STATE INTERVENTION IN AREA DEVELOPMENT IN TRANSITIONAL URBAN CHINA

The state-led and state-organised planning that typified 20th-century urban management is often associated with a 'failure' to galvanise urban development, sustain innovative dynamics, keep urban economies competitive, etc. However, state intervention seems to characterise the area development in China's urban transformation. The key question addressed in the paper is: What is the role of the state in area development in Shanghai? The paper shows that the state, if done properly, can play a crucial role in shaping the fortunes of cities and urban areas.

In the present age of globalisation most cities are under heavy pressure to undertake drastic urban transformation to enhance their competitiveness. Various researches have already reveals diverse impacts of the globalisation on urban space (Castells 2000; Sassen 2001; etc.). In the words of Castells, area development involves both the 'space of places' and the 'space of flows'. Certainly, area development is place-related, in that it has to deal with place-related urban problems. Important matters which need to be addressed include land, infrastructure, and property. At the same time, area development involves finance and know-how – two crucial elements in the realisation of area development not restricted within city boundaries. When global and local forces interact, urban space as a product is neither place-bounded, nor solely the result of flows of hypermobile capital, people and knowledge. Instead, the reality is that globalisation is variously embraced, resisted, subverted, and exploited as it makes contact with specific cultures and settings' (Knox 1996: 126). Whether or not a country or city is able to take advantage of a particular geopolitical situation depends on the ability of national politics to respond to the external environment (Wang 2004: 385 and 397). In the Anglo-Saxon countries, area development have been often put in the hand of the private sector, like is seen in London Dockland redevelopment while in countries in the European continent, the public sector has more tendency to play a more active role in area development, as is the case in Amsterdam Zuidas development. This paper takes a booming city and China's largest economic centre — Shanghai as a case to examine what role the state has played in area development in its city. This paper studies the area development strategies that were deployed in its large-scale urban development projects to turn Shanghai into a global metropolis. The concept of the developmental state is applied as a working hypothesis to analyse the motivations behind the state intervention and the strategies it applied during its interplay with the market. This paper reveals that the active function of the state in Shanghai's area development was achieved by a coalition between the central state and the local state, who are willing to take bold actions in anticipating the economic changes and building alliance with the private sector by selectively and effectively pushing through institutional reform.

Theoretical debate
What role the local state as well as the central state in China played in the creation of urban space and in the implementation of large-scale area development projects have much to do which how local institutions and urban governance are shaped by and adapted to the external
and internal challenges. The economic reform and the open-door policy implemented in China since 1978 were designed as part of a survival strategy to ‘ensure China’s entry into the capitalist global economy and into the informational age, using lessons learned from Japan and four Asian Tigers - South Korea, Taiwan, Singapore, and Hong Kong (Castells 2000). As China chose to base its economic reforms on the model of the East Asian developmental state, it closely emulated some of the institutional structures that helped other developmental states to generate high economic growth. Although each developmental state has its distinctive institutional system, the central theme always lies in how to achieve steady high-rate economic growth (Johnson 1995; Xia 2000; Castells 2000). By doing so, they share two distinctive features: first, the (central) state plays an active role in economic development. Second, to ensure high-economic growth rate, the state needs to build up a high degree of trust and a close relationship between government and the private sector (Rueschemeyer and Putterman, 1992). Therefore, bold measures make be taken to create new entry for the new players, as what we will see in the case of Pudong development.

Because China’s vast size and the legacy of state socialism, China has made a number of substantial modifications in dealing with the tension between national and local interest and in sharing limited resources in a vast land with many different local interests:

First, the state role in the developmental state is divided by the central state and the local state. According to Xia, the relationship between the state and individual localities is characterised by ‘interdependence’ and ‘mutuality’. Each of the two sides possesses resources that are essential to central control and local autonomy: the state does not possess sufficient resources to exercise complete control and local government does not possess sufficient resources for complete independence. Each side needs valuable resources that only the other can provide. It follows that the state and local government both constrained and supported one another’s approach to development. The characteristic interdependence of the state and local government creates a framework that is not zero-sum, with the result that the relationship between the centre and local government has always been cooperative, a symbiotic partnership based on a complex balance of mutual dependence. This ‘interdependence’ and ‘mutuality’ was clearly reflected in the decision-making for the Pudong development.

Second, one of the most successful lessons learnt by the developmental states concerned selective intervention. As interpreted in China, selective strategy involves a pragmatic approach to sharing limited resources in a vast land with many different local interests, namely the approach of establishing Special Economic Zones (SEZs). Ge (1999: 1268) explained the special function fulfilled by SEZs: ‘…through the window [they provide] the rest of the domestic economy can be connected to the outside world, even without leaving the door open. Basically, SEZs function as a laboratory where various methods aimed at overcoming the drawbacks associated with a central planning system can be developed. Fresh concepts and ideas that originated in a market economy outside China ahead could first be introduced into, absorbed by, and tested out in the SEZs. Those measures that proved to be effective and successful in the SEZs could then be extended, where feasible, to the rest of the country. This, in turn, would help the whole economy, step-by-step, to become more open and efficient’. In such a way, China has deftly handled the conflict between communism and capitalism by brushing economic ideology aside and building trust with the market players through a gradual process. As Shanghai serves the national strategic aim to engage in economic globalisation, its urban development strategies inevitably reflected the obsession of development that is shared by the developmental states. The idea was to establish SEZs for sector building on the one hand and to carry out large-scale urban projects to give the physical environment of the city a comprehensive face-lift on the other. In Shanghai, the establishment of the Pudong New Area – a vast area of 520 square kilometres on the east side of the Huangpu River – was the project that combined both functions. The state was able to push through area development in a particular favoured area, in this case the Pudong New Area; in the same way as in the 1980s Deng used Guangdong and Fujian as laboratories for experimental East Asian strategies. The highly selective SEZ strategy was chosen by the local state in Shanghai, and later the central state of China, to handle the development of Pudong, because the state expected Pudong to attract western capital, technology, management skills and experience, and subsequently to help Shanghai to move from a rigid outdated socialist planning system to a market oriented economy and ultimately build itself as a modern metropolitan in the global urban network. This institutional arrangement had immediate consequences.
for urban management and the area management strategies used in the implementation of the Pudong development.

Local-central synergy and Shanghai’s path to a global metropolis

Pudong development was initiated by the local government in Shanghai in the 1970s to explore its traditional capacity in economic development—a talented labour force, business minds and an open culture to provide a favourable investment climate. However, this idea was long doubted by the central government. As Shanghai provided one-fifth of China’s national revenue in the last several decades, the central government did not want to run the risk of “killing the goose laying golden eggs for the central government under the state-planned economy” (Xia 2000: 187). Shanghai’s fate came with the acceleration of the economic reforms and the wave of globalisation that spread from the west to the east of China. The openness of Shanghai had become increasingly strategic in China’s economic reform, especially to the Yangtze River Delta, where Shanghai has an absolutely leading position. The change of attitude from the national government allowed Shanghai to establish its strategic goal of becoming an international centre of trade and finance (and later transportation) in the Asian Pacific Region. The local government considered that a key part of the strategy towards achieving this goal was to develop a large-scale urban development project like Pudong as a SEZ. Like other SEZs, Pudong can serve Shanghai and China as a ‘window’ or a ‘base’, where western and Chinese cultures get opportunities to interact: foreign investors can learn more about the social and economic traditions of China, while the Chinese can get acquainted with western technology, management and expertise (Wong & Tang 2005: 307). The decision-making was further consolidated by Shanghai’s strong lobbying of central government, the national feasibility study on Pudong, and the emerging political crisis that would eventually culminate in the Tiananmen Square protests. The central government chose Pudong as the ‘emerging remedy’ to assure foreign investors that China would not only continue its economic reforms and open-door policy but would also open up its primary economic centre, Shanghai, to the outside world. Shanghai grasped the opportunity to consolidate the central government’s support for Pudong and lobbied for a full presentation of its Pudong project. They asked for full support from central government in terms of finance and policy dispensations.

The local-central coalition reflects the difference between Shanghai and developmental states like Singapore, in that Shanghai needed to make extraordinary efforts to coordinate with central government and other neighbouring provinces and cities to ensure the plan was well received and was given the national and regional support required to allow it to run smoothly and become reality. The building of a consensus between different political players in support of the Pudong development actually involved implementing a network strategy for an area development project. Having endorsed
the importance of the Pudong development, the central government stood by its commitment and helped Shanghai build up Pudong as a window of economic reform in China. The development of Pudong was a priority in China’s Ninth Five-Year Plan (1996-2000) to emphasize the establishment of a sophisticated infrastructure system for the city, including the building of ‘three ports’ (a deep water port, an airport and an ‘information port’) to allow Pudong establish links with the outside. As Pudong was an economic project, the central government could deploy a package of economic measures to attract investors. It not only conferred the privileged SEZ policies on Pudong but extended special preferential policies to the Pudong New Area (which were not yet enjoyed by other SEZs) to strengthen Pudong’s economic functions. For instance, besides being allowed to lower or waive Customs duties and income tax – special dispensations enjoyed by all the economic and technological development zones and certain special economic zones – Pudong could allow foreign organisations to open financial institutions and run tertiary industries. The policy required foreign financial organisations to agglomerate in Pudong’s Lujiazui Financial and Trade Zone if they wanted to access Chinese financial markets and trade in Chinese currency. Furthermore, the central government gave Shanghai permission to set up a stock exchange, to expand its investment monitoring authority, and to allow foreign-funded banks to engage in RMB business. The local government also moved its gold market and diamond market from Puxi to Pudong to enhance Lujiazui’s economic function as Shanghai’s new CBD centre. Through these deliberate measures, the government (both central and local) took a direct hand in helping Pudong establish its financial function in a short period of time. Once the realisation phase had started, it quickly assumed the role of a facilitator, exerting political influence and providing budgetary support to help the local government stimulate the development of Pudong. On various occasions it promoted Pudong among international investors, established links between Pudong and various multinationals to channel finance for Pudong’s infrastructure. The local government, on the other hand, played an active role as the initiators of the Pudong development, designing the concept and strategies, lobbying central government for approval, and negotiating with the central government for the best supportive policies.

Selective intervention in stimulating area development

While Shanghai’s strategy to develop into a global metropolis was driven by the synergetic coalition between local and central government, participation by the market players was crucial at all times. The application of the SEZ strategy offered the state a number of advantages in building up trust between the local state and the market players. First, the privileged SEZ status enjoyed by Pudong allowed it to avoid the administrative constraints faced by officials in other towns and cities in their attempts to promote economic development and gave Pudong’s local government officials the freedom and flexibility to experiment with a market economy. Second, the same privileged status allowed Pudong to implement a series of economic measures, such as tax concessions, to stimulate economic development. In an ordinary urban development, scope for this kind of innovation would be greatly reduced. Third, the SEZ strategy helped Pudong to obtain the autonomy needed to achieve the aims of the developmental state. SEZs are treated separately in national planning (including national financial planning) and have province-level authority over their economic administration. SEZs’ local councils and government have legislative authority.

Accordingly, the local government made a special effort to create a market-facilitating land institution and to dismantle the barriers that prevented outsiders from entering the real estate market and to open the sectors that were off-limits to private developers (Chen 2006). In the new set-up, Pudong was used as an experimental area to test the commercialisation of land use rights. All land development within Pudong’s jurisdiction had to be conducted along commercial lines with all land-use rights transferred by sale or lease. This was the first time that Chinese and foreign developers had competed equally. The same applied to the establishment of a local real estate market. Shanghai took a huge step when it switched from a dual-track real estate market, which separated Chinese developers from foreign developers, to a unified market where all the players had equal opportunities to operate in the local property market. The public sector also adopted a more relaxed attitude towards private sector involvement in former public sector terrain, such as infrastructure development and the regeneration of shanty towns. Other affiliated regulations were designed to allow the private sector to enter these areas, sometimes even with policy incen-
The facilitating policies to attract business and capital triggered a dramatic increase in investment in the land market and real estate sector, from 0.8 billion yuan (US$ 0.1 billion) in 1990 to 90.1 billion yuan (US$ 10.9 billion) in 2003. The annual area of constructed housing increased from 4.86 million m² in 1987 to 32.70 million m² in 2004. As a result, Shanghai demolished 46 million m² and relocated 0.76 million households to new-built apartments. Shanghai has also seen significant growth in foreign investment. In 1996 around US$ 1.05 billion of foreign money had been invested in the real estate sector. Between 1983 and 1994, US$ 10.7 billion of FDI was pledged in Shanghai’s real estate sector. Investment in infrastructure has also risen sharply over the years. Investment in urban infrastructure was twelve times higher in 2003 than in 1990. In total 6404 billion yuan (US$ 773 billion) have been invested between 1990 and 2005 to improve Shanghai’s infrastructure. The implementation of major infrastructure projects is funded to a large degree by foreign capital (SMHLRAB & SMSB) 1991-2004).

As well as the city-marketing measures, the local government established a package of institutional design measures to reshape the existing rigid system which was hostile to private investors. Besides creating new entry rules to allow new stakeholders to enter the local market, Shanghai replaced its traditional approval procedures with a kind of one-stop service. Furthermore, the local government also created informal channels to interact with market players. Local politicians in Shanghai made promotional tours to Asian, European and American countries and participated in interactive meetings with global investors to promote the Pudong development and persuade the market players to invest in it, like the Mayor of Shanghai’s annual international consultancy conference to meet with CEOs from multinationals around the world and exchange information and opinions and discuss Shanghai’s development.

The institutional design and market-adaptation measures in, for example, the development of land and infrastructure, played a key role in facilitating market forces in Shanghai and attracting market players in various sectors from all over the world. In Shanghai, the use of lower-level agents and development companies which work closely with the market players, understanding and responding to the market changes is demonstrated by the four development companies that represent the interests of the state on the
construction site. As these are hybrid companies they are also business-oriented. Although they represent the interests of the government, their main shareholder, they also have to report to the market shareholders, as they are responsible for their profits and losses (Chen 2004, 2006). The division of roles gives the local government more scope to respond to key challenges while leaving its agents to sort out the practical aspects. This explains the recurrent pattern in the Pudong development: if things were running smoothly, the local state government intervened less and concentrated more on the market conditions with the aim of generating investment capital. However, if it became necessary to correct the market failure, as in 1997-2000 when the local market slumped as a result of the Asian Economic Crisis, or during 1992-1994, when Pudong needed specific funds to invest in its infrastructure system, the local state government would step in immediately.

Concluding remarks
This paper has used Shanghai as an example to show that state intervention in urban development strategy and area development practice are embedded in China’s developmental state framework. According to Gordon (1998), the Shanghai intervention “has been particularly bold in scope”. Fearing that economic security of Shanghai and the development of a northern financial centre was too important to Beijing to trust market forces, Chinese policy-makers have attempted to leave nothing for chance”. However, the active state does not compromise market forces in global economic systems. As cities “have become the central nodal points where global comes down, where the global becomes etched in particular geographical configurations” (Swyngedouw et al 2002), cities also become the platform upon which the developmental states pursue their survival strategy to link up to the global economic system. Hence, as we have seen in the case of Shanghai, the global fortune of cities is vitally important to nation-building.

There are several issues to be highlight in the Shanghai case:
First, although area development is much to do with the creation of urban space, area development also deeply affects the political-economic-social environment of urban areas in general. The dictatorship of development has allowed local as well as central government to categorise urban development as a requisite part of China’s economic reform package. Consequently, vari-
ous economic measures, such as SEZ, flexible taxation, financial alternatives or foreign investment as well as industrial plans, are able to be applied in area development to raise the competitive profile of Shanghai and the economic growth of Shanghai. These measures appeared time and time again in Shanghai’s SEZ development, in various large-scale urban projects such as Pudong development, in establishing land market or real estate market. No matter which project proposal was on the table, the central issue was always how it could enhance Shanghai’s economic growth and urban competitiveness. From the development aspects, Shanghai case allows us to observe the other side of the coin. Ultimately, the result of area development depends on how well spatial quality and economic sustainability are combined and balanced.

Second, the distinctive feature reflected in the Shanghai case is the synergistic relationship between local and central government and the changing roles of central and local government to respond to the market demand. The development was much achieved through the active party played by Shanghai’s (local government) “as planner, reformer, and developer/entrepreneur” (Wei and Leung 2005). The task-sharing between local and central state reflects the flexibility of a developmental state to act upon a particular project. Furthermore, in the Shanghai case we also observe a shift in the government’s role in the long term from strongly interventionist to facilitatory in an ongoing effort to build up a strong state-market coalition. This brings us back to Huff’s point (1995:1435) that a successful interventionist government “must know when to stop.” Although there is a trend in European cities that tends to believe the public sector does not have adequate ability to deal with the current urban challenges and therefore the private sector can and should be given such tasks, the Shanghai case tell us that, rather it is not only important who do it, but more important, how they do it.

Third, in an area development process involving a complex network with a multiplicity of stakeholders, the central and local states achieve their ends by creating networks to build up trust between each other and create a coalition between state and market, global influences and local influences. In the case of Pudong, local government started by involving a number of market players in the making of decisions affecting the development. This network strategy led to a series of institutional reforms, the creation of alternative institutions, the addition of new functions to existing institutions, the introduction of permissive legislation to facilitate the achievement of developmental goals and the construction of a coalition between the state and the economy. Low (2004: 5) states that the potency of a developmental state lies in its capacity and capability to anticipate and respond to economic change.

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