preliminary inference is that: because of the enormous benefits of the old city reconstruction in various places, the speed and scale of the reconstruction are directly related to the achievements of local officials in urban construction and attracting investment. The scale and speed of local old city reconstruction are positively correlated with the performance evaluation and promotion speed of local officials. They may even be positively correlated with the degree of corruption that local officials later reveal. To test this theory, we can start the analysis with the separation of the ownership and management of urban land in China, the ownership, alteration, examination, and benefit-sharing of land property rights, and the corresponding mechanism design theories.

2.4 Old City Reconstruction and Incentive Compatibility

There are many concepts related to urban planning, construction, and function optimization, such as old city reconstruction, urban reconstruction, urban renewal, and urban renaissance. Each concept has a specific direction and a cross-cutting, so some distinctions must be identified and discussed. What exactly does the old city reconstruction mean? Why, in China, from 1992 to 2012, old city reconstruction became the most important common issue in urban construction and investment.

First, in a broad sense, "old city reconstruction" refers to the partial or total repair, alteration, and renovation of existing urban roads, road networks, water and electricity, communications, residential buildings, business circles, and others in old urban areas. Almost all cities in the course of development will

inevitably experience the urban space re-planning, urban building reorganization, as well as the constant improvement of city life. In general, old city reconstruction is a continuous process, the speed, and scale of which depend on the direction of urban development and the financial and operational capacity of the relevant government and social organizations. The old city reconstruction is usually gradual as the old city has more historical buildings and high-density urban residents and often involves government, education, medical, military, and religious facilities. There has been considerable debate over whether an old city, especially old cities and districts with a long history, should undergo large-scale reconstruction. More than 100 Chinese cities have been designated by the State Council as famous historical and cultural cities, with many restrictions on their reconstruction and development. This practice is also common in most countries of the world. The United Nations Educational, Scientific and Cultural Organization created a "UNESCO World Heritage Committee" in 1876 to assess the world's historic cities and protect them through their inscription on the World Heritage List to avoid the historical and cultural loss caused by improper development. However, China's old city reconstruction has broken through these protective constraints.

Second, several related concepts, including urban reconstruction and urban renaissance, differ slightly in their meaning. At the same time, all of them imply urban planning and layout, large-scale construction as well as reshaping the image of old urban areas. After World War II, major cities in Europe and the United States were reduced to war ruins, so there was a strong physical, social, and economic demand for "urban reconstruction." As a result, urban reconstruction has made significant progress along with the economic recovery

in Europe and the United States after World War II. This has subsequently led to the construction of cities in some ethnic independent countries and the rapid rise of some super cities in developing countries in Asia and the Americas. However, it also brought about an evident divide between the urban poor and the rich and divides within the society.

Third, another concept is "urban renewal," which refers to the necessary and planned reconstruction of areas in the city that are not suitable for the social life of a modern city. The first urban renewal workshop was held in the Netherlands in August 1958. It was clear that people living in cities have different expectations and discontents about the buildings they live in, their surroundings, their travel, shopping, entertainment, and other activities. Repairing and renovating the houses they live in, and improving the streets, parks, green areas, and poor residential areas were required to be done as soon as possible to form a comfortable living environment and beautiful cityscape. They all belong to urban renewal. That is, the main point is the upgrading of physical space. The urban renewal includes the reconstruction of the old urban areas, but it is not limited to the old urban areas. It also includes re-setting the new urban areas' planning and functionality. For example, the large-scale "Federal Urban Renewal Program" launched by the United States in 1949 involved the planning and partial implementation of 958 urban renewal projects by 1961, for which the budget for housing demolition and repair alone reached USD 24 billion. However, the multi-level collaborative plan for urban renewal from the federal government to the states in the United States caused controversies, encountered various difficulties in fundraising and project development and had to be suspended in the early 1960s. The urban renewal program also left new urban

poverty areas (Anderson, 2012).

Fourth, from the late 1960s, the United Kingdom took the lead in the rise of the "Urban Renaissance" concept. That is, through effective policy guidance and social innovation, more attention should be paid to the sustainable development of urban society, economy, culture, and ecology. This is also known as modern British urban policy, and its origins can be traced back to 1968. At that time, the cities mainly became the base of the service industry and the place for consumption due to changes in economic structure and massive migration of manufacturing. At the same time, a trend of suburbanization of urban living and shopping emerged in the United States, the United Kingdom, and other countries, and many functions of the core city and the old city were moving to the areas around cities. This soon led to the decline, chaos, or impoverishment of the central areas of the core cities, which in Britain led to more complex social conflicts and political unrest. There was an urgent need for new "urban planning" to improve the function of cities in order to cope with various social problems. Thus, the improvement of the social function of the city, especially the function of serving different people, became a central theme of the Urban Renaissance advocated by the United Kingdom. By the mid-1970s, the British Metropolitan Plan (BMP) formally introduced the concept of "urban renaissance" and proposed solutions to various urban social problems (Tallon, 2017).

To sum up, when this study discusses the reconstruction and construction of major cities in China from 1992 to 2012, it mainly points to the large-scale demolition and construction in the core urban areas, especially the old town areas, that is to say, the "old city reconstruction." In these 20 years, the scale,

speed, and scope of the old city reconstruction carried out almost simultaneously in China's major cities are unprecedented in China's history and rare even in the history of human cities. As it is unprecedented and rare, it is worth an in-depth study: why did such a large-scale old city reconstruction in China's major cities happen synchronously and rapidly? Who were the key drivers in this process of such a scale? Were they urban residents or enterprises, local governments or officials, or the central government?

To further analyze the behaviors and motives of local governments and officials in old city reconstruction in China, it is insufficient to seek explanation only from the individual needs of local governments and officials. Instead, we should turn to China's primary economic and property rights systems and the corresponding administrative management system from the central government to the local governments. An explanation can be found in the "mechanism design theory." That is, are there apparent coordination of goals and incentive compatibility between governments at different levels and between governments and market entities, such as enterprises and individuals?

The focus of the mechanism design theory originated from Hurwicz (1960; 1973) is: for any given economic or social goal, under the condition of free choice, voluntary exchange, incomplete information, and other decentralized decision-making, if an economic mechanism can be designed to align the personal interests of economic actors with the stated goals of the designers, and what the mechanism should be. Among them, "information efficiency" and "incentive compatibility," especially the latter, have a significant guiding value. According to Hurwicz's definition, "incentive compatibility" means that under a given mechanism, even if each participant sets his or her own goals according

to the principle of self-interest, the objective effect of the implementation of the mechanism can achieve the goals that the designer wants to achieve (shown in the upper right red section). At the same time, almost all of the mechanisms are designed to avoid the worst-case scenario of neither achieving personal goals nor the goals of the designer (shown in the lower left black section).

Figure 3. Incentive Compatibility Relationship

2. Designer's goal: high achievement 1. Personal goal: low satisfaction	2. Designer's goal: high achievement 2. Personal goal: high satisfaction
1. Designer's goal: low achievement 1. Personal goal: low satisfaction	1. Designer's goal: low achievement 2. Personal goal: high satisfaction

In general, there are two types of incentive incompatibility in mechanism design. First, it satisfies the designer's goal, but it is not easy to achieve the personal goal (shown in the upper left gray section). Such a mechanism is difficult to get personal support; personal involvement declines; the designer's goal is hard to reach, sliding down to the black section. Second, the personal goal is well achieved but does not meet the designer's goal (shown in the lower right gray section). Such a mechanism is also hard to sustain, and as designer support wanes, personal goals will be hard to achieve, sliding left into the black section. On the other hand, if the incentive mechanism is partially adjusted to improve the possibility of personal goal achievement when the designer reaches the goal, or if the incentive mechanism is adjusted in time when personal goal achievement is better to make the designer's goal better achieved, gray sections may shift to the red section, thus achieving incentive compatibility.

Looking at the design of China's official system from the perspective of

incentive compatibility, we can find the following problems: Over the past 30 years in China, whether it is the competition for GDP growth led by the local officials, or a large number of government-led old city reconstruction, have fully realized the "incentive compatibility" under the new division of powers and responsibilities between the central and local governments, especially with full authorization from the central government to local governments. Meanwhile, to maximize local economic growth and government fiscal revenues, local governments compete in large-scale old city reconstruction and attraction of investment through various preferential policies, all to maximize the revenues and interests of local governments. Many local officials, who control land lease rights, tried to achieve noticeable performance and get promotion through large-scale old city reconstruction and to share benefits and even seek rents with different types of real estate developers in the decision-making related to old city reconstruction to maximize personal interests. The goal of old city reconstruction was achieved relatively quickly; local urban construction was accelerated and optimized; local GDP growth was stimulated; solid achievements were provided for local officials' promotion due to overt and covert occurrences of incentive compatibility. Officials who have been promoted for their performance in old city reconstruction and urban construction can continue the old-city development cycle under the incentive compatibility to the greater extent of their administrative authorization.

After 2012, there was no "bidding, auction, and announcement" system for urban land transfer in the early phase of old city reconstruction, but a land lease system was implemented, which gave local governments and officials significant decision-making autonomy. Various corruption problems in the

course of the land leases were not prosecuted by justice for a long time. It also leaves room for power-for-money deals in the 20 years from 1992 to 2012, with endemic corruption among city planning and construction officials across China. These problems were exposed in large numbers in the subsequent restructuring of the administrative system and in the wave of official anti-corruption campaigns, which can also be said to be the political, economic, and social systemic costs of the periodical incentive compatibility. According to quantitative research by Ting Chen and James Kai-sing Kung, one of the main targets of the anti-corruption campaign in China since 2012 has been the trading corruption in the primary land market. Data show that some provincial officials who have been investigated for corruption secured land for companies run by children of the rich and powerful at a discount of about half the price paid by their peers (Chen & Kung, 2019).

Regarding what role the government should play in promoting economic growth and social development, scholars have put forward several different situations development-type government, enterprise-type government, snatch-type government, and control-type government. Through empirical research, Qian Zhang proposes a new type of government, called "social-entrepreneurial government," which pays more attention to pursuing social justice than direct participation in economic affairs. In terms of the supply of low-cost public rental housing, the governments of Hong Kong, Singapore, and Chongqing conform to this pattern of government behavior. This type of government participates in economic affairs neither by directly running enterprises nor by formulating industrial policies but by supporting the development of industries and intervening in the construction of markets to achieve a more equitable supply of

essential goods such as housing (Zhang, 2012). This suggests that the distribution of related interests will become more complicated, and it cannot last long by relying solely on the dominance of the government along with the expansion of old city reconstruction and urban construction. Whether other stakeholders can influence government decision-making depends on whether all parties find the coincidence of interests and the space of incentive compatibility.

To sum up, because of the enormous benefits from the old city reconstruction in various places, the speed and scale of the reconstruction are directly related to the achievements of local officials in urban construction, investment attraction, and other tasks. The scale and speed of local old city reconstruction are positively correlated with the performance evaluation and promotion speed of local officials. The efforts of local governments to facilitate old city reconstruction are not only in line with practical interests such as local economic growth but also conform to the goal of superior governments to promote economic growth and the goal of enterprises and individuals to obtain commercial benefits or property appreciation through the old city reconstruction. This is essentially the incentive compatibility achieved by all parties around the old city reconstruction. Of course, controversies over related plans and disputes over demolition schemes arise due to an imbalance in the specific benefit sharing.

Chapter III

Research Method and Analytical Framework

The uniqueness, scale, and complexity of old city reconstruction across China between 1992 and 2012 make a complete full-sample study impossible because complete statistics are not available from government departments. Nevertheless, by studying the shared practices and periodic changes of different types of cities in the reconstruction, the property rights, decision-making rights, and development rights involved in old city reconstruction from 1992 to 2012 can be compared and analyzed.

3.1 Methodology

Because it is difficult to collect complete data, this topic has mainly adopted the following research methods.

(1) Literature survey. By collecting and sorting out the monographs and papers on different models, practical cases, and problems of old city reconstruction at home and abroad, to understand relevant viewpoints, argumentation, and theoretical basis, and by combining the incentive compatibility theory, to study the influence of the officials' incentive mechanism in the reconstruction of the old cities of China. This method is adopted because there are too many case studies, policy studies, and comparative studies on the old city reconstruction, which need systematic collation. There are too few institutional studies on the old city reconstruction, so a careful comparison is needed to confirm the focus of the study.

(2) Case method. Given the state-owned land property rights, housing property rights, examination and approval authority, and development rights involved in

the old city reconstruction in different phases, the representative practices of Beijing, Shanghai, Guangzhou, Wuhan, and other typical cities are chosen to confirm the problem of the mismatch of the three rights involved in the process. This is the core method of this research and the key to analyzing the similarities and differences between cities in old city construction.

(3) Comparative analysis. It mainly compares the similarities and differences of policies and models for promoting old city reconstruction in different phases of major cities in China. The analysis also compares the differences between different historical phases at home and abroad and the differences in the ownership, decision-making, and development rights involved in the process. It is intended to make a more accurate analysis of the particularity of the rapid and large-scale old city reconstruction in China during the period from 1992 to 2012 and the commonality behind the specificities.

It should be noted that quantitative and qualitative analysis is not emphasized in this study because overall accurate data is not available. However, as a primary observation thinking method, it is integrated into the study. After further detailed data are published and sorted out, the quantitative and qualitative analysis can be supplemented.

3.2 Analytical Framework

It is possible to compare how relevant rights and responsibilities are defined by laws and regulations and what important variations have taken place in the implementation. This is done by analyzing the state-owned urban land property rights, urban housing property rights, examination and approval authority for old city reconstruction, and reconstruction and development rights involved in

the old city reconstruction of major cities in China from 1992 to 2012. These differences between the nominal and actual division of powers and responsibilities help analyze and explain how the old city reconstruction of major cities has been realized on a large scale and quickly in the past 20 years. By comparing these differences in the division of powers and responsibilities and analyzing the institutional causes and mechanisms leading to such differences, the first analytical framework of this study is formed (Table 1):

Table 3. Framework for theoretical analysis

	Urban land and housing property rights	Examination and approval authority for the old city reconstruction	Old city reconstruction and development right
De jure	Urban land is owned by the state and managed by the Ministry of Land and Resources of the People's Republic of China, which can issue state-owned land use certificates; Urban housing property rights: private, public and common. Private houses with private property rights may be issued with certificates of property rights	National Development and Reform Commission, Ministry of Land, Ministry of Housing and Construction; Provincial Development and Reform Commission, Land Department, and Housing and Construction Commission	Urban construction departments of all cities/counties, and state-owned enterprises
De facto	The <i>Regulations on the Administration of Urban House Demolition</i> , promulgated by the State Council on June 13, 2001,	The examination and approval authority was authorized to the districts/counties and even to sub-districts in 2001	In the early 1990s, the authority was mainly authorized to the urban construction departments of urban districts/counties.

	clearly authorizes departments of land and resources at or above the county level to issue land use certificates as confirmation of state-owned land tenure; The Real Estate Administration Bureau and the Land Administration Bureau of the government at or above the county level shall be responsible for registering and issuing housing ownership certificates.		In the 1990s, the authority was mainly authorized to Hong Kong, Taiwan, and other foreign-invested enterprises. Since the new century, the authority was mainly authorized to private enterprises.
Case study	Beijing Ju'er Hutong Project Beijing Goldfish Pond Rehabilitation Project	Guangzhou delegated the power of project approval to the Urban Planning Commission under the Urban Renewal Committee.	Beijing Goldfish Pond Renovation Project; Development of Shanghai Xintiandi; SOHO China
Consequence	Double absence of ownership, state-owned land ownership being diluted, housing property rights being ignored	Double offside of examination and approval authority: replacing the state-owned overall planning of the urban land and suppressing the claim of the homeowner	The development right has been dislocated repeatedly: Foreign-invested enterprises and later private enterprises have dominated old city reconstruction; Commercialization has replaced the public nature of old city reconstruction

With this analysis framework, we can find that it is under the basic institutional

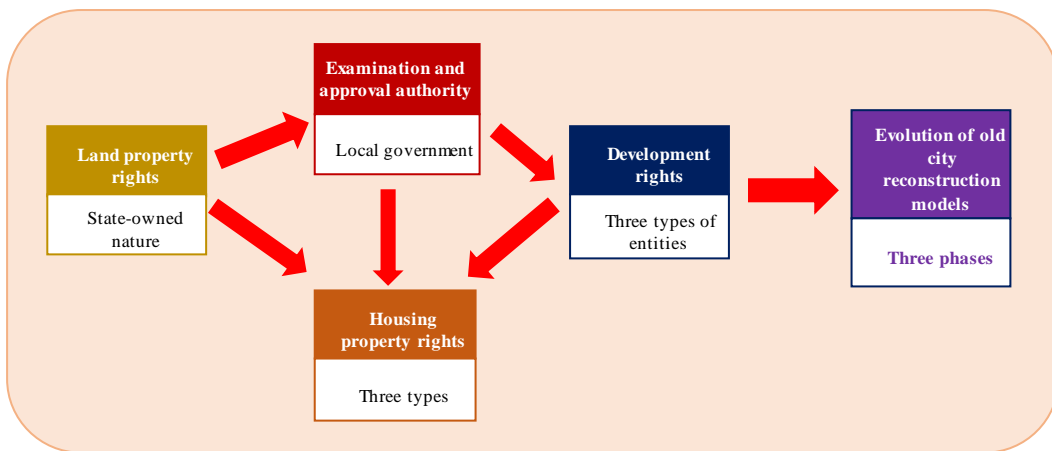
arrangement that the state owns urban land property rights, especially through the *Regulations on the Administration of Urban House Demolition* promulgated by the State Council in 2001. Various types of urban housing property rights are forced to be absent. The examination and approval authority of local governments at or above the county level in old city reconstruction has kept expanding, and their decision-making power over the expropriation and demolition of urban houses is almost unsupervised. The right of demolition and development is granted to government departments, state-owned enterprises, or other commercial organizations by issuing demolition permits. China's old city reconstruction accelerated on a large scale from 1992 to 2012 while the cities were seeking interest maximization. This brought the construction of China's major cities and local economic growth, stimulated the real estate industry boom, and caused many serious consequences. First, it caused many housing property rights disputes, especially vicious incidents that triggered forced demolitions of the private properties in the old cities, and the people seethed with resentment. Second, the opaque planning approval process, unscientific decision-making, and subjective randomness led to the waste of resources and backward planning in the construction of major cities. Especially the commercial profit-driven old city reconstruction produced identical looks of urban features. That is, the old city reconstruction and new urban expansion pursued similar core functions in cities and gave rise to similarity and even plagiarism of urban plans, design schemes, and architectural types and styles. Focusing on large scales, building heights and comprehensive services, modernization and large urban layouts and architectural styles were achieved through large-scale demolition and construction without considering the characteristics of each city. This process

severely damaged the historical and cultural heritage of the original cities. Third, due to the opaque and unfair decision-making procedure and the collusion of power and money, and private dealings, many cases of official corruption and commercial bribery have arisen due to the old city reconstruction project. Fourth, the commercialization and marketization in the development of old city reconstruction pushed up land prices and house prices in major cities. They also created huge fiscal revenues for local governments, formed heavy dependence on the real estate industry for marketization, absorbed excessive savings and social capital into the real estate development and mortgages, and widened the wealth gap due to differences in housing conditions and assets.

Further analysis of the framework shows that there is a certain progressive relationship between property rights, examination and approval authority, and development rights related to old city reconstruction: The state-owned nature of land property rights determines the leading role of the central and local governments in the old city reconstruction. By promulgating further laws and regulations, the central government grants the examination and approval authority to local governments at lower levels, and the examination and approval authority obtained by local governments affects who obtains old city reconstruction and development rights in different phases. Through the deep combination of the state-owned nature of land property rights and the government's examination and approval authority, the government has dominated the formation of various entities of development. They have jointly and overwhelmingly replaced old city housing property rights, thus removing the biggest obstacle to the rapid progress of large-scale old city reconstruction. The progressive relationship between property rights, examination and approval

authority, and development rights gave rise to three phases of changes in China's old city reconstruction from 1992 to 2012. The old city reconstruction gradually shifted from public welfare reconstruction dominated by the government and state-owned enterprises to commercial development dominated by foreign-invested and private enterprises, with state-owned enterprises also participating in profit-sharing (See Figure 2).

Figure 2. Progressive Relationship between Property Rights, Examination and Approval Authority, and Development Rights



After 2012, China's major cities had to slow down the pace and scale of old city reconstruction and re-explored new sustainable models of old city reconstruction and urban renewal. In order to control the expansion of Chinese cities and correct issues such as low land use efficiency, the central government strictly controlled the expansion of local development zones and new urban areas and further promoted the reconstruction of old urban areas with policies and funds after the year of 2012. According to data from the Ministry of Housing and Urban-Rural Development, from 2015 to 2017, 18 million units of housing in dilapidated buildings, shanty towns, such as urban villages, were renovated around China, and additional 15 million units of housing in shanty

towns were renovated from 2018 to 2020⁷. Estimates based on reports from the China Index Academy, the demand for urban housing demolition and reconstruction in China was 2,933 million square meters, accounting for 34.4% of the total housing demand from 2016 to 2020⁸. According to the *Special Plan of Beijing for Urban Renewal* released on May 18, 2022, there are about 245 million square meters of buildings to be renewed in the concentrated built-up areas of Beijing, which are in the key areas and central areas of Dongcheng and Xicheng. The traditional model of large-scale demolition and reconstruction in these areas would require high demolition costs and complex coordination of interests.⁹

Resemblance between cities in the early stage of old city reconstruction and new urban expansion attracted increasing attention. Urban development following identical planning and design regardless of the historical and cultural characteristics of each city was subject to constant challenges. In May 2022, the State Council released the *Opinions on Promoting Urbanization with County Towns as Important Carriers*, clearly requiring that the planning and construction should respect the local industrial layout, history, culture, and living customs in the more than 2,000 county-level cities in China by taking into their location and types, ensure the county towns retain their characteristics and avoid blind plagiarism between cities. This document is a phased summary of past experiences and lessons of China's old city reconstruction and new urban expansion, which provides an updated version of the definition of urban

⁷ State Council Releases Document on Implementing Three-Year Plan for Renovation of 18 Million Units of Housing in Shanty Towns. Ministry of Housing and Urban-Rural Development. July 2, 2015

⁸ China Urban Renewal Forum Held in September to Explore a New Model of Future Urban Development. China News Service. August 11, 2017

⁹ Beijing "14th Five-Year Plan" for Urban Renewal Released: Strictly Control Large-scale Demolition and Construction and Focus on People's Livelihood Security. Beijing Daily. May 19, 2022

development in China.

Urban renewal plans encompassing old city reconstruction are the focus of urbanization in China even. However, the specific models of urban renewal are gradually shifting from traditional demolition and reconstruction, development with dilapidated housing reconstruction, municipal works with dilapidated housing reconstruction, housing reconstruction with dilapidated housing reconstruction, reconstruction of old villages driven by greening, and microcirculation to more sustainable models of urban renewal (Yi et al., 2020). However, the social and economic consequences of rapid and large-scale old city reconstruction from 1992 to 2012, the defects of the system arrangement and incentive mechanism exposed in the process still need to be remedied through the reform of the administrative system.

Chapter IV

Key Analysis: Old City Reconstruction from A Property Rights

Perspective

The period from 1992 to 2012 witnessed the fastest and most extensive old city reconstruction in China's big cities. One of the most crucial factors contributing to this reconstruction process is the basic institutional arrangement that the Chinese law provides that the state owns all urban land property rights. However, the urban housing property rights involved in old city reconstruction fall into three main types: private property rights, public property rights, and common property rights. In the course of old city reconstruction, the examination and approval authority for old city reconstruction is mainly vested in local governments at or above the county level and local departments in charge of

land and urban construction by the central government through the legal provision and administrative authorization. In major cities, the local governments grant old city reconstruction and development rights to local urban construction and housing management departments, local state-owned enterprises, Hong Kong-invested enterprises, foreign-invested enterprises, and private real estate companies best suited to the interests of local governments, continuously driving the speed and scale of old city reconstruction.

Further research has found that there is a noticeable progressive relationship between state-owned urban land property rights, examination and approval authority, and development rights in connection with old city reconstruction. The state-owned nature of urban land property rights gives absolute dominance to the central and local governments in urban planning and construction. The specific demolition regulations promulgated by the central government have determined that the owners of houses with different types of property rights in cities cannot independently decide on and claim the property rights and interests of their houses. The state-owned nature of urban land property rights also leads to the concentration of decision-making power on old city reconstruction in the hands of local governments and relevant departments. At the same time, other entities and individuals have no substantial impact on the examination and approval decisions in old city reconstruction. As a result, government departments have great decision-making power when examining and approving the old city reconstruction plans, especially those who receive the most important development rights in old city reconstruction. The purpose is to maximize government interests and officials' incentives under the land finance and performance appraisal of officials. The final choices are often the most

beneficial to local governments' interests and officials' incentives.

In this process, the state-owned nature of land property rights is the premise, the interest maximization of the government is the fundamental purpose, and the incentive and promotion of officials is the driving force. As a result, three apparent changes were observed in the old city reconstruction in China from 1992 to 2012. Local governments maximized local interests, and officials also realized the best possible achievements and obtained promotions in old city reconstruction in different phases in the shift from public welfare reconstruction led by the state to the commercial development led by foreign-invested and private enterprises. The specific management of state-owned land property rights by local governments can also be used to explain the regional and time differences in the old city reconstruction between some cities. Guangzhou and Chongqing, for example, did not carry out large-scale old city reconstruction as happened in Shanghai and Beijing. Instead, they first developed new urban areas and attracted investment in these areas because this model was best suited to the maximization of local governments' interests and officials' incentives at the specific phase. Later they started large-scale old city reconstruction too.

From the case studies, the choices that are the most beneficial to the governments' interests and officials' incentives became the then mainstream approval decision-making and development direction in the three phases of old city reconstruction. In the first phase, from 1992 to 2000, the district governments and local state-owned enterprises dominated the reconstruction and development of the Ju'er Hutong project and the Goldfish Pond Rehabilitation Project in Beijing. In the second phase, from 1998 to 2002, Hong Kong-invested enterprises with financial strength participated in projects of

large-scale old city reconstruction and development, such as the Shanghai Xintiandi Renovation Project and the Beijing Oriental Plaza Project. In the third phase, from 2002 to 2012, as local private enterprises got strong, foreign-invested enterprises were no longer the only focus in the attraction of investment. Take SOHO China's series of projects in Beijing CBD as an example. Private and local state-owned enterprises worked together to complete the development of old city reconstruction projects. In these three phases, the real dominant roles and the biggest gainers were local governments, and local officials also realized conspicuous achievements and got promotion incentives in this process.

Affected by the progressive relationship between the three types of rights, from 1992 to 2012, large-scale old city reconstruction was carried out rapidly in major cities of China, and there was a general mismatch between these two rights and one power. That is, the implementation of law does not conform to the legal provisions. First, as a result of the absence of land ownership under the state-owned housing property rights system, land and housing owners cannot fully assert their rights in old city reconstruction. Second, the upward and downward offside of the examination and approval authority in old city reconstruction led to strong examination and approval authority of local governments. Third, old city reconstruction and development rights underwent constant changes. Public attributes were prioritized in early old city reconstruction, which later evolved into market-oriented real estate development with priority to commercial attributes. The generally existing mismatch of the three rights has led to the large-scale acceleration of the old city reconstruction in China's major cities, promoted urban construction and local economic growth, stimulated the prosperity of the real estate industry, and

caused severe consequences in many aspects. Therefore, after 2012, major cities in China have to slow down the speed and scale of old city reconstruction and re-explore the new model of sustainable old city reconstruction and urban renewal. The corresponding social and economic consequences are still to be addressed.

4.1 Impact of Urban Land Property Rights on Old City Reconstruction

The old city reconstruction involves no change in urban land property rights due to the state-owned nature of urban land property rights in China. However, it does involve changes in land use rights, income rights, and other specific rights of urban land and land users, as well as changes in different types of urban housing property rights on state-owned urban land property rights. The completely state-owned ownership of urban land property rights in China is a rare case in the world. The final decision-making power lies with the central and local governments and relevant competent departments that exercise state-owned property rights on behalf of the state in various important matters such as land use, change, and transfer. The state-owned nature of land property rights creates a substantial constraint on the housing property rights in the old urban areas. Though there are three main types of housing property rights in the old urban areas: private, public, and common, the owners of all kinds of housing property rights cannot fully claim their rights in realty under the constraint of state-owned land property rights, and must give way to local governments and competent departments that have examination and approval authority in old city reconstruction. House owners cannot choose or influence the authorization of old city reconstruction and development rights, and they have no say in matters involving the retention, demolition, and compensation for their own houses. It

is safe to say that the state-owned nature of urban land property rights determines the changes in the examination and approval authority and development right in old city reconstruction.

This is the first entry point for observing the process of old city reconstruction in China. In the large-scale old city reconstruction across China from 1992 to 2012, the central government, exercising state-owned urban land property rights, authorized the rights to governments at lower levels. Claims of all the three types of urban housing property rights involved in old city reconstruction were absent. This generally existing absence suggests that the core factor affecting and deciding old city reconstruction is the state-owned urban land property rights.

4.1.1 Downward Authorization of State-Owned Urban Land Property Rights in China

In countries with different urban land ownership, their urban construction and old city reconstruction preconditions are not the same. This directly impacts the use, transfer, and development of urban land and will ultimately reflect the differences in development costs and benefits distribution patterns, thus resulting in remarkably different speeds and scales of old city reconstruction models. Therefore, the ownership of urban land property rights is the basis of old city reconstruction and urban construction. Those owning land property rights have more say in old city reconstruction and urban construction. In countries where land property rights are privately owned, individuals with relevant land property rights have more influence than the central or local governments, whether in old city reconstruction or new urban expansion. In

countries where the state owns land property rights, the central and local governments exercise land property rights on behalf of the state and have greater dominant power over the scale, speed, and model of old city reconstruction than any urban residents or urban housing owners with different types of housing property rights.

China once had a long history of private land property rights. However, the land property rights system has undergone fundamental changes since the founding of the People's Republic of China in 1949. The *Constitution* of 1982 and other relevant laws provide that China resorts to socialist public ownership of land in two forms: urban land owned by the state and rural land owned by collectives. However, according to the requirements of laws and policies, rural land may be acquired, and its use may be changed into land for industrial, construction, commercial or residential purposes. Therefore, the collective ownership of rural land is essentially a specific form of state-owned land property rights in China, and the final ownership lies with the state. Specifically, old city reconstruction occurs in the built-up areas, so it involves no change in urban land property rights. This is different from the case encountered in the course of urban expansion, which usually involves the expropriation of rural collectively-owned land, changing the land property rights as well as the use and other interests of the land.

Only a few countries implement state-owned land property rights, while most countries allow private land ownership. As of 2000, only seven of the world's more than 180 sovereign countries do not recognize private ownership of land. All OECD countries generally recognize the private ownership of land. In their view, there is no way to market economy transition without private land

ownership. China is one of the few countries that practice full public ownership of land. However, the specific ownership of land falls into two categories: state-owned land in built-up cities and collectively-owned land in rural areas. The latter is an indirect form of state ownership. Because the state ultimately owns the land in China, private ownership of land is forbidden in China, and individuals may only apply for specific land tenure and specific land use right for specific use. Countries like China, which have implemented different degrees of land nationalization, currently have about a dozen countries worldwide. Besides the seven countries mentioned earlier not recognizing private land ownership, some countries, such as Hungary, practice state ownership of land. However, in 2015, Hungary handed over all state land to a new entity, the National Land Management Fund (NFA). Countries with similar economic size or land area to those of China, such as the United States, Japan, Germany, France, Britain, Italy, India, Canada, Australia, Brazil, and Russia, implement total or partial land privatization whether they are developed economies or emerging economies.

This privatization of land ownership determines that any large-scale land acquisition and development will involve more complex land property negotiations. Even in the course of relatively concentrated old city reconstruction, if houses in old urban areas are to be rebuilt or demolished, the expropriation of urban land will inevitably involve scattered and diversified land and housing owners, and the related negotiations are complicated and difficult. For example, the plans for the famous Tokyo Loop Line Duels and other important urban roads in Tokyo, Japan, were revised in 1950. However, the reconstruction of certain sections had not been implemented in the following

50 years because the land involved extremely scattered private property rights, and the negotiation was extremely complicated. The construction of the Loop Line Duels was finally completed in 2014 by integrating high-rise buildings with underground transportation tunnels according to the *Regulations on Redevelopment in Urban Areas* (Tongji University, 2019). Even countries with state-owned land property rights and local governments with examination and approval authority are struggling to coordinate land ownership in old city reconstruction as intended in plans. Though this slow speed seems to lack efficiency in making decisions and taking actions, it is possible to consider the interests of all parties, reach the final solutions and reduce the real conflicts among all parties through complex negotiations, coordination and contending.

In some countries that implement complete privatization of land and housing property rights, national expropriation laws and extreme means may apply to accelerate urban construction and old city reconstruction on a large scale in certain stages of urban construction. However, such cases are uncommon, because they involve the protection of private property rights. Without sufficient reasons, appropriate timing, and necessary legal and administrative authorization, such expropriation would easily lead to fierce responses from property owners and the whole society under the private property rights system of land and housing. Therefore, forced expropriation was more likely to occur in times of war or major disasters. Notwithstanding, historically, the legislative and administrative bodies jointly drove large-scale forced or semi-forced expropriation of private land and housing happened in some countries that implemented complete privatization of land and housing property rights to address urgent needs of economic growth and urban construction in peacetime.

The cases of phased and large-scale urban renewal from such acts are also worth studying.

The most typical example was the widely influential "Urban Renewal Program" adopted by the federal government and the Congress of the United States, controlled by the Democratic Party, in 1949. According to the program, 1,560 urban renewal projects were planned and to be implemented in more than 750 cities in the United States from 1949 to 1964. With the support of the mandatory federal statute, the governments of major cities planned their renewal of old urban areas, carried out semi-compulsory expropriation of private land and houses involved in the project areas, and provided appropriate compensation. More than 609,000 residents in old urban areas were forced to leave their old, dilapidated residences. With the support of various funds from the federal government, city governments bore the most costs of land and housing expropriation and demolition in old city reconstruction. Then, the rights to rebuild and develop the old urban areas were granted to private developers at low prices, hoping to realize a 1:4 amplifying effect of investment. Every dollar invested by the government was expected to raise four dollars of social investment through market operation and development by private enterprises. However, more than half of the federal urban renewal plans never entered the stage of substantive implementation, and most of them remained on paper. The substantial demolition, repair, and reconstruction projects would have taken more than 12 years on average if the projects had been implemented. Many new cases of unfairness occurred in the course of expropriation and demolition, and the rights and interests of residents in the old urban areas were not fully protected. Those old urban areas that have been renovated mainly consist of

private commercial houses (56%), public facilities (24%), and commercial buildings and industrial buildings (14%). The public housing available for ordinary residents only accounts for 6% of the total development area. The so-called urban renewal in the old urban areas has not achieved the goal for maximization of public interests in the end (Anderson, 2012). More importantly, semi-compulsory expropriation and compensation for residential buildings in old urban areas, which were rare in previous times, resulted in infringement of private land property rights and houses and strong social resistance in major cities in the United States, even with the full support of the federal government, congress, and the supreme court. This suggests large-scale and rapid reconstruction in old urban areas may encounter various difficulties, especially in countries with private land property rights and houses. This further suggests that forced or semi-forced expropriation of private land and housing, even for public purposes, can hardly happen for an extended period if a country has an established system of private property rights of land and housing, complete legislation, and strict law enforcement, and administrative bodies constrained by legislative bodies, judiciary bodies, and the public. Owners of private urban land and housing will try their best to protect their rights and interests. Illegal procedures or improper expropriation or compensation in forced expropriation would become reasons for restricting the abuse of expropriation rights. Especially when the government finds no sounder reason for expropriation in the face of objections from the public, they had to suspend forced or semi-forced expropriation of privately owned urban land and housing. As a result, the old city reconstruction and urban renewal return to the existing procedures and tracks under the private property right system. This not only maintains the

protection of private property rights but also curbs improper acceleration or scale-up of old city reconstruction and urban renewal due to forced expropriation rights. Therefore, private ownership of urban land and housing, especially land, is a basic institutional arrangement to restrict the scale of old city reconstruction and a key factor to avoid the abuse of expropriation rights.

Relatively, complete state ownership of land is just a necessary condition for large-scale old city reconstruction because there has not been such extensive, rapid old city reconstruction like that in China between 1992 and 2012 in other countries where the state also owns the land. After the founding of the People's Republic of China, there was a wave of demolitions and renovations in Beijing and other major cities in the 1950s. For example, the old city walls and ancient buildings of Beijing, which had survived the war, were almost completely demolished during the socialist transformation of the 1950s, and Beijing re-planned and rebuilt the old city to address the new needs. All these major activities of demolition and construction were reviewed and approved by the central government and the Beijing municipal government without considering the opinions of residents, experts, and scholars in the decision-making process. The appeals made by architect Sicheng Liang from perspectives of urban planning, architectural layout, and cultural heritage were neglected and failed to prevent the widespread demolition and construction of old urban areas in Beijing in this phase (Shan, 2006). However, from the 1960s to China's reform and opening up and the 1980s, only partial demolition and reconstruction on small scales were conducted in some cities of China. On the one hand, the financial strength of city governments was unable to support large-scale old city reconstruction at that time. On the other hand, the appraisal and incentives of

local governments and officials at that time were not focused on economic development, and no one cared about the rate of local GDP growth. At this phase, the promotion of local officials was not based on local economic development, old city reconstruction, and upgrading or investment promotion results. For this reason, old city reconstruction in Chinese cities stagnated for a long time, and new urban expansion hardly happened. The urbanization in China as a whole was very slow in this phase, with the urbanization rate remaining below 20% for a long time.

In addition to the state-owned nature of land property rights, which is a necessary condition conducive to large-scale old city reconstruction, the process of large-scale old city reconstruction in major urban areas from 1992 to 2012 was driven by a more direct and crucial force. In these 20 years, the state ownership of urban land in China did not change, but in practice, the state ownership of urban land was ambiguous. According to the *Constitution* of 1982 and the *Land Administration Law*, the State Council exercises the state-owned nature of land property rights, which the Ministry of Land and Resources administers under the State Council. The State Council further authorizes the urban land property rights to provincial governments and local land and resources authorities to specifically administer urban land property rights and plan and approve the use, change, and use right transfer and circulation of local urban land use rights. The state ownership of urban land is indirect and mainly relies on the central government, local governments, and relevant departments to exercise the rights. For the development, use or change, and transfer of urban land in various cities, the central government is not always ready to exercise the rights. Local governments have more direct approval and decision-making

power. Land administration departments at central and local levels are part of the governments, and their authority over land and resources are subject to the unified leadership and deployment of the government at the same level or departments at higher levels. Finally, under the will of the governments, especially local governments, they implement examination and approval of state-owned land and issue certificates of land usage.

As a result, the local governments, rather than the central government, determine the use and approval of urban land, which the state nominally owns. The heads of local governments at various levels, i.e., the heads of provinces, cities, counties, and districts, and the party secretaries at the same levels who directly influence their decisions determine the use, transfer, and approval of state-owned urban land property rights. In making decisions on planning, examination, and approval, their first consideration is how to maximize the interests of the local governments and how to maximize the performance and incentives of local officials. In these two maximization processes, a possible case is that the local interests and officials' interests are prioritized over the interests of the country. Rent-seeking and other forms of corruption would be common if the relevant supervision mechanisms are missing and the process is opaque, the rules are unfair, and the procedures are noncompliant in important issues, such as land expropriation, building demolition, plan approval, and developer selection.

4.1.2 Absence of Housing Property Rights on State-Owned Land

Compared with the entirely state-owned property of urban land, the housing property rights in old urban areas fall into different types, including private

property rights, public property rights, and common property rights. The mix of types of housing property rights differs between different major cities. From 1992 to 2012, the proportion of houses with private property rights was relatively small in the old urban areas in big cities like Beijing and Shanghai, while the proportion of such houses in big cities like Guangzhou and Chongqing was relatively large. Houses with public property rights and common property rights accounted for a larger share in all these cities. However, the diversity and complexity of housing property rights did not stop the rapid pace of old city reconstruction planning and implementation in major cities. The owners are, in fact, passively absent in the three main categories of housing property rights in old urban areas, unable to fully claim their interests and submit themselves to the state-owned nature of urban land property rights and the dominance of local governments in decisions.

The first category is private housing property rights. The land and housing property rights underwent complex changes in major Chinese 1949, and privately owned houses disappeared in 1958. Urban houses previously owned by bureaucratic capitalists, war criminals, traitors, and counter-revolutionaries were nationalized after 1949, and private ownership of houses by other urban residents was almost eliminated by the end of 1958 after the socialist housing transformation from 1956 to 1958¹⁰. Only a few urban houses retained private property rights, which were recognized by the law in the 1980s and 1990s, and many cities issued certificates of title for such privately owned houses. Before China implemented the housing system reform in 1998, only a small number of

¹⁰ Changes Urban Housing System in the Past 70 Years in New China and Its Prospects. Governance. May 7, 2019

houses with private property rights existed in major cities. By contrast, the housing property rights of this category are clear and should be clearly protected according to the law. As long as the owner does not want to sell the house and is not willing to accept demolition standards, they can decide whether to participate in the old city reconstruction or not. This is common in old city reconstruction in many countries where land and housing property rights are held privately. In historic cities like Paris, London, and Rome, plans for entire neighborhoods often had to be put on hold or changed because some property owners refused to do so. Because of the existence of a large number of private properties in old urban areas, many countries cannot make massive demolition and construction in the old city. In major Chinese cities, however, only a few privately owned houses were legally recognized and scattered in different parts of old urban areas after the change of property rights around 1949 and the Cultural Revolution from 1966 to 1976. Once an old urban area is included for large-scale reconstruction, all houses in the area, including privately owned ones, are subject to government-approved demolition standards. Despite some conflicts and disputes in the demolition process, it has been to refuse to cooperate with the reconstruction and demolition of the old urban areas on the ground that the houses are privately owned in Beijing, Shanghai, Guangzhou, Chongqing, and other cities. Only a very small number of "nail houses" have survived the demolition for road construction in old city reconstruction. For example, reports show that newly-built urban roads or interchanges had to detour around houses whose owners refused to accept demolition in Beijing in 2008 and Chengdu in 2010¹¹. However, these cases are rare special ones in the

¹¹ RMB 200 Million Asked for Demolishing a House? How Miserable Is the Most Unremitting Nail House? Sohu News. May 27, 2022

old city reconstruction and urban construction of these cities.

The second category is public housing property rights. This includes the houses confiscated and made public before 1949 and various types of urban houses, shopping malls, factories, and others, which were newly built by the government and state-owned institutions independently or through public-private partnership and owned by government departments and state-owned enterprises after 1949. The latter part constituted the majority of existing urban houses in 1998. These houses in old urban areas are usually owned by district housing authorities, state-owned enterprises, or public institutions. According to statistics of local government departments, in the old town area of Beijing, Shanghai, Guangzhou, and other cities, such public ownership housing accounted for about half and is the largest type among old city housing properties, which include those confiscated or newly built after 1949. Because it is public housing, when the government decides to renovate large urban areas, the owners of such housing are usually easy to negotiate for their demolition. The government departments owning the houses usually voluntarily accept the government's approved demolition standards or, through government coordination, get compensation for larger areas of land or housing in new urban areas away from the current site. This type of property is the least controversial in old city reconstruction and is often the main factor driving government decisions on old city reconstruction. As such public ownership housing accounted for about half of the housing in old urban areas, the owners of properties in old urban areas lose the primary power in negotiation if the owners accept compensation for demolition with no need for negotiation. It is almost impossible to challenge the government's reconstruction plans or to negotiate

compensation standards for demolition.

The third category is property of common ownership, which is the most complex in ownership and land use rights and usually involves the transformation, confiscation, occupation, and continuation of private properties in specific historical periods after 1949. For example, some privately owned houses recognized after 1949 were occupied by certain public entities exclusively or with the house owners during the Cultural Revolution from 1966 to 1976. After 1978, the house owners were unable to apply for new housing ownership certificates and, in fact, lost their private housing property rights as the occupying public entities did not move out. Though the occupying public entities had no property rights certificate, they actually owned most of the right to use houses. As a result, such urban houses become houses with common property rights that cannot be ascribed. When the old urban areas are renovated, properties with such complicated rights of ownership usually involve a series of problems: who has the right to decide whether or not to demolish them? What are the compensation standards for demolishing it? Who can take the demolition compensation? All the problems will lead to extremely complicated public and private disputes and housing disputes. As a result, there is no real representative of the owners of such housing to come forward to claim the right, and the government standards of demolition usually apply. The original owner can only get compensation for in their possession. The residents who occupy the houses can obtain similar compensation in the case of housing demolition, which usurps the interests of the original housing owner. At the same time, public entities occupying the houses also obtain part of the compensation for the demolition. However, the dispute of property rights is not settled by local

governments and the judicial branch.

According to incomplete statistics, among the above three categories of housing property rights in old urban areas, houses with public property rights and houses with common property rights account for the largest proportion. In contrast, houses with private property rights account for the smallest proportion. Generally, this proportional contrast is an obvious adverse factor for owners of houses with private property to protect their rights and interests in old city reconstruction. The dispersion of privately owned houses is also adverse for owners in protecting their rights. In the areas defined by the Second Ring Road of Beijing, about 10% of the houses were privately owned in the early 1990s. Most houses involve public property rights or complicated common property rights (Zhang, 2002). When considering old city reconstruction, the government could directly include most housing property rights in old urban areas in plans. The buildings occupied by entities and residential houses within the plan areas could be requisitioned or undergo coordinated demolition. For example, the Beijing Jade Factory, which occupied a large area by the South Second Ring Road, and Beijing Erguotou Winery near the East Third Ring Road were all relocated from the original sites in the old urban areas under the coordination of the government. The houses and land in old urban areas were handed over to the government for unified planning, renovation, and development. In contrast, local governments did not care about the appeals of the owners of the 10% houses with private property rights as to whether their houses should be included in the planned scope of old city reconstruction when the houses were to be demolished and what were the compensation standards for demolition of the houses. For example, the Hutong areas within the Second Ring Road of

Beijing were demolished and transformed. All privately-owned houses were demolished immediately under the demolition standards approved by the government after they were included in the scope of demolition. A few owners of privately-owned houses tried to negotiate with the district government, but the negotiation stalled. Owners of private properties were unable to refuse to relocate as those in countries with private property properties.

Even the former residences of some celebrities with historical and cultural values did not escape the fate of being demolished in the old city reconstruction. For example, the former residence of Sicheng Liang and Huiyin Lin, located in Beizongbu Hutong, Dongcheng District, Beijing, was to be forcibly demolished by CR Land in 2009 because it was within the site of a commercial project developed by the company in the old urban area of Beijing. However, the intended demolition raised wide concern in society after media reports appeared, and the developer was forced to suspend the demolition. In November 2011, Dongcheng District explicitly included this residence in the third national list of newly discovered cultural heritage and promised to restore and repair it after the existing residents moved out. However, an exclusive report on *The Beijing News* dated January 27, 2012 claimed that CR Land, the development company responsible for the renovation of the old urban area, carried out the so-called "demolition for maintenance" on the grounds of obsolescence and danger after all the residents vacated the building¹². The report once again aroused strong concern from society. According to the *Cultural Heritage Law*, the Beijing Municipal Cultural Heritage Bureau imposed a fine of RMB 500,000 on CR

¹² Former Residence of Sicheng Liang and Huiyin Lin Was Demolished. *The Beijing News*. January 27, 2012

Land and ordered it to restore the demolished old building to its original state¹³. The developer partially rebuilt the demolished building, but the restoration was still not completed as of the end of 2012. The development of the lot where the residence was located was suspended for ten years, which was actually a losing case for both protection of the building and the reconstruction of the old urban area. Tao Huang, former deputy general manager of CR Land Beijing and responsible for handling development on the plot, was finally investigated in early 2022 for suspected severe violation of discipline and law¹⁴.

Though local governments are resolved to carry out old city reconstruction and the scale of planning and reconstruction is usually large, disputes and struggles of homeowners never cease to exist as long as it involves the demolition of privately owned houses in cities. Almost at the same phase in the course of old city reconstruction in big cities like Shanghai and Chengdu, private property owners often resorted to violence or even self-immolation in order to resist demolition. Though such tragedies were unable to stop the implementation of old city reconstruction plans, they raised the alarm for planning and decision-making in subsequent old city reconstruction. For example, Fuzhen Tang immolated himself in Jinniu District, Chengdu, on November 13, 2009, attempting to resist violent demolition. Finally, eight relatives of Fuzhen Tang were criminally detained for violently obstructing the demolition¹⁵; on November 30, 2010, a resident died suddenly in the demolition due to old city reconstruction in Huangpu District, Shanghai, and his death was finally claimed

¹³ Former Residence of Liang and Lin Is to Be Restored, and Developer Is Fined RMB 500,000. Jiefang Daily. February 10, 2012

¹⁴ Tao Huang, Former Deputy General Manager of CR Land North China Beijing, Was Investigated for Suspected Serious Violation of Discipline and Law. The Paper. January 16, 2022

¹⁵ Eight Relatives Involved in Resident Self-Immolation to Resist Demolition in Chengdu Were Detained. People's Daily Online. December 4, 2009

to be caused by illness¹⁶. However, such disputes involving private property rights claims were finally surrendered to give way to the governments' unified plans for old city reconstruction, and the relevant houses were forcibly demolished one after another. Government departments and development companies usually cooperate with each other and even carry out violent demolition by hiring idlers and demolition companies filled by black gangs, resulting in numerous disputes and cases.

These frequent violent incidents in demolition were actually caused by the local government's failure to distinguish between public welfare demolition and non-public welfare demolition of urban houses involving different property rights as they focused on the state-owned nature of land property rights and by deficiencies in the people's right to know and participate, the relevant demolition compensation system, the forced demolition system and the rights relief system for owners of houses to be demolished (Wang, 2010). This also suggests that as long as there are privately owned houses in old urban areas, even in a small proportion, they are enough to form resistance to the government's forced demolition. This would increase the difficulties in old city reconstruction and demolition and bring new pressure to the local governments to facilitate urban construction. Such violent demolition incidents happen frequently and become known by the public via communication. Though they could not stop the course of old city reconstruction, they raised the alarm for later projects in old city reconstruction.

¹⁶ Sudden Death of Resident Was Found to Be Result of Illness in Shanghai. Xinmin.cn. November 30, 2010

4.1.3 State-Owned Urban Land Property Rights as Basic Institutional Arrangement

To sum up, the state-owned nature of urban land property rights in China directly affects different types of urban housing property rights. Local governments have full dominance in planning, examination and approval, decision-making, and development entity selection related to old city reconstruction based on the state-owned nature of urban land property rights. As a result, the state-owned nature of urban land property rights was a basic institutional arrangement with decisive influence in the course of large-scale promotion of old city reconstruction in major cities in China from 1992 to 2012. It is also the key entry point for explaining and analyzing the old city reconstruction.

The division of powers and responsibilities related to state-owned urban land property rights has undergone fundamental changes. The state-owned urban land property rights in China are authorized by law to be exercised by the central government, which then fully authorizes them to the local government via the administrative system. In fact, different types of housing property rights on the state-owned urban land property right become less important. In reality, any housing owners cannot fully claim their rights and interests in the old city reconstruction, and they all submit themselves to the decision-making of local governments, which are authorized to administer state-owned urban land property rights. Regarding whether to carry out old city reconstruction, what compensation is to be made, and other key issues, the governments at all levels, especially fully authorized local governments, exercise the rights of state-owned urban land on behalf of the state, while various types of house owners are

passively absent in this process. Whether there is strong resistance or negotiation, they cannot form effective constraints on the planning, scope, demolition standards, and developer selection of old city reconstruction. Therefore, the formulation, examination and approval, development, and implementation of old city reconstruction plans run smoothly within the scope of powers and responsibilities ascribed to local governments under the basic institutional arrangement of state-owned urban land property rights. Large-scale old city reconstruction was being facilitated in various cities, which compete and learn from each other. The hidden dangers and risks related to old city reconstruction also accumulated fast during this period.

4.2 Examination and Approval Authority of Local Governments for Old City Reconstruction

The examination and approval authority for old city reconstruction is the authority to make decisions on whether to carry out reconstruction, the areas for reconstruction, the plans of reconstruction, the corresponding compensation standards, who are to carry out the reconstruction, and other matters. Clearly, this is the decision-making power the most important to the stakeholders in old city reconstruction. Key issues such as the scale, scope, time, and price of different old city reconstruction projects involve huge benefits.

Since the state owns urban land, ultimately, only the state has the final approval authority for old city reconstruction. However, in the course of old city reconstruction in China's major cities from 1992 to 2012, it was usually the provinces and cities that had the real examination and approval authority. Driven by the mechanism of decentralization of power and transfer of profits,

the examination and approval of small-scale old city reconstruction in the region were further delegated to districts, counties, and even sub-districts in the so-called "localized approval and management." The result is that obvious up and down offside exists in the examination and approval authority of the old city reconstruction. The offside result is the expansion at arbitrary scales, the non-transparent examination and approval, and the black box operation of interests in old city reconstruction. The old city reconstruction, which originally had the public attribute, has become an important opportunity for power and interests to go together.

4.2.1 Restricted Examination and Approval Authority for Old City Reconstruction in Developed Countries

When one looks at old city reconstruction in other countries around the world, the examination and approval authority of the governments and city managers is not completely independent. In most developed economies, the city council has the largest power, but when it comes to the examination and approval of old city reconstruction, the city council is often unable to make independent decisions. It is usually constrained by the state planning and culture departments, and public opinions will also form constraints on the decision. That is to say, elected mayors of large cities in developed countries usually cannot make independent decisions on important and sensitive issues such as old city reconstruction.

In developed countries, there are two main reasons for the formation of a general mechanism for the approval and decision-making of old city reconstruction. First, the power of the private property system forces all parties to abide by it.

Second, the society's sense of awe and protection of history and culture has been greatly improved. On the one hand, the private property rights system of land and housing has been widely implemented in these countries for many years. Relevant laws have clear provisions for the protection of private property rights, and there has been inertia and a social foundation for strict implementation for many years. Therefore, it is time-consuming and difficult for the government to take the initiative to plan and coordinate the demolition for construction and reconstruction when the land and houses involve one or more private property rights. An exception is that the property rights owner takes the initiative, and the government can consider whether to approve or not. On the other hand, it is also related to the historical and cultural attitudes of these countries. The more commercially developed the country, the more it will, in turn, value the historical and cultural heritage, and the more it will be able to carry out the necessary protection of the historical and cultural heritage. Even if it has to be repaired or rebuilt, the aim is usually for protective development. Due to the reverence and protection of historical culture, the reason for the large-scale old city reconstruction for the purpose of regional economic growth is not established, nor is it supported by all stakeholders.

After World War II, Paris planned the necessary renovation of the old urban areas and the construction of a new business district to meet the requirements of modern development. However, Paris gave up the idea of building a business district in the old city reconstruction due to the strong opposition of the city council, especially the opposition from the state cultural department, as well as the pressure of public opinion at home and abroad. Since the 1950s, La Défense New Area has been developed and constructed in the northwestern part of Paris.

However, even if such a construction plan did not affect the old city of Paris, it still took nearly 30 years from the argumentation and approval to the commencement of construction. In 1982, an international design tender was launched for La Défense. After various evaluations, the construction of the new area began in 1985 and was put into use in the late 1980s. Later, the La Défense Model became a reference for many historic cities to plan new urban functions. The model of massive demolition and reconstruction of old cities has basically disappeared in developed countries. Because large-scale old city reconstruction involves too many stakeholders, this makes massive development almost impossible.

In the old city reconstruction and development of Tokyo and other cities in Japan, local governments must consider appeals in various respects: first, the reconstruction and development must include improvements to public elements, such as the construction of public spaces and public facilities; second, commercial redevelopment projects should justify their commercial appeals. Therefore, the private land owners, local governments, and project implementation entities must reach a consensus on old city reconstruction projects in Japan. In the specific decision-making and development process, the government departments should communicate directly with land owners one by one if government departments or public institutions undertake redevelopment projects such as urban road construction. The process is extremely complicated and often takes several years or even decades. Despite low efficiency, the development goals can still be achieved after communication and coordination. In other projects, the governments decide and approve the old city reconstruction plans, while private enterprises carry out commercial

development in implementation. In such cases, the governments should ensure the construction of public spaces and public infrastructure in commercial development and encourage private enterprises to actively negotiate with land owners in an attractive way to shorten the coordination time related to the land. Finally, the governments increase the attractiveness of commercial development projects and satisfy the commercial interests of private enterprises by increasing the floor area ratio of projects. The cost is that the density and height of buildings often go beyond the original plans. However, in either case, the government bodies making decisions are restricted by the owners of private land and try to meet the demands of the owners. The governments cannot and will not make decisions without the owners. At the same time, the governments must also consider the commercial interests of private enterprises participating in the old city reconstruction rather than simply requiring private enterprises to consider public spaces and public infrastructure (Tongji University, 2019).

Exceptions were projects of urban construction in some developed countries after World War II, which were developed quickly to varying degrees. In these cases, the central or local governments had sufficient examination and approval authority in old city reconstruction. This led to extended examination and approval authority of the governments, but they were still subject to many restrictions. For example, the "Urban Renewal Program" was implemented in the United States in 1949. It tried to reconstruct the central areas of major cities in the United States by invoking expropriation rights, introducing government forces, and investing public funds in the free market operation system through legislation by the Congress of the United States. In this process, the federal and state departments responsible for urban renewal management defined the urban

renewal areas and prepared plans. After public hearings, the local urban renewal agencies approved the relevant urban renewal projects and then forced or persuaded the owners to sell their houses in the name of expropriation rights; the state governments provided necessary compensation for expropriation to the owners (Anderson, 2012).

Obviously, in this extensive process of renovation and renewal of central urban areas, the real decision-making power and approval authority rested in the federal, state, and municipal government departments, whether in the initial renewal plans or the specific reconstruction plans, the scope of expropriation and compensation standards. Though the owners with private land and housing property rights had the right to participate in the hearing, they had no material influence on this massive federal urban renewal program. From 1949 to 1962, 1,210 urban renewal projects were planned and implemented in different stages in 636 cities around the United States, involving more than 80% of large and medium cities in the country. However, due to the complicated negotiation and expropriation of private land and housing property rights, this rare Federal Urban Renewal Program faced many difficulties in the planning and implementation process, which took years to complete certain stages. For example, plans were formulated for 958 urban renewal projects in the United States from 1949 to 1961. Each project's average planning time was two years and 11 months, with the longest planning time lasting eight to ten years. During project implementation, the average time for finally completing projects was about five years and four months, with the longest implementation lasting 9 to 13 years. However, the government had the right of expropriation granted by law. As a result, these urban renewal projects took nearly 12 years on average,

from planning to implementation, and many projects even took 15 to 20 years to complete (Anderson, 2012). That is to say, the federal, state, and city governments, with legal authorization, failed to accelerate the renovation and renewal of the central urban areas.

Therefore, under the multiple roles of the legal system of private property rights, the level of economic development and the People's awareness of protection, the examination and approval decision-making for the reconstruction of old cities in developed countries is constrained by multiple factors, such as land owners, planning and authority, public opinions and development entities, and has to be carried out prudently. It is difficult for local governments and councils to make decisions along with examination and approval authority or seek rent in old city reconstruction. Though this led to time-consuming and laborious decision-making discussion and contending between stakeholders, it ensured fairness in decision-making on examination and approval to a greater extent.

From the perspective of the relationship between social systems and urban functions, most major cities in developed countries have undergone continuous evolution of capitalist economy for hundreds of years and gradually formed functional divisions such as public buildings, commercial buildings, and residences with established supporting facilities across the cities. Except for restoration of urban functions after wars or major disasters, old city reconstruction and new urban expansion are subject to negotiation between stakeholders due to the protection of private ownership of land and housing, so it is unlikely to see short-term and large-scale demolition and construction of

the old city under the leadership of the government. Especially after World War II, the middle class gradually moved to suburban areas. Old urban areas were left to people with lower incomes. With dense communities and buildings and poor public security, various challenges existed in terms of the cost of demolition and reconstruction as well as the value of commercial development. Local governments and councils had neither political nor economic motivation to push large-scale old city reconstruction projects. A few commercial projects were finally completed after the demolition and reconstruction of old cities, but the time and development costs were horribly high. For example, Hudson Yards on Seventh and Eighth Avenues in Manhattan, New York, takes up an area of 10.5 hectares. With a total investment of more than USD 25 billion, it is considered the largest private development project ever built in old urban areas in the history of the United States. After the first motion for demolition and reconstruction was raised in 2001, it went through many rounds of study and review by the local government, council, residents' representatives, and urban planning authorities. Its construction officially started only in 2012 and was complete almost ten years later.¹⁷ Relatedly, the project's developer spent more than USD 3 billion on rebuilding and expanding the nearby parks, avenues, convention center, bus stations, and subway lines for public use to ensure the commercial project's progress. The local government and the developer were subject to many constraints.

¹⁷ Urban Renewal Case of Urban Governance in New York - Controversial Hudson Yards. Sohu.com. April 3, 2019

4.2.2 Lack of Constraint in Approval Authority of China's Local Governments

In contrast, the former Soviet Union, China, and other socialist countries repositioned the functions of cities and carried out reconstruction and expansion of urban areas in line with the socialist system after establishing a state-owned land system. These changes not only disrupted the original inertia of urban development but also formed the urban functional layouts of cities with characteristics of these socialist countries. Whether abandoning the original urban patterns or forming new patterns, the central governments and local governments had sufficient power of decision-making in examination and approval and encountered no effective constraint from other forces. This was the case in the early stage of socialist construction after the founding of New China in 1949 and also the case after the reform and opening up in 1978. Local governments always have full examination and approval authority for the old city reconstruction. For example, controversies existed over whether to repair or demolish the old city walls of Beijing after 1949, which had stood for hundreds of years. Though Liang Sicheng and many other architects advocated the repair for protection, the most complete old city walls of the ancient capital were demolished from 1953 under the leadership of the Beijing Municipal Government in the tide of socialist construction in an all-around way across the capital. Later, Beijing built the second ring road on the site of the old city walls and a ring metro line under it, which improved the traffic conditions in the old city, but the projects also caused irreparable loss of historical buildings in the

city.¹⁸

Since China's political and legal system is different from that of developed countries, it can be seen from the 20 years from 1992 to 2012 that local governments at all levels (above the county level) have sufficient approval power when it comes to local old city reconstruction projects. None of the superior government, the central ministries, and commissions, the legislative departments at the same level, or the public can form a practical restriction on the local government's examination and approval authority when it comes to large-scale old city reconstruction. Motivated by local governments, these seemingly constraining factors often become the assisting force for local governments to accelerate the approval of old city reconstruction, thus substantially increasing the approval power of local governments in old city reconstruction projects. It can be said that the local government's right to examine and approve the old city reconstruction is not restricted though the mix of types of housing property rights and claims of different homeowners differ between cities. Only superior government departments may veto the examination and approval of local governments in old city reconstruction. However, the central, provincial, and municipal government departments generally support the local governments to speed up old city reconstruction. Local governments replaced the examination and approval, which should have been made by the higher government departments or the competent departments that own the land ownership on behalf of the state. They also invaded the right to decide whether to carry out demolition and reconstruction, which should be

¹⁸ *Wounded Memory of City -- The Whole Story about Demolition of Beijing's City Walls*. 163.com. September 16, 2020

exercised by the owners of houses, forming an obvious overstep of authority in both the upward and downward aspects.

Specifically, the approval power of old city reconstruction in major cities mainly lies in the municipal government and is administered by the mayors or deputy mayors in charge of old city reconstruction. The local Party committees, especially the secretaries of the Party Committees, have the final decision-making power over important projects or major issues of old city reconstruction. The specific examination and approval authority shall be issued jointly by the city government and relevant competent departments, such as the urban construction bureau and the land bureau, and shall supervise and guide the implementation. In contrast, the local people's congress and CPPCC in each city actually do not have the right to examine and approve old city reconstruction directly. While their principal leaders may have the opportunity to participate in the discussion of major old city reconstruction projects, the final power lies in the government and urban construction departments.

At the same time, reports must be submitted to the provincial and municipal level government and competent departments above the city for approval if important urban planning and old city reconstruction projects reach a certain scale or involve the demolition and reconstruction of state-level cultural relics protection areas according to the hierarchical examination and approval mechanism for important matters under China's administrative system. Especially significant state-level urban planning and old city reconstruction also need to be submitted to the central government and relevant ministries for approval. However, there is flexibility as to what projects are subject to the approval of provincial and municipal governments and competent authorities

and what projects are subject to the approval of the central government and competent ministries. Where reporting is optional, enterprising local government leaders often choose not to report. A large old city reconstruction project can be divided into several relatively independent small reconstruction projects, which can be examined and approved locally at different times to avoid uncertainties caused by reporting and approval. In addition, according to the actual results of submitted projects, superior government departments usually clearly support old city reconstruction projects submitted by local governments. Sometimes, local governments are explicitly encouraged to expand the scale of old city reconstruction and accelerate the speed of reconstruction because the improved performance of lower-level governments and local economic growth is also part of the performance and economic growth achieved by superior governments. Therefore, it is not in the interests of superior government departments and competent officials to hinder local governments from speeding up old city reconstruction.

From 1992 to 2012, the actual approval process of old city reconstruction in different parts of China shows that the general trend was gradually authorizing the approval power to lower levels rather than gradually revoking it. This was primarily because the main tasks of governments at all levels turned to economic development. At the same time, the central and local governments encouraged the development of the market economy and pursued economic growth and the acceleration and upgrading of urban construction. At first, in some big cities with multiple levels of government existed, such as Beijing, which is the capital of the country and a municipality directly under the central government, the old city reconstruction of Beijing's involved not only Beijing

itself but also the real estate of central ministries and commissions. It is unrealistic for Beijing to examine and approve old city reconstruction projects by itself. On the other hand, Guangzhou, Hangzhou, Chengdu, and Wuhan are provincial capital cities. Should the old city reconstruction in these cities be subject to the approval of municipal governments or provincial governments? It is a subtle issue.

In the actual reconstruction process, especially after the large-scale old city reconstruction boom around the country, the municipal governments have reduced the number of reports to the provincial governments. The municipal governments even have taken the initiative to approve the reconstruction of old cities in some urban areas to the district and county governments to reduce the workload and difficulty of municipal approval. This entrusts local governments with more and more examination and approval authority for old city reconstruction, while the examination and approval authority of provincial governments and central governments on old city reconstruction is weakened. Even in order to start a new round of urban construction and economic development in some economically developed and difficult areas as soon as possible, the central government and the provincial government will actively plan and promote some large-scale old city reconstruction projects, such as shanty town reconstruction in Shenyang and other old industrial cities in northeast China, which is the project of old city reconstruction promoted by the central and provincial governments. To accomplish these major reconstruction goals as soon as possible, the central and provincial governments delegate specific approval powers and provide corresponding funds for relocation and reconstruction. Under the dual incentive of power and funds, local governments

often seize the opportunity to work quickly on the local old city reconstruction. Therefore, the approval of specific renovation projects is usually not submitted upward.

Although the state owns land in urban areas, local governments usually do not have to consider land ownership as long as there is no objection from higher-level governments and land authorities. Naturally, local governments have approval authority for the examination and approval. However, previous analysis of the many types of property rights in old urban areas suggests that local governments should fully solicit and respect the opinions of owners of different types of houses: whether they are willing to demolish or rebuild old cities, under what conditions will they agree to the demolition and reconstruction, what to do if they do not agree with the demolition, reconstruction, and other matters.

When investigating the old city reconstruction of major cities from 1992 to 2012, some local governments will appropriately seek the opinions of residents before making approval decisions. However, they often make direct decisions and leave no time for public feedback and public discussion. In the early 1990s, some local governments used to solicit residents' opinions through visits by leaders and sample consultations before approving and putting forward old city renovation projects to win the support and understanding of residents. Especially in some old urban areas, where people were the most unsatisfied and the living conditions were difficult, they took the lead in the demolition and reconstruction of old cities. This produced a demonstration effect and laid a good public foundation for the subsequent reconstruction of old cities.

For example, in the dilapidated house reconstruction project in the Goldfish Pond area in Beijing, the original residents were relocated in the overall demolition and reconstruction and then were moved back. The living conditions of the original residents were improved, and the level of urban construction in this area was optimized at the same time. The project was made as a model for the Beijing old city reconstruction. Another example was the novel reconstruction of Ju'er Hutong in Dongcheng District of Beijing. The project retained the style of Hutong and quadrangles, improved the living conditions of residents, and was highly and widely recognized. In 1993, this reconstruction project won the United Nations "World Habitat Award," becoming a model project for old city reconstruction.

However, the reconstruction of both the Goldfish Pond area and the Ju'er Hutong was a public priority: ensuring the residents' interests, improving the residents' living conditions, and upgrading some parts of the cities. In this process, there was no foreign investment or private investment, so it did not have the nature of commercial development. That is why such old city reconstruction projects have not been replicated on a large scale in Beijing and many other large cities. For local governments with the examination and approval authority, more such renovation of old cities is actually less attractive because there is neither fame nor gain in it, even if corruption is not taken into account. The promotion of such renovation to the local economic growth is also very limited. Local governments get the examination and approval authority by overstepping their authority in old city reconstruction. Does the respect for public opinion and emphasis on the public property meet the expectations of local governments, including local administrators? Later, many major cities did

not seek public opinion but directly approved and started the demolition projects.

What were the driving factors behind this?

4.2.3 Expanding Examination and Approval Authority of Local

Governments

Without other institutional arrangements for appraisal and motivation, local governments will likely continue to push the old city reconstruction without seeking scale and speed, taking public satisfaction as a priority. However, with the full implementation of the performance appraisal of GDP growth from the central government to the local governments, promoting local economic growth more quickly has gradually become a top priority.

Deng Xiaoping, the "Chief Architect of China's Reform and Opening-up," made it clear that annual growth of about six percent was slow and that growth of more than ten percent for five consecutive years was within reach during a visit to southern China in early 1992. Since the end of 1992, China has made it clear that the long-term goal of establishing a socialist market economy system is to encourage all regions to accelerate their development. Also, from 1992, the central and local governments at all levels took the pursuit of economic development speed and increase in the economic size as the most critical work goals. Subsequently, government officials in regions with faster GDP growth were more likely to be promoted. The resulting examination and promotion path of government officials formed a regional competition model of government officials with Chinese characteristics (Zhang, 2017). Since the growth rate of local GDP and economic size are the core indicators for evaluating officials, the local government will attach great importance to anything conducive to

expanding local GDP.

Attracting investment has thus become a top priority for local governments. Government officials have quantified tasks of attracting investment, especially from Taiwan, Hong Kong, and Macao. Foreign investors are looking forward to participating in urban construction and real estate projects in the mainland market. From Beijing to Shanghai, the investment from Hong Kong flocked to the demolition and renovation projects in these core urban areas. For example, Beijing's Oriental Plaza, Jinbao Street, and Shanghai Xintiandi were important investment projects introduced to reconstruct key urban areas. With examination and approval authority for the old city reconstruction, local governments could expedite the examination and approval for foreign-invested enterprises participating in old city reconstruction as special cases. As a result, the old city reconstruction, for which public opinions should be solicited, turned into projects for attracting investment to promote local economic growth. Under the incentive mechanism, the old city reconstruction became a major task directly examined, approved, and led by the local government. Neither higher government departments nor the public can restrain them.

Many daring local officials have become China's main drivers of economic growth and urban construction. Foreign, private, and state capital targeted these officials and took what they needed. Everyone reached a consensus on the speed of old city reconstruction and the scale of urban construction, so every big city has a rush of old city reconstruction. The approval of corresponding old city reconstruction projects and the compensation standards for demolition are all dominated by local governments. Through direct consultation with enterprises that attract investment, the projects are approved in an extremely opaque way,

without considering the opinions of property rights owners in the old city. Therefore, in such a huge incremental area, there are also institutional loopholes and power rent-seeking that are inevitable in the course of transition to a market economy. In pursuing GDP growth first, institutional loopholes and collusion of money and power appeared in the reconstruction of old cities, which are acquiesced and even encouraged. Some higher-level government departments and ministries also participate in the approval process of big city reconstruction projects, not for the improvement of procedures but for a share of the pie. The resulting corruption in urban construction and development has repeatedly occurred in Beijing, Shanghai, Guangzhou, Chengdu, Nanjing, and other big cities.

4.2.4 Government-led Old City Reconstruction

Given the division of powers and responsibilities and incentive compatibility, it is necessary to fully consider the relationship between more interest subjects related to old city reconstruction in China. This involves different models of old city reconstruction, mainly divided into four categories: government-dominated, market-oriented, public initiative, and hybrid models.

The first model is government-dominated. That is, the government has absolute leadership in project selection, resource allocation, planning and design, construction investment, land use management, and other aspects of the old city reconstruction. That is, government departments and state-owned enterprises do everything. This is especially true in countries where land is state-owned. In China, up to the end of the 1980s, the old city reconstruction of major cities followed this pattern. It has the advantage that the government controls

everything, but it also has the disadvantage. The incentive compatibility effect cannot be formed among the relevant stakeholders. This model has insufficient effective utilization of social resources and limited scale of old city reconstruction, which is far from satisfying residents' desire for old city reconstruction. Meanwhile, it also occupies huge financial funds and has a squeezing effect on other government expenditures. In the absence of fiscal revenue increment, it will inevitably affect residents' access to other social welfare. Therefore, starting from the 1990s, major cities in China gave up this old city reconstruction model one after another.

The second model is market-oriented, which is the opposite of the government-dominated type. The planning, investment, construction, land use, and management are all undertaken by market entities, which may be state-owned, private, or foreign-invested enterprises. In short, it does not involve the expenditure of government resources, especially financial funds. Instead, the government will require market entities to bear the cost of demolition and pay taxes or land transfer fees to the government. Government can increase tax revenue without spending a penny to achieve the old city reconstruction, so they are naturally the most willing to adopt this approach. For the enterprises involved in the old city reconstruction, leading the old city reconstruction in this way can gain fame and profits and is an effective model to obtain land and commercial resources in the core urban area. While the costs are high, the benefits can be substantial. City residents benefit from the old city reconstruction, with the difference being whether the benefit is large or small. Therefore, this model is likely to form incentive compatibility between government and enterprises. However, it is uncertain whether incentives can be

compatible between residents, government, and enterprises. The key is whether enterprises can fully protect the rights and interests of relevant residents under the supervision of the government. Therefore, this model also has huge potential conflicts, which can also explain various problems and contradictions in the reconstruction of old cities in China after the 1990s.

The third model is the public initiative type, which means that the government does not invest financial funds and enterprises do not carry out commercial operations. The urban residents mainly organize resources and funds spontaneously to realize old city reconstruction in the way of joint construction and sharing. This model is probably the most effective in terms of results and fairness. Residents will transform the city to serve themselves, so taking full consideration functionality, convenience, and other factors is inevitable. However, there are two natural defects of this model. First, it is not easy to reach a consensus, and it is challenging in organization and management. There will be a lot of repeated communication and implementation in the early phase, and it is easy to fall into the dilemma that it is difficult to agree with all. Second, the public's spontaneous resource allocation capacity is limited without the cooperation and support of the government or enterprises, so it is difficult to achieve large-scale old city reconstruction and development. Therefore, this model is suitable for old city reconstruction welfare projects with little commercial development value, and the government does not need too much work. This model is the most difficult to replicate on a large scale.

The fourth is a hybrid model, which incorporates the advantages of the above three models. The difference only lies in whether governments or enterprises play a more dominant role and how residents have the right to speak and exert

influence in old city reconstruction. So this can be subdivided into different degrees of mixing. However, no matter what hybrid type is adopted, its core direction is to partly overcome the natural deficiencies of the above three models. In this way, the old city reconstruction can gather more consensus and mutual benefit between the government, the market, and the public to achieve the maximum incentive compatibility of various interest subjects.

For example, the development and renovation of the famous High Lane Park in Manhattan, New York, went through a tortuous process from the owners' claims to the approval by the local government and council for commercial development and then to the public renovation through the revision advocated by non-profit organizations. All the above four models were involved more or less in this process. In another example, in the west of New York's lower Manhattan, for example, there was a freight elevated rail line connecting the Chelsea Meatpacking District to 34th Street Hudson Harbor, which was the transportation lifeline of New York in the industrial age. As New York restructured its industrial structure, the line was virtually abandoned after 1980. If the rail line were torn down, New York, where land is at a premium, would have a huge chunk of land available for redevelopment. At the time, property owners who owned the rail line underneath the elevated rail line lobbied the City and the Council to remove it. After discussion, the city government and the council also passed the demolition bill. However, some social groups wanted to keep the rail line, and some even wanted to restore its transport function. Therefore, if the railway line were not demolished, the approval of the city and the council would be impossible. It was not until 1999 that a community-based non-profit group was formed to propose preserving the rail line and

redeveloping it as a public park. Many influential people joined in and continued to speak out through public opinion. By 2002, the non-profit initiative, eventually backed by the New York City Council, began raising money for construction and development. That is how High Line Park, one of New York's landmarks today, came to be. In the decision-making of developing the railway into a park, the New York City government and the council had no completely independent examination and approval authority, nor did the existing relevant land or property owner. Instead, a non-profit organization and the public formed a clear development direction and finally made decisions by obtaining support from the mayor, the city government, and the city council.

4.3 Changes in Old City Reconstruction Development Rights

No matter what the ownership is, the most important decision in the old city reconstruction is to decide the qualification of participation in the old city reconstruction and the specific implementer of the reconstruction. This involves the ownership of the development rights for old city reconstruction in China from 1992 to 2012.

It should be natural for government departments or local state-owned enterprises in charge of urban construction to obtain the development right if old city reconstruction is positioned as a project with public benefits as the top priority and a part of urban renewal construction. It is also possible to fully consider the reasonable rights and interests appeals of residents to be relocated. However, the commercial attribute may override the public attribute and turn old city reconstruction into a development project with commercial interests as the top priority if commercial institutions, such as foreign-invested or private

enterprises, obtain the development right in old city reconstruction. Therefore, there is a huge difference between whether the right to develop old cities should automatically be given to government departments or local state-owned enterprises and central enterprises in charge of urban construction or whether the right should be given to foreign-invested and private enterprises. From the perspective of the rationality and political correctness of the local government's decision, it is most logical to grant the development right to local state-owned enterprises in charge of urban construction. However, from the practice of old city reconstruction in major cities from 1992 to 2012, it was precisely not the local state-owned enterprises in charge of urban construction but the capital and private enterprises from Taiwan, Hong Kong, and Macao that finally obtained most of the development rights. As a result of the mismatch, the old city reconstruction projects with the public attribute priority are turned into projects with the commercial attribute priority.

4.3.1 Development Rights Granted to State-Owned Enterprises and Later Non-State-Owned Enterprises

Globally, different countries differ in land and housing property rights, as well as in the approval process and decision-making power of old city reconstruction, resulting in different subjects who can participate in old city reconstruction. In developed countries, the majority of market players are private enterprises, so in most cases, the development right of old city reconstruction is mainly obtained by private enterprises. However, for any private enterprise to obtain such development rights, it usually goes through public bidding and is subject to evaluation and review by the local government, the council, and a committee specially set up for the renewal of the old city. In other words, it obtains

development rights through fair competition in a relatively transparent and open situation. Usually, the local government will not be completely absent in the old city reconstruction project development process. For example, the 2020 Vision Plan released by the London Municipal Government in 2013 proposed that Kidbrooke Village, located in the Royal Greenwich District in southeast London, would be transformed into a new large residential area through the old city reconstruction. Based on the plan, the 110-hectare project was developed by the City of London and Berkeley Group, a leading British property developer, at the cost of GBP 1 billion through an open tender. Starting in 2020, new homes in this large old city renovation project began to come on the market and were very popular.

From 1978 to the beginning of the 20th century, the old city reconstruction projects of different sizes in different parts of China were mainly led by state-owned departments and executed by local counterpart urban construction enterprises. There was usually no public tendering and bidding, and local governments usually assigned the development right to local state-owned enterprises. However, since the 1990s, especially since the beginning of the new century, more and more foreign-funded enterprises and private enterprises have begun to replace the state-owned enterprises and obtained the development rights of more old city reconstruction projects in China's major cities. The enterprises participating in the reconstruction and development of old cities in China have undergone important changes, which can be divided into three phases.

The first phase is the period when the government and state-owned enterprises completely dominate the development right of old city reconstruction. Since the

founding of The People's Republic of China in 1949, the construction and reconstruction of major cities in China have been led by local governments, with funds allocated by a combination of state and local governments. Even after the reform and opening up in 1978, there was no fundamental change until the 1990s. In big cities with relatively stable administrative operations, such as Beijing, this situation continued until the beginning of the new century, when the state-owned sector led the reconstruction of old cities.

For example, Ju'er Hutong in Dongcheng District of Beijing was listed as a renovation project of dilapidated old houses by Beijing in the 1980s. It was one of Beijing's first pilot projects combining dilapidated and housing renovation. This old city reconstruction project fully took into account the interests and demands of the original residents, giving priority to public attributes and almost not reflecting commercial attributes. The project was being developed by Beijing's first housing cooperative, founded by residents of the former Hutong, in cooperation with a local state-owned enterprise named Dongcheng District. The project realized reconstruction and upgrading while retaining the general structure of Hutong. This government-funded reconstruction of old cities continued in Beijing until after 2000. Then, local state-owned enterprises were still the main developers. However, in addition to using government funds to complete renovations, they started to have more associated commercial interests in incremental construction. For example, for the Goldfish Pond renovation project in south Beijing launched in April 2001, Beijing Dalong Construction Group was appointed by the former Chongwen District government of Beijing to be responsible for the development. It is a district state-owned enterprise in the former Chongwen District of Beijing. Another district construction

enterprise was specifically responsible for the construction.

At the same time, the transportation construction closely related to the construction plans of the old city, including the construction of surface roads, metros, and above-ground rail transit systems, was the key fields of construction projects promoted by the local governments of Beijing, Shanghai and Guangzhou during this period. For example, Beijing built Ping'an Street, an east-west road, in 1999; Shanghai built the southern section of Metro Line 1 in 1993 and Yan'an Elevated Road, an east-west road, in 1995; Guangzhou built the first section of Metro Line 1 in 1997. They are all planned and submitted for approval under the leadership of local governments. With the support of matching funds from the central government and local governments, a large number of above-ground buildings in the old urban areas were requisitioned and demolished at low prices in the name of public welfare purposes, involving the relocation of tens of thousands of residents. Disputes kept emerging due to the suspected out-of-scope demolition and inadequate compensation.

This model of old city reconstruction and development, with local government departments and state-owned enterprises as the main body, increasingly exposed its limitations in large-scale and accelerated reconstruction. For example, to properly protect Beijing's ancient capital style in the course of old city reconstruction in Beijing and ensure the smooth progress of the old city reconstruction, some scholars found through investigation that developers in pursuit of high returns caused serious threats to the protection of the cultural heritage of the capital in old city reconstruction. Moreover, it is difficult to achieve the balance of funding for the renovation of dilapidated houses in the old urban areas due to the high cost of renovation, the high population density

of residents, and the high cost of demolition, relocation, and construction. Therefore, some scholars suggest that the planning of old city reconstruction with sites of historical and cultural value like Beijing should not be decided by the Beijing government or the district and county governments. Superior government departments, for example, the State Council, should organize studies and coordinate and arrange the fund balance for old city reconstruction and renovation of dilapidated houses at a higher level (Meng, 2000).

In reality, the study and coordination by higher levels did not appear in the end. Governments of cities or even districts and counties still made the decisions of old city reconstruction. The first phase of old city reconstruction did not happen on a nationwide scale. The transfer of development rights from the state-owned enterprises to the non-state-owned enterprises happened immediately. The reconstruction of China's old cities entered the second and third phases.

In general, the common feature of the second and third phases of old city reconstruction across China was the massive transfer of development rights from the state sector to the non-state sector. The rights were first transferred to Hong Kong-invested enterprises and then to private enterprises, which became the main force to accelerate large-scale old city reconstruction in all parts of China. At the same time, focusing on the transportation infrastructure construction of urban roads, metros, and rail transit, local governments, and related state-owned enterprises in major cities, such as Beijing, Shanghai, Guangzhou, Shenzhen, Nanjing, Hangzhou, Wuhan, and Chengdu, requisitioned and demolished a large number of above-ground houses in old urban areas for public welfare transportation infrastructure construction. They carry out partial commercial development by requisitioning land beyond plans

and construction of super-large transportation hubs, forming a hidden interest chain of investment, development, and commercial operation, which is covert but huge in the old urban area construction in this phase.

The second phase of the old city reconstruction is the period when foreign capital from Hong Kong and Taiwan dominated the development right of the old city reconstruction in China's core cities. In different big cities, this phase overlapped the first phase in terms of time. However, its starting point is believed to be after 1992, China made clear the direction of developing a market economy, the central government strengthened the appraisal of local GDP, and the old city construction of major and medium-sized cities nationwide accelerated. As a result, many foreign-invested enterprises from Hong Kong and Taiwan have the opportunity to participate deeply in the process and have gradually become the main developers of the old city renovation in Shanghai, and even later, Beijing and other places. For example, Beijing's International Trade Center, Oriental Plaza, Jinbao Street, Shanghai's Xintiandi, and Hang Lung Plaza were developed by Hong Kong enterprises.

Some urban architecture experts believe that large cities such as Beijing and Shanghai have introduced many Hong Kong-funded enterprises to participate in old city reconstruction projects in this phase. They had financial advantages, which alleviated the problem of insufficient funds for development by the governments of these large cities. More importantly, Hong Kong-owned enterprises brought about new development models. Whether in demolition, reconstruction, or old-fashioned reconstruction, they maximized the commercial value of the old city reconstruction projects and drove up the surrounding land prices and housing prices for the old city renovation and real

estate development to create new value (Wan, 2009). This was also a direct stimulus to local economic growth, which was conducive to the performance appraisal of local officials.

In the third phase, a large number of private enterprises dominated old city development rights. From 2000 to 2012, as the strength of private enterprises in Mainland China grew and the relationship between politics and business changed, more and more private enterprises took part in the renovation of old cities, especially the local private enterprises had a clear advantage, thus forms the national capital, the foreign capital, the private capital three cent world's mixed development pattern. However, from the ownership for distinguishing, the state-owned capital in this phase was no longer the main force of old city reconstruction.

There are two main reasons for this change: first, after 1992, with China's complete transition to a market economy, foreign-invested and private capital gained more room to survive. Second, since 1998, China has comprehensively implemented the reform of the market-oriented housing system and encouraged the development of the real estate industry. As a result, much social capital has started to enter the area of urban construction, in which only state-owned capital and foreign capital could participate, and private enterprise started to play a role. Under the demonstration of some local governments, it is very rare to introduce many non-state-owned institutions to take part in old city reconstruction and even become the main force of reconstruction in first-tier cities such as Beijing and Shanghai. For example, SOHO China, founded by Shiyi Pan and Xin Zhang, started as an old city reconstruction project developer in Beijing and has since been heavily involved in the reconstruction of the core areas of Beijing and

Shanghai. SOHO China has become a new real estate company with annual revenues exceeding RMB ten billion.

4.3.2 Changes in Development Rights as Reflections of Mismatched Incentives

Because of the intervention of foreign-invested and private capital, the old city reconstruction has changed from the monopoly development of state capital to the competitive development of different business entities. Local governments are both referees and players. They not only made rules but also participated in the competition in secret, thus forming the main complex game and collusion between different interest entities from the government to the enterprise, from the officials to entrepreneurs. They soon found what could be called "incentive compatibility" in the old city reconstruction. They could make full use of the offside of the examination and approval authority and the dislocation of development rights under the precondition of state ownership of land, forming an unstoppable movement of the old city renovation boom. Local governments, officials, and developers are thus in incentive mismatch.

For example, the role of SOHO China in the old city reconstruction of Beijing is multifaceted. First, it has driven up the housing price of the project through the commercial operation model, thus driving up the housing price and the land price of the surrounding areas. For the municipal government, it is advantageous for the follow-up of the Old City renovation project, higher revenue from land sales, and more GDP growth. Secondly, for Beijing-owned real estate enterprises, SOHO China is not a rival but a profit-sharing partner. Because the same old city renovation project, if completely developed by the Beijing

municipal real estate enterprise, its commercial operation and development innovation ability are obviously inferior to SOHO China, which has grown up completely in the market competition, the same item might sell for half the money. Therefore, after ensuring their reasonable profits and profits, the city-owned real estate enterprises are happy to transfer the old city renovation projects to private real estate enterprises such as SOHO China, which have stronger market operation ability, develop marketing in a way that benefits everyone. Third, rising real estate prices have led to old city reconstruction projects in big cities such as Beijing to attract more buyers and financial institutions, creating greater purchasing and development potential, and pushing up prices. For private real estate enterprises, this is about to participate in the core of Beijing and other hot big cities in the old city renovation project feasible path. In this process, local governments, local state-owned real estate enterprises, and private enterprises have different roles, but their interests are identical. Together, they push up real estate and land transfer prices, simultaneously realize huge benefits in various aspects, and incur more risks.

China generally adopts a state-owned land system, but the authority for specific use and handling is vested in local governments. In the early 1990s, when the land was not open to the public, local governments had great power in local disposal. Under the grant system, insider trading and rent-seeking activities were widespread, and many old city reconstruction projects were divided into those with foreign capital, private capital, and state capital with low investment. The projects with foreign capital accounted for a large proportion.

One of the main reasons why local governments have greater authority over old city reconstruction and land disposal is the reform of fiscal and taxation systems

that began in 1994. As a result of the tax-sharing system implemented by the central and local governments, about 70 percent of tax revenues go to the central state tax, and about 30 percent goes to local tax revenue. At the same time, there are transfer payments from the central government to the revolutionary bases, minor ethnic areas, border, and poor areas, and to major projects. In general, each region has to find ways to generate non-tax revenues in addition to tax revenues. In 1998, the country began to carry out the housing system reform, open the real estate development market, and thus open the land market. Old city reconstruction and new urban areas construction accelerated at the same time. At that time, all regions had to pursue GDP growth, and local governments mainly resolved the source of funds on their own. The central government could not give more concessions to the local governments regarding finance and taxation. It learned from Hong Kong's experience and gave the local authorities the right to leverage resources, allow local governments to activate land resources through the old city reconstruction or new urban area construction, and obtain income through land sales. Old city reconstruction started in large and medium-sized cities across the country in such a context.

An important consequence is that the interest in industrialization is declining; the rate of urbanization is increasing; the scale of the old city reconstruction is increasing; the scale of the new city construction is increasing. Urbanization has led to industrialization and modernization everywhere. This also formed the "golden decade" of China's real estate market from 1998 to 2008, when many residents purchased private homes through the market, and public facilities in most cities were upgraded. Commercial real estate development was also booming. Real estate has become a pillar industry in China's economy. Its

driving effect on China's economic growth exceeded 20%, and its contribution to local financial revenue exceeded 30%. The drive for related industries was about doubled (National Bureau of Statistics of the People's Republic of China), and real estate loans accounted for more than 20% of financial institutions' loan balances.

The double-sided result of the rapid and large-scale reconstruction of old cities: China's urbanization process has accelerated, the reconstruction of old cities has driven the construction of new cities, and China's cities have doubled in size to accommodate hundreds of millions of rural people entering cities at all levels, it also facilitated the movement of people from one city to another. According to statistics, China's urban permanent population has increased from about 30 percent in the early 1990s to 40 percent in the early 2000s and exceeded 50 percent in 2015, realizing the transformation of more than 300 million people from rural to urban areas¹⁹. With unprecedented economic growth and urban development, China has rapidly formed many world-class cities with a population of tens of millions of people and formed urban agglomerations around several mega-cities in the east and central regions. It can be said that in the past 20 years, many Chinese cities have basically achieved comprehensive old city reconstruction, many investments have been attracted, many private funds have been invested in old city reconstruction, local economies have achieved relatively rapid growth, and officials have achieved remarkable political achievements, the public has also benefited enormously.

At the same time, however, due to the unsustainability of fairness and

¹⁹ Bulletin of the Seventh National Census of China, National Bureau of Statistics, May 21, 2021

transparency, the renovation of old urban areas has only become the driving force of the short-term GDP growth of each region and has not achieved the long-term economic growth of each region, nor does it benefit the majority of stakeholders. Corruption, such as the money-and-power trade that grew out of the reconstruction of the old city, has been fermented and dealt with for a long time since 2012, with virtually incalculable potential social losses.

4.4 Three Phases of Old City Reconstruction

The large-scale old city reconstruction appearing in Beijing, Shanghai, and other big cities from 1992 to 2012 fell roughly into three phases by time and entities who obtained the development right. In each phase, the local government had absolute dominance in selecting the development entities. As a result, the final selection of development entities was to be the most conducive to maximizing local governments' interests and local officials' performance and incentives. The changes in development entities also reflected the differences in local governments' expectations for the core goals of old city reconstruction in different phases. At the same time, the speed and scale of old city reconstruction kept increasing in many big cities, which also imitated and learned from each other with propensity choice differences.

Defined by the progress of old city reconstruction in various cities, the first phase extended from 1992 to 2000. The core characteristic of this phase was that local governments and state-owned enterprises dominated reconstruction and development, and the government spent some money promoting some model projects. The second phase extended from 1998 to 2002. The core characteristic of this phase was the introduction of Hong Kong-invested

enterprises with the financial strength to carry out large-scale old city reconstruction and development. Local governments and officials got both nominal and real benefits and achieved better performance. The third phase extended from 2002 to 2012. The core characteristic of this phase was that a faster and larger cycle of land finance was realized in a more market-oriented way. Government departments were responsible for plan approval; local state-owned enterprises were responsible for demolition and tier-1 land development; private enterprises and other non-state-owned players invested funds to complete the commercial development of old city reconstruction projects. The government achieved various results, such as revenues from land sales, GDP growth, and creation of jobs, while officials achieved better performance, got promoted, and had the opportunity to obtain illegal gains through rent-seeking and other corruptive practices. Local governments and officials secure the maximization of their respective interests, though the three phases have different characteristics.

The three distinct phases of old city reconstruction from 1992 to 2012 were closely related to the dramatic changes experienced by the Chinese economy during this period. In the first phase, market economy entities were still in infancy and the central government and local governments still focused on state-owned and collective entities in the early years after China started the transition to a socialist market economy in 1992. For example, the state-owned economy and collective economy accounted for 70.96% of the total investment in fixed assets in 1995.²⁰ Though there were some foreign-invested enterprises and

²⁰ Statistical Communique of the People's Republic of China on the 1995 National Economic and Social Development. National Bureau of Statistics. March 1, 1996

private enterprises in coastal areas in this phase, they only constituted a tiny proportion, so local governments and state-owned enterprises still dominated the old city reconstruction. In the second phase starting in 1998, market economy had achieved its initial development in China. State-owned enterprises generally entered into a difficult period of transformation and reform. Though they still accounted for more than half of China's economy, their comprehensive capabilities were weak. Many small and medium-sized state-owned enterprises were being closed and their market was surrendered to private enterprises. Local governments and state-owned enterprises were seldom able to implement large-scale old city reconstruction. In this phase, foreign-invested enterprises, especially Hong Kong and Taiwan-invested ones, invested tens of billions of dollars in the eastern coastal areas every year and gained fast investment returns and added value. Take the added value of industrial enterprises above the designated size in China in 2000 as an example. The added value of foreign-invested enterprises and enterprises invested by Hong Kong, Macao, and Taiwan in that year was RMB 533.3 billion, exceeding that of private joint-stock enterprises and far higher than that of collective enterprises.²¹ By comprehensively learning from Hong Kong, Mainland China started to implement market-oriented and monetized housing system reform in 1998. This laid a key foundation for large Hong Kong-invested enterprises to enter Beijing, Shanghai, and other big cities and actively participate in commercial projects of old city reconstruction. In the third phase starting from 2002, the basic structure of China's economy was fundamentally changed after 10 years of transition to market economy and the benefits of globalization after China's accession to

²¹ Statistical Communique of the People's Republic of China on the 2000 National Economic and Social Development. National Bureau of Statistics. February 28, 2001

WTO. The proportion of the state-owned economy in the national economy shrank, while the scale of private enterprises expanded in an all-around way, not only surpassing foreign-invested enterprises but also catching up with the scale of state-owned enterprises quickly as a result of encouragement by policies and stimulation by the market. Take the profits realized by industrial enterprises above the designated size in China in 2003 as an example. The profits realized by private joint-stock enterprises in that year were RMB 376.46 billion, 40% higher than those of foreign-invested enterprises and roughly equal to those of state-owned enterprises. The fixed assets investment of private enterprises also exceeded that of the collective economy and foreign-invested enterprises.²² Among the added value of industrial enterprises above the designated size in China in 2005, the share of private enterprises was 1.2 times that of state-owned enterprises and 1.7 times that of foreign-invested enterprises, indicating private enterprises had become the absolute main force of China's economic growth.²³ This phase also marked the accelerated scale-up and marketization of China's real estate investment. The investment in real estate development soared from RMB 779 billion in 2002 to RMB 7,180.3 billion in 2012, with an annual increase of more than 20%.²⁴ Private enterprises held the largest share of real estate development investment, while the share of state-owned enterprises decreased year by year. According to China Statistical Yearbooks, state-owned real estate enterprises accounted for 32.6% of the total number of real estate enterprises when China began to reform its real estate system in 1998. The

²² Statistical Communique of the People's Republic of China on the 2003 National Economic and Social Development. National Bureau of Statistics. February 26, 2004

²³ Statistical Communique of the People's Republic of China on the 2005 National Economic and Social Development. National Bureau of Statistics. February 28, 2006

²⁴ Total Investment in Real Estate Development in China (1986-2021). National Bureau of Statistics. Gotohui.com

number of private real estate enterprises kept increasing after that. In 2010, the State-owned Assets Supervision and Administration Commission ("SASAC") explicitly required 78 central enterprises whose main line of business was not real estate to withdraw from the real estate industry. By 2016, the proportion of state-owned real estate enterprises dropped to about 1.2%, and all kinds of private real estate enterprises completely dominated the Chinese real estate market.²⁵ As a result, private enterprises with growing strength became the absolute main force of China's real estate investment and urban development, including the old city reconstruction, in the third phase.

4.4.1 First Phase: Development led by State-Owned Enterprises

The first phase extended from 1992 to 2000. The Ju'er Hutong Project and the Goldfish Pond Rehabilitation Project were typical examples of this phase. The core feature in this phase was that the old city reconstruction almost had no commercial attribute and was only a part of urban construction with a public attribute, so it was completely led by local governments and local state-owned enterprises. China had yet to carry out large-scale urban housing system reform at that time. Besides transportation and other public construction projects, the urban construction projects the most beneficial to local governments and officials were small-scale residential reconstruction projects in old urban areas to demonstrate their achievements and win support from the people. The governments did not spend much money, dominated the development, and encouraged residents to participate in the development, which finally resulted in high social benefits and residents' satisfaction. As a result, local governments

²⁵ Big Data on Real Estate Enterprises in 2017: The Number of Real Estate Enterprises Has Increased by 70,000 in 14 Years. askci Corporation. October 25, 2017

and officials made political achievements, and some residents related to the old city reconstruction projects were able to participate in the discussions to some extent and influence the reconstruction model. However, the old city reconstruction in this phase was restrained by inherent defects such as the government's lack of financial resources and willingness. In this phase, it was impossible to carry out large-scale old city reconstruction with a development model completely led by the government. Considering the small scale, the participation of urban residents in certain old city reconstruction projects and their role in facilitating this phase should not be exaggerated. The fact was that residents' participation did not impair the interests of local governments. Instead, it helped local governments establish an image of being close to the people and improve the personal reputation of officials in charge of old city reconstruction.

For example, the Ju'er Hutong in Dongcheng District of Beijing was listed as a renovation project of dilapidated old houses by Beijing in the 1980s. It was one of the first pilot projects combining dilapidated and housing renovation in Beijing. Since 1987, the Hutong, with a total length of about 500 meters, has been demolished and rebuilt. Altogether, seven old courtyards involving 44 original households and 64 dangerous old bungalows have been demolished. By the end of 1994, when the renovation was completed, they had built 13 new courtyards and more than 20,000 square meters of houses on an area of 1.255 hectares. Because it was not a commercial development project, the designers were renowned architecture and urban planning expert academician Liangyong Wu and the faculty and students of Tsinghua University School of Architecture. The design of this old city reconstruction project fully took into account the interests and demands of the original residents, fully manifested public

attributes, and almost did not reflect commercial attributes. According to the introduction of local state-owned enterprises for the specific reconstruction and development of Ju'er Hutong project, the project had a slight surplus in the first phase and recorded a loss in the second phase.²⁶ By the end of 1994, when the renovation was completed, they had built 13 new courtyards and more than 20,000 square meters of houses on an area of 1.255 hectares.

The project was developed by Beijing's first housing cooperative, founded by residents of the 41st courtyard of the former Hutong, in cooperation with a local state-owned enterprise named Dongcheng District Housing Development Company, appointed by the city of Dongcheng District. It has adopted the policy of "people's fund-raising, state support, people's livelihood management, and self-service" to encourage residents to participate more deeply in the project reconstruction by reducing the burden on the government and enterprises in order to maintain the overall structure of the Hutong, the project to achieve reconstruction and upgrading. During demolition and reconstruction, the local government provided necessary support and assistance. For example, the Beijing Municipal Housing Reform Office came forward to help 14 original households move to the district's public housing, creating favorable conditions for the reconstruction of Ju'er Hutong as a whole. However, these conditions are obviously unrepeatable, and the benefits to the local government were obviously insufficient except for harvesting reputation in the public and residents' satisfaction. After the 1990s, almost no other cooperative reconstruction projects like Ju'er Hutong appeared in Beijing. Driven by new

²⁶ Ju'er Hutong in Beijing: Attracting World Attention as a Pilot Project of Old City Reconstruction. Beijing Daily. November 22, 2011

and more diversified models, the old city reconstruction was carried out at a faster speed and on a larger scale after the project in Beijing. According to the statistics of relevant departments, from 1990 to 1999, Beijing invested a total of RMB 40 billion to rebuild 4.3 million square meters of dilapidated houses and moved nearly 200,000 households (Shi, 2012).

This government-funded old city reconstruction continued in Beijing until after 2000, and local state-owned enterprises were still the main developers. Along with the increase in the number and scale of related old city renovation projects, state-owned developers would complete related renovation projects with government funds and build new buildings for commercial interests even if the government kept dominance in the renovation of dilapidated houses in the old urban areas.

For example, the Goldfish Pond Rehabilitation Project in south Beijing, which started in April 2001, was essentially different from the Ju'er Hutong project in terms of development scale and model. For the Goldfish Pond Rehabilitation Project, Beijing Dalong Construction Group was appointed by the former Chongwen District government to be responsible for the development. It was a district state-owned enterprise in the former Chongwen District, and another district construction enterprise was specifically responsible for the construction. Although the enterprises came forward to carry out development, they have the same interests as the district government, so the process from the project approval to the relevant implementation was relatively smooth. The district and municipal governments provided support in terms of policy, capital, demolition, and other aspects. In this way, the 10.27-hectare renovation project completed the demolition of 58 dilapidated old buildings, 492 bungalows, and the

relocation of 3,055 households and 41 Beijing municipal and district units in only three months after its commencement. Next, 41 new residential buildings were built, and 7,828 residents moved back in another ten months. The per capita housing area of the project reached 27.6 square meters, a leading indicator in the country²⁷.

Different from the Ju'er Hutong project, the newly built houses in Goldfish Pond Renovation project fell into two categories. The first is the replacement building of original residents, and the area of replacement building exceeding the original housing shall be compensated according to the price difference of economically affordable housing. The other is the economically affordable housing for the public, of which the price did not exceed RMB 5,000 per square meter in 2002. The residences that were sold at economically affordable housing prices and relevant commercial projects for rent become the increment income of the development company. The mixed model, which takes into account the attributes of replacement buildings and economically affordable housing, was replicated in the reconstruction of several dilapidated residential areas in Beijing's inner city in 2000. For example, the renovation project of dilapidated Haiyuncang houses located in Dongcheng District of Beijing was launched in May 2001. According to the principle of "government organization, residents' participation, enterprises' implementation, and market operation," a total of 9,653 dilapidated houses, involving 5,319 residents, were demolished. After more than a year of planning and construction, 29 residential buildings with a total area of 380,000 square meters were built. In addition to some former residents' returning, some residential buildings were sold to eligible citizens as

²⁷ Beijing Goldfish Pond Rehabilitation Project Completed, Beijing Construction News. April 24, 2002

economic and applicable houses at a price of less than RMB 5,000 per square meter. The development company not only satisfied the public interests but also obtained certain commercial increment income. Though the government directly led the old city reconstruction in this phase, the scale and speed were insufficient. Some changes took place from old city reconstruction and development for the public welfare, which the government completely funded. Commercial demand gradually emerged, laying a foundation for the larger scale of old city reconstruction in the next phase.

At the same time, local governments of cities, such as Beijing, Shanghai, and Guangzhou, started and led the reconstruction and construction of surface roads and underground rail transit systems in the old core urban areas with the support of the central government. According to the data from the National Bureau of Statistics, the actual length of urban roads in China increased from 132,600 kilometers in 1996 to 191,400 kilometers in 2002, an increase of more than 45% in six years²⁸. This involved the expropriation and demolition of many surface buildings, and tens of thousands of residents in old urban areas were relocated to different places. At the same time, suspected out-of-scope demolition and disputes over low compensation also appeared frequently during public welfare expropriation and demolition of land and houses. In Beijing, for example, Metro Lines 1 and 2 were built and opened as early as 1971 and 1984 respectively. Therefore, the focus of transportation construction in the old urban areas was the re-planning and construction of surface roads in the 1990s. For example, Ping'an Street, the second east-west road in Beijing's main urban area, was built in 1999. The road is 40 meters wide and 7 kilometers long. Many surface

²⁸ China Statistical Bulletin. National Bureau of Statistics. 1996, 2012

buildings along the route were demolished for building the road, and the demolition cost reached about RMB 1.8 billion. Later it turned out that the government expanded the scope of demolition in the name of public welfare by demolishing residential houses beyond the scope of road construction and then actually using the land for commercial development and other purposes. This led to frequent disputes and lawsuits over the demolition afterward, indicating the absolute dominance and arbitrariness of the government in the planning and development of old city reconstruction in the early phase²⁹.

Shanghai and Guangzhou, two megacities, had no metro before the 1990s. In this phase, the two megacities facilitated the planning and construction of ground transportation in the old urban areas and built urban rail transit systems for the first time. For example, Shanghai built the Yan'an Elevated Road opened to traffic on November 28, 1995. It is an east-west main road with a width of 25.5 meters and a total length of 6.2 kilometers. It passes through the old core urban area of Shanghai. For the project, a large number of buildings and residential houses along the route were demolished for public welfare purposes, involving tens of thousands of residents, and many of them were relocated to the outer suburbs³⁰. At the same time, the southern section of Shanghai Metro Line 1, which passes through the old core urban area, was completed and opened on May 28, 1993. In addition to underground construction, Shanghai also constructed related surface stations and transportation hubs in the old urban areas. It started the large-scale construction of the metro, which has lasted to this day. In addition to re-planning and constructing main roads in the old urban

²⁹ Residents Sued the Housing Management Bureau for Out-of-Scope Demolition for Building Ping'an Street in Beijing. *The Beijing News*. August 3, 2010

³⁰ Shanghai Road in Last 40 Years | Yan'an Road: A Thoroughfare of Glory and Joys and Sorrows of Folks. *Wen Wei Po*. December 17, 2018

areas, Guangzhou started construction of Metro Line 1 on February 28, 1993. The project was completed and opened on June 28, 1999, with a total length of 18.5 kilometers and a total investment of RMB 15 billion. The local government raised the investment along and led the construction. As this metro line mainly passes through old urban areas, many houses were demolished in the construction of related stations and supporting facilities³¹. According to the plan and implementation, Guangzhou Metro Line 1 was to pass through three core urban areas, requiring the demolition of 1.1 million square meters of houses, relocation of more than 20,000 units and resident households, and relocation of nearly 100,000 people. Despite such a large-scale land acquisition and demolition in the old urban areas, it took only one year to complete the demolition and relocation through the strong persuasion and coordination of the local government and the relocation to different places³². The project not only laid the foundation for Guangzhou's metro development but also heralded the era of rapid and large-scale metro construction Guangzhou after entering the new century, involving more land and housing expropriation and demolition in old urban areas.

4.4.2 Second Phase: Development led by Foreign-Invested Enterprises

The second phase extended from 1998 to 2002. The Xintiandi Renovation Project in Shanghai and the Oriental Plaza Project in Beijing were the most typical projects in this phase, which also featured Hong Kong-invested enterprises with financial strength in the old city reconstruction and development of major cities. As the number and scale of old city reconstruction

³¹ From 100,000 to 10 Million Passengers --- Metro Has Changed Guangzhou in Last 20 Years. Guangzhou Daily. September 30, 2019

³² Shi Guang. Guangzhou Metro Requisition and Demolition History. December 13, 2020

projects kept increasing in various cities, the demand for funds was getting stronger beyond what local governments could afford. To avoid a slowdown in the old city reconstruction in terms of scale and speed, Beijing, Shanghai, and other big cities chose commercialization in old city reconstruction to realize land appreciation, tax increase, and GDP growth. This reflected the major achievements of local governments in attracting investment and promoting economic development. Officials responsible for attracting investment also received legal awards. Local governments and officials got both nominal and real benefits and achieved better performance by introducing Hong Kong-invested enterprises with financial strength.

An early example was the Oriental Plaza Project to the east of Wangfujing in Beijing, for which the contract was signed in 1993. Two powerful Hong Kong companies, Orient Overseas, and Cheung Kong, jointly set up Huixian Investment Company in cooperation with the Beijing Oriental Culture and Economic Development Corporation. Huixian Investment Company is responsible for developing this large-scale old city reconstruction project covering an area of 120,000 square meters, originally planned to invest a total of HKD 10 billion. The project has been in operation since 2000, with an investment of over HKD 20 billion and a total floor area of over 800,000. In order to complete this large-scale old city reconstruction project in the central area of Beijing, the city assisted the developers in demolishing more than 1,000 households, demolishing hundreds of courtyard homes, and relocating dozens of functional departments³³. Though Hong Kong-invested enterprises with financial strength came forward to carry out development, the most significant

³³ Oriental Plaza Takes Lead in the Wangfujing Business Ring. Beijing Evening News. October 28, 2003

support throughout the whole development came from the local government, which benefited in the development process in various aspects.

Besides Beijing, many other big cities also introduced Hong Kong-invested enterprises during this period to carry out either large-scale demolition and construction in the old urban areas or novel commercial development while preserving the cities' style in new ways. Unlike Beijing's Oriental Plaza, which tore down the old courtyard houses and rebuilt them all, Shanghai, by bringing in Hong Kong companies, transformed traditional Shikumen old buildings into blocks, created a brand-new old city reconstruction commercialization new pattern, and has attracted the national attention and the imitation.

This stems from the 1990s, when Shanghai accelerated the reconstruction of its old urban areas, focusing on the demolition of many old houses. In 1999, Shanghai's Luwan District and the Hong Kong-based Shui On Group reached a cooperation agreement to renovate swathes of old Shikumen buildings in the Tai Ping Bridge area of Huaihai Road. Shui On Group has invited Tongji University, an American firm specializing in home renovations, to work as a consultant. In the end, the renovation project, with a total investment of RMB 1.4 billion, demolished all the residents and institutions in the area, but retained most of the old buildings in Shikumen for renovation, reinforcement, design, and decoration, restored the previous look of the unique Shikumen leisure pedestrian street. Through an appropriate increase in the number of new Chinese-western buildings, in 2002, the Xintiandi project, with a total floor area of 55,600 square meters, integrating catering, business, entertainment, and cultural consumption, was formed by appropriately increasing the number of Chinese-western new buildings, an average of 20,000-30,000 passengers per

day, creating a new model of commercial modernization based on old buildings³⁴.

Of the total investment of RMB 1.4 billion in the Xintiandi project, RMB 670 million was used for the relocation of the original residents and institutions in the development area, according to data released by the Shui On Group, and more than RMB 700 million was invested in the redesign, renovation, fitting-out, and alterations. After the completion of the whole Shanghai Xintiandi project, Shui On Group only rented out the properties without selling them and collected long-term stable rental income. At the same time, the great support and fashion value of the Xintiandi project directly drove the development and sale of the surrounding residential real estate. Before the Xintiandi project was built, the surrounding housing price was about RMB 7,000 per square meter. When the Xintiandi project was being built, the surrounding housing price rose to RMB 15,000 per square meter. After the Xintiandi project was completed, the price of surrounding houses has further risen to RMB 20,000 per square meter. The group certainly did not miss the opportunity to develop residential and office space around Xintiandi. When the Xintiandi project was completed in 2002, the real estate price of the first phase of Cuihu Tiandi launched by the Shui On Group was RMB 16,000 per square meter. In 2006, the price of the second phase of Cuihu Tiandi skyrocketed to RMB 60,000 per square meter; in 2008, the third phase of the real estate price of Cuihu Tiandi rose to RMB 130,000 per square meter again, rising eight times in six years. Prices in other real estate projects around the city are also higher than in other parts of Shanghai. The Xintiandi Project has also driven up land prices in the surrounding area. In

³⁴ Interview with Kangrui Luo. Shanghai Observer, July 16, 2021

1999, the land price of the old city reconstruction projects in the surrounding area was RMB 8,000 to RMB 10,000 per square meter; by 2004, the land price in the surrounding area rose to RMB 20,000 per square meter. For the local government, the value of a new old city reconstruction project on the market would double.

The Xintiandi project helped drive up real estate prices in the surrounding area until July 2018, when the last piece of developable land in the Xintiandi Taipingqiao area was sold for RMB 13.61 billion to the consortium of Shui On, Pacific Insurance, and Yongye Group. With a total investment of RMB 19.5 billion, the project will complete a large complex with a planned area of nearly 400,000 square meters³⁵. The Xintiandi project has brought great inspiration to the renovation of the old cities in other big cities, such as the West Lake area of Hangzhou, the old building area of the Republic of China in the center of Nanjing, and the renovation project of the old urban area of the Kuanzhai Alley in Chengdu, reference to the Xintiandi of the old city reconstruction model, not only the greatest extent to retain the style and characteristics of the old town, but also play a leading role in the surrounding real estate development. From this perspective, the introduction of Hong Kong-invested enterprises to carry out novel development made an important contribution to partially restoring the old city reconstruction of major cities in China. The local governments still plaid an absolutely dominant role in the whole process, whether in demolition or protective reconstruction. For example, to encourage developers to keep the original architectural style and layout of the old urban areas to the greatest extent

³⁵ CPIC and Shui On Reak to Commence Xintiandi Commercial and Office Project in Shanghai with a Total Investment of RMB 19.5 billion. guandian.cn. September 27, 2018

possible, local governments would loosen the calculation of floor area ratio in the development of commercial real estate projects for Hong Kong-invested enterprises in novel development through examination and approval authority and thus ensure the return of Hong Kong-invested developers.

Different from Beijing and Shanghai, Guangzhou temporarily banned foreign capital in reconstruction projects in the old city reconstruction from 1999. Since the early 1990s, Guangzhou, an early open city that took the lead in attracting investment from Hong Kong, Macao, and Taiwan, implemented a paid land use system early, facilitating the large-scale renewal and reconstruction of the old urban areas of Guangzhou. Due to the lack of necessary control and protection measures, the old city reconstruction of Guangzhou quickly turned into large-scale commercial real estate development. By following the Hong Kong model of real estate, a large number of Hong Kong-invested enterprises built high-density, high-rise residential buildings in the old urban areas after demolition. At one time, most of the economic and social activities were concentrated in the old urban areas of Guangzhou, and some large-scale commercial and office facilities were built in the old urban areas, which caused intense construction activities and operational difficulties of the old urban areas. Therefore, Guangzhou suspended the use of foreign capital in old city reconstruction projects from 1999 and restarted investment promotion for investment promotion in 2007³⁶. The case with Guangzhou as an exception in old city reconstruction will be analyzed in the next chapter.

³⁶ Guangzhou Cordially Welcomes Hong Kong Businessmen to Participate in Old City Reconstruction. Nanfang Daily. August 4, 2007

4.4.3 Third Phase: Development led by Private Enterprises through Bidding

The third phase extended from 2002 to 2012. Along with the strength of local private enterprises, foreign capital was no longer the only important focus of attracting investment. The most typical example was the development of a series of projects by SOHO China in the CBD of Beijing. The core characteristic of this phase was that the most beneficial to the interests of local governments and the incentives of officials was to realize a faster and larger cycle of land finance in a more market-oriented way. Government departments were responsible for plan approval; local state-owned enterprises were responsible for demolition and tier-1 land development and obtained stable income; private enterprises and other non-state-owned players invested funds to complete the commercial development of old city reconstruction projects, take on market risks and obtain profits. The government achieved various results, such as revenues from land sales, tax increases from real estate development, GDP growth, and job creation. The booming real estate market produced various benefits and drove the development of other industries. The land and housing prices increased, and the benefits from land finance were maximized. Officials achieved better performance, got promoted, and had the opportunity to obtain illegal gains through rent-seeking and other corruptive practices.

The renovation for building the SOHO Modern City Project in Beijing began in 1998. SOHO China, founded by Shiyi Pan and Xin Zhang, started as an old city reconstruction project developer in Beijing and has since been heavily involved in the reconstruction of the core areas of Beijing and Shanghai. SOHO China has become a new real estate company with annual revenues exceeding RMB

ten billion. In 1995, Shiyi Pan and his wife founded Beijing Hongshi Industrial Co., a precursor to SOHO China. In the search for a development project, they learned in 1997 that the Beijing Erguotou Distillery was planning to relocate to the Dabeyao area outside Beijing's East Third Ring Road. However, at that time, transportation conditions around the site were not inconvenient, and it lacked support facilities. Many strong real estate companies overlooked the site. After careful evaluation, Mr. Shiyi Pan and his wife obtained the permit to demolish the winery and began demolishing the original building in 1998. Applying the concept of "small office, Home Office"(SOHO), the "SOHO Modern City" is designed and built as an office and residential community that is suitable for both commercial and residential purposes. With the construction completed in 2001, the project has 48 shops, 283 offices, and 1,897 apartments with a total floor area of 480,000 square meters. Due to innovative development ideas, and project marketing, SOHO Modern City became a single Beijing Real Estate Project Sales Champion in 1999 and 2000. While the average housing price in the surrounding area was only RMB 6,000-7,000 per square meter, the property price in SOHO Modern City already exceeded RMB 10,000 per square meter, and the shop price exceeded RMB 20,000 per square meter, which became the benchmark of the housing price in Beijing at that time³⁷.

Also, because of the success of the SOHO Modern City project, SOHO China has successively obtained the development rights of the "Jianwai SOHO," "Chaowai SOHO," and other old city renovation projects in the CBD area of the East Third Ring Road of Beijing in the following years. In this most competitive

³⁷ Sequela from Failure to Go Public, Shiyi Pan to Destroy Hongshi and Help SOHO China. Business Post. October 11, 2004

core area, more than 3 million square meters of residential and office development have been completed, creating a new record for the area of private enterprises participating in the renovation and development of Beijing's Old City. This has also become an example for large cities to introduce private real estate companies to participate in old city reconstruction projects. Among other things, Shiyi Pan has rights to some of the old town reconstruction projects, not directly from the government of Beijing but from Beijing-based real estate companies, which own the rights. Beijing-owned enterprises transferred such projects to Shiyi Pan because Shiyi Pan's SOHO China had more commercial development and sales capabilities. For example, in 2008, Shiyi Pan led the sales team to Shanxi, Inner Mongolia, and Shaanxi to develop and sell the Sanlitun SOHO Project in the Embassy District of Beijing's East Third Ring Road. The richest "coal bosses" at the time were potential customers of the trendy Beijing office and residential project. In the end, more than 60 percent of the 460,000 square meter floor area of commercial, office, and residential complex was sold to customers outside Beijing for nearly RMB 50,000 per square meter; in 2008, the average house price in Beijing was less than RMB 20,000 per square meter.

Represented by SOHO China's development cooperation with local governments, more and more private enterprises began to build various urban complexes in the old core urban areas through transfer agreements and bidding processes in major cities. For example, the first generation of Wanda Plazas appeared in nine cities, including Dalian and Nanjing in 2001. By attracting well-known commercial brands, the projects maximized the commercial value of old city reconstruction projects in these cities. Under the leadership and

support of other local governments, the second, third and fourth generation Wanda Plazas with larger scale and richer formats have emerged in the old core urban areas of major cities in China since 2004. By now, there are 323 large-scale Wanda Plazas in major large and medium-sized cities around China, and they have become the most important urban complexes in the core areas of these cities³⁸. To attract Wanda to invest in the development of Wanda Plazas, some local governments and officials even moved their offices from the old core urban areas, blasted the existing buildings off and leveled the ground, and sold it to Wanda for the development of urban complex projects. For example, Langfang demolished the office buildings of the municipal party committee and the municipal government in June 2010, including offices of the education, finance, audit, and some other government departments and residential blocks with about 459 mu of land. Finally, a Wanda Plaza commercial complex was built in the core urban area³⁹. The core reason why local governments adopted such radical ways of attracting investment was that the introduction of private enterprises for commercial old city reconstruction could maximize the benefits of local governments, such as revenues from land finance, creation of jobs, increase in consumption, and GDP growth. For example, Wuhan vigorously invited Wanda Group to carry out reconstruction and development in the "Central Cultural District" in the old core urban area in early 2011. The planned area of the project was 1.8 square kilometers with a total floor area of 3.4 million square meters. Wanda Group invested RMB 50 billion to build it into a world-class cultural tourism project integrating tourist attractions, retail, office, and

³⁸ A Complete History of Wuhan Wanda Developments from the First Generation to the Third Generation. Hubei Daily. April 23, 2012

³⁹ Langfang City Government Building in Hebei Province Will Be Demolished for Building A Shopping Mall. Chinanews.com. June 24, 2010

residence. The first phase of the project was mainly to build "Chu River and Han Street" with a length of 1,500 meters and a total floor area of 180,000 square meters. It took only eight months from commencement of the project to opening, creating a record of construction speed and investment promotion⁴⁰. After opening on September 30, 2011, the project attracted more than 2 million visitors in the following week alone and drove up the price and turnover of commercial real estate in Wuhan during the National Day festival of that year, which caused a sensation in the whole country⁴¹. By investing in the development of this project, Wanda Group quickly harvested commercial and brand gains. On the other side, the local government gained greater benefits in planning and leading the commercial development in the old core urban area, as it boosted the real estate development in the area, drove up land prices, and created tax revenues and jobs in the area.

At the same time, cities across the country continued to construct surface and underground transportation infrastructure. According to the data from the National Bureau of Statistics, the actual length of urban roads in China soared from 191,400 kilometers in 2002 to 327,100 kilometers in 2012⁴², an increase of more than 70% in 10 years. As a result of old city reconstruction and urban expansion, such as Beijing, Shanghai, Guangzhou, Shenzhen, Wuhan, Nanjing, Hangzhou, Chengdu, and other big cities have facilitated the construction of local roads and rail transit systems, planned and implemented the construction of surface road networks and metro networks crossing the old and new urban areas. In addition to the governments' funds, foreign and private capital has also

⁴⁰ "Chu River and Han Street," World's Longest Waterfront Commercial Street, Opened on September 30, 2011. Qianlong.com

⁴¹ Han Street Receives 2 Million Visitors. Wuhan Morning Post. October 13, 2011

⁴² China Statistical Bulletin. National Bureau of Statistics. 2002, 2012

entered metro construction projects in big cities in various ways. The expropriation of land and houses in the old core urban area has been expanding around the planning and construction of metro lines. By taking advantage of building metro lines and urban transportation hubs, local governments have expanded the scope of land expropriation and demolition in the name of public welfare and set aside more land near transportation hubs and along the metro lines for commercial development.

For example, to ensure the successful holding of the Olympic Games, Beijing invested a total of RMB 63.8 billion to build new metro lines from 2002 to 2008, for which foreign capital and external operators were introduced in addition to government investment. On December 3, 2004, Beijing Infrastructure Investment Co., Ltd., Beijing Capital Group, and Hong Kong MTR Corporation signed a framework agreement to jointly invest RMB 15.3 billion in the PPP (public-private partnership) construction and operation of Beijing Metro Line 4 with a total length of 29 kilometers and a concession period of 30 years. Of the investment, about RMB 10.7 billion was invested by the Beijing Municipal Government, about RMB 5 billion was invested by the PPP company, and about RMB 735 million was invested by Hong Kong MTR Corporation. This urban metro line became the first metro line with investment and operation through public-private partnership in mainland China⁴³. This investment cooperation model has been adopted many times in metro construction in Shenzhen, Hangzhou, and other big cities. Among them, Shenzhen Metro Corporation has demonstrated the strongest operational capability. With the authorization and

⁴³ Hong Kong Capital Introduced in Building Beijing Metro Line 4, China's First PPP Metro Line. Beijing Youth Daily. April 23, 2007

support of the local government, Shenzhen Metro Corporation began to plan expropriation and demolition in 2000 and had acquired more than 3 million square meters of high-quality land reserves in and around core urban areas of Shenzhen by the end of 2012, including a commercial development area of over one million square meters and above-ground properties with a value exceeding RMB 40 billion⁴⁴. The company intended to build metro lines for the city for public welfare purposes. In fact, with the support and authorization of the government, it leverages out-of-scope requisition of land and houses in urban areas in the name of building metro lines. After the metro construction, large areas of land acquired at low prices in core urban areas were used for commercial development, ensuring the maximization of the local government's interests. However, those entities and residents who have been relocated from these areas to other places are unable to benefit from the subsequent commercial operations.

The old city reconstruction fell into three phases: the first phase dominated by the government, the second phase by Hong Kong-invested enterprises, and the third phase by private enterprises. Though the development entity made benefits and urban residents were not fully cooperative and supportive, the final effect shows that local governments always dictated the planning, examination and approval, and developer selection of the old city reconstruction in different phases of development. The reason was the state-owned nature of land property rights, and the governments remained the bigger winner and the biggest gainer through direct commercial development or commercial development after

⁴⁴ Shenzhen Metro Has Land Worth RMB 40 Billion and Sees No Profit by Following the Example of Hong Kong MTR. money.163.com. June 17, 2013

requisition and demolition beyond the scope in the name of the construction of surface roads or underground transportation systems. It can be said that the local governments never lost control over the old city reconstruction in different phases or gave up continuously maximizing actual benefits. The opinions of urban residents and the struggles of urban housing owners increased the costs and difficulties of the old city reconstruction. However, they created no effective constraint on decision-making by the government.

Chapter V

Regional Differences in Old City Reconstruction

The progressive relationship between property rights, examination and approval authority, and development rights in old city reconstruction explains the rapid large-scale old city reconstruction in Beijing, Shanghai, and other big cities from 1992 to 2012. It also enables analysis of why Guangzhou, Chongqing, and some other big cities did not facilitate large-scale old city reconstruction concurrently with other cities during this period. Old city reconstruction once stalled in these cities during this period. They first expanded urban construction by requisitioning and transforming large areas of rural land in the suburbs into new urban areas, introducing related manufacturing and service industries, giving priority to expanding the industrial scale, and expanding the real estate market in new urban areas. The local governments achieved faster economic growth, land finance, tax revenue increase, and job creation and delivered a

noteworthy performance. By comparing their urban built-up areas, the urban expansion in Guangzhou, Chongqing, and Chengdu was much faster than that of Shanghai and Beijing during the same period (See Table 4 of the Appendix).

When the expansion of new urban areas and industrial development reached a certain phase, these cities started to facilitate old city reconstruction. Though large-scale old city reconstruction also occurred in these cities, the specific practices were different from those of other big cities that prioritized old city reconstruction from the start. The fact that Guangzhou, Chongqing, and some other cities did not facilitate large-scale old city reconstruction concurrently with other cities does not mean that the progressive relationship between the examination and approval authority and the development rights in old city reconstruction by starting from the state-owned urban land property rights no longer works. Whether it is large-scale old city reconstruction, large-scale new urban expansion, or large-scale investment attraction, the common essence is still based on state-owned urban land property rights and the basic institutional arrangement that the state owns all land in China. They were just different manifestations of local government's efforts to realize maximizing the governments' interests and officials' incentives in different ways in different phases.

5.1 The Case of Guangzhou

The most typical example is Guangzhou. As one of the top three megacities in China in terms of scale and importance, the old city reconstruction in Guangzhou was different from that in Beijing, Shanghai, and some other megacities with the fastest and most extensive old city reconstruction. The

completely commercial-led real estate development model existed in Guangzhou's old city reconstruction for a relatively short period of time. From the 1980s to several years after entering the new century, Guangzhou's old city reconstruction went through three phases: from the initial small-scale "simple repair to eliminate danger" to the participation of real estate developers on a certain scale, and then to the government-led "demolition and greening construction" starting after 2000. The reconstruction model of dilapidated buildings in the old urban areas of Guangzhou constantly changed while considering social, ecological, and environmental benefits. The comprehensive old city reconstruction model featuring "people-orientation, and interaction between the government and mass" in Yuexiu District of Guangzhou served as the most typical case. (Cao et al., 2006). The most important characteristic of this model is that the government has considerably limited power of planning, demolition, and examination and approval in the old city reconstruction and solicits opinions from residents and house owners in the old urban areas, studies the difficulty of demolition and compensation standards, and significantly reduces forced demolition. Though the scale and speed of old city reconstruction in Guangzhou were inferior to those in Beijing and Shanghai during this period, the city experienced fewer disputes and mass events in old city reconstruction, and its residents were more satisfied with old city reconstruction.

The reason was not that the local government and officials in Guangzhou neglected the great benefits of old city reconstruction, as Guangzhou was the earliest region in China open to the outside world. It is a consensus from the government to the public to talk about business on business occasions and solve

problems with money. The reason why Guangzhou saw no large-scale old city reconstruction in these 20 years is that Guangzhou, as the most dynamic region of China's reform and opening, took the lead in introducing capital from Hong Kong, Macao, and Taiwan to carry out large-scale commercial reconstruction and development in old urban areas since the 1990s. In the late 1990s, many commercial activities and houses were concentrated in the old urban areas, resulting in high building and population density and unsustainable urban operation. There were problems such as over-development of commercial real estate in the old urban areas and gradual loss of local characteristics (Wang, 2005). Though investment promotion was strengthened in the middle and late 1990s, Guangzhou had to ban foreign capital in reconstruction and development in the old urban areas from 1999. At the same time, Guangzhou directed investment promotion in various manufacturing activities, from clothing, shoes, hats, and toys, to household appliances, electronics, machinery, and various types of processing and manufacturing, to other places in the Pearl River Delta region with Guangzhou as the core, thus expanding the industrial scale and urban area under the dual stimulation of export and domestic sales, forming a new industry-driven city expansion model. As a result, the speed and scale of old city reconstruction and development dropped significantly, and foreign capital was not allowed in old city reconstruction until 2007.

These processing and manufacturing industries with a low added value established with the investment attracted by Guangzhou needed large-scale industrial land such as that for factories and warehouses as well as large-scale cheap labor. For example, Hon Hai Precision from Taiwan began investing and building factories in Shenzhen in 1988, engaged in large-scale electronics

manufacturing and OEM production, and later became Foxconn. Foxconn had the Longhua Science and Technology Park with a land area of 3 square kilometers and the Guanlan Park with a land area of more than 2 square kilometers in Shenzhen. Its science and technology park in Foshan near Guangzhou covered a land area of 160,000 square meters. The first phase of the project in Zengcheng, Guangzhou took up a land area of more than 1.4 million square meters with a total investment of RMB 61 billion and an annual output value of nearly RMB 100 billion. The project was expected to drive the value of industries up by more than RMB 300 billion in surrounding areas⁴⁵. Obviously, it was impossible to place such a manufacturing layout to boost local economic development, industrial growth, employment, and tax to transform and land in the old urban areas, and only the surrounding rural areas were suitable for urban expansion and development.

Since the 1990s, Guangzhou and cities around it, such as Shenzhen, Shunde, Foshan, Zhongshan, and Dongguan, quickly worked with each other to introduce and develop a large number of manufacturing industries, such as clothing, shoes and hats, home appliances, electronics, furniture, building materials, and machinery manufacturing. Large-scale expropriation of surrounding rural land and efficient industrial agglomeration through the rapid development of transportation networks became the most important economic development model in Guangzhou and the small and medium-sized cities around it. They also formed China's earliest urban agglomeration in the Pearl River Delta. By 2017, the other nine cities, including Guangzhou, Shenzhen,

⁴⁵ Data source: Official website of Foxconn Technology Group, www.foxconn.com.cn; official website of Guangdong Provincial People's Government, www.gd.gov.cn; RMB 61 Billion Project of Foxconn in Zengcheng Kicked off. Nanfang Daily. March 2, 2017

Foshan, Dongguan, and Zhuhai, in the Pearl River Delta had 73.38 million residents, an urban area of 55,400 square kilometers and a total GDP of RMB 6.7 trillion, making them the region with the largest population, the strongest innovation capability and the strongest comprehensive strength in China, and also an advanced manufacturing base and a modern service industry base with global influence⁴⁶.

In contrast, old city reconstruction involved complex contending for interests in, for example, demolition, relocation, and moving back, and was not a major interest matter that the Guangzhou municipal government considered from 1999 to 2007. After new urban expansion and industrial development, Guangzhou took the lead in economic development and began to plan old city reconstruction again in 2007. The government was more confident in welcoming foreign-invested and private enterprises, such as those from Hong Kong, to participate in the new projects of old city reconstruction. The government had more financial resources and paid more attention to the sustainability of old city reconstruction and development. When planning old city reconstruction projects, the government paid more attention to soliciting residents' opinions and guiding active participation by state-owned and private enterprises. As a result, Guangzhou has created many new typical cases, from old city reconstruction to urban renewal and renaissance. It restored the essential characteristics that the old city reconstruction does not take commercial development as the primary purpose and won the support of residents in the old urban areas. Therefore, it created a new model of the old city reconstruction in

⁴⁶ Pearl River Delta Urban Agglomeration GDP Exceeds RMB 10 Trillion. 21st Century Business Herald. May 9, 2022

Guangzhou and completed some small-scale projects. For example, "Liede Village," located in the south-central part of the Tianhe CBD of Guangzhou, was an old core urban area with high commercial value. However, the architectural style and block layout of this "village in the city" had a history of more than 900 years, with a total area of 33.63 hectares, 3,167 households, and 7,865 people. The existing buildings had a total floor area of 686,000 m², all being high-density houses built by farmers. In fact, all of them were farmers' private houses with collective land property rights.⁴⁷ The building density was high; the living environment was poor; the supporting facilities were obsolete; the lives of villagers and surrounding residents were unstable; the economic development level of the village was low; the per capita income was low.

Because of a large population and high building density and the fact that all buildings were private houses built by farmers, the villagers reached a consensus on compensation, leading to extremely high costs of the potential demolition and relocation for land acquisition and development in the village. According to estimates based on the value of RMB 4,000 per square meter of villagers' houses at that time, the total demolition cost would reach at least RMB 2.722 billion for the 33.63 hectares of village land. This means that the price of land after demolition reached RMB 8,159 per square meter, far higher than the average land price of RMB 5,162 per square meter in commercial land transfer transactions in Guangzhou in 2007.⁴⁸ Considering the complete demolition and commercial development, Liede Village was not an attractive site at that time, and the government did not include the village in old city reconstruction projects.

⁴⁷ Comprehensive Reconstruction Project of Liede Village, Tianhe District. website of Guangzhou Urban Renewal Association. January 13, 2020

⁴⁸ Analysis Report of Land Prices in Guangzhou in 2007. website of China Land Price Information Service Platform. June 12, 2008

The long-standing "village in the city" hindered the modernization of the old urban areas of Guangzhou. After careful study by the Guangzhou municipal government and the Tianhe District government and full consideration of villagers' opinions, the local governments did not adopt the old city reconstruction model of total demolition, expropriation, and commercialization. According to the general idea of "leadership of the city, district and sub-district, and implementation by the village," the project combined partial demolition and development and partial reconstruction and renovation. The village set aside a piece of land to choose the developer through auction and invested the proceeds from the auction in the renovation. Instead of providing funds, the government helped the village allocate the land and relocate residents, hold a land auction for financing, and organize public bidding to select experienced, strong, and responsible developers to participate in the renovation of the "village in the city." From May 2007 to September 2010, Liede Village completed all the construction of resettlement houses and the moving back of villagers, which protected the interests of villagers to the greatest extent and improved the living environment. The revenues of the village collective restructuring company doubled. In 2011, the village's income was RMB 500 million, and the per capita annual income of villagers was RMB 90,000. The project became a successful model for the renovation of old urban areas in Guangdong⁴⁹.

However, the proposed reconstruction was extensively delayed in some larger demolition and construction projects of old city reconstruction in Guangzhou due to complicated negotiation and coordination, demolition and relocation, and development costs despite the government's support for independent

⁴⁹ Successful Cases of Old City Reconstruction in Guangzhou. Zengcheng Daily. June 13, 2017

development by collectives of villages. For example, Hengsha was another village in the city, located in a mature business district in Huangpu District, Guangzhou. With a total area of 3.8 square kilometers and 17,150 residents, the commercial value of the village's renovation was highly recognized because of its superior location. Based on the previous successful cases of urban village reconstruction in Guangzhou, the reconstruction of Hengsha adopted the model of control by the village collective with the support of the government and participation by commercial developers to carry out development on a rolling basis. Demolition and relocation were carried out concurrently with reconstruction, which was to complete in two phases within 3-5 years. According to the plan, the renovation project was to cover a land of about 644,600 square meters with a planned total floor area of 2.11 million square meters. RMB 3.75 billion was to be invested in the resettlement area, and more than 6,000 demolition people were to be relocated. After that, the first phase of development and construction for the resettlement area covers an area of about 25,000 square meters with a floor area of 165,600 square meters. However, the demolition, relocation, renovation, and relocation for the first phase were not completed as scheduled when the second phase of renovation was scheduled to begin in 2017. The reason was that the negotiation with villagers on compensation for demolition and relocation did not go smoothly, and the construction of houses for relocated villagers was not completed on time as promised, which caused difficulties in pushing forward the new arrangements of demolition and relocation. The villagers kept reporting grievances related to the development company controlled by the village's collective. The Guangzhou municipal government had to temporarily stop the urban village reconstruction

project, which had been delayed for ten years in 2021. The government started to reevaluate other old city reconstruction projects in progress from the perspective of protecting, utilizing, and inheriting historical and cultural heritage to prevent large-scale and complex demolition and construction activities⁵⁰.

In this case, the Guangzhou government supported Liede Village to conduct reconstruction on its own, instead of commercial reconstruction after demolition by the government. The villagers had built a large number of private houses on the collective land and reached a consensus on compensation for demolition. This was an objective condition for the government to make concessions in the old city reconstruction project as the compensation and relocation for demolition would be very complicated due to too many private houses being involved. More importantly, the large number of houses built by farmers in the village would lead to the land cost after demolition compensation being much higher than the average price of commercial land transfer transactions in Guangzhou at that time. This dramatically reduced the commercial value of the land for demolition and reconstruction. Finally, the local government did not choose to demolish and renovate Liede Village as a whole after weighing the interests and benefits, thus the local villagers were able to carry out reconstruction on their own with the support of the government. If the cost of demolition and relocation of the farmers' houses in the village had been controllable and favorable for commercial reconstruction after demolition, the likelihood would have been high for the government to take lead in the

⁵⁰ Guangzhou Huangpu Old City Reconstruction Project Being Investigated --- How the Project in Hengsha Delayed for 11 Years. China Business Journal. December 4, 2021

demolition and commercial reconstruction even if all the houses were privately held in the village. In fact, Hengsha Village was another case of demolition and reconstruction in Guangzhou occurring at the same time. Because of the large area, the land price after the demolition was lower than the average land transfer price in Guangzhou at the same time. The reconstruction of the village constantly encountered problems. It turned out that it was impossible for the villagers to negotiate and facilitate the project by themselves. Local governments and developers intervened in various ways, which made it difficult to reach a consensus on matters related to reconstruction. As a result, the reconstruction was delayed for a long time. Therefore, the benefits to be obtained through demolition and old city reconstruction are the most important factor for local governments to intervene in old city reconstruction projects, and local commercial traditions and regional architectural culture are not key factors in consideration.

5.2 The Case of Chongqing

Guangzhou banning foreign-invested and private enterprises from commercial old city reconstruction from 1999 to 2007 was not the only exception among the big cities in China. Between new urban expansion and old city reconstruction, Chongqing, a municipality directly under the Central Government in West China, also chose not to follow the example of Beijing and Shanghai, which gave priority to large-scale old city reconstruction. Given the local reality, the priority was instead given to planning the expansion into new areas and non-core urban areas between 1992 and 2012 for the maximization of the local government's interests though several old city reconstruction projects were implemented in some core urban areas. Chongqing achieved better

economic development and greater benefits by constructing the central business district across the Changjiang River, focusing on introducing and undertaking the industrial relocated from the eastern regions, and vigorously developing manufacturing, transportation, logistics, and other industries, while suspending rapid large-scale reconstruction in core urban areas.

Chongqing became the fourth municipality directly under the Central Government in China in 1997. With a wide area and a large population within its jurisdiction, the city was relatively backward in economic development. When Guangzhou, Shanghai, and Beijing opened up and developed fast, Chongqing had no large-scale central business district (CBD). Because of its narrow terrain, dense buildings, and large population, the local government could not carry out large-scale demolition and relocation. The only way out was to carry out large-scale renovation of the unoccupied dilapidated, and old areas in non-core urban areas. After investigation and study, in 1998, the Chongqing municipal government designated the 76-square-kilometer Jiangbeicheng, which was separated by the river from the city center, as a new urban expansion area, and planned to build this area into a new urban commercial center in 10 to 15 years. After another four years of study and planning, Chongqing finally started large-scale demolition and reconstruction of dilapidated houses in Jiangbeicheng at the end of December 2002. The first phase involved 16,227 households with nearly 40,000 permanent residents and a total area of 1.072 million square meters. RMB 3 billion was required for demolition and relocation, and land remediation alone.⁵¹ The demolition of Jiangbeicheng area

⁵¹ Chongqing Kick Off Largest Old City Reconstruction by Relocating 40,000 Residents. People's Daily Online. December 26, 2002

was completed in the first half of 2005, and the final demolition scope involved 27,402 households and 120,000 people. Infrastructure development and construction started in Jiangbeicheng, with the first project being the Chongqing Grand Theater. The entire program was implemented by Jiangbeicheng Development and Construction Co., Ltd., a wholly state-owned enterprise under Chongqing. During infrastructure construction, foreign-invested and private enterprises participated in the new commercial development projects in Jiangbeicheng through bidding.

More importantly, from the newly-built Jiangbeicheng Central Business District to the north, the whole Jiangbei District and the later planned Liangjiang New Area provided a huge geographical space for Chongqing's urban expansion, commercial operation, and industrial distribution. It marked the start of the golden decade for Chongqing's industrial upgrading and development. At that time, China's computer industry had entered a mature phase. However, many computer manufacturers were facing the choice of relocating their production to the central and western regions due to the rising operating costs in cities such as Beijing, Shanghai, Shenzhen, and Guangzhou. With the planning and construction of new urban areas, Chongqing seized this historic opportunity of industrial relocation. Chongqing has attracted leading computer enterprises such as HP and Foxconn since 2008 with the advantages of sufficient and cheap land, labor force, and water, land, and air transportation, as notebook computers were easy to transport with high value. On this basis, Chongqing started to plan new manufacturing industries. For example, HP's first computer production plant in China was in Shanghai. In October 2008, HP built its second computer production plant in China in Chongqing, covering a land area of 20,000 square

meters with an annual output value of RMB 30 billion to RMB 50 billion. HP later further built its software service center, global test center, and call center in Chongqing⁵². In September 2009, Foxconn's started to build its plant in Chongqing, which covered an area of 1,800 *mu* (about 1.2 million square meters) to manufacture notebook computers as an OEM. This important industrial development brought huge benefits to Chongqing. In 2014, Chongqing shipped more than 65 million notebook computers with an output value of over RMB 200 billion, becoming the world's largest notebook computer production base. In 2021, Chongqing produced more than 100 million notebook computers with an annual output value of more than RMB 400 billion. It has been the largest notebook computer production base in the world for eight consecutive years⁵³.

Rather than reconstruction in old urban areas, Chongqing first developed less occupied non-core urban areas by learning from the development experience of Pudong in Shanghai and from the experience of Guangzhou in distributing industries in non-core urban areas and areas around the city. Driving urban economic development through business and industrial distribution, the government achieved the fastest industrial upgrading and economic growth as well as employment increase and tax revenue growth. This different idea of urban reconstruction and development is especially suitable for making use of idle land in non-core urban areas during rapid industrialization and urbanization, which drives urban economic development and avoids simple large-scale old city reconstruction. This model attracted the attention of the urban planning community (Xiao, 2014).

⁵² HP Builds Its Second PC Factory in China in Chongqing. tech.sina.com.cn. October 10, 2008

⁵³ Chongqing Rank as World's Top Notebook Computer Producer for 8 Consecutive Years. Workers' Daily. April 1, 2022

With significantly increased economic strength and fiscal revenues, Chongqing accelerated the renovation of old communities and commercial facilities in the core urban areas from 2010. By the end of June 2021, Chongqing had started the renovation of 2,281 old urban communities with an area of 43,887,600 square meters, involving 498,500 households. Most of the projects were implemented from 2016 to 2020, involving 1,842 old communities with an area of 33.75 million square meters in Chongqing, benefiting 376,000 households. Besides the government investment and residents' funds, Chongqing raised funds for many renovation projects for old communities by broadening financing channels in many ways and introducing market players for large-scale investment and financing, design, construction, operation, and follow-up maintenance with innovative PPP and other market-oriented models. Chongqing also created a novel "reconstruction + operation" model, guiding banks, property management companies, state-owned enterprises under districts, private companies, and other social forces to participate in the investment and reconstruction of old communities and take care of follow-up operations. This model activated the existing housing assets and integrated the reconstruction of old communities with the housing rental market⁵⁴. As a result, the land and housing prices in Chongqing's core areas did not rise as fast as those in other megacities, such as Beijing and Shanghai. From 2010 to 2021, the house price in the core area of Chongqing increased by about 108%. The house price in the core area of Chongqing increased by only 221% even compared with 2006, far slower than that in other megacities such as Shanghai and Beijing⁵⁵. Several

⁵⁴ Renovation of Old Residential Areas in Chongqing with "New" "Hearts." Chongqing Daily. June 30, 2021

⁵⁵ Housing Prices in Chongqing Increased by 221% in Past 10 Years? Chongqing Real Estate Vision. August 11, 2021

creative cultural park demonstration projects began to appear in Chongqing's old core urban areas. For example, in Yuzhong District, the old core area of Chongqing, an old building of a former banknote printing factory with a floor area of nearly 30,000 square meters was transformed in a market-oriented way in 2014. By introducing the internationally renowned cultural and creative park "TESTBED," it has been transformed into an art and cultural park. This project has become a composite space through innovative reconstruction, integrating retail, tourism, and cultural industries, while preserving the historical, cultural, and industrial elements of the old area of Chongqing. It houses many facilities for science and technology, culture, retail business, and leisure sightseeing, becoming an important cultural and creative industrial base in the old core urban area of Chongqing and the latest demonstration project of urban micro-renewal in Chongqing⁵⁶.

5.3 Industrial Development in New Urban Areas versus Old City Reconstruction

Both Guangzhou in the 1990s and Chongqing in the 2000s chose not to carry out large-scale demolition and reconstruction in old urban areas. Instead, they distributed industries in non-core areas and surrounding areas. The reason was not that the local governments were not interested in old city reconstruction. On the contrary, the industrial development outside the core areas benefited the local economic development, fiscal revenue increase, employment growth, and officials' achievements to a better extent. Compared with the ease and scale of land expropriation in new urban areas and maximization of government

⁵⁶ TESTBED2 No.2 Factory | From Abandoned Factory to Cultural and Creative Park--- Urban Renewal Experiment Is Underway! tencent.com. November 24, 2021

revenues, old city reconstruction involves complex interest games and limited short-term benefits. As a result, these big cities did not give priority to old city reconstruction in urban planning and development when they had advantages and opportunities in expanding industrial distribution. Though this was a temporary choice for the local governments for interest maximization, this suspension delayed old city reconstruction in Guangzhou, Chongqing, and some other big cities, thus leaving more possibilities for the layout planning of the core urban areas and the continuation of culture in these cities.

The local governments will start to consider reconstructing the old core urban areas when the industrial development and benefits around these cities are continuously being realized. The reason is the commercial value of land in the core urban areas due to its scarcity and the increase in value along with the development in new urban areas. For this reason, Guangzhou quickly restarted the investment promotion for old city reconstruction after 2007, especially welcoming Hong Kong-invested enterprises to participate in both development in new urban areas and old city reconstruction. Compared with many other big cities such as Beijing and Shanghai, Guangzhou and Chongqing started old city reconstruction later. In this way, they were able to balance more financial resources and more goals to explore diverse reconstruction and development options taking care of both the public nature and commercial use by following internationally accepted practices in line with the characteristics of the old urban areas. For example, instead of large-scale demolition and construction in the renovation of Kuanzhai Alley, the commercial development model of Kuanzhai Alley was designated as a historical and cultural site in 2003, for which the government was to lead the protective reconstruction and development. Finally,

the government decided to develop a compound cultural and commercial street with distinctive historical and cultural characteristics of Ba and Shu by preserving the old Chengdu buildings. The renovation of the Kuanzhai area was commenced in 2005 and opened to the public on June 14, 2008⁵⁷, attracting tens of millions of visitors every year. After continuous protective reconstruction and development, the Kuanzhai Alley Scenic Area received more than 40 million tourists and realized consumption of more than RMB 1.2 billion in 2019, becoming a well-known cultural and commercial project for protective development in old urban areas in China⁵⁸. Another example was the "Three Lanes and Seven Alleys Protection and Restoration Project," which started in Fuzhou in 2006. More big cities in China, such as Shenyang, Xiamen, Wuhan, and Hangzhou, began to carry out old city reconstruction in novel ways.

In Guangzhou, Chongqing, and some other cities, another realistic condition temporarily restraining large-scale old city reconstruction was that there were relatively concentrated privately owned houses in some old urban areas. Examples are Liede Village and Hengsha urban village in Guangzhou. Old city demolition and reconstruction usually go smoothly if only a small number of private property owners are involved in the reconstruction. It is easier to reach an agreement on interests. However, if many private property owners are involved in the reconstruction, and it is more difficult to reach an agreement on interests, the planning and demolition for old city reconstruction would encounter higher costs and more conflicts in demolition in these areas. Considering these realistic constraints, Guangzhou, Chongqing, and some other

⁵⁷ Kuanzhai Alley, Representative of Chengdu' Culture, Promotes Post-Disaster Tourism Today. Xinhua News Agency. June 14, 2008

⁵⁸ Chengdu's Kuanzhai Alley Are Creating an Unprecedented Pathway for Integration and Development of Culture, Business, and Tourism. On tencent.com. August 11, 2021

big cities chose to expand into new urban areas and attract investment to develop industries before carrying out small-scale reconstruction plans in the old urban areas. The differences reflect the local governments' trade-off for maximizing interests in different phases. They also suggest that relative concentration of private housing property rights in old urban areas can constrain the speed and scale of old city reconstruction even under the constraint caused by the basic system of state-owned land property rights. Though this cannot change the whole process of old city reconstruction, its warning and braking effect played a part in the slowdown and downscaling of old city reconstruction around China after 2012. Different types of private property rights eventually form a certain check on public decision-making.

Chapter VI

Discussions and Suggestions

Will enterprise involvement in old city reconstruction inevitably lead to severe money-for-power issues like those in many Chinese cities? Global experience suggests that this is not necessarily the case. Those who only focus on the short-term economic growth rate or the development profits of enterprises destroy the old city reconstruction. They not only destroy the old city style and features but also damage the old urban areas with rich historical and cultural connotations of the production factors. There are many profound lessons in the world and the development and construction of many famous historical and cultural cities in China.

A preliminary conclusion is that if the role of the government is absent or dislocated in the renovation and development of the old city, only enterprises are taken as the main entities in the actual renovation and development; the unreasonable demands of enterprises are over-satisfied; they only pursue their interests to the maximum extent, without considering the city as a whole in the long term. The government is the only powerful institution likely to restrain companies from such excessive profit-seeking.

The reason why local officials indulge in the excessive demolition and construction of enterprises in the renovation of old cities to the detriment of the interests of aborigines is not due to the quality of the officials themselves but related to the incentive mechanism of the officials. The performance appraisal of local officials is based on quantitative economic indicators. The results of the appraisal are related to their promotion. The appointment comes from the

superior rather than being based on public opinions. This top-down, the stronger the economic-based incentive for officials is, the more eager officials are to get ahead regardless of the consequences. Scholars believe that the "promotion tournament model" of local officials can explain China's economic development, especially in GDP growth driven by regional competition (Zhou, 2007; Zhang & Zhou, 2008). At the same time, it is also a core factor that leads to the destructiveness of old city reconstruction in many areas and the prevalence of money and power trade.

6.1 Consequences of Fast Old City Reconstruction

Since top priority was given to the speed and scale of old city reconstruction in the 20 years from 1992 to 2012, the demonstration of the planning and construction layout of the relevant renewal was quite rough. The old city reconstruction has produced similar urban layout and architectural styles in many urban core areas, and the old urban areas' historical and cultural elements and buildings have been damaged to varying degrees. This is also the reason that the 20 years of the old city reconstruction have left many controversies and triggered a wide range of criticism. It is also the reason for the significant changes in the old city reconstruction model in the core areas of major cities in China after this period.

On the other hand, the rapid and large-scale promotion of old city reconstruction in major cities in China from 1992 to 2012 also shows that the governments at all levels, local officials, related enterprises, and urban residents actually and generally benefited from this process to varying degrees. The rapid growth of urban residential buildings and per capita housing area is the most obvious

change. As for changes in urban residents' housing area, the per capita housing area in Chinese cities almost doubled to 8.8 square meters from 1978 to 1997. The floor area of completed housing projects in Chinese cities reached 405.5 million square meters, more than ten times that in 1978⁵⁹. The urban construction of major Chinese cities entered on a fast track from 1998 to 2012. According to the data released by the National Bureau of Statistics, the per capita residential floor area of urban residents in 2012 was 32.9 square meters, an increase of 26.2 square meters over 1978⁶⁰. The urban housing area increased from 1.4 billion square meters in 1978 to 26.7 billion square meters in 2017, an increase of more than 19 times in the 40 years. The built-up area of Chinese cities reached 56,200 square kilometers, and the urban area reached 198,400 square kilometers⁶¹, both at incredible speeds. The period of the rapid growth of urban construction and residential area in China corresponded to the rapid development of market economy. By looking carefully at the drivers behind these major changes, one would find they are a result of the active roles of the central government and local governments. China's transition from planned economy to market economy was not to realize a completely free market economy with limited government, but a socialist market economy with active government. The urban construction and residential area growth seem to be a result of the active development of different market players from state-owned enterprises to foreign-invested enterprises and private enterprises. However, any development related to cities, buildings, and real estate relies on the active

⁵⁹ Changes and Prospects of Urban Housing System in the Past 70 Years in New China. Governance. May 7, 2019

⁶⁰ Statistical Bulletin of the National Bureau of Statistics 2012. Official website of the Chinese Government Network. September 2, 2013

⁶¹ Changes and Prospects of Urban Housing System in the Past 70 Years in New China. Governance. May 7, 2019

role of the central government and local governments because China actually implements complete state ownership of land. The role includes the government's intervention in urban planning, investment, and construction, including the dominance of state-owned enterprises in urban land development and new urban expansion, but also the government's awarding of urban development rights to different types of enterprises for maximal economic and revenue growth in different phases. Most importantly, all of these require the government to maintain a positive attitude towards old city reconstruction, new urban expansion, and real estate industry development for the prosperity of the cities and the market. If the central government and local governments had remained conservative and omitted to act as before, it would have been impossible to drive urban land expropriation, old city reconstruction planning and new urban expansion and development under laws and regulations, and the development of China's economy and urban construction would have been slower. Of course, the central government and local governments took a positive attitude toward old city reconstruction and urban construction based on public interests, and more importantly, the fact that local governments and officials got maximal benefits in this process.

Among them, local governments and officials were the largest direct gainers. For the local governments, fast old city reconstruction drove local economic growth, rising land and housing prices, increased local fiscal revenues from land finance, development of local industries, taxation, employment, renewal of urban image, and urban expansion. Local officials got both nominal and real benefits in facilitating old city reconstruction. The most conspicuous was the performance of officials, and many local officials got rapid promotion for fast

old city reconstruction. What was invisible during old city reconstruction included rent seeking by leveraging plan examination and approval authority, bribery and other corruptive practices, and illegitimate interests obtained by officials' children, which almost became open secrets in old city reconstruction in major cities. It was also an internal driving force for local officials to promote old city reconstruction. State-owned, foreign-invested, and private enterprises obtained economic returns by participating in old city reconstruction. Especially after the scale of old city reconstruction expanded, foreign-invested enterprises and private enterprises seemed to be the main players carrying out reconstruction and development and gained huge commercial benefits. Local state-owned enterprises also gained commercial benefits for being preferred in obtaining authorization for planning and demolition of the urban areas, carrying out tier-1 land development, and then transferring the development rights to foreign-invested and private enterprises.

A complicated aspect was with urban residents. On the one hand, they suffered damage to their interests in housing property rights in the old city reconstruction; on the other hand, they benefited from the new urban environment, new residential buildings, and compensation for the demolition of the old buildings. Most residents in the old urban areas have improved their living conditions during the old city renovation though the specific benefits obtained by urban residents differ considerably in the old city renovation, and the practices of different cities were not the same. Of course, some residents who owned privately owned houses in old urban areas think that they gained insufficient benefits because they have lost their old houses and underestimated compensation. Some residents previously living in old urban areas had to move

to the outer suburbs because they could not move back or buy houses in the core areas. They became marginal residents in the old city reconstruction and new urban expansion of major cities. These two groups of urban residents bear the most grievances against the large-scale old city reconstruction model and are the most likely to raise sympathy from urban economic researchers. Their resistance and struggles have exerted certain pressure on decision-making by the government and became a reason for the subsequent changes in the old city reconstruction model. Generally, local governments and officials were the biggest gainers in old city reconstruction and were core forces driving the rapid and large-scale old city reconstruction. Various types of enterprises also benefited a lot as they were willing to bear the risks of old city reconstruction and constantly pursued commercial interests. Most urban citizens did not oppose old city reconstruction and were interested in the specific gains in the old city reconstruction. Some urban residents suffered damage to their interests in the large-scale old city reconstruction.

Since the state ultimately owns land property rights, did the state benefit or suffer losses during fast and large-scale old city reconstruction around the country? It should be noted that the economic development and urban construction in individual regions of China are also a part of the whole country's development and progress. Regardless of the timing and scale, the old city reconstruction would take place in major Chinese cities sooner or later, and it should keep pace with China's economic development and is also an important means to achieve faster economic development. From this point of view, the whole country is also the gainer of old city reconstruction. However, the benefits to the state are not limited to the renewal of the urban environment and regional

economic development. They also include social benefits and inheritance of historical and cultural heritage in various aspects as well as the continuation of unique styles and buildings of each city, which are the "soft power" and value of civilization of a country. In these aspects, the interests of the whole country suffered long-term damage as many historical and cultural buildings and street layouts were destroyed in the largest scale demolition in old urban areas across China from 1992 to 2012, and many urban features will never be restored. However, the loss in these aspects was not a focus of decision-makers and developers in the planning and implementation of old city reconstruction. There was no effective supervision and constraint imposed by relevant institutions, so such non-economic losses occurred frequently.

Significant changes emerged in the scale, speed, and priorities of old city reconstruction in China's major cities in China after 2012 because controversies arose over the large-scale old city reconstruction from 1992 to 2012, especially the commercial reconstruction and development. On the one hand, the cities started to implement more livelihood improvement projects such as those providing affordable housing in old urban areas and improvement of old residential areas; on the other hand, they explored new modes of old city reconstruction. For example, Beijing arranged 240 key projects with a planned investment of about RMB 227 billion in 2013, including 37 livelihood improvement projects with a planned investment of RMB 55 billion, involving RMB 15 billion for affordable housing and RMB 8 billion for the comprehensive renovation of old residential areas.⁶² These two types of

⁶² Beijing to Invested RMB 227 Billion in 240 Key Projects in 2013. Official website of the Chinese Government. February 17, 2013

investment were for non-commercial projects with government investment. Commercial development of old urban areas was reduced. Later, Beijing's new urban master plan and regulatory plan for the capital's core function area were approved by the central government in September 2017 and August 2020 respectively. The *Regulations on Protection of Famous Historical and Cultural City in Beijing* was re-enacted and implemented in March 2021, officially announcing the end of the large-scale demolition and construction in the old urban areas of Beijing. The new theme of old urban reconstruction in Beijing became "expanding the scope of protection, attaching importance to the value of old urban areas, and encouraging activation and utilization".⁶³ In another example, Shanghai completed the demolition of 710,000 square meters of dilapidated houses in central urban areas and cleared up the remaining 41 plots for old city reconstruction in 2012. Shanghai further demolished 700,000 square meters of dilapidated houses in the old urban areas in 2013.⁶⁴ In 2019, Shanghai officially launched a new mechanism for old city reconstruction and explored new financing modes for old city reconstruction projects through the cooperation between the municipal and district governments and the cooperation between government and enterprises. In June 2021, an urban renewal fund with a capital of RMB 80 billion was established, focusing on completing the outstanding works of large-scale old city reconstruction in Shanghai.⁶⁵

Three main reasons explain why the focus and mode of old city reconstruction

⁶³ Farewell to Large-Scale Demolition and Reconstruction and Old City Rejuvenated --- Changes in Old Urban Areas of Beijing. Southeast Network (fjsen.com). July 25, 2022

⁶⁴ Shanghai Strengthens Old City Reconstruction in 2013, Benefiting 30,000 Residents. Official website of the Chinese Government. January 24, 2013

⁶⁵ Shanghai Sets up a "Big Chess Game" for Urban Renewal: to Complete Large-Scale Old City Reconstruction before the End of 2022. China Business Journal. June 12, 2021

in major cities gradually changed after 2012, especially in terms of reduction of commercial projects of old city reconstruction and development. First, the incentive system of government officials at all levels began to change after 2012. Local GDP, revenue, and tax growth was no longer the only or most important factor in assessment, and more non-economic factors were considered in the performance assessment of local officials, involving social stability, environmental governance, natural and human-made disasters, disease prevention and control, etc. For example, there were 93 cases in which local officials were publicly dismissed from 2013 to 2015 for various reasons, and about half of them were accused of improper lifestyle or behavior violating relevant regulations.⁶⁶ Second, superior governments became less tolerant of severe incidents caused by demolition and reconstruction in cities and held relevant officials accountable. For example, the Central Commission for Discipline Inspection announced that 10 senior cadres under central management were demoted in 2015 with 5 of them for misconduct in demolition related to real estate development.⁶⁷ Third, the land and housing prices increased significantly in Beijing, Shanghai, and other big cities after 2012 after multiple waves of real estate development since 1998. According to the data released by the National Bureau of Statistics, the average housing prices in Beijing and Shanghai increased by 3.5 times and 3.9 times respectively in 2012 compared with 2000. The prices kept rising at rates ranging from 10% to 30% per year since 2013.⁶⁸ This led to the fast increase in the demolition cost for old

⁶⁶ Why Officials Got Dismissed: Misconduct in Lifestyle. Sichuan Daily --- Integrity Outlook. April 13, 2016

⁶⁷ 10 Intermediate Cadres Were Demoted Last year, and 5 Involved in Demolition for Real Estate Development. The Beijing News. January 30, 2016

⁶⁸ Average Housing Price in Beijing and Shanghai (1999-2020), National Bureau of Statistics. Gotohui.com

city reconstruction and the difficulty of commercial development in big cities. It was difficult to quickly implement large-scale demolition and reconstruction of old urban areas solely through market operations unless the government invested in livelihood projects.

A question is what kind of old city reconstruction is the most beneficial to the state and sustainable. In this respect, developed countries in Europe and America have richer experiences and lessons and share important understanding as they experienced urbanization, industrialization, post-industrialization, and old city reconstruction earlier than China. From the experience of urban construction in human society, the old city reconstruction differs from the primary development on the original sites. The secondary development of old urban areas and urban villages is required because the physical environment cannot accommodate the economic and social development needs in these urban areas. The reconstruction improves their overall functions (Shi & Lang, 2013).

From the practices of most countries, more appropriate and sustainable old city renovation usually involves small-scale repair or partial demolition and reconstruction to protect and preserve the urban layout to the greatest extent, architectural styles, heritage, and culture. Of course, some European and American countries once carried out large-scale demolition and construction of old urban areas, but they soon encountered complex difficulties in coordination of private land and housing property rights and great pressure for potential damage to the styles of old urban areas. The scene of large-scale demolition and reconstruction of old urban areas like those occurring in China from 1992 to 2012 is almost impossible in large and medium-sized cities in European and American countries. The old city reconstruction occurring in China in the 20

years from 1992 to 2012 gave rise to issues related to land property rights, authorization for decision-making, development model, benefit sharing, and correction of official incentive mechanism. These issues were far more significant than those in other countries and worthy of study.

From the research point of view, we can discuss the inevitability of this kind of system arrangement, as well as the duality of its effect. After what kind of critical point should this kind of system arrangement be corrected systematically? Could the trade-off be measured? Under what conditions must the new deviation correction mechanism be truly realized? At what cost the entire system of officials and even Chinese society must bear to correct this imbalance in the system? The continuous thinking and in-depth questioning of these issues may be an important perspective to observe whether China can smoothly transfer to the track of sustainable development after achieving rapid economic growth since its reform and opening-up. It is also an indication of whether the modernization of governance in China's system of officials and the border between the government and the market can be achieved in an area where the competition for interests is exceptionally intense.

6.2 Regional Differences in Old City Renovation Models

The large-scale old city reconstruction from 1992 to 2012 brought enormous real benefits to many local governments in China. It served as proof of the performance of local officials in promotion incentives. However, Guangzhou, Chongqing, and some other cities did not give priority to old city reconstruction during this period. Instead, they made greater efforts in the expansion of new urban areas and industrial development, not because the old city reconstruction

was not important or advisable, but because they could do better in large-scale investment attraction and specific industrial development, which produced greater benefits to local governments and officials. As the investment attraction and industrial development reached a certain level, these cities started to facilitate old city reconstruction, which had been temporarily inhibited. Though the specific reconstruction model and scale are different from those in other regions, the local governments did not give up or lessen their dominance in old city reconstruction projects. The authorization to local governments based on the state-owned urban land property rights still played a role. As for the plan approval authority and selection for developers, there was no material difference in the behavior patterns between these local governments and officials and those in other regions, where old city reconstruction occurred earlier. That is, other market entities and individuals could not weaken the absolute dominance of local governments.

Since old city reconstruction occurred later in these cities, the local governments and officials were aware of the problems encountered by Beijing, Shanghai, and other cities in connection with planning, demolition, and compensation. They were able to adopt novel methods in certain reconstruction projects of small scale in planning and implementation of old city reconstruction. For example, some old city reconstruction projects were not completely commercialized; the planning and design retained the original style of the old urban areas as much as possible; some original residents chose to move back. These reduced possible conflicts in planning, demolition, and compensation in old city reconstruction projects in these areas. As a result, some projects of old city reconstruction in these cities had special characteristics that were more in line with public

expectations and allowed more participation from residents.

However, if the scale of old city reconstruction projects was large, the novel models mentioned above soon encountered various difficulties in implementation. Whether in examining and approving renovation plans or in implementing demolition for projects, complex coordination and disputes often lead to delay or infinite postponement of large-scale projects. This indicates that if local governments intend to promote large-scale old city reconstruction through consultation, this method does not work in China because of the complicated coordination of specific interests. Therefore, when local governments are resolved to carry out large-scale old city reconstruction by quickly demolishing the existing houses in old urban areas, they are likely to resort to the models of Beijing, Shanghai, and other cities. That is, the government strongly dominates the old city reconstruction, directly approves the demolition, reduces voluntary consultation, and even forcibly expropriates certain houses in the name of, for example, improving public transportation. To reduce conflicts in reconstruction projects, the government has an important option by raising the compensation standards for demolition. This will increase demolition expenditures compared with previous years, as the local governments have more financial resources to bear the costs.

Another way is to carry out large-scale demolition of relevant areas in the old city in the name of public interests through large-scale construction of urban metro systems on the land. Due to the rigidity of transport infrastructure reconstruction and the accommodation of the investment scale, the demand for compensation of residents in the old urban areas can largely be met, and local governments can also carry out the demolition beyond the needed scope for

urban metro projects. Besides providing the supporting facilities needed for metro construction, much land in the old core urban areas can be used for commercial development or investment promotion. Local governments still obtain greater government interests and personal incentives by actively facilitating large-scale old city reconstruction.

6.3 Cross-national Comparison of Old City Reconstruction Models

Should the government respect history and culture under the premise of protective planning and restricted development for old city reconstruction at the expense of construction speed and GDP performance? Should large-scale old city reconstruction for economic development, GDP growth, other indicators, destructive planning, and unlimited development be conducted regardless of history and culture? Many countries choose the former, while China chooses the latter.

In choosing the former, the goal is to protect the historical culture of the old urban areas. This practice does not take economic indicators as the only important indicators, nor does it take the short-term prosperity brought about by the reconstruction of the old city and the growth rate of GDP as the basis for local officials' promotion. Hence, government plans consider factors other than the economy. It requires limited participation in old city reconstruction and development, limits the scope for destruction, and makes it harder for officials to open the door to private gain. As a result, the speed of old city reconstruction and development will be slower, but the interests of all parties will be better coordinated. At this time, if one must carry out a relatively large-scale urban construction, one often chooses to build new urban areas outside old ones. It

will also involve demolition and other issues, but the difficulty and destructiveness have been less than those caused by demolition and construction in old urban areas. For example, Paris accelerated the development of the central business district outside the old urban areas in the 1980s.

Japan's Roppongi Hills is one of the world's most sustainable examples of old city reconstruction. The local government proposed the plan, and the main developer/landowner is a company. It took more than 14 years for developers to reach an agreement with each of the more than 400 other landowners in Roppongi. The result was neither forced demolition nor monetary compensation, but a combination of seven schemes based on three basic forms of compensation, involving asset discounts, monetary compensation, home replacement, and the exchange of old houses for new houses, asset Discount, share dividends, which met the demands of different original owners. Finally, the demolition and reconstruction process encountered no nail household or lawsuit. Later, the developer completed the demolition of the old urban area and the construction of the new city in Roppongi in just three years (Shi & Lang, 2013).

For broader international comparison, the Federal Urban Renewal Program was implemented in thousands of cities across the United States in 1949. The congress of the U.S. authorized the federal, state, and city governments to use expropriation power, formulated unified plans for the old areas in the city centers, and provided compensation for the expropriation of private land and houses in old urban areas. This seemed to improve the efficiency of planning and implementation. Forced eviction occurred during expropriation, and private property owners were unable to fully claim their rights, which did not fundamentally change the renewal plans of major cities in the United States at

that time. If the renewal plans covered private land and houses, the owners finally had to cooperate with the government and move away from the old urban areas. Because the whole process of planning, hearing, decision-making, and implementation was complex, it was necessary to coordinate the interests of various stakeholders. In cities across the United States, the time spent planning and implementing the whole program ranged from several years to more than ten years, and many large-scale projects lasted for 15 to 20 years (Anderson, 2012). This indicates that urban renewal is difficult when private property rights are concerned.

Moreover, people of various races lived in major cities in the United States. Due to the suburbanization of the middle class since the 1950s, the residents in old urban areas generally had low incomes, came from different races, and lived in dense communities, and many of them were unemployed Hispanics and African-Americans. The security conditions were poor in many old city blocks. The complexity of interests, compensation, and ethnic conflicts that may be caused by large-scale demolition discouraged the local governments in these big cities, who had hardly any political motivation for decision-making to actively promote old city reconstruction.

The La D éfense New Area in Paris, Roppongi Hills in Tokyo, the Federal Urban Renewal Program of the United States, and the High Line Park in New York shared characters of slow decision-making, complicated demonstration, time-consuming and onerous development, and reconstruction. Their efficiency was very low compared with the old city reconstruction in China. However, the reason behind this slowness was that the decisions of old city reconstruction must fully consider the appeals of various stakeholders. Urban land and housing

property rights were clearly defined in these countries, and there are perfect legal systems protecting property rights. Any decision maker in old city reconstruction had to listen to the appeals of all stakeholders fully, try to balance various interests, and seek the most balanced compromise. In these countries with clearly defined private land property rights, it was hardly possible to realize large-scale and rapid old city reconstruction. This slow decision-making was in line with the maximization of the interests of various stakeholders in general. Everyone had to maximize their common interests under constraints.

From the international comparison, it was vital for the local governments and city councils with the power of initiation as well as examination and approval authority to play appropriate roles. Should it be administration, coercion, supervision, coordination, or service provision? Should all stakeholders share interests and find the best balance point? Should the priority be given to the performance of officials or the interests of enterprises? Should government officials act in the interests of business, concerned only with merit, promotion, or the potential exchange of power for money, or play the roles of supervisors, coordinators, and arbitrators, protecting the rights and interests of the original owners, respecting the free and orderly development of the market economy, and at the same time providing a favorable operating environment and investment services for the developers are of vital importance to the ideas, methods, and results of the old city reconstruction? In fact, the interests and needs of the government, developers, indigenous people, and low-income migrants in the reconstruction of the old city can be unified. Therefore, it is entirely possible to create a market-oriented cooperation model: the developer gets the commercial and reasonable profits of the new development, the former

owner gets the reasonable rights and interests, and the government gets the economic growth brought about by the new town, new job opportunities for low-income earners.

From the perspective of social systems, differences exist in the necessity, complexity, and mode of old city reconstruction between developed countries with capitalism lasting for hundreds of years and China with socialism which has only existed for decades. Cities in developed capitalist countries have maintained a relatively stable track of development, and their functional layouts and architectural styles in old urban areas tend to be stable. Being able to meet the needs of urban life and business, they have no urgent necessity for large-scale old city reconstruction. Moreover, suburbanization can satisfy certain demand for commercial activities and residences. Therefore, local governments in these countries have no motivation to carry out large-scale demolition and reconstruction in old urban areas. The case was different in China, which began to implement reform and opening up in 1978. China faced challenges and choices different from capitalist countries as to how to promote urbanization and urban planning and construction. In the 1980s, studies represented by Wu Youren and other scholars and their policy recommendations were to combine industrialization with urbanization and learn lessons from big cities in capitalist countries faced with dense urban populations. As a socialist country, China should control the scale of big cities and focus on developing small and medium-sized cities, especially small towns around big cities (Wu, 1979). China embarked on the transition to socialist market economy in 1992. The functional divisions in old urban areas formed under the traditional planned economic system obviously cannot meet the new needs for market-oriented life and work

after the closed working and living communities encompassing state-owned units or institutions began to open. At that time, China tried to use the market to allocate social resources in all aspects. Therefore, for urban planners, how to use the market to scientifically allocate land, one of the most basic and important social resources, became the most severe challenge facing China in the new circumstances (Song, 1997). As a result of the rapid economic development of China after 1992, there was a very urgent need for large-scale reconstruction to change the functions and layouts of the traditional socialist cities, simply because they cannot adapt to and meet the needs of the new market economy. From this point of view, local governments not only hoped to achieve local economic growth and revenue increase through old city reconstruction but also had to re-plan and re-position the functions and layouts of old urban areas to accommodate the social and economic life that had undergone significant changes. They created new layouts of urban functions and carried out new construction by breaking the previously closed community structure encompassing state-owned units. In fact, this realistic demand for reconstruction of old city functions and layouts also gave rise to the internal driving force for local governments to carry out large-scale demolition and reconstruction.

There must be the right incentives for government departments and local officials to take the initiative in this role. Their promotions are not based solely on indicators such as local GDP growth; they are appointed not by a higher authority but by a local vote. Whom the residents will vote for depends on the experience and policies of the officials and their parties and whether the goal is coordinated for local economic and social development or the interests of the

indigenous people. In such incentive schemes, it would be difficult for local officials to favor development enterprises, be deficient in administrative procedures and information transparency, or use public budgets without sufficient justification and necessary procedures, namely, subsidies for enterprise development.

6.4 Recommendations for Changing Old City Reconstruction Models

To clearly understand the changes in old city reconstruction modes in China from 1992 to 2012 and thereafter, it is necessary to further distinguish public attributes and commercial attributes of old city reconstruction projects to put forward more specific recommendations on changes to modes of old city reconstruction.

Old city reconstruction projects with so-called public attributes mainly refer to the public infrastructure serving the livelihood, such as roads and telecommunication networks. Their primary functions are to enhance the functions and efficiency of cities rather than seeking profits or transactions. Projects with so-called commercial attributes mainly refer to commercial development projects such as office buildings and commercial residences. Their primary functions are for the purpose of profitable transactions or rentals, which may also enhance the functions and efficiency of cities. In specific projects, however, public attributes and commercial attributes of old city reconstruction projects are not necessarily bound to the types of development entities. For example, the urban rail transit projects in Beijing, Shenzhen, and other places had apparent public attributes, but the development entities of these projects included state-owned enterprises, foreign-invested enterprises, and private

enterprises. These urban transportation projects with public attributes also had an obvious effect of economic externality. Where the urban rail transit projects extended, the commercial value of land price, housing, and other factors in the urban areas was improved significantly. Therefore, whether urban transit construction projects had pure public attributes or both public and commercial attributes was a complex question not to be answered easily.

Because of this complexity, the local governments of Shenzhen and other places actually combined urban rail transit projects with urban land planning and development for new urban expansion in urgent need of urban transportation. Shenzhen Metro, established in 1998, is responsible for investment in rail transit construction in the city. It has built and operated 431 kilometers of urban metro lines from 2004 to 2021.⁶⁹ Shenzhen Metro also acquired large areas of urban land in planning and constructing metro lines, and specially set up Shenzhen Metro Real Estate to carry out various forms of commercial real estate development. By the end of 2021, Shenzhen Metro had the comprehensive development rights along the 21 metro lines in Shenzhen with a total development area of about 12.6 million square meters. Its sales revenues had exceeded RMB 10 billion for seven consecutive years and ranked among the top three real estate developers in Shenzhen for five consecutive years.⁷⁰ In fact, this operation and development mode, which combines urban transportation infrastructure with public attributes and urban real estate development with commercial attributes, is being replicated in other Chinese cities. This new mode of old city reconstruction and new urban expansion has caused

⁶⁹ Shenzhen Metro Lines Have Extended Rapidly for 24 Years, Connecting Areas in and outside the City for Urban Development. Official website of Shenzhen Metro. August 5, 2022

⁷⁰ Overview of Shenzhen Metro Real Estate. Official website of Shenzhen Metro. August 2022

controversies over public and commercial attributes.

It is important to turn to China's current legal and administrative system rather than simply relying on the conscious choice of local governments or effective supervision by local residents to change the behavior of local governments and officials in old city reconstruction. As the state-owned land property rights system cannot be changed, the incentive mechanisms for officials should be reformed as they have been implemented for a long time in China. Some scholars argue that institutional reform must be pursued, with better appraisal and development mechanisms replacing official mechanisms and better schemes replacing GDP-only local competition. As long as the appraisal of local governments and officials is not centered on economic growth goals and includes other specific requirements for social development and people's livelihood, local governments and officials will no longer be "GDP-oriented" in all behaviors. When it comes to short-term economic interests and medium-and long-term sustainable development, they are likely to make more trade-offs and balances to avoid simplifying the decision-making on economic and social development.

The principles of a final solution may: (1) limit the primary responsibility of the government to the maintenance of order and the provision of public services; (2) make the heads of officials at all levels and make the incentives for local heads, directly linked to the interests and oversight of citizens, rather than being judged by superiors. Obviously, the rule of law is the condition that these two transformations can carry on normally (Xu, 2017). However, the definition, regulation, and transformation of government responsibilities under the law have undoubtedly a long way to go, involving the complex game in the

administrative system reform and the appropriate division between government and market. In essence, it is about changes in economic development concepts and models, which are pending further in-depth research.

Chapter VII

Conclusion

7.1 Conclusion

This study focuses on industrialization and urbanization, especially the controversies arising from urban planning and large-scale old city demolition and reconstruction, along with China's rapid economic development since the reform and opening-up in 1978. It closely examines the period from 1992 to 2012, the fastest old city reconstruction in China's big cities, involving the nature of urban land property rights and different types of housing property rights, the examination and approval authority for the old city reconstruction of local governments, the changes in development rights in phases of the old city reconstruction, the regional differences in the old city reconstruction and new urban expansion between Beijing, Shanghai, Guangzhou, Chongqing, and other big cities during this period.

A comparative study finds that the state-owned nature of urban land property rights in China is an important basic institutional arrangement with far-reaching influence. It determines that different types of urban housing property rights on state-owned urban land cannot actually exist independently and cannot be fully claimed in the old city reconstruction. The power of the central government to administer state-owned land is authorized to local governments at or above the county level and local departments in charge of land and urban construction through the legal provision and administrative authorization when their economic development goals are in concert with each other. The local governments have become the dominant force in old city reconstruction across

China. Due to the asymmetric division of powers and responsibilities between the central government to the local governments, the local governments actively facilitate large-scale old city reconstruction for local economic development and maximization of official incentives. They maximize the development of regional economy and urban construction, obtain the most important revenues from land finance besides tax, achieve employment growth, and improve the general living conditions of urban residents.

Applying this theory to the case studies of Beijing, Shanghai, Guangzhou, and Chongqing in different phases of development, this paper finds that from 1992 to 2012, large-scale old city reconstruction occurred rapidly in major cities of China. The core reason was that the state owns urban land property rights, and the central government has fully authorized the power to local governments. At the same time, the appraisal of local economic development and officials' performance was centered on GDP data. Local governments and various types of enterprises have carried out large-scale and accelerated old city reconstruction from 1992 to 2012 under the specific mechanism of incentive compatibility. In different periods, the local governments authorized local urban construction and housing management departments, local state-owned urban construction enterprises, later Hong Kong-invested enterprises and other foreign-invested enterprises, and then private real estate companies to carry out development for interest maximization. The old city reconstruction promoted urban construction and local economic growth and stimulated the prosperity of the real estate industry in China's major cities. It also caused serious consequences. After 2012, China's major cities had to slow down the pace and scale of old city reconstruction and re-explored new models of old city

reconstruction.

The theory also applies to explaining why Guangzhou, Chongqing, and some other big cities took into account local conditions, carried out initial old city reconstruction, then gave priority to industrial development by expanding new urban areas and attracting investment and again carried out centralized old city reconstruction. In these cases, the progressive relationship between the examination and approval authority and the development right of old city reconstruction starting from the state-owned urban land property rights still worked. Whether it is large-scale old city reconstruction, large-scale new urban expansion, or large-scale investment attraction, the common essence is still based on state-owned urban land property rights and the basic institutional arrangement that the state owns all land in China. They were just different manifestations of local government's efforts to maximize the governments' interests and officials' incentives in different ways in different phases.

This paper analyzes and summarizes the controversies over the large-scale old city reconstruction occurring in major cities in China from 1992 to 2012, which ultimately involved China's basic land property rights system and related administrative authorization and appraisal mechanisms. Reform of China's official incentive system is required by replacing GDP-oriented local competition and official evaluation mechanism to change the behavior of local governments and officials in public issues like old city reconstruction. It is necessary to make a clearer definition of the core role of government in social and economic affairs, as well as better performance examination indicators for officials at all levels, not only in terms of economic growth but also in terms of relevance to the interests of the people. Ultimately, in addition to the appraisal

by the higher authorities, it is also necessary to carry out public supervision based on the rule of law so that the future old city reconstruction and planning and construction can move forward actively and steadily with consensus in existence.

7.2 Innovations and Caveats

The most significant innovation of this research is the application of incentive compatibility theory to the old city reconstruction of China's major cities from 1992 to 2012. This paper makes a systematic study on the phenomena of the absence of the ownership of urban land and housing, the offside of the examination and approval authority of local governments, and the dislocation of the development right of the old city reconstruction. It explains the institutional reasons and the beneficial guidance for the emergence of the mismatch of three rights and the unsustainability of this model of old city reconstruction and renewal. Taking into account the major adjustments that have begun since 2012, particularly since 2018, in China's real estate development and old city reconstruction model, this paper explains the necessity of this important adjustment in the logic of time and reality. Due to the wide scope and great benefits involved in the reconstruction of the old cities in China, the study has actually analyzed the process of China's reform and economic development from another perspective, the challenge of the transformation of the social and economic functions of the government.

The biggest caveat of this research is that we have not obtained more detailed data and information about the old city reconstruction in major cities in China. The criteria of statistics and information available related to old city

reconstruction differ between the regions. Therefore, the analyses are made only with representative cases of old city reconstruction and part of the phased statistical data for analysis and research. Whether the conclusion of this study can stand verification with a larger scope of samples is still waiting for further disclosure of government information at all levels in China and more in-depth data and studies on real estate and urban construction. Another deficiency of this study is that the comparison of specific models and cases of old city reconstruction in other countries, especially emerging economies with a similar level of development, is not comprehensive enough. There is no more conclusive proof that China's model of massive old city reconstruction between 1992 and 2012 could be replicated in other emerging economies. Though being a pity of this research, these deficiencies suggest a possible direction of future related research, worthy of attention as follow-up research topics to be closely and constantly tracked.

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Appendix

Table 1: Progress of Urbanization in China (1978-2020)

Progress of Urbanization in China (1978-2020)							
	1978	1992	1996	2000	2010	2012	2020
Built-up area (sq km)			20214	22439	40058	45565	60721
Urbanization rate	17.92%	27.46%	30.48%	36.22%	49.95%	52.57%	63.89%

(Source: National Bureau of Statistics, China Statistical Yearbook)

Table 2: Progress of Construction in Major Cities in China (1990-2010)

Progress of Construction in Major Cities in China (1990-2000-2010)								
City	Built-up area (sq km)				Urban population (10,000 people)			
	1990	2000	2010	20-year growth rate	1990	2000	2010	20-year growth rate
Shanghai	250	550	866	246%	783	1136	1343	72%
Beijing	467	488	1186	154%	699	974	1137	70%
Guangzhou	182	431	952	423%	357	566	664	86%
Chongqing	184	262	370	373%	551	896	1542	180%
Chengdu	87	231	456	424%	280	335	535	91%

(Source: China Statistical Yearbook, bulletins released by local governments)

Table 3: Comparison of Urban Expansion of Major Cities in China

Changes in Built-Up Areas of Major Cities in China (sq km)						
City	1992	2000	2012	2018	Growth rate from 1992 to 2012	Growth rate from 1992 to 2018
Shanghai	254	550	886	1238	249%	387%
Beijing	467	488	1261	1469	170%	215%
Guangzhou	188	431	1010	1300	437%	591%
Chongqing	184	262	1052	1497	472%	714%
Chengdu	89	231	516	932	480%	947%

(Source: National Bureau of Statistics, China Statistical Yearbook, bulletins
released by local governments)