

Property, Wealth and Law Reforms in China's Urban Revolution

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1. Introduction

The world 'revolution' – one classic buzzword in China's discourse but with new connotations in contemporary context – the best describes China's urban changes since its strategic reorientation of 'reforms and opening up' (*gai ge kai fang*) launched in 1978. China, a predominantly rural society in history, has been moving fast towards an urban society at an unprecedented and unparalleled speed. This rural-urban shift has been occurring along with fundamental changes in China's economic structure, social organisation and political institution. These changes are transformative rather than transitory, functioning through a variety of complex and interrelated factors which manifesting themselves in an expanding urban landscape (Morley, 2009).

Of the numerous scholarly investigations into the factors of China's urban revolution, one consensus is that China's urban revolution has been largely driven by demographic change, economic growth, and changes in land use policies and regulations (J. Liu, Zhan, & Deng, 2005). Starting from this statement, this chapter expands the driving forces to be more encompassing and examines how these factors have been working as determinants as well as indicators of China's urban revolution. The chapter documents China's urbanisation in terms of demographic change and urban area growth, and elaborates on the property boom – one key driver and outcome of China's economic growth during the urban revolution – and the new wealthy class growing out of this socio-economic reshuffling. The chapter then introduces the important law reforms which worked as legal frameworks as well as facilitators of such changes in three spheres: housing reform, land reform and the Property Law. The chapter concludes that these interwoven factors represent the beginning or early stage of a process of profound changes, more of which are expected to occur in the future.

2. Urban Revolution

2.1 Urbanisation

Urban sociologist Kingsley Davis defines ‘urbanisation’ in a particular way: urbanisation refers to the proportion of the total population concentrated in urban areas, or else to a rise in this proportion (Davis, 1965). Based on this definition, Hu (2008) claims that the half century between 1980 and 2030 is China’s urban age because the annual urban population growth rate of China in this period is much higher than that of the world according to the estimation and predication of the United Nations Secretariat (see Figure 1). Apparently China’s annual urban population growth rate was particularly higher in 1980-2005, during which China was the centre of the world’s urbanisation development. Statistics from China’s Ministry of Housing and Urban-Rural Development shows that China’s urban population reached 607 million at the end of 2008, accounting for 45.68 per cent as the urbanisation rate (Du, 2009). China’s urbanisation rate in 2008 was 35 per cent higher than 1949 when the People’s Republic of China was established, and 25 per cent higher than 1978 when the ‘reforms and opening up’ commenced.

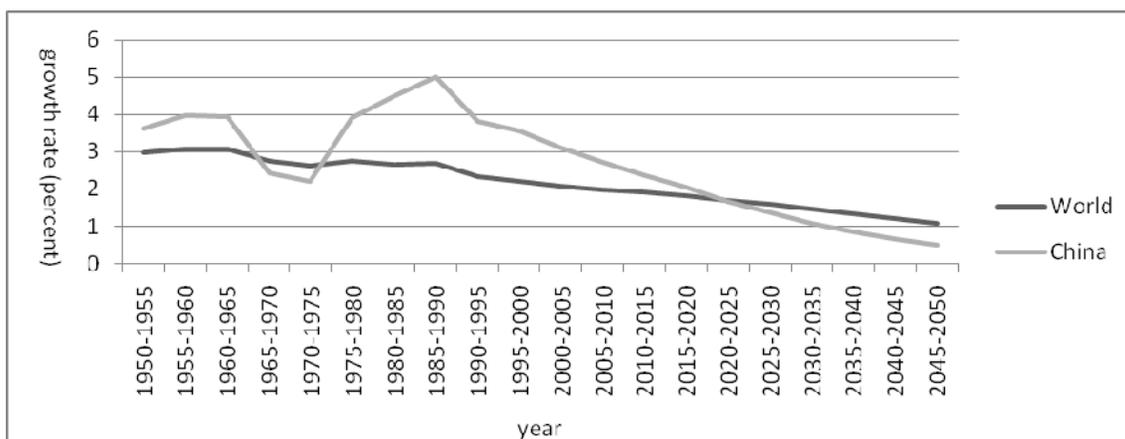


Figure 1 Annual Urban Population Growth Rates of China and the World (1950-2050)

Data source: United Nations Secretariat

In 2007, for the first time in the human history, more people lived in urban areas than rural areas in the world, that is, the world urbanisation rate surpassed 50 per cent. It is expected that China’s urban population will be more than its rural population in around 2015 (Hu,

2008). China's urbanisation has been driven by massive rural-urban migration. Rural-urban migration was the major driving force of urbanisation during the Industrial Revolution in today's developed world (Davis, 1965). This formula especially applies to China's urbanisation which has been interactive with industrialisation process in parallel. The abundance of rural youths provided ready cheap labours required by China's industrialisation and urbanisation. Floods of young males and females kept flocking to the mushrooming factories and construction sites from the countryside areas. They are not well educated and represent the worse-off majority of the rural labour force. They moved into cities as officially unacknowledged 'floaters' (Friedmann, 2005), and then gradually settled down. Li (2004) finds that the rural-urban migration increasingly bypassed the towns and ended up in the cities, indicating different growth patterns of cities and towns: the growth of cities was driven by the migrants, and the growth of towns was driven by urbanising local rural population (see more in Section 2.2). The other group of the rural-urban migrants is the rural elites who moved to cities through education or entrepreneurship. To go to college and then work and live in cities has been the best way for rural youths to leave the countryside – so called 'jumping over the dragon gate' (*tiao long men*). For those rural youth who were unable to access the competitive tertiary education opportunities, entrepreneurship was another way to change their lives through succeeding in business and then moving to cities.

China's one child family plan is another factor determining that the rural-urban migration is the major driver of China's urbanisation. Since its commencement in the late 1970s, one child policy has restricted the natural population growth in cities. Moreover, the policy has been more strictly and effectively implemented in urban areas than rural areas. This is because urban residents are normally organised in work-units and living communities, making it easier to monitor and execute the one child policy. On the other hand, urban residents tend to have lower birth rates than rural residents even without the one child policy. The one child policy has made the rural-urban migration the only major driver of China's urbanisation. This is a different pattern from the urbanisation of other populous developing countries, which are facilitated by rural-urban migration as well as natural urban population growth.

2.2 Urban Growth

Apart from urban population growth, another measure of China's urbanisation is urban area growth. The urban area growth is indicated by changes in the scale and number of cities and

towns¹ in China. The total number of China's cities increased from 193 in 1978 to 655 in 2007 – by 2.4 times within three decades of China's 'reforms and opening up' (see Table 1). Among them, the number of cities at the prefecture and above levels increased from 111 in 1978 to 287 in 2007. Small cities of less than 0.2 million population grew the most of the cities of different population scales as shown in Table 1. Until the end of 2007, 371 million population lived in cities at the prefecture and above levels, and the built-up urban area reached 28 thousand km² (National Bureau of Statistics of China, 2008).

Table 1 Numbers of Cities in China in 1978-2007

Population Scales	1978	2007	Difference (1978-2007)
More than 2 million	10	36	26
1 – 2 million	19	83	64
0.5 – 1 million	35	118	83
0.2 – 0.5 million	80	151	71
Less than 0.2 million	49	267	218
Total	193	655	462

Data source: National Bureau of Statistics of China

Town is an administrative level below the county in China. The growth of towns is even more dynamic than small cities. The number of towns increased from 2,173 in 1978 to 19,249 in 2007 by almost 9 times (National Bureau of Statistics of China, 2008). The growth patterns of cities and towns indicate two scenarios of China's urban growth. One is the expansion of small cities to large cities, and large cities to megacities. The other is the appearance of numerous small cities and towns which developed from semi-urban habitats. Of the top 10 China's cities by population, the smallest Dongguan has a population of 3.8 million (Hu, 2008). Both Beijing and Shanghai have populations of more than 10 million, let alone the emerging city-regions in the Yangtze River Delta, the Pearl River Delta and the Beijing-Tianjin Urban Agglomeration. At the same time, numerous small cities and towns are emerging and growing, responding to the government-pushed urbanisation mode of upgrading villages and communes into townships and towns into small cities (A. Chen, 2005). The strategy of establishing more towns as a level of administration was partially aimed to urbanise the rural population on the land without transferring them to the established urban areas has been very effective in China's urbanisation. The small towns are normally the centres of agricultural services, trade, or mining hubs. They are the incubating localities for rural industrialisation and urbanisation, transferring surplus labour from agriculture in the

industrial and service sectors without leaving the rural areas (Cheng, 2006; G. Wang & Hu, 1999).

2.3 Revolution to be Continued

China's urban revolution is far from over yet. China seems destined to continue its urban revolution, which is first seen in the central government's strategic goal. At the 17th Congress of the Communist Party of China in 2007, President Hu Jintao committed the country to the target of quadrupling per capita GDP by 2020 compared with the level in 2000. Meeting that goal implies China continuing to urbanise. Urbanisation and China's robust economic growth have developed hand in hand. Cities have been the major drivers of China's GDP growth over the past two decades and they will become even more so over the next 20 years. Projecting current trends forward, the proportion of China's GDP generated by cities will rise from 75 per cent today to 95 per cent by 2025 (Woetzel, Devan, Jordan, Negri, & Farrell, 2008). At the 17th Congress of the Communist Party of China in 2007, President Hu Jintao also set the urbanisation rate of 60 per cent in 2020. Judging from China's urbanisation momentum, China's will meet this goal with relative ease.

One research by the McKinsey Global Institute indicates that if the current China's urbanisation trend holds, nearly one billion Chinese people will live cities by 2030 (Woetzel et al., 2008). One billion urban populations in 2030 in China will mean: 221 cities with more than one million populations – compared with 35 cities in Europe today – of which 23 cities will have more than five million people; 40 billion square metres of floor space will be built; 5 billion square meters of road will be paved; 170 mass-transit systems could be built. China's urbanisation is set to continue in an even more robust trend. Its impacts are hard to assess and predict now, but there is no doubt that the socio-economic consequences should be more profound than what have occurred in the past three decades. It is still too early draw a panoramic view of China's urbanisation if urbanisation is a process which will end some day as argued by Kingsley Davis (1965). For the moment, China is right in the middle of its urban age from 1980 to 2030.

3. Property Boom

3.1 A Market-based Boom

It is not surprising that China's urban revolution has been accompanied by a property boom. They are different signifiers of essentially the same socio-economic transformation. The property boom is a facilitator as well as consequence of the urban revolution. The housing provision was a key component of China's reform package. It took almost two decades to complete a series of housing reform efforts including ideological debates, experiments, and policy and law reforms. A housing market began to be established in the late 1990s and the market-based housing supply and consumption substantially rose as indicated in Figure 2. A property boom commenced.

China's achievement in the property boom was remarkable. In 1949-1978, China's total housing investment was only RMB 37.4 billion and total constructed housing area was close to 500 million m², which means RMB 10 of housing investment per capita and 3.6 m² of housing area per capita (Kai & Zhao, 2009; W. Liu, 2008). On average, people's housing condition did not improve at all in 1978 compared with 1949. However, China's total constructed housing area amounted to 3.5 billion m² between 1979 and 1998 (Kai & Zhao, 2009), five times the total area constructed in the previous 30 years. The housing area per capita increased from 6.7 m² in 1978 to 28 m² in 2008, and 83 per cent of urban housing units are self-owned by residents (Kai & Zhao, 2009; National Bureau of Statistics of China, 2008). Deng Xiaoping set the target of China's modernisation as being a well-being society (*xiao kang she hui*) in 2020. The housing indicator of the living standard in a well-being society is 35 m² of housing area per capita. To fill the gap of 7 m² of housing area per capita, China's property boom should continue along with its urban revolution until 2020 and afterwards.

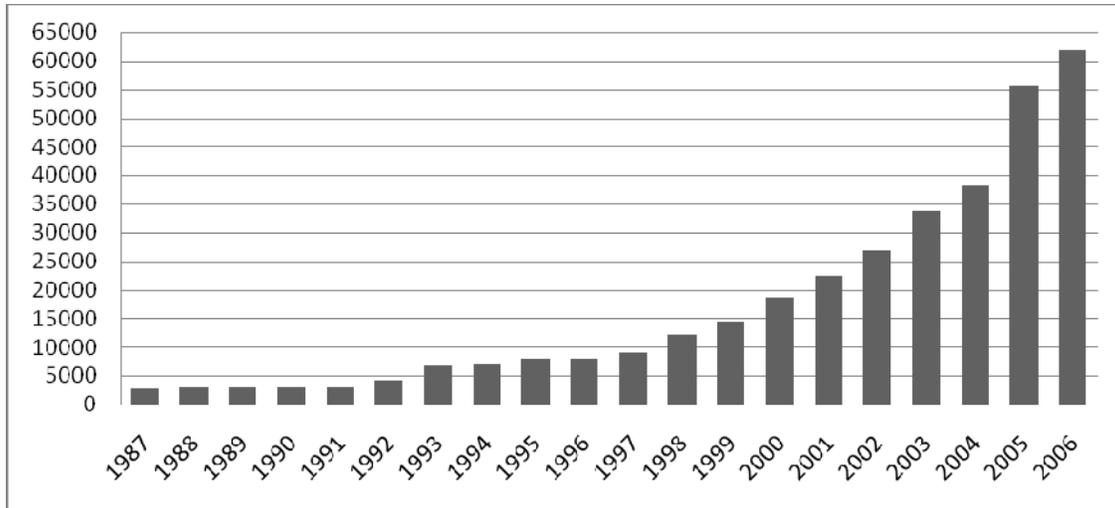


Figure 2 Sold Real Estate Floor Area in China (1987-2006)

(in 10,000 m²)

Data source: National Bureau of Statistics of China

The property boom has been nurtured and sustained in an emerging housing market in China. The formation of the property boom depended on a number of important driving factors in both the supply and demand ends of China's housing market.

3.2 Supply Factors

The driving forces of China's property boom on the supply end rested with the governments. The foremost driving force was the central government's strategy to marketise the housing provision. Before 1978 there was not a housing market in China under the planned economy. Housing was provided by the work-units (*dan wei*) as one form of welfare. The overwhelming ideology was heavy production light consumption (*zhong sheng chan, qing xiao fei*), which resulted in extremely low housing provision. For the chief reformist Deng Xiaoping, housing marketisation was on his high reform agenda to vitalise housing provision. Housing marketisation would also alleviate the welfare burden on the state-owned enterprises to enhance their economic efficiency and competitiveness. Before and after the Third Plenary Session of the Eleventh Central Committee of the Communist Party of China² in December 1978, he talked about housing reform on a couple of important occasions, such as allowing for private construction of housing, private-public joint construction of housing, and private purchase of housing by instalments. In the late 1970s and early 1980s, fundamentalist

communism ideology was often a barrier to reformist initiatives. Private housing purchase and ownership was ideologically legitimised by the argument that housing belonged to personal consumable commodities and thus private transaction did not conflict with the socialist public ownership system³. Housing reforms were experimented in a few cities and then gradually spread to more cities in 1982-1986. The focal reform was to enhance the rent of public housing and sell public housing. During this experimental period, a total of 11 million m² of public housing was sold to private individuals.

The watershed year of China's housing market reform came 12 years later in 1998, when the State Council released the Notice on Further Deepening Urban Housing Reform and Accelerating Housing Construction. This was a very important document, officially declaring the end of the state work-unit provision of housing as a form of welfare. This document marketed the legal commencement of China's housing marketisation and proved to be a benchmark facilitator of China's property boom. Detailed facilitators and impacts of this document are elaborated in Section 5.1. Once housing provision was completely marketised, property development has been the focus of China's urban development and occupied the minds of government officials at different levels. On the other hand, after Deng Xiaoping's Southern Tour Talks⁴ (*nan xun jiang hua*) in early 1992, China had a renewed round of liberal reforms which much more far-reaching consequences than the reforms in the 1980s. In practices, this round of reforms ignited overwhelming scales of urban development and infrastructure investment. In the decade from 1992 to 2002 when a new generation of leaders were in power, the policy priority of all government officials was centred on GDP growth driven by the pro-development mindset. Property development and its related fixed asset investment were regarded as a 'economic growth pole' to improve GDP growth. Furthermore, GDP growth counted the most in an official's performance assessment and promotion. Apart from substantially contributing to GDP growth, property development is observable progress a city can make. Increasingly local government officials tend to use property development as vanity projects (*zheng ji gong cheng*) to win higher official's favour and general public's recognition.

Another justification for local governments' enthusiasm in driving property boom is the revenues attained from it. In the mid 1990s, the Vice Premier Zhu Rongji then embarked on a series of tax reforms. Overall, taxing power and resources were more centralised on the central government. This partially resulted in restrictive revenues and expenditures at the

local government levels. Property development provided local governments with a good taxing resource. Furthermore, local government could gain immense amount of revenues from selling the land use rights to property developers. Selling the land use rights for property development has been the most important revenue resource for local governments. This made the local government officials particularly supportive of property development in the names of developing local economy through urban construction.

3.3 Demand Factors

The factors at the demand end of the housing market which have facilitated the property boom are related to consumable need and consumable behaviour patterns. Conclusion of welfare housing made private purchase in the market the only choice for masses of residents who were short of housing or needed to improve their housing standard. Given the housing area of 6.7 m² per capita in 1978, huge market demand was the most significant driver for China's property boom. The existing market demand to enlarge and improve housing was augmented by the rapid urbanisation process which involved immense rural-urban emigrants who needed living spaces in cities. The better-off elite emigrants with either education or business success were more able to afford housing in cities.

China's unique consumable behaviour played a role in driving the property boom too. Traditionally Chinese people preferred to purchase housing or land once they got rich. Chinese socio-economic relationships have been centred on families. Self-owned housing is the foundation of family-centred socio-economic relationships in physical as well as psychological senses, which is a cultural embedment in the minds of Chinese people. It also represents a social mentality of accomplishment and sense of security. Renting a housing unit is regarded as status of instability and lack of sense of belonging. To purchase housing on mortgage is a priority decision once one gets considerably better-off to afford the deposit. On the other hand, China's property boom coincided with the maturity of the first generation of the one child family plan. They were in the marriage age and they were able to have financial support from both parents and even grandparents to buy housing since they were the only child in both families. Furthermore, the generation of their parents happened to be the main actors and the beneficiaries of China's rapid economic growth in the past three decades, and thus were able to spend for their only child. These factors explain China's high self-

ownership rate of housing – 83 per cent compared with 60-70 per cent in the western world (J. Chen, 2006).

China's extremely unequal social wealth distribution and underdeveloped financial market combined to boost the property investment. Statistics from the central government's magazine Outlook (*liao wang*) indicates that 20 per cent of high incomers possess 50 per cent of social wealth, let alone those extremely wealthy people who are hidden from publicity. Without other effective investment channels due to underdeveloped financial market in China, investment in housing is one or maybe the only reliable choice for the wealthy class. In recent years, collective housing purchase groups⁵ (*gou fang tuan*) from Wenzhou or Shanxi – people from there are known for their wealth respectively out of doing business and coal mining – were an interesting housing market phenomenon in recent years in leading cities of Beijing, Shanghai, and Shenzhen. These collective housing purchase groups aimed at speculating in the booming market, but on the other hand, it was indicative of limited investment outlets for their wealth. Overinvestment by the wealthy class in housing generated two direct consequences which are the central debates of China's housing market now. One is the rocketing housing price as well as high vacancy rate in the property boom or bubble as argued by some; the other is the unaffordability of housing for most residents as evidenced by the increasing disparity between the housing price increase and the urban resident income increase since 1998 (Ye & Wu, 2006). The property boom was an opportunity for investment as well as speculation, generating new winners and losers.

4. Wealth Machine

4.1 Social Inequality

Despite China's rapid progress as seen in the urban revolution and property boom, China's social wealth distribution does not seem as glamorous as its generation. China is presenting itself in dual images. One is that China is the third largest economy, China's enterprises are aggressively taking over overseas assets, China's international role is increasingly backed by its strong economic prowess especially in the recent global financial downturn, and China's wealthy shoppers are the most welcome by global luxury dealers. The other is that China's income per capita remains to be very low, the majority of Chinese populations are not well-off yet, the population living below the international poverty line⁶ amounted to 254 million in

2005 (China Youth Daily, 2009), and people complain about living under the heavy pressure of new three big mountains⁷ (*xin san zuo da shan*) of unaffordable housing, education and health.

The Communist Party of China went to power in 1949 with the ideological principle of equal wealth distribution for all and it still sticks to the communist rhetoric of wealth for all. Ironically, China is now in effect one of the most unequal societies in terms of wealth distribution. One commonly used measure of inequality in wealth is the Gini coefficient⁸. Statistics from the National Bureau of Statistics of China show that China's Gini coefficient was 0.317 in 1978, a normal status according to international standards. In 2000, China's Gini coefficient surpassed international alarming line of 0.4, and continued to increase to 0.496 in 2006. China's social inequality in wealth distribution has been growing along with China's massive wealth accumulation in the past three decades of rapid economic development. Social inequality has now become very serious and is the root cause for a series of other social problems.

China's social gaps have been long existing between the urban residents and the rural residents, and between the coastal area residents and the inland area residents. China's household registration (*hu kou deng ji*) system enforced since 1949 generated dual societies – a rural society and an urban society – as well as embedded inequalities between them. Such gaps were widening rather than shortening in the post-1978 reforms and opening up. Furthermore, the existing geography-based gaps between urban and rural areas, and between coastal and inland areas, were overridden by an overall gap between the extremely rich and the extremely poor. In 2006, the average income of the richest urban residents (top 20 per cent) was 5.6 times that of the poorest urban residents (bottom 20 per cent), while for rural residents, it was 7.2 times (R. Wang, 2009). Overall, 20 per cent of China's populations as low incomers earn only 4.7 per cent of total social wealth, and the top 20 per cent of populations occupy 50 per cent of total social wealth (R. Wang, 2009). China's social wealth is increasingly concentrated on the top end, seriously impacting on social equity as well as economic sustainable development.

4.2 Wealth & Property Boom

China's property boom has been an important facilitator of the concentration of social wealth on the minority. Property development is identified as wealth machine and developers are equivalents to new rich class. It is true in a way. Property development and related industries have generated a group of multimillionaires overnight and are regarded as the fastest way to get overwhelmingly rich. In the Hurun Report of the richest Chinese businessmen ⁹, 23.4 per cent of the listed richest businessmen were from the real estate industry in 2008, and the figures in 2007, 2006, 2005 and 2004 were respectively 24 per cent, 25.5 per cent, 28 per cent and 45 per cent (Hurun, 2008). The percentage of the real estate industry was even higher in the top 10 richest businessmen in China and the overall trend in the past 10 years was that more and more real estate businessmen entered the top 10 lists (see Figure 3). Of all industries, real estate development has generated the largest number of the richest businessmen, and it has tended to concentrate wealth on the top few as seen in the high percentage of real estate businessmen in the top 10 lists.

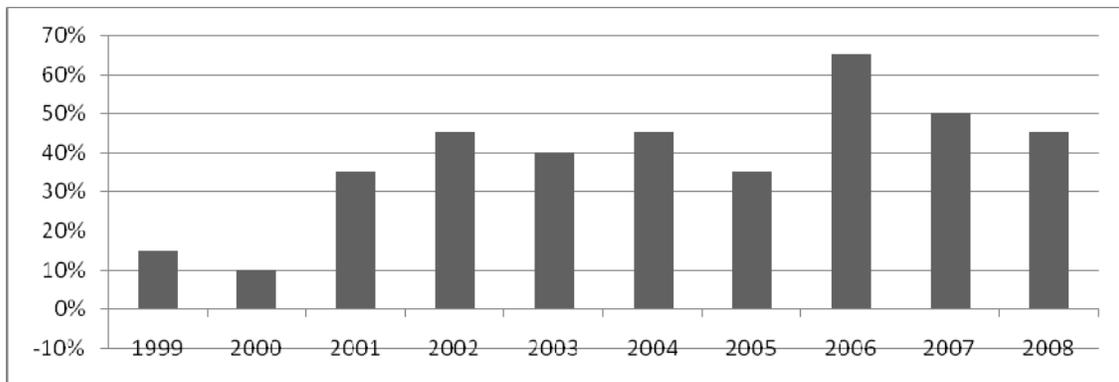


Figure 3 The Percentage of Top 10 Richest Businessmen from Property Development Industry in China (1999-2008)

Source: Hurun Report

Not only did property boom generate wealthy real estate developers, but also generated wealthy people out of industries related to real estate development. Basically three categories of businesses benefitted the most from the property boom through providing services for real estate development. The first category is the construction contractors. Contractors hire very cheap rural labourers to work on construction sites in cities and make profitable margins. The second category is the material and equipment providers. The property boom enhanced the demand for the construction materials and generated a group of wealthy businessmen from such industries as steel, cement, mining and timber. Some made a big fortune from providing

electric equipments such as lift and central air conditioning systems. The third category is the real estate professional service providers. The property boom demanded special services which did not exist before, such as real estate brokerage, architecture design, engineering, property management, and financing. These consultants became quite wealthy through selling their professional knowledge, though their wealth accumulation is not comparable to the real estate developers as well as the other two categories of real estate related businesses. The property boom is a wealth machine. It generated wealthy developers directly as well as a string of related businessmen. They make an important part of China's so called new rich (*xin gui*).

4.3 Power-Wealth Coalition

Market has opened the door to wealth, but power remains to be a key to accessing wealth in China. The root cause is the incompleteness of China's marketisation, which allows for space for power to interfere with business matters. It seems that a wealth-power coalition is emerging in China: power leads to wealth; wealth facilitates access to power. Two sets of figures illustrate the relationships between power and wealth in China. A meta-analysis of the government statistics from the State Council, the Central Party School, the Central Propaganda Department, and the China's Academy of Social Sciences showed that 3,220 people owned wealth of more than RMB 100 million in 2006 in China, among whom 2,932 were the offspring of high level government officials and their total legal and illegal wealth amounted to RMB 2.1 trillion (Zhao, 2006). On the other hand, of the 1,000 richest businessmen listed in the Hurun Report in 2008, 80 were members of the National People's Congress (NPC), 68 were members of the national committee of China's People's Political Consultative Conference (CPPCC) (Hurun, 2008). It is assumed that much more of them were members of either the People's Congress or the Political Consultative Conference at local levels.

The power-wealth coalition is proving to be a barrier to China's economic and social sustainable development. Incomplete marketisation and non-transparent power structure are the foundations of the power-wealth coalition as well as the increasing social inequality. Economic marketisation and political democratisation seem to be the only way out. However, the power-wealth coalition is increasingly established in the socio-political power relations and is resistant to further economic and political reforms which might impact on their vested

interests. Lang Xianping, a Hong Kong based economist, has lamented the loss of the state assets in the ownership transfer of some state owned enterprises (SOE) to private ownership through the wealth-power coalition, and has unsparingly spoken on it to arouse public attention since 2004 – causing a so-called Lang Storm¹⁰. The paradox for the power-wealth coalition is that on the one hand, it is enjoying disproportionately large amount of social wealth, on the other hand, the mechanism on which the power-wealth coalition is built puts almost every member of it in a virtually endangered status. The virtually endangered status derives from their illegal vested interests – whether they will be endangered depends on how their fates go in the always shifting power relations. This explains why so many Chinese government officials and businessmen are arrested every year – they are an edge of the iceberg. Some attribute their arrestment as sheer a matter of bad luck because they do not survive while the problematic majority do. Since the mid 1990s, corruption investigation has been the mostly used tool against target government officials often for political struggle purpose, and tax evasion investigation and bribery have been the mostly used tools against target businessmen who are often related to problematic officials. These approaches have seldom proved wrong.

The disproportionate wealth attained by the power-wealth coalition is seriously impacting on China's social equity, causing social conflicts and instability. Thousands of mass contingency events happened in China every year, which were not allowed to be exposed by the media. Social stability is a prioritised policy objective for governments at all levels. The wealth-hatred mentality nurtured in recent years represents such a status quo. The essence of the wealth hatred mentality is to hate the illegal wealth accumulation through the power-wealth coalition. It is worth noting that the targets of the few influential mass contingency events which were exposed by internet and mobiles were local governments or policemen. The credibility of the local governments and their agencies were challenged when the interests of the businessmen and the general public seem to be in conflict. The wealth hatred is expanding to be wealth-power hatred. The wealth-power coalition is the bottleneck of China's future reforms. How the wealth machine will be running lies in the consensus building among different interest groups and stakeholders.

5. Law Reforms

The strategic law reforms involved in China's property boom in the urban revolution occurred in two interrelated spheres: housing and land. Both housing reform and land reform have been carried out as important components of the comprehensive national strategy of reforms and opening up from 1978. In addition, the final passage of the Property Law (*wu quan fa*) in 2007 after a long period of debates and controversies had significant ideological and legal implications for the housing property right as well as the land on which the property is built.

5.1 Housing Reform

China did not have a housing market before 1978. Housing was allocated by the state work units as welfare under the planned economy system. The post-1978 housing reform was centred on establishing a market-based housing system. As has been stated in section 2, the year of 1998 was a dividing line in China's housing reform. Despite various experiments in selected cities, the overall reform of housing was slow and piecemeal until 1998 (Wu, Xu, & Yeh, 2007) and a double-track system of both welfare housing and housing privatisation was in effect (Ye & Wu, 2006). In 1998, the State Council under Premier Zhu Rongji took a 'radical' approach to completely marketwise housing provision. The marking difference is that the reform was focused on privatising public housing before 1998 and the reform was focused on commodifying all housing after 1998.

China's housing was in a dilemma of severe housing shortage and limited central budgetary investment in 1978. The pre-1998 housing reform was carried out in the forms of raising rents, sale of public housing and joint investment between the state, the work units and individuals in building new housing. These reforms were 'experimented' so as to enhance housing provision and minimise the shock to the system. In 1982, experiments were made in around 300 counties that the state, the work units and individuals each paid one third of the total housing price. This formula of payment division proved to be heavy burdens on the state and the work units and was ultimately repealed in 1989. In 1984, a new reform approach of raising rents to subsidise housing investment was proposed and experimented in a few cities. In 1988, the State Council released the Implementation Plan for a Gradual Housing System Reform in Cities and Towns, officially putting housing reform into the comprehensive reform packages at both central and local levels. The Plan stipulated transiting welfare housing allocation to monetary payment allocation through raising rents of public housing as the first

step. Later on, the State Council respectively issued two benchmark documents – On Comprehensive Reform of the Urban Housing System and the Decision on Deepening the Urban Housing Reform – in 1991 and 1994. Both of the policy documents, together with other relevant measures, deepened the housing reforms towards marketisation and commodification. However, these efforts were far from being able to establish a housing market because of the continuing role of work units as mediators in the housing market, which cannot be justified in a market-led economy (Zhang, 2000).

The fundamental housing reform came in 1998 when the State Council issued the Notice on Further Deepening Urban Housing Reform and Accelerating Housing Construction marked by ‘monetisation of housing allocation and the establishment of multiple housing supply systems as well as the standardisation of housing transaction market’ (Ye & Wu, 2006, p. 51). The new housing policy is regarded as ‘radical’ because it required the complete conclusion of the in-kind allocation of welfare housing through the state work units which had been in effect for almost five decades in China. Apart from establishing a market-based housing system, the move was partially to relieve the heavy financial burdens on the state owned enterprises (SOE) as well as stimulate domestic demand in the aftermath of the 1997 Asian Financial Crisis. In 1998, the SOEs were mostly losing money, which was attributed to heavy burdens of redundant staffing and overspending on housing and health. To revitalise the SOEs was a policy priority of the central government headed by Premier Zhu Rongji. On the other hand, the 1997 Asian Financial Crisis seriously impacted on China’s export-oriented economy. By completely commodifying housing, it was expected that real estate development would become a new driver of domestic economic growth. One key feature of the 1998 policy is that it introduced a housing finance system, which significantly expanded the housing affordability through mortgages. With these, China basically established a housing market supported by housing commodification and housing financing mechanism, despite criticisms for China’s housing dilemma marked by increasing inequality and distributive injustice (Lee, 2000).

5.2 Land Reform

China’s land use system before 1978 is generally summarised as ‘administrative allocation, unpaid land use right, infinitive tenure of use, and uncirculated land parcel’. Like housing reform, China’s land reform has been developing as part of the overall socio-economic

reforms. It should be particularly pointed out that the term ‘China’s land market’ is not appropriate since land in China is owned by either the state or rural collectivity¹¹. The Constitution stipulates that ‘no organisation or individual may seize, by, sell land or make any other unlawful transfer of land’. The stipulation was amended in 1988 by adding the clause that ‘the right to use land may be transferred in accordance with the provisions of law’. So a more appropriate term ‘land use right market’ is constitutional in China, but it is often shortened as ‘land market’ in practice. China’s land reform also falls into two stages with the year 1998 as the dividing line. Before 1998, the efforts were aimed at marketisation of land use rights, and after 1998, the emphasis was on tightening land supply and building a transparent land use right market. Table 2 lists the benchmark law reform efforts in this process.

Table 2 Benchmark Land Law Reforms in China

Year	Laws or Policies	Land Reforms
1979	The Law of Sino-Foreign Joint Venture	Charge land use fees to foreign enterprises and joint ventures if Chinese partners did not use land as capital input.
1986	The Land Management Law	Officially grant local government power in making land use plans, allocating land, acquiring rural land, and tackling illegal land uses; Set up the State Land Administration Bureau – a ministerial level authority.
1987	The Provisional Regulation on Cultivated Land Occupation Tax	Levy tax on non-agricultural land uses by occupying agricultural land.
1988	Amendment to the Article 10 of the Constitution	Add the clause that ‘the right to use land may be transferred in accordance with the provisions of law’.
1988	The Tentative Ordinance on Land Use Tax	Charge an annual land use tax based on the size and grade of occupied land.
1992	The Tentative Provisions on Management of Administratively Allocated Land	Lift the ban on transferring administratively allocated land parcels.
1998	Modification of The Land Management Law	Centralise land use management power and restrict converting agricultural land for non-agricultural uses;

		Set up the Ministry of Land and Resources
2002	The Regulation of Granting State-Owned Land Use Right by Tender, Auction and Quotation (known as No. 11 Decree)	Transfer all land for business purposes (commerce, tourism, entertainment, and commodity housing) publicly either through tender, auction or quotation.
2004	The Notice on Continuing Enforcement and Inspection on Granting State-Owned Land Use Right by Tender, Auction and Quotation (known as No. 71 Decree)	Require development to be started within two years after land trading; Require that land premiums to be paid for land obtained via negotiated conveyance before 31 August 2004 to get land use certificates and development licenses.

Practices preceded law reforms in the marketisation of land use rights before 1998. Experiments were made first in the coastal cities and then law reforms were made for wider application, which was actually a basic formula of China's most reforms in the early stage. The experiment was first carried out in Guangzhou and Shenzhen to apply paid land use right to overseas investment. The practice was either to utilise land use rights as capital investment in joint ventures or to charge lump sum or annual land use fees from overseas investors, which was extended to domestic enterprises later. The practice of charging land use fees was launched nationwide in 1984. However, charging land use fees might not be thought of as constituting a land use market because land use right was not allowed to be transacted and the charged land use fees were too low to reflect the true market values (Wu et al., 2007). In the subsequent years, a series of law reforms were conducted to decentralise the land power to local governments and allow market-based transfer of land use rights (see Table 2). The impacts of these reforms were profound. Together with the housing reform discussed above, the land reform reinforced the pivotal role of the real estate sector in China's economic growth. It also substantially increased the local governments' revenues through selling land use rights, which encouraged local governments' efforts to boost real estate development. On the other hand, the state monopoly of land and the prevalence of land transfer through administrative allocation and negotiated conveyance resulted in rampant corruption, distorted land prices, local discretion in land acquisition and supply, and illegal land transactions and speculations occurring in primary and secondary land markets¹². The agricultural land and peasants' housing plots (*zhai ji di*) under the rural collective ownership were sometimes forcibly acquired by the state and thereafter redistributed to private developers, resulting in disempowerment and impoverishment of the villagers (He, Liu, Webster, & Wu, 2007).

Increasing social discomfort was expressed with regard to loss of the state equity, unaffordable housing price, and development-related corruptions.

In 1998, the Ministry of Land and Resources was established and the Land Management Law was modified to centralise the granting power of land use rights, showing the central government's intention to tighten regulations of the land use right market. A series of regulations on land uses were enacted to collectively aim at curbing corruption, tightening land supply, and refining the land market. Firstly, categories of project types eligible for administratively allocated land parcels were specified to avoid ambiguity in local practices. The local governments' power and revenues from granting land use rights were significantly withdrawn (Hin, 1999). Secondly, land use right transfer by tender, auction and quotation was enforced to restrict negotiated deals in the primary market as required in No.11 Decree and No. 71 Decree (see Table 2). This was to avoid non-transparent transactions between the government and developers which involved corruption and loss of the state assets. Thirdly, illegal land transactions and land speculation were restricted in the secondary market by specifying development requirements and timeframe in the land-leasing contract. The first drive was to curb local government's discretion in land use. The other two drivers were to improve market transparency in both primary and secondary land use right markets. These measures should better address the problems arising in the earlier stage if effectively implemented. However, two fundamental factors hinder the effective implementation of the well-intended policies. One is the complex hierarchical system of primary and secondary markets mixed with multiple players under the state land tenure and socialist legacy (local governments, developers and the state land users) (Hsing, 2006). The other is the institutional ambiguity pertaining to the state and collective ownership of lands (P. Ho, 2005). So the development of China's land market is still at an early stage in which corruption and illegal land use are pervasive (S. Ho & Lin, 2003).

5.3 The Property Law

The Property Law was passed by the National People's Congress in 2007. It might be the most influential as well as controversial law ever adopted in the post-reform China since the law covers the creation, transfer, and ownership of property which are of profound ideological and legal implications. Drafting of the Property Law started in 1993. Since its first reading in 2002, debates and controversies had been escalating. The major concerns

were both practical and ideological. It was feared that the draft law would facilitate privatisation and asset stripping of state-owned enterprises and even legitimatise illegal private assets. Gong Xiantian, a legal professor at the Beijing University, argued that equal legal status of the state property and the private property violated the constitutional doctrine of China as a socialist state. After wide consultation and many modifications, the draft law finally went through its eighth reading and was adopted in 2007. One prominent feature of this law is its equal protection of the property of the state, the collective and the individual, which is in line with the amendment to the Constitution in 2004 that 'citizens' lawful private property is inviolable' to ease the rising middle and upper classes' concerns that their wealth was not legally protected. One practical benefit of the Property Law is that, by establishing national standards for property registration, it will facilitate efforts by current and prospective holders of real property to establish clarity of title (Wong & Arkel, 2007).

The Property Law settled a few uncertain issues in the housing and land markets. China's land market is a leasehold system of land use rights. It means that land parcels have limited tenures of occupation which will expire depending on land use¹³. What will happen to the land parcel and the property on the land parcel when the tenures of occupation expire has been a major concern for the proprietors and land users. The Property Law stipulates that 'the tenure of residential land use right will automatically renew upon expiration', however it does not clarify the measures for non-residential land uses by vaguely stating that 'the renewal of the tenures of non-residential land use rights should be conducted according to laws and regulations upon expiration'. This left a major legal uncertainty to be addressed in the future, which is very challenging since the regulated tenures of non-residential land use rights are shorter than that of residential land use right. With regard to the land market, the Property Law continued the thematic feature of the post-1998 land reforms, that is, to enhance market transparency, to tighten land supply and to protect agricultural land. Lastly, the Property Law opened the door for levying property tax in the future. The property tax has been discussed for years in China and was regarded as a useful tool to lever social wealth redistribution and cool down the overheated property market. The Property Law would provide a legal framework for the proposed property tax.

The Property Law demonstrates the China's government's determination to better protect property rights of the state, the collective and the private. However, the effectiveness of the Property Law remains to be seen. Clearly there should be further legislation and

administrative regulations to clarify and expand some uncertain areas and it will be challenging to see how the concepts enshrined in the Property Law are interpreted at the local levels where most problems arise (Howlett & Hong, 2007).

6. Conclusion

The discussed issues are interwoven factors involved in China's urban revolution in which they are both causes and effects. It is clear that the process of their evolutions and transformations is right underway. What can be observed now represents only the beginning or the early stage of an array of deeper and longer changes which are hard to measure and predict for their complexity and profoundness. Every issue is noted not only for its progress which this chapter has focused on, but also for its problems which is beyond this chapter's coverage. It is such problems that will shape China's reforms in the future and the socio-economic changes incurred. None of the problems stands alone. They are linked in a network of systems which require an integrated approach of governance and policy designs. It is impossible to provide a ready answer of such an integrated approach, but the future goal is clear: a comprehensive sustainability which encompasses economic growth, environmental protection and social equity. The comprehensiveness of China's future sustainability is emphasised because challenging problems exist in all of the economic, environmental and social spheres in China's contemporary urban revolution. It is interesting to observe the continuation of the undergoing processes characterised by progress and problems.

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Notes

¹ China's division of cities and towns are not based on the sizes of built area or urban population, but on the administrative levels. There are four levels of cities or municipalities: municipality directly under the central government; municipality at the deputy provincial level; city at the prefecture level; city at the county level. The urban settlements below the county levels are towns as an administrative level below the county.

² The year of 1978 is recognised as the commencing year of China's reforms and opening up because the Third Plenary Session of the Eleventh Central Committee of the Communist Party of China was held in December 1978, on which Deng Xiaoping came into power and made an epoch-making concluding speech on China's strategic reorientation from Mao Zedong's revolutionary leftism towards economy-focused liberalism. But reformist practices did not happen right after this conference. It took another few years of Deng Xiaoping and his colleagues to persuade and win over the conservatives to implement his reforms. Sweeping reforms commenced in 1983 in the rural areas, and in 1984 in the urban areas. As later history witnessed, the reformist route has never been smooth ever since. But the year was historically significant for the Third Plenary Session of the Eleventh Central Committee of the Communist Party of China.

³ The argument of the commodity nature of housing was raised by a senior economy Su Xing in his article How to Solve the Housing Problem Faster in the then community propaganda magazine Red Flag (*hong qi*). This article triggered the debates on issues of housing ownership and rent, which finally settled the ideological conflict. This article and the subsequent discussions laid a theoretical foundation for the housing marketisation practices.

⁴ Deng Xiaoping's Southern Tour Talks in early 1992 relaunched China's reforms and opening up which were set back after the Tiananmen Square prodemocracy movement in 1989. By the Southern Tour Talks, Deng was determined to make the last as well as the most influential effort to continue his market-oriented reforms. The renewed round of liberal reforms proved to be fundamental. Deng's market reform ideologies were enshrined as the party and nation's guidelines in the 14th National Congress of the Communist Party of China held in late 1992.

⁵ Collective housing purchase groups were formed by wealthy people from the same place as informal investment syndicates. People from Wenzhou Zhejiang province are much wealthier on average from doing business, and people from Shanxi province are known for attaining wealth from coal mining. They formed the investment syndicates to purchase housing in cities with potential of high return, such as Beijing, Shanghai and Shenzhen. To purchase in groups with collective bargaining is more rewarding and efficient than individual transactions. For the target housing markets, such collective housing purchase groups obviously helped boost the market and enhance the housing price.

⁶ The World Bank set the international poverty line of daily income of US\$1.25.

⁷ The 'three big mountains' was a past communist propaganda to refer to the three forces weighing like mountains on the backs of the Chinese people before liberation in 1949 – imperialism, feudalism and bureaucrat-capitalism. The 'new three big mountains' were coined by the grassroots to refer to the contemporary burdens of housing, education and health on ordinary people for a mimic metaphor effect.

⁸ The Gini coefficient is commonly used as a measure of inequality of income or wealth. Its value ranges from 0 to 1. A lower Gini coefficient indicates a more equal distribution while a higher Gini coefficient indicates a more unequal distribution. According to international norms, a Gini coefficient of less than 0.3 indicates somewhat ideal status of social equality, a Gini coefficient between 0.3 and 0.4 indicates a normal status of social equality, a Gini coefficient of 0.4 is an alarming line, and a Gini coefficient of 0.6 indicates a precarious status.

⁹ Hurun, the Chinese name of Rupert Hoogewerf, made his name in China by releasing reports of the richest Chinese businessmen every year. He first worked for the Forbes and later started his own business of producing ranking lists of China's rich people. His lists are now very popular and are the most quoted in the media.

¹⁰ The loss of the state-owned assets through the wealth-power coalition is known by most people, but Lang Xianping was the first economist who spoke it out. He was better positioned to speak because he was in Hong Kong while most of his counterpart economists in the mainland China were associated with the interest group themselves. Chinese economists have been severely accused of lack of academic capability and social responsibility in and after the Lang Storm.

¹¹ Land in cities belongs to the state. Land in the rural area primarily for farm production and rural housing construction belongs to the peasant collectives.

¹² The primary market refers to the transfer of land use rights from the state to the users through deals reached by negotiation, tender and auction. The secondary market refers to the transfer of land use rights among users through land transaction and other land circulations such as leasing land use rights or using land use rights as collateral.

¹³ Different land uses have different tenures of land occupation: seventy years for residential use; fifty years for industrial, educational, science and technology, cultural, public health, or mixed use; forty years for commercial, tourism and entertainment use.