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The Change-up: The Emergence of the Real Estate Sector in Urban China, 1978-2004

By

Jennifer Myung Won Choo

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University of California, Berkeley

Committee in Charge:

Professor Neil Fligstein, Co-chair

Professor Thomas Gold, Co-chair

Professor Marion Fourcade-Gourinchas

Professor You-tien Hsing

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## Abstract

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This dissertation analyzes the political economy of the real estate sector in China since its post-1978 creation. During Mao's socialist era, the nation had no real estate sector. Only with economic reforms in 1978 and the production of commodity housing in the 1980's did a real estate sector come into being. This study asks two questions in particular: How did the major metropolitan centers on the eastern seaboard of China manage to accomplish monumental amounts of infrastructural and urban development in the short span of thirty years? Second, what was the role of the state—at the central level and at the local level—that enabled the construction of this industry, capital accumulation and development?

The analytical construct of the developmental state is posed as a useful starting point. As is widely known, critical resources in the form of land, large project opportunities, financing options and permits in Chinese real estate are in local state control. The presence of the state looms large in Chinese real estate. To finesse how this construct fits and does not fit the situation in Chinese real estate provides analytical leverage.

Although the high levels of central and local state involvement in the real estate sector is undisputed, I argue instead that one of the core characteristics of the developmental state – i.e., an institutionally cohesive bureaucracy – was widely missing whether at the local level or at the central level. This was true despite the accepted wisdom that an effective and independent bureaucracy is critical for industrial transformation, let alone its creation.

Instead, within the post-reform real estate sector, central policymakers planted and activated a new set of “game rules” that structured the delivery of urgently needed urban infrastructure and residential building construction. It did so by putting in place three critical reform elements: (i) commodifying urban land use rights (LURs), which had been administratively allocated for free and in perpetuity according to central economic plans prior to the constitutional amendment of 1988; (ii) valorizing the critical importance of economic and infrastructural growth by inserting such achievements into the professional criteria for political promotions of provincial, prefectural and municipal-level leaders; and (iii) allowing the revenues from land use rights (LUR) sales to go directly into the extrabudgetary reserves of local governments at a time when budget constraints were

hardening. In other words, I argue that the new political economy of land usage and real estate development put in place an entrepreneurial local state structure. The incentive structures for local state agents is directly tied to promoting economic growth; and municipal governments have a direct financial stake in generating governmental income through urban LUR sales and commercial real estate development. Concomitantly, real estate developers increasingly populated the field throughout the 1990's, attracted by increasing profits. The entrepreneurial interdependence of local government leaders and property developers who are both looking to capitalize on real estate-generated profits centrally characterize the dynamics of this field.

In the absence of full marketization of key resources such as land and capital, furthermore, which remain under local government control and influence, the real estate firms themselves work to stabilize their access to resource dependencies. Real estate firms manage, nurture, maintain and coddle their relationships with local government officials even as they try to compete in the marketplace and branch forth into larger operations. This relational "maintenance work" has been accomplished via three dominant mechanisms: (i) corruption and bribery at the individual level; (ii) quid-pro-quo behavior of building of infrastructure or public buildings and public works in return for land allocations, tax breaks and commercial opportunities; and (iii) founders' long-standing relationships with state officials who have access to profitable opportunities and/or land; or through their history as red capitalists entailing generative periods of state employment.

This entrepreneurial state model of development provides an additional developmental path distinct from either the Anglo-Saxon "market-led" form or the East Asian developmental "state-led" form of economic development. In the entrepreneurial state model, the state is, in fact, a market actor driven to pursue its own profits as though it, too, were a business agent. In the developmental state typology, state officials plan and intercede in the market indirectly via the centralized administrative apparatus, coordinating projects, investing in hard and soft infrastructure, promoting business and creating an environment conducive to economic vitality. But it is the enterprises themselves that engage in the entrepreneurial activity. Direct profit goes to the entrepreneurs rather than to the developmental state; and the state plays a more coordinative and promotional role than in the case of the entrepreneurial state. In the entrepreneurial state model, state agents vie to generate profits that accrue to them either institutionally or personally. The positive incentives flowing from economic development accrue directly to the state actors in question.

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## CHAPTER 1: INTRODUCTION

In 2003 alone, China had built 28 billion square feet of new housing, equivalent to an eighth of all U.S. housing stock existing that year (Campanella 2008:15). In 1980, Shanghai had virtually no modern high rises; yet by 2008, it boasted twice as many as what existed in New York City (Campanella 2008:15). Descriptions of China's urban achievements are legion as the following quote makes clear.

Over the last twenty years, the People's Republic has undergone the greatest period of urban growth and transformation in history. Since the 1980's, China has built more skyscrapers; more office buildings; more shopping malls and hotels; more housing estates and gated communities; more highways, bridges, subways, and tunnels; more public parks, playgrounds, squares, and plazas; more golf courses and resorts and theme parks than any other nation on earth—indeed than probably all other nations combined (Campanella 2008:14)<sup>1</sup>.

Against such staggering statistics, it behooves us to ask, how did this country that had emerged from catastrophic political turmoil of the 20<sup>th</sup> century under Mao's leadership manage to accomplish such feats of urban accomplishments? What precedent exists for such rapid ascendancy of capital construction? As the World Bank noted in one of its reports, within the inner ring road area of Shanghai, only 10% of its land was utilized for transportation purposes in 1993 compared to the 20% that were built up for transportation in Hong Kong and Singapore (World Bank 1993:11). There were only six telephones per 100 persons in Shanghai in 1993 (World Bank 1993:11), compared to London, Paris and New York where the per capita ratio exceeded 1:1 (World Bank 1993:11). A mere 180 miles of modern highways existed in China in the 1980's. But as of 2008, its National Trunk Highway System already spanned nearly 30,000 miles and was only second in length to that of the U.S. As of 2020, China is predicted to surpass the U.S. with a national highway system spanning 53,000 miles (Campanella 2008:16).

Superlatives spew forth when describing the economic miracle of China's rapid development since 1978; and its urban construction miracle closely matches that of its economy. Without the infrastructural and urban hardware, China could not have achieved its extraordinary economic leapfrogging. Without the roadways, the subways, the buildings, residential construction and public projects, it could not have generated the economic growth that it enjoys today.

When speaking of economic development in China, there are two major strands of scholarly thought regarding the path that this country has taken. One school of thought adopts and modifies the developmental model of state-led economic growth. Although with notable differences, this body of literature claims that strong state involvement, either at the local or the central level, is and was critical

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<sup>1</sup> Alongside such record-setting urban construction, stories of extravagant waste also abound. There is an Washington Monument; a miniature Mount Rushmore; and even the U.S. Capitol building standing in the outskirts of Shanghai (Broudehoux 2007; Campanella 2008:22; Giroire 2006; Wu 2006b; Yan 1997).

to China's rapid economic rise. The state, whether at the local or the central level, proved to be a beneficial force, enabling the birth of indigenous and foreign-invested firms in various localities. This analytical camp uses as its intellectual foil the developmental state model developed by scholars examining the economic successes of China's regional neighbors in East Asia (Blecher 1991; Blecher and Shue 2001; Hsueh 2011; Oi 1992; Oi 1999; Yang 2004). Another group argues instead that state-led industrial growth, even if generating high-level growth in some respects, distorts efficient allocation of resources, smooth operation of markets, dampens private entrepreneurialism and, thereby, indigenous innovation and retards the institutionalization of "property rights, governance structures, rules of exchange and conceptions of control (Fligstein 2001; Yang 2004:11-12)." For some, therefore, the real heroes of China's economic miracle are the private entrepreneurs who created "capitalism from below (Nee and Oppen 2012)," creating jobs and growth through bottom-up dynamics (Huang 2008; Nee 1989; Nee and Matthews 1996; Nee and Oppen 2012; Zhou 2008).

With respect to urban construction and infrastructural development, however, no student of Chinese development has tended to minimize the role of the state. First, critical resources are in local state control in the form of land and large project opportunities. Local governments also wield significant influence over opportunities for bank loans and financing. Second, commercial and residential construction requires at each stage the procurement of permits, licenses and approvals; local taxes and fees comprise a significant portion of the property developers' expenses. Third, massive urban renewal projects like that of the Pudong project in Shanghai or the Olympic venues in Beijing – and the municipalities' power to uproot and dispatch entire communities for their state-designated projects -- demarcates clearly the power of the local and central state. The heavy hand of the state is virtually everywhere when it comes to property development. To understand how the real estate sector came into being from a nonexistent industry under Mao to one of the most lucrative, deeply volatile and economically impactful sector, one must train our analytical sights upon the relevant levels of the state – and their connections to the market sector that came into being.

This dissertation asks two questions in particular: First, how did the major metropolitan centers on the eastern seaboard of China manage to accomplish such infrastructural and urban developmental leapfrogging in such a short span of thirty years? Second, what was the role of the state—at the central level and at the local level—that enabled the construction of this industry, capital accumulation and development? *How* did the state matter in bringing this about?

In attempting to answer these questions, I use the analytical construct of the developmental state formulated in the context of East Asian statism. One may object to analyzing the real estate sector in post-socialist China in terms of the capitalist developmental state paradigm, which was generated in the 1980's and 1990's in the context of north East Asian economies such as Japan (Johnson 1982), Korea (Amsden 1989), and Taiwan (Wade 1990). Yet, I argue that this construct is, in fact, a useful starting point for understanding the political economic situation in Chinese urban real estate. This is because, first, in light of China's state-centric socialist past and its gradualist reform policies, continuing dominance of the state in its developmental

history – whether in real estate or otherwise -- seems logical to assume. Secondly, due to the structural factors listed above, the presence of the state looms large in Chinese real estate. Third, China has already been discussed as a possible candidate for being a late developing nation using the developmental state paradigm (Leftwich 1995; Li 2006; Stubbs 2009). To finesse how this construct fits and does not fit the situation in Chinese real estate, therefore, provides analytical leverage.

Chalmers Johnson first elaborated the idea of the developmental state in 1982 in his classic study of Japan's post-war political economy (Johnson 1982). He set forth the four markers of the developmental state as follows: (1) a compact, elite bureaucracy that recruits the best and the brightest managerial talents in the nation; (2) a political system that provides its bureaucracy with sufficient authority and legitimacy to operate effectively; (3) active state intervention in the economy that conforms to and strengthens market operations; (4) an effective and powerful superministry (like Japan's Ministry of International Trade and Industry) that oversees and controls the nation's strategic industrial policy (Johnson 1982: 314-320). More generally, the literature on north East Asian development has emphasized the dual nature of state bureaucracy's "embedded autonomy" (Evans 1995): i.e., the central bureaucracy is sufficiently insulated from special interests and clientelistic pressures ("autonomy"); and yet exhibits formal and informal, cooperative networks with the private sector ("embeddedness") that enables the state to gather accurate information, provide guidance, monitor performance and implement industrial policies (Evans 1995; Öniş 1991; Stubbs 2009; Weiss 1995; Woo-Cumings 1999). Throughout, however, the special nature of this bureaucracy is emphasized: its internal cohesion, technical competence, professionalism and esprit de corps, which enables the state to preserve its independence and allows it to implement nonparticularistic, national goals even while maintaining intensive, external ties with the private sector without becoming captured by any part thereof (Evans 1995; Johnson 1982; Woo-Cumings 1999).

In my dissertation, I analyze how the Chinese state did and did not conform to this model to bring about the sweeping changes that have transformed its urban shape, construction and political economy. The classic developmental state model (especially at the central level but also at the local levels) is imperfect for understanding China's experience in this sector. In the main, I argue that China lacked an institutionally insulated and autonomous bureaucracy from the start. Even under Maoist socialism, in fact, the vertical bureaucracy in charge of housing, urban and infrastructure construction was fragmented and weak. The territorial units set up by local governments to coordinate municipal construction, regional development and infrastructure development were disempowered and nearly nonexistent.<sup>2</sup> And, even

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<sup>2</sup> The dominant image of Soviet-style socialist states includes notions of an all-encompassing bureaucratic apparatus that exhibits centralized control, vertical, top-down power and penetration down into the grassroots (U 2007:6). Some have tended to conflate this "hyperexpansion (U 2007:x)" of bureaucratic power in Soviet-style socialist states with the over-growth of Weber's ideal-typical modern bureaucracy. Yet, as Chapter 2 describes, such a bureaucratic apparatus for horizontal, city-level development, land administration, real estate management and urban planning in pre-reform China were weak and disorganized. In fact, there is evidence that the socialist bureaucracy under the Maoist regime was, in general, what Eddy U calls a "counter-bureaucracy": a politicized and fragmented bureaucracy that lacked

though the central government had decided to put infrastructural and housing rehabilitation as one of its core policy commitments, this disorganization of the territorial bureaucracy persisted throughout the 1980's and 1990's. My dissertation does *not* dispute the high levels of central and local state involvement in the real estate sector, which must be taken as a matter of course in post-socialist China. I argue instead that one of the core characteristics of the developmental state – i.e., an institutionally cohesive bureaucracy that implements higher-order developmental goals in a nonparticularistic manner – was widely missing in China real estate whether at the local level or at the central level. This was true despite the accepted wisdom that an effective and independent bureaucracy is critical for industrial transformation (Weber 1978 [1956]; Evans 1995:40), let alone its creation, and yet the country has managed to achieve colossal levels of urban construction in rapid order. My dissertation seeks to answer how this was possible.

Intense levels of corruption, bribery, kickbacks and clientelism have generally characterized the post-1978 real estate sector in China. Sometimes particularistic predation also dominates the behavior of local officials when dealing with property developers. The bureaucratic setup of the real estate sector in China is less like that of the ideal-typical Weberian bureaucracy with its centralized, technocratic and normatively oriented civil servants who are the handmaidens of a burgeoning capitalist market; and rather more like its patrimonial counterpart. Yet, it is a special kind of patrimonial administration whereby the local leaders are in sharp competition with one another in “a plurality of patrimonial powers within the same cultural area (Weber 1978 [1956]: 240).”

In Chapter 2, I recount the level of disarray and fragmentation of the Chinese local state when the reforms began. I set forth the urban conditions that existed prior to the 1978 reforms when the majority of infrastructural as well as residential construction existed within the walled areas of work units. I describe how urban planning bureaus were planning units in name only, rendered powerless against the vertical administrative chains of command, which compartmentalized China's pre-reform cities into catacombs of worker villages and industrial production-centered residential areas. Work units, which represented the nodal end points of vertical administration flowing down from economic planning departments and ministries of the central government, held dominant against horizontal, territorial power structures of municipalities. The end result of this neglect of urban territorial coordination was a segmentation of cities into entrenched power centers that were linked to central ministerial bodies with very little to no horizontal linkages to one another or to the municipal administration that could provide a holistic plan for and construction of China's cities.<sup>3</sup>

The two images of China, then, from the state-side and from the output side in real estate, contradicts what one might expect. On the output side, one sees evidence of historic achievements in construction; and yet, on the input side, evidence is overwhelmingly of a clientelistic state sometimes with predatory tendencies. How

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technical competence, exhibited arbitrary rewards and punishments, endemic corruption and a pervasive reliance upon patron-clientelist favors (U 2007:7).

<sup>3</sup> Here, I rely mostly on existing secondary literature to document the state-of-affairs before reforms began in 1978.

can the two images be reconciled? Does the state bureaucratic field matter for real estate? If so, *how* does it matter? This dissertation places at the center of its puzzle China's extraordinary urban development against an anomaly -- of the absence of a seemingly internally coherent, autonomous bureaucracy at the central and local levels effectively embedded within the industrial sector, which sociologists and political economists have argued is necessary for rapid development (Evans 1995:17; Johnson 1982; Gerschenkron 1962).

I answer these questions *not* by claiming that the state bureaucracies that mattered – i.e., at the municipal and district levels as well as at the central level -- were able to accomplish a quick turnaround of their administrative structures. Although the administrative capacity of local and central governments to manage the real estate sector *did* grow over time throughout the 1980's and 1990's and, especially into the 2000's, in my dissertation, I argue that within the post-reform real estate sector, the central policymakers planted and activated a new set of "game rules" that structured the delivery of urgently needed urban infrastructure and residential building construction. It did so by putting in place three critical elements: (i) marketizing urban land use rights (LURs) under the constitutional amendment of 1988; (ii) valorizing the critical importance of economic and infrastructural growth by inserting such achievements into the professional criteria for political promotions of provincial, prefectural and municipal-level leaders; and (iii) allowing the revenues from land use rights (LUR) sales to go directly into the extrabudgetary reserves of local governments at a time when budget constraints were hardening in the aftermath of 1994 fiscal reforms. In other words, I argue that the new political economy of land usage and real estate development put in place an entrepreneurial local state structure: The incentive structures for local state agents is directly tied to promoting economic growth; and municipal governments have a direct financial stake in generating governmental income through urban LUR sales and commercial real estate development (Baum and Shevchenko 1999:345; Tsai 2001:3). Revenue generation had grown increasingly salient due to the fiscal recentralization of taxes and revenues reinstated by the central state in 1994. Concomitantly, real estate developers increasingly populated the field throughout the 1990's, attracted by increasing profits. The entrepreneurial interdependence of local government leaders and property developers who are both looking to capitalize on real estate-generated profits, in other words, centrally characterize the dynamics of this field.

The need to promote infrastructural and urban physical development directly implicates the political and economic incentives of local state agents. Extrabudgetary revenues are neither disclosed to nor shared with the central government and can be used at the discretion of local governments. Thus, increasing them is prized by local government leaders. The logic of this structural set-up promotes an entrepreneurial state orientation (Baum and Shevchenko 1999:345) where the profit motive – in terms of both political and economic capital – directly animates local state behavior. The same profit motive, assessed in more economic terms, also motivates the developers who work with municipal leaders to realize their patrons' goals.

In addition to this structural set-up, there is evidence that (a) deep sources of financing existed for local governments to begin urban reconstruction on a massive

scale especially beginning in the 1990's and 2000's; and (b) that the developers themselves not only built but often financed the infrastructure, the roadways, public works, plazas and municipal roadways through bank loans at the behest of coastal municipalities in return for cheap land and profitable development opportunities.

Local governments had and continue to have multiple access to deep sources of funding, which afforded them massive levels of infrastructure construction. Although the mechanisms by which local governments have financed infrastructure construction remain deeply murky and convoluted, the evidence seems to suggest that throughout the 1980's and the first half of the 1990's before the central government tightened local government finances in 1994, local governments and thereby property developers (often through local government assistance) had ready access to financing from local branches of state-owned banks.<sup>4</sup> Even as early as the 1980's, local governments also used revenues extracted from land transactions, levies and charges, incomes from locally-established, state-owned real estate companies, budget set-asides, bond issuances and loans in order to finance infrastructure construction (World Bank 1993:82-83).<sup>5</sup> Real estate development companies also routinely contributed significant amounts to build infrastructure either through in-kind contributions or through payment of fees (World Bank 1993:59-62). In addition, local governments tapped into foreign investors by setting up international investment trusts that borrowed money and sold bonds denominated in foreign currency used to pay for infrastructure construction (Sanderson and Forsythe 2013:4, 5). In addition, foreign investors themselves—especially in southern coastal cities—invested significant amounts into real estate in the large metropolitan areas.

In the latter half of the 1990's, however, local finances dried up after the fiscal restructuring of 1994 occurred and local governments were prevented from being able to borrow directly from banks and markets. The central government began to rely more heavily upon one of its three policy banks called the China Development Bank (CDB)<sup>6</sup> to finance the hyper pace of urban construction (China Development Bank and Renmin University of China 2011). The CDB provided loans, which financed US\$2 trillion since its establishment in 1994 to built roads, bridges,

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<sup>4</sup> In 1992, bank lending for local government investments increased by 50%, and China faced an inflation rate of 20% in 1994. Local governments built over 8,000 development zones in 1992 during this investment spree. Over 12,000 real estate companies had been set up, which further fueled the property bubble of 1993-1994. In light of its own budget crisis and the overheated economy, the central government under Vice Premier Zhu Rongji restructured the fiscal revenue structure in 1994 and became the majority collector of revenues. Local governments were finally prevented from borrowing from banks in 1994 under a tight budget law. They were also prevented from running deficits or selling bonds (Sanderson and Forsythe 2013:4)

<sup>5</sup> Often these financing sources were located in extrabudgetary platforms, even though the form that these platforms took varied according to the city (World Bank 1993:62, 81-82). According to the World Bank Report, such an “urban construction fund” was established even as early as 1988 in Shanghai as the need for infrastructure construction intensified in the 1980's (World Bank 1993:82).

<sup>6</sup> The other two policy banks are Export Import Bank of China and the Agricultural Development Bank of China (Sanderson and Forsythe 2013:70).

subways and stadiums across China (Sanderson and Forsythe 2013:x). The CDB basically began to leverage China's urban land to issue bonds to state-owned, big four commercial banks and they, in turn, tapped into low interest-earning household deposits in order to purchase these sovereign-status bonds. The money thus raised were massively infused across the country into off-balance-sheet local government financing vehicles<sup>7</sup> (LGFVs; 地方融资平台) of which there are now more than 10,000 (Sanderson and Forsythe 2013:3; World Bank 2009). Between 1996 and 1997, China spent twice as much on infrastructure as in prior years; and by 2002, its spending on infrastructure had tripled. CDB's loans to the sector also increased from RMB 226.9 billion in 2003 to over RMB 1 trillion by the end of 2009, which comprised over 28% of the market (Sanderson and Forsythe 2013:7).

I argue that the motivation for large-scale construction and urban transformation lay with local political leaders who, from the start, have had to mobilize resources and personnel for landmark urban construction in order to ascend their career ladders. But, in order for this to take effect, ample financing in the form of state capital was necessary throughout the 1990's and, especially in the 2000's. This was made available in the form of commercial bank loans from the four big, state-owned banks; in in-kind and monetary contributions from real estate development firms; in foreign investments and, especially during the 2000's, massive loans from the China Development Bank and the big four commercial banks that followed CDB's lead. Thus, with resources provided by local and central level banks, local government officials themselves were (and are) in need of developers to achieve their long-term career objectives. Today, by building "new towns" in satellite cities, central business districts, mixed-use commercial plazas, and residential complexes, city officials can rapidly record rising property values, GDP growth and increasing revenues from fees and taxes by which they can garner political gains necessary for their career advancement.<sup>8</sup>

Real estate firms engage in corruption, kickbacks and bribes in order to stabilize their resource dependencies; but simultaneously, local officials engage in such acts both for personal gain and to achieve state goals of rapid economic growth and urban capital accumulation. As a result, although corruption is endemic, local officials' clientelistic behavior towards real estate developers actually exhibits a built-in developmental logic. The local states' role in the astonishing successes of China's real estate sector is thus not due to the developmental state model of highly professional, technocratic and autonomous Weberian bureaucrats. I argue, in fact, that the picture is more of an entrepreneurial local state that seeks to achieve landmark gains in construction for budgetary and professional gains. The promotional system of local officials emphasizes unrelenting economic growth and requires local government officials to amass increasing successes in infrastructure

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<sup>7</sup> These are municipal SOEs set up by local governments to raise capital primarily for urban infrastructure construction. These LGFVs are used to raise project financing since municipal governments are prevented from direct market borrowing in China; and the question of whether Chinese municipalities are legally responsible for LGFV debt is an open question (World Bank 2010: 5).

<sup>8</sup> Previously, during the 1980's and the 1990's, the demand lay with massive infrastructural investments in order to attract foreign investors and other businesses that would bring economic growth to the region.

and public works to bring up property values and GDP growth. Thus, even amidst unregulated “marketization” and personalism (Evans 1995:47), local state leaders ensure that developers initiate ambitious public works projects in order to grow the city’s economy and to bring its leaders the political gains necessary for them to achieve official promotions. And, as described above, capital has been made available to them to make this happen.

In Chapter 2, I continue to recount the situation when the real estate industry was first emerging in the 1980’s. I show how the major municipalities – in particular in Guangzhou and in Tianjin – initially established state owned construction enterprises within the municipal governments, which took care of practically all of the construction needs of the cities in the 1980’s.<sup>9</sup> These state-owned firms were allocated specific reserves of land in generous quantities, were tasked with accomplishing certain construction goals, which the relevant municipal supervisory units had set, and enjoyed a monopolistic position within their respective housing construction sectors. And yet, as the next chapter details, this highly centralized period in the emergence of the real estate sector was short-lived, and eventually scrapped for a much more decentralized operation that welcomed private, state-owned and hybrid firms to partner with an entrepreneurial local state.

As detailed in Chapter 3, with Deng Xiaoping’s unequivocal push for economic liberalization signaled by his 1992 southern tour, China’s real estate sector finally began to grow out of the state in the 1990’s. As local governments confronted the fiscal tightening of their budgets by the central authorities, they also began to look to their reserves of land as the potential basis for revenues. In order to do so, they began to set up real estate development companies as quasi-state owned and state-affiliated companies (Duckett 1998:94) to earn their own profits, make their own business decisions, and give employment to redundant state workers. Eyeing the lucrative real estate sector, new privately-held enterprises also crowded into the sector. Pre-existing state-owned property development firms corporatized and privatized into joint stock-holding and limited liability companies, and the ownership and operational characteristics of the sector shifted significantly. These forerunners of future property developers – some of whom became fantastically wealthy and came to occupy coveted spots on China’s annual Fortune 500 list of the richest individuals – received, in return, prime parcels of land in lucrative urban areas and local government authorization to build commodity housing and commercial property for profit. Land use rights continued to be sold, however, in ad hoc, negotiated fashion behind closed doors by local state and market actors who enjoyed personalistic ties. As urban land values began to rise, furthermore, China’s preeminent policy bank, the China Development Bank, also began to mobilize state capital by tapping into the value of the land, setting up LGFVs, and providing massive loans for intensive urban development towards the end of the 1990’s. The big four commercial banks, too, followed the lead of CDB and continued to provide substantial funding to these

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<sup>9</sup> Here, I take Guangzhou and Tianjin as case sites because they represent two cities that are characteristically different: one in the southern region where real estate first found its birthing place. And the other in the northern regions where state ownership and state control tend to predominate over private entrepreneurialism and where the real estate sector got a later start than in the southern Pearl River Delta.



LGFVs. As the new millennium began, China entered into an intense period of urbanization that broke one infrastructural record after another, as detailed in the beginning of this chapter.

### *What of the developers?*

The real estate sector grew out of the state bureaucratic field over its recent thirty-year history. Because of its state-dominated history and also because of its need for key components of property development, which began as uncommodified state assets and remain largely state-controlled, the real estate sector in China now occupies an interstitial, in-between field, deeply entangled in and heavily resource dependent upon different segments of the state for its survival. As Chapters 2 and 3 more fully describe, the incipient real estate industry in China began with more vertical allocation of resources at the individual and firm level in the 1980's and developed to manifest a more horizontal allocation and distribution of resources through partial or full marketization of land use rights, bank credit, material supplies and specialized personnel in design, construction and engineering.

Whereas previously all key resources were controlled by the vertical chain of command, which extended down from the central government's ministerial level to the cadre-managers in work units who represented the Party-state, the system gradually shifted when the 1978 reforms began to give territorial governments greater power and jurisdictional leverage over urban construction, planning, land allocations and real estate administration. Local governments now partly control those key resources – of land and capital – due to partial marketization. They also hold authority over decisions involving the municipality such as planning, construction, land requisitions and infrastructure. The territorial governments, in other words, have increasingly gained power over the central ministries when it comes to city-matters.

Despite partial transfer of resource allocative decisions, therefore, from state to market, local governments still wield considerable control over two critical resources for real estate – land and capital. Not only is the barrier to entry high in Chinese real estate, access to key resources has been owned and controlled by state entities since the industry's creation. Land continues to be owned by the local state. The four main banks, which issue the majority of loans to property developers, remain state-owned and state-controlled and they routinely discriminate against privately-held firms in favor of state owned enterprises (SOEs). Local government financing vehicles provide financing backed substantially by landholdings that city governments have acquired cheaply from rural communities at below market rates in order to finance the massive infrastructure construction in their localities. In addition, industrial policymaking, which is monopolized by central and local states, changes quickly and frequently, and the policy environment often remains unpredictable. Access to resources that are key to the survival and growth of every real estate firm, in other words, is still controlled by the local governments. Real estate firms, therefore, are deeply implicated in this movement of power between central administrative units and territorial governments.<sup>10</sup>

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<sup>10</sup> Property developers are necessary as coordinators and employers in a more horizontally organized market set-up where urban planning bureaus, zoning authorities and land administration

Andrew Walder first documented “communist neo-traditionalism” (Walder 1986; Pearson 1997:33) in urban Chinese work units and delineated the vertical dynamics of this “organized dependence” (Walder 1986:13) between urban employees and their respective factory leaders in the late 1980’s. Party-managers exercised formal control over all key resources such as housing, food coupons, job transfers, and welfare benefits within the work unit; and as a result, employees had to cultivate clientelistic relationships with their superiors to curry favors and remain on good terms. Clientelism in real estate partly follows the logic of this “organized dependence” (Walder 1986:13) identified by Walder.<sup>11</sup> In the absence of full marketization of key resources such as land and capital, real estate firms, whether state-owned or private, work to stabilize their access to resource dependencies in land and capital. In order to stabilize their resource dependencies upon the local state, real estate firms must manage, nurture, maintain and coddle their relationships even as they try to “make it” in the marketplace and branch forth into larger operations.

I argue that this relational “maintenance work” has been accomplished via these dominant mechanisms:

- (A) Corruption, bribery at the individual level<sup>12</sup>
- (B) Quid-pro-quo: building of infrastructure or public buildings and public works in return for land allocations, tax breaks and commercial opportunities for profit.
- (C) Founders had opportunities to cultivate relationships with state officials who had access to profitable opportunities and/or land; or are red capitalists themselves: i.e., had generative periods of state employment.

Even as local state governments control and influence the key allocation of resources necessary for real estate firms to survive and thrive there is a joint project, which real estate developers and local states have undertaken since the beginning of

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bureaus exist in a dispersed field from other necessary components of real estate construction such as architects, design institutes, material suppliers, banks, and other investors. The property development sector only makes sense in the context of an economy that is loosening up to form a less vertically segmented field and is forming into a more dispersed, horizontal “market place” of players that need to be employed, selected, hired and bid against. In a more centrally-coordinated economy, the construction needed to occur within the microcosm of the work unit where the land, raw materials, engineers, construction crews and design personnel were all centrally allocated according, more or less, to target.

<sup>11</sup> The concept is, of course, only partly applicable since the key inputs for real estate are, in fact, partly commoditized and marketized at this point. In addition, we are no longer discussing daily necessities for personal livelihood such as food, housing and welfare benefits, which proved central to the idea of communist neo-traditionalism.

<sup>12</sup> They provide gifts, kickbacks, housing, entertainment (both licit and illicit), travel opportunities, etc.

this industry in post-1978 urban China. Local officials have been charged with developing their cities for high-growth and intensive construction since the beginning of reforms. Their political advancement and viability rests with city development – whether measured in terms of economic growth or in terms of increasing property value –and, thus, on the ability of real estate developers to deliver construction, land development and infrastructure development. Real estate developers are the key link to city officials’ political success.

Because of this political interconnectedness of the needs and goals of developers and city leadership, a notion of a “joint project,” which exists between municipal state officials and developers is enduring. More recently, for example, city officials – especially from smaller, second and third-tier cities and towns – have courted “national brand” leaders among real estate developers by seeking to attract them into their regions, entice them with tax breaks, perks and incentives (such as LURs and loans) so that they can create the city, which earn these officials the political plaudits they need in order to advance.

Thus, in the case of the real estate industry in China, the logic of the classic developmental state is incomplete for understanding how the real estate industry developed in China. The bureaucratic setup is riven by corruption and inefficiencies. Bureaucratic incoherence reigned throughout the 1980’s and 1990’s even as administrative units connected to land, real estate and urban planning attempted to revitalize themselves after the Maoist era. The institutional insulation of bureaucratic entities remained incomplete throughout the 1980’s and 1990’s. And yet, some of the key dimensions of the developmental state, if not in its entirety then in its general contours, do exist to some extent in the following manner:

First, the local state leaders and industrial actors are pursuing a common project of rapid city building and intensive growth. The incentives for both parties are fully aligned with that of the other; and they are both keen to achieve this objective of rapid construction and advancement. Real estate developers know that they need to fulfill the political objectives of their “clients” who are the local government officials (e.g., “they have to read their minds”); and local officials need the capital, which real estate developers also bring by way of property development loans, as well as the developers’ knowhow and industrial networks and apparatus in order to achieve their own political objectives. There is, therefore, a symbiotic interdependence of developers and city governments.

Second, the China Development Bank, as recounted above, has come to play a role in financing the massive construction of roadways, railroads, subways, stadiums and other public works across Chinese cities reminiscent of the role that state development banks had played in Continental Europe in the 19<sup>th</sup> century (Gerschenkron 1962; Diamond 1957). CDB tapped into and mobilized growing household deposits, which had grown 280 times by 1999 since reforms began (Sanderson and Forsythe 2013:55) by issuing sovereign-status interbank bonds since the 1990’s. It also helped local governments leverage the rising cost of their urban land, market value of which had begun to climb in the late 1990’s and throughout the 2000’s so that they could borrow more and issue debt through their extrabudgetary LGFVs.

And yet, a central piece of the developmental state logic is still missing. The bureaucracy is more “embedded” in a clientelistic manner than autonomous in the form of highly professionalized, meritocratic and uncorrupt cadre of civil servants and local leadership. A strong Weberian bureaucracy implied by the developmental state model, in other words, as yet does not exist. How, then, has China managed to accomplish so much urban construction in such a rapid period of time?

In Chapter 2, I first begin my analysis by describing in depth the uncoordinated and non-integrated nature of urban planning and urban construction during the Maoist era. I then proceed to explain how in the 1980’s, the local state established construction bureaus within the municipality that took over the construction of housing and public works in accordance with municipal plans. Here, one can see that the municipal governments increasingly took on the task of building housing from work units. Such construction units were wholly state-owned, generally at the municipal level, and practically no private real estate companies operated at this time. Land was allocated by the state and so were the raw materials; and construction targets were given by the state. Market mechanisms did not exist to handle the huge housing crisis that existed at this time, which the central leadership was anxious to rectify. I further highlight the role of the state as both “demiurge” and “midwife” in relationship to the development of the real estate industry. I describe how the local state established and subsidized the firms in this industry with material resources.

In Chapter 3, I continue to describe the growth and propagation of the real estate sector in the 1990’s. Marking a critical turning point, China’s urban real estate sector experienced an overheated property market from 1993 to 1994, which both stimulated the onslaught of private (*siying*) property developers who entered the market in anticipation of rapid returns; yet experienced a severe downturn following the central government’s economic tightening over the real estate sector in 1994. I describe this dynamic as the real estate industry expanded and diversified. Simultaneously, the state-owned enterprise sector increasingly privatized and corporatized under Zhu Rongji’s economic reform policies, which also introduced a diversified, quasi-state, quasi-market ownership to the field (Francis 2001; Guo 2003). I generally trace how in the 1990’s, increasing numbers of state owned firms and quasi state-owned firms responded to both central government push to restructure SOEs and to market pressures and privatized or corporatized their firm structures through management buyouts, open sales, employee share purchases and mergers and acquisitions. Some that are still state-owned – especially in the northern and central coastal regions – began as part of a nationwide network of SOEs with factories and enterprises spread across the country. They were involved in such sectors as construction, shipping, trading, railroads and tourism and in possession of substantial tracts of allocated land. Also in this period, the China Development Bank actively engaged local governments to set up and expand their LGFVs. In this manner, capital infusion into infrastructure construction expanded rapidly as urbanization took off. In this chapter, I explain these three dominant trends within the real estate sector during this time period.

Amidst a “free-for-all” in the industry when land was being transferred for nominal fees through closed-door negotiations and loans procured through *guanxi*, the municipalities were incentivized to execute big public projects such as

infrastructural construction, public works and public building construction. Quality infrastructure and city rebuilding were key links in the economic chain of courting foreign direct investments, investors and industry into their regions, which accrued to their career prospects. Developmental goals of the local state shaped these clientelistic exchanges since undertaking infrastructural projects or public works projects also guaranteed these nascent, indigenous developers access to local officials and their allocation decisions over cheap land, loans, tax breaks and profitable business opportunities. In quid-pro-quo fashion, developers often undertook hard, risky and dangerous infrastructure-related jobs for free *in return for* the material benefits of gaining lucrative opportunities. The municipalities sought returns that were tied to the developmental goals of the city, which held personal and professional benefits for the political leadership. And, as described above, throughout the 1990's, capital means to finance these construction goals were funneled into these cities through centrally-owned banks whose branches were locally based and were locally controlled. When the official revenues of local governments contracted with the fiscal restructuring in 1994, the local governments were able to leverage rising land prices (and other municipal assets) through their LGFVs -- often under CDB auspices -- to finance their construction goals. Towards the end of the 1990's and early 2000's, they began to obtain massive loans from the China Development Bank and from the other commercial banks that followed suit.

In Chapter 4, I return to the period of the 1990's to examine the beginnings of a few key privately-held companies. Here, I look in particular at the history of larger southern developers from the Pearl River Delta such as Country Garden Holdings Company Limited, and Hopson Development as well as its northern counterpart, Dalian Wanda Group. I purposely focus on these prominent private firms because they are widely considered to be some of the most prominent and powerful, non-SOE and non-state-controlled group of real estate firms.

I also examine the backgrounds of some iconic, powerful developers in the field -- such as Wang Jianlin<sup>13</sup> and Zhu Mengyi<sup>14</sup>-- and I supplement their case histories with interview data that I have collected, which note the high levels of state-connections that these founders of currently powerful firms possessed and leveraged. Thus, I show in this chapter, in combination with the conclusions drawn from Chapter 3, how these real estate firms, whether privately-held or state-owned, have always remained closely tethered to the state whether through direct state-ownership, affiliation, founding history or personal history of the founders.

In Chapter 5, I discuss how China exhibits an entrepreneurial local state model of development. I further speculate whether with enough financing, political will of the local leadership to rapidly develop cities, and the cheap labor of migrant construction workers, a highly meritocratic, clean and professional bureaucracy is *not* entirely necessary to achieve historic, record-breaking developmental goals in urban construction. Many warn of a property bubble in China, however, and the threat of massive amounts of non-

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<sup>13</sup> Founder and chairman of Dalian Wanda Group, one of the largest commercial property development company in China.

<sup>14</sup> Founder and chairman of Hopson Development, a nationally prominent residential/mixed-use development company from Guangdong province.

performing loans in the form of local government debt carried by these LGFVs (to the amount of RMB 10.7 trillion at the end of 2010 or nearly a third of China's GDP). Perhaps, then, Weber's prediction that a meritocratic and professional, ideal-typical bureaucracy is, in fact, necessary for the sustainable development of a country's industry will be proven true.

Although there has been increasing scholarship around China's dramatic rate of urbanization (Campanella 2008; Ren 2011); transformations in urban and rural land regimes (Ho 2005; Ho and Lin 2003; Ho and Lin 2004; Lin 2009; Lin and Ho 2005); territorial politics (Hsing 2006a; Hsing 2006b; Hsing 2010b; Ping 2011); social protests around homeownership (Ho 2010; Hsing 2010a; Li and Li 2013; Shi and Cai 2006; Tomba 2004; Tomba 2005); land grabs (Guo 2001; Hsing 2010a); China's middle class (Fleischer 2010; Zhang 2010); and globalization's effects on China's cities (Wu 2006), very little, in fact, has been written about the real estate industry in the PRC. Speculation regarding housing bubbles, affordability debacles, and more recently, the bursting of that bubble in these very same cities has tended to dominate the media. In other accounts, there has been much rumination regarding high levels of corruption in the real estate industry (Ren 2009). There is very little, however, that has been written about the origins, the historical trajectory and the morphology of the industry as a whole or of the enterprises that populate this, to date, lucrative industry (Ma 2002; Ma 2006). This omission is notable for the fact that the real estate industry is critical to China's economy. The sector generates approximately 10 per cent of China's GDP and its importance is difficult to overstate in light of its designation by the central government as a pillar industry. This dissertation is an attempt to fill some of that gap in the literature.

The conclusions drawn in this dissertation are the result of 18-months of field work completed between 2008 to 2010 in Beijing, Shanghai, Hong Kong, Guangzhou and Shenzhen. In addition, I made two supplemental trips to Hong Kong, Guangzhou and Shenzhen in September 2011 and then again in March 2012. To date, I have conducted 87 semi-structured interviews with senior executives and mid-level managers of real estate development companies; academic specialists on Chinese real estate; local government and central government officials; staff members of foreign and domestic real estate consultancies and research centers; urban planners, architects as well as real estate lawyers and foreign business people involved in Chinese real estate. In addition, I have consulted government documents, internal company documents, corporate filings, published and unpublished research reports, commercial databases and media sources that pertain to real estate, property development firms and infrastructure construction in the major metropolitan areas of Beijing, Shanghai, Guangzhou and Shenzhen.

## Chapter 2: Fragmented State before the Reforms and its Consequences

This chapter begins with the urban situation under Maoist high socialism and proceeds to discuss the first decade of economic reforms in the 1980's as they pertain to land, property development and urban construction. In doing so, I demonstrate how a developmental state structure -- especially in terms of a coherent, professionally competent and autonomous yet embedded bureaucracy -- was not possible in light of the fragmented, sectoral orientation of Maoist governance, which prevailed even past the eve of 1978-reforms.

I describe the “production first, life later” orientation of the Maoist regime. The Maoist leadership was united in striving for industrial production over consumption (i.e., “life later”) and devised the central government’s economic plans and investment strategies along those lines. This, in turn, meant that the central political leadership devoted public investment towards key industrial enterprises and funded only those infrastructures that directly linked to key industrial projects located within work units. Not only infrastructure but also housing constructed during Mao’s regime linked directly to state-owned enterprises and government administrative structures rather than to a regional or municipal-wide plan. With shortage of funding, central planners increasingly prioritized key projects rather than preserving budget allocations to city governments that could conduct comprehensive development within their territorial jurisdiction. In structural terms, in other words, under the centrally planned economy, the danwei (or work unit) held greater formal and informal power. Governance was organized in top-down fashion through the vertical administration of central ministries and bureaus (“*tiao*”) rather than horizontally through the territorial governments in cities, regions and districts (“*kuai*”). Economic plans and investment targets were handed down from top-to-bottom, and the state-owned danwei existed at the end of that vertical chain of command (Lieberthal 2004). The danwei of various industrial categories rather than specific regions of the country, such as cities or specific districts, thus, became the primary sites of industrial production.

This chapter will also show that central government investment in housing was neglected, and work units that enjoyed primacy of power when it came to the disposition of their community affairs ignored or patently disobeyed local governments bureaus and urban planning departments. Urban planners and territorial governments were rendered powerless against powerful work units from the beginning, which took their orders from central ministries and bureaus.

I set forth the dismal state of bureaucratic affairs for land administration and real estate management in urban China on the eve of reforms in 1978. Unlike the technobureaucratic, Weberian state apparatuses, which scholars of East Asian statism and the developmental state highlighted with respect to Japan, Korea and Taiwan when they opened up to market reforms, China confronted a vastly different situation in 1978. I first summarize the fragmented and parcellized state of land use and local territorial administration on the eve of reforms in China. I detail how the horizontal and territorial governing units – such as urban planning bureaus and local governments – held little power against the vertical administrative structures of the planned economy under Maoist socialism. During the Cultural Revolution, in fact, almost all urban planning agencies and housing management departments were decommissioned or severely compromised. I

detail how the allocation of free land in perpetuity to SOEs, government agencies, military forces and other work units led to hoarding and urban sprawl.

The parcellized organization of urban space makes clear the deeply fragmented state of urban bureaucracy in China when reforms began -- especially as it pertained to land management, urban planning and residential management. When the central government confronted the large housing crisis, infrastructural deficits and urban emaciation in 1978, therefore, it did not have the bureaucratic capacity to drive through a well-planned, systematic and rapid urban renewal program, which a developmental state paradigm would imply. In fact, the bureaucratic apparatus that did exist at the local, territorial level for land management and residential administration had hardly enjoyed any power during the socialist era. Unlike the common perception of China's high socialism as exhibiting a monolithic and well-ordered bureaucracy, therefore, an opposite situation of bureaucratic dysfunction prevailed when it came to urban built environments. This chapter sets forth the hobbled bureaucratic state that characterized urban development when the leadership hailed its Open Door policy in 1978.

This chapter also goes onto describe, however, the beginnings of the reform decade in the 1980's. It explains how authority over urban construction began to reconfigure itself in increasingly horizontal fashion when the reforms began in 1978. The central government realized with increasing alarm the loss of arable land, which had accompanied such decentralized land administration. It also recognized the need for general infrastructure at the city and regional levels in order to attract foreign investments and rebuild its economy, which market reform implied. Local bureaucracies, land administration departments, real estate bureaus and urban planning departments were either newly created or re-established; and they had to reassert themselves in order to shift the locus of control away from work units and towards territorial governments. Amidst such changes, local governments were also empowered to and began to assume increasing authority over residential construction in the 1980's. Unlike the Maoist socialist era when nearly 80% of all urban residences were constructed, distributed and managed by work units, the large municipalities of Tianjin and Guangzhou, for example, began to take charge of and establish construction offices that took over residential construction throughout the two municipalities. This shifting locus of responsibility and power over urban housing construction from work units to municipal construction firms demonstrates the increasingly important role of the local state in establishing, then subsidizing the first generation of state-owned construction and real estate firms. Like the "demiurge" state, which Evans describes in *Embedded Autonomy* (Evans 1995:13), the local states of Tianjin and Guangzhou created wholly-owned state entities that took on real estate construction throughout the municipality.<sup>15</sup> They also subsidized them with generous allocations of land, loans, capital grants and tax breaks necessary for them to undertake the work of property development and residential construction. As the work of urban construction passed from cellular and vertically empowered work units to territorially based municipal urban planners and city construction offices, the local state played the first critical role in helping to birth the precursors to current real estate firms.

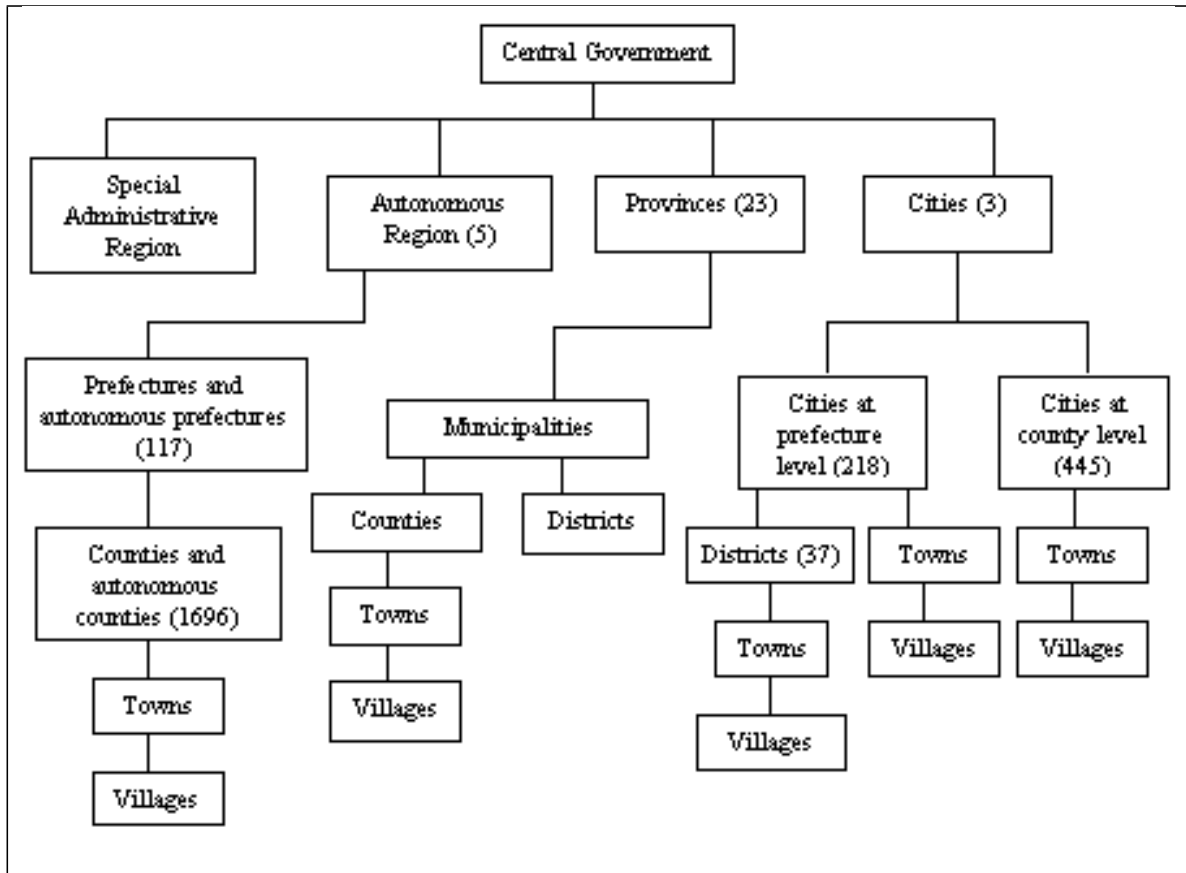
In describing the local state, I am generally referring to the following schematic, which sets forth the generalized form the municipal government in post-reform China:

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<sup>15</sup> In the 1980's, the main consumers of these residences were still work units, however, because they were generally the only entities that could afford them.



Table 1: Administrative Hierarchy of China, 1996



United Nations Economic and Social Commission for Asia and the Pacific  
 (<http://www.unescap.org/huset/lgstudy/country/china/china.html>)

The chapter ends its historical narrative with the end of the 1980's and begins Chapter 3 with the more chaotic yet robust decade of the 1990's.

A. *Pre-1978, Maoist Socialism: "Production First, Life Later"*

The work unit is one's rice bowl but it is also one's 'face.' So if a person doesn't have a work unit then they will have no face. . . . One can even go so far as to say that, without a work unit, such people come to be regarded as 'unemployed idlers (Bray 2005:4).'

The work unit or *danwei* was the focal point of state administration during the high socialist period under Mao. As the above quote attests, without a work unit, an individual was a blank entity or, even worse, a vaguely suspect outcast. Although the quote does not directly relate to bureaucratic administration and the flow of resources, it does vividly demonstrate how central the work place was for urban life and, by implication, urban governance during the Maoist era. How is this important for

understanding the paradox with which I began my dissertation? In the introduction, I argued that the East Asian variant of the developmental state model is deeply flawed for understanding China's urban developmental trajectory. This is rather paradoxical in light of the "totalitarian" or monolithic vision of bureaucracy that dominated with respect to images of Maoist high socialism in China (U 2007). In my dissertation, I inquire into how the state mattered (and still matters) – particularly at the local level – in accomplishing one of history's most astonishing urban construction achievements, which has occurred over the last 30 years in China. I explore, in particular, as to how a broken and dysfunctional bureaucracy, which the reform government inherited in 1978 still managed under Deng Xiaoping to create a set-up to begin accomplishing one of the most impressive urban renewals in modern history.

Contrary to what sociologists and political scientists might expect, however, the central and local Chinese states, which specifically governed urban and residential construction at the dawn of Deng Xiaoping's reforms did not reflect a technobureaucratic corp of government civil servants – reminiscent of Weber's ideal type -- that shepherded along China's urban transformation. Instead, in this section, I set forth a surprising reality regarding China's governance structure under Mao. The way that China's governance structure was organized at the grassroots with respect to urban construction and housing management level actively prevented territorial coherence, municipal integration and infrastructural development. With respect to urban planning, what existed was the absence of coherent authority. Instead, in Chinese cities, parcellized communities in self-sufficient, walled units that either ignored or actively resisted municipal government encroachment existed when reforms began. This section of the chapter locates itself in the Maoist high socialist era of 1953 to 1978, which affords us a historical vantage point from which to track why and to what degree this fragmentation could not but emerge over time.

"Production first, life later" captures the intense level of focus, which the political leadership under Mao placed on rapid industrialization. The central government promoted heavy industrial growth at the expense of all other sectors from the beginning of China's Communist Party leadership in 1949. Thus, even prior to the First Five Year Plan, which began in 1953, the central government differentially categorized Chinese cities according to the level of heavy industrial production that they would assume (Zhu 1999b:18). Central urban areas such as Beijing, Shanghai, Guangzhou and Chengdu were earmarked and transformed into sites for factories and industrial work units even as the Chinese leadership promoted the construction of 694 large-scale industrial projects and 2,300 secondary industrial projects in and around major cities (Bray 2005:111).<sup>16</sup>

Even though China's intense privileging of heavy industry is impressive in its own right, its significance for the current state of affairs in China's real estate centers around two phenomena. First, this production-focused government investment strategy led to the construction of infrastructure – often done as a means to conserve money in a tight budget situation -- centered on each industrial worksite rather than over entire regions where such general infrastructure construction made territorial

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<sup>16</sup> Evidencing the government's intense focus on rapid industrialization, the floor space devoted to production as opposed to residential and service uses reached 1:1.12 during China's First Five Year Plan from 1953-1957 (Lu 2006:84). The expected ratio is generally 1:3. After 1958, the proportion dropped even farther to 1:0.9 (Lu 2006:84).

sense. Individual danwei built its own social infrastructure and urban services mainly in order to facilitate production and in accordance with various administrative and economic planning provisos devised from above. Second, city governments often had no control over the development of industrial production sites and work units in their own regions. The danwei had near absolute control over their spatial territories and stood practically independent from municipal or territorial government interference. As will be shown below, work units routinely constructed projects, roads and residences in relative disregard for urban planning departments even though nominally such city-level authorities held formal authority over such matters.

### *1. Danwei as Primary Production Units and as Self-Sufficient Worker Villages*

When China's real estate industry first emerged in the late 1980's, its cities were arranged in checkerboard fashion populated by variously-sized work units. As one author describing the different kinds of work units during the Maoist era writes, some were more akin to a small city or an industrial base than the term "work unit" implies: Wuhan Steelworks, for example, included "mines, power stations, machinery factories, steel furnaces, rolling mills, subsidiary factories, and service centers [that] stretch[ed] over ten square kilometers. It is more a self-contained city than a factory. The corporation runs its own hospitals, colleges, canteens, cinemas, housing estates, and all kinds of community services for its 140,000 employees and their families (Bray 2005:146)." The Luoyang tractor plant, another massive production unit completed in 1957, included a large housing complex comprised of 425 three-and four-story apartment buildings set forth along thirty-six blocks with a total floor area of 857,600 square meters (Bray 2005:142). The compound was built for 17,152 employees and their families and included eight high schools, eight cinemas, three hospitals, two markets and two department stores, among other buildings. The "work unit" was more like a new city district, in other words, built for approximately one hundred thousand inhabitants (Bray 2005:142) than simply an industrial production site or an employment location. Residents living behind the high walls of these work units rarely left their compounds. The situation was so insular that for those living inside these compounds, contacts with the outside world were as though they occurred in another world (Lu 2006:68).

Although different political periods under Mao were characterized by varying degrees of investments into housing and industrial production<sup>17</sup>, the essential characteristics of self-sufficient work units remained the same throughout the Maoist era. Each enterprise and state-run organization, whether large or small, was an insular community whereby a division within such enterprises was responsible for building and distributing housing for its workers. Its supervisory department requisitioned funding for its residential needs; and the local government provided land for free. Departments

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<sup>17</sup> During the First Five Year Plan from 1953-1957, municipalities were busy building such industrial cities and workers' new villages where the majority of urban housing construction took place (Zhang and Wang 2001:113). The period from 1949 to 1957, in fact, were marked by substantial increases in urban housing investments (Zhang and Wang 2001:119). Housing investment levels dropped, however, beginning the Great Leap Forward and the People's Commune Movement from 1958 to 1961 and especially during the Cultural Revolution from 1966 to 1976.

within the enterprise built the necessary infrastructure, roads and support facilities such that its occupants essentially never needed to leave the organizational compounds (Zhang and Wang 2001:116). Local government authorities had little authority over the goings-on within these work units and had few resources allocated to them to invest in the urban built environment. The reason for this neglect of territorial planning and construction in favor of project-centered urban configuration stemmed from the fact that the central government was intent on maximizing its scarce capital resources. It chose to conserve its financial base by focusing on industrial production on a project-by-project basis rather than implementing region-wide urban plans. By associating infrastructural outlays and residential construction with different industrial projects based in specific work units, planners could minimize expenditures on general municipal construction, land administration or real estate management.

With “production first, life later” (Zhang and Wang 2001), furthermore, housing standards in urban China also remained rudimentary from 1949 to 1976. This is important to note for the state of affairs, which the reform government inherited in 1978. State investments remained concentrated around heavy industrial production from the beginning of Mao’s regime and continued regardless of the political ups-and-downs. During the First Five Year Plan (1953-1957), the level of central government’s housing investment hit its highest point at 10% of total investment in capital construction but then fluctuated around 5% thereafter. It then hit a low of 2.6% in 1970 (Zhang and Wang 2001:106, 174). Even during the 1950’s, however, when the Maoist central government invested more heavily into housing construction than in any other decade, the CCP Central Committee pushed forward its antiwaste campaign in 1955 and issued cost reduction directives to the construction industry (Bray 2005:136). On June 19, 1955, the People’s Daily reported the government’s decision to limit the cost of housing from its original 90 yuan to 20-60 yuan per square meter (Bray 2005:136). As a result, per capita living space was reduced from the original limit of 9 square meters to a meager 4 square meters (Bray 2005: 137). Multiroom apartments were drastically reduced and the majority of households lived in one-room residences. Kitchens, bathrooms and washing areas, too, were constructed as shared space among multiple families such that 2-3 families would share a kitchen and 4-5 families would share the toilet (Bray 2005:137). The government focused on producing basic, simple residences that could be assembled quickly through standardized, factory-assembled components (Zhang and Wang 2001:177-78). As the country experienced increasing turmoil during the Cultural Revolution, for example, the poor state of housing maintenance and construction hit even more severe straits.

Under this situation, the pressure on work units to provide more for its residents’ livelihood, especially with respect to housing, was significant. The following describes one communication from a work unit leader:

As our work unit expands, there is not enough housing for distribution. We have encountered great difficulty . . . . Our employees raised more than 2,800 suggestions and criticisms, 90% of which were about housing. What should we do under such circumstances? The state would not approve the construction quota, nor would you [the planning bureau] issue us the building permit. All we could do, therefore, was build without approval.

We understand that our mistake is serious; we hope you'll be considerate regarding our case (Lu 2006:90).

As the above quote implies, (and as the general literature on the secondary economy under socialist regimes have amply demonstrated), illegal construction took place in large numbers across different danwei units. According to one study, for instance, 339 work units constructed structures without permits between 1956 and 1959 (Lu 2006:86). One hundred ninety-thousand square meters were built illegally in 1960 and 27,000 square meters erected by 208 work units in violation in 1963 (Lu 2006:86).<sup>18</sup> Even when building construction was authorized, furthermore, many work units often built larger, newer and more permanent structures than what their permits allowed and underreported them.<sup>19</sup> Most of the illegal structures were housing and other life facilities such as nurseries, canteens, public baths and recreation areas (Lu 2006:87).<sup>20</sup>

Why is it important to recount the shadow economy of danwei housing under Maoist high socialism? The point is not to simply describe the dismal state of housing construction under Mao (although that is important), but rather to highlight the relative powerlessness of local governments to regulate the behaviors of urban entities located within their territorial jurisdiction. Power ran vertically from top to bottom under Mao's economically segmented governance structure and local governments were rendered largely powerless against public entities that populated their jurisdictional areas. And even the vertical hierarchy undergirding China's socialist command economy and its urban built environment was not necessarily staffed by technically competent and merit-based civil servants as Weber might imply. Rather, ideologically-driven, "red" activists often populated the bureaucratic apparatus and even proved ascendant over the technocrats during periodic campaigns.

Testifying further to local government disempowerment, work units hoarded construction materials in order to build illegal residences and communal facilities. They skimmed off their budget allocations from the center and exchanged building materials through informal channels. Work units applied for raw materials through their supply bureaus,<sup>21</sup> but because they wanted to preempt the cumbersome process and because they anticipated future needs, they often applied for far more than what they needed (Lu 2006:93). In 1953, nearly 30% of building materials consumed from the construction industry consisted of such stockpiled hoardings (Lu 2006:93). A

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<sup>18</sup> Although these numbers may not seem overwhelmingly large, we should note that they are the reported figures, which may not conform to the extent of the problem which, by all accounts, was large and widespread (Lu 2006).

<sup>19</sup> In 1956 alone, for instance, over 400 work units built 3.63 million square meters of so-called "small structures" when only 64,000 square meters were, in fact, small (Lu 2006:86).

<sup>20</sup> In 1956, 80.4% of illegal construction consisted of non-productive facilities such as apartments (Lu 2006:87). In 1963, the figure had not much improved, remaining at 74% of illegal construction (Lu 2006:87).

<sup>21</sup> All building materials were centrally distributed through the Ministry of Building Materials since 1956 (Lu 2006:93).

partial survey in 1957 indicated that work units had amassed 112,600 tons of structural steel, 244,000 cubic meters of wood, and 23,000 tons of cement (Lu 2006:93). And with such stockpiling, work units undertook illegal construction outside the plan. Work units also hoarded land by requesting more land allotments than what they needed. Land waste was so widespread that less than 20% of land requisitioned for use by SOEs and public entities housed any physical structures at all (Lu 2006:93; World Bank 1993:44).

Such urban irregularities, which work units routinely exploited, both demonstrates the weakness of local government bureaucracy as well as their continuing powerlessness against the vertically-controlled work units throughout the Maoist era. The danwei and the city authorities frequently conflicted over their scope of responsibilities; and city authorities routinely lost in their battles in light of their lack of ability to enforce their demands (Lu 2006:81, 86).<sup>22</sup>

## 2. *Urban Planning in the Maoist Period*

Although the scenarios of work unit intransigence described above may suggest otherwise, in March 1953, the Bureau of Urban Construction within the Ministry of Building and Engineering had, in fact, established the first Department of Urban Planning (*chengshi guihuachu*) (Bray 2005:129).<sup>23</sup> They were given broad, *formal* powers to oversee the development strategy for each city. Urban planners were charged, for instance, with determining land allocations and division of cities into districts and zones (Bray 2005:129). They were also responsible for the planning of general infrastructure systems including roads, transportation systems, power lines, communication networks, water, sewerage and urban renewal projects (Bray 2005:129). They also oversaw the construction industry.

Yet, *in reality*, the urban planners found their authority curtailed as the central government repeatedly called for rapid industrialization and focused its resources on enterprises and work units. In July 1954, the State Planning Commission issued a regulation called the “Decision on the Division of Investment for Construction Outside of the Factory” in order to clarify the financial responsibilities of enterprises as opposed to the cities in which they were located (Bray 2005:142). The decision listed a comprehensive array of construction projects such as railway lines, electricity supplies, heating facilities, telephone lines, public utilities, employee housing, schools and welfare services as well as the financing of all water pipes, sewage lines, roads, bridges and drainage systems. And with respect to these infrastructural needs, the central government pronounced that the danwei or enterprise would be responsible for financing the construction of all of these items “within the factory area (Bray 2005:142).” The local governments were technically responsible for building the general infrastructure

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<sup>22</sup> In one humorous anecdote, we learn of a planning department’s efforts to organize over thirty work units in to coordinate the construction of housing and office structures during the Maoist era. Eighteen work units initially agreed to the plan. In the end, seven work units had signed on. But the next year, only one work unit actually participated and built only one building (Lu 2006:96).

<sup>23</sup> It is unclear why these central bureau and department were created to begin with but what does seem certain is that they were not very powerful in reality.

and municipal facilities outside of the work units, but funding provided to them to do so was minimal and inadequate (World Bank 1992:75; Zhang and Wang 2001:116).

Under China's *tiao-kuai* structure of governance, work units were technically beholden to *both* the local governments and the administrative hierarchies established by central ministries and bureaus of their specific industrial categories. The centrally-administered production targets, however, were implemented through the hierarchical chains of command, and this vertical administration of authority (the "*tiao*") dominated over the horizontal authority of regional governments (the "*kuai*") (Bray 2005:50). As a result, work units enjoyed far greater financial support from the central government at the expense of the territorial governments. The State Planning Commission, the State Economic Commission and the State Construction Commission under the State Council established targets and reserves for urban construction and allocated funds through the central ministries and local governments that flowed to the *danwei*. Most of the construction reserves earmarked for the *danwei* bypassed cities' general urban construction funds (Lu 2006:92), however, and went to the various work units.

In addition to this *tiao-kuai* structural setup, urban planning and construction apparatuses, which represented the territorial interests of local governments, found their authority even more hobbled as a result of the chaos of political campaigns waged under Mao. Even as early as 1955, as mentioned previously, Zhou Enlai began his antiwaste campaign against the construction industry. Towards the end of the Great Leap Forward (1958-1961), the central authorities decided that urban planning projects would remain shut down for three years and that funding for urban management and housing maintenance would suffer cuts (Zhang and Wang 2001:172). After these three years, the government made some efforts to revive the urban planning apparatus, but with the onset of the Cultural Revolution soon thereafter in 1966, such efforts were quickly aborted. From 1966 until 1971, in fact, planning offices at central, provincial and city levels were all shut down and construction and design offices also sustained deep cuts (Bray 2005:131). Beijing, for instance, had no master plans during this time; and only fragmented urban construction took place at the *danwei* level (Lu 2006:97). Housing management departments were also either completely shut down or severely curtailed (Zhang and Wang 2001:172). In the end, urban planning departments never really regained their financial and political footing until the economic reforms began in 1978 and when the central authorities began to push for integrated development and territorial management of infrastructure construction (Bray 2005:131).

In short, this section has tried to show how prior to the economic reforms in 1978, almost all urban planning agencies that existed in China were rendered powerless. Urban master plans and land utilization plans issued for different municipalities primarily set forth land dispositions that followed the dictates of central government economic planning. They did not set forth long-range blueprints for urban development goals and land management objectives (CASS and IPA 1992: 204). Rather, capital construction projects mostly abided by centralized economic planning for the different industrial sectors, and construction, land allocation and development projects were approved or not depending on investment levels and growth targets set by central planning. (CASS and IPA 1992:210; Lin and Ho

2005:415). Urban construction primarily remained at the level of the danwei, which represented the end points of these central planning objectives.

*B. Urban Consequences and the Momentum for Urban Land Reforms, Post-1978*

The reasons for why the post-reform leadership in Beijing decided to institute land commodification measures are many and myriad. Yet, a significant portion rested with the unhappy consequences of urban construction that had taken place during the Maoist era of high socialism. As was described more fully above, the central government's danwei-focused development strategy resulted in a highly fragmented urban land use, ineffective housing and planning bureaucracy; and an incoherent territorial regime. Secondly, cities in China exhibited a checkered land occupancy by state owned enterprises and public institutions. Third, the central leadership in 1978 confronted an alarming shortage of urban housing resulting from Maoist era austerity towards non-production related investments. The Chinese leadership also confronted a severe lack of city-wide infrastructure even as it sought to steer a fundamental shift in its economic development strategy towards a market orientation.

*1. Fragmented Land Use and Entrenchment of State Owned Enterprises; Lack of Infrastructure*

According to Policy Document #15 announced by the Ministry of Finance on April 4, 1954:

State-owned enterprises shall not submit any rent or users' fees to the government for the land they occupy with government permission. The land becomes enterprise property regardless of whether it is offered as a public property or bought with money. Land occupied by government agencies, the armed forces and educational institutions with government permission is not to be taxed or charged with users' fees (CASS and IPA 1992: 294).

Prior to 1978, under the socialist economic system under Mao, state-owned enterprises (SOEs), government agencies, military forces, educational institutions and their respective work units were the main users of urban land in China. As the above state decree makes clear, urban land used by these state institutions and enterprises did not incur any charges or rents. All land allocated to these SOEs and state agencies were granted administratively, often for free, and in perpetuity. A certain kind of socialist "squatters rights" prevailed, in other words, when the reforms began in 1978 and these state-owned and/or public entities were still the rulers of their domains, able to use their lands and sites for free and, presumably, forever.

With urban planning in disrepair, furthermore, land disposition itself had resembled an administrative process that did not have an independent logic of its own. Capital construction projects mostly followed the dictates of centralized economic planning for the different industrial sectors, and construction or development projects as well as land allocations were approved or not depending on investment levels and growth targets set by central planning. (CASS and IPA 1992:210; Lin and Ho



2005:415). And, thus, in this context of administratively assigned, free land that was allocated on the basis of economic investment objectives, the big “land winners” under Mao were the industrial SOE’s and their work units. Owing to Mao’s policies of rapid industrialization, therefore, when the reforms began in 1978, heavy industrial factories and buildings occupied a significant proportion of core urban tracts in Chinese cities. (CASS and IPA 1992:314).

The following data may help to further demonstrate the concentrated level of industrial occupancy in Chinese urban areas when the Open Door Policy was announced in 1978. It should also serve to highlight the intractable problems of governance and territorial development that the Chinese leadership faced when they pushed for the creation of the real estate sector in the early 1980’s. In the 1970’s, for instance, the central part of Beijing municipality housed 55% of all SOEs in the whole city (Hsing 2006a:171). By 1982, nearly 60% of all SOE factories and 70% of their workers occupied Shanghai’s city core (Hsing 2010:36) where, in market capitalist societies, such centralize locations are built up as commercial downtowns. In Shanghai, by contrast, 56.7% of all factories in 1985 were in the urban center; factories and warehouses occupied 30% of the land area. Thus, even in 1985, the percentage of industrial land users in differentially-sized Chinese cities was at least double that of Japan’s (CASS and IPA 1992:315).

Table 2: Percentage of urban land used for industrial purposes; comparisons between Japan and several Chinese cities

	Japan (1985 average)	Shanghai	Fushun	Jinan	Yantai
Factories	13	24.4	34.2	37.5	29.5
Housing	76	32.5	25	28.4	33
Other	11	43.1	40.3	34.1	37.5
TOTAL	100	100	100	100	100

Source: CASS and IPA 1992:315

Powerful industrial SOE’s occupied vast tracts of land in the inner areas of these cities and hoarded excess land (World Bank 1993:43; Zhu 1999b:19)<sup>24</sup> when economic reforms began in 1978.<sup>25</sup> They remained powerful against local municipalities even throughout the 1980’s and 1990’s as China’s economic reform policies unfolded under Deng Xiaoping’s leadership. These “socialist land masters” (Hsing 2010) – i.e., deeply entrenched SOEs and their work units or other state institutions located in Chinese cities -- contended with local governments when municipal jurisdiction over the built environment was slowly strengthened and confirmed by the central government’s policy decrees and legislation involving land management, urban planning, fiscal and economic decentralization. Even in 1982,

<sup>24</sup> Similar situation prevailed in other formerly socialist cities in Russian and Eastern Europe (Bertaud and Renaud 1995; Bertaud and Renaud 1997).

<sup>25</sup> Land waste was so widespread that nearly one-fifth of the land requisitioned by SOEs and public entities lay underutilized or bare (The World Bank. 1993:44).

when the Chinese Constitution was amended to decree that all urban land was owned by the state, no law or regulation explicitly stated which level of the state held the authority to practically control and manage urban land.<sup>26</sup> Urban governance over land management (and, therefore, real estate) remained fragmented and chaotic. State-Owned Property Administration, the Ministry of Construction, the Ministry of Water and Electricity Supply, Ministry of Coal, Ministry of Agriculture, Ministry of Railroads, the Civil Aviation Authority as well as various enterprises, public institutions, work units and municipal governments, for instance – depending on the land parcel in question -- all claimed some jurisdictional “piece of the pie” (CASS and IPA 1992:191).

By the end of the Cultural Revolution and at the cusp of the Open Door Policy in 1978, furthermore, eighty-percent of urban housing was owned and managed by work units and only approximately 10% was directly managed by city authorities (Wang and Murie 1999:130).<sup>27</sup> When reforms began, work units and state-owned entities practically made up China’s urban landscape and local government operations were marked by their relative disempowerment.

China’s need for comprehensive infrastructure investments in its cities was, in other words, staggering when the party leadership initiated economic reforms in 1978. Within the inner ring road area of Shanghai, for example, only 10% of its land was utilized for transportation purposes in 1993 compared to the 20% that were built up for transportation in Hong Kong and Singapore (World Bank 1993:11). There were only six telephones per 100 persons in Shanghai in 1993 (World Bank 1993:11), compared to the per capita ratio of telephones in Hong Kong and Singapore, which averaged 45-50 telephones per 100 persons.

## 2. *Land Use and Land Management Situation after the 1978-Reforms*

Under these conditions, when the economic reforms began in 1978, the central government recognized the dysfunctions inherent in free allocation of urban land, which had manifested itself as urban sprawl even under the Maoist regime (Zhu 1999b:26-27). The central government grew alarmed at the rapid loss of farmland caused by rampant requisitioning of rural land for urban use and grew concerned regarding food security.<sup>28</sup> The need for increasing foreign direct investments also increased pressures for land management reform. This was because without market commodification, land could not be valued; it could not be used as collateral for loans; and its allocation often meant impracticable time limits – a situation which discouraged foreign direct investment at a

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<sup>26</sup> 1982 Constitutional provision stated that “urban land belongs to the state . . . and land in the countryside and in suburban areas belongs to collective ownership, etc.”

<sup>27</sup> Because of this serious lack of coordination in infrastructure planning and construction, the State Council specifically required municipalities to reorient themselves in 1978 towards the “six unitary ” method of urban development: unitary planning, unitary investment, unitary design, unitary construction, unitary distribution and unitary management (Wang and Murie 1999:130).

<sup>28</sup> In 1985, for example, agricultural land in the nation had decreased by 15 million *mu* (about 1 million acres) (CASS and IPA 1992:211).

time when China was desperately courting it. As a result, even as early as 1980 at the National Conference on City Planning Work, the commodification of land gained political steam. The Conference endorsed the financing for city infrastructure from local land lease sales (World Bank 1993:50). The Law of Sino-Foreign Joint Venture enacted in 1979 already authorized the collection of land use fees from foreign investors. This marked the beginnings of a rudimentary urban land market system (World Bank 1993:50). In 1987, the central government provisionally implemented in Shenzhen, Shanghai and Tianjin the transfer of state-owned land, which was officially enshrined in the 1988 Constitutional amendment.

The landmark 1988 Constitutional amendment stated that “land use rights can be transferred according to the law” indicating the creation of long-term lease rights that were separate from property rights over the land. It created transferable land use rights distinct from state-owned or collectively owned land ownership itself.<sup>29</sup> Subsequently, the 1988 Land Management Act and the 1990 Temporary Regulations for the Transfer of State-Owned Land Use Rights of the PRC were passed (CASS and IPA 1992, 334), which further concretized the mechanisms for land transfer and usage.<sup>30</sup> And the central government also set up its first State Land Administration in 1986, and drafted up China’s first national land utilization plan in 1987. The State Land Administration was set up to be responsible for the management of all urban and rural land and to demarcate quotas for agricultural and non-agricultural land. Land administration agencies were set up at provincial, municipal, district and county levels (Hsing 2010:38). In the latter half of 1992, land leasing began to get adopted at an accelerated pace in select cities (World Bank 1993:xii).

As may be imagined, however, the transfer and sale of land use rights took well over a decade to come under increasing regulatory guidance even in the first-tier cities (which still remains imperfect). Even more problematic, administratively allocated land – i.e., land parcels that had been freely allocated to state-owned entities and their work

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<sup>29</sup> The initial experiment to collect land use fees had begun in Shenzhen when the Special Economic Zone passed in November 1981 its Urban Land Use and Management Regulations; and from 1982, the municipality began collecting land requisition and land use fees first from foreign investors and from joint ventures. Even prior to the passage of this regulation, however, land use fee was first collected in Shenzhen in December 1980 against a Hong Kong developer at a rate of HK\$5,000/sqm (Zhu 1999b:90). In September 1987, the Shenzhen government sold by negotiation the land use rights to a 5,000 sqm of land to a local, *domestic* company, which set a precedent for charging land use fees even to domestic purchasers. By the end of 1987, Shenzhen had sold three land parcels to local developers, and in 1988, the relevant Constitutional amendment established the alienability and the marketability of land use rights. One hundred cities followed thereafter to experiment with land commodification reforms, all at different speeds (World Bank 1993:57) with, not surprisingly, southern, central coastal provincial cities and special economic zones adopting speedier reforms compared with northern municipalities (World Bank 1993:xii). Fee collection was then extended to domestic land users as well, although the amount collected and the regularity with which this practice was enforced was infrequent.

<sup>30</sup> Interestingly, land reform trailed housing reform due to ideological difficulties with justifying the privatization of land under Marxism. As the reforms deepened, however, and the practical need to manage land usage became urgent, reform measures gained steam. Land use rights were separated from land ownership. The idea was ultimately enshrined in the Constitutional amendment of 1988. It seems that the leadership imported the idea for long-term lease rights from Hong Kong (Yeh and Wu 1999:219; Interview 91111).

units throughout the Maoist era and even throughout the 1980's and 1990's -- existed in a legal vacuum because there were no formal mechanisms by which to enact, enable and enforce such transactions even when two parties were willing.<sup>31</sup> Throughout the 1990's, as will be detailed further in the next chapter, land continued to be allocated for free in most cities with no discernible time limits placed on such usage (Hsing 2006a; Hsing 2010; CASS and IPA 1992:196; Zhu 2002). Even when urban planning and land utilization documents finally came into greater usage towards the end of the 1980's, they often lacked sufficient statutory teeth and were routinely ignored (Zhu 2004b). In addition, because these factories and state agencies were scattered throughout different areas of the city; and because each work-unit used its land allocations in a highly mixed manner among residences, schools, work spaces, nurseries, etc., China's urban land use did not reflect economies of scale or the principles of agglomeration (CASS and IPA 1992:314).

### 3. *Post-1978 Severe Shortage of Urban Housing*

In addition to the dysfunctional land regime, the central government faced a grave housing crisis when economic reforms began in 1978. Urban construction had stagnated and housing standards hewed to an ultra-leftist ideology of extreme austerity during the Cultural Revolution (1966-1976) (Zhang and Wang 2001:170)<sup>32</sup>. City building had also moved inland at this time as the country prepared for foreign attacks; and population exploded because family planning had come increasingly under political attack during the decade of political turmoil (Zhang and Wang 2001:171). The resulting housing situation was grim when the reforms began: According to 1978 statistics on 182 cities released by the Ministry of Construction, per capita floor space had declined from 4.5 sqm in 1952 to 3.6 sqm in 1978. In it, nearly seven million families reported having no suitable housing, comprising 35.8% of total city households (Lü and Shao 2001:196). A 1985 national survey described a situation where 30% of households had no private kitchens; 57.5% had no private toilets; 92.4% lacked private baths; 18.4% had no supply of tap water; 88.2% lacked gas supply; and 11.5% had no source of heating (Lü and Shao 2001:228; Wang and Murie 1999:111). Over 28% of all households reported having substantial housing difficulties (Wang and Murie 1999:8).<sup>33</sup>

Thus, in full acknowledgment of the grave housing crisis facing the nation, one of the first policy announcements made by the central leadership centered on urban construction. Even as early as March 1978, China's State Council organized the Third

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<sup>31</sup> It was only in 1992 that Shanghai paved the way for land redevelopment in the city centers by demarcating the distribution of revenues from administratively allocated-land sales: 70% of the revenues to go to the displaced residents for demolition and on-site infrastructure construction; the remaining 30% to go to the legal owners of the land lots – i.e., central (5%), municipal (12.5%) and district governments (12.5%). The Shanghai municipality promulgated the *Management of Housing Demolition and Tenant Relocation* ordinance in October 2001 (Zhu 2004a:1254).

<sup>32</sup> Thus, for instance, according to the Ministry of Building Industry in 1966, living space per person was not to exceed 4 sqm/person nor go over 18 sqm/family (Zhang and Wang 2001:176). In addition, per square meter-costs were not to exceed 35 RMB in the south; 45 RMB in the north and 50 RMB in the extremely cold regions (Zhang and Wang 2001:176).

<sup>33</sup> Over 1.2 million families had no suitable housing; nearly 10 million families lived in overcrowded conditions (Wang and Murie 1999:8; Zhang and Wang 2001:174).

National City Works Conference, which resulted in the CCP Central Committee pronouncement “On Strengthening Urban Construction Works.” The central government acknowledged the immediate housing shortfall of 1 billion sqm (Wang and Murie 1999:101) and predicted the need for RMB 80-100 billion of investments to address this housing shortage (Wang and Murie 1999:101). Policy experiments began immediately in 1979 where money was allocated to the cities of Nanning and Xian to build housing for sale. In April 1980, Deng Xiaoping’s speech to central government leaders specifically urged the construction of a market for housing; for the commodification of public sector residences and to raise the rent paid by public sector tenants (Wang and Murie 1999:142).

Even though these policy pronouncements and initiatives give substance to the reality of central and local state involvement in Chinese housing and urban real estate sector, the general state of maladministration in land transfers and usage as well as in housing reform efforts (described below) exhibits the lack of bureaucratic capacity and autonomy at the time.

### *C. The Beginnings of the Real Estate Development Industry*

As housing began to take on the form of a commodity, the central policymakers also simultaneously set the groundwork for the creation of a property development sector that could supply saleable housing. Land use reforms in the mid-1980’s formed the basis for the creation of real estate developers; and thereafter, comprehensive housing development was carried out mainly by such newly-created real estate developers. Prior to the 1980’s, uncoordinated and scattered construction was the norm, as described previously, and in 1980, the State Council pushed for the establishment of real estate companies specifically to develop urban areas in a more integrated and comprehensive fashion (Lü and Shao 2001:229).

In 1980, the National Conference on Urban Planning Work promoted the establishment of “comprehensive urban construction and development companies” in each city (Lü and Shao 2001:200). “Comprehensive development” came to denote an integrated operation of surveying, planning and design, land allotment, demolition, site preparation and infrastructure construction, including the building of roads, water pipes, sewage pipes, power supplies, gas lines, heating and communication networks (Lü and Shao 2001:229; Wang and Murie 1999:129).

These local “comprehensive urban construction and development companies,” in many instances, became the first future real estate development companies; but they were initially organized less as market actors and more as bureaucratic entities responsible for capital construction under local governments. They were owned and managed by municipal construction bureaus or housing management bureaus. They obtained preferential treatment including land at highly discounted, non-market rates. Some even got significant parcels of free land grants from the government as start-up capital and often enjoyed tax exemptions for the initial few years. They, in return, fulfilled the construction orders of their superior government agencies (CASS and IPA 1992).

Even as the central government confronted staggering infrastructural deficits and urban housing shortages, therefore, they empowered local governments to play the role of “demiurge” and set up these state-owned construction offices and property development enterprises. These development companies were qualitatively different from the real

estate companies created by municipal real estate management and land administration bureaus in the 1990's as will be described in Chapter 3. Each municipality during the Maoist socialist era had maintained an "urban construction sector" set up under the Ministry of Construction; and the functions and tasks of this sector (Duckett 1998:74) expanded considerably and rapidly under the reforms. Construction commissions or ministries and bureaus had been set up at every regional level even during the socialist era to manage urban planning, architectural design and construction even if they were routinely ignored (Duckett 1998:80). Although the vertical, sectoral dominance of work units compared to municipal powers during the Maoist era is beyond dispute, it still bears remembering that up to about 10% to even a third of all residential stock was provided by the local governments prior to reforms (Duckett 1998:75). The ratio of municipal housing to work unit housing varied depending on the location, but older cities tended to have more municipal housing (Duckett 1998:75). The ratio of municipal housing in Tianjin, for example, reached 31.8% of the total housing stock (Duckett 1998:75). Thus, it would be inaccurate to assume that local governments had no state capacity for housing and infrastructure construction built up since the Maoist years.

Although reforms in housing construction were often problematic, the trend was clear since the late 1970's: local governments were designated to take on a central role in housing construction and housing reform implementation beginning in 1978. This indicated a slow shift in the power configuration for urban construction from a vertical orientation to a territorial one. After pilot programs in Shenyang and Guangzhou, local governments with populations of over 500,000, for instance, were permitted to retain 5% of industrial and commercial profits for urban development, including housing investments (Duckett 1998:84). Real estate management bureaus in municipalities were further put in charge of collecting funds for urban housing construction; and to manage the sale of old public housing (Duckett 1998:89). They were also allowed to set up supply facilities to produce raw materials needed for maintenance, construction and repairs.

In the following section, I examine two municipalities in particular to highlight the role of the municipal state in establishing a real estate regime. I have chosen to describe the situation in Tianjin – a prominent northern city near Beijing – and Guangzhou – a southern metropolis that spearheaded China's economic liberalization after the Open Door Policy was announced in 1978. Spurred on by its neighboring Hong Kong and the foreign investors who were entering its borders, Guangzhou was also the first city to seriously experiment with real estate development. Tianjin, as a metropolitan enclave in Northern China, exhibited and still continues to exhibit high levels of government presence in the form of state-owned enterprises and a more conservative government orientation towards the market. In light of this different regional characteristics of North and South in China, these two cities appear appropriate for first examining what the incipient real estate sector looked like in the 1980's.

1. *The First "Comprehensive Urban Construction and Development Companies" in Two Cities: Tianjin and Guangzhou in 1980-1990*

During the transition era of the 1980's when land use rights were gradually becoming institutionalized and the supply of housing, slowly commodified,

municipalities (as well as SOEs with access to land) were establishing real estate development firms of their own. In places like Shanghai, Tianjin and Guangzhou, for example, municipal or district government bureaus and agencies often controlled and managed real estate firms. (Dowall 1990; Lü and Perry 1997: 245). In Tianjin, the municipality set up 32 housing development companies in the first half of the 1980's. In Guangzhou, the municipality had over 100 real estate development firms that were owned by various levels of government (i.e., the municipal, provincial and even the central State).

Each of Tianjin municipality's 32 development companies and Guangzhou's largest six developers had, indeed, received sizeable start-up funds from their government sponsors as well as generous grants of administratively allocated land. As representative property development firms for these municipalities (or its branch firms at different districts), they had an oligopolistic hold on residential construction in these major cities in the 1980's. Thus, in Tianjin, for example, unless the entity in question had surplus land of its own, the city's Planning and Land Bureaus began rejecting applications from work units and enterprises that wished to build their own housing and, instead, required them to purchase housing only from one of the municipality's 32 developers. The municipality and their sub-bureaus centrally controlled these 32 developers.

As mentioned previously, Tianjin, a centrally-administered municipality located near Beijing, has tended to lag in terms of market liberalization compared to its more commercially-oriented southern counterpart, Guangzhou. Guangzhou is often touted as the birthplace of Chinese real estate in light of its proximity to Hong Kong and its propensity to attract foreign direct investments into its real estate sector from overseas Chinese communities. The nation's first special economic zones were also set up in the neighboring city of Shenzhen and in the Pearl River Delta region of Guangdong, attesting to this southern region's greater receptivity to market forces.

#### *a. Tianjin: 1980-1990*

The Tianjin municipality's powerful Urban and Rural Construction Committee (URCC) established the very first official real estate development companies in Tianjin in the early 1980's. Tianjin's urban construction and planning sector was headed by the URCC since 1983 to direct the city's master planning, land usage and housing reform implementation, including the delivery and supply of housing (Duckett 1998:80). It controlled the municipality's construction budget and supervised the Municipal Real Estate Management Bureau as well as its subordinate offices in city districts (Duckett 1998:80). It held enormous power over land in Tianjin in the 1980's and the physical development of its urban areas (Dowall 1990: 32).

Since 1980, the municipality's powerful, commission-level URCC had set up 22 out of the total of 32 real estate development firms (Dowall 1990: 40). Seven units were under the Suburban County People's Government; and three were owned by the Economic and Trade Committee (World Bank 1992:72).

Upon their establishment, the municipality's Planning and Land Bureaus began rejecting applications from enterprises that sought land allocations to construct their own housing unless they owned surplus land of their own. Instead, the Tianjin Planning Bureau selected land sites for residential construction based on the city's Master Plan

(World Bank 1992:71). The city acquired the sites for housing projects generally located in greenfield land, approximately 9 km from the city center, where land tended to be easier to clear and prepare for development (World Bank 1992:73). Then, following upon negotiations, the Planning Bureau administratively allocated residential sites to any of these 32 real estate development corporations. The real estate development corporations applied for the sites on a non-competitive basis with larger corporations applying for larger parcels and smaller corporations applying for smaller sites (World Bank 1992:71). The real estate development corporations “paid” for the land allocations by footing the costs of relocation and compensation of the relocatees. Pre-approved plans and housing quotas drove land allocations instead of the city’s consumer demand for housing (World Bank 1992:71).

The enterprises and work units were expected to commercially purchase residences from one of them. Eighty to ninety percent of the residences built by these real estate development firms were acquired by enterprises and the remainder was allocated to city and central government work units or individuals (Dowall 1990:40; World Bank 1992:72).<sup>34</sup>

*b. Guangzhou: 1980-1990*

Perhaps reflective of its more market-oriented openness, Guangzhou had a far greater number of real estate firms (106 firms) than the 32 real estate firms in Tianjin in 1988. Furthermore, unlike Tianjin where the real estate development firms were much more centrally controlled by the municipality, different levels of the government owned the development companies in Guangzhou. Over half (55 of the 106 firms) were first set up between 1983 and 1985 and were organized by the municipality. Other firms that were established by higher-level government entities were established slightly later: Provincial level corporations were set up after 1985; and central government firms came even later after 1986 (Dowall 1990: 55).<sup>35</sup>

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<sup>34</sup> Of the 32 real estate companies in Tianjin in 1988, the largest housing development firm at the time was the Tianjin Real Estate Development and Management Group (TREDMG). The Tianjin municipality directly allocated the transfer of 14 sites totaling 1,062.7 hectares (2,626 acres; 10.63 million sqm), which the central government funded, to TREDMG’s predecessor when it was first launched in 1981. The farthest of the 14 sites was located 16.3 km (approximately 10 miles) from the city center and, on average, was only 9 km (5.6 miles) away from the central district. At the end of the 1980’s TREDMG had acquired 7 additional sites totaling 86.5 hectares (213.7 acres; 865,000 sqm) in areas comparably located. From 1981 to 1988, TREDMG and its predecessor had planned 7.4 million sqm of residential floor space. In 1988, TREDMG had built approximately two-thirds of all residences in Tianjin (Dowall 1990: 40).



Regardless of the originating government supervisory unit, however, each of these real estate firms in Guangzhou, as in Tianjin, were inevitably set up with an initial capitalization of funds and sizable inventories of land that were directly allocated by the government. One of the largest of these development firms, the Guangzhou City Construction and General Development Corporation, for instance, was directly allocated an enormous inventory of 3.6 million sqm (889.6 acres) of land since 1983. In addition, it was also allocated 1.2 million sqm (296.5 acres) of land on the ErSha Island (二沙島), an island located in the Pearl River, which flows through Guangzhou. Until 1987, the company was allocated land for free by the municipality. As of 1989, the company had developed 200,000 sqm of land in the Tianhe district; and of the remaining 4.6 million sqm (1,136.7 acres), about half were still left “raw” without any infrastructure – and free to be developed at a later time (Dowall 1990: 37).

The following firms comprised the four largest real estate development firms in Guangzhou as of 1989:

1. Guangzhou City Construction and Development General Corporation.
2. Guangdong Trust and Real Estate Development Corporation
3. Guangzhou Donghua Enterprise Company, Ltd.
4. Guangzhou Suihua House Property Development Company

These four companies were involved in 43% of the total construction activity in 1988 in the municipality, and each received a great deal of land from the government. Similarly, the Guangzhou Donghua Enterprise Company received two large land allocations from the government in the form of the 314,000 sqm Wuyang project located right near the city center; and 130,000 sqm on Dong Hua Island (Dowall 1990:37).

The Guangzhou Planning Bureau had allocated a total of 939 hectares of land (2,320.3 acres; 9.39 million sqm) to various real estate development corporations between 1985 and 1989. Approximately 85% of the land was in new, greenfield areas rather than in the developed urban core (Dowall 1990: 37), which was easier and cheaper to acquire than land in the urban centers that housed various work units and factories.

*D. The Transformation of “Comprehensive Urban Construction and Development Companies” into Quasi-Independent Real Estate Development Corporations*

<sup>35</sup> Table 3: Real estate development corporations operating in Guangzhou by ownership type, year 1989

<b>Ownership Level</b>	<b>Number of Real Estate Development Corporations</b>
Central Government	5
Provincial	24
Municipal	55
County	22
Total	106

(Dowall 1990:56)

The Shenzhen city government granted full status of developer to eight SOEs in 1983 and granted large tracts of greenfield land for free (Zhu 1999b:106).<sup>36</sup> Soon thereafter, in 1984, the State Economic Commission and Ministry of Urban and Rural Construction and Environmental Protection promulgated the “Temporary Measures for Comprehensive Urban Construction and Development Companies,” which declared that these unified construction companies were independent business corporations. Unlike traditional SOEs, in other words, they could independently manage their own businesses and even set their own budgets (CASS and IPA; Zhang 2010; Zhu 1999b:132). They were responsible for their own profits and losses (Lü and Shao 2001:200; World Bank 1993:xii). They had much more autonomy in business operations, fewer constraints in the form of planning quotas, fewer social welfare responsibilities to their employees and, although owned by superior government entities, they operated like private companies even if their ownership structure appeared state-owned. They did not enjoy soft budget-constraints like other SOEs (Lü and Shao 2001:200; Zhu 1999b:132).

Around this time, the central government and municipalities were aware of the nation’s urgent need for massive infrastructure overhaul and the concomitant need for capital infusion into major urban areas. In 1984, in fact, Chinese intellectual circles and urban planners began to discuss the rapid need for financing to construct urban infrastructure (CASS and IPA 1992:327). This realization magnified the need for a local property development sector that would dare to undertake urban construction and also rectify the severe housing shortage. Most foreign developers and investors limited their involvement to short-term projects such as hotels, shops, offices and apartments, but none dared undertake long-term projects, which municipalities urgently needed. Local developers had to be cultivated in order to build the necessary infrastructure and to contribute to the local economy (Zhu 1999b).

These publicly owned but independently-operated real estate development companies acquired substantial plots of land from municipalities, which they developed in a comprehensive way (Wang and Murie 1999:131), and they paid back the municipality in-kind by way of infrastructure construction, industrial zones or housing construction. (Zhu 1999b:128); or, alternatively, municipalities were promised land rentals when developers finally made profits. Chinese municipal governments routinely imposed infrastructure exactions on real estate development companies throughout the 1980’s (World Bank 1993:59). According to one World Bank analysis, fourteen local authorities including that of Guangzhou extracted off-site infrastructure investments ranging from RMB 100/sqm to RMB 500/sqm<sup>37</sup> by mid-1992 (World Bank 1993:62). According to the same report, between 1984 and 1988, roughly half of all urban infrastructure construction in Guangzhou had been financed through these “off-off-budget” exactions taken from real estate development corporations (World Bank 1993:60). In later years up to about mid-1992, in fact, the majority of all urban

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<sup>36</sup> Shenzhen government was promised rental profits when these developers started making a profit.

<sup>37</sup> The floor area refers to the square meter of commodity housing, which the real estate development corporations were allowed to build (World Bank 1993:62).

infrastructure expenses in Guangzhou had been accounted for through such “off-off-budget” fees (World Bank 1993:60).<sup>38</sup>

And yet, the 1993 World Bank report makes one point clear regarding infrastructure construction in various municipalities: “It is instructive that no outsider, not even the central authorities, can say with certainty how much any one city spends on infrastructure development and maintenance. As noted earlier, the sources of funds involved prove particularly difficult to unravel (World Bank 1993:62).” Each city financed infrastructure construction differently with some favoring extrabudgetary sources (Guangzhou, Wenzhou and Shenzhen); while yet others preferred budget revenue sources (Hangzhou and Chengdu) (World Bank 1993:62). Those that relied on extrabudgetary sources for their infrastructural needs wanted to avoid sharing their revenues with provincial and central authorities and, thus, resorted to such “off-off-budget” sources of funding to construct public infrastructure.<sup>39</sup>

By the end of the 1980’s, as described previously, most large cities had established comprehensive development programs led by these urban property development companies (Wang and Murie 1999:132). Because of local preferential treatment, these real estate development companies that grew out of the state-owned comprehensive construction companies enjoyed substantial profits and benefits. According to some studies, such urban property development companies had built approximately 34% of all residences built between 1987 and 1989, which totaled 125.7 million sqm (Wang and Murie 1999:132).

#### *E. Conclusion*

In the above section, I have tried to set forth the governance structure of urban China under Mao. The chapter details how the regime’s focus on rapid industrialization resulted in the empowerment of the vertical chain of command at the expense of the horizontal, territorial governing units. The danwei, which comprised the end point of the administrative hierarchy originating from central ministries and commissions was the focal point of government administration and of the urban citizen’s daily life. Due to the central leadership’s emphasis on heavy industrialization during Maoist high socialism, much of the territorial construction of infrastructure, real estate administration and land

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<sup>38</sup> By mid-1992, such infrastructure exactions ranged in Guangzhou from RMB 200/sqm to RMB 500/sqm, measured on the basis of square-meters of commodity building area constructed. Shenzhen’s off-site infrastructure fees proved to be the steepest among the fourteen municipalities surveyed. The highest three land grades used for housing commanded anywhere from RMB 340/sqm to RMB 460/sqm; and if used for commercial, retail, financial or office constructions, amounted anywhere from RMB 510/sqm to RMB 1,800/sqm (World Bank 1993:61).

<sup>39</sup> In the case of Shanghai, the municipality turned towards charging user fees and set up the Shanghai Urban Construction Fund (SUCF) in April 1988, (World Bank 1993:82). In 1992, the City Construction Investment Corporation (CICC) took over from the SUCF as an “extrabudgetary trust account” (World Bank 1993:82). The CICC collects various fees and charges; revenues from land sales; profits of municipally-owned real estate development companies; dividends from joint ventures; budget allocations; loans; and proceeds from bond issuances. The CICC then made loans to various departments within the Shanghai municipal government for infrastructure developments (World Bank 1993:82).

administration were neglected in favor of parcellized investment into self-sufficient work units and their built environments.

In the end, this urban development strategy bore a fragmented local bureaucracy in land, real estate and urban planning domains, scant territorial coherence and a large population of entrenched SOEs and public institutions sitting on valuable urban land for free and in perpetuity. In addition, the central government in 1978 confronted dire shortages in urban housing and a broken citywide infrastructure system even as it opened up its economy to increasing foreign investments and market liberalization.

The need for a domestic property development sector, in other words, that could produce infrastructural and residential solutions to a moribund situation was strong. Under this situation, the Chinese leadership authorized local governments to establish wholly state-owned construction offices and real estate development companies within the municipal structure, that were given generous grants of land, capital, construction projects and other incentives to enjoy an oligopolistic hold on the construction industry in these municipalities. The state financed and enabled the industry to come into being through bureaucratic means even as it struggled to re-establish a coherent bureaucratic presence in territorial administration of land, infrastructure construction, urban planning and real estate management.

As iterated above, however, the Chinese real estate sector in its incipient stages did not enjoy the auspices of a well-organized, meritocratic and professionally elite corp of civil servants that guided the industrial actors along a well-considered plan of rebuilding and industrial transformation. In fact, the reality was quite the opposite. Its urban planning bureaucracy had been dismantled. The local government bureaucracy as it pertained to land management, planning and real estate management was fragmented, weakened and even non-existent.

### **Chapter 3: From a Vertical to Horizontal Distribution of Power: Setting the Field of Urban Real Estate**

Chapter 2 described in detail the sectoral organization of Chinese cities under Maoist high socialism, and its resulting lack of citywide infrastructure, housing supplies and community facilities. As argued before, due to the fragmented and incoherent nature of China's urban governance system, the developmental, autonomous yet equally embedded bureaucratic paradigm does not describe the incoherent and fragmented, institutionally riven state in China's municipal construction, post-1978. In this Chapter 3, I describe a process where sectoral allocation of resources, which had utilized a vertical chain of command from economic ministries and state commissions during the Maoist era was transformed into a horizontal distribution of power and resources. Rather than a bureaucratically coherent developmental state systematically interacting with key industrial actors and planning China's urban transformation, in other words, an industrial field came into being where the local states and other key actors in the newly created real estate sector (such as developers) were given incentive structures to act entrepreneurially. Municipal governments took on increasing powers over their territorial jurisdictions (even if imperfectly), and new networks of power in the form of property developers, domestic banks and other financial institutions, and foreign investors formed coalitions with local governments to bring about commercial and infrastructural developments. State owned enterprises, which often occupied prime real estate also competed or cooperated with other "players" in the field – such as foreign investors and local governments -- to impact the building of the city's physical environment. The prime instigator of such urban construction – i.e., the local state – acted less like the East Asian developmental state, which implies a highly professionalized, meritocratically constituted and elite bureaucracy. I argue in this chapter that they acted instead more like the entrepreneurial state whose motives for economic and political profit were fully aligned with the profit motives of the developers. Due to the political and economic incentive structures of local government leadership, the local leadership endorsed, pushed for and subsidized urban construction projects; but this was not necessarily done in cahoots with the local bureaucratic machinery. Rather than an autonomous governance structure that "birthed," nurtured and challenged market actors into channeling their resources and knowhow towards state-directed goals, in this case the local government bureaucracy itself became hybrid market actors and entered into the market fray for profit.<sup>40</sup> In turn, they "farmed out" business opportunities and construction projects to developers in order to achieve the urban development goals of the local leadership (Shin 2009).

The first part of this Chapter 3 will be a straight chronological narrative of land and housing developments in the 1990's. The chapter limits itself to the decade of the 1990's after having made a brief foray into developments germane to the 1980's in Chapter 2. The reason for this demarcation is because significant shifts in the political

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<sup>40</sup> In addition, it should be noted that the developmental state paradigm is generally used to describe the role of the national government that oversees the economic development process and practically orchestrates the birth of a high value-added industrial sector (Evans 1995; Johnson 1982). In this more standard sense of the term, then, China did not exhibit a central government that engendered and grew a coordinated real estate sector. The field was locally based, radiating out from the local government instead.

economy of real estate and urban construction occurred in the 1990's when the state-owned, bureaucratic character of construction enterprises were increasingly reformulated into profit-oriented, non-state owned or semi-state owned firms. The chapter, furthermore, begins with a historical narrative in order to provide the background information that is needed before I can move substantively into analysis regarding the role of the state and the creation of a brand new field, which operated on a different operational logic from that of sectoral segmentation that characterized the Maoist era. The chapter will discuss the legislative and policy developments in land administration, real estate sector establishment, and housing reform. It will then examine the macroeconomic situation directly impacting the growth of real estate in the 1990's ranging from SOE restructuring, financial sector reforms, and local government revenue reforms, which hastened reforms in land administration, real estate and housing. All three of these macroeconomic changes worked to create a new configuration of incentives among the major players in real estate and enabled the rapid rise (some might argue, the excessive rise) of real estate in the 1990's.

*Through this chronology*, this chapter will emphasize how there was no centralized, coordinating, national-level developmental state organizing and encouraging the top-down construction of urban metropolitan centers and their infrastructure. Instead, there was a horizontal reorganization in the production of the built environment centered on local governments and their locally-based development firms, financiers and foreign investors increasingly targeting urban regions. Thus, from a top-down, vertical allocation of resources, which originated from central ministries and commissions down to sectorally organized work units, urban development increasingly took on a regional dynamic centered around municipalities. And this development centered around the fact that land increasingly took on monetary value, enabling local governments to exercise the formal powers that legislative developments throughout the late 1980's and 1990's increasingly accorded to them.

#### A. *Chronological Narrative of Reforms in Land Administration and Housing, 1978-1999*

##### 1. *Land Administration Reform: A Brief Recap*

As described in Chapter 2, by the late 1980's municipalities were formally entrusted with increasing controls over their territories through their authority over land leasing, planning and building permits. Even though formal legislative power was insufficient to fully accord local governments with enforcement powers in practice, debriefing the legislative changes is still helpful. These changes presaged the shift in power towards territorial governance and away from sectoral power centers (such as state owned enterprises and their work units), and this shift became increasingly activated throughout the 1990's. Even as power struggles manifested themselves between state owned enterprises and other public entities sitting on administratively allocated land and municipal governments, the harbinger of change increasingly favored local governments as the decade proceeded into the 2000's.

Chapter 2 catalogued the series of legislative changes in land administration in the 1980's, which marked a decisive break away from Maoist era practices. Free allocation

of land to various state-owned production, administrative and service units had de facto demonstrated state ownership of land under Mao. By contrast, in 1982, state ownership of land was officially enshrined in and acknowledged via a Constitutional provision. As awareness of the extent of arable land losses and land mismanagement grew within the leadership, furthermore, the central government moved to separate long-term lease rights from land ownership (Yeh and Wu 1999:220). First, in 1986, it moved to institute the new State Land Administration Bureau under the State Council in order to gain greater control over land mismanagement. Then, the central government proffered a Constitutional amendment in 1987 at the First Session of the Seventh People's Congress to legalize the commodification of land use rights.<sup>41</sup> The National People's Congress passed the amendment in 1988. By the early 1990's, almost all municipalities in China had set up a lower-level land administration bureau in their cities (Wong and Zhao 1999:115-116). This State Land Administration Bureau was charged with drafting national land use plans and enforcing land use policies. The central government also promulgated a national Land Administration Law in the same year (then revised in 1988), which spelled out, in very basic fashion, national policies on land usage, conservation and registration (Wong and Zhao 1999:115).

Alongside such legislative recalibrations in land administration, the central government also promulgated new measures throughout the 1980's aimed to shore up the urban planning regime. At the Third Meeting on National Urban Affairs in 1978, the State Council iterated the need for cities to restore their urban planning institutions (Yeh and Wu 1999:175). The Provisional Regulation on Preparing Urban Plan and the Provisional Standards of Urban Planning (passed in 1980) further granted municipalities exclusive authorization to prepare comprehensive urban plans (Yeh and Wu 1999:175). In 1983, Beijing saw its first master plan approved since the destructive years of the Cultural Revolution; and the State Council initiated the Regulation of Urban Planning in 1984, which established guidelines to regulate urban planning practices (Yeh and Wu 1999:175). The City Planning Act of 1989 was a national law that set forth the urban planning requirement, which enabled urban plans to trump and override state capital construction projects (Yeh and Wu 1999:175), setting forth in formal terms the shift of power to territorial governance from sectoral ones. Officially, urban plans were to take precedence over state capital projects and to control infrastructure construction. As the contents of these laws ought to make clear, these were all legislative developments, which accorded local governments greater leverage over land acquisition, urban construction and development plans within their jurisdiction (Yeh and Wu 1999:175). They accorded local territorial governments with formal powers to design and implement city-wide construction plans that trumped the construction agendas of powerful work units.

Further strengthening the local government's authority over their jurisdictional territory, the central government empowered municipalities with discretion to make urban construction decisions. Comprehensive urban development, which emphasizes integrated, territorial infrastructure development, gained the leadership's imprimatur during the Third National Urban Planning Meeting of 1978 (Yeh and Wu 1996:334). In 1982, the

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<sup>41</sup> The clause, which read "the right to use of land may be transferred in accordance with law" was added to Article 10, Section 4 of the Constitution which also states that "no organization or individual may seize, buy, sell land or make any other unlawful transfer of land."

Ministry of Urban and Rural Construction and Environmental Protection also endorsed comprehensive development as a means to prepare for rapid economic growth anticipated in the future (Yeh and Wu 1996:334). All of these legislative efforts added to the growing importance of local governments—as opposed to state owned enterprises and their work units -- as the new decision-maker in city construction.

Municipalities gained power over land dispositions and revenues that land use rights sales, fees and taxes accorded to them. The initial experiment to collect land use fees began in Shenzhen when the city collected them in December 1980 from a Hong Kong developer at a rate of HK\$5,000/sqm (Zhu 1999b:90). Soon thereafter, the Shenzhen Special Economic Zone passed in November 1981 its Urban Land Use and Management Regulations. In September 1987, the Shenzhen government sold by negotiation the land use rights to a 5,000 sqm of land to a local, *domestic* company, which set a precedent for charging land use fees even to domestic purchasers. By the end of 1987, Shenzhen had sold three land parcels to local developers, and in 1988, the relevant Constitutional amendment established the alienability and the marketability of long-term land use rights. One hundred cities followed thereafter to experiment with land commodification reforms (World Bank 1993:57). Not surprisingly, southern, central coastal provincial cities and special economic zones adopted speedier reforms compared with northern municipalities (World Bank 1993:xii). In 1988, the State Council passed the “Regulations on Land Use Tax Collection in Cities and Towns,” which authorized municipalities and towns to levy land use taxes, further consolidating territorial government powers and property rights over land usage (Yeh and Wu 1996:336). As these legislative changes make clear, power over urban planning and construction began to shift in favor of local governments in the 1990’s and away from SOEs and other sectoral work units.

Despite these regulatory efforts empowering local land governance, however, as already detailed in Chapter 2, land management and land use rights (LUR) sales remained largely unregulated and chaotic throughout the 1990’s and even into the 2000’s. As much as 95-98% of all secondary land transactions throughout the 1990’s in Shanghai, for example, still occurred through direct negotiations (Hsing 2010) despite legal stipulation included in the Urban Real Estate Management Law of 1994 requiring land leases through auctions or bids (Huang and Yang 1996). By the early 1990’s, the amount of land use rights that were sold, which actually gave their owners transfer rights and mortgage rights were few and far between (World Bank 1993:50). And even among those few parcels transferred to grant clear ownership rights, only a minority was leased through competitive bids. Most land fees that exchanged hands in negotiated land settlements, if any were paid at all, barely covered land servicing costs (World Bank 1993:50).<sup>42</sup>

Even in Shenzhen, the most marketized, special economic zone, 96.5% of land leased by the city was leased to the end of 1991 through private contracts or negotiations at token prices or even for free (World Bank 1993:50). Land sold through bidding and auctions in Shenzhen totaled 15 hectares between 1987 and 1989 (World Bank 1993:50);

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<sup>42</sup> This situation was alleviated by the fact, however, that developers were often charged with servicing the land and providing in-kind contributions in the form of infrastructure and public works construction in reciprocation for gaining access to cheap land leases. This will be explained in greater detail below.



and in 1990, 11 hectares of land was put out for bids. By 1991, a mere 9 hectares of land parcels had been sold through soliciting bids (World Bank 1993:50).

Despite the Constitutional amendment of 1988, in other words, the majority of all urban land was still administered in chaotic fashion. Throughout the 1980's and 1990's, land parcels continued to be granted to various state-owned work units for free (Zhu 1999a). Because the top-to-bottom sectoral chain of command, which was described in greater detail in Chapter 2 – i.e., the *xitong* (系统)<sup>43</sup> -- was still quite powerful, work units and state institutions belonging especially to central government or provincial government levels felt free to ignore the territorial jurisdiction of municipalities (Hsing 2010; Hsing 2006a).

In addition to such unregulated and unenforced land transaction rules, the new land commodification policy, furthermore, appeared to not apply to land that had already been administratively allocated to users before 1987. In Shenzhen, this amounted to a considerable 36.1% of total usable land stock in 1988; and, four years later, 34.1% of land stock in 1992 (Zhu 1999b:140). As a result of this situation, a large supply of land reserves existed in the hands of land users and their affiliated developers, which formed the basis for the secondary, covert land markets (Zhu 1999b:133).

Nevertheless, the winds of change were stirring from the sectoral logic of work unit dominance over territorial governance with respect to urban construction. Economic and fiscal decision-making, as will be described more fully below, were decentralized down to the local government levels and concomitant changes in territorial government powers over urban planning, land management and comprehensive development grew in proportion to that of sectoral work units.

## 2. *Housing Reform, 1978-1999*

Private ownership of housing has grown exponentially in China since the economic reforms began in 1978. On the eve of the reforms in 1978, work units distributed 80-90% of all urban housing (Zhang 2010:31; Lü and Perry 1997:10) and per capita living space amounted to a meager 3.1 square meters (33.4 square feet) in 1960. Yet, by the mid-1990's through 1999, when housing monetarization reform got fully underway, 48% of all urban households had purchased their housing units from their work units, and by 2005, 80% of all urban housing stock was under private ownership (Naughton 2007:21). This homeownership figure rivals private homeownership rates in such established market economies as Great Britain, U.S. and Japan.

Housing reform is important because of its intimate connection to the growth and propagation of the real estate industry. With increasing governmental emphasis upon land and housing reforms, a more robust real estate sector became not only more viable, but even necessary. Under the highly centralized Soviet model, which China had adopted during its First Five Year Plan (1953-1957), over 90% of investment for housing construction had come from the central government (World Bank 1992:ix; Zhang and Wang 2001:116). Just prior to the 1978 reforms, 80-90% of urban housing was allocated through state-owned work units (Zhang 2010a:31) with the remaining 10-15% being

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<sup>43</sup> “Vertical” administrative system in China as opposed to the “horizontal” or the territorial system of administration.

administered through municipalities (Zhang and Wang 2001:115). As housing became more privatized, however, and increasing numbers of urban residents were forced to purchase their homes from the market, the real estate sector needed to supply increasing quantities of housing for various segments of the market. In addition, land reform implied – if only imperfectly throughout the 1990’s and into the 2000’s – the transferability of land use rights to third party actors not necessarily owned and controlled by the state. Increasing types and numbers of actors could enter the industry even if their identity was still bound in some manner to the color of the state (as will be discussed more fully below and in Chapter 4). Thus, the premises were set for the initiation and growth of a separate industrial sector – namely, the real estate sector.

In light of the centrality of housing reform to the emergence and growth of the real estate sector, this section will briefly set forth the radical changes in housing policy instituted by the central government throughout the 1980’s and 1990’s (Davis 2003a).

Various local experimentation and pilot projects in housing took place across China as the central leadership began to create market mechanisms for the sale and production of housing. The Chinese leadership authorized housing reform experiments as early as 1979 to test the feasibility of commodifying publicly-owned urban housing for sale to sitting tenants (Lü and Shao 2001:201; Wang and Murie 1999:142-44). The central government also concentrated on steadily increasing sources of financing for housing construction. State capital investment for housing increased from 7.8% of total state capital investment in 1978 to 25.5% in 1981 (Wang and Murie 1999:104). During the Sixth Five Year Plan (1981-1985), over 100 billion yuan was put towards urban housing construction, and a total of 648 million sqm of new residences were built (Wang and Murie 1999:104). Floor space constructed during this five-year period, in fact, comprised nearly half of *all* floor space that had been built since the Communist revolution in 1949 to 1985 (Wang and Murie 1999:108).

By 1988, however, the central state’s proportion of capital construction investment began to shrink.<sup>44</sup> In 1979, as mentioned earlier, 90% of all investments into housing had been completed by the central government, but in the ensuing period from 1979 to 1987, work units were the primary entities to invest in and either build or purchase housing for their workers (Lü and Shao 2001:199; Wang and Murie 1999:107).<sup>45</sup> As a result of intensive investment and construction efforts, living space per capita rose from 3.6 sqm in 1978 to hit 7.9 sqm/person by 1995 (Wang and Murie 1999:167). As one can see from this development, the housing industry began to see new sources of capital investments entering the field (such as from work units) when previously the only source of capital had come from the central government.

Even as various local experiments took place from 1988 to 1990, three cities of Yantai, Tangshan and Bengbu were chosen to implement pilot projects in the late-1980’s where they encouraged the sale of publicly-owned flats for either full or partial ownership rights at different prices (Lü and Shao 2001:225; Wang and Murie 1999:146). Soon following, the central government held its first national housing reform conference in Beijing to unveil the Implementation Plan for a Gradual Housing System Reform in

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<sup>44</sup> State investment into capital construction shrank to 22% from 25.5% in 1981.

<sup>45</sup> In fact, between 1979 and 1985, 60-80% of housing investments came from work units (Wang and Murie 1999:107).

Cities and Towns in 1988 to increase public sector rents, to offer state subsidies for increased costs and to encourage the sale of public sector housing (Wang and Murie 1999:149). In 1991, the State Council Housing Reform Steering Group also convened the second national housing reform conference and set forth its “Suggestions on Promoting All-Round Reform of the Urban Housing System in Urban Areas,” which updated the 1988 resolution.<sup>46</sup> It raised the annual housing rent and set the baseline for house sales<sup>47</sup> in an effort to enable basic housing reproduction and to resolve persistent overcrowding. Yet, these efforts proved unsuccessful because sitting tenants had no incentive to purchase their residences when the rent was so low; and some work units resisted raising the rent. Entrenched interests within work units also either balked at the significant cost of having to provide subsidies out of their own budgets or feared losing their positional advantage in obtaining choice distribution of public sector housing.

Nevertheless, as state owned enterprise reforms hit their peak in mid- to late-1990’s (see below under “SOE Reforms”), the central government also intensified housing reform efforts towards greater monetarization and privatization (Davis 2003a; Davis and Lu 2003b).<sup>48</sup> State Council Housing Reform Steering Group, for instance, announced its decision to accelerate reforms (Wang and Murie 1999:155). Following upon the pilot program begun in Shanghai in 1991, the central government instituted in 1994 a nationwide, compulsory housing savings plan (*zhufang gongjijin* 住房公积金). Then, when the Asian Financial Crisis hit the region in 1997, the central government increasingly realized the need to stimulate domestic consumption and decided to discontinue housing provision as a welfare entitlement. Thus, in its most significant policy break away from welfare provision of housing, China’s State Council announced in its Circular No. 23 that as of December 1998, no enterprise would be allowed to sell housing to their employees at below construction cost and that the monetarization of housing would begin full-throttle. It also announced that within six months, market prices for housing would prevail and except for a small portion of households in economic need, public housing would no longer exist in Chinese cities. According to the State Council’s Circular No. 23, work units could no longer construct, purchase or allocate housing to their workers; and funding that had been set aside for housing provision were to be converted into either lump-sum subsidies or multiple installments to aid employees who would have to purchase or rent their housing (Lü and Shao 2001:259). Exceptions to this rule abounded, however, into the foreseeable future.<sup>49</sup>

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<sup>46</sup> In 1991, Shanghai put forward its comprehensive housing reform program (Wang and Murie 1999:151). It also unveiled its housing provident fund scheme whereby the employer would match the employee’s payroll contribution to increase the house purchasing power of each household (Wang and Murie 1999:151).

<sup>47</sup> It raised the annual housing rent to RMB 30/sqm and the baseline sales price of housing to RMB 120/sqm.

<sup>48</sup> For a fascinating view of how the housing reform experiment proceeded in Russia, see Jane Zavisca (2012) in *Housing the New Russia*. An earlier account exists in Renaud (1995).

<sup>49</sup> It bears emphasizing, however, that despite Circular No. 23, work units continued to take an active role in housing delivery and provision to their employees throughout the 1990’s. This was because they often acted as broker and representative for their employees and purchased housing on their behalf with retained profits (Yeh and Wu 1999:218).

Different regions and municipalities rolled out the new housing policy with modifications but, in general, new employees were expected to buy housing from the market. Existing employees, however, were given the option to buy their residences at steep discounts, which increased or decreased according to one's seniority and/or rank. Different work units adopted one of three ownership schemes when they sold such public housing to their existing employees. The level of one's ownership of the residence depended on how much employees were required to pay for their housing – at full “market price”; at “construction cost price (*chengben jia* 成本价)” and at “standard price (*biaozhun jia* 标准价).”<sup>50</sup> Because of such differential payment schemes, often buyers did not know what kind of ownership rights they held; and in the 1990's, work units required their employees to pay additional amounts to get full ownership rights over their housing.

In general, housing reform was marked by irregularity and corruption. It also served to lock in the housing inequality that had prevailed during the Maoist era. Housing conditions had been persistently unequal even during Mao's high socialist period dependent upon the hierarchical standing and resources of the work unit.<sup>51</sup> Depending on the power and status of one's place of employment, therefore, improvements in housing proved uneven throughout urban China (World Bank 1992:x). Even within enterprises, furthermore, some employees fared better and received newer housing because of one's employment status, seniority and level of *guanxi* (World Bank 1992:x; Zhang 2010a:38-39).

Central and local government policies accelerated the monetarization and commodification of housing. Commodity housing, which was built and sold for the market, had been non-existent when the reforms began in 1978. Yet by 1991, nearly 27% of total urban housing investments went into commodity housing development, and by 1994, nearly 37% of all urban housing had been constructed by the commercial sector (Wang and Murie 1999:174). This indicated an obvious turn of events: that the country was witnessing the emergence of an entire industry devoted to the construction and marketing for profit of housing and commercial buildings. In the 1980's and 1990's, however, the primary clients for commodity housing were not individual homebuyers but rather work units that no longer commanded sufficient resources nor land allocations to build housing on their own (Wang and Murie 1999:174) (See footnote 9 for further clarification). In Shanghai, for instance, 75% of all commodity housing built in 1993 had been sold to work units (Wang and Murie 1999:174).

In conjunction with the growth of the private housing market, concomitant changes were happening in the rest of the economy. Most salient for us is the unraveling of the

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<sup>50</sup> Standard price was the lowest price that the sitting tenants could pay and entitled them to the lowest gradient of ownership. Construction cost price meant that the tenant could buy the public housing at the cost of construction with no additional amount taken into account for profit; and market price was the price of commodity housing as sold on the market. This afforded the buyer the full title to the property with its concomitant rights of ownership to sell, derive profits, and bequeath the property to their heirs (Zhang 2010a: 36-37).

<sup>51</sup> Thus, according to a survey in 1983, for a Beijing-based work unit belonging to the powerful Party Central Committee, the average investment for housing per capita amounted to RMB 1,880 and totaled 8.29 sqm of floor space per person. For a municipally-owned organization, however, the amount dropped significantly to RMB 490 and 5 sqm per person (Zhang and Wang 2001:118).

SOE sector, which further stimulated changes in financial/banking and fiscal revenue sectors. This shift in the urban political economy compelled the government's practical turn towards establishing and promoting a full-on housing industry and market. As increasing numbers of SOEs shed their cradle-to-grave welfare responsibilities toward their workers, including that of housing, increasing number of urban residents were forced to turn to the market to supply their housing needs. This, in turn, meant the development of the real estate sector devoted to supplying such private housing for profit.

*B. Macroeconomic Reform Policies, 1978-1999: Reforms in State-owned Enterprise Structures, Financial Banking Reforms, Central-Local Fiscal Relations*

Even as we have dwelled upon the policy changes within the residential sector, the key factor salient to the postsocialist housing reforms in urban China remains the interdependent and interconnected nature of the housing industry to other fields in the larger economy. Under Zhu Rongji's leadership as vice-premier, then as premier in 1998, a massive restructuring of the macroeconomic system had begun around 1993, which peaked between 1996-1997 (Naughton 2007:93). Near-simultaneous state owned enterprise (SOE) restructuring, fiscal, tax and banking reforms all took place to different extent throughout the 1990's. These deeper, structural reforms *directly* impacted the incipient housing sector and intensified the need for an extensive real estate industry. Under the impetus of the Asian Financial Crisis (1997-1998), furthermore, the central leadership began to maximally push for housing monetarization and privatization in the late-1990's.

Because the housing industry is so integrally connected to the rest of the economy, I will recap in this section the nature and extent of macroeconomic re-structuring that China was undergoing. SOE reforms took place at the same time that housing reforms were taking place throughout the 1990's to reach a formal peak with State Council Circular No. 23 in 1998. This section will cover, in brief, the structural adjustments that the policymakers were undertaking in (a) the SOE sector; (b) the financial banking sector; and (c) the central-local government fiscal system. These reforms made inevitable the housing reforms, which took place in tandem and that stimulated the birth and growth of the real estate industry. These sections are covered in order to contextualize the housing reforms that were undertaken in tandem by the central leadership, and to flesh out their impact on the real estate sector.

*1. State-owned Enterprise Reforms (1978-1999)*

When the gradual and pragmatically-oriented reform agenda under Deng Xiaoping began, during the first phase of SOE reforms from 1978 to 1992, the central leadership chose not to privatize significant numbers of state firms (Hassard et al. 2007:55). Instead, SOEs remained embedded within the state bureaucracies with no changes in their ownership structures. The central government instead introduced managerial reforms implemented mainly through the "contract responsibility system,"<sup>52</sup> which accorded greater decision-making powers to factory/enterprise managers. The system also allowed

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<sup>52</sup> This measure was introduced in 1987.

enterprises to retain a portion of their profits and to sell whatever output they produced above quota on the market. These measures were enacted as a means to realign managerial incentives toward profit generation (Hassard et al. 2007:88-89). In a move to instill greater SOE efficiency and market discipline, the central government also passed policy measures designed to replace state budgetary grants with interest-bearing, repayable loans from state-owned banks.

Yet, such enterprise/factory manager “contract responsibility systems,” profit retention policies, and “bank loans for budgetary grants” (Hassard et al 2007:89) failed to generate the kinds of changes sought by the central government. Government bureaucracies continued to freely interfere in enterprise operations. Soft budget constraints prevailed because SOEs could still indiscriminately borrow and state-owned banks could not enforce repayment of loans. The iron rice bowl remained intact and such state welfare provisions like housing were almost entirely provided via work units and municipalities. By the early 1990’s, the majority of all SOEs had implemented some form of the contract responsibility system,<sup>53</sup> but they basically failed to yield profits in SOEs as the policymakers had hoped (Hassard et al. 2007:91).

Nevertheless, by the early 1990’s, the non-traditional SOE sector – especially the increasingly successful township and village enterprises (TVEs) – provided fierce competition to the SOEs and had made up approximately 60% of China’s GNP. SOE revenues still accounted for 80% of the central government’s tax revenues,<sup>54</sup> but its earnings were quickly diminishing in the face of such market competition (Naughton 2007:432). By 1996, SOE profits were driven down nearly to zero; and SOEs saw their share of total industrial production drop from 77% to 33% (Naughton 2007:300). By 1997, the SOE sector was in the red as a whole. Small SOEs, which comprised the vast majority of industrial SOEs in China recorded big losses in particular. Consequently, SOE income taxes submitted to the government declined from over 29% of total government tax revenues in 1985 to less than 6% in 1999 (Hassard et al. 2007:105). Central government, too, began to curtail government investments into SOEs as its budgetary revenues declined; and government fiscal grants to the state owned sector trickled to a mere 3% of total industrial investment by 1997 (Naughton 2007:305). Evidencing the interconnected nature of post-socialist reforms, however, even as central government investments into SOEs dried up, land prices had begun to rise with Chinese economic successes in some of the major metropolitan areas. State-owned enterprises, therefore, which still largely enjoyed soft-budget constraints often bought and hoarded valuable tracts of land in central areas of these cities and simply transferred the costs onto their superior agencies or to state-owned banks from whom they had procured loans (CASS and IPA 1992:165).

By the mid-1990’s, therefore, the central leadership confronted an economy burdened by (a) loss-making SOEs still enjoying soft budget constraints; (b) state-owned banks saddled with nonperforming loans made to failing SOEs; and (c) a central

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<sup>53</sup> By 1992, 95% of all SOEs had done so.

<sup>54</sup> In 1983, the central government changed the SOE profit remittance system (which could be variable depending on negotiations between the SOE and its line ministry) with tax remittances (Zhu 1999b:119). In 1984, corporate income tax rate was set at 55% of profits plus 15% for Infrastructure Development Fund (Zhu 1999b:119).

government treasury headed towards a crisis as taxes and revenues from struggling SOEs and local governments declined.

In light of this dire situation, the leadership began a radical restructuring of the Chinese economy in the mid-1990's. Widespread SOE reforms began in earnest as the central government instituted measures to actively diversify the ownership structure of SOEs. The Chinese legislature first passed the Company Law of 1994, which provided the overall framework for the corporatization and privatization of SOEs (Naughton 2007:301). Especially with respect to small SOEs, which comprised 82% of the total industrial SOE population in 1995 (Hassard et al. 2007:84), the central government encouraged policies, which allowed them to either go private or even go defunct (Hassard et al. 2007:86). For large and, to a lesser degree, medium SOEs, the central government generally converted them into shareholding corporations in which the state often continued to own majority shares. Large-scale privatization, primarily of small SOEs, took place from 1995 to 1997 even as China witnessed massive downsizing and layoffs of state workers.

At the 15<sup>th</sup> Communist Party Congress of 1997, the central government called for the policy to “grasp the large and let the small go.” The new policy indicated the government’s desire to harness the largest, centrally-controlled SOEs to turn them into the nation’s most globally competitive enterprise groups while keeping them under state ownership (Naughton 2007:301). The central government’s policy of “letting the small go,” by contrast, was primarily instituted by local governments, which had great latitude in restructuring their local firms, privatizing them or even closing them down. Often, these small firms were “let go” through share sales to insiders and through management buyouts (Naughton 2007:324) although other forms of ownership diversification were also utilized. The main forms of SOE ownership changes included direct sales, sales of shares for liability companies, public listings on stock markets, creation of holding companies, mergers, bankruptcies and the formation of joint ventures (Hassard et al. 2007:60). Privatization, however, was mainly used for small SOEs. The number of private firms increased over tenfold from 90,581 in 1989 to 960,726 by 1997 (Hassard et al. 2007:61).<sup>55</sup>

State-owned enterprise restructuring was undertaken in order to transform businesses into autonomous enterprises that operated according to market logic, generated profits and paid taxes (Guthrie 1999). When significant bank reforms also followed in the late-1990's (see below), SOEs began to experience significantly hardened budget constraints. Major government ministries were also downgraded into “bureaus” and “industrial associations” in a move to increase enterprise autonomy (Hassard et al. 2007:59). With ownership structures diversified, the total number of industrial SOEs fell from over 150,000 firms to 31,750 firms by 2004 (Naughton 2007:313). By the mid-1990's, the central government had stopped allocating material inputs to factories and enterprises all together. It also allowed practically all consumer and producer goods to be sold on the market and ended the system of job allocations in the labor market. State-

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<sup>55</sup> As a consequence of such widespread corporatization and privatization, concomitant reforms in government administration followed in 1998. Overall, through significant bureaucratic restructurings and streamlining, which were undertaken in 1982, 1988, 1993 and in 1998, the central government also sought to focus on macroeconomic regulations while local governments concentrated on policy implementation and the provision of social services (Hassard et al. 2007:79-80).

owned enterprises were forcibly weaned from government resource allocations, in other words, in order to harden its budget constraints. The Chinese central state began to dismantle the “iron rice bowls” of state work units; strengthened the profit-making function of enterprises; and even allowed some loss-making SOEs to fail. Social welfare provisions like housing were cast off to either the market or local governments to provide for and/or administer.

State-owned enterprise restructuring compelled the drive towards housing monetarization, which also necessitated and stimulated the creation of an increasingly vibrant (if chaotic) real estate sector in the 1990’s. As market constraints intensified, furthermore, and as property prices began to rise, state-owned enterprises and public institutions increasingly attempted to sell, transfer or lease the lucrative use rights to land which they occupied in the black market. They also rented land or sold housing, which they had constructed, in the black market for substantial gains. They actively sold their land use rights to commercial developers (Guthrie 1999; Lü and Shao 2001). These SOEs also donated extra land sitting idle on their premises as partners in joint ventures and received shares in the revenues in exchange (CASS and IPA 1992:228; Zhu 1999b). These black market transactions bypassed local government supervision and, thus, all profits made thereby did not go into local government coffers but rather into the hands of the SOEs and the developers.

Real estate firms, which were almost exclusively small to medium local SOEs until the mid- to late-1990’s, furthermore, were increasingly corporatized into hybrid ownership or privatized during this decade. Even those firms that became fully privatized under SOE reforms or entered the sector as private firms in the 1990’s were highly dependent upon the local government for critical resources such as land, business opportunities and capital. Thus, from either a formal or practical standpoint, the real estate firms exhibited a hybrid orientation, which became exacerbated throughout the 1990’s. The sector went from a set of purely state-owned, “comprehensive” construction firms in the 1980’s to described in Chapter 2 to state-owned, semi-private and private firms that exist today.

## *2. Financial Banking Reforms (1978-1999)*

Massive SOE reforms throughout the 1990’s implied concomitant changes in the banking sector as well. Banks that did not operate according to profits and losses perpetuated the soft budget constraints of SOEs throughout the 1990’s and into the 2000’s. Thus, when the policymakers sought to limit SOE losses by instilling market discipline, they also needed to tackle bank restructuring.

Prior to 1983, China’s banking system had operated as part of the central government’s bureaucratic planning system, facilitating budgetary grants to SOEs and collecting revenues remitted by them (Naughton 2007:451). With market reforms in the mid-1980’s, however, banks were increasingly called upon to replace direct government grants to SOEs with interest-bearing loans (Hassard et al. 2007:67). This policy did not work so well, however, as SOEs continued to borrow unlimited amounts without fear of repercussions. Thus, concurrent with structural SOE reforms, the central leadership undertook substantial banking reforms. From 1994 to 1998, it increasingly placed the



“big four” state-owned banks<sup>56</sup> on a commercial basis (Naughton 2007:456). It also set up new charters governing central and commercial banks to shore up their independence from local government influence and pressures (Naughton 2007:456). The national credit plan was also scrapped in 1997.<sup>57</sup>

Even as they took on an increasingly commercial orientation, the Chinese financial sector diversified throughout the 1990’s beyond the socialist “monobank” (McGuinness and Keasey 2010; Naughton 2007:454) of the People’s Bank of China that existed under Mao. The single bank was restructured to include the “big four” state-owned commercial banks for each sector of the economy. And even as the “big four” were put on an increasingly commercial basis, the government also permitted the creation of government policy banks, joint-stock commercial banks as well as a multitude of non-bank financial institutions (Kumar et al. 1997).<sup>58</sup>

These broad developments in China’s banking sector are important for the role that financial liberalization has had on the real estate sector: namely, as China’s banking sector liberalized in the early 1990’s, banks and other non-bank financial institutions increasingly invested in speculative projects, including those in real estate and stock markets. This resulted in the overheated economy of 1992-1993, which, as we shall see, had a significant impact on the operation of the real estate sector. In addition, as the banking sector were put on a more commercial basis, SOEs experienced hardening budget constraints even as they were being corporatized, shut down and privatized. In conjunction with SOE reforms, then, banking reforms helped to effect the decisive elimination of the cradle-to-grave welfare systems in China’s business enterprise set-up. Housing delivery was increasingly marketized, necessitating the rapid rise of the real estate sector.

### *3. Reforms in Central-Local Fiscal Relations (1978 -1999)*

Both the SOE reforms and the banking reforms in the 1990’s effected a significant hardening of budget constraints for China’s businesses as the central government sought to impose market discipline upon the industrial and commercial sectors of its economy. In parallel fashion, local governments, too, saw its budget constraints hardening as the

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<sup>56</sup> These “big four” state-owned banks include the Industrial and Commercial Bank of China; the Agricultural Bank of China; the Construction Bank of China; and the Bank of China.

<sup>57</sup> Most critically for the 1990’s reforms, however, the central policymakers successfully effected a massive recapitalization of the indebted banks, which were saddled with staggering amounts of non-performing loans granted to unprofitable SOEs and unproductive government projects. According to one calculation, approximately 40% of total bank lending, in fact, were made up of bad loans by the late 1990’s (Naughton 2007:461). At 3.5 trillion RMB, the total amount of NPLs equaled nearly 33% of China’s GDP at the time (Naughton 2007:462). Among other measures, in 1999, policymakers set up four asset management corporations to purchase NPLs from the “big four” state-owned banks with central government funds. It also forced bank restructurings through debt-equity swaps and/or in exchange for further infusion of capital.

<sup>58</sup> These non-bank financial institutions include investment companies; domestic trust companies; enterprise investment companies; urban credit cooperatives, and rural credit cooperatives (Kumar et al. 1997; Naughton 2007:458-9)

new reform decade proceeded and the central government imposed revenue centralizing measures in the mid-1990's.

Prior to 1980, China's fiscal system was basically concentrated around the central government. State-owned enterprises remitted nearly all of their profits to the central government and received fiscal allocations from the central ministries and commissions through budgetary channels. There were no significant taxes – personal or enterprise income -- to speak of during the high socialist era (Hassard et al. 2007:71, 73).

With economic decentralization in the 1980's, however, local governments were charged with increasing powers to stimulate growth. Integral to this process, fiscal powers were also devolved down to the local governments. In 1988, under the fiscal contract responsibility system, the central government allowed local governments and, in particular, the wealthy localities along the coastal regions, to collect and retain increasing amounts of revenues (Hassard et al. 2007:72). Each province at regular intervals re-negotiated the contract with the central government in order to determine its revenue sharing formula. This system broke down in 1991, however, when the localities and the central government reached an impasse regarding appropriate formulas for revenue sharing. Even more alarmingly, the total ratio of government revenue to GNP had begun to also decline as SOEs continued to mount losses throughout the 1990's. From 1978 to 1993, this total revenue ratio to GNP had declined from 32% in 1978 to 14%. The central government's share of total government revenue collection had also shrunk from 51% to 37% (Hassard et al. 2007:72).

As a consequence of this dramatic fall in revenue, the central government sought to reimpose controls over its fiscal affairs. It instituted in late-1993 the "tax assignment system" to replace the tottering fiscal contract responsibility system. It also established its own National Tax Service to collect both the central-fixed taxes<sup>59</sup> as well as the shared taxes (Hassard et al. 2007:72). This was in order to stop relying on local fiscal bureaus to remit the correct amount of central government revenues, which had resulted in massive slippage and revenue losses for the central government. As a result of this new tax assignment system, central government revenues increased steadily from 1996 to 2005, and by 2005, its budgetary revenues reached 17.5% of GDP (Naughton 2007:433). Because the central government was now in charge of initial tax collections, it took in over 50% of the revenues and spent about 30% of all expenditures (Naughton 2007:435). Local governments receive about 20% of all tax revenues from the central government and make the majority of all expenditures amounting to 70% or more of all budgeted spending (Naughton 2007:435). By contrast, the central government makes 30% of all budgetary outlays (Naughton 2007:436).<sup>60</sup>

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<sup>59</sup> The central fixed taxes primarily includes customs duties, VAT, and income tax on central government SOEs (Hassard et al. 2007:72). The local-fixed taxes, on the other hand, include business tax, income tax on local government SOEs and personal income tax (Hassard et al. 2007:72). Shared taxes are mainly comprised of the VAT, which is split 75-25 between central and local governments (Hassard et al. 2007:72).

<sup>60</sup> Management of extrabudgetary funds are decentralized; and they are set aside for specific uses. They are comprised, among other things, by (a) fees collected by public institutions and administrative agencies; (b) township levies and village retained funds; (c) contributions to social insurance funds; and (d) funds collected by local finance bureaus (Naughton 2007:438).

With this reorganization of the fiscal revenue system in 1994, the budget constraints of local governments began to harden. In this situation, SOEs, public institutions *as well as* local government units began to look to their land reserves as a deep source of revenue. Local governments, their subunits and public institutions with large tracts of administratively allocated land reserves began to actively engage in secondary black market sales and property development (as will be described below) with the land reserves that they held.

The changing fiscal relation between central and local governments is critically important for understanding the developments in Chinese real estate. This is because of the increasing importance of land sales, real estate-related fees and taxes on the local government revenue structure. As their public welfare responsibilities multiplied and their revenue sources contracted, taxes, fees and revenues generated from land use rights sales, commercial property transactions, housing transactions and property sales all took on increasing importance. Land- and real estate sales-related revenues, fees and taxes were categorized as extrabudgetary revenues that solely went to local government treasuries, which local governments did not need to report to or share with the central government.

This restructuring of the fiscal relationship, I will argue, was key to the shifting orientation of the local state from a more developmental orientation (as exhibited in the examples of Tianjin and Guangzhou in the 1980's) to an entrepreneurial one.

### *C. Contemporary History of Real Estate: Overheating, 1992-1993*

#### *1. Background: New Source of Capital Infusion into the Real Estate Sector*

Even amidst the deep institutional changes overtaking the broader economy described above, the real estate industry itself was undergoing tremendous shifts and changes as well. Establishment of real estate firms and their evolution proceeded in conjunction with transformations in housing delivery, SOE systems, banking/financial fields, land valuations and fiscal administration systems. As described previously in Chapter 2, the Shenzhen city government granted full status of developer to eight SOEs in 1983 and granted large tracts of greenfield land for free (Zhu 1999b:106).<sup>61</sup> Soon thereafter, in 1984, the State Economic Commission and Ministry of Urban and Rural Construction and Environmental Protection promulgated the “Temporary Measures for Comprehensive Urban Construction and Development Companies,” which declared that these unified construction companies were independent business corporations. They could independently manage their own businesses and even set their own budgets in contrast to traditional SOEs (CASS and IPA; Zhang 2010; Zhu 1999b:132). State Council Notice in May 1987 further set the framework for an urban development system.

Formal structures were coming into place that set the stage for the establishment of the real estate industry; yet, even more salient to its creation, increasing amounts of capital were being poured into urban construction and infrastructure building. New, diverse sources of funding poured in as promise of increasing profits, continued

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<sup>61</sup> Shenzhen government was promised rental profits when these developers started making a profit.

economic liberalization and government support for the propagation of the real estate industry (in the form of deepening housing and land reforms and financial liberalization) grew clearer.

One source indicates, for example, that real estate investments reached 73.2 billion yuan in China in 1992, an increase of 117% over 1991 levels (Huang and Yang 1996:173). Ever since Deng Xiaoping's storied Southern Tour in 1992 during which the venerated leader promoted economic liberalization, unprecedented levels of investment poured into real estate: In 1993, real estate investment grew by 164% from 1992 levels (Wu 1999:1757). When the central government introduced policies to bring down the real estate bubble, the investment level came down to 31.8% in 1994, year-on-year, and then to 23.3% in 1995 (Wu 1999:1757). Nevertheless, the overall trend was clear: Total investment into housing construction in Shanghai, for example, grew from 227 million yuan in 1978 to 43,385 million yuan in 1996, an increase of 191 times (Wu 1999:1765-1766). Investments into infrastructure in Shanghai also grew from 446 million yuan in 1978 to 37,848 million yuan in 1996 (Wu 1999:1766).<sup>62</sup>

Financing also diversified as a consequence of the often erratic and experimental liberalization in the banking and financial sectors by the central government over the course of the 1980's and 1990's. The Asian Financial Crisis (1997-1999) brought to international attention, for example, the proliferation of China's local trust and investment corporations, which were providing increasing levels of domestic credit to the highly speculative real estate sector. The larger, higher-level trust and investment corporations affiliated with provincial governments and state-owned banks also sought financing from international capital markets, which they then heavily invested into real estate (Cartier 2001:450).<sup>63</sup>

Furthermore, local governments began to increasingly rely on premiums from land leasings to finance their public works constructions. Even as early as the 1990's, land use rights (LUR) sales began to take on increasing importance for local governments as they sought new and innovative ways to invest in the built environment. Local governments – especially in the southern cities of Guangzhou and Shenzhen, for example – provided access to cheap land to property developers in exchange for substantial infrastructure construction (Dowall 1993; World Bank 1993:59-62). In 1993, US\$1.8 billion worth of LUR premiums were used to construct infrastructure and to relocate residents in Shanghai (Wu 2000:1371). Although the exact mechanisms for such re-sourcing of capital from LUR sales into urban construction is not exactly clear, some sources also indicate that extrabudgetary local government financial platforms, which leveraged local landed assets to issue bonds and take out loans were established in the mid- to late-1990's.

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<sup>62</sup> Some of the newly diversified sources of capital originated from work units; foreign speculators, investors from other regions of the country; and local governments that derive funds for public investments from land sales and other construction and land-related taxes (Wu 1999:1765).

<sup>63</sup> After the Asian Financial Crisis broke, however, the central government closed down the investment vehicle of the Guangdong provincial government; and the People's Bank of China declared GITIC (the Guangdong International Trust and Investment Corporation) bankrupt in January 1999. This was the largest default ever committed by a state-owned entity in China since the economic reforms had begun (Gopalakrishnan 2007:1493). Thereafter, central government took strong measures to curb trust and investment companies.

This occurred under the auspices of the China Development Bank, a policy bank of the P.R.C. Land and its long-term lease rights were gradually becoming the cornerstone of local government strategy to raise financing for its construction ambitions.

Last but not least, foreign investments into China's real estate sector boomed in the 1990's. In the early phases of economic reforms, foreign investors had tended to congregate in China's manufacturing sectors, but land reforms opened up to foreign investors in 1990 under the Provisional Measures for the Administration of Foreign Investors to Develop and Operate Plots of Land. They, too, were allowed to buy long-term LURs in unserviced ("uncooked") parcels of land.<sup>64</sup> Consequently, China's major metropolitan areas along the Eastern seaboard increasingly saw foreign capital entering the real estate sector especially after 1992. Overseas Chinese investors from Hong Kong, Taiwan and Singapore, in particular, played a major part in infusing the real estate sector with foreign direct investments. In 1983, for example, contracts involving foreign direct investments totaled 470 agreements (Wu 1997:655) amounting to US\$1.7 billion in foreign direct investments into real estate. By 1992, that number had increased to 48,764 contracts totaling US\$58 billion. By 1993, real estate had begun to absorb the second highest level of foreign investments out of all other sectors (Wu 1999:1763). In 1996, out of a total of US\$4.72 billion in foreign direct investments, 22.3%, or US\$1.05 billion was invested in real estate (Wu 2000:1364). Not only did foreign investors increasingly finance China's real estate industry in the 1990's, they also comprised a large source of demand, especially with respect to top-tier office buildings in major cities (Wu 2000:1364).<sup>65</sup>

Most loans still came from state-owned banks, however. Throughout the 1990's, money to finance these real estate projects were funded by local branches of central, state-owned banks, over which local governments enjoyed substantial leverage and could exert pressure. Drawn by double-digit profits in the early 1990's and promises of substantial profits, increasing amounts of international *and* domestic capital, in other words, entered China's real estate sector.<sup>66</sup>

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<sup>64</sup> In the southern province of Guangdong, especially in the metropolitan areas of Guangzhou and the special economic zone of Shenzhen, foreign investment had played an even more substantial role in the 1980's when foreign investors, especially from Hong Kong, invested an even greater amount into the urban built environment when compared to the early 1990's (Zhu 1999b:124, 127). In the case of Shenzhen, therefore, foreign investments into the city's property market hit its height of 31% of total capital investments between 1979 to 1983 then tapered down to 16% between 1992 to 1996 (Zhu 1999b:127). Towards the latter half of the 1980's, local developers began to invest more substantially in comparison until the second property boom hit in the early 1990's and foreign investors entered in substantial numbers again (Zhu 1999b:135).

<sup>65</sup> For example, out of a total of 6,500 foreign firms registered in Beijing, only 2,600 worked out of adequate office space. As a result of this shortage, the cost of commercial space in Shanghai and Beijing was driven to new heights exceeding that of Paris, New York and Berlin. These cities, in fact, became the third and fourth most expensive places to rent office space in the world (Huang and Yang 1996: 174)

<sup>66</sup> State-owned enterprise reforms, as described above, throughout the 1980's and early 1990's had also led to increasing profit retention by state-owned firms and work units. Local enterprises, therefore, in major municipalities began to invest increasing amounts into housing construction in the 1980's and early 1990's (Wu 1999 ("Game of Landed Property Production"):1766-1767). In 1991, SOEs had invested 49.48 billion yuan into housing construction of which 25.05 billion yuan was in commercial housing (Yeh and Wu 1999:225). This amount exceeded the amount invested by private individuals (25.5 billion yuan) and

## 2. *Overheated Real Estate Market, 1992-1993, and the Central Government Response*

With Deng Xiaoping's southern tour, which clearly signaled the central leadership's resolve to further liberalize the nation's economy, China's real estate sector took off. Real estate prices rose rapidly from 1992 to 1993: The average housing price rose 82% from 703 yuan/sqm in 1991 to 1,282 yuan/sqm in 1993. In 1988, there were 3,124 state-owned real estate "comprehensive development companies" in China yet by the end of 1993, the number had reached 30,000 (Lü and Shao 2001:251), an increase of 960% in a span of five years.<sup>67</sup>

The real estate sector overheated as a result of official endorsement of this young industry. Laws and regulations governing real estate land sales and transaction taxes were still quite rudimentary and constraints upon speculative activities were very few. With the dual-track land use system, furthermore, in which administratively allocated "free" land coexisted with market-leased LURs and where the vast majority of LURs were still administratively transferred at cheap, negotiated rates, land speculation proved highly profitable.<sup>68</sup> Those with connections to the government purchased LURs at nominal rates or even for free then "flipped" (*chaodi*) them for profit without undertaking any development or infrastructure servicing.

"Development zone fever" gripped the country in 1992 as a result: According to one study, the total area of economic and trade development zones expanded to 15,000 sq. km. by 1992, which was more than all the built-up areas in all 600 cities in China at the time (Yeh and Wu 1999:231). The majority of these development zones were set up by lower tier governments such as at the county and township levels and were set up without proper land transfer authorizations (Cartier 2001:457). This "development zone fever" and unregulated urban expansion resulted in significant loss of arable land. Between 1986 and 1995, in fact, approximately five million hectares of arable land were lost to infrastructure construction and property development (Gopalakrishnan 2007:1493).

In reaction to the overheating in the real estate market, the central government quickly took action in late-1992 and 1993 and continued to institute measures into the

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by foreign direct investors (23 billion yuan) in the same year (Yeh and Wu 1999:225). This trend stopped, however, as SOEs experienced hardening budget constraints by the mid-1990's and were increasingly downsized.

<sup>67</sup> The southern island of Hainan proved to be one of the crisis points of this real estate bubble. In Haikou city, the provincial capital, land price skyrocketed from 100,000 yuan/mu in 1991 to 6,000,000 yuan/mu by 1992. In 1991, the price of property in Hainan had averaged 1,400 yuan/sqm, but by 1993, it had reached 7,500 yuan/sqm (Guangdong Real Estate Association 2011:48). Roughly forty percent of the province's financial revenue had come from the real estate industry during the bubble (Guangdong Real Estate Association 2011:48). In an island of 6,550,000 residents in 1993, over 20,000 real estate firms had established themselves at the height of the bubble (Guangdong Real Estate Association 2011:48).<sup>67</sup> Almost half of the housing in Hainan, furthermore, lay vacant as of mid-1993 even while 2 million sqm of housing were being constructed (Huang and Yang 1996:175).

<sup>68</sup> Some studies note that as little as 1% of all LURs transferred in the early 1990's involved competitive pricing using bids and auctions (Huang and Yang 1996:175).

late- 1990's. In August 1992, the central government issued a decision to control project development. In August 1993, the central government issued a directive to improve the governance of the real estate industry (Huang and Yang 1996:181). A value-added tax on land appreciation was passed at the end of 1993 and the Urban Real Estate Management Law was promulgated in July 1994, which sought to institute competitive sales of commercial LURs. The central government also attempted to control the amount of land available for real estate development by conferring strict approval rights over local land leases to provincial governments (Huang and Yang 1996:182). Banks and land administrative departments were also forbidden from operating property development companies. Banks were directed to limit credit to speculative sectors such as real estate. Even though local governments and banks found loopholes to get around these restrictions, by mid-1994, approximately 1,000 illegal development zones were effectively eliminated and the planned development area shrank from 7,500 sq. km to 1,600 sq. km (Huang and Yang 1996:183). By 1993, property prices had also declined by 20% from their peak in some of the most overheated markets (Huang and Yang 1996:183).

The central government continued to institute stricter measures even towards the end of the 1990's as it sought to more tightly regulate the real estate sector. In May 1997, the State Council and the Central Committee of the Communist Party issued a joint notice announcing a one-year moratorium on arable land conversions (Cartier 2001:445), and calling for a sweeping review of land conversion practices. The moratorium was extended by another year to 1999 (Cartier 2001:446). In 1998, furthermore, the central government established a national level Ministry of Land and Resources by combining the former Ministry of Geology and Mineral Resources, the State Land Administration Bureau, the National Bureau of Oceanography and the State Bureau of Surveying and Mapping (Cartier 2001:446). It also revised and put into effect in 1999 the Land Administration Law, which had originally gone into effect in 1987. This law re-centralized control over land usage and granted decision-making powers to the provincial and central governments and away from local governments.

The deep, macroeconomic changes described above have all been set forth in order to emphasize how the "rules of the game" were radically reconfigured in the 1990's in a way that profoundly affected whether and how quickly the real estate and housing industry needed to develop. **First**, land that had been administered for free and in perpetuity throughout the Maoist era to state-owned and state-affiliated entities was radically commodified and given an increasingly prominent economic value. It was legislatively turned into a marketable commodity through a political process and turned into an asset that could generate significant revenue for those, such as local governments and property developers that held property rights over land use rights. This radical *re-valuation* of land had a profound impact on and transformed not only the political economy of the real estate industry but also China's urban political economy in general. **Second**, with massive SOE corporatization and privatization, China's enterprises shed their social welfare responsibilities as they took on an increasingly profit-oriented outlook. Housing, for instance, became a personal asset that urban residents – especially new entrants into the labor force -- were increasingly required to purchase on the market. A new industry had to be created to supply housing on the market even as land use rights were commodified for marketability. **Third**, as the 1990's progressed, both the SOE

sector and local governments in China faced increasingly hardened budget constraints. They confronted budget squeezes for which they needed new sources of revenue. In tandem, land had attained an economic value that accrued increasing profits to the owner as the decade progressed. For these revenue-starved state (or former state) entities, marketing land use rights and/or developing commercial property themselves became a valuable means of generating revenue streams. Real estate management departments and land administration bureaus within local governments, for instance, with easy access to cheap, state-owned land set up ad-hoc real estate companies (to be described below). SOEs and former SOEs also established real estate companies and joint ventures with their land supplies. When the real estate sector overheated in 1992-1993, increasing numbers of real estate companies bearing complex, hybrid ownership structures entered the property sector to speculate on undeveloped land, construct commercial structures to sell for profit and/or to broker such deals. Finally, **fourth**, as suggested above, new sources of financing opened up as the central government liberalized China's financial system. This allowed high levels of foreign direct investments into real estate in the 1990's and opened up other sources of domestic financing, which entered the highly profitable and speculative real estate sector.

The central government also began to infuse concentrated amounts of capital into infrastructure development. After the 1994 fiscal reforms, it relied more heavily upon one of its three policy banks called the China Development Bank (CDB)<sup>69</sup> to finance the hyper pace of urban construction. The CDB provided loans, which financed US\$2 trillion since its establishment in 1994 to build roads, bridges, subways and stadiums across China (Sanderson and Forsythe 2013:x). The CDB basically began to leverage China's urban land to issue bonds to state-owned, big four commercial banks and they, in turn, tapped into low interest-earning household deposits in order to purchase these sovereign-status bonds. The money thus raised were massively infused across the country into off-balance-sheet local government financing vehicles (地方融资平台) of which there are now more than 10,000 (Sanderson and Forsythe 2013:3; World Bank 2009). Between 1996 and 1997, China spent twice as much on infrastructure as in prior years; and by 2002, its spending on infrastructure had tripled. CDB's loans to the sector also increased from 226.9 billion yuan in 2003 to over 1 trillion yuan by the end of 2009, which comprised over 28% of the market (Sanderson and Forsythe 2013:7).

Thus, in contrast to the ideal-typical developmental state in which a clean, technocratic and purposeful bureaucracy pushes forth a developmental agenda to activate and grow key sectors, the central government in China effected instead a configurational change. Through radical shifts in policy, it changed the major institutions and re-set the rules of the game to motivate local political and business actors instead without necessarily imposing a developmental blueprint. It radically changed the incentive structures operative upon key players in real estate: local governments, which were given formal ownership rights over land and legislative mandates over urban development; the developers, which entered into this new sector with its promise of profits; and domestic and foreign financiers who also entered this sector in search of high returns. This new "set up" in institutional configuration included the fact that: (1) central government commodified land and gave it market value; (2) empowered local governments over

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<sup>69</sup> The other two policy banks are Export Import Bank of China and the Agricultural Development Bank of China (see p. 70 of S&F for details.)



sectoral SOEs with respect to the urban built environment; and (3) aligned the promotional chances of local leadership with economic growth. Political distinction, not to mention career advancement of local political leaders became synonymous with urban growth. Details as to how this configurational change came into being will be more fully discussed below.

### 3. *Decade of the 1990's: The Emergence of the Private Housing Industry in China*

Events of the 1990's are of interest to us in this dissertation because of the large influx of real estate firms that began to enter the field during this decade. As described earlier, most large cities had established comprehensive development programs led by urban property development companies in the 1980's that were part of government bureaucracies (Wang and Murie 1999:132) (see Chapter 2). According to some studies, such urban property development companies had built approximately 34% of all residences built between 1987 and 1989, which totaled 125.7 million sqm (Wang and Murie 1999:132).

Even in Shenzhen, the most marketized region of China, of the 400 development companies in 1996 in Shenzhen, the top development companies were generally state-owned and operated joint-venture projects involving foreign investments (Zhu 1999b:135). Shenzhen's state-owned developers that first launched the real estate market sector enjoyed an uncrowded sector whereby thirty of the largest state-owned developers developed 70.1% of total development work in 1993 (Zhu 1999b:130). They also enjoyed high profitability due to cheap land grants and a booming real estate market from 1988-1993.<sup>70</sup>

Towards the early-to-mid-1990's, furthermore, government bureaus and departments – especially those related to real estate administration or land management – quickly seized the opportunity and propagated in-house real estate development firms. Local government departments and bureaus, especially those involved in land and real estate administration, actively began to set up real estate development companies after land use rights were commoditized and property values began to go up in the early 1990's. One detailed study involving the real estate management bureau in Tianjin from 1992 to 1993, for example, describes how the changing functions of the bureau under increased real estate and housing marketization further stimulated the creation of numerous real estate development companies subsidiary to the bureau (Duckett 1998).

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<sup>70</sup> In particular, developers with close connections to the local government got preferential treatment in terms of postponement of taxes and preferential access to loans and land, which meant that they had more chances to grow profitable and expand. The enormous development profits that property developers made (especially because land was granted for cheap) produced a new generation of state-owned developers, some of whom became heavyweight players in the incipient real estate marketplace. According to one survey, eight joint ventures in real estate had made 75.6% in average profits (Zhu 1999b:125); and another study suggests that developer profits came to between 70-95% in the 1980's (Zhu 1999b:130). By 1991, there were 109 developers and 79 were SOEs (72.5%); and by 1994, there were 337 developers and 207 were SOEs (61.4%) (Zhu 1999b:130). Of these, for example, the Shenzhen Special Economic Zone Development Corporation grew exponentially into a transnational corporation (Guangdong Real Estate Association 2011:36; Zhu 1999b:105). In general, however, most of these local property developers were small and their turnover was minimal.

The new enterprises in real estate development (Duckett 1998:106) were financially closely tethered to their originating bureau. The bureau often provided the seed money for these subsidiary firms and refrained from collecting profits and taxes until they began to generate profits. Although nominally considered “independent accounting units (Duckett 1998:94),” the bureau shared in their incomes to varying degrees once these new business entities started to generate profits. These new businesses also provided employment to underemployed, surplus or retired staff members from the originating bureau as the central governments continued to undertake bureaucratic streamlining throughout the 1980’s and 1990’s (See footnote 14). Some real estate management bureaus and their subsidiary stations even anticipated that state provision of housing would one day cease under market reforms and that their government bureau and/or station would close (Duckett 1998:101). In anticipation of such possibilities these government offices set up shop in more lucrative ventures such as in real estate development explicitly as a way to raise revenues and provide alternative employment to their retired and/or surplus staff. The ownership structures, managerial relations and operations of these new, state-owned businesses were hard to decipher, however, in relationship to their line bureaus. Some were registered as collective enterprises (since they were technically owned by local governments), but their status remained ambiguous as they kept their own separate accounts. Their staff members were often former employees of their originating bureaus that were paid by the new enterprises even as they kept their former titles at the bureau (Duckett 1998:105).<sup>71</sup>

These real estate development companies also received some of the most lucrative business opportunities because they received prime real estate in city’s central locations (Duckett 1998:100) often for free or at huge discounts. Real estate management bureaus (and, for that matter, land administration departments also) were ideally positioned as part of the urban construction system within local governments to gain access to free and/or cheap land. Reforms in land administration and housing delivery systems gave these local government departments, bureaus and sections with unparalleled opportunities for quick profits (Duckett 1998:98). They gladly took advantage of these opportunities in light of their shrinking budgets from the central government, uncertain futures, and administrative reform measures that streamlined their staff and increased their workloads.

State-owned enterprises, too, which were located in prime real estate in central municipal districts propagated their own real estate development firms or contributed land in joint ventures with both domestic and international investors. Especially as SOE reforms intensified throughout the 1990’s, increasing numbers of SOEs turned to their allotted land reserves to sell them in the covert, secondary land-lease market or to set up their own development companies. They used their land without much regard for city master plans and diverted their use towards more lucrative ends such as setting up shops, hotels, restaurant and other types of businesses. Often this engendered opportunities for corruption as local government officials were solicited to grant development permits and to adjust urban plans.

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<sup>71</sup> The real estate development enterprises described in this section is significantly different from the comprehensive construction enterprises described in Chapter 2. The accounts of these new enterprises were often separate from that of their original bureaus and they operated under a profit-driven motive, which was not as obvious with respect to the comprehensive construction companies of the 1980’s. They were also set up in contravention of central government policy.

State institutions, local government entities and even banks actively set up development companies so that they could capitalize on the rising price of urban LURs. Those with connections to government offices and with access to very cheap or free land acted on their own or as brokers introducing developers to LUR holders. Work units actively recruited agents to find developers who could develop their land. Thus, a chaotic land market existed dominated by the covert secondary market in which administratively allocated parcels of land were sold on arbitrage as LUR-holders sought to capture the price differential between their free land and what the black market could afford them.

This situation changed rapidly, however, following the real estate boom years of 1988-1993. As SOEs were permitted to retain increasing proportion of their profits through the profit retention scheme in the 1980's and early 1990's when the central government sought to increase managerial autonomy without changing the ownership structure of SOEs, more and more enterprises diversified into real estate where profit rates were high.<sup>72</sup> With deepening SOE reforms in the mid-1990's, furthermore, local governments sold local construction and comprehensive development SOEs (which tended to be small enterprises owned by local governments) through management buyouts, open sales, employee share purchases, and mergers and acquisitions. Many of these forerunners of current real estate firms re-entered the property sector as privatized or partially-privatized corporate entities.<sup>73</sup> Increasing numbers of state owned enterprises as well as individuals and private businesses with connections to the local government entered the field, furthermore, as anticipation of high profits from land and property development intensified.

Latecomer developers had fewer access to resources and had to acquire land from the covert, secondary land market<sup>74</sup> involving SOEs that had hoarded allocated land under the former land regime (Zhu 1999b: 133). When the property boom hit China in the early 1990's and especially after Deng Xiaoping's celebrated southern tour in 1992, new entities interested in property development began to flood the sector and set up joint ventures with land holders. Profitable SOEs from other sectors, for example, and their subsidiary spinoffs began diversifying into real estate to either augment their profits or

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<sup>72</sup> During the real estate boom years of 1988-1993, SOEs, as described more fully above, enjoyed increasing autonomy in their business operations and was allowed to retain increasing profits by the central government. They invested increasing amounts into the built environment, especially with respect to housing construction for their employees. They also began to form subsidiaries to enter the real estate market (Zhu 1999b:131). In order to accommodate this influx of applications and to control the development market, local governments began issuing ad hoc, single-project licenses to applicants wishing to undertake property development work. By 1996, for example, the total number of developers in Shenzhen amounted to 396 firms: 117 were developers with long-term licenses; and 279 were temporary developers licensed to construct single projects (Zhu 1999b:132). The number of developers grew exponentially each year throughout the 1990's across the major coastal cities in China. With the establishment of a land market, despite its imperfections, the number of real estate firms grew exponentially. Real estate firms grew from 3,700 firms in 1991 to 12,000 at the end of 1992 and then approximately 18,000 enterprises by mid-1993 (Huang and Yang 1996:173)

<sup>73</sup> According to my informants, such former, comprehensive construction companies generally did not succeed in the increasingly competitive environment of the real estate sector (Interview 91111).

<sup>74</sup> Secondary land markets involve sellers of LURs that is not the municipal government who are already in possession of land parcels that they wish to transfer.

supplement their losses in their mainline businesses (Zhu 1999b:146). They set up joint ventures with loss-making SOEs that had land and, in return for land, provided the financing. They constructed buildings and residences, which were then divided between the two parties.

Rapid rise in real estate prices in the early 1990's also stimulated the onslaught of privately-owned property developers. By June 1995, official statistics recorded 33,482 real estate developers (Wang and Murie 1999:178) of which forty one-percent were state-owned; and 25.4% were collectively owned. Nevertheless, almost a third -- 32.7% -- were either private enterprises or joint ventures between Chinese and foreign partners, especially from Hong Kong (Wang and Murie 1999:178).<sup>75</sup> Although the proportion of such firms are impossible to verify, a portion of these "private" real estate developers were also former SOEs (majority of which had been locally-owned SOEs similar to the ones described above) that were restructured during the SOE reforms in the early- to mid-1990's. Private individuals also entered the fray, however, in order to enter the lucrative industry and established private real estate firms. Anyone with access to land due to his/her connection to local government officials set up real estate firms which they often flipped for profit without necessarily engaging in further property development.

The 1990's, in short, marked a watershed decade for the real estate sector in China. As the central government implemented long-term LUR commodification in 1988, major urban centers responded by expanding the real estate field often in chaotic and unregulated manner. But just as importantly, as the macroeconomic field saw momentous changes in SOE reforms, banking reforms and in fiscal relations between local and central governments, the real estate sector also saw diverse actors and firms entering the industry, and rapidly increasing numbers of property developers trying to gain access to real estate projects. **First**, financial liberalization meant that more money was coming into the sector from formerly non-traditional sources such as work units with increased amounts of retained revenues, foreign investors and non-bank financial institutions (e.g., trust and investment companies). Such diversifying sources of funding also meant that increasing numbers and types of firms could enter the field and undertake both legitimate and illegitimate real estate projects. **Second**, the decade also witnessed local governments slowly gaining in formal and informal authority against state enterprises and public institutions in terms of the urban built environment. Master plans and detailed city plans were routinely ignored by such state owned entities, yet the trend was clearly favoring the territorial ascension of local governments. **Third**, the central government's sequence of decisions to downsize and eventually abolish the "iron rice bowl" also meant that the fledgling real estate sector needed to deliver increasing quantities of housing to the market. Housing had increasingly become marketized over the 1980's and 1990's and the first generation of real estate developers enjoyed a broad horizon for their business. **Fourth**, state owned enterprises and municipalities, furthermore, saw their direct budget allocations from the central government cut and their staffing repeatedly downsized. These financially strapped state entities increasingly turned to land and real estate development in order to supplement their threatened

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<sup>75</sup> By 1994, furthermore, according to the Ministry of Construction and the State Statistical Bureau's own information, 95% of the top one hundred property development companies were on Eastern coastal cities such as Guangzhou, Shenzhen, Beijing and Shanghai (Wang and Murie 1999:177).

budgets. As a result of such macroeconomic and sectoral changes, the real estate sector in the 1990's boomed *and* busted in 1992 -1993 when the central government instituted a number of fiscal tightening measures designed to cool down the overheated market.

Instead of a top-down developmental bureaucracy, what the central government established was a configurational set-up at the local levels, therefore, which reset the incentive structures of the major political and economic actors populating the real estate sector. It established new currencies of power that could generate economic and political profit for these key actors. In other words, instead of providing a developmental blueprint, which a central, strong state pushed forward through a professionally elite, technocratic bureaucracy, the central government provided the conditions whereby local states needed to act entrepreneurially in cooperation with other actors-- like property developers and internal and external financiers-- to bring about urban construction. This was effected often in the absence of a rational, meritocratic and autonomous central bureaucracy that asserted its developmental agenda in professional cooperation with industrialists.

As the reforms progressed away from the sectoral, vertical logic analyzed in Chapter 2 towards a regional, localized logic of territorial governments, we see a qualitative shift in the logic of this industrial field of property development. Instead of a top-down, developmental state model, then, a more dynamic and *horizontal*, configurational schema began to come into being.

Within the economic sphere, as in all social fields, there exists multiple fields and subfields (also describable as “sectors” or “branches” of industry), each of which operates according to its own rules and regularities and that exhibits its own relations of power and hierarchies (Bourdieu 2005a; Bourdieu 2005b; Fligstein 2001). Within each field there, too, exists multiple currencies of power (“capital”) that command greater or lesser levels of respect from its population because of their ability to extract rewards immanent in that field. Both the combination and volume of capital that an actor possesses determine that entity’s relative position in the sector -- of dominance or subordination or equivalence -- in comparison to the other players. More importantly for us, however, each field follows a specific logic which is unique unto its own. The logic stems from the rules and regularities inherent in that field by which actors behave; the rewards that the actors aspire to win; and the existing distribution of power as reflected in the distribution of specific types of capital, which the population of actors possesses. The various forms and combinations of capital<sup>76</sup> that are at play in a field are closely interconnected with the logic of that field (Bourdieu and Wacquant 1992:99).

The very logic and specific forms of capital valorized in the field of real estate in China radically shifted especially after the central government instituted a *re-valuation* of land in the Constitutional amendment of 1988. Land was legislatively bifurcated into ownership and use rights; and LURs became a highly valuable market commodity. This shift in combination with the budget squeeze that followed the fiscal reform of 1994 was the “game changer” that enabled the field of real estate to come into being and transformed its logic since the reforms in 1978. Land, which had been allocated for free and in perpetuity throughout the Maoist high socialist era gained economic valence,

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<sup>76</sup> There are multiple types of capital, which Bourdieu identifies as being salient to the economic sphere such as financial capital, cultural capital, technological capital, juridical capital, organizational capital, commercial capital, social capital and symbolic capital (Bourdieu 2005a:75).

which grew as China's economic reforms intensified. The "rules of the game" integral to the real estate sector was transformed when the financial value of land use rights shot up and when financial resources proved increasingly desirable with hardening budget constraints. The structure of the field of real estate, in other words, was radically reconfigured when land, which had not been considered a type of "capital" (i.e., a resource that accrues to its possessor some level of power and advantage) under Maoist socialism, was redefined as a brand new currency of power and wealth-generation. Land and land use rights took on heightened importance as the "name of the game" under market socialism shifted away from meeting central plan quotas and towards profit-maximization. Because of the status of municipal governments as the state's representative owner of land, which could now generate increasing levels of profits, their ascendance in the power hierarchy was inevitably bolstered.

Instead of a powerful and autonomous bureaucracy, China's central government inherited a broken urban development system when the reforms began in 1978. Fragmented and rent-seeking, the central government instead instituted a configurational incentive structure that motivated municipalities to aim for hyper-urban development. Land was newly valorized as a raw currency of power, wealth and status -- especially if located in prime locations in first-tier cities -- for enterprises and local government entities. Local government leaders were charged with material growth targets that either sealed their reputations or sank their career chances. The political advancement of provincial and municipal leaders were directly linked to economic growth and revenue generation (Wong and Zhao 1999:122). The logic of the field shifted when a new form of capital was introduced in the form of land use rights and when monopoly rights over land dispositions were formally accorded to municipalities. Municipalities struggled with powerful work units throughout the 1990's (the era that this chapter examines) even as this configurational shift was put into effect, yet this change in the form and value of economic capital and the incentive structures embedded within this field exerted a structural effect which changed the relative power position of municipalities vis-à-vis the state-owned, sectoral entities. These were key changes in the field that yielded a structural effect, which changed the meaning of what opportunities and constraints were: i.e., First, municipalities were now charged with comprehensive development of cities instead of work units and long-term land leases that held deep market potential were newly introduced, which changed the entire logic of and strategy around urban development. Municipal development became a territorial endeavor; and resources -- such as cheap land parcels in choice locations, loans and business opportunities -- were concentrated in the hands of cities which became, de jure, manager of state land. There was the creation of a new field propelled by a new set up centered around municipalities as the entrepreneurial state, centered on the local leadership. Bourdieu's notion of a challenger versus a dominant player in the field became determined by each of their relationship to the local government, which gave them access to cheap land, loans and potentially lucrative business opportunities.<sup>77</sup>

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<sup>77</sup> Often these business opportunities also entailed reciprocation in the form of costly infrastructure construction, bribes and payments to local officials and brokers who had effected these transactions to the formal payment of land premiums, interest, fees and taxes, however.

Certainly, as is evident, then, the clean, orderly, and systematic bureaucratic state paradigm does not fit the picture we find here.<sup>78</sup>

*D. Developmental State vs. the Emergence of a Field?*

Through the above chronology regarding the creation and growth of the real estate sector, I hoped to show how there was no developmental state, per se, organizing and encouraging the top-down development of cities in China. The local governments did initially create their comprehensive development companies in the 1980's as described in Chapter 2, which functioned more as bureaucratic entities fulfilling building quotas as set forth in municipal plans. Initially, local governments incubated and nurtured such locally-owned and controlled construction firms by granting them generous allotments of land, loans and deferred taxes. And yet once the 1990's began, it seems as though these locally state-owned construction companies were retired as a real estate sector came into being. Local government bureaus and departments, furthermore, especially in charge of land administration and real estate management began to spin off real estate development companies in order to generate revenues and to provide employment for surplus workers. When state owned enterprise reforms deepened in the mid-1990's, these locally-owned development companies were most likely also privatized, corporatized or shut down even as increasing number of private developers also entered the field to reap the profits in real estate.

After the land reforms in the late 1980's and the establishment of State Land Administration Bureau in 1986, cities increasingly consolidated their power over land management and land dispositions. They also augmented their property rights over revenue streams stemming from management of land leases<sup>79</sup> even as they struggled with covert land markets, the dual land delivery system and powerful state work units that occupied significant tracts of land in city centers. Under tightening fiscal pressures introduced by both the fiscal responsibility system and the 1994 tax reforms, and intensifying pressures to provide better roads, telecommunications systems and infrastructure, furthermore, local governments sought to consolidate their power over land-related revenues. As part of a transformed incentive system, local leaders were rewarded with career advancement for building up their cities.<sup>80</sup> The political economy of

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<sup>78</sup> With respect to the developmental central state paradigm, however, the central government did provide increasing resources in the form of capital -- capital investment for urban infrastructure.

<sup>79</sup> Some of the revenues derived from land leases included land use fees derived from joint ventures and enterprises as stipulated in the Law of Sino-Foreign Joint Venture of 1979; land use taxes enabled by the State Council's "Regulations on Land Use Tax Collection in Cities and Towns" promulgated in 1988. In addition, municipalities and district governments began to impose ad hoc fees and charges on developers and land users that often totaled non-insignificant amounts (Dowall 1993:187). Over time, municipalities also began to collect increasing amounts of revenues from leasing LURs, which they could do cheaply by converting rural land to urban land. City governments also modified master plans in order to facilitate such conversions, which proved lucrative for their treasuries (Wong and Zhao 1999:120).

<sup>80</sup> It is not unusual for the city mayor or the deputy mayor to hold veto power over how land is ultimately used and what kinds of projects get approved (Wong and Zhao 1999:117; Wu 2000:1369). This

city building also involved intercity competition for new investors, both foreign and domestic, and the effort to attract inward investment with land grants, perks and tax breaks. This new reality of land leasing and municipal ascendance as the power center for urban development were the two principal game changers in the political economy of cities.

First, the increasing squeeze on local government finances induced by fiscal recentralization in 1994; second, with pressure to provide comprehensive development and infrastructure; and third, with the political incentive structures set up to promote (or demote, in the opposite case) local officials that delivered rapid economic growth, urban development and revenue generation, the drive was on to derive profit from land sales and to encourage rapid land development. This was a marked contrast to meeting central plan targets under the Maoist regime through sectoral chains of command.

Developers, too, were driven by profits, for which they needed to solicit the backing of relevant decision-makers within the municipalities. As the local governments urgently needed land servicing, old city redevelopment and infrastructure construction yet lacked the knowhow, resources and personnel to construct them, often the relationship between developers and local governments became symbiotic with local government extracting in-kind construction from developers in return for providing them with development rights, land parcels, loans, and the necessary permits. Especially in the southern municipalities of Guangzhou and Shenzhen (World Bank 1993:59-62), the municipalities established as preconditions for cheap land sales (or allocations) the construction of municipal infrastructure, public works and public facilities (Dowall 1993:184; Interview 91111; Interview 32712). According to one study, real estate development corporations had contributed 680 million yuan of infrastructure and public works during the 1980's (Dowall 1993:184) in the process of land transfer negotiations (Dowall 1993:184). In Guangzhou, such "planning gains" (Wu 1997:660) in newly developed areas could comprise 30 percent of the total construction cost incurred by the developer (Dowall 1993:184). In addition, developers were also often expected to pay a heavy levy of taxes and ad hoc fees, which could amount to 10-15% of the total cost of constructing commercial housing in Shanghai in 1995 (Wu 1999:1761).

Starting with the government-owned unified construction companies to their SOE progenitors and, later, to the more privately-oriented development firms that began to enter the sector after Deng Xiaoping's vaunted Southern Tour in 1992, cheap land reserves became the foundation for their initial success, capital accumulation and expansion.

### *1. Cases of Real Estate Firms and Land Use Rights Transfers*

Here, I turn our attention to some of the most prominent private developers in the Pearl River Delta region. They constitute part of the five "Southern tigers"<sup>81</sup> that are now household names.

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indicates the level of weight accorded to land apportionment and urban development by the local political leadership.

<sup>81</sup> The five "Southern tigers" are Guangzhou R&F Properties Co., Ltd. (*Guangzhou Fuli dichan gufen youxian gongsi*, 广州富力地产股份有限公司), Evergrande Real Estate Group Limited (*Hengda dichan jituan youxian gongsi*, 恒大地产集团有限公司), Country Garden Holdings Company Limited



I purposely focus on these prominent Guangdong firms because they are widely considered to be one of the most prominent and powerful, *non-SOE* and *non-state-controlled* (*minying qiye*, 民营企业) group of real estate firms.<sup>82</sup> Their operations originated in and concentrate around southeastern China, where the region is well known for its advanced opening to the world and for its comparatively more liberal and transparent market structures. By reputation, firms in this region, therefore, operate more on the basis of market competition and market acquisition of source materials compared to their competition concentrated in northern and central coastal China (such as in Beijing and Shanghai) where state-owned and state-affiliated real estate firms populate the field in greater numbers (China Industrial Map Committee 2004; China Industrial Map Committee 2006).

Non-SOE firms over which government entities assert little *direct* control have gained prominence in the southeast region. Large, leading private developers that began their operations in the early 1990's, for instance, characterize the real estate industry in the Pearl River Delta. They acquired land cheaply through joint ventures with local governments in both urban fringes and in central locations, and then amassed greater reserves of land throughout the 1990's. They grew significant in their operations across the country during the lucrative period of the 2000's (Hsing 2010:43; China Index Research Institute 2009).

- a. *Evergrande Real Estate Group Limited (Hengda dichan jituan youxian gongsi, 恒大地产集团有限公司)*

Evergrande Real Estate, a publicly-traded real estate firm that first established itself in 1996 began its first residential project in Guangzhou's Haizhu District 海珠区 with its Jinbi Garden residential compound (*Jinbi huayuan*, 金碧花园) No. 1. Evergrande Real Estate is acknowledged as one of the premier firms in the PRC with operations across the country in 58 cities as of the first half of 2011. It also boasts one of the highest net profits, sales volume (by sqm) and current construction operations (by

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(*Biguiyuan konggu youxian gongsi*, 碧桂园控股有限公司), Agile Property Holdings Limited (*Yajule dichan konggu youxian gongsi*, 雅居乐地产控股有限公司) and Hopson Development (*Hesheng chuangzhan jituan youxian gongsi*, 合生创展集团有限公司).

<sup>82</sup> Vanke Co., Ltd. (*Wanke qiye gufen youxian gongsi*, 万科企业股份有限公司) is another firm that is consistently acknowledged as a leader in the industry by all who research the market. It is known as a highly market-oriented, efficiency-driven firm with its operations spread across 52 different cities in the country, although the majority of its revenues are derived from the housing market in Shanghai and Shenzhen. Vanke is absent from my analysis, however, due to a lack of available data regarding its first land acquisitions and their valuations. Vanke was one of the first domestic firms to ever publicly list in China when it listed on the Shenzhen Stock Exchange in 1991. Their disclosure documents for the initial public offering (in file with the author), is extremely rudimentary and provides little to no information with respect to its real estate operations. When Vanke Co., Ltd. first began their business in 1984, in fact, it was a highly diversified business with operations ranging from electronics goods, DVD manufacturing and retail sales and with only a fraction of its resources devoted to real estate. In light of the lack of available data, therefore, it, unfortunately, could not be included in the analysis. Nevertheless, according to my interview sources, although Vanke is known for its "clean" reputation and for having purchased its first land parcel through a land auction (Wang 2006: 65-66, 82), it still benefited early in its creation from cheap land acquisitions granted by local governments (Interview 32912).

space) in the PRC. Yet, its core operations began in Guangzhou, and its initial line of apartment complexes – Jinbi Garden Nos. 1, 2 and 3, all on contiguous land – were primarily constructed on land that bear land grant contracts dating back to 1997 and ending in 2004.<sup>83</sup> Currently, Haizhu District boasts one of the highest real estate prices in Guangzhou city.

The land use rights upon which the company built Jinbi Garden No. 1, for instance, were purchased in 1997, 1998 and 1999 (Evergrande Real Estate Group Limited 2009:IV-30). Total consideration paid amounted to RMB 66,595,330, and the site area of the land parcel it purchased was 72,479 sqm (Evergrande Real Estate Group Limited 2009:IV-30).

The unit cost of land that it paid for the land use rights grant contract, therefore, amounted to RMB 919/sqm. One of the first residential complexes that Evergrande Real Estate ever built was, in fact, Jinbi Garden No. 1, which it successfully developed and completed for sale in 1997; and it proved to be one of the company's earliest big successes and a turning point in the business trajectory of this developer (Guangdong Real Estate Association 2011:182). The residential development was built in an up-and-coming area of Guangzhou city and provided Evergrande Real Estate with substantial profits with which to expand its business. Today, according to popular advertising websites for residential sales, the average second-hand price of Jinbi Garden No. 1 is approximately RMB 13,889/sqm or over 150 per cent markup from the land cost that the company had originally paid.<sup>84</sup>

The average price of land use rights that Evergrande Real Estate paid for Jinbi Garden No. 2 at various times in 1998, 1999 and 2000<sup>85</sup> amounted to RMB 868/sqm. For Jinbi Garden No. 3, the average price of land that it paid in 2003 and 2004 cost RMB 654/sqm.<sup>86</sup> By contrast, the second-hand sales price of an apartment complex at Jinbi Garden No. 2 at today's prices amount to RMB 15,027/sqm;<sup>87</sup> and the current sales price of Jinbi Garden No. 3 is RMB 16,636/sqm.<sup>88</sup> According to the earliest official records of land auctions held to sell parcels located in Haizhu District, the first successful land auction occurred on 2 December 2005 approximately one to two years after the developer had purchased land use rights for Jinbi Garden No. 3. The unit price of land auctioned amounted to RMB 21,222/sqm, which is over 23 times the price that Evergrande Real Estate had paid per unit sqm in the late 1990's and early 2000's in Haizhu District.<sup>89</sup> This figure only very roughly approximates what the market might have commanded closest to the time when Evergrande Real Estate paid for its land use rights grant

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<sup>83</sup> Supplemental agreements were signed later in 2003, 2005 and 2006, however, with the local authorities. Evergrande Real Estate Prospectus 2009: IV-30, IV-33, IV-36.

<sup>84</sup> According to <http://gz.58.com/xiaoqu/gongyedadao/jinbihuayuanqiqi/>. Accessed on July 1, 2012.

<sup>85</sup> Supplemental agreements were entered into in 2003 and 2006.

<sup>86</sup> Supplemental agreements were entered into in 2005 and 2006.

<sup>87</sup> According to <http://jinbihuayuan020.soufun.com/2/>. Accessed on July 1, 2012.

<sup>88</sup> According to <http://jinbihuayuan.soufun.com/3/>. Accessed on July 1, 2012.

<sup>89</sup> The auction involved a land parcel with surface area 13,352 sqm. The final auction price closed at RMB 283,3360,000, which Guangzhou R&F Properties Co., Ltd. won. It is worth noting that auction results still do involve under-the-table negotiations and pre-determined results even in the most market-oriented city like that of Guangzhou. According to my informants, however, such practices are gradually lessening over time in these first-tier cities.

contracts for Jinbi Garden No. 3. Yet, as summarized earlier, the under-regulated nature of the incomplete land use rights market resulted in a highly discounted, negotiated land price, which benefited such emerging giants as Evergrande Real Estate. Market literature regarding the Chinese real estate sector also acknowledges the cheap land costs Evergrande has borne both then and even today (Guangdong Real Estate Association 2011:182-183).

Land costs take up to 30-50 per cent of total construction costs in Guangzhou, and possibly even more.<sup>90</sup> Even prior to the institution of more generalized land auctions, bids and tenders in May 2002 after the Ministry of Land and Resources Order No. 11 was announced, land costs took up an average of 20 per cent of total construction costs. The cost that developers sometimes indirectly paid was in infrastructure construction for which Guangzhou real estate firms, even as early as in the 1980's, took out bank loans and/or used their own internal funding sources as revolving capital. According to one 1993 World Bank report, in fact, off-site infrastructure construction in 14 cities surveyed could cost the real estate developers anywhere, on average, from RMB 100 to RMB 500 for every square-meter of land area used for constructing commodity housing (World Bank 1993:62).<sup>91</sup> This cost estimate also included Guangzhou where, according to the same report, the infrastructure exactions demanded by the municipality averaged RMB 200-500 per square-meter of commercial building area constructed (World Bank 1993:59). Between 1984 and 1988, these real estate development enterprises had financed through such off-budget exactions approximately half of all urban infrastructure construction in Guangzhou (World Bank 1993:59). The report also notes that at this time in Guangzhou, inner city real estate developers were charged numerous taxes, fees and charges that could amount to 20-25 per cent of total redevelopment project costs (Lü and Shao 2001:262; World Bank 1993:24).

In light of these facts, my conclusion is not to argue that the consideration these real estate developers paid for land use rights in the form of infrastructure construction, public projects or taxes, fees and charges in the early period of the sector's emergence were negligible. The more salient point is to note that these firms were given access at the time of prime land parcels at the center or near major metropolitan areas, which later proved critical for their success. These areas increasingly became major centers of capital accumulation.

*b. Country Garden Holdings Company Limited (Biguiyuan konggu youxian gongsi, 碧桂园控股有限公司)*

Country Garden is also widely and without dispute, acknowledged as a leading property developer in the PRC with approximately 60 projects spread across the country (Guangdong Real Estate Association 2011:131). In the first quarter of 2011, Country Garden's contracted sales amount came to RMB 9.3 billion; and its contracted sales volume measured as surface area came to 1.4 million sqm. Like its competition, Evergrande Real Estate, Country Garden also paid for its first parcels of land in the mid-

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<sup>90</sup> Interview 32510; Interview 32610(1); Interview 32610(2).

<sup>91</sup> The report suggests using a 1:1 ratio for average floor area to land area ratio (World Bank 1993:62).

to late-1990's when negotiated land sales at highly discounted prices were the norm. Prior to July 2002, all of its land use rights, in fact, were acquired through negotiated land grant contracts from local governments rather than through competitive sales involving public tenders, auctions or listings-for sales (Country Garden Holdings Company Limited 2007:141). As a result, its land costs, like that of its cohort of emerging land developers, remained significantly lower than what the market might have commanded at the time.<sup>92</sup> As the company's offering documents describe, 85 out of 226 parcels of land that it had acquired before 31 January 2007 -- or over 33 per cent of its total land parcels -- had been obtained through negotiated land grant contracts or land use rights transfer agreements. Country Garden's land reserves already totaled 18,700,000 sqm at the time of its IPO on the Hong Kong Stock Exchange in 2007, ranking it fourth among all domestic developers (Guangdong Real Estate Association 2011:124); and substantial portions of its development projects are on large tracts of land that can range, on average, of up to a few million sqm. These parcels of land are located in suburban areas, "new cities," satellite cities or in smaller, secondary and even tertiary cities across the country although the company's operations originated in and still remain concentrated along cities of the Pearl River Delta region. The average land unit cost, however, was estimated to be lower than ten per cent of the average selling price of the residences that Country Garden built as of 2006 (Country Garden Holdings Company Limited 2007:94) with some estimates going as low as 7-8 per cent (Guangdong Real Estate Association 2011:127).

As some have described, Country Garden is well known for its competitive strengths in acquiring large tracts of low-priced land parcels. It frequently undertakes public works projects and primary development works alongside municipal government developers, turning "raw" land into "cooked" land in cooperation with local government offices. Thus, for example, in Guangdong province's Shanwei City 汕尾市, Country Garden worked directly with the city's Land Development Reserve Center to level the ground, relocate original residents and lay the primary infrastructure. Because of its efforts at building government projects, facilities and new satellite cities, it strategically forms a mutually beneficial, cooperative arrangement with local governments in secondary and tertiary cities. This, in the end, accrues to the company in the form of beneficial land deals (Guangdong Real Estate Association 2011:133).

*c. Guangzhou R&F Properties Co., Ltd. (Guangzhou Fuli dichan gufen youxian gongsi, 广州富力地产股份有限公司)*

Guangzhou R&F Properties is also one of the most powerful "Southern tigers" that has consistently ranked as a foremost developer since the mid-1990's. Its core operations began in Guangzhou, but in the 2000's, it expanded into five major cities including Beijing, Tianjin and Chongqing. As of 2011, they had over 3,500,000 sqm of space under construction and revenues of over RMB 13.4 billion in June 2011 (Guangdong Real Estate Association 2011:201-203).

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<sup>92</sup> In May 2002, the central Ministry of Land and Resources issued its Order No. 11 enforcing the implementation of public tender, auction and listing-for-sale of all land use rights sales. According to some research, final land costs arrived at through such open land auctions and tenders amount to over 8-10 times the privately negotiated prices that prevailed throughout the 1990's and into the early to, even, mid-2000's (Hsing 2010:48).

It began its operations in Guangzhou in 1994 as Guangzhou Tianli Properties Development Co., Ltd. (*Guangzhou Tianli fangdichan kaifa youxian gongsi*, 广州天力房地产开发有限公司). Unlike its competition such as Country Garden, Guangzhou R&F Properties fully engaged in urban redevelopment projects within Guangzhou in areas that later became central districts of the city. In particular, it struck land deals with old SOEs and strategically undertook projects involving the removal of old factory buildings for residential construction as a means to acquire cheap land parcels (Guangdong Real Estate Association 2011:199). Of these, their first major success involved the development of R&F Court in 1994 (*Fuli xinju*, 富力新居) in Liwan District 荔湾区, which the company had developed on cheap land parcels originally under the control of Guangzhou Jiabang Chemical Factory (*Jiabang hua gongchang*, 嘉邦化工厂). It then continued to acquire cheap land parcels from other near-defunct SOEs including a steel pipe factory, a copper metals factory, a sulfuric acid factory and a construction materials company, among others, in what are today considered attractive, central areas of Guangzhou. They began construction of R&F Square (East and West Court) (*Fuli Guangchang Dong Qu, Xi Qu*, 富力广场东区西区) in 1995, which they'd developed on land acquired from the Guangzhou Copper Materials Factory (*Guangzhoushi tongcai chang*, 广州市铜材厂). R&F Square is considered one of Guangzhou R&F Properties' major successes, which consolidated its first-tier position as a developer in the 1990's.<sup>93</sup>

As the company's prospectus acknowledges, however, reflective of the ad hoc and under-regulated land regime existing in the late-1990's and early-2000's, all of the property that Guangzhou R&F Properties had sold in Guangzhou before 2003 are missing any kind of formal land use rights certificates (Guangzhou R&F Properties Co., Ltd. 2005:27). Thus, its property valuation section of the prospectus does not list the considerations, which the company paid for land parcels acquired in the earlier years. The industry literature confirms that Guangzhou R&F got its start by purposely deploying a low-cost strategy of acquiring cheap land parcels from old SOEs in central city districts (Guangdong Real Estate Association 2011:10, 199).

As the above description suggests, local municipalities and their governing agents did not comprise a developmental state. There was no well-oiled bureaucracy staffed by a professional corp of well-trained civil servants as prescribed by Weber in his analysis of what is required for the rise of a market-based economy. Instead, what existed was a rudimentary and fragmented, sometimes overlapping and competitive bureaucracy at the city-level that set up their own development companies in order to partake in the profits promised by a fast-growing sector; that also engaged in personal transactions in land so that he/she might personally profit from the transaction with other land speculators or developers. Rather than governmental autonomy, the leadership was invested in the operations and the goals of land allocations because of the economic and political gains that the sector promised them.

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<sup>93</sup> According to the World Bank report published in 1993, industrial users in Guangzhou that decided to relocate received compensation for vacating their structures and equipment from the municipality. The vacated land was put up for tender or was allocated to the next user. The real estate development corporation that acquired the site also often agreed to pay the original industrial user a percentage of the profits from the redevelopment, less the cost of the new facility at the new site (World Bank 1993:23).

Urban plans at the lower levels of government were often at odds with urban plans at the higher levels, for example. The higher levels often lagged behind in drafting their plans and could not issue their approvals in a timely manner (Cartier 2001:461; Interview 101808; Interview 121708). This inhibited plan implementation at the lower levels where such implementation was most critically needed. Due to bureaucratic incoherence, furthermore, jurisdictional authority over land usage often overlapped or contradicted one another (Cartier 2001:466-467; Interview 121708). For example, local Land Administration Bureaus under the Ministry of Land and Resources regulated LUR sales; yet the local urban planning bureaus under the Ministry of Construction issue urban plans. This bifurcation of responsibilities often resulted in bureaucratic contradictions and operational competition. Urban planning was often divorced from the reality of land leasing and lease conditions (Yeh and Wu 1999:239). Land Administration Bureaus were also often separate from real estate management that handled housing and buildings after they had been constructed (Interview 121708). In general, furthermore, urban planning decisions were made subordinate to the developmental goals of local government officials and development interests within cities because of their revenue and reputational potential. Developmental goals of businesses and political leaders often trumped planning guidelines, which lacked sufficient detail and practical “bite” to render them effective. Land usage directives and plot ratios were frequently modified under pressure (Wu 2000:1367; Interview 82411).<sup>94</sup>

Local leadership was intimately involved with real estate development. Throughout the 1990’s, the local government was thoroughly involved in land development decisions in a manner that would yield the greatest market and economic value for them. Local government officials from the mayor’s office down in cooperation with the Land Administration Bureau and the Planning Bureau would select the developer which it considered most reliable with which it wanted to work to implement the developmental goals. It would also select the most valuable parcels of land and handpick the agents to whom it wanted to entrust the project (Wong and Zhao 1999:117). It regularly extracted in-kind payments and fees in return for giving them these developmental projects that would also yield them significant profits (in the form of commercial housing sales or leasing of office buildings, etc.)

Local governments fit more the prototype of an entrepreneurial state trying to garner as much profit as possible. Urban planning was often used a tool for local growth as alliances among local government, foreign investors and businesses were increasingly formed. And this led to increasing reliance by the local government on land sales as municipalities sought to meet its budgetary shortfalls and the enormous demands for infrastructure construction and urban development. These various demands led to a number of unintended consequences, which this chapter has tried to describe such as: (i) the “real estate craze” of the 1990’s that led to the real estate bubble in 1992-1993 in various major municipalities along the Eastern seaboard; (ii) the proliferation of special

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<sup>94</sup> Under fiscal decentralization that began with the fiscal contract system and intensified under the tax sharing system of 1994, municipalities began to increasingly rely on district and county governments to mobilize resources and collect revenues. Thus, these lower tiers of local governments also saw their decision-making powers increased in the early 1990’s including those over project approvals, land use planning and issuance of building permits and saw of land leases (Wu 1999:1760). District governments increasingly became aggressive in their bid for construction projects, including the building of central business districts, which added to their prestige and increased their district revenues.

development zones that extended all the way down to the lowest tier of government such as counties and even villages; (iii) significant loss of arable, rural land throughout the late 1980's to 1990's; (iv) and a "free for all" in the industry where land was sold for cheap through negotiated sales, regularly involving bribery and corruption.

## Chapter 4: The Real Estate Firms and Their Relationships to the Local States

Chapter 4 will build on the key themes developed in Chapters 2 and 3 and describe four elements in particular: (1) explain the morphology of the real estate sector in China; (2) characterize the varying, mutually symbiotic relationship between real estate enterprises and their state patrons in local governments (similar to David Wank's "symbiotic clientelism" (Wank 1999; Wank 1995:155)); and (3) illustrate the complicated nature of this mutual dependency between property developers and local government leaders by parlaying some of the founding stories of China's largest, private developers generally headquartered in first-tier cities like Beijing, Shanghai, Guangzhou and Shenzhen.

The real estate industry in China grew out of the state bureaucratic sector as land use rights (LURs) became commoditized, housing, increasingly privatized, and state bank operations, increasingly commercialized. Raw materials, too, became available on the market outside of state budget and plans.

In light of the state-bound origins of the real estate sector, however, and the state-owned origins of its key production factors such as land and capital, the real estate sector in China still occupies an interstitial, in-between field. It is still heavily resource dependent upon local state actors even if the sector is now driven more by market allocation and distribution of resources. Land use rights and bank credit, too, enjoy partial marketization. Nevertheless, land is still under state ownership and banks are still state-owned and vulnerable to local pressures. Both factors of production, in other words, are no longer under monopoly of officials, but are under the influence of government actors. The real estate sector does enjoy the full marketization of material supplies, however— e.g., cement, steel and other raw materials -- and the growth and specialization of personnel in architecture, interior design, property management, real estate brokerage, and construction.

Before describing the dynamics of the property development industry, however, and its local state patrons (and the reverse dynamic of local state officials who also depend upon developers), I will open the chapter by explaining the structural configurations of the contemporary real estate sector in urban China.

### *A. The Morphology of the Real Estate Sector in Urban China*

In this section, I will first describe how China's real estate sector is highly fragmented among diverse property development enterprise-types. Medium and small-sized firms still form the majority of the industry even as large, prominent real estate enterprises that mainly came into being in the 1990's have increasingly come to the fore to occupy top industry rankings. Despite market fragmentation among industry producers, in other words, a status ordering is taking place. Second, I describe the five different types of property development firms that operate in China's real estate sector – i.e. (i) national-level state-owned enterprises; (ii) national-level private firms; (iii) local state-owned enterprises; (iv) local private firms; and (v) project-based firms or temporary firms. In addition, according to my interview sources, differences in operational characteristics are also apparent between northern and southern firms.



First, with respect to the composition of the real estate sector in China, low levels of market concentration by medium to small firms that exhibit a diversified ownership structure mark the Chinese real estate industry (Zhang 2010b). Impacted by the administrative land tenure system under Maoist high socialism (1949-1978), its under-regulation in the 1980's and 1990's and rapid commodification of land-use rights since the late 1980's, China's real estate sector is marked by fragmentation and decentralization (Hsing 2010; Hsing 2006). Neither the combined market shares of the top four nor the top eight developers in China, for instance, occupy more than 10% of the market (Zhang 2010:108). The annual sales figure for the largest residential property developer, Vanke (万科), on average occupies only [2%] of the nation's residential market (Interview 53009). The reason for this is, at least partly historical as development firms came into existence during the under-regulated decades of the 1980's and 1990's. As more fully described in Chapter 3, various state entities, bureaus and enterprises that had access to land parcels indiscriminately set up development firms. As land gained in market value, both private individuals with political connections and state entities that either owned or had access to land had set up a patchwork of property development companies (Duckett 1998; Lin and Zhang 1999). Reflective of this unorganized and fragmented history, strong localism of the real estate sector, zealous local state protectionism over revenue-generating enterprises and China's under-developed capital markets, property development industry began with and continues to exhibit the predominance of small to medium-sized enterprises (Interview 32512; Interview 32912(1); Interview 32912(2))<sup>95</sup>.

Secondly, despite its origins in the crucible of state ownership, the real estate industry is now largely comprised of private enterprises (P.R.C. National Bureau of Statistics 2012). State-owned and collectively-owned firms had once together comprised, for example, 84% of all property development firms in 1996; but as of 2010, there were 85,218 registered property development firms in China of which only 5.8% were either state-owned or collectively owned (P.R.C. National Bureau of Statistics 2011). State-owned enterprise reforms in the mid- to late-1990's had repopulated the real estate industry with non-state- and non-collective-owned enterprises by the mid-2000's. The influx of private developers in the boom years of the early 1990's,<sup>96</sup> furthermore, had also elevated the number of private developers among the total. As the privatization drive of state-owned enterprises have continued and their ownership forms continue to diversify through sale of shares to non-state entities and private individuals, real estate industry in

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<sup>95</sup> As one mid-level and one upper-level manager of two development companies related to me, however, they conjectured that in the first- and second-tier cities, the market concentration rate may, in fact, be rather high (Interview 32712; Interview 32912(2)). I have not been able to verify this fact with sales figures from, for example, the top 10 firms compared against the total sales figures for residences and commercial buildings in the top-tier cities such as Beijing, Shanghai, Guangzhou and Shenzhen, for instance.

<sup>96</sup> As one prominent head of a long-standing real estate developers' association related to me, many of the private developers who entered the industry in the 1990's were state-owned construction subcontractors who saw the profits possible in real estate, pooled money from friends and family and entered this line of work (Interview 91111). I have not been able to verify the veracity of this account, but other informants have also related the influx of construction firms into the property development sector in the 1990's

China is now primarily comprised of private firms that are no longer owned or managerially controlled by the state (Interview 92311; Interview 32512).<sup>97</sup>

Although the industry is highly fragmented and diffuse, the industry nevertheless has begun to exhibit a certain, reputational hierarchy analyzed on the basis of net profit levels, total sales figures, current construction quantity, operational scope and name recognition or market reputation (Guangdong Real Estate Association 2011:183). Nationally-recognized real estate analysis and research outfits such as Soufun's China Real Estate Index System (CREIS) and E-House's China Real Estate Information Corp. (CRIC), for instance, regularly publish such rankings; and, even more tellingly, the property developers I interviewed all were easily able to list both their national and local competitors as well as those whom they considered to be top-tier developers in the nation. Their responses exhibited high instances of overlap; and, as one high-level manager of a second-tier firm responded, the enterprises that regularly appeared on the top-20 rankings of these industry lists (e.g. Soufun's CREIS list or E-House's CRIC list) were reliably considered to be powerful, top-level firms in the industry (Interview 32912(2); Interview 32512; Interview 9811).<sup>98</sup> These rankings would change over time as some companies ascended or slipped from the coveted top rankings, yet the prominent names have appeared regularly over the last decade since the 2000's.

### 1. *Typology of Firms: Five Types*

There are five general types of firms that populate the housing industry in urban China: (1) State-owned national-level firms; (2) private national-level firms; (3) state-owned local firms; (4) private local firms; and (5) project-based firms that comprise part of the network of subsidiary firms under big developers; and temporary firms that gain access to land use rights through political connections.<sup>99</sup>

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<sup>97</sup> A good example of such a firm is Vanke, whose predecessor began as a wholly state-owned enterprise (under Shenzhen City SEZ Development Company (深圳市特区发展公司)), issued public stocks in 1988 and still remained under 60% government ownership. As one of the first state-owned enterprises in China to go public, it listed on the Shenzhen Stock Exchange in 1991 (stock code SZ000002) and is now a publicly-listed company. Eighty-six percent of its shares are held by private shareholders and 14% are held by the central state-owned enterprise, China Resources (华润). All its shares are freely tradeable rather than locked in by the government (Interview 9811). It is, of course, unclear whether the 14% shares owned by China Resources, Vanke's largest shareholder, also gives them undue influence over the company's decision-making because it is a powerful, central state-owned enterprise. From my conversations with its middle managers, it is my impression that the company and its chairman, Wang Shi, particularly prizes the private enterprise model and its independence from government interference. But the internal politics of the company is not something I can accurately and wholly verify.

<sup>98</sup> It is not uncommon for such reputational rankings to be bought and sold to different firms. A higher ranking on the reputational scale spells greater cache for firms when they apply for bank loans (and lower interest rates). A nationally-ranked developer will also attract greater numbers of local state officials who offer business enticements to invite prestigious firms into their cities to develop them (Zhang 2012). Yet, one of my informants (whose own firm had, in fact, purchased a top-50 ranking on the E-House/CRIC ranking) related that the top 20 spots were considered reliable among industry insiders.

<sup>99</sup> There are also small, state- or collectively-owned development firms at the county/district, township and village levels. My dissertation, however, stays at the level of the larger development firms

There are state-owned developers at every level of the state from the central, provincial, municipal and district levels (and even down to the township and village levels (see footnote 12)). For the large, prominent ones, they tend to cluster among the higher levels of the state down to the major municipalities,<sup>100</sup> although some are at the district level in first-tier cities as well.

*a. National-level SOEs:*

Some of the advantages, which powerful state-owned developers enjoy cannot be duplicated for the private firms. Such benefits include the status of their executives and officers who are high-level cadres and, thus, come with an array of connections and state-backed privileges upon which they can draw. Their bureaucratic superiors, furthermore, are often powerful state entities at the central, provincial or first-tier municipalities who can be called upon to back their subsidiary enterprises for project referrals, financial backing or land bids. The extent to which this happens is difficult to gauge, but the general impression appears to be that this type of backing works in the SOEs favor frequently in the market.

Their state-owned status also translates into easier bank loans at substantially reduced interest rates. Banks are more willing to lend to them not only because of personal connections and tangible and intangible pressures from administrative higher-ups but also because SOEs tend to have diversified lines of business and are more known entities to the banks (Interview 92311; Interview 2810). Loan application procedures for SOEs are also simpler because they are not required to have the full panoply of permits and licenses that private developers are required to present before applying for them (Interview 2810). Perhaps even more importantly, banks trust that loans issued to SOEs – especially the powerful, higher-level SOEs -- have an unwritten government guarantee for eventual payment or write-offs and will not appear in their books as non-performing loans (Interview 22710).

State-owned developers may have deeper financial pockets not only because of their easier access to bank loans but also because they potentially have better and more diverse financing options. First, prominent state-owned developers are often parts of large conglomerates and business groups where affiliate firms divert funds into real estate to avoid sectoral downturns or to diversify investments into profitable sectors when their profits are high. With limited investment options, SOEs are often eager to invest in real estate where profit levels have been high since the early 2000's. Second, because of their state-owned status, large SOEs also have an advantage in being able to more easily access capital markets by getting listing approvals from the China Securities Regulatory

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based within first-tier cities (rather than its suburbs) and does not analyze the smaller, lower-level developers at these grassroots levels.

<sup>100</sup> Some of the more powerful and oft-cited ones at the central level include China Resources (华润) and Poly (保利) both of which are also publicly listed but where majority ownership remains in government hands. Prominent developers at the municipal level include Shanghai's 陆家嘴, 绿地 and Shenzhen's 金地. At the district level in Beijing, one can cite to 华远地产 under the chairmanship of Ren Zhiqiang (任志强), a famous commentator and media provocateur who is often reviled by the public for his acerbic comments regarding the property market.

Commission and offer securities on stock exchanges (Interview 22710). With cheaper and easier access to credit and capital markets, SOEs then enjoy a non-negligible advantage in terms of deeper financing options.

The other material ways in which state-owned developers – especially those owned by the central government -- benefit from their ownership status include their advantage in winning land parcels. Negotiated land deals were the norm until the mid-2000's when on August 31, 2004 State Council Notice instituted competitive pricing systems in the form of “auctions, bidding and listings-for sales” for land use rights (LUR) sales. Negotiated LUR sales were prohibited thereafter. Although the system is still imperfect, these competitive bids and auctions are gaining traction especially in the first-tier municipalities. Nevertheless, my informants made clear that state owned developers enjoy an advantage in winning bids often through behind-doors negotiations. It is unclear how prevalent this dynamic is and whether certain regions exhibit greater propensity to favor SOEs than others or whether certain SOEs are favored than others, but at least anecdotally such an impression ran strongly among most of my informants. Without the cooperation of the local state, a developer cannot operate in that region (as will be detailed more fully below); thus, other bidders are compelled to go along with this rigged competition and withdraw as notified. With greater access to capital, furthermore, large SOEs can turn their financial advantage to their benefit in the LUR market as well by being able to outspend their private competitors.

In addition, the structural advantages of SOEs were also on display with respect to my interviewees. For instance, according to some, local state agents more often shield SOE developers from detrimental laws and from penalties for violating such laws compared to private firms.<sup>101</sup> Their state superiors, if higher than the local state-level where these state-owned developers operate, will also use pressure to help their subordinate enterprises obtain project opportunities, clear regulatory hurdles and win licenses, although the extent and scope of such patronage throughout this industry is difficult to gauge.

Nevertheless, among industry insiders and analysts of China's real estate, SOEs are known for being less efficient in their operations. Due to their bulky administrative set-up and poor separation between management and state-ownership, they were considered less competitive at the enterprise level. Their firm-level disadvantages, however, may be made up for by their resource and status advantages (Interview 9511; Interview 92311). It is difficult to assess whether SOEs are more powerful than their private counterparts in the industry even if the resource advantages they wield appear significant. Yet, what does seem clear is that both higher-level SOEs and private

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<sup>101</sup> Such laws may include the Land Appreciation Tax (土地增值税) or the land idling laws<sup>101</sup> that have been enforced very loosely, if at all, since their promulgation in the 1990's but if enforced strictly, would prove the downfall of many development firms. My informants also suggested, however, that prominent private firms with long histories in the area can also often garner the protection of their local governments during market downturns or negative regulatory entanglements. As to whether SOEs or private firms derive greater protection from their local patrons may depend to some extent upon the geographical region of the country where the firm is located. As noted above, northern areas tend to favor their state-owned affiliates whereas in the more market-oriented south, that differentiation may not be as pronounced and private firms, too, enjoy such state protection in bad times (Interview 32712; Interview 32912(2)).

development firms occupy top spots among national-level rank orderings of such firms and firms of both ownership types are acknowledged as powerful players in the field.

In the northern and central regions, furthermore, a higher proportion of developers are characterized by stronger state-ownership and history of state affiliation. Some, in response to both central government push to restructure SOEs in the 1990's and to increasing market pressures, later privatized and corporatized in the late- 1990's through management buyouts, open sales, employee shareholding and M&As. The northern and central firms, therefore, exhibit closer formal ties and history with the state sector. Associated with this greater state-affiliated orientation of their developers, northern land markets also exhibit tighter government control. Listings-for-sale (招标), for instance, the least transparent of the LUR sales methods, is used more often than auctions compared to southern regions (Interview 32712; Interview 32912(2)) where the system is more marketized; and SOE developers apparently derive greater advantages in terms of gaining cheap land parcels, easier access to permits and licenses and protection in cases of regulatory run-ins.

Some of these SOEs also began as part of a nationwide network of powerful state-owned firms with factories and enterprises spread throughout the country involved especially in construction, trading, export-import operations, shipping, and state-wide manufacturing industries (China Industrial Map Committee 2004).<sup>102</sup>

#### *b. National-level Private Developers*

As detailed previously, private developers entered the market in larger numbers during the 1990's when land was commodified under the Constitutional Amendment of 1988. Throughout the 1990's, however, land parcels were mainly transferred via negotiations. Private developers who independently entered the field after Deng Xiaoping's 1992 southern tour (rather than as a result of SOE corporatization) obtained land by forming joint ventures with local governments and/or state owned enterprises. If they had personal connections to state agents who could transfer land parcels at discount, they also formed development firms to engage in land speculation or to develop property.

Private firms over which government entities exert little direct control have gained prominence, especially in the southeast coastal region, which opened up first to outside economies in the early 1980's. Large, leading private developers that began their operations as early as the early 1990's, for instance, characterize the real estate industry in areas such as Guangzhou, the Pearl River Delta and Shenzhen. Impacted by the influx of Hong Kong developers and foreign direct investments from other overseas Chinese communities, and less dominated by the central government, local governments in these southeastern regions such as the Pearl River Delta region, Guangzhou and Shenzhen established joint ventures with commercial developers to build infrastructure and housing; and these southern firms retained their more private character as well as their

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<sup>102</sup> Some of these SOE developers include such prominent firms as China Resources (华润), Poly Real Estate (保利地产), China Overseas Land and Investment (中国海外发展有限公司) and COFCO Group (中国粮油食品(集团)有限公司) (Interview 9811).

dominance in the southern market.<sup>103</sup> As the decade of the 1980's and 1990's waned, however, domestic developers began to gain prominence over the foreign and overseas developers even in the Pearl River Delta.

Despite the formal independence of private management from direct state supervision, private entrepreneurs in real estate, (as in other sectors), must maintain and nurture their clientelistic relationships with their local government patrons. In the absence of full marketization of key resources such as land and capital where personal connections still matter greatly and where state control over those resources is significant, real estate firms, whether state-owned or private, have to work even harder than in other sectors to stabilize their access to their resource dependencies. As is well known, the key elements of real estate – e.g., land, capital and urban project opportunities -- are still firmly in local government control. Thus, with respect to the large, prominent private firms, their close association to the local state was unanimously affirmed by all of my interviewees. Their starting point in the industry involved state patronage especially in the 1990's when these firms gained their first foothold. Some or all of the key start-up ingredients for developers – e.g., land parcels, financing, procedural requirements and project opportunities – emanated from local governments (as will be detailed below). This situation was even more true during the under-regulated decade of the 1990's although the dynamic is still very much alive and well in the 2000's.

In order to gain this foothold in the form of land grants and project opportunities, local states extracted from private entrepreneurs (as well as SOE developers) quid-pro-quo building of infrastructure and public facilities for which urban governments were in urgent need in the 1990's. In return for land allocations, tax breaks and development opportunities, therefore, these developers built roads, sewage lines, cleared land parcels, relocated original residents and built urban primary infrastructure in return for promises of cheap land in prime locations.<sup>104</sup> They also engage in bribery as a cost of business in order to gain entrée and to achieve their business goals.

There is also some evidence that most executives and officers of prominent, private developers had generative periods of state employment in their pasts. If they did not enjoy significant positions in the state bureaucracy that they could then parlay into widening networks of state patrons, they needed access to relevant state entities through personal connections, which they could translate into opportunities to purchase LURs.

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<sup>103</sup> Examples of such prominent private firms headquartered and founded in the southern regions include Vanke (万科), Evergrande (恒大), Agile (雅居乐), Country Garden (碧桂园) and Guangzhou R&F (富力).

<sup>104</sup> Accounts exist of firms that purportedly did not engage in such corrupt practices but obtained their first parcel of land in public auctions. Here, I am referring how Vanke first entered the real estate business in 1988 by purchasing its first parcel of land at a public auction in Shenzhen. This account is also told in Wang Shi's (王石) autobiography entitled *Roads and Dreams: Twenty Years with Vanke* (道路与梦想：我与万科20年). The reliability of this account is not fully verifiable, however, especially with respect to the entirety of Vanke's operations in various regions of the country and since its entrée into real estate over twenty years ago. Vanke's reputation in the industry, however, appears positive in terms of its relatively clean and professional operations. It is also one of the first real estate firms to go public in 1991.

In the case of private development firms that grew out of SOE corporatization and privatization reforms, such pre-existing state ownership or affiliation may still provide them with advantages that serve their business interests.<sup>105</sup>

Regardless of such differences, the development of the real estate industry – and its most prominent firms in particular – is intimately tied to the growth projects of different municipalities in China. Intimately connected to the urban growth projects of municipal leaders, as well as impacted by the under-regulated land tenure system throughout the 1980's and 1990's, many of the prominent firms in China were aided by cheap land grants and loans that made possible their establishment and expansion throughout the 1990's and 2000's. Most, if not all, of the top 20 national firms that are active today benefited from cheap land allocations throughout the under-regulated 1980's and 1990's.

### *c. Local State-owned and Private Developers*

For local state-owned and private enterprises, their relationship to the local government is often extremely close and long-standing. They build both commercial and public, subsidized housing often at the behest of their local government patrons. Their business has become increasingly unstable as the 2000's has progressed, however, because of increasing competition from within as well as from without from big-name developers who are actively invited to develop their local areas. They rely on their good relationships with their local governments in order to weather market fluctuations and for development opportunities, but their limited profit levels and ability to tap internal and external financing makes them vulnerable to outside competition.<sup>106</sup>

Although these smaller firms provide insight into the political economy of smaller cities and lower level governments, my dissertation focuses in particular upon the more prominent, cross-regional SOEs and private development firms in first tier cities (regarding which there is more available data both publicly and among industry insiders) by examining their histories and origins over the last twenty years.

### *d. Temporary Project Firms*

According to China's statistical yearbook figures, in 2008, the nation had a total of 87,562 real estate firms (P.R.C. National Bureau of Statistics 2009). Of these, temporary firms (站定) comprised 28,695 firms or 33% of development firms. In addition, the statistical yearbook for 2008 indicates that the majority of real estate firms are either third- (22,938 firms; 26%) or fourth-grade firms (16,801 firms; 19%). The grade level of a development firm depends on specific regulatory criteria such as years in the business, capitalization level of the company, number of employees and the number

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<sup>105</sup> As the narrative of Vanke's separation from the Shenzhen municipality suggests, however, such state ownership could also damage the firm's operations through diversion of funds, undue interferences borne of political reasons and other inefficiencies.

<sup>106</sup> It is very possible that these local-level SOEs and private development firms occupy necessary market niches to meet local demands. An extensive analysis of these firms and their business operations are beyond the scope of this dissertation, however.

of property development projects completed. And, thus, to draw a connection between grade level and overall market concentration may not perfectly correlate but, as a general matter, the statistical yearbooks also give support to the overall statement that China's real estate market is fragmented and predominantly populated by small firms.

What are temporary project firms (项目公司)? Large developers set up numerous project firms as subsidiaries that are registered in the jurisdiction where they are working real estate projects. Because real estate development generates important revenue streams for local governments, developers cannot operate unless they set up project firms that pay taxes to the local government. Secondly, project firms afford large, parent companies a measure of financial protection in case of losses, bankruptcies or lawsuits stemming from the projects. The large, cross-regional developers all have established many project companies in locations where they have operated, although the exact number and extent of such project offices set up by large developers is difficult to fathom.

In addition, temporary firms are products of history, prevalent because individuals and entities with access to land parcels have set up small development firms, often engaging in very little development work and flipping "raw" land for speculative profits. Engaging in land speculation during periods of land appreciation, these temporary firms have proliferated since the 1990's. Although with increasing competition, regulatory tightening over LUR markets and the maturing of the real estate industry especially in the first-tier cities, such temporary firms are slowly disappearing, but they still take up a significant proportion of the total number of real estate firms across the nation.

#### *B. Symbiotic Clientelism Between Property Developers and Local Governments*

The real estate sector represents an in-between field where key resources are partially marketized and where both SOEs and private firms have risen to prominence in the industry. Although much of the factors of production such as raw construction materials are fully marketized, key resources of land and capital are still under state ownership and partial control. Thus, although markets have formed for both LURs and financial lines of credit, it is difficult to characterize these markets as complete markets because local state entities act as strong gatekeepers who still exercise substantial discretion in how these resources are allocated. Land-related income provides up to 40% to 76% of local government revenues (Interview 61509; Southern Weekend Editorial Department 2010). In light of their narrowing revenue streams and tightening budgets since fiscal reforms in 1994, local leadership actively engages in deciding how urban land parcels will get developed and allocated. They, too, are interested market actors when it comes to real estate development and land dispositions.

In this section I will analyze at length the mutually symbiotic relationship between local governments and property developers. To date, property developers' resource dependence upon local governments for land transfers is widely acknowledged by China scholars. (Nee 2012; Walder 2011:26-27). Yet, the flipside of this mutual dependence of local governments upon developers has been less well documented in the literature.

As described earlier, the real estate sector in China was comprised of 87,562 firms in 2008. Access to this opaque and secretive sector is difficult to obtain, let alone a



random sample of the firms in the industry. Within these firms, furthermore, to gain access to the right level of professionals who could answer questions with comprehension, breadth and sufficient detail regarding the origins and operations of the firm and even the history of the industry was more difficult to find. Thus, during the 18 months of field work in Beijing, Shanghai, Guangzhou and Shenzhen, I relied on a snowball sample method to build upon my contacts among real estate developers. My most important contact was a private developer headquartered in Hong Kong whose development projects were all located in Shenzhen and Shanghai.<sup>107</sup> His development work had been focused in top-tier cities in China since 1993 and his and staff were mainland Chinese themselves, most familiar with the real estate market in cities across China.

My sample, therefore, is necessarily skewed towards large, nationally-recognized *private* developers that are headquartered in southern China whom my initial contact had introduced to me – i.e., arguably the most marketized region of China. Thus, the mutually symbiotic relationship—what one China scholar, David Wank, calls “symbiotic clientelism” (Wank 1999; Wank 1995) -- between developers and local states that I examine is necessarily limited to that between large, prominent *private* developers in first-tier cities and their relationships with state agents in those large cities over time. I also examine, however, the dynamics of their relationships with local governments in areas that are now increasingly salient to these top-tier real estate firms: i.e., the smaller secondary and third-tier (and even fourth-tier) cities where they are actively undertaking urban development projects. I use, in other words, an extreme sample method of the most marketized actors in the real estate industry as a means to examine what kinds of mechanisms are at work between local states and developers *even when they are least* controlled, directly, by state entities. Can private, powerful firms act independently of local state patronage in order to accomplish their business? How much can local states interfere in their operations if direct control is absent? What is the nature of the relationship between presumably the most marketized firms in the business and their state patrons?

In describing the mechanisms that fuel this mutually symbiotic relationship between large, private developers and local state agents, I first set forth the multiple dimensions of real estate work and resources over which local governments have significant discretion. In doing so, I describe how local governments exercise that discretion despite central government regulations and how and why property developers alleviate such resource dependencies through clientelistic behavior. Although the context is different from that of Maoist high socialism, in some ways, the “organized dependence” which Walder described as operating within communist neo-traditionalist contexts still applies here. Party-managers in Maoist *danwei* exercised formal control over all key resources such as housing, food coupons, job transfers, and welfare benefits within the work unit; and as a result, employees had to cultivate clientelistic relationships with their superiors to curry favors and remain on good terms. And although partial marketization of resources and increasingly horizontal allocation of factors of production characterizes China’s real estate industry, local states still wield significant control sufficient to determine the growth and survival of developers in their area. Organized dependence of

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<sup>107</sup> He was intent upon expanding his real estate operations into Beijing, but had not succeeded in acquiring land parcels in Beijing as of 2012 when I last visited his office.

the Maoist era is clearly inaccurate to describe the situation today since local government agents no longer enjoy monopoly power over daily necessities and factor inputs but symbiotic clientelism still describes the overall dynamic of market-state relations in this important sector.

First, I will examine how and why land use rights over which competitive bidding laws have been imposed since 2004 are still subject to local government controls. What are some behind-the-scenes maneuvers in which local governments engage in order to divert land resources to developers whom they favor? How do they channel lucrative development opportunities to their handpicked candidates?

Second, I will examine the types of exactions that local governments extract in return for channeling land resources to certain developers. In light of the political achievements and accomplishments, which local leaders must record before leaving their posts (i.e., generally within 5 years), they focus on urban construction plans that will generate the highest economic growth, image makeovers for their cities, infrastructure expansion and jobs. They may also demand public buildings or economic housing construction built at the developers' expense. Profitable business opportunities, in other words, are duly exchanged, quid-pro-quo, for changes in the physical environment, which accrue to local leaders in ways that count for them: i.e., political achievements (征集).

Third, local governments also wield significant power over the survival rate of developers in other ways. There are two unavoidable factors that comprise developing property in China today. The length to project completion is long in residential development and vulnerable to policy shifts;<sup>108</sup> thus, the barrier to entry is high. The policy environment, furthermore, remains highly variable. Macroeconomic regulations have changed swiftly with each threat of real estate bubbles; and local regulations, which govern most of China's property development sector also remain highly changeable.<sup>109</sup> With little to no public accountability, furthermore, local governments can stop or start projects at will against which developers have absolutely no administrative or legal recourse (Interview 53009; Interview 6409; Zhang and Du 2013).<sup>110</sup> In the same manner,

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<sup>108</sup> The shortest time period I have heard of is 6-8 months for Vanke, which has made a name for itself for devising standardized buildings constructed with prefabricated materials. It is not uncommon for high-end residential complex construction to take close to two years, if not 3-4 years.

<sup>109</sup> Central government's macroeconomic tightening was imposed upon China's real estate sector in 1993, 1998, 2003, 2007 and again in [2010, which has lasted through now] (Interview, 91411). These represent only the biggest policy shifts, however, from the highest levels of the government, whereas detailed regulations and rules emanate from the municipal, district and even the grassroots levels of government.

<sup>110</sup> Exemplifying this situation, one top-tier real estate firm named Hopson (合生创展) had won from the Tianjin municipality a parcel of land and project deal in 2003. Using his connections, Zhu Mengyi, the chairman of Hopson, had acquired a 23,000 sqm parcel of land in Tianjin's Baodi District for a very cheap price. The project involved building the Jingjin New Town in the outskirts of Tianjin (Zhang and Du 2013). The company invested over RMB 600 million to build a 900+ room hotel as well as villas in this remote area that was considered a salty marshland (Zhang and Du 2013). The government of Tianjin had agreed to build municipal facilities in return for Hopson taking on the project, but never undertook the construction and reneged on the agreement. After 8 years and over RMB 600 million in sunk costs, Hopson's investment had turned sour. According to some, the project has turned into the once-indomitable developer's "waterloo." (Zhang and Du 2013).

however, local governments can also choose to shield certain developers against negative fallouts from shifts in policy; facilitate the issuance of permits and licenses and speed up the clearance of raw land parcels (e.g., land clearing, housing demolition, primary infrastructure construction and resettlements). In like manner, the two parties can also negotiate over who will handle the clearance of expropriated land and whether the developer will receive “cooked” land that includes primary infrastructure on unoccupied land.

The most important among local government’s administrative discretion, however, involves land transfers. Thus, I will turn out attention to this topic text.

1. *One Side of the Coin: What Local Governments Offer Developers*

a. *Local Government Discretion over LUR Transfers; Project Opportunities; Policy Implementation; Funding Opportunities*

As one developer of a private firm repeated to me in the course of our meeting, “the key to a developer’s business revolves around two things: Land and capital. Land and capital (Interview 32912).” These two factors of production are intricately related to one another and forms a virtuous cycle: more capital begets increased capacity to acquire land parcels; yet a more extensive land reserve also signifies a developer’s increased ability to take out bank loans, afford credit and enter the securities market.

Analysts and developers with whom I spoke suggested that with the introduction of the August 31, 2004 State Council notice requiring all LUR transfers to involve competitive auctions, bids or listings-for-sales, the urban LUR market had, indeed, become more “clean” and regulated in the major metropolitan centers. Yet, upon deeper probing, many also followed up with the comment that even in public LUR sales, if desired, negotiated land deals could and did take place covertly between local governments and designated developers. For instance, the local government may promise to channel the land parcel to the designated developer in a rigged auction in exchange for their agreement to build desired infrastructure (Interview 22710). The local Land Administration Bureau might also modify the auction documents to stipulate certain conditions that favor certain developers – e.g., paying the down payment for the land premium within an accelerated time period; stipulating terms regarding the conditions under which the land parcel will be transferred (“cooked” or “raw”); or requiring the construction of publicly subsidized economic housing (that yield very little profit for the developer) on the land parcel in question. The competing developers would be duly warned against outbidding the favored firm; or the favored firm would bid a price beyond what the market would bear only to hand over in actuality the amount that they had previously arranged between them. In certain regions less transparent means of marketing LURs were used –and invitations to tender sealed bids (招标) as opposed to public auctions (拍卖) prevailed.<sup>111</sup> In such cases, the local Land Administration Bureau would choose their designated developer (Interview 22710)

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<sup>111</sup> As mentioned above, my informants suggested that northern cities, including Beijing, tended to use sealed bids more often than southern municipalities in the Pearl River Delta.

One of China's most prominent property development firm named Country Garden (碧桂园), for example, and its affiliated company negotiated a deal with a district government in Hunan Province for a 690,000 sqm parcel of land. The land parcel was located in scenic LuoJia Gang (罗家岗) in Zhangjiajie City – an area that Hunan Province had listed on its master plan as a place that it would develop and promote into an international tourist destination. Country Garden's affiliate company entered into two secret agreements with Zhangjiajie city's district government (Su 2007) even before any public auction or bid was announced for that parcel of land. It stipulated that Country Garden would undertake the “three lines and one leveling” (三通一平) primary infrastructure construction<sup>112</sup>. Country Garden also agreed to undertake its trademark, mixed-use property development including a five-star hotel and villa complexes. According to these two secret agreements, Country Garden was ultimately responsible for paying only RMB 4.43 million for the 690,000 sqm of land—i.e., RMB 6.42/sqm, a token amount. In addition, the provincial government was paid a portion of the final bid price. This result was anticipated because the municipal district government agreed to return 96.75% of the final land premium price reached at the end of the public bidding process to Country Garden's affiliate company (Su 2007). This reimbursement was meant to finance Country Garden's building of the primary infrastructure and serve as an initial return on its capital investment in the area.<sup>113</sup>

Both the district government's decision to invite Country Garden and its decision to enter into the two secret agreements apparently had been set in motion by the head of the Political Consultative Conference of that district (Huang and Li 2007). Through his efforts, the project development plan involving Country Garden had reached the highest levels of the provincial government and was considered a provincial level project (Huang and Li 2007).

Local governments actively recruit developers who can deliver the developmental aspirations they carry. Thus, a well-established, high-end developer whom I befriended in Hong Kong recounted how the local government in Shanghai had “forced him” to build a luxury residential compound in an unattractive neighborhood when he was still building up his company. Despite his reluctance to take on the project, he felt he had no choice since he was trying to break into the Shanghai market (Interview 5409). His initial big break, too, occurred in Shenzhen when he was able to strike an infrastructure project deal with the Shenzhen Power Supply Bureau (that was sitting on a great deal of raw land) in a joint venture agreement. In return, the company was given 350,000 sqm of land in 1994 in an attractive location that later became the city center of Shenzhen. With this land reserve, the company was able to list on the Hong Kong Stock Exchange in 1998 – one of the first Chinese development companies to do so – and raised international capital just before the Asian Financial Crisis dried up investor interest in the area (Interview 53009; Interview 9511).

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<sup>112</sup> They would include constructing running water lines, electricity, roadways, coal gas lines, cable TV lines brought in from the city (Su 2007).

<sup>113</sup> Interestingly, land negotiations with Country Garden was in violation of an Emergency Notice issued by the Ministry of Land and Resources on May 30, 2006, which forbade the construction of all villas on any parcel of land (Su 2007). Some industry experts speculated, however, that the local government may have bypassed the Notice by designating the land as involving the construction of hotels (Su 2007).

Despite the public nature of these LUR auctions, bids and listings-for-sale, covert negotiations and arrangements do take place that rig such transactions in favor of the designated developer. Negotiated land deals were the norm throughout the 1990's and the early 2000's, as described in Chapter 3, yet the practice continues in covert form even after the August 31, 2004 regulation. In addition, local governments have and still continue to differentially implement policy directives involving tax enforcements, regulations against the extended possession of undeveloped land parcels (passed to limit land speculation), and zoning rules to shield their favored developers. Height and design restrictions, plot ratios and green area requirements are also often negotiated with the local government bureaus (Interview 61909) often in return for favors, bribes and kickbacks.

There are also indications that local governments apply pressure to local branches of banks to issue loans to developers with whom they wish to do business (Interview 32712).

## 2. *Flip Side of the Coin: What Developers Offer to Local Governments— Know-How and Capital*

### a. *Records of Achievements in Office*

“Local government officials are always, 24/7, thinking about how to increase their revenue, the city's GDP, property value, economic growth, and how to get promoted (Interview 91411)” stated the department head of the Development Research Center of China's State Council. This statement was echoed countless times by my interviewees. This statement, while not new to China scholars, was surprising in some ways because whether the statement came from a high-up government cadre (as in the case above), an industry insider, an ordinary citizen, or a private entrepreneur, a consensus existed as to the political and economic logic that motivated local government leadership. As one wealthy private developer related to me, “Now local officials think about face more – they want to build up their reputation in comparison to other cities, in the eyes of the media, in the eyes of the central government (Interview 5509). One mid-level manager of a private development company also stated that “consumer demand [for housing] is merely the expression (表现) of the government fiscal structure (财政体制).”

As the above quotes attest, local government budgets and economic factors critically shape the residential markets in urban China. It also shapes the relationship of property developers to local government officials. Throughout the early 1990's and into the 2000's, the dominant pressure upon municipal governments in Beijing, Shanghai, Guangzhou and Shenzhen (as well as in other major cities along the coast) was to build their cities quickly, to urbanize rapidly and to build the municipal infrastructure necessary to draw in investors and sustain the physical and economic growth of these cities.

The National Development and Reform Commission (NRDC) issues five-year plans for all tiers of the government. They define physical construction targets as well as economic growth targets (such as GDP rates) for local governments, which are taken very seriously by each level of leadership. The success and failure to meet such goals are regularly assessed by the Communist Party to evaluate the career chances of local government leaders (World Bank 2009:22, 93). Thus, local decision-makers – such as

city mayors, vice-mayors, Party secretaries and deputy-secretaries – pay keen attention to how to achieve these state-mandated goals. Among these targets, infrastructure development and physical construction goals are among the most important markers of success for local leaders (World Bank 2009:93). Incentive structures for local government leaders, in other words, revolve around construction (World Bank 2009:6) of water supply, waste treatment, gas, heat, garbage disposal, and urban rail networks (World Bank 2009:21). Such construction targets can also include urban roadways, bridges, squares, river management, old city redevelopment, new town construction, parks, greenery and other building projects (World Bank 2009:21). Physical growth targets, therefore, motivate municipal leaders to mobilize much of their resources, energy and power to achieve them.

In this political context, it is easy to see why property developers matter so greatly to municipal leaders. Land transactions, too, take on added importance as municipal decision-makers rely primarily upon land leases and their related incomes to finance municipal construction projects (World Bank 2009:22).<sup>114</sup> Under the national Budget Law, local governments are severely constrained from market borrowings (such as issuing municipal bonds), revenue generation and deficit spending (World Bank 2009:23).<sup>115</sup> Land use rights and their disposition are critically important to municipal leaders. And, thus, property developers who are the key links in the chain to building municipal construction, raising the property values of cities, constructing residences and commercial property for sale (and, thus, raising GDP growth rates as well) are important actors with whom local governments have to work in order to raise their political profiles and improve their career chances.

Throughout the 1990's, the predominant pressures upon large municipalities were to build their cities quickly and to urbanize rapidly. Different levels of urban governments, therefore, resorted to land-lease negotiations not in order to derive the highest prices for land parcels but rather to begin the construction process. With economic and fiscal powers decentralized to the local levels, local governments used their new-found authority to negotiate with property developers for infrastructure construction in exchange for cheap parcels of land (see Chapter 3 for further details). As a result of this dynamic, many of the currently powerful property developers amassed cheap land reserves in the key municipalities at this time.

### *3. Developers Acquired Cheap Land Reserves in Central Parts of Cities*

On August 2010, the Ministry of Land and Resource published a list of 1,457 parcels of land that were sitting idle and submitted it to the Bank Supervisory Commission (Zhou 2010:1). This was the first time that the Ministry had ever conducted such a national survey, sending 31 investigatory teams into 31 major cities (Zhou 2010:2) to create a “black list” of idle lands. It noted that Beijing, Guangzhou, Hainan and

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<sup>114</sup> Municipal revenues derived from land leases are one-off and are considered extrabudgetary – i.e., not shared with the central government and not included in the formal budgets of municipalities.

<sup>115</sup> And extrabudgetary municipal SOEs (established under the Company Law of the P.R.C.) that are capitalized by land assets and other municipal assets are increasingly borrowing on behalf of cities to undertake various infrastructure construction (World Bank 2009).

Jiangsu were “heavy disaster zones” where nearly 25% of all idle lands across the country were concentrated. It also described that municipal governments had designated nearly 70% of these idle land parcels for residential construction.

In Chapter 3, I described how nationally prominent development firms began their operations near major metropolitan centers in the early to mid-1990’s. During the emergent decade of the 1990’s, these developers eyed opportunities in the first-tier cities and took on municipal construction projects on behalf of their political patrons at their own expense, and amassed significant parcels of prime land in city centers (Caijing Editorial Department 2007). These property developers thereby got their first “big breaks” in the real estate business then repeated their successes. As the following case studies show, this chaotic decade of negotiated, cheap land sales and underregulation proved to be a watershed moment for many of the powerful firms that now operate across the country in China. Dalian Wanda is located in the more conservative and state-controlled area of Northeast China (in the city of Dalian, Liaoning province); and Hopson is located in the more liberal, market-oriented city of Guangzhou (in Guangdong province).

*a. The Founding Story of Dalian Wanda (大连万达)*

Founded in the early 1990’s as the corporatized successor to Dalian City’s Xigang District Residential Development Center (大连市西岗区住宅开发公司),<sup>116</sup> Dalian Wanda exemplifies the symbiotic clientelism of property developers with their local state patrons.

According to Forbes’ “China Rich List,” Wang Jianlin, the founder and Chairman of Dalian Wanda Group (大连万达集团) is China’s wealthiest individual as of 2013.<sup>117</sup> He is also considered the “godfather” of China’s real estate industry.<sup>118</sup>

Wang Jianlin joined the army when he was 14, but eventually joined the Dalian city government in 1986 when the military was downsized. He then volunteered to take over as general manager of its Xigang District Residential Development Company in 1988 when the enterprise was near bankruptcy as a result of his predecessor’s severe mismanagement (Zhang 2012). Although the details are unclear, Wang earned the district SOE’s first windfall profit of RMB 2 million when the company was commissioned to build Dalian’s Nanshan residential complex by the city government. The company successively won other old city redevelopment projects in Dalian and Wang Jianlin rose to become one of Dalian’s most prominent property developer.

The article states that Wang Jianlin’s special gift lies in being able to “scratch the itch” of local leaders (Zhang 2012). It has enabled Wanda to expand its operations over

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<sup>116</sup> Dalian City Xigang District Residential Development Center was a property development company created under the Real Estate Management Office of Xigang District. It was a wholly owned SOE of the district government created in 1987 (Zhang 2012).

<sup>117</sup> The magazine listed his wealth at US\$14.1 billion (Flannery 2013).

<sup>118</sup> He was born of a classic “red” revolutionary family in Sichuan Province where his father had been a Long March participant and soldier in the People’s Red Army. His father then went on to serve as one of China’s highest government officials in Tibet. Wang Jianlin also joined the military when he was 14, rose to become an officer then entered the Communist Party at the recommendation of his superiors at the Dalian Ground Forces College in the late 1980’s (Zhang 2012).

the last 20 years. Initially, Wang Jianlin invested company capital into creating Dalian Wanda Soccer Team, which earned “bonus points” with the municipal leaders. In the early days of Wanda (still called Xigang Development), it successively built public buildings at the behest of the local government (Zhang 2012). In 1990, for example, Wang Jianlin contributed RMB 1 million to construct a new public kindergarten in Dalian’s Xigang District. In 1993, the company donated RMB 20 million to build a municipal gymnasium; and in 1994, Wanda again put up RMB 500 million to build parts of the University of Dalian (Zhang 2012). In return, the city and district governments offered Xigang/Wanda many benefits by way of cheap land parcels and project opportunities. They further offered Xigang Development the chance in 1991 to implement the city’s first shareholding system of ownership. Xigang Development was among the first three work units in Dalian city chosen to implement this corporate form of ownership and, as a result, in 1992, Dalian Wanda Limited Liability Company was created out of Xigang Development. Its employees held forty percent of its stock; and the remaining 60% was held by a government-owned entity (the Dalian Investment and Trust LLC under the Investment and Commercial Bank of China) and collective enterprises (Zhang 2012). Over time, as a result of multiple share transactions and changes in share ownership, Dalian Wanda Group became a privately-held company (民营企业) that had originated from a wholly state-owned, municipal enterprise.

Today, Wanda completes between 20-30 development projects per year across the country. It is one of the most lucrative and reputationally powerful developers in China. The story of how it solicits so much business is a fascinating one and exhibits a pattern that I had heard repeated from other prominent developers as well. Leading officials from over 100 cities (generally from third- and fourth-tier cities) now come to court Wang Jianlin in his Beijing office every year to lobby his company to develop their cities (Zhang 2012).<sup>119</sup> Wanda tends to execute their commercial projects within 18 months –i.e., inside of the five-year term within which municipal officials need to make their political mark and record their developmental achievements. They are, in other words, fully keyed to the political ambitions of these local government leaders who strive to improve the employment situation in their cities and improve their cities physical environment. As Wang states in the article, his bargaining position is extremely strong in light of the political needs of his patron-cum-clients. Although the developer “needs” the city government in order to obtain cheap land parcels, expedite the necessary permits, gain financing and weather negative shifts in policy, developers are also “patrons” of municipal leaders who need their know-how, financial pull and project acumen to carry out their political goals.

As the example of Dalian Wanda Group illustrates, the patron-client dynamic of local governments and real estate developers is structured by key stakes in the well-being and longevity of both the political patrons and their entrepreneur clients.

*b. The Founding Story of Hopson (合生创展)*

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<sup>119</sup> Wanda specializes in building commercial real estate comprised of their trademark “Wanda Square” and retail high rises, including a five-star hotel and a mall, which generates employment and revenues for the local government (Interview 32712).



Hopson was initially known as the “invisible aircraft carrier of China’s real estate world,”<sup>120</sup> (Zhang and Du 2013), underscoring its early successes and prominence in the 1990’s and early 2000’s. Although it has undergone a series of business missteps and is seen to have lost some of its competitive edge in the real estate industry, nevertheless, the founding story of Hopson echoes the narratives of some of its other competitors in Guangdong Province, which I had presented in Chapter 3. Despite its business difficulties, Hopson is still within the top 100 developers in China and operates in the biggest cities in China. More importantly for us, its rise and fall gives insight into the tight connection between the property development industry and local government agents through the chaotic years of the 1990’s to the greater regulatory period of the mid-2000’s (Zhang and Du 2013).

Zhu Mengyi, the chairman of Hopson, first made his mark on Chinese real estate in 1992 with the construction of Huajing New Town in Guangzhou’s Tianhe District (Zhang and Du 2013). At the time, this area was still rural and undeveloped; and, therefore, Hopson was able to obtain the land parcels at extremely cheap prices. Immediately following their land acquisitions, however, Guangzhou city announced urban plans to build up Tianhe District. It anticipated expanding the city in an eastwardly and southerly direction in the direction of Tianhe. Zhu acquired other parcels of land to build residential complexes like the Junjing Garden (骏景花园), Zhujiang Dijing (珠江帝景), Yijing Cuiyuan (逸景花园) and Huanan New Town (华南新城) around Guangzhou City. When Hopson first acquired these land parcels, they, too, were still remote and rural; and yet, the city’s development plans soon followed to bear out the developer’s acquisitions because the area was marked by the city to become municipal centers (Zhang and Du 2013:4).

The previous system of negotiated land leases, in other words, proved key to Hopson’s dramatic rise in the business. The development company hit its stride in the mid-2000’s, when it broke through the RMB 10 billion sales total ahead of all the other industry leaders in China. The majority of its land reserves are still composed of land lease rights, which the company had acquired at very cheap prices in the 1990’s through negotiations. In fact, the article asserts that the cost of LURs acquired by Hopson in Shanghai, Guangzhou and Huizhou are one of the lowest in the sector; and even the 23,000 sqm parcel of land which Hopson had acquired in Tianjin’s Baodi District (described in footnote 26) in 2003 was obtained through connections. The price of that land parcel, which later caused the company significant losses, were purchased at a token price of RMB 78/sqm.

Although I lack the details of how and why the other “Southern Tigers” (i.e., Evergrande (恒大) Country Garden (碧桂园); Guangzhou R&F (富力) and Agile (雅居乐)) were able to obtain their land parcels at such token prices, one can conjecture that the dynamic of their LUR acquisitions in the 1990’s most likely resembled some version of the two cases outlined above. Evergrande, for example acquired land parcels in Guangzhou City that were remote when they’d acquired them, but later became population centers as the city expanded. Guangzhou R&F, too, accumulated land parcels in both suburban and inner city areas from old factories; and undertook urban

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<sup>120</sup> “Aircraft carrier” in Chinese denotes something akin to the “mother of all ships” in English.

redevelopment projects on behalf of the municipality. It is unclear what they undertook in return – whether favors, perks, bribes or larger investment projects – but the business norm in the 1990's reflected this mutual dependence of municipal leaders upon their favored group of developers to help them achieve China's great urbanization drive.

The dynamic continues in a different guise today as secondary and tertiary cities court large brand-name developers to come in and undertake development projects in their areas. The primary goal of a developer is a chance at profit. For local officials, their primary goal is to meet or exceed the mandated goals set by the central government in its five-year plans, which can determine their future career trajectories. Each party to this mutually dependent relationship, therefore, possesses either the resources, power or know-how necessary for the other party to achieve its primary goal. This, then, is the basis for the symbiotic clientelism that exists at the heart of the relationship between municipal leaders and their property developers.

The lifeline of a property developer's operation as well as that of city governments in China revolves around land. Without land parcels, developers cannot undertake their business. The past 20 boom years in China's urban real estate, in fact, have led property developers to aim to accumulate at least 3-years' worth of land reserves to meet residential construction demands (Liu and Ren 2008:16). According to an in-house analysis done by E-House, a leading real estate brokerage and research firm in China, LUR sales premiums, on average, took up 40% of a developer's housing construction cost in Beijing, Shanghai, Guangzhou and Shenzhen (Interview 32610). Residential property developers whom I interviewed affirmed this figure for their operations in first-tier cities as well. Often, their estimates ranged anywhere from 30% to even 70% (Interview 32510; Interview 2810).

In parallel fashion, revenue derived from land lease transactions alone comprise 40% to 60% of a municipality's budget today. They make up the bulk of a city's finances; and are key to the city leaders' viability and future successes. In short, land and the logic of land is key to the symbiotic structuration of the clientelistic relationship between property developers and municipal leaders. This proved true during the chaotic, emergent period of the 1990's; and still proves today.

## Chapter 5: Conclusion

In this dissertation, I have argued that there was neither a centralized nor localized developmental states of sufficient autonomy and managerial capacity to systematically undertake the infrastructural, residential and physical resuscitation of cities after the devastating years of the Culture Revolution in China. The dominant image of the Soviet-style socialist state includes images of an all-encompassing bureaucratic apparatus that exhibits centralized control and vertical, top-down power that can penetrate down into the grassroots (U 2007:6). Some have tended to conflate this “hyperexpansion (U 2007:x)” of bureaucratic power in Soviet-style socialist states with the over-growth of Weber’s ideal-typical modern bureaucracy. Yet, as my Chapter 2 described, such a bureaucratic apparatus for horizontal, city-level development, land administration, real estate management and urban planning in pre-reform China were weak and disorganized. In fact, there is evidence that the socialist bureaucracy under the Maoist regime was, in general, what Eddy U calls a “counter-bureaucracy”: a politicized and fragmented bureaucracy that lacked technical competence, exhibited arbitrary rewards and punishments, endemic corruption and a pervasive reliance upon patron-clientelist favors (U 2007:7).

In light of the irregular and minimal budgetary considerations consumer goods received during the Maoist era, even the ministerial lines of command were weak in cases of housing and urban construction in China. The central Chinese state in general failed to coordinate the parcellized and insulated, top-to-bottom ministerial lines during the Maoist era, and this was even more true in the area of land management, housing, and urban construction (Baum and Shevchenko 1999:337). Although a hierarchical and professional, modern bureaucracy along Weberian lines might be what we would have expected in light of China’s socialist past, this was not, in fact, what existed when economic reforms began in 1978. The horizontal lines of authority held by territorial state entities were even more ineffectual in the field of land administration and urban construction when reforms began.

When housing and urban construction began to take on political urgency, however, in the 1980’s, municipal governments did take up the challenges of rapid urban development as my case studies of Tianjin and Guangzhou illustrated. They provided material resources to the “comprehensive construction companies” that they had established under municipal control and endowed them with free land, urban plans, personnel, raw materials (that were often in short supply at the time) and financing in order to effect sizeable construction and delivery of housing. They also provided sufficient administrative coordination to allow these sub-bureau level real estate agencies to harness greenfield land parcels, install primary infrastructure, relocate original residents and construct new residences.

As my dissertation argues, gradually following upon this early reform period, the central policymakers planted and activated a new set of “game rules” in the 1990’s, which structured the delivery of urgently needed urban infrastructure and residential building construction. It did so by putting in place three critical items: (i) marketizing urban LURs under the constitutional amendment of 1988; (ii) emphasizing the critical importance of economic and infrastructural growth in the professional criteria for political promotions of provincial, prefectural and municipal-level leaders; and (iii)

permitting incomes from LUR transfers to directly count as extrabudgetary revenues of the local states at a time when budget constraints were increasing in the aftermath of 1994 fiscal reforms. In other words, I argue that the new political economy of land usage and real estate development put in place an entrepreneurial local state structure: The incentive structure for local state agents is directly tied to promoting economic growth; and municipal governments have a direct financial stake in generating governmental incomes through urban land use rights sales and commercial real estate development (Baum and Shevchenko 1999:345; Tsai 2001:3). Concurrently, revenue generation grew increasingly salient due to the fiscal recentralization of taxes and revenues reinstated by the central state in 1994.

The need to promote infrastructural and urban physical development implicates the political and economic incentives of local state agents. Extrabudgetary revenues are beyond the reach of the central government and can be used at the discretion of the local government. Because they are so earmarked, such revenue streams are highly coveted by local governments. The logic of this structural set-up promotes an entrepreneurial state orientation (Baum and Shevchenko 1999:345) where the profit motive – in terms of both political and economic capital – directly animates local state behavior.

Unlike the developmental state paradigm where an institutionally-insulated, strong government formally interacts with the business community to jointly effect comprehensive developmental goals, the entrepreneurial alignment of state and industry does not necessarily transcend parochial interests. The interdependence of state and industry in the entrepreneurial mode exhibits an alignment of profit incentives for both parties. Pursuit of profit in the form of either personal, professional or organizational advantage is more narrowly defined than in the case of the classic developmental state model. In both the “embedded autonomy” of the developmental state paradigm as well as in the entrepreneurial state paradigm, active government involvement in and agenda-setting for the industry is expected. But in the developmental state model, the bureaucratic administration of the state exhibits a corporate coherence; and the state can mobilize both the governmental and business sector resources for non-parochial goals by rationally channeling investment, choosing industrial winners and losers, financing or conducting research and development, monitoring and disciplining industry actors. The entrepreneurial state, on the other hand, does not necessarily share the systematic quality of the developmental state that a well-qualified bureaucratic apparatus makes possible. The joint, entrepreneurial project between the state leadership and the business community both seek narrower benefits that profit them both.

In addition to delineating the entrepreneurial state model and the local government incentive structure manifested in the political economy of Chinese real estate, my dissertation maps out the different logics of housing construction and property development at sequential periods: From the top-down, parcellized, and catacomb-like configuration of urban construction during the Maoist era that centered itself around ministerial lines of command to the post-reform period of the 1980’s and 1990’s, each period exhibited a distinctive logic of its own. During the 1980’s, a mini simulacrum of the developmental state model prevailed in municipalities like Tianjin and Guangzhou where they established “comprehensive construction enterprises” owned and controlled by municipal- and urban district-level bureaus focused on real estate construction and management. These enterprises were granted land parcels, material resources,

administrative coordination and subsidized financing to do so; and they provided the majority of housing needs in the two municipalities by fulfilling quotas and targets of their superior agencies. There were no private real estate developers throughout the 1980's, and all property development and construction firms were state-owned and state-sponsored.

During the 1990's, this top-down structure underwent a broad transformation as increasing numbers of private, quasi-private and hybrid enterprises joined the ranks of the state-owned and state-sponsored firms. The field opened wide when Deng Xiaoping signaled the central government's commitment to continuing market liberalization and credit began to flow after his 1992 southern tour. With profitable space for arbitrage opened up under the "dual-track" pricing of administratively-allocated versus market-priced LURs and wide business horizons cast for those undertaking legitimate property development, firms of various ownership types entered the field and emerged alongside the traditional SOEs. But SOEs, too, underwent corporatization and privatization under Zhu Rongji's liberalization policies in the mid-1990's. Power increasingly shifted to horizontal, territorial government entities as municipalities gained increasing authority over urban planning, land administration and real estate management. They also obtained ownership rights over the land within their jurisdictions, and fiscal rights over the residuals in cases of LUR sales.

This entrepreneurial state model of development provides an additional developmental path distinct from either the Anglo-Saxon "market-led" form (Hall and Soskice 2001; King and Szelenyi 2005:206) or the East Asian developmental "state-led" form of economic development. In the entrepreneurial state model, the state is, in fact, a market actor driven to pursue its own profits as though it, too, were a business agent. In the developmental state typology, state officials plan and intercede in the market indirectly via the centralized administrative apparatus, coordinating projects, investing in hard and soft infrastructure, promoting business and creating an environment conducive to economic vitality. But it is the enterprises themselves that engage in the entrepreneurial activity (Blecher 1991; Blecher and Shue 2001). Direct profit goes to the entrepreneurs rather than to the developmental state; and the state plays a more coordinative and promotional role than in the case of the entrepreneurial state. In the entrepreneurial state model, state agents vie to generate "profits" that accrue to them either institutionally or personally. The positive incentives flowing from economic development accrue directly to the state actors in question.

The entrepreneurial state model is also important because, first, there is a small but growing body of literature within economic sociology that attempts to carve out the different varieties of post-socialist economic development (or, more broadly, "varieties of post-socialist paths to 'capitalism'" (King and Szelenyi 2005). It tries to delineate how and why post-socialist countries have manifested such distinctive paths and outcomes with respect to development. Although the literature is sparse with respect to this line of inquiry, some scholars have begun to point out the differing command powers of vertical control in the former Soviet Union versus the more decentralized economic reality of China under Mao. They suggest that Mao's decentralized political economy may be a critical feature that allowed Chinese-style gradual reform to succeed while the more centralized tendencies in Soviet Union's command economy posed a grave obstacle to its shock therapy (Goldstein 1995; Padgett 2010).

There is much more empirical and theoretical research to be done with respect to this question in China when it comes to the real estate sector, yet the evidence suggests that housing and infrastructure construction remained of low priority for the Maoist regime as it elicited irregular and minimal central government support and financing. The dismal state of urban housing and the urban built environment also attest to this state of affairs when reforms began in 1978. This appears to indicate that the top-down hierarchy of ministerial power over housing and infrastructure construction generally did not wield a great deal of power during the Maoist era. Perhaps in this scenario an entrepreneurial state-formation can take root because ministerial powers were not rigidly entrenched enough to oppose the establishment of such territorial, planning powers at the local levels.

Finally, the entrepreneurial state model may also suggest the political and institutional factors that have contributed to the boom-and-bust nature of the Chinese real estate market. The Chinese real estate sector has seen bubbles in various period including in 1992-1993, 2003, 2007 and more recently in 2009-2011. Currently, the estimated level of non-performing loans generated by local governments debt totaled RMB 10.7 trillion at the end of 2010 or nearly a third of China's GDP (Lin 2013). By the end of 2012, according to a projection by China's National Audit Office, this amount may even total RMB 15 trillion to RMB 18 trillion (Lanman and Zhou 2013). Perhaps the absence of a systematically-oriented developmental state and, instead, the establishment of entrepreneurial state structures that collude with real estate developers to seek maximum profit can produce intense yet unbalanced growth leading to historic achievements, but also unsettling booms and busts in the real estate market.

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