Urban Studies

http://usj.sagepub.com

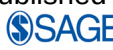
China's Changing Urban Governance in the Transition Towards a More Market-oriented Economy

Fulong Wu

Urban Stud 2002; 39; 1071
DOI: 10.1080/00420980220135491

The online version of this article can be found at:
http://usj.sagepub.com/cgi/content/abstract/39/7/1071

Published by:



http://www.sagepublications.com

On behalf of:

Urban Studies Journal Limited

Additional services and information for *Urban Studies* can be found at:

Email Alerts: http://usj.sagepub.com/cgi/alerts

Subscriptions: http://usj.sagepub.com/subscriptions

Reprints: http://www.sagepub.com/journalsReprints.nav

Permissions: http://www.sagepub.co.uk/journalsPermissions.nav

Citations http://usj.sagepub.com/cgi/content/refs/39/7/1071

Downloaded from http://usj.sagepub.com at CHINESE UNIV HONG KONG LIB on December 22, 2009

Urban Studies, Vol. 39, No. 7, 1071–1093, 2002

Carfax Publishing
Taylor & Francis Group

China's Changing Urban Governance in the Transition Towards a More Market-oriented Economy

Fulong Wu

[Paper first received, November 2000; in final form, October 2001]

Summary. China's changing urban development processes and urban landscapes in the transition towards a more market-oriented economy have received extensive research attention in recent years. Relatively, the governing of Chinese cities is still underresearched. This article aims to analyse the forces released both inside and outside the formal socialist state system and the impacts on phenomenal restructuring of urban governance, especially at local levels. Marketisation has created new elements beyond the reach of state work-units that represent the state's 'hierarchical' control. The pillars of the socialist governing structure—the party-state, the work-units system and household registration—are shaken by these forces. The changes in the organisation of people, capital, production materials, infrastructure and space fundamentally demand new urban governance. Territorial organisations such as the municipality, urban districts, Street Office and Residents' Committees are reinvented and consolidated to restore a governable society. The devolution towards the base level and the reinvention of local communities reflect the state's attempt to reconsolidate its power to create a governable society as well as to cope with practical pressures such as the provision of social assistance to poor and aged residents, re-employment of laid-off workers and the management of 'floating' immigrants. The combination of new market elements and decentralised state apparatus has given rise to the entrepreneurial endeavour of China's governance. This research highlights the micro-foundation of the new urban governance in addition to the 'globalisation—capital mobility—city competitiveness' thesis.

1. Introduction

China's changing urban development processes and urban landscapes in the transition towards a more market-oriented economy have been recently under extensive study (see, for example, Davis *et al*., 1995; Gaubatz, 1999; Logan, 2001). Compared with the increasing understanding of the impacts of economic reforms on urban housing (Wang and Murie, 2000; Zhou and Logan, 1996), the internationalisation of cities (Yeh, 1996), increased interaction between the city government and developers (Wu, 1999; Zhu, 1999), development of rural land (Yeh and Li, 1999) and implications of rural migrants for social stratification (Chan, 1996), the governance of Chinese cities is an underresearched area. New insights have been gained through the examination of the nature of the so-called

Fulong Wu is in the Department of Geography, University of Southampton, Highfield, Southampton, SO17 1BJ, UK. Fax: 023 8059 3295. E-mail: F.Wu@soton.ac.uk. *This study was supported by the British Academy grant (SG-30657).*

Downloaded from http://usj.sagepub.com at CHINESE UNIV HONG KONG LIB on December 22, 2009

0042-0980 Print/1360-063X On-line/02/071071-23 © 2002 The Editors of Urban Studies
DOI: 10.1080/0042098022013549 1

transitional economy (Bian and Logan, 1996; Nee, 1989, 1992), the central–local relationship (Chung, 1999) and the role of local government in organising economic activities (Oi, 1992, 1995; Walder, 1995). The term 'local government' in studies of China's urban politics often refers to the provincial, county or municipal governments (Chung, 1999; Duckett, 1998; White, 1991). Comparatively inadequate research has been conducted into the understanding of urban governance at the 'base' level under the devolution of state power. In the Chinese literature, relevant discussions can be found under various topics in different disciplines—for example, 'administration regions' in geography (Pu, 1995), economic institutions and government regulation in economics (Yang and Yang, 2000), community studies in sociology (Sun, 1997), urban management studies (Hua, 2000), and, last but not least, effective urban planning (J. Zhang, 1999).

The aim of this paper is, therefore, to provide a preliminary examination of the context of changing urban governance and the 'territorisation' of local states, especially as municipalities, urban districts, Street Offices, Residents' Committees (in contrast to the hierarchy of work-units) in China.

2. The Perspective of Urban Governance

The aim of this section is to highlight the perspective *vis-à-vis* the concept of 'urban governance'. Considering this rapidly emerging paradigm (Jessop, 1998), the purpose here is not to provide a comprehensive review. Urban politics and the function of the local state have been one of the most researched and documented areas (Judge *et al*., 1995). The intensive research on the rise of urban governance pinpoints wide contextual changes such as globalisation (Amin and Thrift, 1994) and the transition from Fordism to post-Fordism (Jessop, 1994). The search for theorisation of the change moves beyond local government studies into 'politics of scale' (Swyngedouw, 1997). Despite controversy around the nature of 'new' urban governance (Ward, 2000; Imrie and Raco, 1999), there is a sea-change in state–society relationship in terms of the real world of governance. Urban governance, or more broadly, local governance, represents—rather than a single object—a set of relations and

> the process of the formation and implementation of public policy at the local level involving both elected and non-elected organisations (Painter, 2000, p. 298).

The most common usage of the term 'governance' refers to

> the mode of conduct of specific institutions or organizations with multiple stakeholders, the role of public–private partnerships, and other kinds of strategic alliances among autonomous but interdependent organizations (Jessop, 1998, p. 30).

The rise of the governance paradigm as a set of conceptual tools reflects the reality of more complex and unmanageable/ungovernable multiagency governance (Jessop, 1998).

Because the concept of 'governance' was invented in a specific context, it is natural to associate it with some particular forms of governance under the capitalist state—for example, entrepreneurial and competition-based urban policies (Paddison, 1993), increased participation of business actors (Cochrane *et al*., 1996; Peck and Tickell, 1995) and, more generally, the 'urban regime' (Stoker, 1995) such as 'élitist regime', 'pluralist regime' and 'hyperpluralist regime' or concepts such as 'urban growth machine' (Logan and Molotch, 1987). But it is important to distinguish the general use of 'governance' and its specific forms. As a general concept, governance can be referred to as a mechanism that embodies the co-ordination of and relationship between the state and society. Its specific forms include the Keynesian state and the Schumpeterian workfare regime (Jessop, 1994, 1998), which are undeniably subject to the most intensive studies. The concept of urban governance is also used in a more general way. We attempt to use urban governance as a perspective to understand the new co-ordination mechanism

Downloaded from http://usj.sagepub.com at CHINESE UNIV HONG KONG LIB on December 22, 2009

within the government and the control beyond the reach of the government after economic reforms.

3. Pillars of Socialist Urban Governance

This section will briefly review the basis for the socialist state to organise and govern cities as the space of production and consumption. The political economy of socialism has been systematically analysed by Kornai with a special focus on east European countries (Kornai, 1992). The Chinese version was more flexible and decentralised than was the Soviet Union model. This resulted from a more pragmatic relationship between central and local government in China.

3.1 The Context and Foundation of Socialist Governance

The emergence of socialism is a major force to counter the structural coherence of global capitalism. State socialism emerged in peripheral and late industrialising countries. Thus, on the external front, it was confronted by the capitalist camp and hence the necessity for national defence was overwhelming. Establishing modern industries was the top priority. On the internal front, the state inherited the pre-revolution social structure—which is often characterised by feudalism and (quasi) colonialism. The disorganised society, described by Mao Zedong as millions of 'scattered sands', was seen as a major barrier to state-organised industrialisation. The need for resource mobilisation and a new social coherence requires public ownership of production materials, planning control and organisation of collective consumption. The foundation of socialist governance should be understood with an appreciation of the imperative for an *organised* society. The regime of strong state dominance is not only legitimised by the military victory at the revolution, but also ensured by the recognition of the need to carry out a quick fix of the disorganised society. The confrontation of the Cold War imposed a condition such that the survival of the nation was threatened—it is a profound crisis and socialist governance was born to combat such a crisis.

3.2 Party-state, Household Registration and State Work-unit

Built upon public ownership and the economic command system are three pillars of socialist governance, namely: party-state, household registration and state work-units. The leadership of the Chinese Communist Party (CCP) is guaranteed by the hierarchical party system which is parallel to the administration system. Party branches exist at all levels of government, institutions and workplaces, and play a leadership role in these organisations. Household registration (*hukou*) effectively requires the registration of the place of residence with the public security agency. Tied with food rationing, employment permission and other welfare benefits that were not purchasable, the system effectively prevented rural peasants from moving into the cities (see also Chan, 1996, for its implication on Chinese urbanisation; see Solinger, 1999, for a detailed account of household registration). State work-units are more than just economic entities but, rather, are a special form of 'social organisation'. (For pioneering research in China, see Lu, 1989; an abbreviated English version is available in Dutton, 1998, pp. 53–58. For a comprehensive discussion of their role in social life, see Whyte and Parish, 1984, and Walder, 1986). For example, the comprehensive welfare provision inside work-units created what Walder (1986) called 'organised dependence' and, as a result, the society was tightly managed by the state system through workplace affiliation. These pillars supported the super-stable and *governable* urban society.

Economic reforms have shaken these foundations to various extents. While change in the party-state itself is slow, it is undeniable that the adoption of the system of 'manager responsibility' gradually leads to more executive discretion in the daily operation of the workplace. The power of Peo-

Downloaded from http://usj.sagepub.com at CHINESE UNIV HONG KONG LIB on December 22, 2009

ples' Congress has been strengthened through the formalisation of legislative procedures. Household registration, mainly targeted towards rural–urban migration and intercity migration, became less significant in constraining intraurban migration. However, the material provision of housing as an occupational welfare meant that residential mobility was hardly an outcome of household decision-making. By the early 1990s, a price had been attached to the 'blue seal' *hukou*, a household registration card issued to migrants (Solinger, 1999, pp. 89–91). Through payment, migrants would be able to purchase a special *hukou*. People can also acquire *hukou* through buying 'commodity housing', a measure the city government used to stimulate the sale of housing. However, the majority of rural migrants simply 'blindly' flow into the cities and live outside the formal control of household registration. Production and consumption materials are now available in the market, which allow migrants to survive and even to accumulate new wealth. Some community facilities such as schools and health care are even self-funded. More significant changes are occurring in the state work-units. Although this is a slow process, work-units have begun to transfer some welfare functions to society. For example, some ancillary facilities and services are open to the wider community. In housing provision, state work-units are retreating from direct production and turning to the market for the purchase of commodity housing (Wang and Murie, 1996; Zhou and Logan, 1996). This would profoundly change the relationship between workplace and residence. Consequently, residential areas are mixed with employees from different work-units, even the self-employed and managers of joint ventures. However, even after the abolition of 'material provision', the linkage between workers and their workplaces would be likely to remain through various subsidy schemes and the contribution to housing investment (Wang and Murie, 2000, p. 409). To sum up, the change in the foundation of governance is sweeping, but there is also continuity of the fundamental party-state structure. The major change in urban areas perhaps lies in the decline in effective work-unit control due to the fact that many work-unit employees lose their links with the workplace and become simply members of society. In the next section, I will discuss the changes in the foundations of urban governance.

4. Driving Forces and Changing Conditions

Forces released by economic reform and the open-door policy are acting inside and outside the state to create new conditions of urban governance. It is useful but oversimplified to characterise these changes as the 'transition to the market economy'. As will be shown, these changes involve the complex reshuffling of people, materials, capital and space in the cities, which is leading to a mixed economy.

4.1 Inside the State

Since economic reform started in 1978, the focus of CCP policy has shifted from class struggle to economic development. To achieve this shift, two concrete tasks must be carried out: first, to create new incentives at the microlevel in order to increase efficiency and production; and, secondly, to transfer the development pressure confronted by the central state to lower levels of the state apparatus. These have been achieved through reforms initiated inside the state, such as the dismantling of the economic command system, making fiscal contracts with provincial governments, reform of the foreign trade system and commodification of urban space. Urban reforms, including the reform of state-owned enterprises, the fiscal system, housing and land, the labour market and government relations, have been widely documented (Davis *et al*., 1995; Kwok *et al*., 1990; Lardy, 1998; Naughton, 1995).

The introduction of the central–local fiscal contract effectively started the decentralisation of state power (Wong *et al*., 1995; for detailed documentation, see World Bank,

Downloaded from http://usj.sagepub.com at CHINESE UNIV HONG KONG LIB on December 22, 2009

1990; for a more recent account of the central–local fiscal relationship, see L. Zhang, 1999). The original purpose of reducing the fiscal pressure on the central state is, however, achieved. As a consequence of fiscal decentralisation, the proportion of the revenue that is under local control has increased. Local government has gained more discretion to arrange investment and to promote local growth. The permission to retain certain revenue has given rise to 'extra-budgetary revenue'. Strong localism cultivated by fiscal decentralisation has led some researchers to complain about the decline of 'state capacity' (see, for example, Wang and Hu, 1994). In 1994, the central government launched a path-breaking measure to counter the trend of fiscal decline. The tax-sharing system has achieved what it was intended to—the consolidation of a new fiscal regime. Zhang commented that, through the new fiscal regime, the burgeoning but disparate public finance suggests "a state that is still immensely prevalent, but with a dispersed resource structure" (L. Zhang, 1999, pp. 140–141). The new regime has created a more delicate relationship between central and local government because

> the days when the centre can feel confident enough politically to rely on the provinces to collect revenue have surely ended. What is also fading away is the bargaining power that the provinces have hitherto been able to exercise as the tax collectors for the centre (L. Zhang, 1999, p. 141).

In fact, the dispersion of decision-making in relation to local development is seen by some commentators as the 'recipe' for the success of gradualist economic reforms (Chung, 1999). As a result of a series of policy initiatives, localities have emerged as economic as well as political entities. For example, Oi (1992, 1995) stressed the role of local states in the protection of local autonomy and individual economic activities. Walder (1995) examined the behaviour of local government and argued that there is a qualitative difference between the soft-budget-constrained government described by Kornai (1992) and the new Chinese local governments. Because of the scaling-down of decision-making units, the new local governments are becoming more like 'industrial firms' (Walder, 1995). Duckett (1998) further examined the direct involvement of local government in economic activities and described the local state as the 'entrepreneurial state'.

4.2 Beyond the State

Marketisation has created new elements beyond state control. Resource allocation and competition have been transferred from the arena inside the state to one outside the state. Conventionally, the work-unit affiliation was used as the major criterion to distinguish 'insiders' and 'outsiders' of the state. When the linkage is weakened, it becomes meaningless to use the affiliation to make a distinction.

People. The economic reform has been characterised by the relaxation of state control over the private sector. Starting in 1978, resources under the command system have been dispersed to the hands outside the work-unit system. Urban private businesses have emerged. Town and village enterprises (TVEs), for example, have a different mechanism of resource allocation. Although the majority of these enterprises are owned and operated by local state organs, they have to obtain resources from the market. In other words, they are beyond the state formal channel of resource allocation and hence free from the directive of the work-unit system. The 'entrepreneurial' local state invented various practices to defend the TVEs from direct intervention from the old system. On the other hand, the local state itself often becomes predatory as they treat the TVEs as their money-making machines. Similarly, employees in foreign enterprises and joint ventures cut their links with the state work-unit system. Foreign investments often make partnerships with the state enterprise. But their operation is different from that of the state work-units in that they do not maintain an all-inclusive relationship with their em-

Downloaded from http://usj.sagepub.com at CHINESE UNIV HONG KONG LIB on December 22, 2009

ployees. Morever, state-owned enterprises sometimes set up sideline companies that are 'contracted' out to *de facto* private hands.

The booming of the private sector has created jobs that are not formally affiliated to a work-unit. In 1995, there were 155 700 private business households and 39 800 private enterprises in Shanghai, employing 350 000 workers (Lu, 1997). Lured by the higher incomes, some state employees left the 'iron rice bowl' and plunged into the 'sea of the market economy'. The Private Workers Association offers an alternative organisation but it is loosely organised, equivalent to a non-government organisation. People who work in the private sector may maintain a connection with the system through the practice of 'one family, two systems'. That is, one family member continues working in the state work-units to enjoy housing, health care and job security, while the other is earning money in joint ventures and private businesses. Nevertheless, control over those outside the system is weakened. Even for formal work-unit staff, holding 'part-time' jobs is quite popular. Such a second job is often far beyond the scope of professionals or technical staff using their spare time and becomes a major source of economic benefits (Lu, 1997). For those people who work in the other businesses, the connection with the state workplace has become weakened.

Moreover, changes in the work-units themselves are weakening the tie between the employee and the workplace. Along with the reduction in the social functions of work-units, urban employees "walk out of work-unit communities and become social individuals" (Ren, 2000). For example, housing reform has produced a significant impact on the relationship between housing and work (Wang and Murie, 2000). The end of collective consumption through the abolition of in-kind (material) distribution of housing and other welfare benefits will have social and political implications. As Wang and Murie note

> As government and employers relax their responsibilities in relation to the provision of housing, they also relax key ways in which they exercise control over employees and citizens. For the government and the Communist Party, control of the urban population will become more difficult in the short term. In the longer term, the population will change from one of proletarians and socialist workers into petty bourgeois and property owners. What impact this will have on the government is difficult to foresee. A key element is likely to be how far government employees still identify their best interests with the Communist Party and the government, and how far the privileged positions which have been secured through housing reform and other processes will lead such employees to continue to identify with the government and the Communist Party (Wang and Murie, 2000, p. 409).

If leaving to work in the private sector is one's own decision, one may be involuntarily made redundant by state-owned enterprises in industrial restructuring. In the 1990s, over half of state-owned enterprises were making financial losses. In 1996, the official announcement suggested that the state industrial sector as a whole had posted net losses for the year, the first time this had happened since 1949 (Steinfeld, 1998). Those that still make nominal profit teeter on the brink of insolvency. It becomes more and more difficult for the government to rescue these loss-making enterprises through subsidies, as government revenues experience stress as a result of poor performance by the state sector. According to the Ministry of Labour and Social Security, to the end of June 2000, the laid-off workers and unemployed reached a total of 11.2 million (Ye, 2000), among whom are 6.77 million laid-off workers.[1]

In addition to the expansion of laid-off groups, retired workers and staff reached 122 million nation-wide in 1999 (Hua, 2000, p. 91). In cities like Beijing and Shanghai, the retired population reached over 2 million. The cost of pensions and housing provision for this group has become a major burden on work-units (Wang and Murie, 2000).

Downloaded from http://usj.sagepub.com at CHINESE UNIV HONG KONG LIB on December 22, 2009

Government policy therefore aims to cut the link between housing and employment and redistribute responsibility for pensioners to the urban community. Faced with the lack of social services, the task is enormously difficult. In the early 1980s, the Ministry of Civil Affairs put forward a slogan—"social welfare running by the society". Since then social services have been improved. However, in 1999, only about 36.6 per cent of pensioners received their pensions from the community, far less than what is required by the Ministry of Labour and Social Security. It was planned that by 2000 the rate should reach 80 per cent. If this figure were to be achieved in the future, the local community would have to meet great demands for social security services.

The most dynamic shift is the flooding of rural immigrants into the cities. Since the implementation of the rural contract system, 'surplus' agricultural labour has been released. Attracted by the prosperous economies in the coastal region, rural migrants leave their homes to flow into the cities (Solinger, 1999). The movement is spontaneous and unplanned, and often mediated through family ties and clans from the same villages and home towns. According to surveys in Beijing, Tianjin, Nanjing and other cities in China, the main channel for rural–urban migration is through the introduction of relatives (Gu *et al*., 1999). In contrast, the recruitment of work-units only accounts for 5.8 per cent in Beijing and 8.28 per cent in Nanjing of total work-related migration. This suggests that rural–urban migration is more or less 'voluntarily' conducted by farmers' feet and that the labour bureau is less relevant to the process. The movement of migrants from one place to another is beyond the control of the work-units. Rural migrants contribute to local economic growth, but also bring extra demand on social services and the infrastructure. They usually form the poorest group among urban residents.

Migrants often find it difficult to merge into community life; thus they remain as 'outsiders'. The household registration system still effectively excludes those without *hukou* from urban services. They have to pay a market rent for accommodation as well as schooling and health care. Rural–urban migration has brought the geographical division of urban and rural identities to an end, but does not break institutional divisions and barriers. Confronted with a high unemployment rate, city governments recently designed various policies to restrict the use of migrant labour, thus subjecting migrants to a disadvantaged position. Nevertheless, because of their high mobility, the management of migrant workers has become a serious challenge to the government. For example, it is difficult to manage informal housing built by migrants. Shacks are one of the major forms of residence of migrants. In 1994, the clustered migrant neighbourhoods in Shanghai amounted to 212, in which migrants had self-built 12 747 shacks (Chen, 1999, p. 178). Some of these shacks are poorly constructed using cheap materials. The poorest shacks are comparable to shantytown housing. According to the fifth float population census conducted in 1993, about 65.4 per cent of migrants choose to live in the urban fringe because the rent is cheaper there and there are more private houses of farmers available to rent.

Production materials and infrastructure. Economic reform introduced marketisation through relaxing control over certain production materials. State-owned enterprises were allowed to buy production materials from the market and to sell the surplus product after fulfilling the state quota. Thus, a 'dual-track system' has been formed and the marketised proportion has gradually increased, eventually leading the state to abandon the allocation of materials. By the mid 1990s, the share of planned allocated materials had shrunk dramatically, paving the way for elimination of the planning allocation for most industrial goods (Lardy, 1998, p. 2). This gradual approach is noted as 'growing out of the plan' (Naughton, 1995). In the financial sector, however, the government still maintains a strong influence over banks.

While the process of marketising pro-

Downloaded from http://usj.sagepub.com at CHINESE UNIV HONG KONG LIB on December 22, 2009

duction materials is relatively straightforward, the change in land tenure is more complicated due to its uniqueness and fixed location. The government finally adopted an *ad hoc* approach through 'separating the ownership and the right of use' and set up a land-leasing system (Yeh and Wu, 1996). Land leasing inevitably involves bargaining between owner and leaseholder. State apparatuses are much too big to engage in such negotiation. Moreover, the control over land was in the hands of individual land users. The adoption of the new land-use system has stimulated the scaling-down of the state's role in the management of urban land and, further, has created incentives for making local plans and producing new urban spaces. Compared with fully marketised production materials, urban land is still a quasi-commodity. Questionably, however, land in whatever society is subject to certain constraints because urban development can produce externalities. In the US, land zoning specifies certain use and density and, in Europe, state intervention in land use has a long tradition (Marcuse, 1996). Compared with rather strict development control in the market economies, China's transitional economy has seen a buoyant 'black land market' outside the formal land-use system. For example, in Shanghai, the city planning bureau, with the co-operation of district governments, is attempting to tighten the control of land-use regulations. Nevertheless, the task is difficult due to the complexity of land development. Black land markets and illegal land conversions involve not only individuals, but also development companies with various government connections.

The market mechanism has also been introduced to the development and use of urban infrastructure. Seen as 'non-productive' investment, infrastructure provision in the past had placed heavy financial burdens on the municipalities. Local government was reluctant to invest in a project that would benefit only the projects under central government. Except for large projects supported by special funding, infrastructure development was more or less tied to state work-units. In the reform period, a number of utility companies responsible for public utilities such as water supply, drainage, domestic gas and urban public transport were first set up. Then, services were charged at a market price or at least at operational cost. For some services monopolised by certain government departments—such as telephones (not counted as an urban infrastructure item)—the installation fee is sufficiently high to make a profit for the service supplier. Tolls have been used for urban roads, bridges and tunnels to recover part of the investment. Moreover, the development of infrastructure has been tied up with land leasing. For example, the municipality began to lease land plots around highways and the land surface above metro lines in exchange for the developers' contribution to infrastructure projects. Guangzhou and then Shanghai have successfully applied this method of land development. Since the establishment of the land-leasing system, infrastructure investment is no longer seen by local government as a waste of money because it can bring land revenue and, more importantly, stimulates local economic growth, which in turn increases government tax-bases. Together with the commercialised operation of the urban infrastructure, these factors have given rise to the boom in new urban development.

Capital. Besides reform of internal capital circulation through fiscal decentralisation and the establishment of a tax-sharing system in 1994, the open-door policy has linked the Chinese economy to the world. Since the Law of Joint Venture of the Peoples' Republic of China, enacted in 1979, foreign investment has been seen as a significant factor in urban development in China. From the strategy of 'international grand circulation' in the late 1980s, to recent effort to gain WTO membership, the linkage between the world market and China has been strengthened. Foreign investment is outside the state planning system and therefore can choose a location according to the simple logic of profit maximisation. The mobility of foreign capital leads to intercity competition.

Downloaded from http://usj.sagepub.com at CHINESE UNIV HONG KONG LIB on December 22, 2009

By the mid 1990s, China had become the largest recipient of foreign direct investment in developing countries. From 1979 to 1996, China had utilised in total about US$284.5 billion foreign investment. The contribution of foreign investment to fixed asset investment accounts for 19.4 per cent (Wang and Jiang, 1997), while official statistics for 1997 show at least 10.3 per cent of fixed asset investment originating from foreign investment. The significance of foreign investment is greater than merely its contribution to capital formation. In fact, researchers doubt that the size of foreign investment might be overestimated (Lardy, 1996). China has been maintaining high capital accumulation and investment due to high saving rates. Foreign investment is important in that it first provides the initial capital for the non-state sector. For example, foreign investors are the major buyers of land, which provides capital outside the state circulation and helps to establish a land price. Secondly, foreign investment, symbolising globalisation, exerts the mentality of 'market' and new market practices, which contribute to the creation of entrepreneurial governance.

Besides joint ventures, the domestic non-state sector is very dynamic, providing an important source of employment alongside the state sector. In Shanghai, to the end of 1999, the number of private companies had reached 109 974, of which 16 companies had over 100 million yuan of registered capital. The domestic private sector provided 1.39 million yuan, equivalent to 33.8 per cent of the state and collective staff and workers (Shanghai Almanac Editorial Board, 2000, p. 1973).

Space. The change in urban space began after the launching of so-called comprehensive development. Integration between workplace and residence has been transformed by large residential development projects. The municipality liased with state work-units to develop comprehensive 'planned' residential districts in the 1980s. In these districts, residents are no longer separated by the walls of their living quarters. Services and facilities are shared, and charges are collected from residents not by their work-units but by utility companies. Since the establishment of a real estate market, intraurban mobility has increased. Household registration was only effective in the control of rural–urban migration. Households who buy a 'commodity house' can register in a new place according to a certain procedure. Some households do not bother to change household registration, thus causing a separation of the place of actual residence and the stated location in registration. The number of households with a separated place of residence and registered location is not known. This reflects the difficulty in managing intraurban migration since the housing and land reforms.

Spontaneous land development is another factor responsible for the end of homogeneous work-unit space. After land was converted into a commodity, differential land rents began to emerge. To capitalise this rent, state work-units invented various methods to convert industrial or residential land to commercial use. Factory relocation and the exchange of land between users are common. Thus, the actual use of land may not be determined by the nature of work-units. Land may be transferred to a third party. The work-units may also become partners in businesses that are totally irrelevant to their function. Because of the retreat from the direct control of work-units, the state has seen weakened control over land. Therefore, the need to control land use through land-use planning becomes more acute than before. To be effective, land-use planning must be able to regulate land use regardless of the status of work-units. In Guangzhou, for example, urban street plans prepared in 1987/88 were unable to overcome the separation between the community and work-unit territory, thus leaving the latter as blind spots on the street plans. As will be seen later, the space created by work-units inside the local jurisdiction but outside 'juridical' control is now 'territorised' through strengthening land-use planning and community development.

Where the formal state work-unit system

Downloaded from http://usj.sagepub.com at CHINESE UNIV HONG KONG LIB on December 22, 2009

and a cellular urban space cannot accommodate the fluidity of urban activities, informal space has been created. Rural migrants and floating workers have developed migrant villages. The 'Zhejiang Village' in Beijing, accommodating over 100 000 migrants from Zhejiang province (hence its name), is one such case (for a detailed account, see Dutton, 1998, pp. 47–159; Ma and Xiang, 1998). Despite the police crackdown in 1995, this informal space was not eradicated. Instead, when the state retreats, the 'floaters' flood back. Houses in the Village were let on the black market by local peasants to migrants. Despite the formation of the Village in an unplanned way, it has established multimillion dollar garment businesses, supplying cheap clothes for remote regions. The economic base formed around the entrepreneurial activities allows the Village to survive in the face of state intervention.

4.3 Changing Conditions

To sum up the changes in the conditions of urban governance, we can see that increasing social complexity has weakened the governing capacity of the state. This has raised concerns for the maintenance of social stability. Failure of state enterprises to pay wages has caused social 'unrest' in industrial areas. The restructuring of state industries has generated a marginalised social group. Crackdown on illegally built migrant villages has proved to be ineffective. More importantly, for state enterprises, on the one hand the state wants to remove its burden of responsibility for social welfare but, on the other, government policies such as family planning require some control over the population to be maintained. The management of 'floaters' presents a similar problem. There is a great dearth of information about rural migrants. The state therefore requires some sort of link to be established in order to integrate these elements into a governable society. This need to establish control beyond the state work-unit system constitutes the new condition of urban governance.

5. Re-consolidation of Local Power

It would be too simplistic to understand the economic reform as a total retreat of state power from economic and social life. The dismantling of the economic command system is undeniable. The state apparatus has abandoned direct allocation of production materials, capital, land and, to a lesser extent, the workforce, while consolidating its regulatory power at the level of localities. For example, the enactment of the City Planning Act in 1989 gives municipalities the right to prepare urban plans, to issue land-use and building permits, and to enforce development control. Even projects that are under the central government must apply for land-use permission from the local government before the project can be funded. In addition, land-leasing certificates should be acquired from the local land administration bureau, if the land is obtained through the market. The government has also recognised the need to reform the social security system in order to reduce the burden on state-owned enterprises. This is known as the end of the practice of 'enterprises running the society'.

In comparison with the hierarchical system of state work-units, the layers of local government—municipality, district/county, Street Office/town/township and Residents' Committees/villagers' committees belong to the 'territorial' system. This is because the latter has a geographical space and the jurisdictional capacity to regulate all activities within the area regardless of their affiliation. With new activities taking place outside the system of state work-units, more management functions have been added to these 'territorial' organisations, which are forming the local governments. Enterprise reform stripped off some work-units' social service functions and transferred them to the local governments. For example, for those who give up formal employment in the universities and research institutes and work in the private sector, their 'personnel dossier' will be transferred to a 'human resource exchange centre' in the city. The centre is responsible for confirming their identity. As can be seen

Downloaded from http://usj.sagepub.com at CHINESE UNIV HONG KONG LIB on December 22, 2009

from this case, citizenship in the state sector consists of an 'identity', often proved by the state work-unit to which the person is affiliated, and by the place of residence, often proved by a household registration card in the public security agency. With the emergence of non-state sectors, more and more people are no longer affiliated to a formal work-unit and thus require services from the locality and community. To strengthen party leadership at the base level, a policy has been formulated to transfer the membership of retired party members to a local branch (Sun, 1997, p. 197). Party members of work-units are also associated with the activities of their community branches. In Hongchu Street in Shanghai, the community party branch prepared a list of 403 party members who were working at the place and recorded their participation in community activities and reported to their affiliated party branches at the work-units (Hua, 2000, p. 98). This is a single example of consolidating party leadership at the base level. Through the alliance of territorial and hierarchical organisations, the state attempts to recreate a foundation at the base level to strengthen social stability.

5.1 Municipality

Along with the shift of the CCP's central task in economic development, the role of the city in organising economic activities has been recognised. The city is then seen as the economic centre to promote regional development. While the large cities are still controlled under the so-called policy of 'strict control of super-large cities, reasonable development of medium-sized cities, and active promotion of small cities and towns', the administrative structure has been changed to strengthen the role of the central city. Since the mid 1980s, the new city-leading-county system has been established (Ma and Cui, 1987). In 1996, 3 cities under the direct leadership of the State Council were in charge of 19 counties; of a total of 2141 counties and county-level cities, 1101 were led by prefecture-level cities (Pan, 1998, p. 16). In 1986, the State Council announced a new standard of city designation and implemented the conversion from county to city status. By 1996, the number of county-level cities had increased to 445. In the same year, the National Congress amended the Organisation Law of Local People's Congress and Governments, which endorsed the local People's Congress to enact local legislation. According to the City Planning Act, local governments also control land development through land-use permission. These measures have laid the legislative foundation for local state power. The structure of Shanghai local government is shown in Figure 1 and the number of local governments is shown in Table 1.

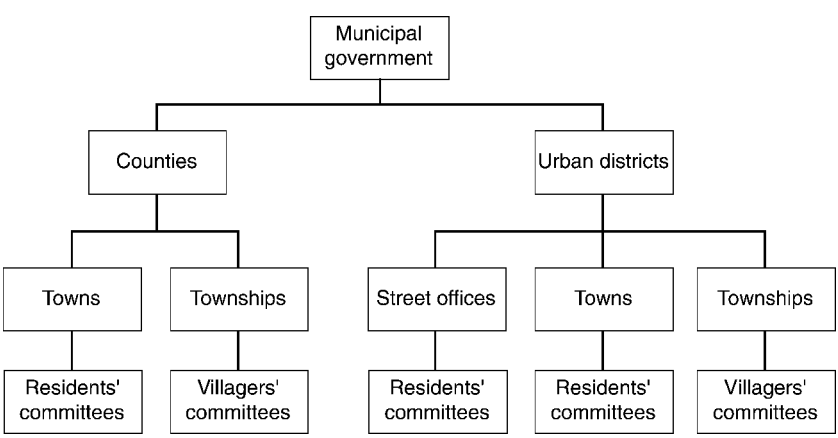


Figure 1. The structure of local governments in Shanghai.

Downloaded from http://usj.sagepub.com at CHINESE UNIV HONG KONG LIB on December 22, 2009

Table 1. The structure of local government in Shanghai at the end of 1999

Type	Number	Note
The Municipal Government	1	
Urban Districts	17	Huangpu, Nanshi, Luwan, Xuhui, Changning, Jing'an, Putuo, Zhabei, Hongkou, Yangpu, Pudong New Area, Minhang, Jiading, Baoshan, Jinshan, Songjiang, Qingpu
Counties	3	Nanhui, Fengxian, Chongming
Street Offices	100	
Towns	204	137 belong to Urban Districts; 67 to Counties
Townships	8	3 belong to Urban Districts; 5 to Counties
Residents' Committees	3703	
Villagers' Committees	2801	

Source: compiled from *Shanghai Almanac* (2000).

As a result of these changes, municipalities now have substantial power in regulating local development. The role of municipalities has changed from a complementary one that supported state projects to a more proactive one that prepares the local development strategy. Municipalities are now using various methods to mobilise resources to increase investment.

5.2 Urban Districts

Despite the function of base-level governments, the role of the urban district was peripheral in the era of state socialism. District governments had limited resources and administrative capacities. The dominance of state work-units as the basic unit of societal organisation overshadowed district governments. In the 1960s, there was an attempt to integrate several work-units belonging to different hierarchical systems into the territory of 'urban communes', but the experiment failed. This is hardly surprising—the urban district, according to the administrative ranking system, may have a lower rank than a large state enterprise under the central government.[2] It was impossible for the urban commune to organise the 'productive cooperation' of work-units inside the district (Hua, 2000, p. 89). As a result of this failure, the urban commune was abolished. Urban district governments could organise the dependants of workers' families, housewives and people without work-units into collective enterprises. In some old cities like Shanghai, district-level collective enterprises provided an important source of employment outside the 'wholly state-owned sector'.

After the implementation of fiscal contracts and land leasing, urban districts became important in terms of organising land development. The municipality, confronted by the increasing pressure of revenue mobilisation, further signed a 'contract' with district governments. Since 1990, the urban districts of Shanghai have gained a whole array of administrative powers, including planning, public works maintenance, approval of local foreign trade and commercial administration. In 1995, the municipal government proposed a new administrative structure of 'two levels of government and three levels of management' in the urban districts and 'three levels of government and three levels of management' in the suburban counties (Fang, 1998). Since then, the urban districts have gained important functions relating to the organisation of urban development. Competition among urban districts for attracting investment has become severe. For example, each district wants to set up its own

Downloaded from http://usj.sagepub.com at CHINESE UNIV HONG KONG LIB on December 22, 2009

commercial and business centre and development zones to draw business to its jurisdiction. The interest of local business rather than the interest of the whole city is often seen as a priority by district governments.

Conflict between the municipality and districts/counties is not uncommon. The expansion of the built-up area encroaches on previous rural areas at the fringe. Recently, the municipality has attempted to adjust its jurisdiction to convert suburban counties into urban districts. In Shanghai, for example, Songjiang and Qingpu County have been converted into urban districts. The conversion from counties to urban districts is usually welcomed because the 'county' is a rural designation while residents in urban districts are treated as 'urban population' under the household registration system. Local governments will also be allowed to use a higher standard in infrastructure development. Some jurisdiction adjustment, however, may lead to tensions between the municipal and the local governments. In Guangzhou, for example, the municipality has annexed the city of Panyu, a county-level city under Guangzhou's jurisdiction, into an urban district. This has met with some resistance from the locality because Panyu has city designation and the city government is afraid that by changing to a district status its importance will be damaged.

5.3 Street Offices

The Street Office (*jiedao banshichu*) is not, strictly speaking, a level of government, but rather the representative or agency of District government. Immediately after 1949, the CCP successfully extended its power to urban streets (Hua, 2000, p. 86). Prior to 1954, there had been three types of street-level organisation. In Wuhan, Dalian and Zhengzhou, for example, the Street Office was consolidated as base-level government. In Shanghai and Tianjin, it was the agency of municipal or district governments. In Beijing and Chongqing, it was an administrative team, taking care of civil affairs inside the local police. In 1954, the National Congress enacted 'The Rules on the Organisation of Urban Street Offices', stipulating that cities with populations of more than 100 000 should establish Street Offices; in cities with between 50 000 and 100 000, if necessary, Street Offices could be set up as an agency of the district government or of the municipal government if there was no district government (Hua, 2000, p. 87). Despite the importance of Street Offices in political mobilisation, policing and basic health care (Whyte and Parish, 1984), there is no People's Congress at the Street level and thus, according to the Constitution, the Street Office does not form a level of government. Rather, its divisions are responsible for the tasks prescribed by the respective departments in the municipal or district government.

Similar to the complementary role of the municipality, Street Offices played a more marginal role, managing those who were not formally affiliated to a state work-unit. According to the perception of the CCP leaders, along

> with national industrialisation and transition to socialism, street residents outside the working class will be reduced in size. There will be no need for the Street government nor should it be set up at the moment. … Because there are still some unorganised residents who do not belong to any factory, enterprise, school, and institute, to reduce the workload of district governments, it is appropriate to set up municipal and district agencies—our opinion is that these should be Street Offices (Peng Zhen, the report to CCP in 1953; cited in Hua, 2000, p. 87).

In this sense, the Street Office was mainly complementary to the state work-units. In new industrial cities, the role of Street Office was even more marginal because large enterprises had already undertaken the major management functions.

5.4 Residents' Committees

The Residents' Committee is different from

Downloaded from http://usj.sagepub.com at CHINESE UNIV HONG KONG LIB on December 22, 2009

the Street Office in that the former is a 'self-organised mass organisation', according to the 'Rules on the Organisation of Residents' Committees' promulgated in 1954 by the National People's Congress. Residents' Committees should be elected by residents and play their role under the guidance of base-level government or its sending agencies. In reality, the Residents' Committees had become the 'legs' of the base-level government and were financed by local government under the budget for administrative expenditure (Hua, 2000). Residents' Committees undertake many tasks assigned by the government, such as the maintenance of public order, basic welfare provision and mobilising people during political movements (Duckett, 1998). Typically, a Residents' Committee is in charge of 100–600 households and is staffed by 7–17 people. Business activities managed by the Residents' Committees were few except for some workshops run by housewives and retired people. However, in the 1980s, in order to arrange for the employment of the urban youth returned from the rural and inner regions, the Organisation Law of the Residents' Committee of PRC (later amended in 1989) allowed Residents' Committees to set up community services. As a result, the enterprises under the Residents' Committee emerged, in addition to those under the Ministry, Province, City and District governments. In fact, the enterprises provide a major resource for the Residents' Committees. For example, in Wuling Street in Hangzhou, the self-generated revenue accounted for 74 per cent of the expenditure (Hua, 2000).

Consolidation of local state power at the Street Office and Residents' Committee has led to the proliferation of the new functions. Figure 2 summarises the typical structure of a Street Office in Shanghai. The Street Office usually undertakes more than 150 daily management functions. Since the mid 1980s, the Street Office has begun to be involved in local social security, employment arrangements, administration of migrant workers and maintenance of market orders.

5.5 Reorganisation of Spatial Flows

Whether economic decentralisation has increased local autonomy still remains a question. However, reconsolidating local state power did lead to the reorganisation of spatial flows of capital and information. The capital flows between the supervisory department of the government and the subordinated work-units (specifically, the allocation of investment and the turning-over of profits) have diverted from 'vertical' to 'horizontal' ones. Similarly, the transmission of commands downwards and reports upwards are changed. Vertical flows dominated in the pre-reform governance, which is revealed by the fact that each level of government had its 'own' enterprises and agencies. Thus, work-units were ranked by their administrative affiliation. As local governments began to play a greater role in *spatial* (local) economic development, the affiliation was weakened at least by horizontal connections. For example, the municipality can levy charges on the work-units that do not 'belong' to the city and grant land-use permission to development projects. Work-units have been asked to contribute their investment to housing development projects that are organised by either the local government or development companies. While the work-units may still benefit from the project, the link between workplace and residence is broken and thus the cellular urban space is being transformed. The implications for urban space will be discussed later.

6. Entrepreneurial Endeavour

In the advanced Western economies, the change of urban governance from 'managerialism' to 'entrepreneurialism' is related to the discourse of 'globalisation' (Harvey, 1989). Parallel to this transformation is the entrepreneurial endeavour of the post-reform government. The Shanghai municipal government, for example, adopted a proactive role in urban development. Place promotion has been achieved through a wide range of approaches such as privatisation of

Downloaded from http://usj.sagepub.com at CHINESE UNIV HONG KONG LIB on December 22, 2009

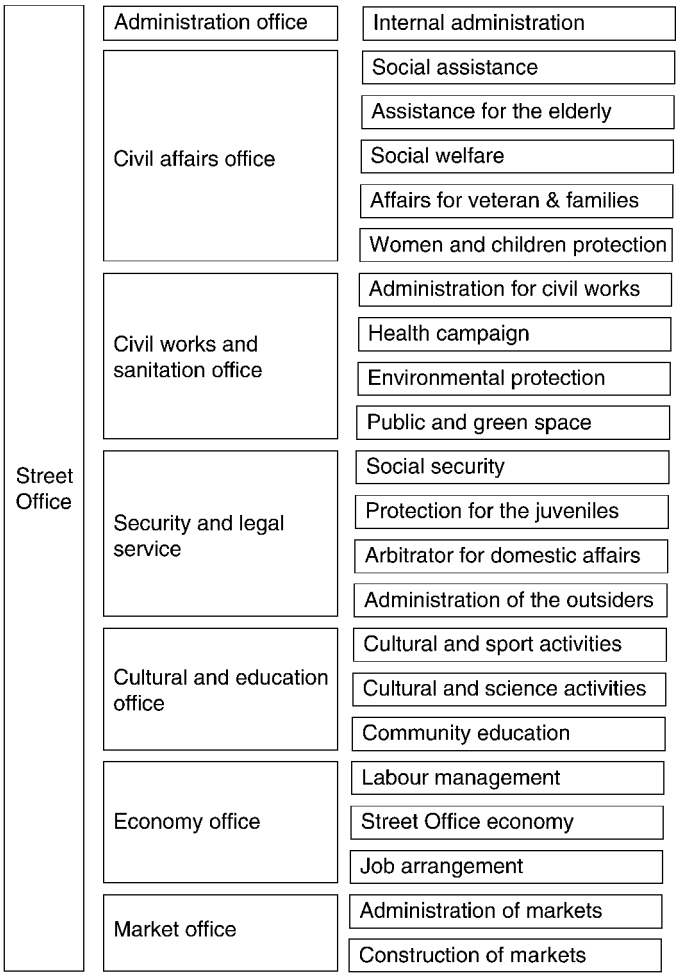


Figure 2. The organisational structure of a typical Street Office in Shanghai. *Source:* adapted from Chen (1999, p. 65).

urban services, charges on the use of infrastructure, converting managerial departments to companies (for example, from the housing bureau to property management companies), increasing investment in infrastructure development, the use of land-leasing instruments, designation of development zones, formation of business partnerships with the private sector and image creation (Wu, 2000). Moreover, such entrepreneurial endeavour is consciously promoted in daily management; the government urges that management should 'follow the international norm of practice' and should aim to create a 'pro-development investment environment'. The transformation of (post)-socialist governance towards entrepreneurialism is an emerging research area. The definition of the entrepreneurial city varies in different contexts (Short and Kim, 1999). Duckett (1998, p. 14) refers to the entrepreneurial state as the direct involvement in business by profit-seeking and individual state bureaux and their subordinate agencies. Through analysing real estate and commercial departments in Tainjin, it is argued that the local state is engaging in entrepreneurial activities that cannot be consigned to the category of corruption or rent-seeking (Duckett, 1998, p. 171). Space here does not permit a more detailed account of

Downloaded from http://usj.sagepub.com at CHINESE UNIV HONG KONG LIB on December 22, 2009

entrepreneurialism in Chinese cities. However, our observations generally suggest that the emergence of entrepreneurialism at the local District and Street Office government levels may not be a direct result of globalisation, but rather a response to the internal adjustment of governance capacities. In this section, we focus on two main aspects of entrepreneurial behaviour at the local levels.

6.1 Forming Local Business Partnerships

Scaling-down the government leads to the hardening of budget constraints. When government becomes smaller, it is easier for it to monitor its enterprises (Walder, 1995). The government has very strong incentives to develop its own business activities in order to increase local revenue sources. For example, in Shanghai, the Street Offices have signed the fiscal contract with the District government since 1988. Each Street Office receives around 300 000–400 000 Yuan for administrative expenditure, which is barely enough for the salaries of the formal posts of Residents' Committees. As a result, first, the Street Offices began to set up small stores and shops, and then gradually to develop these ventures into a wide range of commercial and industrial businesses. Some Street Offices even developed joint ventures with foreign investors to take advantage of location and land. Since the 1990s, the Street business has become the second-largest local fiscal income generator. The new resources allow Street Offices to expand their social functions and services such as assistance to poor groups. Street Office managers also benefit from the increasing extra-budgetary income and become an 'admired professional group' (Sun, 1997, p. 202). In the past, housewives and retired people were the main staff of the Street Office. Many of them worked voluntarily, while only a few formal posts were supported under a quota. The entrepreneurial ventures provide a viable way of solving the Street Office and Residents' Committee staffing problems. Younger and better-educated people are willing to join in these local organisations due to the improved income and good career prospects.

The opportunity to earn higher salaries provides a direct incentive for the changing behaviour of officials. Together with the lack of clear legal regulations on the limits of officials in economic activities, this creates the space for entrepreneurialism (Duckett, 1998, p. 166). At the local level, the line between government and business becomes more blurred than it is in the municipal government. The current practice is that the municipal or district government returns, at least partially, the tax gained from the locality, to the Street Office as a fiscal subsidy. The Street Office treats this input as extra-budgetary income and therefore is allowed to spend the fund more flexibly. Consequently, income and expenditure at the local level see various irregularities. The close relationship between the governing and the governed in economic activities at the local level forms a basis for entrepreneurial endeavour. This suggests that local officials can actively seek economic advantages by increasing business activities.

6.2 Creating Local Space

Space creation refers to the insertion of new physical or regulatory boundaries into the existing urban fabric. Inside the new space—such as a special development district, a free-trade zone, a high-tech business park, a business centre/street or a commercial complex—the government can adopt some special policies such as tax exemption and fee relief. The creation of space allows more localised urban governance. Within clearly defined boundaries, more adventurous experimental measures can be tried and, if successful, further extended to other places.

The creation of space itself opens a new method for urban development. Some of these development zones are developed through the establishment of 'land development corporations'. For example, in the Pudong New Area of Shanghai, the municipal government allocated land to the Jingqiao Export Processing Development Zone Cor-

Downloaded from http://usj.sagepub.com at CHINESE UNIV HONG KONG LIB on December 22, 2009

poration, Waigaoqiao Free Trade Zone Development Corporation, Lujiazui Finance and Trade Zone Development Corporation. The land, rather than fiscal investment, is used as an initial input from local government. After land allocation, these corporations began to sub-divide land and transfer the land-use rights to developers. By using land leasing as an instrument, the development corporations stimulate land development. This represents a new mode of development, because, it

> creates 'virtual' capital circulation, thus allowing land-use right to be transferred. Development corporations receive the land, while no further expenditure is incurred to the municipal finance. This is a distinctive feature of the real estate development in Pudong New Area. Of course, these corporations, each with billions of 'registered capital', must find banks to get real capital to organise construction work such as demolishing old buildings, relocating existing residents and providing infrastructure and services (Xie and Huang, 1995, p. 225).

Another example is the redevelopment of The Bund, Shanghai's central business district (CBD) in the pre-revolution era. After years of socialist transformation, the clustered banks and financial institutions had been gradually converted to administrative and industrial uses. The government promulgated a regulation in the 1990s, following which a development company has been set up, which is responsible for the relocation of public organisations and enterprises in the area. Under the government's promotion, the Bund is now reconverted into a central business area.

Image enhancement can be seen as part of space creation/modification. The local government has paid more attention to landscaping than ever, as this improves the local investment environment. From the municipality to the Street Office, great efforts have been directed towards symbolic urban landscapes. In Shanghai, skyscrapers, the Oriental TV tower, parks, theatres, the museum and landscaped avenues all present images of a booming city. The 'ecological city' has recently become a new catchword. From city government to Street Office, this means the development of green space. Real estate developers began to claim that their projects would meet the 'basic' needs of residents. More often than not, this means greening and artificial landscaping. The result is an ostentatious middle-class orientation in residences of 'commodity' housing.

7. From Street Office to Community: Towards a Civil Society?

Rebuilding urban communities is seen by the government as a top priority, which is crucial to social stability. Community development is fostered through the penetration of state power to the base level. In Shanghai, a major workshop of community construction was organised in 1996. In the workshop, Mr Huang Ju, the Shanghai CCP Secretary, emphasised that the

> community is the cell of a city. … The basis of consolidating the Party construction, strengthening spiritual civilisation and maintaining social stability is at the base level. The base level is the carrier [of these activities]. Only by reinforcing community development and management can we realise the co-ordinated economic and societal developments (Huang, 1996, see Sun, 1997, p. 167).

According to the mode of 'two levels of government and three tiers of management' in Shanghai, the Street Office has been converted from a subordinated agency (*paicu jigou*) of district government to the base-level government. As a result of the devolution of state power, the Street Office has gained a comprehensive set of regulatory functions. Rather than responding to commands from 'hierarchical' government departments as it did in the past, the Street Office can now act as a 'comprehensive' and 'territorial' entity. For example, in Wuliqiao in the Luwan District of Shanghai, various 'agencies' set up by 'hierarchical' government departments are consolidated now un-

Downloaded from http://usj.sagepub.com at CHINESE UNIV HONG KONG LIB on December 22, 2009

der the administration of the Street Office. These agencies include the legal assistance office, the business and commercial administration office, the streetscape maintenance team and the real-estate administration office. The Street Office is responsible for the nomination and evaluation of leaders in public security, housing management, business and retail administration and directly appoints the head of the Sanitation and Hygiene Office. In order further to strengthen the Street Office, the government devolved to the Street Office a number of regulatory functions including approval of the residential plan, the housing development plan and the completion of housing projects, site occupation licensing, outdoor advertisement management, the licensing of restaurants and catering services operated by private businesspersons, and penalties for illegal construction.

As the Street Office is overloaded with these numerous administrative functions, it becomes formalised and thus different from what is commonly noted as the 'urban community'. In this sense, the concept of 'urban community' is different from what has been used in government policies. The latter refers to the

> social entity that is based on current boundaries of Street administration and under the leadership of the Street Office and participated in jointly by enterprises, institutes, and residents in the region to undertake construction, management, and development activities that target the goals to enhance urban civilisation and urban living quality (Sun, 1997, p. 171).

The definition emphasises the Street Office as the core of the urban community.

Scaling-down the state to a local and manageable size will certainly lead to a more flexible and responsive government. The state also attempts to foster voluntary groups to increase input from the community to cope with people's increasing mobility and to help in alleviating urban marginality. In the Luwan District of Shanghai, the district organised 555 voluntary service groups, involving 33 000 people and 22.1 per cent of households in the district. In Ganquan Street of the Putuo District and Oyang Street of the Hongkou District, enterprises within the areas have donated money to set up a 'loving heart foundation' to provide social relief and support (Sun, 1997). Other non-government organisations have also emerged. For example, the Private Workers Association together with the Chinese Communist Youth League developed a partnership with children from low-income families to help them pursue their studies. Nonetheless, the Street Office is evolving towards a more-or-less government body. Despite the effort to build up the community on the framework of the Street Office, the Street Office itself is still distinctively different from a basic urban community. The mechanism to develop more inclusive participatory activities with residents is still waiting to be found.

Reinforcing the Street Office and even Residents' Committees as the base-level government or governmental agencies might defer community development, because

> The Residents' Committee uses administrative methods to handle local affairs. This is a typical example of combination of state and society in our social life. Circumstance will not change for the time being. But in the future of community construction, if [we] only emphasise strengthening the administrative control over the Residents Committee, we may not be able to achieve the practical results [we desired] to set up an appropriate management system of the community (Sun, 1997, p. 191).

New experiments are now being tried to increase base-level democracy by establishing residents' self-governing bodies. In Shengyang, for example, the civil affairs bureau redivided 2700 Residents' Committees into 1200 community organisations that are to be self-governed and self-managed (Shi, 2000). A community council, made up of resident representatives, a community negotiation committee and a community commission are set up in each community. They

Downloaded from http://usj.sagepub.com at CHINESE UNIV HONG KONG LIB on December 22, 2009

play the roles respectively of decision-making, advising and monitoring, and execution. The managers and staff are recruited from the public. The new organisational structure, similar to those in self-governance villages, would strengthen the management of social affairs such as domestic assistance, health, re-employment and property management. Residents can call a service number to get immediate help from the community. In Shanghai, elected residents' representatives are introduced into the Residents' Committees to enhance voluntary participation.

As organisational changes at the base level are mainly driven by top–down directives, it still remains to be seen whether these efforts will eventually help to create a civil society in urban China. Liu has observed that

> The relationship between District–Street Office–Residents' Committee has completely become one of supervisory and subordinate systems of government. Residents' Committees (RCs) shoulder responsibility for carrying out administrative works. The major jobs of the members of RCs are to fulfil the tasks assigned by Street Offices (SOs) and various functional departments of the government and to cope with various meetings. In these circumstances, RCs move away from the target of community self-governance. This is the institutional factor that makes it difficult to implement democratic self-governance, though many RCs have become restructured through democratic elections. … The major obstacle to community self-governance lies with the supervisory government, because of the relative delay in urban political and institutional reforms (Liu, 2001, p. 12).

8. Conclusion

This paper examines China's changing urban governance towards a more market-oriented economy. We observed that the major change had been the shift from a system based on party-state, household registration and state work-units to one led by the local state. In conclusion, I reflect on the causes and consequences of changing urban governance. First, the major cause underlying the change is the vacuum in governance created by economic reform. The complexity and velocity of the transitional society goes beyond the reach of the formal state work-unit system. In this sense, the perspective of 'governance' is truly useful in that it emphasises the need to understand the changing state–society relationship rather than only focusing on the structure of government. The emergence of governance is a response to so-called unstructured complexity (Jessop, 1998). Here, there is a similarity in the emergence of governance between the market transition and the post-Fordist transition, although the complexity has unfolded in different dimensions. Bob Jessop notes

> A fundamental secular shift in state–market–society relations has occurred. This implies that important new economic and social conditions and attendant problems have emerged which cannot be managed or resolved readily, if at all, through top–down state planning or market-mediated anarchy. This secular shift reflects the dramatic intensification of societal complexity which flows from the growing functional differentiation of institutional orders in an increasingly global society—which leads in turn to greater systemic interdependencies across various social, spatial, and temporal horizons of action (Jessop, 1998, p. 32).

However, the increasing complexity in the context of post-socialist transition cannot be attributed simply to globalisation—to a larger extent, it is due to the transition towards a more market-oriented economy. The relaxation of planning controls, which leads to the mobility of production factors across different scales, has created enormous difficulties for maintaining the hierarchical organisation of society. At the regional level, devolution of state power to the localities has fostered localism. For example, cities in the Pearl River delta and Yangtze River delta began to build airports and ports without

Downloaded from http://usj.sagepub.com at CHINESE UNIV HONG KONG LIB on December 22, 2009

giving consideration to the formation of a regional transport system. At the urban level, district governments are competing to become retail and business centres. Vested interest in landed properties has driven them to negotiate with developers (Wu, 1999). Local governments are also engaged in the promotion of their own areas through providing external investors with various incentive schemes and partnerships (Wu, 2000). Despite differences in concrete forms of promotional practice, this is not drastically different from what has been found in the literature.

Secondly, the consequences of changing urban governance is different from the formation of a new civil society. The vacuum in governance are filled up by the extension of government functions into the base level rather than by self-organised local governance. Marketisation has led to many spontaneous changes outside the state—the increasing mobility of people and capital and the expansion of those elements 'outside the state system'. However, the resultant transformation of governance is far from an uncoordinated one. What we have seen in this context is the leading role of the state in *re-establishing* its contact with these mobilised elements (such as private entrepreneurs, laid-off workers and migrants). Fostering urban communities is seen by the state as an urgent matter to achieve dominance in governance. Behind the effort are strong political imperatives for maintaining a *governable* society as well as the practical pressures of social service provision to marginal groups, the re-employment of laid-off workers and the management of rural migrants. The reformation of urban communities on a territorial basis reflects continuity rather than transition. The fact is that most of the entities discussed in this paper, ranging from municipalities to Residents' Committees, have their origin in the 1950s, but have been modified during the past two decades.[3] Moreover, the all-important party-state system is reconsolidated through the establishment of the link between workplace-based and community-based party branches.

What has changed is, however, the relationship between the state and the market. Whereas marketisation creates an *ungovernable* tendency, it also provides the opportunity for the state to innovate within its system and consequently to solve institutional constraints. The entrepreneurial engagement in markets provides capital to ease the lack of resources. Indeed, marketisation is being used to solve the major problems of pensions, medical insurance and re-employment. However, only institutional innovation, mainly through more localised governance, could allow the state to take advantage of market opportunities to enhance its governance capacity. In fact, the establishment of multilevel government is only being experimented with in the most economically advanced cities, such as Shanghai. This is not only because marketisation there has created such an imperative, but also because more urban managers are available with better educational backgrounds and experience in dealing with the market. In fact, some officials of the Ministry of Construction expressed their concern over whether Shanghai's experience could be transplanted to other cities.

A final remark emerging from this case study is that we need more 'microscopic' investigations of local territories, organisations and structures in order to understand the change in urban governance. Similar demands for governance can lead to different forms of response, which are contingent upon the historical and territorial context. In a sense, the understanding of urban governance is contextualised knowledge. As for the study of urban governance in China, it will be interesting to see whether the entrepreneurial endeavour currently encouraged in Chinese cities complements or contradicts the social functions of governance. It can be foreseen that the development of urban communities should be a key theme of future research into urban China.

Notes

1. The term 'laid off workers' refers to those who left the workplace but still maintain a

Downloaded from http://usj.sagepub.com at CHINESE UNIV HONG KONG LIB on December 22, 2009

contract with the work-unit. The definition thus require three conditions: the reason for leaving the workplace is due to the operation of the enterprise rather than personal circumstances; the individual concerned has physically left the place (rather than simply become idle); the labour contract with the work-unit still remains. This contract relationship is usually reflected by the work-unit's responsibility for keeping the 'personnel dossier' (Zhang, 1998, p. 12). Recently, the laid-off (*xiagang*) workers have been relocated in the 're-employment centre'. They will be able to claim compensation if their contract with work-units is removed. After the removal of the contract relationship, the laid-off workers can obtain unemployment insurance for a fixed term. After the fixed term, if the person cannot find a job, he/she becomes unemployed and will be supported by the security line for minimum living standards. In 2000, there were 1 279 000 people claiming unemployment insurance (Ye, 2000).

2. For an explanation of the rank system, see Lieberthal who commented that

> China is such an extraordinarily bureaucratic society that virtually all organisations, whether formally part of the state or not, are assigned particular bureaucratic ranks (Lieberthal, 1995, p. 210).

3. I would like to thank the anonymous reviewer for bringing up this important point.

References

AMIN, A. and THRIFT, N. (Eds) (1994) *Globalisation, Institutions and Regional Development*. Oxford: Oxford University Press.

BIAN, Y. and LOGAN, J. R. (1996) Market transition and the persistence of power: the changing stratification system in urban China, *American Sociological Review*, 61, pp. 739–758.

CHAN, K. W. (1996) Post-Mao China: a two-class urban society in the making, *International Journal of Urban and Regional Research*, 20, pp. 134–150.

CHEN, Z. (1999) Shanghai Tongshi [Shanghai comprehensive history]: vol. 13. *Dangdai Shehui* [contemporary society]. Shanghai: Shanghai Renmin Chubanshe (in Chinese).

CHUNG, J. H. (Ed.) (1999) Cities in China: *Recipes for Economic Development in the Reform Era*. London: Routledge.

COCHRANE, A., PECK, J. and TICKELL, A. (1996) Manchester plays games: exploring the local politics of globalisation, *Urban Studies*, 33, pp. 1319–1336.

DAVIS, D. S., KRAUS, R., NAUGHTON, B. and PERRY, E. J. (Eds) (1995) *Urban Space in Contemporary China: The Potential for Autonomy and Community in Post-Mao China*. Cambridge: Cambridge University Press.

DUCKETT, J. (1998) *The Entrepreneurial State in China: Real Estate and Commerce Departments in Reform Era Tianjin*. London: Routledge.

DUTTON, M. (1998) *Streetlife China*. Cambridge: Cambridge University Press.

FANG, W. J. (1998) Shanghai's 'two-levels of government and three-levels of management' urban management system, *Urban Problems*, 84, pp. 48–51 (in Chinese).

GAUBATZ, P. (1999) China's urban transformation: patterns and processes of morphological change in Beijing, Shanghai and Guangzhou, *Urban Studies*, 36, pp. 1495–1521.

GU, C. L., CAI, J. M., ZHANG *ET AL.* (1999) A study on the patterns of migration in Chinese large and medium cities, *Acta Geographica Sinica*, 3, pp. 204–212 (in Chinese).

HARVEY, D. (1989) From managerialism to entrepreneurialism: the transformation in urban governance in late capitalism, *Geografiska Annaler*, 71B, pp. 3–18.

HUA, W. (2000) From the work-unit to community system: fifty years of change in China's urban local management system, *Strategy and Management*, pp. 86–99 (in Chinese).

IMRIE, R. and RACO, M. (1999) How new is the new local governance? lessons from the United Kingdom, *Transactions of the Institute of British Geographers*, 24, pp. 45–64.

JESSOP, B. (1994) Post-fordism and the state, in: A. AMIN (Ed.) *Post-fordism: A Reader*, pp. 251–279. Oxford: Blackwell.

JESSOP, B. (1998) The rise of governance and the risks of failure: the case of economic development, *International Social Science Journal*, 155, pp. 29–45.

JUDGE, D., STOKER, G. and WOLMAN, H. (Eds) (1995) *Theories of Urban Politics*. London: Sage.

KORNAI, J. (1992) *The Socialist System: The Political Economy of Communism*. Princeton, NJ: Princeton University Press.

KWOK, R. Y., PARISH, W., YEH, A. G. O. and XU, X. (Eds) (1990) *Chinese Urban Reforms: What Model Now?* ARMONK, NY: M. E. SHARPE.

LARDY, N. (1996) The role of foreign trade and investment in China's economic transformation, in: A. G. WALDER (Ed.) *China's Transitional Economy*, pp. 103–120. Oxford: Oxford University Press.

LARDY, N. R. (1998) *China's Unfinished Economic Revolution*. Washington, DC: The Brookings Institution.

LIEBERTHAL, K. (1995) *Governing China: From*

Downloaded from http://usj.sagepub.com at CHINESE UNIV HONG KONG LIB on December 22, 2009

Revolution through Reform. New York: W. W. Norton & Company.

LIU, J. D. (2001) What is the road of self-government in Chinese urban community: inspiration from democratic construction practice of resident committee of Weifang Street in Shanghai, *Journal of Hangzhou Teachers College (Humanities and Social Sciences)*, 4, pp. 10–14 (in Chinese).

LOGAN, J. (Ed.) (2001) *The New Chinese City: Globalization and Market Reform*. Oxford: Blackwell Publishers.

LOGAN, J. R. and MOLOTCH, H. L. (1987) *Urban Fortunes: The Political Economy of Place*. Berkeley, CA: University of California Press.

LU, F. (1989) The work-unit: a special form of social organisation, *Chinese Social Science*, 1, pp. 71–88 (in Chinese).

LU, H. L. (1997) Income distribution, in: SHANGHAI SOCIAL DEVELOPMENT RESEARCH GROUP (Ed.) *Thinking on Shanghai's Cross-century Social Development Problems*, pp. 114–166. Shanghai: Shanghai Academy of Social Science Press (in Chinese).

MA, L. J. C. and CUI, G. (1987) Administrative changes and urban population in China, *Annals of the Association of American Geographers*, 77, pp. 373–395.

MA, L. J. C. and XIANG, B. (1998) Native place, migration and the emergence of peasant enclaves in Beijing, *The China Quarterly*, 155, pp. 546–581.

MARCUSE, P. (1996) Privatization and its discontents: property rights in land and housing in the transition in Eastern Europe, in: G. ANDRUSZ, M. HARLOE and I. SZELENYI (Eds) *Cities after Socialism: Urban and Regional Change and Conflict in Post-socialist Societies*, pp. 119–191. Oxford: Blackwell Publishers.

NAUGHTON, B. (1995) *Growing Out of the Plan: Chinese Economic Reform, 1978–1993*. Cambridge: Cambridge University Press.

NEE, V. (1989) A theory of market transition: from redistribution to markets in state socialism, *American Sociological Review*, 54, pp. 663–681.

NEE, V. (1992) Organizational dynamics of market transition: hybrid forms, property rights, and mixed economy in China, *Administrative Science Quarterly*, 37, pp. 1–27.

OI, J. C. (1992) Fiscal reform and the economic foundations of local state corporatism, *World Politics*, 45, pp. 99–126.

OI, J. C. (1995) The role of the local state in China's transitional economy, *China Quarterly*, 144, pp. 1132–1149.

PADDISON, R. (1993) City marketing, image reconstruction and urban regeneration, *Urban Studies*, 30, pp. 339–350.

PAINTER, J. (2000) Local government and governance, in: V. GARDINER and H. MATTHEWS (Ed.) *The Changing Geography of the United Kingdom*, pp. 296–314. London: Routledge.

PAN, X. J. (1998) *Urban Management System Reform: Theory and Practice*. Beijing: Social Science Publications Press (in Chinese).

PECK, J. and TICKELL, A. (1995) Business goes local: dissecting the 'business agenda' in Manchester, *International Journal of Urban and Regional Research*, 19, pp. 55–78.

PU, S. X. (1995) *Zhongguo Xingzhen Quhua Gailun* [Administrative regions in China] Beijing: Knowledge Publisher (in Chinese).

REN, T. (2000) Community: the 'big school' for spiritual civilsation construction, *Peoples' Daily* (overseas edn), 3 October, p. 1 (in Chinese).

SHANGHAI ALMANAC EDITORIAL BOARD (Ed.) (2000) *Shanghai Almanac 2000*. Shanghai: Shanghai Almanac Press (in Chinese).

SHI, G. S. (2000) Shengyang develops self-governing types of community organisation, *Peoples' Daily* (overseas edn), 26 September, p. 2 (in Chinese).

SHORT, J. R. and KIM, Y. H. (1999) *Globalization and the City*. Harlow: Longman.

SOLINGER, D. J. (1999) *Contesting Citizenship in Urban China: Peasant Migrants, the State, and the Logic of the Market*. Berkeley, CA: University of California Press.

STEINFELD, E. S. (1998) *Forging Reform in China: The Fate of State-owned Industry*. Cambridge: Cambridge University Press.

STOKER, G. (1995) Regime theory and urban politics, in: D. JUDGE, G. STOKER and H. WOLMAN (Eds) *Theories of Urban Politics*, pp. 54–71. London: Sage.

SUN, H. M. (1997) Urban community development, in: SHANGHAI SOCIAL DEVELOPMENT RESEARCH GROUP (Ed.) *Thinking on Shanghai's Cross-century Social Development Problems*, pp. 167–212. Shanghai: Shanghai Academy of Social Science Press (in Chinese).

SWYNGEDOUW, E. K. (1997) Neither global nor local: 'glocalization' and the politics of scale, in: K. COX (Ed.) *Spaces of Globalization: Reasserting the Power of the Local*, pp. 138–166. London: Guildford Press.

WALDER, A. (1995) Local governments as industrial firms: an organizational analysis of China's transitional economy, *American Journal of Sociology*, 101, pp. 263–301.

WALDER, A. G. (1986) *Communist Neo-traditionalism: Work and Authority in Chinese Industry*. Berkeley, CA: University of California Press.

WANG, L. L. and JIANG, X. J. (1997) China's foreign investment and economic development, *China Social Science*, 5, pp. 56–68 (in Chinese).

WANG, S. and HU, A. (1994) *A Report on the*

Downloaded from http://usj.sagepub.com at CHINESE UNIV HONG KONG LIB on December 22, 2009

Capacity of the Chinese State. Hong Kong: Oxford University Press (in Chinese).

WANG, Y. P. and MURIE, A. (1996) The process of commercialisation of urban housing in China, *Urban Studies*, 33, pp. 971–989.

WANG, Y. P. and MURIE, A. (2000) Social and spatial implications of housing reform in China, *International Journal of Urban and Regional Research*, 24, 397–417.

WARD, K. G. (2000) A critique in search of a corpus: re-visiting governance and re-interpreting urban politics, *Transations of the Institute of British Geographers*, 25, pp. 169–185.

WHITE, G. (Ed.) (1991) *The Chinese State in the Era of Economic Reform: The Road to Crisis*. London: Macmillan.

WHYTE, M. K. and PARISH, W. L. (1984) *Urban Life in Contemporary China*. Chicago, IL: University of Chicago Press.

WONG, C. P. W., HEADY, C. and WOO, W. T. (1995) *Fiscal Management and Economic Reform in the People's Republic of China*. Hong Kong: Oxford University Press.

WORLD BANK (1990) *China: Revenue Mobilization and Tax Policy*. Washington, DC: World Bank.

WU, F. (1999) The 'game' of landed-property production and capital circulation in China's transitional economy, with reference to Shanghai, *Environment and Planning A*, 31, pp. 1757–1771.

WU, F. (2000) The global and local dimensions of place-making: remaking Shanghai as a world city, *Urban Studies*, 37, pp. 1359–1377.

XIE, L. L. and HUANG, Y. M. (1995) *Shanghai Development Study: The Management Theory of State Owned Property*. Shanghai: Shanghai Far East Press (in Chinese).

YANG, R. L. and YANG, Q. J. (2000) The 'ladder' model of gradual institutional change: on the role of local governments in China's institutional change, *Economic Research*, 3, pp. 24–31 (in Chinese).

YE, Z. (2000) China speeds up the establishment of social security system, *People's Daily*, 5 October, p. 1 (in Chinese).

YEH, A. G. O. (1996) Pudong: remaking Shanghai as a world city, in: Y. M. YEUNG and Y. W. SUNG (Eds) *Shanghai: Transformation and Modernization under China's Open Door Policy*, pp. 273–298. Hong Kong: The Chinese University Press.

YEH, A. G. O. and LI, X. (1999) Economic development and agricultural land loss in the Pearl River Delta, China, *Habitat International*, 23, pp. 373–390.

YEH, A. G. O. and WU, F. (1996) The new land development process and urban development in Chinese cities, *International Journal of Urban and Regional Research*, 20, pp. 330–353.

ZHANG, J. X. (1999) On regional/urban governance in China's urban and town agglomerated areas, *Urban Problems*, pp. 44–47 (in Chinese).

ZHANG, L. Y. (1999) Chinese central-provincial fiscal relationships, budgetary decline and the impact of the 1994 fiscal reform: an evaluation, *The China Quarterly*, 157, pp. 115–141.

ZHANG, Z. W. (1998) *The Landmine Field of Reform*. Zhuhai: Zhuhai Press (in Chinese).

ZHOU, M. and LOGAN, J. R. (1996) Market transition and the commodification of housing in urban China, *International Journal of Urban and Regional Research*, 20, pp. 400–421.

ZHU, J. (1999) *The Transition of China's Urban Development: From Plan-controlled to Market-led*. London: Praeger.

Downloaded from http://usj.sagepub.com at CHINESE UNIV HONG KONG LIB on December 22, 2009