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Housing Production and Restructuring of Spatial Relations in Contemporary China

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Housing Production and Restructuring of Spatial Relations
in Contemporary China

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Abstract:

In the early 1980s, with the implementation of economic reform, a new wave of neoliberalism began to emerge in the country. The past three decades witnessed crucial reforms in housing production and distribution. Commodification of housing has produced variant living conditions, generating spatial segregations and changes in social relations. In recent years, the problem of housing inequality, which is reflected directly by the combination of high housing price and insufficient welfare housing supply, has become one of the most important social problems in China.

This thesis tackles the question 'how to interpret the housing inequality problem in China' through critically analysis of neoliberalism, and puts the concentration on the changing state-capital relation and its influences on housing production and distribution in a market economy. As the booming of real estate industry is sustained by an institutional structure that benefits capital accumulation, the nature of housing inequality could be better understood in the broader context of economic transformation. This thesis studies the housing production chain link by link and discusses the complex interactions among different players, including the central state, municipalities, governmental officers, developers, contractors and consumers.

This thesis is based on my fieldwork in Beijing. Between September and December 2009, I interviewed with 11 people who work as real estate professionals, and I also interviewed with 23 residents, including both local and migrant residents. Their stories helped me grasp full the operation of housing production chain. A picture of a new type of exploitation and capital accumulation gradually unfolded in front of me.

It is concluded that in the process of housing production, a new regime of

development composed with both political and economic powers has occurred. The new housing production model tightly bounds different players together, sustaining the high housing price. Boom in real estate production has not alleviated social stratification caused by inequality in distributing spatial resources to individuals. In opposite, it has led to increasing spatial segregation in Chinese cities.

Table of Contents

Chapter 1 Introduction.....	8
Chapter 2 Research Framework and Methodology	
2.1 Research Framework	20
2.2 Research Methodology	25
Chapter 3 Land Market: State and Capital	36
3.1 Commodification of Land Use Right.....	36
3.2 Land Development: the Role of State and Its Interaction with Land Users.....	46
Chapter4 Housing Production	52
4.1 Transformation of Housing Production and Provision in Post-reform China	59
4.2 New Financing Methods of Housing Production	71
Chapter5 Housing Consumption and New Spatial Segregation in Chinese Cities	85
5.1 A New Imagination of Housing and Housing Consumption.....	96
Chapter6 Conclusion.....	94
Reference	108

Chapter 1 Introduction

“Although high buildings stand everywhere, I cannot find my own home. On the crowded and busy street, I rove over the world. With heavy shell on my shoulder, I climb up step by step, but still cannot catch the rising housing price. I want a small home, a snail’s home, a place can shelter me from wind and rain. I want a small home, a snail’s home, a warm home owned by myself ... “

This is a famous Chinese song called ‘Snail’s Home’ (*Woniu de jia*). As part of one of the most popular soap operas in China today, it enlarged the voice of commoners who are facing the colossal pressure brought on by rapid rising housing price in cities. This soap opera is called ‘Live as Snail’ (*Wo Ju*), it tells a story of two sisters who come from a small town and dream of living a big city life. Like many young peoples who become ‘migrants’ in big modern cities after graduation from university, the sisters both insist on their dream and make hard efforts to be ‘city people’ and homeowners. Unfortunately, the older sister finds she can never catch up with the rising housing price and her passion and hope is gradually dismantled. When she is compelled to buy a house in the marginal area of the city, she is confused by whether she is still a member of the big city anymore.

The younger sister who follows her sister’s path of life dramatically changes her living conditions by having an affair with a local governmental official who is in charge of urban land development. In the soap opera, this sophisticated official plays the game of ‘land development’ and accumulates great wealth from it. As a lover of him, younger sister’s luxurious life sharply contrasts with the older sister’s frugality.

Although this is just a soap opera, it actually tells a story of many people's real life and reflects one important topic in Chinese urban citizens' life – house. Discussions about housing problem have existed in China long before the soap opera was screened. *Wo Ju* dramatized the discussion on the role of state in real estate development. In this story, there is a 'just' ending that the younger sister's lover was investigated for corruption and died in an accident. However, the real story is usually more unfortunate and the happy ending has rarely happened.

As one important pillar of Chinese national economy, real estate industry strongly contributes to the rapid growth of GDP in recent years. At the same time, housing price has also increased dramatically. In mega Chinese cities, high housing price means that people with average income could only purchase 3.2 square meters even if they would forgo all other consumptions. In order to live a 'comfortable life' (*xiaokang shenghuo*) which required more than 35 square meters residential space per person, ordinary people have to save all their disposable income for about 30 years. However, if we included the income level of rural workers in Beijing, the level of disposable income per capita would be much lower.

The hard burden of high housing price in China can be reflected by the measurement of housing affordability.

“Affordability is concerned with securing some given standard of housing (or different standards) at a price or a rent which does not impose, in the eyes of some third party (usually government), an unreasonable burden on household incomes.” (Hancock, 1993, p.129)

As an important measurement of housing affordability, the annual genuine housing price to income ratio (HIR) in major cities has exceeded 10 comparing to the international normative level of 3 to 6. It refers to the decreasing

attainability of new buyer in commercial housing market and the increasing burden of mortgage. What is more, housing price has maintained a high rising rate for a long period of time.

Housing has always played a crucial role in China's stratification system. In the pre-reform era, although income inequality was relatively absent, access to housing resources was one of the most important elements that influenced the stratification in urban areas. Besides a minor portion of residents who lived in their own properties, most people had to meet their housing needs through two channels: employees of state working units could rent working-units-house constructed by working units; at the same time, municipal government was in charge of distributing rental houses to those who could not access into working units housing. In practice, between these two approaches, renting of working-units housing was the major tenure format. Bian et al (1997) mentions in their work that, according to a survey conducted in 1985, working units housing accounted for 58.1% of all housing in urban areas, while municipal housing only accounted for 24.1%.

It is found that in planned economy era, housing distribution criteria was very unclear. Although the principle was claimed to meet the needs of those who are in urgent, the reality was far from that. Besides working longevity and positions, according to Walder (1986), personal relationship with who have authority to make decisions was an important factor influenced housing distribution. People who had good relations with working units' leaders usually had priority in accessing to housing resources. In contrast, household income did not play an important role to affect individuals' housing conditions.

Starting from 1988, the housing reform introduced privatization and commoditization. Initially, it proposed to build a housing market that aims at satisfying the needs of high income citizens and at the same time to establish a

security housing system to take care the needs of middle and low income people. However, middle income people were later excluded from the security housing system. By the end of 2009, totally investment in residential buildings had reached 2561.874 billion RMB. In contrast, the investment in government-subsidized security houses (including economic comfortable house and low rent house) was only 113.85 billion, far behinds the increase in the commercial housing sector. Now, the commercial housing market is the most important source that urban citizens rely on for their housing needs.

While some people moved from clusters of old houses to newly constructed houses with better conditions, a great number of people are still compelled to live in congested and inconvenient slum-like small rooms. Inequality in spatial distribution to individuals has led to new segregations in cities. The housing inequality problem in China is expressed as differences in living conditions due to consumers' financial ability in commodity housing market or their ability to access to security house resources. Unlike in pre-reform era when access to housing resources was determined by factors other than economic status, nowadays income plays a determinate role in assessing affordability. Increase in income polarization during economic reform and over-speculation on real estate led to decline in overall affordability. Nowadays city residents find more difficulties to meet their homeownership dream ever than before.

This thesis tackles the question 'how to interpret the housing inequality problem in China' from a sociological perspective. It puts the major concentration on critical analysis of neoliberal approach of land and house production. As the booming of real estate industry is sustained by an institutional structure that benefits capital accumulation, the nature of housing inequality would be better understood in the broader context of economic transformation. This thesis studies the housing production chain link by link and discusses the complex interactions among different players, including the central state, municipalities, governmental

officers, developers, contractors and consumers. The changing role of the government and its relationship with capital is emphasized.

During the implementation of economic reform, there is clear trend of neoliberalism, especially with regards to the changing relationship between state and government. As Marx indicates in his works, the inherent contradiction between production relationship and the ownership of production resources leads capitalist entities to periodic depressions. After the end of the WW II ,the flourishing of global economy lasted shortly for only twenty years. The rising of later developing countries provided new incentives to economic growth but has not relieved the problem of over-production or over-accumulation. Under the pressure of continuing decrease in profit margin and growing trade deficit, the United States sharply turned to abandon the fixed exchange rate and brace the ideology of neoliberalism. Ironically, the US – the country initially prompted neoliberal ideas is proved to be a virtual follower of Keynesianism.

In the same period, China was experiencing its most significant turn point after the establishment of the PRC. In 1978, Deng Xiaoping took the first step towards liberalization of the former socialist planned economy. Under the slogan of ‘to get rich is glorious’, antiquated state apparatus were abdicated and market mechanisms were introduced, a wave of privatization, commodification, marketization over almost every sector of the economy was set in motion. In rural areas, a ‘household responsibility’ system has gradually replaced the

communes. Local authorities were allowed to take possession of the communes' industrial assets and restructure them as TVEs. At the same time, immense transformation occurred in cities, private ownership was legitimized and ownership reform has been conducted in SOEs. During 1980s, while sustained the state ownership, SOEs were given greater managerial autonomy. Latter, the state decided to reconstruct the economic structure through turning targeted large and medium state enterprises to limited liability or shareholding companies.

The changing economic structure and the transformation of production mode determined that, the old redistribution system of housing was not appropriate any more. A reform was around the corner. In the following years, we saw the reform in housing production and distribution were strongly influenced by the proliferation of neoliberalism. The state has gradually withdrawn from direct distribution of house to urban residents. At the same time, working unit, which used to be the most important representative of state authority and the most significant unit of organizing production and reproduction, has also gradually quitted housing production and distribution work. In contrast, a commodity housing market is now the most important channel for individuals to meet their housing needs in daily practice.

It seems like what happened in China is just the realization of one of the most important claim in neoliberal ideology: a gradually progressing market and a

diminishing government. However, at the same time, we see the unprecedented interaction between state and capital. We also see the rapid expanding of state-owned or state-backed real estate companies. The claim for free market is largely distorted in practice. The role of the state is needed to be considered carefully.

In the context of economic reform, China's housing reform is undergoing profound neoliberal shifts. Neoliberal urbanization which is characterized with rapid urban expansion and a rapid process of urban-centered wealth accumulation has occurred in China (He and Wu, 2009). Although contradictions and conflicts coexist in implementing market-oriented development, different powers, including central and local states, and enterprises, all serve the goal of growth and the city has become a typical kind of 'growth machine'.

Neo-liberalism is rooted in the famous writing of economist Friedrich August Von Hayek. It aims at responding to the emergence of new geopolitical realignment and restructuring of economic policy after the end of Cold War. As Harvey (2005) pointed out in his work, capitalists confronting the social unrest brought by periodically reduplicative economic crisis found the propaganda of neoliberal ideas as a good solution to defend their class power. By alleging on its adherence to individual freedom and human dignity, elites had constructed a solid and fertile ground for neoliberal ideas. At the same time, series of policies was enacted to open both the business and cultural field to the fluid of local and global capital.

However, the practice of neoliberal ideas is always controversial and ambivalent. This conclusion can be attained from respective observations on governments' performances on domestic and international market. First of all, although the role

of the government is claimed to be minimized to the degree that could provide the conditions for capital accumulation, the rise of entrepreneurial local governments makes it ambiguous to measure the appropriateness of interventional actions. In opposite to the claim of protecting individual freedom and property rights, the neoliberal states' intention to protect the profit of economic elites at the expense of lower classes' interests is widely observed.

Secondly, while strongly arguing for free market and free trade in international market, those so-called neoliberal countries seems prefer to export their neoliberal tenet to other countries through international institutions and agreements, rather than to be abide by it themselves. These contradictions make the claim of neoliberal advocators to be suspicious. An important question to answer in order to explain neoliberalism is what lies under its apparent assertions.

As an institutional framework that characterized with strong private property rights and free market, Neoliberalism "offers a useful and influential research framework to interpret how global and national political-economic transformation affects the production and reproduction of urban space" (He and Wu, 2009: p.283). This critical analysis of neoliberalism is based on the assumption that the changes brought by neoliberal practices reshape the relationship between capital and state through rationalizing and promoting a 'growth-first' approach to urban development. In this situation, neoliberal states transfer their concentration from citizens' well beings to economic interests.

In 1970s, neoliberalism developed rapidly in several countries. In China, as the economic reform was performed, market-oriented development method proliferated into every corner of Chinese people's life. Chinese state embraced neoliberalism by adopting market-oriented strategy. The free mobility of capital has been gradually realized through far-ranging reforms in almost every sector.

In economic field, state owned enterprises reform has altered the unitary ownership format of economic entity and led to a new era of profit-led market competition.

In Harvey's observation on capitalist country, it is found that the shift from managerialism to entrepreneurialism has given rise to the emergence of entrepreneurial city (Harvey, 1989). Under the decentralization of administrative power and fiscal system reform, local states are more involved in local economic issues than ever. In China, the reform inevitably led to the decentralization of state power, but at the same time led to more frequent interaction between state and capital under the cover of market. Although advocates of neoliberalism claim that overemphasizing the role of central government is one of the barriers that should be removed, embracing of neoliberal ideology actually did not led to a diminishing role of the state.

The increasing financial freedom provides preconditions for the development of entrepreneurialism for local states. Currently, city governments joint alliance with enterprises and also overseas capital to maximize economic profits. At the same time, GDP growth and city image development has become the most important criterion to measure local officials' performances. The emphasis of statistic data as a measure of economic growth and social development bolster local officials to pursue 'seems good' data in paper but neglect people's real standard of living.

As a result of the establishment of housing market, a capital accumulation regime that based on land and real estate properties values has been formed and the spatial relationship has been dramatically reshaped. Land using method has turned to efficiency-led rather than project-specific (a kind of land use model that aims to meet the requirement of a specific industry project). Along with the emergence of rent gradients in urban areas, spatial function has been restructured

following the market rules. Construction of houses does no longer follow the rule of 'adjacent to work place' or 'more production, less consumption', but tends to maximum the interest earned in real estate investments. While luxurious apartments are built in downtown, gated communities and villas in low density are built in suburbs. At the same time, urban sprawl aimed at providing cheaper housing in fringe areas has occurred. While richer people living in the center of cities, poorer people moved to marginal places with poor facilities.

The development of real estate industry is based on the precondition created by land using system reform started from 1980s. The reform separated land using rights from the ownership and commercialized the former. Starting from 1998, local states were given the exclusive authority to lease land using right. While the real estate industry has become major pillar of national economy, land leasing earnings has become one of the most important revenues for local government. A group of 'real estate elites' closely tied with political power has emerged in contemporary China.

However, contradictions and competitions widely exist between central and local states, as well as between local states and farmers, and between other interest groups such as working units and government. While land has become a main source of capital accumulation, interactions among different interest groups, including government of all levels, real estate producers, construction companies, contractors, village collectives and individual farmers have become increasingly complicated. Based on the principle of maximizing the gains on land and real estate development, these interest groups' objectives are indeed disparate.

For instance, while local states tend to be concerned with short-term profit, the central states are more likely to focus on the long-term consequence of land and real estate development. Motivated by the large gap between compensation to farmers and land using rights leasing premium, municipalities are active

promoters of conversion of rural land for construction use. However, while emphasizing the significance of land related revenues, the central state inevitably pay attention to the threat caused by continuing lose of farmland. Also, farmers' appeal of higher compensation fees for rural land conversion gives threat to the 'land-based financing' system of municipalities. Their motivation to gain high compensation from 'selling' their farmland also gives threat to the 'farmland protection' principle of the central state.

At the same time, the consistent aim of maximizing individual wealth also compels the actors to make compromises and to cooperate with each other. What is worthy of our attention is, although contradictions and conflict widely exist, their understanding of disposition is consistent with the concept of 'development' introduced in the proliferation of neoliberal ideology. In the following chapters, based on observation of the production chain of real estate industry, the problem of how different powers bind themselves together and generate a regime of development in the process is discussed.

Generally speaking, housing production chain can be divided into three main links: preparing (including land acquiring and other project-related preparing works), constructing and marketing. In the first step of conduct a housing project, the major task for is acquiring land resources from local government, the exclusive authority of land resources. Starting from 1980s, coupled with reforms in every sectors of national economy, the land use system has experienced important transformation of commodification and marktization. In this process, the discourse of development has occupied the dominant role in production process, leading to market-led urban renewal and construction. In the thrid chapter, it illustrates the commodification process of land and the changing

relationship between the state and capital.

The fourth chapter discusses the second link in housing production chain – project construction. It analyzes the formation of a high leveraged production model in which a loose credit system and a subcontract system bind states, producers, contractors and households together. The first section is based on the history of housing reform. It illustrates how housing production and provision has been transformed in the last decades. The second section discusses the characteristic of the new housing production method through looking into the detail process of capital flow.

The fifth chapter focuses on the question of how the transformation in spatial distribution has impacted social relations. It illustrates how a new imagination of house has been constructed and how the boom of consumption is sustained in the process of production.

Chapter Two Research Framework and Methodology

2.1 Research Framework

Urban study is an important discipline in social sciences. The first phase in urban studies is centered on the ecological urban theories of Chicago School, which was founded in the boom of cities at the end of 19th century. Its representative figure, Robert E. Park (1952), firstly raised up the point that urban phenomenon, as a significant part of contemporary society should be studied as an independent discipline. He argues that the competition between individuals gives rise to the division of labor, and determines the distribution of space according to the 'suitable' principle. According to their different functions, different communities enjoy specific spatial resources in social life.

According to Park, human communities tends to achieve a equilibrium in which different functions interdependent and cooperate with each other in competition: "Competition operates in the human community to bring about and restore the communal equilibrium when, either by the advent of some intrusive factor from without or in the normal course of its life history, that equilibrium is disturbed" (Park, 1952 p.150). Therefore, the raising housing inequality can be explained by the failure of residential-use function of land in competition with other sectors, such as industrial and commercial use.

Advocators of Chicago School support a kind of dynamic equilibrium as the result of competition for spatial resources. If we only consider its use value, housing, as a durable commodity with relatively low capacity in making profit usually fails in fighting for land resources. In this sense, the scarcity of land resources should be directly responsible for insufficient of housing supply and

the equilibrium of housing demand and supply could only be met by increasing housing price and suburbanization. In other words, housing demand can finally be met by adding competitiveness to residential land and buildings, and by establishing a well functioned land exchange market.

Similar principles are also applicable to explain the distribution of spatial resources to individuals. Division of labor explains different status of individual in society. Any community is associated with particular types of residents with similar wealth, social status, education background and life style. Competition among individuals naturally lead to inequality and categories them into different communities located in different places. The segregation caused by housing inequality is an expression of the endogenetic contradictions occurred in spatial resource allocation process, but it has nothing to do with the overall capitalist mode of production.

Because of the over emphasis on division of labor and competition in space production, Chicago School's ecological urban theory is widely criticized for failing in developing a specific thought for urban studies, and being only one area of study within the functionalist paradigm (Saunders 1986, p.82). The objectors claim that Chicago School's theories can be used in studying any aspects of social life rather than specifically studying the urban problems.

Another important critique of the Chicago School is their intension of denying the possibility of engrained restructure of capitalist mode of production. In its theories, urban problems are analyzed totally separately from capitalist mode of production. Actually, many of their theories are established on the basis that early theories of Marx and Weber over emphasized production mode. They insist that the disequilibrium in urbanization process is largely due to the inappropriate adjustments between different powers, but has nothing to do with capitalist mode of production. Some scholars criticized the Chicago school and claim that,

Chicago School's ecology theories tend to protect the legitimacy of capitalism through constructing ideology (Lefebvre, 1976; Castells, 1982).

In response to the neglect of Chicago School, followers of Marx developed a new view on urban development based on Marx's discussion on capital and class. They argue that urban problems can only be understood in the context of capitalist mode of production, which constructs the core paradigms of urbanization and determines the way people produce and consume spaces. Castells, whose ideas dominated the development of a 'new' urban sociology in Britain in the mid-1970s, criticizes the existing urban theories as 'ideological'. He argues that Chicago School's urban theories fail to establish a scientific analysis of the reality of the society. In respect to the problem of consumption of space, he asserts that home ownership is preferred by people not because of cultural elements inherited from ancestors or genetic factors which are inherent in people's blood, but is determined by external structure which is constructed in the process of capitalist production.

Castells also points out the problem of inherent contradiction in housing provision in the sense of state-capital relations. In order to fulfill the need of reproduction for laborers, the state has to intervene in the process of production. However, the contradiction between the desire of maximizing accumulation and the need of providing necessary reproduction conditions to laborers could never be solved. Following Marx's claim concerning the role of state, Castells interprets the role of state as an instrument of dominant class. The government protects the interests of capitalist class since they are usually the winner of class struggle. As a result, their response to housing problems is merely a strategy to maintain short-lived and superficial balance between the opposite classes. In this sense, it is natural that government plays an ineffective role in dealing with housing inequalities.

David Harvey, as an important Marxist urban geographer critically taken up the theories in Lefebvre's work on cities and argues that the uneven geographical development is inherent to and necessary for capitalism. Besides insisting on the decisive role of structure in studying urban affairs, he notices the self-repairing of capitalist mode of production in contemporary world. He argues, urban problems are matter because they are central to the accumulation of capital. He emphasizes the role of 'capital switching' in restructuring social relations, and takes the labor-capital relation as 'to every corner of the social totality' (1978). Problems occurred in the process of spatial resource distribution are resulted by the essential contradiction inherent in capitalist production.

Although this contradiction cannot be solved, capitalist states create a system in which capital circulation contributes to its relief and sustain capitalist production in a relatively long period. This is what is called 'three cuts at classical crisis theory'. Harvey claims that competitions between capitalists lead to decline in marginal return from technology investment and worsen the investment climate of the 'primary circuit'. This is what had happened in the Western World following the short economic boom after the Second World War. In order to deal with this barrier in future growth, capitalists are forced to invest on the 'second circuit' – explore new market, just as what has happened in the process of globalization. The term "globalization" describes the most challenge that China are meeting now. Harvey explains it as a kind of neo-imperialism under the cover of neoliberal claim of individual freedom. However, the attempt of building new market only contributes to the reproducing of contradictions and new crisis will continue to occur. The crisis of over-production was never resolved. Therefore, Harvey argues that in the 'third cut' of capital circulation, the only way that can sustain capitalist production is wholesale destruction.

Marxist urban theories shed some light on understanding the housing inequality problems taking place in the process of urbanization in China. Inequality in

distribution of spatial resources to individuals cannot be explained merely by interaction between demand and supply in competition for scarce resources. Currently what we see is high vacancy rate associated with extremely low affordability in cities. Although land supply and new finished areas of residential building has been increasing in the past years, the housing price has not decreased to normal level at all. Boom in demand is constructed rather than nature, and over-speculation on land and properties is sustained by a series of institutional factors. The answer to the question of how to interpret the housing inequality problem caused by high housing price in China can only be revealed by tracing the process of production. That is why in this thesis, the housing production Chain is studied link by link. More important, studies on neoliberalism provide us with a new perspective that looks into the role of state and capital in current international system.

Both Castells and Harvey's points concerning urban development help to understand the whole picture of transition in capitalist cities, but we should be very careful when their theories are applied to study on Chinese cities. Firstly, both Castells and Harvey's works are based on their study of particular capitalist city which has always been dominated by capitalist mode of production. It is criticized that their emphasis on holism leads to the disregard of specific context for different objects (Ducan, 1982; Pickvance, 1984; Saunders, 1986). In China, in the transition from socialist planned economy to market economy, the development of cities follows a very specific trajectory. It is necessary to reveal the formation and operation of the institutional structure with Chinese characteristics. Therefore, in this study, the processes of reform, including both land reform and housing reform are my concern. Special attention is paid to the changing role of different power groups and their interactions with each other.

Secondly, Castell's urban theory accompanies with heavy functional characteristics. As functionalist' insisting, different groups in society play

specific functions just as biotic organs. In the theories of Castells, for example, the government is responsible for providing chances of collective consumption for people and also responsible for releasing the tension between different classes. However, the function of government or any other social groups are not given (Saunders, 1986). It is determined in the process of struggles and conflicts among different groups. There is no such thing like ‘defined role’ of government in practice. Therefore, in studying on the problem of housing inequality in China, the role of the state should be considered carefully.

2.2 Research Methodology

In the transformation to market economy, housing inequality is observed the most directly through enlargement of differences in living standards and polarization between property owners and non-owners. There are two important reasons: housing price in Chinese cities, especially in mega cities is over-valued; and second, ineffectiveness of welfare house system has led to over dependence on commodity housing market. This thesis attempts to explicate the problem of housing inequality in China through observation and research on the housing production process.

This research is taken out based on reflexive methodology and qualitative research method, and the fieldwork is conducted in Beijing. As opposite to positive science, I emphasize on the influence of structural elements, such as the time and environment and also the active role of myself in the interview. By employing the qualitative research methodology, I intended to see the housing problem from the position of actors. Comparing with quantities research method which is characterized with the principle of fixed measurement, the quality

method is much more flexible in discovering unexpected findings, especially through in-depth interview.

In order to protect the right of my interviewees, I asked for their consents of recording or taping the process of interview. I understand that I played an active role in the interviews, and I intended to build collaborative relationship with my interviewees in order to accomplish the construction of my research. Besides fact-to-face interviews, telephone interviews was also employed as an important approach in keeping track of the research process. The records were taken as quickly as possible after interviews in order to avoid missing of valuable information.

There are three reasons why I choose Beijing as my case study. First of all, the taking off of real estate in Beijing is very typically. The commercial housing consumption developed very quickly in Beijing and the housing price increased dramatically in recent years. The average price reached 10,000 RMB and it is one of the cities that have the highest level of housing price in China. At the same time, Beijing is also one of the cities with the highest land leasing price.

The second reason is that, in the past three decades, Beijing has experienced impressive urbanization. The floating population accounts for over 40% of the total permanent resident population. If we also count those who did not register

with local police stations, the number will be much larger. A great number of floating population put dramatic pressure on the housing system. In recent years, the poor living conditions for migrant workers and graduates leave in Beijing after finishing school study attracted people's attention.

The third reason is the historical consideration. As the capital city and political center of China, Beijing experienced the rapid development of a commodity housing market labeled with neo-liberalism as while as remaining relatively high political intervention. There is distinct contradiction between political and economic structures in Beijing. It is a good place to observe the continuity and transformation of state power.

During September and December, I lived in the Chao Yang District in Beijing for three months, and spend my time on visiting communities, real estate agencies and doing interviews. Close contact with real estate agencies and housing sales centers helps me to learn more about what is happening in China's commodity house market. It also gives me more opportunities to talk with consumers. I interviewed real estate professionals, including those who work for real estate companies, construction companies and those who devoted to relieve housing inequality problems. They works for different links in the production chain, and in the conversation with them, a picture of how state and capital interact with each other and restructured the spatial relationship in cities has becoming more and more clear.

I interviewed with 11 real estate professionals, seven of them work for real estate developers, 3 for construction companies, and the other one devoted to develop

alternative housing production methods. The reason why I interviewed these people is that I would like to see the true world of real estate market - a world is different from what is described by mainstream media. Attributed to the lack of supervision and management, illegal and informal practice is widely existed in the process of real estate production. Through talking with people who are involved in the process of production, it is the best way to reveal the reality.

I chose residents in different age in order to catch peoples' different opinions concerning housing consumption. Interview with residents is important because how to sustain high demand and encourage housing consumption is a very important target for developers to ensure the implementation of real estate projects. Presale income is one of the most important resources to finance real estate productions in China. In this sense, the restructuring of peoples imagine of housing is significant to sustain a high booming real estate market.

The boom of real estate market is based on the precondition of effective demands, including both concrete demands and investment demands. However, it is inaccurate to say that effective demand is the fundamental reason that leads to high rising housing price in the market. Actually, the operation of the market is largely intervened by state power and the interaction between state and power contributes to the establishment of a series of institutional elements that benefit real estate accumulation. Actually, a booming demand is constructed rather than rooted in individual nature. In this sense, the construction of a new imagine of home and city life is actually an important link in accomplish real estate production. In this sense, interviews with individual residents help to understand how this process is done in the context of economic reform.

I interviewed 23 residents, 10 of them was aged from 20 to 30 years old, 5 was aged between 30 to 40 years old, 4 was aged between 40 to 50 years old and 4 was aged between 50 to 60 years old. People in different age usually express very

different opinions on housing reform because of the difference of their personal experiences. Among these 23 residents, there are both local permanent residents (who are born and grew up in Beijing) and migrants (both urban and rural migrants). In interviews with them, I preferred to let them to narrate their housing experiences and their feeling and opinions. I avoided using specific questions to misguide their description. The interviews were scheduled case by case, mostly according to the availability of the interviewees. Also, I let them to choose the pace to meet in order to make sure they feel comfortable during interviews.

Chapter 3: Land Market: State and Capital



Zigzag factories surrounded with construction sites and high rising buildings

I stood on the roof of a newly constructed residential building together with Mrs. Zhao, who has worked for a textile mill for more than 20 years. This is a 21-storeys high-rise building, a part of the phase-two project of a gated-community located in the Chao Yang District of Beijing. Although the construction of the building had been finished, interior decoration of corridors was still in process. Mrs. Zhao pointed to a parcel land filling with zigzag factorial plants on the north of the community and told me that it used to be a part of their textile mills.

In 1950s, city planners envisioned Beijing to be developed into a modernized manufacturing center. Therefore, the city government put emphasis on the construction of an industrial quarter in the northwestern and eastern suburbs (Zhou and Logan, 2008). In response to the call for developing industry, three

textile mills were constructed outside the city, now considered the eastern inner suburb. There were thousands of textile workers moved to the houses located near to the mills and a ‘factory region’ had been built. Besides houses constructed for workers, other facilities, such as schools, hospitals and shops were set up at the same time. Mrs. Zhao told to me:

“Every aspects of my life were tightly connected to the mills, my parents worked there, and we lived in the house distributed by the mills. I have never thought about leaving the mills and it was very natural that I became a textile worker after graduation. I met my husband in the mill, and I even thought my son would work for the mill one day in the future. Every time when I look at these zigzag factories, the picture of thousands of workers working there comes to my mind, and I can even hear the noise made by textile machines.”

However, the factory plants, the most modern buildings representing productivity at that time, now seemed to be stagnant and improper in contrast with the modern high buildings surround them. The development of urbanization process has totally changed the look of this ‘factory region’. With the implementation of economic reform, the three textile mills, which once fed more than 30 thousands peoples, have gradually lost its competitive advantages in the market. In the process of state-owned enterprise reform, the three textile mills were merged into a limited corporation. Most of their factories have closed and others were moved to the outskirts of the city. The factory buildings had been demolished and the factory district Mrs. Zhao showed to me is the last integrated one that has been maintained.

Not only the factory buildings, but also most of the houses for workers and other supplemental facilities have disappeared. Today, the whole area had been restructured according the rule of market. Different sectors were reallocated in

spatial terms according to their function and profitability. Most of the original locations of factories have been transformed for commercial use. The gated-community in which Mrs. Zhao told me her story is developed on a parcel originally owned by the mills. “It is difficult to imagine, our mills, which used to be one of the best state-owned enterprises, have closed most of their operations and now survive by relying on land. But it is exactly what has happened in the past 20 years.” Mrs. Zhao said.

Similar stories as Mrs. Zhao told me have happened in almost every place of urban areas during the implementation of economic reform. The textile mills Mrs. Zhao works for is one representative case of project-specific urban development. In the era of planned economy, industrial projects determined the pattern of urban development. In order to develop industrialization in backward cities and to meet the needs of workers, local government had to restructure the urban area and construct complementary facilities to meet the requirements of operating factories. Therefore, several worker hospitals, housing for workers and schools for worker’s children were built close to the location of factories.

However, while the implementation of project-specific development model enabled the development of industry in underdeveloped cities, it also led to ineffective land use caused by repeated construction and over consumption by working units. On the one hand, land squandering was prevalent (Fung, 1981). On the other hand, the allocation of land regardless of environmental concerns led to aggregation of industrial plants in city centers, exacerbating the problem of pollution. Starting from 1980s, be encouraged by the purpose of cost-cutting, industry, the profit per square meters of which is only one tenth as high as that for business, was forced to remove from central areas (Zhou and Logan, 2008).

When the concentration of government’s policies transferred from social equality to economic growth in 1980s, the problem of how to increase land use efficiency

became an important debate between conservatives and advocates of reform. Apparently, the outcome of the debate is clearly reflected by immense geographic changes in urban china in post-Mao era. Rapid economy development is accompanied with urban sprawl. A new land use system embracing the rule of the market was introduced into practice.

A new model of urbanization with neoliberal characteristics has emerged in China. Land-based capital has resurged as land using right was commodified. A newly emerged rent-oriented land market interacts with China's legacy of strong state authority, and constructed a complicated and fragmented land system. It provides a new resource of accumulation. The coexistence of an administrative allocation system and a land use right leasing system led to ambiguous property rights. State units that usually occupy high quality parcels are wild about making profits from their land, both in legal and illegal methods. Real estate developers not only enjoy the wealth accumulated in the process of real estate development, but also participate in land dealings, also through both legal and illegal ways. Although contradictions widely exist in the spread of neoliberal ideas, the principle target of capital accumulation has been legitimized in daily practice.

The project-specific development model lasted for more than two decades had been replaced by a uniform urban land planning system. The City Planning Act enacted in 1989 allowed the use and development of any parcel of land to be conducted with the approval from municipal planning authority. As a result, central and local governments are tightly bound with land-related interests. They exert influences on the development of urban area through, on one hand, shaping the overall urban planning strategies and, on the other hand, through participating in land use right trade and real estate development process.

Although land resource distribution nowadays is finished using the market as the major medium, it is inaccurate to conclude that the role of state has diminished

along with the rising of the market. On the one hand, the state, especially local states are now involved in both the primary and secondary land market much more frequently and deeply than ever. On the other hand, state's interests, represented by a huge number of state-owned or state-controlled enterprises is tightly bounded with land related profits through various ways. Wang Hui (2003) makes similar conclusion:

“While neoliberalism takes every opportunity to cast itself in the image of ‘resister’, this does not prove that this ideology of the market is in actual opposition to the practical operation of the state: on the contrary, the state and neoliberalism exist in a complex relationship of codependence.”

The flourishing of real estate market has restructured the urban areas through large-scale redevelopment and suburbanization. China nowadays has become a “huge building site” (Pun and Lu, 2009). Thousands of modern buildings have risen from the ground in the roar of machines. From the starting of house reform in 1998 to 2007, the area of constructed urban buildings has increased 65.9% and the area of developed urban land has increased from 7 billion to 17.5 billion square meters in 2006 (Shi, 2009). The rapid urbanization process reflects the increasing demand for land resources since the house reform. It also makes us to consider the correlations between land price and house price – one of the most popular topics today.

It is widely recognized that, it is unreasonable to illustrate the house problems, either the underdevelopment of a welfare house system or the sustained high housing price, regardless the development of land market. On the one hand, land is the most important resource for real estate development. Acquiring of land resource is the first step in conducting any real estate project. On the other hand, the ambiguous property rights of land has constructed a very unique land system

in China, and the complexity of the land market makes the access of land resource even more difficult. How to access into land resource is the toughest mission for developers. Therefore, the price of house is always bound with that of land.

Furthermore, the land supply system directly influences developers' aspiration of joining low-rent and economic housing production. Once land income is bounded with local governments' finance, high land price inevitably becomes an obstruction on welfare housing investment. The intention to benefit more from land leasing motivates local governments to cut short land supply for welfare housing projects. Also, positive expectation on land value incentives developers to focus on land and property investment. On contrast, their aspiration of joining low-rent and economic housing projects which guarantee a low profit rate declines.

In order to understand the emergence and development of urban land market in China, the changing nature of land is discussed in the first part of this Chapter. I am trying to answer two questions: First of all, how to interpret the change properties of urban land in post-Mao era? In order to answer this question, it is necessary to understand the history of land reform in the context of economic reform. Additionally, it is important to understand how the spatial and social relations have been shaped in the dominant discourse of neoliberalism. The attention should be focused especially on the new emerging of a group of elites who rely on land and land-related properties.

In respect to the exclusive authority of government in land supply, it is also very important to research on the role of government in land development. Therefore, in the second part of this chapter, based on the observations on both the primary and secondary land market, the role of government as both supplier and participant is discussed.

3.1 Commodification of Land Using Right

The property market has long existed in China before the establishment of People's Republic of China (PRC) in 1949. After the founding of the new China, the communist government revised the constitution to forbid private property rights in land and to realize nation-wide public ownership. Private ownership of land was ended in 1956. During 1960s and 1970s, a project-specific model was adopted in urban development (Yeh and Wu, 1996). In this period, uniform urban planning did not exist and land using decision was made to meet the requirements of industry development

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According to the demands of industry projects, land resources were distributed through administrative allocation free of charge and regardless of the use type. For instance, although a parcel of land was supposed to be distributed to develop a particular industry project, besides factories, it could be used to built workers' houses and other facilities. Therefore, hospitals and schools are built, and together with factory plants constitute a 'factory town' or 'factory region'. In a 'factory town', even all the facilities needed for production and reproduction are built close to factory plants.

At that time, most cities in China were underdeveloped, the project-specific development model allowed the state to concentrate resources to develop industry. In the study by Yeh and Wu (1996), they point out that the adoption of 'project-specific' develop model based on construction of factory regions in cities was a response to the difficulties confronted by the country in the early years of the state. The lack of supplemental facilities in cities, especially in downtown areas compelled the state to abandon the method of comprehensive urban development. The intention to accelerate industrialization made urban development subsidiary to the construction of industrial plants. Additionally, the emphasis on minimum consumption called for reduction in living costs.

Underdevelopment of public traffic system also required to decrease the costs of commuting to work. As a result, through central planning process, land was distributed to meet the requirement of specific projects and factory plant and other facilities were built near to each other. Factory towns including production sites and other necessary supplementary infrastructures were built national widely.

However, the project-specific model had led to iterative investment on fixed assets and chaos in land using. It was very common that two adjacent factory regions built hospitals and schools respectively. As a result of insufficient investment and frequent duplication, these buildings' quality was generally low. Limited resources that could be put into public service had to be separated. The difficulties of coordination among self-contained projects led to waste of land resources in a large extent. Furthermore, the value of land was totally absence in the process of urban development. Parcels of land were distributed to users regardless differential locations. Because industrial development was the central task of the country, land parcels with high quality and those located in city centers were usually assigned to industrial projects regardless the problem of pollution.

Starting from late 1970s, in response to the stagnation of national economy and political uncertainty, a debate towards China's future disseminated in the country. The conflict and debate between "conservatives" and "advocators of reform" led to rethink and re-exam of the past. In this process, the shortage in material goods was attributed to the lack of market system, which is believed to the only workable method that could accelerates accumulation and provides the fundamental resources for realizing egalitarian socialist goal. As a consequence, Western countries' experience in market development has been recognized as the learning object.

In early 1980s, capital resurged firstly in rural areas. A contracted household responsibility system was legitimized in 1982. Later, the contract responsibility system was introduced to SOEs reform. The original stress on equality was replaced by emphasis on productivity and efficiency. At the same time, China opened its door to the outside and re-interacted with the global market. Foreign direct investment (FDI) was taken as the most significant resource of capital. It does not only bring about a large amount of money, but also important technologies. Immediately, following the open door policy, the target of constructing attractive business climates for foreign investors has become one of the most crucial missions for local officials. However, the traditional administrative allocation approach of land supply put barriers to both the diversifying of ownership and the entry of foreign investment.

Firstly, the administrative allocation approach of land resource distribution failed to meet the land demands of foreign investors and private sectors. In planned economy era, working units were guaranteed with free land resources. As what we discussed earlier, land was distributed according to the need of particular project. However, considering the nature of private and foreign sectors, it is apparently inappropriate to distribute land resources free of charge to them. On one hand, administration allocation of land resources is opposite to the rule of free market. On the other hand, free access to land resources by foreigners is typically contradicted with state authority. In this sense, the rigidified nature of the old land supply system was soon recognized as inappropriate.

Secondly, inefficient using of land was recognized as an important obstacle to future economic development. In pre-reform era, since land was allocated free of charge, land users tended to underutilize their allocated land (Ma and Tian, 2009). Most state units had bargained for more land than they actually need. Additionally, free allocation of land resulted in financial deficiency when urban redevelopment was on the agenda. In the early years of economic reform, many

cities were lack of capital to construct serviced land (the land parcels that has been prepared to be constructed on). The insufficient of fundamental infrastructures deterred many potential investors (Ng and Xu, 2005). Insufficient of funding also hindered urban restructuring projects and slowed down the improvement of living standards for citizens.

In order to develop a comprehensive land supply system that can meet the requirements by diverse users, a land pricing system based on the commodification of land use right was invented. In the early years of land reform, the Law of Sino-Foreign Joint Venture regulated that a typical kind of land-using fee should be charged from foreign investors. It also allowed enterprises to use their land as capital to cooperate with foreign investors. Later, in 1988, in the amendment to 1982 Constitution, while insisting on the state-ownership of land, land use right was allowed to transferred in accordance with the law. Furthermore, in order to encourage efficient land use, the state council announced the 'Regulation on Land Tax Collection in Cities and Towns in 1988, which enabled cities and towns to collect land use tax on all profit-making land users. In 1992, the new land leasing system was adopted national-wide (Deng, 2005).

However, the introduction of market mechanisms into land system did not lead to the end of administrative allocation. On the contrary, there occurred a dual land system comprised with a market-oriented land using right leasing system and an administrative allocation system. Governmental and military institutions and other non-profit organizations such as education institutions and hospitals could still get access into free land resources. But commercial users were forced to meet their needs in land leasing market through negotiation with municipal government, auction or tenders. Unlike the administrative allocation system before the reform, the new system started to charge for land use tax for land users. For occupier of leasing land, a granting fee for land using right leasing is charged.

These two parallel land distribution systems led to the large gap between prices of land allocated through different methods.

Scholars use the term ‘partial commodification’ to refer to the remaining of state ownership of urban land. As the use right of certain period, usually 40 years for industrial use, 50 years for commercial use and 70 years for residential use, is commercialized and merged into the operation of market, the state ownership of urban land led to uncertainty in property rights. Former working units that are usually occupy free allocated land with good quality found the opportunity to benefit from the gap between land prices attributed to the dual pricing system.

The ‘allocation price’ for allocated land consists of three main components, they are the cost of expropriating collective owned land to state ownership (*zhengdi fei*), the cost of various stipulated land fees (*guifei*) and a government set allocation fee (*huabo fei*)¹. By contrast, leasing land is conveyed at a ‘conveyance price’. Besides the three types of fees in ‘allocated price’, the conveyance price also includes a specific conveyance fee (*tudi churang fei*), which is decided by market.

Although any use of urban land is said to be authorized by the state, in the early years of reform working units actually controlled over urban land resources. Profits from land investment increased rapidly once leasing and transaction of land was allowed. In the process of land reform, former SOEs found the high exchange value of their land. Although banned by law, it is not surprising that former SOEs turned to be active players in the land market soon after the reform.

Before 1990s, direct investment on land was not allowed. However, as the division between ‘land transaction’ (*tudi zhuanrang*) and ‘land conveyance’ (*tudi churang*) was confirmed in law, the transformation of land using right between

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users was legalized. By conveyance, it refers to the leasing of land using right from municipal government to individual land users. But transaction means the transfer of land use right between land users in a newly emerged secondary land market.

The Land Administration Bureau enacted the “Tentative Provisions on Management of Administratively Allocated Land”, prohibiting the trading of administrative allocated land in the secondary land market (originally allocated land is only tradable if a land premium that overlay the price differential is paid). However, in practice, former SOEs are frequently involved in land exchange. In the process of SOEs reform, relocation and exchange of land are very common. The exchange of land between working units on a voluntary basis is treated as a specific format of administration allocation. It can be decided by negotiation between working units (Yeh and Wu, 1996). Additionally, occupier of allocated land actively involved in black market.

One of my interviewees, a lawyer who is specialized in real estate related works gave me an example of how former SOEs economize on their land resources:

“It is regulated that a compensation fee should be paid to municipal government before a parcel of former administrative allocated land can be transferred in the market. That is to say, by paying for the price difference between allocated and leasing land, the nature of the parcel will be changed. In one case I handled before, a bankrupted SOE tried to make profits from selling a parcel of land on which their factories were once located. Because they did not have enough money to pay the compensation fee, they turned to look into other ways. Later, the leaders of the SOE reached an agreement with a real estate company. According to the agreement, the real estate company will pay for the compensation fees cost, and the using right of that parcel will be transferred to the real

estate company at a price lower than the average market price. After the real estate project is finished, dozens of houses will be sold to the SOE at a price reflecting only the cost of construction, and these houses will be allocated to SOEs employees as subsidies.”

In some other cases, when one loss-making SOE was merged into other more profitable SOEs, its occupied land was automatically transferred. For instance, the gated community where I conducted the interview with Mrs. Zhao was constructed on the parcel once was occupied by the textile mill but was transferred to the controlling corporation of the merged new enterprise later.

It is evident that, the property of land as a public resource has been thoroughly overturned in the process of land reform. Its nature as a necessary production resource that was allocated according to the need of specific project was replaced by its function as a resource for accumulation. Investment and speculation on land itself has become one significant business for those who possess land resources, especially those former SOEs. Actually, a great number of former SOEs accumulate wealth for survive or future development based on land investment incomes.

The limited corporation merged by the three textile mills is located on a wall-surrounded parcel that was once owned by the textile mill Mrs. Zhao worked for. Besides several of traditional buildings which are used as offices nowadays, there are also some small gardens. The managers plan to redevelop the garden into quadrangle dwellings for rent. This idea brewed in their mind for several years. As the old buildings of offices become well-known after the hot broadcast of a famous soap opera ‘Golden Marriage’ (*Jin Hun*) which was shoot in the old offices of the company, they recognized the broader potential value of the parcel they occupied and the old buildings they maintained. As a result, after the last two textile mills operated by the company in suburban were closed down

during the international financial crisis in 2008, the managers were soon forced to solve the problem of survive on land investment. Nowadays, land resource which used to be treated as subsidies to production project has exceeded production and is seemed to become a ‘more effective’ way to accumulate wealth.

With the boom of land market, a vast of real estate developers specialized in land investment and speculation has occurred in China. Redevelopment projects lunched by government dominated the early years of land reform. In this period, the government-backed development companies increased rapidly. Most of these companies were set up in the name of supporting urban development. For example, in order to handle the urban renewal projects launched by Beijing government between 1989 and 1992, even every district established specific construction companies or offices. In the following years, most of them turned their major business into land development and real estate development. While some of them remained owned by government bureaus, others divided from the direct control of government and been independent.

In my interview with Mrs. Fu, who joined the field of real estate development as early as late 1980s, she described the major role of real estate companies during that time:

“At the beginning of the reform, many government bureaus, especially those worked in land resource and house management field, established their own real estate companies. Of course, at that time, the name ‘real estate company’ did not exist at all. They are usually in the name of ‘redevelopment office’. I started to work in Gan Jia Kou Redevelopment Office in late 1980s. At that time, we were responsible for the redevelopment of three pieces of land located in Gan Jia Kou. Later, as long as the development of real estate industry, my danwei was

reformed to a company and began to be involved in real estate development projects other than redevelopment, such as commodity house production.”

Although with deepening of economic reform, private sector has growing dramatically, tight relationship between government and real estate capital has never disappeared. With the conduct of land and house reform, government-backed enterprises nowadays actively involved in land and real estate development. It is widely observed that diversified interests on land led to the emergence of a development regime in cities in recent years (Wu, 1997; Fang and Zhang, 2003; Zhu, 1999).

The local governments nowadays are more likely to protect and promote the land market, even through legitimizing the illegal trading (Xu et al., 2009). For instance, in order to transforming formerly allocated land into conveyed land, a minimum of 40% of the market price should be paid as premium fees. But in practice, municipal governments implemented this policy differently, and set the rate from 10 to 90 percent of the market price.

Financial incentive is an important factor that account to local governments' active role in land development nowadays. In China, income from land using right leasing has constituted a 'second financial system' for local government, in opposite to the general budget income system. The second financial system is also called 'land financial system', in which land-related income, including land leasing fees and land-related taxes, is the major income resource. The fiscal reform in 1994 reduced local governments' tax income from industrial sector, but leave more space for them to make profit in land development. In opposite to value-added tax, which is divided between the central and local states in the proportion of 3 to 1, land-related income is mainly sustained by local states. Additionally, local states have more freedom in spending of 'out of budget

incomes' – the land leasing fees. In some major cities, the rate of land related incomes to local government revenues is as high as more than 60%.

As Harvey (2005) pointed out in his work, the use value of land can be understood as 'forces of nature' that provides conditions or elements of production. It does not only supply with nutrients for agricultural production, but also functions as instrument or means of production. However, the ridiculous prosperity of commodified land, just as Marx described, illogically assumes that rent grows from soil. This assumption tends to regard the distinction between profit on capital and rent. As Harvey pointed, the fundamental difference is that compared to the productive nature of capital interests, rent is non-productive at all. However, in the development of capitalist world, the commodification of land as a new resource of accumulation functioned as an important factor that alleviate the problem of over production and also boost the future circulation of capital.

It is clear that in the process of commodification, the property of land has totally changed. In the pre-reform era, land was allocated to working units for production purpose and all the employees who were claimed to be the 'hosts' of the working units were benefited from it through various ways. For example, they were allowed to access into houses and other fertilities constructed on the allocated land. However, after land reform was conducted, the land on which workers relied was separated from both production and workers' lives. The new land leasing system gives to the rise of land investment and speculation. It assumes that land itself as a commodity, rather than conditions or instrument of production, can produce interests. It is not uncommon to see that in the process of one parcel is sold hand by hand, its 'value' dramatically increase. There even occurred several real estate 'developers' that have never participate in any real estate project – they actually survive and make profit through land resell. Nowadays, the value of land does no longer realized in the process of production.

3.2 Land in development: the role of state and its interaction with land users

There are many debates on the question of how the price of land is formed in a competitive market. Some scholars argue that, because the price of land is determined in the interaction between supply and demand, the supply structure heavily controlled by local government should be blamed as the major cost of high land-rising land price in China. It is argued, to maximum its own interest on land, local government tends to maintain 'short-supply', which is very similar as the Hong Kong government did, as booming demand will increase the land price.

Other economists blamed the inappropriate economic structure for over speculation on land and real estate. The advocators of this view suggest that, world-widely economic recession in recent years has exacerbated the situation in international market. As an export-led country heavily relied on foreign market, China has experiencing a hard time. Therefore, in respect to the difficult business in global market, China turned to promote economic development thorough encouraging domestic demand. The adjustment of economic structure, especially increasing investment on sectors other than export-oriented industries will contribute to absorb over-flawed capital in the future.

Their arguments are based on a paradoxical assumption that the presence and development of a land market will automatically lead to the best allocation of land resources. They take market as a panacea and blame the role of government as a barrier to taking balance between supply and demand. However, in practice absolutely free market has never and will never exist in any country. We have to admit that the market, as an institution that provides conditions for capital flow and accumulation, is never nature. It is established and manufactured in the process of power struggles among factions representing very diverse interests.

Even after it has been established and legalized, it still has to operate under government's intervention. The conflict among different interest groups will never end. In contrast, it will continue to interact with the market. Therefore, when land becomes a commodity and can be exchanged in the market, its value is socially constructed in the process of power struggle rather than decided by the interaction between supply and demand. Just as John Logan (1987) claimed in his work, the nature of land use and exchange value is a result of social construction rather than consumer's competition for spatial advantages.

We cannot understand the emergence and development of land market in China without paying attention to the role of state. It is mainly because state plays an important role both in land supply and land development. As both a regulator and a participant, the state always plays an active role in the market (Xu, et al., 2009). On the one hand, state's intervention gave birth to land market. In the first place, the land market is formatted through a top-down reform that takes a gradual path and sustains the legitimacy of land's commodity status. Furthermore, the introduction of market mechanism and institutional reform has not led to the end of administrative allocation of land or a diminishing role of the government. On the contrary, both central and local governments exert remarkable effort on constructing institutions that sustain the development of land market (He and Wu, 2005). They not only endeavor to preserve the role of land as a new resource of accumulation, but also work hard on providing preferential spatial structure that benefit capital accumulation through propel new urban development method. There is a clear neoliberal trend that believes in advancing human well-being by introducing an institutional framework characterized with private property rights.

On the other hand, coupled with the expansion of land market, the state not only regulates land use through manipulating land supply, but also acts as one significant player in land investment and speculation – both in primary and

secondary market. It manipulates the restructuring of urban areas and spatial relationship using market mechanisms as a weapon.

However, interests among government of different levels and in different locations are extremely diversified. A single parcel of land usually involves complex interests of different peoples. Differences also widely exist between other interest groups and government and among interest groups themselves. For instance, tensions usually exist between central and local government towards the expropriation of arable land. Also, other actors in land market, including real estate developers and end land users, always have to negotiate with the government in order to access into better conditions for accumulation. In the next section, the interactions between central and local government, local government and land users in land market are discussed.

Land leasing through negotiation – from a perspective of the interaction between municipalities and government-backed developers

The urban land leasing market is composed with a primary market and a secondary market. By primary market, we refer to the market in which land using right is conveyed from municipalities to land users through market methods. The development of market mechanism in China's land system takes the pattern of gradualism. In the development process of the primary market, the role of government is persistently changing.

In 1986, the State Council enacted the Land Administration Law that granted more autonomy in land use for local governments. In the later amendment to the Constitution, land using right was regulated to be conveyed through negotiation, tender and auction. In the early stage of urban land reform, administrative

allocation of land to working units was still the most important format of land supply, and land conveyance through negotiation between users and local government dominated the primary market. As Feng (1994) mentions in his work, the proportion of land leased through tender or auction to the total areas of leased land had never exceeded 10% until 1994 when his work was published.

In 2002, the Regulation Governing the Granting of Use Right in State-owned Land by Tender, Auction and Listing (Decree No. 11) was issued by the Ministry of Land and Resource. It requires that all land for business use should be conveyed through either tender, auction or quotation. However, the enforcement of central policies was not efficient (Yet and Wu, 1996). According to the statistics provided by China State Land Administration Bureau, in 2003 and 2004, the proportion of leased land through negotiation accounted for 72.02% and 71.12% respectively to the total amount of conveyed land. In contrast, there hold only few tender, auction and quotation.

It can be inferred from the statistics that, the function of market mechanism was largely distorted. Rather than market competition, land price is decided in the process of negotiation, largely controlled by local government. This phenomenon reflects the contradiction that has long existed in the process of market reform. The introduction and development of market forces put enormous challenges to political elites. At the same time, new opportunities accompanied with the growth of the market incentives political elites to adopt new methods to protect their interests. In China, this struggle is clearly reflected in the land market.

Xu and his colleagues (2009) points out in their work that, the preference for negotiation method of land conveyance is due to local government's concern to get into other benefits besides land leasing premium. On one hand, for local governments that directly participate in land development through establishing their own real estate and construction companies, profit from land development

was thought to be more important than land premium incomes. That is because land development allows local governments to own real estate properties as well enables local officials to display their achievement. On the other hand, government officials kept close connections with former government-backed land users, including both former SOEs and real estate development companies. It is widely observed that corruptions usually occurred in the process of negotiation. Mr. Xu, who worked in the same company as Mrs. Fu, told me that:

“Government connection is very important. At that time (before Decree no.71 was fully enacted), companies without government background or connections could not compete with us at all. We usually get well located parcels easily through our ‘guan xi’ (connections) with the government. Even when land was conveyed in ways other than negotiation, we are still in advantage. The management of primary market was not transparent. When an auction was held, the government only published related information a few days earlier. You even don not have time to prepare for it. Therefore, only companies that get into information much earlier through ‘guan xi’ could have enough time to prepare to meet the requirements.”

Mr. Xu told me that, the company he works for has rarely participate in tender, auction or quotation. Their store of land was built when leasing through negotiation was still allowed. He asserted that, in order to occupy high quality parcels of land, one of the main tasks of the company is to maintain good relationship with the local government. He also pointed out the advantage of government-backed real estate companies in land requisition.

“For our company, we were originally organized and managed by Hai Dian District government. Most of the managers used to be government cadres. Certainly, they have good ‘guan xi’ with the district government

as well as the municipal government. When land conveyance through negotiation was still allowed, they played an important role in determining the land price.”

He emphasize on the importance of ‘guan xi’ several times in our interview. He even said: “‘*guan xi*’ is the most important reason why our company still survives.” The access into large-scaled redevelopment projects and good parcels with high quality accounted for the primitive accumulation of capital. Additionally, now they primarily depend on land reserved before negotiation conveyance was banned. These parcels of land were usually conveyed at a price much lower than land acquired through auction and tender (Jia, 2004). However, after 2004, negotiation conveyance is rarely practiced in Beijing. In November 2004, the state council issued the On Deepening Reform and Strengthening Land Administration that reiterate the stipulation in Decree No.11. Soon after, land use right leasing through negotiation was appealed nation-widely. Mr. Xu said:

“After 2004, we have never participated in any auction, tender or quotation by the city’s land reserve center. Just before the end of negotiation conveyance, many government-backed real estate companies as our company tried their best to reserve land. It was obvious, ‘good days’ for us would not last long.”

These government-backed companies recognized that, the end of their ‘good days’ would force them to compete in the market with other private owned or even foreign-invested real estate companies. Local government also noticed the challenge brought by the end of their control over land price. As a response, in June 2002, Beijing Municipal Government issued Circular No.33 and allowed negotiated conveyance to continue in four areas: green belts, small towns, urban renewal schemes, and major projects with crucial social significance. However, the process of measure the property of land use was very disordered. When I

asked Mr. Xu to explain a little more about how to acquire negotiated conveyed land, he told me:

“We always have solutions. Between 2002 and 2004, the areas of land conveyed through negotiation had actually increased a lot. I can give you an example. The development of any parcel of land has to be approved by urban planning bureau. Although the use pattern of certain land is confirmed before the land is leased, it is common to make some amendments. In one of our projects, a parcel of land was planned for building security houses to relocate residents who are involved in a redevelopment program. If you want to build a new community, it is impossible to built only houses for resident. You have to build for commercial use, such as stores, restaurants, supermarkets and cinemas. Also, you may have to build public amenities. Although those security houses cannot make a lot of money, these commercial used houses and amenities can do that. Sometimes, a small number of commercial houses are also allowed to be built on the land.”

As Jia (2004) observed in his research, during 2002 to 2004, Beijing approved more than 10,000 hectares of negotiated conveyed land, almost as same as the amount in the previous 10 years. Apparently, the fear of losing their control over land conveyance urged local government officials to accelerate their steps to making money and other benefit from land.

New strategies and new conflicts – concerning the establishment of a land reserve system

After 2004, access to low priced parcels of land in the primary market has become difficult to attain. The strict implementation of Decree No.11 meant that,

an increasing number of tender, auction and quotation has been hold. In this sense, the supply of land resource began to be more market-oriented. However, the end of land leasing through negotiation did not necessary lead to a diminishing role of local government in the primary market. On the contrary, confronting new challenges put by deepening in marketization, local governments' intervention in land supply adopted two new trends: first of all, through establishing a land reserve system, local state re-concentrated their control over the land occupied by former SOEs. Secondly, utilizing the development in credit system, land resource has become a new capital of financing government expenditures.

As the growth of economic decentralization and the diversification of investment, municipal government was granted the exclusive authority to lease urban land. All the parcels of land administratively allocated to working units have to be transferred to municipal governments before they can be traded. In 1996, the first land reserve agency, Centre for Land Development was established in Shanghai. Later on, the land reserve center model had been spread to other cities in the country. In 2001, land reserve system was made a national policy in Reinforcement of State Landed Assets Management. According to the Land Reserve Administration Methods (*tudi chubei guanli banfa*), land reserve center is responsible for the early stage development of reserved land. It is also in charge of organizing tender, auction and quotation. At present, more than 2000 cities and counties had established their own land reserve centers.

The land reserve system was initially introduced in order to strengthen the management of illegal trade of allocated land by former and current SOEs. As discussed earlier, working units, occupied large areas and high quality lands, actively involved in black market exchange of allocated land in the secondary market. Although their activity negatively influenced the development of land market, the government still recognized the necessity to allow those SOEs to

retain a part of the income from selling land. Therefore, a reserve system in which local government act as a medium was proposed. SOEs whose land is taken back by the reserve center will receive certain compensation.

Besides taking back state-owned land from SOEs, the reserve center can also acquire land for future leasing through expropriating rural land and purchasing urban construction land from land users. Although there are various land reserve models in China, even in the government-led land reserve model in which the municipal government has the mandatory power to compel purchasing plans, the purchasing price is usually determined by negotiation between government and land users (Feng, 2006). In contrast, although compensation to farmland is required, the compensation fee is substantially much lower than the price of purchasing urban construction land or taking back of state-owned land. Additionally, it is much lower than the conveyance fee in primary land market (Ding, 2007).

According to a report by Investing Group of Land Acquisition Reform of Ministry of Land and Resource, the conveyance fees often amount to 10 to 20 times the level of compensation for requisitioned farmland. The extreme large difference between fixed low compensation and high market leasing premium encourages municipalities to make money from it. Zhou (2007) in his work claims that expropriated farmland accounted for more than 80% of the total stock in reserve system. Recently, the income from leasing expropriated farmland has become a major resource of revenue and infrastructure-financing (Li, 1999; Lichtenberg and Ding, 2009).

In China, urban land is owned by state and rural land is collectively owned by farmers. The separation between urban and rural land management system gives rise to the problem of transforming rural arable land to construction use. With collective landownership, village group and village committee owned land in

rural areas. Village collectives own the authority to allocate land for rural housing, public works and also village enterprises. While land ownership belonged to the rural collectives, the land use right was actually held by individual households under the Household Responsibility System. When project-specific development model was widely applied, working units were allowed to acquire rural land for construction use through negotiating with farmers. The land resource acquired through this approach used to be the dominance resource of land supply for urbanization in China. A working-unit can acquire rural land by paying a standard compensation to the peasants after receiving the land acquisition permission from the municipal government. Starting from late 1970s, municipalities first acquire land from farmers and then convey the use right of it to proposed users.

After the urban land reform started to accelerate in 1980s, and as a result of spreading urbanization, a great number of working units that realized the value of land as a resource for accumulation and started to acquire rural land for reserve. Lin (2004a) points out that, since mid-1980s, the conversion of rural land to construction is the most widespread in China's history. In response to the threat caused by rapid reduction of agricultural land area, starting from late 1990s, comparing with the more flexible procedures of acquiring rural cultivate land in the past, the strict stipulations in the Land Administration Act represent a 're-centralization' and 're-hierachization' trends in land governance (Xu, Yeh and Wu, 2007; Lin and Ho, 2005; Lichenberg and Ding, 2009).

The government imposed a freeze on all agricultural land conversion until the revised land management law was enacted in 1999. According to the amended Land Administration Act, only the state had the right to approve acquisition of rural land for construction use. When the acquired farm land is proposed to be used for projects of infrastructures construction, it has to be approved by the State Council. Farm land can also be expropriated to implement land utilization

plan complied by provincial and municipal government. The municipalities no longer have the authority to acquire rural land for construction use without permission from provincial or state level governments.

Although there is strict regulation on acquisition of rural land, conversion of land to construction use still increase rapidly. From 1984 to 2008, China's urban built up area had increased from 8,842 to 36,295 square kilometers. Based on the analysis of data collected from 1993 to 1996, Lin and Ho (2005) states that, in terms of the amount of cultivated land illegal converted to non-agricultural use, the biggest violators were actually state units and collective organization. They states in their another work: "Local governments often exceed their authority when approving land use applications or approved projects that use land in ways that do not comply with the overall land utilization plan" (Lin and Ho, 2003: p.696). It is suggest that, there has occurred a local development regime consisting of state officials, investors and local farmers, and this regime exercises illegal farmland exploitation.

In the operation of land reserve system, local states actually control over rural land expropriation. Their exclusive authority in the primary market has been consolidated. However, as we discussed earlier, fragmentation of government authority gives rise to the conflicts and contradictions between central and local governments. While local governments are more likely to concentrate on pursuing revenues from land leasing, the central state tends to focus on the long-term consequences of over-heated real estate market and continuing loss of arable land. While conflict widely exists in the process of land allocation and development, the dominate discourse of 'development', on the other hand, tightly bound central and local governments together.

Besides its monopoly role in land supply, the government also intervenes in the development of land market through participating in land investment and

speculation. As the land price increased rapidly, local government does not only use land as an important resource to increase revenue, but also use it as good asset to finance investment in urban development. Generally speaking, in order to conduct land preparation work in the early stage, land in stock was used as mortgage to claim for loans from commercial banks by land conserve centers. In 2004, loans by land converse center accounted for 57% of the totally amount of loans by state owned sectors (Zhou, 2008). This number is increasing these years.

It is clear that local governments are operating a specific land reproduction model sustained by increasing loan size. Land reserve loan is widely recognized as a business guaranteed by government credit. After a parcel of land is conveyance in the primary market, income from land leasing will be used to pay back the bank. The flourishing of land market helps to keep low risk of defaulting. However, in practice, it is very common that conserve centers delay the pay to bank, and use the income from land leasing to purchase new land. By this way, through coordination between land conserve center and financial institutions, there forms a particular process of land primary development model: land resources are reserved firstly and then used to get mortgage loans from financial institutions, and the loans are used to conduct primary development. Once land was leased to users, income is used to purchase new land and claim for mortgage loans again.

This circulation of capital in a large extent sustains the high land price in Chinese cities. It is actually a process in which local governments invest or even speculate in land for sale. However, this circulation is sustained only if the local governments can always gain enough reserved land and the land market continues to boom. Otherwise, once the government's capital flow is break, the financial institutions will face big loss. In this sense, it is clear that the development of land market is tightly bound up with national economy.

It can be concluded from the prior observation on the changing role of government that, although dominated by the discourse of neoliberalism and the emphasis on development, the function of government is far from well defined as some scholar has argued (Saunders, 1986). Conflicts and contradictions widely exist in the process of land supply and spatial production. However, as a result of the development of land market, states on different levels are connected with capital more closely than ever before. The new method of land reproduction and development bounded state and capital together and generate a regime of development in Chinese cities. However, over investment in land in recent years lead to the dangers of corruption and real estate bubble.

The close connection between real estate developers and local government has never disappeared. Additionally, the claim of 'land use efficiency' itself needs to be considered more seriously. Although it lies in the center of conducting the land reform, its assertion of benefiting the whole by strengthening capital accumulation is problematic.

Chapter 4: Housing Production

4.1 Transformation of housing production and provision in post-reform era

In planned economy era, although the absence of market mechanism reduced income inequality, job benefit and welfares were clearly stratified by economic sector and working-unit (Szelenyi, 1978; Walder, 1986;). The allocation of housing was based on non-monetary factors, such as job rank, job seniority, marital status and household size and public rental was the dominant tenure format (Huang and Clark, 2002; Wang and Murie, 2000). Resident environment was varied substantially across working units, mainly depending on working units' positions in state administration hierarchy and their profitability. Working position and length of service were also important criteria for housing distribution within certain working unit. Generally speaking, housing distribution policies favored cadres, managers, high-status technical workers and professionals (Wang et al, 2006). Because of the absence of rent-gradient, there was no difference between locations, but difference in qualities and areas widely existed.

There was no specific fund for housing production in planned economy era. Housing funding was included in the capital construction investment (CCI) funds (Zhang 2000). CCI was usually allocated to conduct project-specific construction, including building factory plants and other supplemental facilities. Working units were responsible for providing houses to their employees through bargaining for CCI from the central government. For those who worked for small-sized working units that were usually unable to access into sufficient fund, local governments, or more specifically, the municipal house bureaus were in charge of supplying and managing public rental houses. However, since municipalities had very

limited resource to invest in housing production in the highly centralized fiscal system. Living in working units houses actually was the dominate accommodation pattern in Chinese cities.

Wu (1996) describes working-unit in his work as a particular invention of socialism that “a specific kind of workplace in the context of state socialism where the work place becomes an extension of the state apparatus and undertakes the function of social organization and control.” A working unit did not only play an important role as organizer of production, but also as the most important unit in dealing with social affairs. For instance, it was responsible for educating and persuading their employees involved in slight criminal cases. Also, workers could only get married with permission from both sides’ working units. A working unit took care of almost every aspect of workers’ life.

In planned economy era, workers only received very low monetary salary. Working units provided most of necessary reproduction conditions for workers, such as houses, education, pension and health care. In a ‘shortage economy’, the socialist state adopted project-specific development model and avoid over-consumption through reducing monetary subsidies and providing comprehensive reproduction necessities (Wu, 1996).

At the end of 1970s, as a result of the emphasis of production over consumption, the problem of over-crowded became apparent in Chinese cities. In Beijing, for instance, there had very little house been constructed since the early 1960s (Kirkby, 1985). By the end of 1970s, a large number of people who returned to cities after years spent in rural areas during the Cultural Revolution required houses to live in. Children who was born in 1950s and lived with their parents started to seek for their own houses after marriage (Gaubatz, 1995). Additionally, there were a great number of houses that are badly in need of repair. Many people lived in houses that lack of fundamental facilities. Most families still had

to share bathroom and kitchen with their neighbors. The per capita living space in 1978 was only 3.9 square meters (Huang, 2003). The problem of over-crowded was very serious. Furthermore, the fiscal deficits deteriorated in late 1970s exacerbated the housing problem.

The flaws of the old house system have been criticized widely. First of all, under the slogan of ‘production first’, available resources for housing production was substantially insufficient, leading to persistent inefficiency in housing investment. It led to over dependence on CCI. However, due to the implementation of project-specific development model, accessing to CCI largely depended on the importance of the project. Working units belonged to higher administrative hierarchy status and in charge of major industrial projects were more likely to access into CCI. In contrast, small-sized working units or working units in charge of less significant project only had very scarce resources to invest in housing consumption. Additionally, since workers only had to pay low rent for living in public houses, investment in housing did not have return (Wang, 1995; Cui 1991). It exacerbated the circulation of fund, especially for those small-sized working units. As a result, housing inequality largely existed between working units.

Secondly, CCI does not refer to direct investment by central government to working units. Instead, under the budgetary funding system, working units are allowed retain a certain amount of their profit for housing investment (Zhang, 2000). Therefore, the burden of providing houses to employees was not only on the central government but also on working units. In order to process housing construction, distribution and management, working units had to spend a huge number of human and monetary resources. It compelled working units to reduce its expenditure on technology and equipment renewal, lowering their productivity.

The introduction of market mechanisms into economic development provided the

possibility to reform China's housing system. Before 1998, the concentration of housing reform was selling of rental house in stock. Between 1979 and 1988, several pilot tests had been conducted in order to prepare for large-scaled implementation of housing reform. Between 1979 and 1982, it is encouraged to sale newly completed housing to urban residents at construction costs. From 1982 to 1985, subsidized sale of new housing was promoted. Individual buyers had to pay only one-third of the total costs, and the other two-third were to be subsidized equally by the employer and the city government (Wang and Murie, 2000).

In 1988, the State Council issued Implementation Plan for a Gradual Housing System Reform in Cities and Towns. It aimed at realizing housing commercialization, and proposed two steps in accelerating house commodification. First of all, the rent level was modified in accordance with depreciation costs, repair costs, management costs, investment profit and tax. In another word, it was transformed to be determined by market factors. Secondly, costs of house consumption would be gradually involved in employee's salary. It was supposed that the rise in rent level and income would encourage individuals to buy their own house. These measures successfully prepared for farther commodification reform.

In the first period of the reform (1988-1998), living in house provided by working units was still the major tenure format. By the end of the 1990s, more than half of the new housing stock in major cities was developed by working units (Hsing, 2006 p.171). Although market mechanism has been introduced, the public still believed in the nature of house as an important and necessary good that should be provided by the state, or by the representatives of state – the working units. Additionally, most families did not have enough savings to afford for commodity housing in market price. In this period, direct consumption by individuals was still rare, and the commodity housing market was still

underdeveloped. The major power that boosted housing reform was the sale of public house by working units and municipal governments. Urban renewal projects organized by local government also contributed largely to the spatial changes occurred in Chinese cities.

The decentralization of decision making has relieved the burden of housing provision on central government. However, working units continued to play an dominant role in housing provision, and this situation lasted until the distribution of working unit house was banned in 1998. In early 1990s, Housing Provident Fund (HPF) was widely adopted in the country. Together with earning through public house sale and rent reform, HPF provides fund for municipalities and working units to provide house. In practice, self-raising fund had replaced the dominant role of CCI, making it possible for working units to construct houses for their employees. The government also encouraged housing cooperatives. Working units were encouraged to raise fund by collecting money from employees, employees who contribute to the fund would have privilege to rent or buy the houses constructed using the fund. Wu (1996) states in his study that during this period, house subsidies provided by working units did not decrease, in opposite, it has increased a lot. Additionally, in this period, real estate development companies were mainly the representatives of municipalities and working units.

Besides directly participate in housing production, working units also distributed market-purchased commodity houses to employees. Although a commodity house market had been progressed, only a small number was purchased by individuals (Wang, 2001). In most cases, working units purchase houses for their employees. Workers could either rent or buy working-units-purchased houses at a relatively low price with subsidies provided by their working units. Through manipulating the land allocation system, municipal governments started to play an important role in real estate development. Although the aim of house reform is

to separate state units from house consumption and distribution, the role of both government and working units have been strengthened in contrary (Bian et al, 1997).

In Beijing, for instance, the house reform was launched in 1992. It aimed at privatizing public house through selling houses in stock to employees at discounted prices, it also encourage house authorities to built houses for sale at market prices to better-off households or to the people who were unable to access into other house resources. At the same time, the city government made a plan to increase rent level. However, the rent level did not increase a lot in the following years, and it only accounted for a small proportion of employee's income. The tight connection between working units and housing provision remained (Wang, 2001).

In 1992, the Beijing municipal government has issued 37 redevelopment projects for the so-called dangerous and old houses. By the end of the year, 27 projects occupying an area of 1500,000 square meters was started to be constructed, of which 500,000 had been finished. In 1993, more redevelopment projects were launched, by the end of the year, an area of 520,000 square meters dangerous and old houses were started to be redeveloped and 800,000 square meters had been finished². These projects were subsidized by municipal government. They were implemented and managed by dangerous and old houses offices with the support from working-units.

For instance, Gan Jia Kou dangerous and old house redevelopment project was financed by CCTV, China Minmetals Corporation, Ministry of Housing and Urban-rural development of the PRC and Ministry of Industry and Information Technology of the PRC. The land used for conducting the projects was administratively distributed by the municipal government. Before the Gan Jia

² Source: The Year Book of Beijing, 1992, 1993

Kou project was started to be operated, redevelopment office negotiated with the four working units to decide on the housing price according to the construction costs budget. After the project was finished, the four working units sold or rented the houses to their employees at a discounted price, usually according to the standard price level made by the municipal government (Interview with employees of Gan Jia Kou dangerous and old house demolition office).

The turning point of house reform occurred in 1998, when the State Council issued Notice for Deepening Housing Reform and Accelerating Housing Construction in City and Town (Decree No. 23). According to this document, direct distribution by state units would be ceased and be replaced by cash subsidies. Additionally, working units were no longer allowed to participate in house construction and management. The document asserted that, the aim of the reform is to create a diversified housing providing system in which state-supported affordable houses is taken as the main tenure format and commodity house as the supplement. The affordable house system including economic comfortable houses (*jingji shiyong fang*) and low-rent house (*lian zu fang*) would be progressed in order to meet the needs of low- and middle- income citizens, and a high standard commodity house market targeting at high-income people will be built at the same time. It also proposed to establish a new housing financial system that can provide developers and individuals with loans and mortgage.

In conducting affordable house production, working units and municipal governments still took the main responsibility, but the way in which they participate in housing provision was very different from before (Wu, 2001). The construction of affordable houses is very different from the construction of ordinary commodity house. For affordable house project, municipal government will allocate land to developers and land leasing premium is exempted. It means that land resource is distributed as a type of investment of the government. There

is also strict limitation on the profit for developers. The investment profits cannot exceed 3%.

Due to the reform, in the following years, selling of public house reached its peak. In the last two years of the 20 century, resulting from the new housing reform policies announced in 1998, there occurred a stampede of working units to dispose of public house – the so called ‘catching the last train’ phenomenon (Li and Yi, 2007). There is also an increase in investment in affordable housing development. As we can see from Table 3.1, in 1998, the first year of the declaration of new housing provision strategy, the investment in economic and comfortable houses had increased from 18550 million to 27085 million RMB, an increase of 46%. During 1998 to 2004, average increase in investment to economic and comfortable houses was as high as 24.3%.

Table 3.1 Investment in Real Estate Development: 1996-2009

Year	Investment in Real Estate Development: Residential Building (million RMB)	Investment in Real Estate Development: Economic House (million RMB)	Annul Increase Rate of Investment in Economic House Construction
1996	169,917	15,482	
1997	153,938	18,550	0.198
1998	208,156	27,085	0.460
1999	263,848	43,702	0.614
2000	331,198	54,244	0.241
2001	421,668	59,965	0.105
2002	522,776	58,904	-0.018
2003	677,669	62,198	0.056
2004	883,695	60,639	-0.025
2005	1086,093	51,918	-0.144
2006	1363,841	89,684	0.342
2007	1800,542	82,093	0.178
2008	2244,087	97,091	0.183
2009	2561,874	113,859	0.173

Source: National Bureau of Statistics of China

At the beginning of the third period of the reform, there was an important turn in

the state's housing policy in 2004. In August, the State Council issued the 'Notice for Promoting the Sustainable and Healthy Development of the Real Estate Market' (Decree No. 18). It redefined the purpose of housing reform as establishing a commodity house market in order to meet the need of middle- and high-income residents, and an affordable house system that meet the need of low- and the lowest-income people.

The incentive of participating in affordable houses development declined. On the one hand, in contrary to commodity house projects, there is strict limitation on profit earned from affordable housing projects. On the other hand, before 2004, only a small portion of urban residents chose to purchase commodity house because its relatively high price compared to affordable houses. However, as middle-income residents were excluded from the system of affordable housing system, the potential consumers of commodity houses increased dramatically. With the development of commodity housing market, positive expectation predicted increasing profits from investing in commodity house project. Starting from 2004, the investment in affordable housing construction has declined largely.

The influence of the new policy appeared immediately. In 2004, the increase rate of investment in affordable house project slight declined for 2.5% and in 2005, the rate declined about 14%. Between 2004 and 2009, the average increase rate was only 11.7%. It is clear that the state's new policy encouraged investment on commodity housing but exert negative influence on affordable housing investment. Evidence shows that, the structure of housing supply was changed. Residents' housing behavior has been changed too. Nowadays, individuals, rather than working units, have become major buyers in commodity house market.

The decline of investment on security housing production reveals the contradiction between labor reproduction and the intention of maximum profit

gains. Low profit undermined developers' motivation to participate in security projects development. For local government, free allocation of land to security projects meant the loss of a great amount of land leasing incomes. More important, nowadays, the boom of land and real estate market is tightly connected with the development of national economy. Keeping shortage supply of affordable houses is an important method to prevent the burst of real estate boom.

As well as house has transformed from a public goods to a commodity, state has conveyed the burden of providing housing for urban citizens to the market, or let me say, to the citizens themselves. The crucial turn in the state's housing policy is highly influenced by the country's increasing interaction with the global market. Resulting from the adoption of open door policy, China nowadays is increasingly engaged in the global market, especially after its entrance to the World Trade Organization (WTO) in 2001. During the last three decades, China has become the second largest receptions of Foreign Direct Investment (FDI) and one of the most important exporters in the world. The free flow of capital has contributed to reshape its spatial structure.

As David Harvey (2005) points out in his work, globalization is inherent in the nature of capitalist mode of production. It is determined by the irreconcilable contradictions within the capitalist accumulation. In order to sustain the accumulation, capitalists have to discover or create new market to absorb over-produced commodities. After the end of the Cold War, as the most powerful state in the world, the United States has already entered the new era of imperialist expansion and exploitation.

After the economic crisis in 1873, the United States consolidated the strategy in promoting free capital flow through globalization. Confronting sustaining decline in profit rate, it conveyed investment to other parts of the world, where it can

enjoy low-priced resources and human labors. In 1960s, Japan, after the United States, also started to move its factories out of the country. The following decades witnessed the taking-off of the Four Asian Tigers. In 1980s, the opening up of China provided a new and important market for capitalist exploitation. After Japan and the Four Asian Tigers, China nowadays has become a new 'world factory'. At the same time, the United States are now performing the role of major consumer of all the productions around the world. However, the challenge of over-production to the capitalist is not amenable to any solution.

In late 1990s, Asian Financial Crisis led to stagnant global business climate. Confronting continuous decline in export incomes, the state found it an urgency to develop the domestic market. As real estate industry can contribute to the development of several related economic sectors, such as raw material production, construction industry, real estate intermediate business and retail industry, the potential of domestic real estate market became a new strategic focus. In 1998, the State Council proposed that the housing market would be developed as a pioneer sector in national economy.

During the first decades of 21st century, economic crisis has happened frequently, and the international business climate is undermined. The role of real estate industry as one of the most important economic sector has been strengthened. In recent years, it is clear that real estate development has become the most important factor fuels domestic consumption. Construction industry consumes nearly 50% of the steels produced domestically, and the amount consumed by real estate construction accounts for nearly a half. Real estate industry is also the major consumer of other raw materials, such as cement and brick. At the same time, expenditure on housing has become one of the most important expenditures for residents. Generally speaking, real estate market has become an important field that can serve to absorb over-flourishing capital and save the national economy from recession. It is exactly what happened after 2008, the burst of international

economic crisis.

In the process of globalization, the extension of capitalist production transfers the dangerous of over production through exploring new market. As well as China plays the role of 'world factories', development countries major responsible for consume surplus productions. However, over production and over consumption will leads to periodic economic crisis. Once the crisis happens, the problem of over flourishing will become aggravated, and the one way to relieve the problem is to absorb the over flourished capital through consumption in domestic market. A strong housing security system restricted the circulation in land and real estate market. Therefore, the open up of the land and housing market to capital is a necessary step in consolidating capitalist production mode.

However, the periodical crisis cannot be solved at all. Although investment in real estate industry contributes to alleviate the tension caused by economic crisis, it enlarges the dangerous of over-speculation. In the second season of 2009, for instance, just after a short-term recession caused by international financial crisis, China's real estate market started to recover rapidly. In mega cities, average housing price had increased dramatically, resulting in panic buying. By September 2009, trading volume of new and second hand housing in Beijing has increased 99.06% compared to that in the last year.³ While real estate market absorbs surplus capital, it also incents investors to shift their investment on other economic sectors. Consequently, it has a negative impact on real economy. Additionally, real estate bubble aggravates housing inequality and spatial segregation.

³ Midland Reality, available on <http://www.soulou8.com/render.cz?method=showResource&resourceId=ff80808123551a9b0124061ad6970ab8> Accessed on September 5, 2009.

4.2 New financing methods of housing production

The housing production is a very complicated process in which different interest groups interact with each other. In capitalist world, credit system that eliminates some important obstacles to the free flow of capital contributes to restructure the capitalist mode of production. The method of financing actually determines the modes of production (Okpala, 1994; Renaud, 1987). That is because financing method decide how production is organized, and more important, the relationship between investors and producers, and between capitalists and workers.

In China, one of the most important factors that is blamed to be responsible for the failure in housing providing in pre-reform era is the lack of an effective financial mechanism. It is argued the unitary financial method – financing through state budget, had led to problematic circulation of fund. Therefore, the problem of how to establish a new system of real estate financing became one of the core tasks confronting the state. In the past 20 years, the boom of real estate industry in China tightly connects with the reform in the country's financial system.

The reemerging of capital after 1979 brought about the possibility of reforming the credit system to fit the requirements of capital circulation. Reducing the circulation costs of capital is an important principle of capitalist institution. A well developed credit system that enables the free circulation of capital around the world is at the center of the capitalist world. It is also crucial for any state that advocates market-led developmentalism. In China, economic reform is accompanied with dramatic restructure of financial system. In real estate development industry, the past two decades witnessed a rising role of commercial banks, stock market and other financial intermediaries as well as the transformation in the function of the central government.

Real estate industry is a specific economic sector that reshapes the country's economy on the one hand, and restructures the social relationship among residents on the other hand. It promotes domestic consumption and relieves the tension caused by unemployment through consuming a great quantity of raw materials and labor power. Pun and Lu (2009) described in their work: "The Chinese construction industry has been consuming half of the world's concrete and a third of its steel for its global cities building, employing more than 40 million workers."

However, the rapid growth of real estate industry has not relieved the problem of housing inequality. In contrast, comparing with the situation before conducting the house reform in 1980s, nowadays social segmentation and inequality caused by distribution of space to individuals has become more serious. The enlarging inequality between rich and poor now are more likely to be reflected by their spatial segregation. Rural-urban migrants and those migrants between different cities are observed to live in poor environment. Young generations that left their parents' home for building up their own are also afflicted by the high housing price. The contradiction between meeting the residents' needs for shelter and the pursuing of capital accumulation consistently interferes with the utilizing process of land and space.

The state, through adjusting the financial strategies, significantly attempts to coordinate the inherent contradiction of housing production. After the housing reform in 1980s, the state institutionalized a new housing financial system and defined the central role of commercial banks. Developers were allowed to get access into low interest bank loans. Other financing methods, such as foreign investment and going public were introduced into the new housing market as well. Developers nowadays have more alternative financing methods than before, and they are more likely to depend on the market to finance their projects.

The method of financing housing production is important because it provides a perspective to observe the sociological process in which the housing price is fixed and how it influences the social relations. Housing price is not determined by desirability in terms of demand and supply, but manipulated in the operation of social institutions which is structured by the interaction among different interest groups in the discourse of neoliberalism. The financing process is not only about the circulation of capital, it also uncovers the interaction between different participators – the developers, contractors, subcontractors and consumers, in the process of production. It is not only about the process of pursuing profit, but also the struggle of ordinary people to meet their needs of reproduction. In this section, in respect to the process of production, a sociological interpretation of the pricing process is discussed. We mainly put attention to the institutionalized financial methods that sustain housing production.

Financing through bank loans

Before the reform was conducted in 1988, the burden of housing financing was mainly put on the central government. CCI as the major resource for housing construction was included in the overall budget of the country. This arrangement was in accordance with the dominate status of socialist ideology. The state emphasized equilibrium in distribution and prohibited the existence of private property. Commodity was recognized as ‘evil’ that will naturally lead to polarization between rich and poor. However, the efforts to restructure national economy through introducing market mechanism led to the revival of capital. Several sectors that was originally under the control of the central government has been commodified, housing is not an exception.

The development of real estate financing system has experienced two periods. The first period is form 1988 to 1998, when the concentration was put on housing commodification, and selling of public rental housing in stock was the

major work. In this period, as we have discussed earlier, working units still dominated housing distribution although they were no longer the only actor in housing production. The monopoly role of CCI in financing housing programs had ceased and the central government did not directly invest in housing construction any more. It stopped to allocate CCI to industrial projects. Instead, diversified financing methods were applied. On the one hand, self-raised fund was encouraged. Incomes from selling of public house in stock and rent became a new resource for future housing providing. Working units were also encouraged to conduct housing cooperatives: they were allowed to collect money from employees for house construction purpose, and those who contribute to the fund would have priority in purchasing or rent the houses after the construction is finished. Local governments and working units were given more autonomy in conducting housing production. Individuals also started to have more choices.

On the other hand, as well as exploring new methods of financing housing construction, the state introduced new measures to encourage housing consumption. In 1994, the State Council issued Decision on “Deepening the Urban Housing Reform” and called for the establishment of a Housing Provident Fund (HPF) national widely. Under this new funding system, employees are required to establish accounts in banks and deposit a certain amount of their incomes to it. Initially, it was regulated that employees and their working units should deposit at least 5% of the employees’ monthly salary. All the accounts are managed by Housing Provident Management Centre at city level. It aims at providing financial support to housing production and also consumption. Individuals who have a HPF account could withdraw their own money to pay for down payment or lend money for purchasing houses. The loan interest of HPF is normally lower than that of commercial banks.

This period witnessed the gradual transformation of the responsibility of raising fund for housing production from the central government to working units and

the market. However housing financing through market methods was still less important. In the beginning years of the reform, only the China Construction Bank (CCB) was permitted to entrust housing loans to enterprises and individuals. Later, as a result of the new policy in 1994, the Industrial and Commercial Bank of China (ICBC) and Agricultural Bank of China (ABC) were also permitted to issue housing loans. However, the requirements of issuing real estate related loans were still very strict and the process was very complicated(Li and Yi, 2007). Additionally, although a HPF system was developed, its role in encouraging individuals to purchase their own houses through mortgage was still weak. Residents still preferred to meet their housing needs through buying Working units houses.

The second period started from 1998, when the welfare housing system was finally ceased. In this period, strengthening financial support to housing production became an urgent target. Working units were banned to be directly involved in housing construction and management. Instead, they started to provide housing cash subsidy for their employees. It is supposed that increase in cash subsidies could encourage individuals to purchase commodity house in the market. In order to support the implementation of Decree No.23, The Peoples' Bank of China issued 'About Increase Housing Credit Investment and Support the Development of Housing Construction and Consumption' on April 7. The enforcement of this document is the starting point of a new stage in the history of real estate financing methods revolution. According to this document, besides ICBC, CCB and ABC, other commercial banks were also allowed to issue loans to developers that meet the following two conditions: firstly, the developer's self-raised fund should accounts for over 30% of the total investment, and secondly, the selling volume should be confirmed. Since it is difficult to measure or ensure the selling volume before the project is ready for sale, in practice, the first regulation became the most important criterion to issuing loans. Additionally, while investing on real estate production, the central bank also turn

to provide housing mortgage loans to individual consumers.

In this period, the loose financial policies led to the emergence of a ‘leveraged housing production method’ in which developers could operate real estate projects relying on other financing methods rather than their own money. It is also in this period that the real estate industry in China started to take off. During 1998 to 2003, the average price per square meter in cities has increased rapidly. Noticed the problem of low affordability for residents and increasing credit risk for financial institutions, in 2003, the People’s Bank of China issued ‘Notice on Strengthen the Regulation on Real Estate Credit’, the so called Decree No. 121. It aimed at tightening the credit policy to stabilize and control real estate development. It regulated commercial banks to raise the proportion of down payment to price in order to discourage housing speculation and suppress the dangerous of real estate bubbles. What is more, it stipulated that incomplete housing projects are not allowed to apply to mortgage loans.

The announcement of this document was once recognized as the ‘end’ of pre-sale system at that time. Intense debates between supporters and opponents immediately spread across the country. The tightening of credit policies influenced real estate elites’ interests. More important, it threatened the existence of the high leveraged production model. In response, opponents started a furious debate. This debate is concentrate on the question that how to evaluate the development of real estate market at that moment and what appropriate real estate policies should be made. . While a portion of officials warned on the dangerous caused by over investment and speculation on real estate properties, the objectors, including government officials and developers advocated the point that China’s real estate industry was developing healthily.

The result of the debate came clear later in the same year when the State Council published the document ‘Notice on Promote Continuous Healthy Development

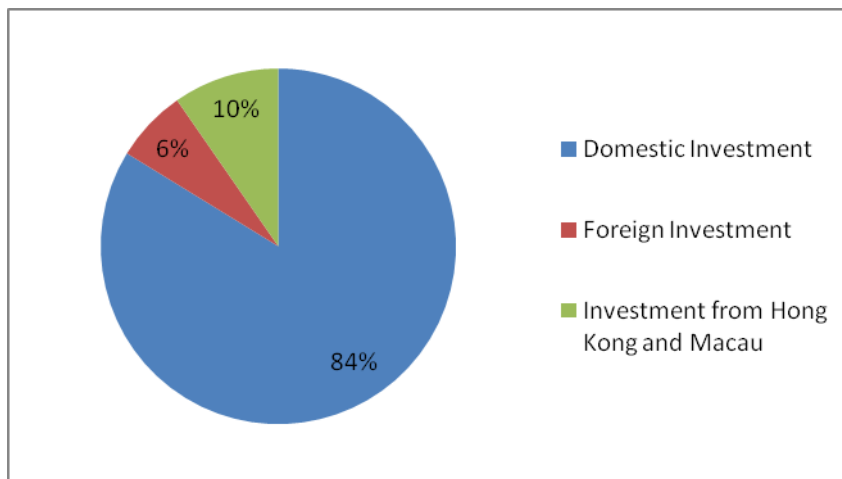
of Real Estate' in September. The new document asserted that the boom of real estate market and the increase of housing price represented 'healthy development' of real estate industry, and the 'pillar' status of real estate industry should be solidified through strong financial support. At the end of the year, the head of Monetary Policy Department of the central bank, Dai Genyou, who was responsible for the Decree No. 121, was removed and assigned to the head of Credit Information System Bureau. Feng Lun (2003), the founder of Beijing Vantone Real Estate Corporation, described the failure of Decree No. 121 as: "The power of market, through the public mass media and other under-table channels, negotiated and struggled with the government, and has finally turned the Decree No. 121 to a shy rose." He claims this event as a victory of the principle of 'development' and a victory of the market. The dominant role of high leveraged mode of housing production has been consolidated rather than fluctuated. In this war, the state chose its side with capital.

In China, according to capital resource, there are mainly five financing methods in real estate development: bond financing, financing through going public, investment fund financing, trust financing and financing by overseas capital. According to the prosperity of capital resource, they belong to three types: internal financing, external debt financing and external equity financing. Internal financing includes the capital owned by the developers and incomes from pre-sale of housing project. External debt mainly refers to bank loans, bonds, debt trust and finance through contractor (*dian zi*). External equity financing instruments include equity project financing, Real Estate Investment Trust (REITs), go public, hedge fund and investment from abroad.

Although there are diversified financing methods, bank loan is always the most important capital resource to finance real estate projects in China. Financing methods other than bank loan emerged in China in the beginning of 1990s, when market-oriented housing supply system began to replace the dominate role of

public rental housing. However, their developments are very limited in the past three decades (Li, 2004). The major reason is that, the majority of real estate companies in China are small companies with low capital resources. Only about 1% of real estate development companies own the first-class certification, and about 10% own the second-class certification. That is to say, most of them cannot meet the requirements of issuing property development bonds or going public through IPO. At the same time, because of uncertain factors, such as frequent switching of government policies and the lack of complete legal system, foreign investors usually take cautious investment strategies in dealing with China's real estate industry.

Chart 3.1 Real Estate Investments 1999-2008



Resource: National Bureau of Statistics

From the Chart 3.1, it is clear that investments from abroad and from Hong Kong and Macau only account for 16% of the total amount of real estate investment from 1999 to 2008. In practice, compared with that in other countries, real estate financing method in China was less diversified. It mainly depends on bank loans.

The development of housing projects in China can be divided into three main steps. The first is the preparation, and the major tasks in this step are conducting project proposal, rising fund and acquiring land. As what we discussed in the

prior chapter, starting from 2004, land using right could only be leased through quotation, tender and auction in the primary land market. For developers, whether they can get the use right of target parcel of land is the most fundamental condition that determines the success of their projects. In the second step, developers cooperate with contractors and subcontractors to conduct the construction work. After the construction is finished, the project will move into the last step – marketing.

Chart 3.2 Resource of Capital: Real Estate Industry in Beijing, 2009



Source:

National Statistic Bureau

In each of the three steps, developers employ different methods to finance the project. Nowadays, real estate project are usually high leveraged. Developers' own money only account for a small portion of the total investment. According to regulations, developers have to maintain the capital-to-investment ratio above 35% in order to conduct any real estate project. It means developers only need to finance 35 per cent of the project using their own money. The other 65 per cent can be financed by loans from commercial banks. Bank loan provided resources for housing production mainly through three methods: through providing land purchasing loan and construction loan to real estate producers, and issuing mortgage loan to individual consumers.

In the first step of project development, the major cost is land leasing fees. However, many municipal governments allow the developers to pay the fees in installments. After developers pay a deposit on the land leasing costs, the land using right will be transferred (Ke et al, 2007). After the transformation of land use right, developers can apply for Certification for the Use of State-owned Land (*Guoyou tudi shiyong zheng*), Construction Land Planning Permit (*jianshe yongdi guihua xuke zheng*), Planning of Construction Project Permit (*jianshe gongcheng guihua xuke zheng*) and Construction Work Permit (*jianshe gongcheng kaigong xuke zheng*). Once these four certifications are approved by the local government, the developers can apply for land loans and construction mortgage loans from commercial banks. According to Chart 3.2, loans from domestic banks, including land purchasing loans and construction loans, accounted for 39% of the totally capital resources for real estate development in 2009. Additionally, besides financing directly through land and project construction loans, real estate projects also apply indirect bank loan as an important measure to raise fund.

After a certain portion of the project has been finished, the developer can apply for Presale Permission from the authority. The presale system allows developers to sale the houses of in-construction project before the project is finished. It is another important financing method for developers. In the study of Zheng and Kahn(2007), they found that 88 per cent of the projects which were supplied on the Beijing Housing market during 2004 and 2005 are presale projects. After signing a presale contracts, consumers have to pay in full or apply for mortgage either from HPF or commercial banks. Receiving the payment by consumers, developers will use it to pay back the loans and reinvest it in construction.

In the first period of house reform, although individual house mortgage loan was encouraged through establishing HPF system, only a small group of people employ it when purchase houses. On the one hand, the subsidized price of working

units house was not high. Working units employees preferred to purchase their own houses by their deposit rather than loans. On the other hand, the high price of commodity housing, ordinary people even could not afford for the down payment, so only those better-off peoples benefited from the HPF system (Yeung and Howes, 2006). However, starting from late 1990s, as a result of the rapid increasing of house price and reform in financial system, Chinese people nowadays are more likely to apply for mortgage loans. Besides HPF, commercial banks nowadays also provide mortgage loans to consumers. Actually, providing house mortgage loans has become one of the most important businesses for commercial banks. That is to say, financing through presale is actually another format of financing through bank loans.

In Chart 3.2, resources from ‘others’ account for about 44% of the total investment. The content of ‘others’ is worth to be explored. Actually, according to the statistics, incomes from presale accounts for about 61%. The portion of housing mortgage loan to pre-sale incomes is over 50% in Beijing. That means, there are still more than 10 percent of the total investment is indirectly financed by bank loans in the form of individual mortgage. Consequently, if we also account the bank loans involved in ‘others’ financing methods, more than 50% of the overall investment is financed through bank loans.

Financing through subcontract system

Another important resource for real estate development comes from contractors. In construction process, it is not uncommon that developers arrear payment to contractors. It is also common that contractors default payment to subcontractors (Pun and Lu, 2009). “Our company continues to lose money in recent years. The reason is that we have to pay for materials and construction workers’ salaries using our own money. The developers always default payment to us”, in my

interview with Mr. Gao, an employee of a Beijing construction company, he revealed.

The behavior of contractors and subcontractors to pay for the construction costs is called '*dian zi*' in Chinese. '*dian zi*' refers to that, in contrast to receiving payment from developers before conducting construction, the contractors or subcontractors pay for the construction costs firstly and receive the developers' payment later, usually after a certain portion of the project is finished. Chinese construction industry has a long history of '*dian zi*'. It emerged as an appendix of subcontracting system. The subcontracting system can be traced back to the middle of 19th century when Western construction companies started to recruit workers through a subcontracting system. It was abolished in planned economy era but reemerged in 1980s when the reform in construction industry started (Pun and Lu, 2010). Dianzi is used as a measure to improve contractors and subcontractors' competitions in the market.

'*Dian zi*' represents several serious problems of construction industry in China. First of all, it reveals the carelessness of supervision of the construction certification system. Many construction companies that cannot meet the minimum requirement of capital are actually involved in construction projects. Secondly, many real estate and construction companies usually divert project fund to other use. In my interview with Mrs. Fu, she revealed: "It is very common that we divert money from one project to another one. Sometimes, we divert money from newly started project to projects that have already been progressed for a period of time. It is very common that we divert money among projects in order to make sure that every project can be finished." That is to say, as long as developers has new project, or as long as developers can get loans from banks, they can sustain the capital chain. However, when the capital chain is temporarily broken, the construction companies have to '*dian zi*'.

Construction companies are required to get many certifications before it is allowed to conduct projects. However, for small construction companies, it is hard to get those certifications. Therefore, many large construction companies 'rent' their certifications to the smaller ones. By registering as affiliated company of a large construction company, a small company without certification can undertake projects using the certifications of its 'parent company'. In return, the small company will give a certain portion of its interest to the company it affiliated with. Under this model, many large construction companies 'rent' their certifications to their subordinates. These small sized construction companies are usually in a weak position in bargaining with real estate developers. In order to successful bid real estate projects, they are enforced to agree to '*dian zi*'. In practice, developers usually sign two contracts with contractors, one is submitted to construction supervision and the other in which contractors promise to '*dian zi*'. The first one is only a dissimulation and will not be exercised.

These small construction companies affiliated to larger ones are usually poor financed. They actually do not have sufficient fund to pay for construction costs before receiving payment from developers. In practice, they usually outsource the project to subcontractors that contribute to solve the problem of ineffective fund. In confront with the arrear of payment by producers and contractors, subcontractors in higher tier default the payment to the lower one (Pun and Lu, 2010). As a result, the burden of arrear of payment finally rest on the construction works.

“Not only rural construction workers, but we office-sit workers also cannot be paid on time. Working in the company for nearly half a year, I received only 800 yuan. How better am I than rural migrant workers?” Mr. Gao told me, “Before the New Year of 2009, a great number of rural construction workers aggregated in the yard of our company. I was thinking I want to do the same thing, to quarrel with managers, to ask them to give me the money, but I know it is useless.

Engineers and other skilled construction workers will be paid firstly once receive money from developers. Migrant construction workers and unimportant office-sit workers like us will be paid lastly.”

The method of financing real estate project through exploiting the subcontractor system leads to a never-end process of wage arrears (Pun and Lu, 2010). The boom of housing production is sustained by expropriating on migrant construction workers. Although the flourishing of real estate industry has produced a large area of residential spaces, rural migrant workers who contribute the most to their construction are excluded from realizing their homeownership dream in cities.

The well institutionalized credit system moves the barriers away for the circulation of real estate capital. In the process of real estate development, developers borrow most of the investment from either formal or informal credit systems. Although they do not directly participate in production (They usually outsource their projects to contractors and subcontractors.), they can gain profit simply by financing the project.

In the process of real estate development, developers convey the risk of investment to commercial banks through accessing into land development and project construction loans, and transfer it to consumers. Asymmetrical information in presale process makes it impossible for ordinary consumers to recognize the risk of their consumption or investment accurately. The financial process is completed and fragmented. Developers usually emulate ‘seems good’ financial status to pursue consumers to buy. Once the cash flow is constrained and developers make a decision to leave the project unfinished, consumers will lose their house as well as their money – maybe an amount of three generation’s deposits.

Chapter 5: Housing Consumption and New Spatial Relations in Chinese Cities

As Giddens (1973) claims, the distribution of spatial resources to individual people is an important factor that shapes class structuration. In post-socialist China, the introduction of market mechanisms eliminates the institutional barriers to class-based inequalities. The past three decades witnessed enormous changes in cityscapes. However, improvement in living conditions has not eliminated the gap between the rich and the poor, while the former lives in luxury villas surrounded with oasis, the poor usually lives in slum-like small room. Housing inequality leads to social polarization and hence accelerates spatial segregation (Forrest and Murrie, 1988).

The proliferation of neoliberal ideology in China has substantially reformed the production method. As what we discussed earlier, capitalist production method has gradually eroded both the land distribution and housing production. It also reshaped the place Chinese people lived in. It restructured the cityscapes and changed the distribution of a specific format of space to individuals – the distribution of housing.

In opposite to the socialist era when housing tenure and housing conditions were generally homogeneous, nowadays, significant differences and inequalities exist. Commodification of housing has alleviated historical housing inequality associated with administrative hierarchies and political status, but it has also led to the emergence of new formats of inequality – between the owner and the renter, between who gain access into welfare house system and those who are excluded from it, and also the inequality among possessors of houses in very different qualities.

The question here is how the changes in housing distribution method account for increasing social inequality and segregation. There are two points that worth our attention: firstly, well circulated real estate capital has to be sustained by a high demand for housing. Starting from late 1990s, real estate industry is defined as one of the pillar industries by the state. In the following years, the governments issued a series of policies to boost the development of commodity housing market. One of significant strategy is stimulate housing demand and housing consumption through establishing an institutional system in which accumulation on land and property values can be maximized.

The most recent example of how governments manipulate the housing market is the recovery and boom of land and real estate market through the end of 2008 to 2009. In 2008, confronting economic recession resulted by global financial crisis, Chinese government decided to invest 4000 billion RMB to fuel the economy. In order to increase domestic consumption, people were encouraged to take mortgages to buy a home that they could not afford to buy before.

Starting from the second quarter of 2009, the real estate market started to recover from recession. At the same time, the land market also recovered quickly. At the end of 2009, the areas of land leased through public tender, auction or quotation in Beijing has only increased 32.74%, however, the total price has increased 84.65%. The accommodation value per square meters reached 7085 RMB. Among the leased land, more than 50 percent is residential use, and is mostly located in far sub-urban districts, such as Da Xing, Shun Yi and Miyun district.⁴ As well as the increase in land prices, increase in housing prices was also dramatic. At the end of 2009, the floor space of commercial housing sold in Beijing had reached more than 130 million square meters, increased more than 150% compared with the areas sold in 2008. The sales volume was 162 billion,

⁴ Yu, X. Analysis on Beijing Primary Market Performance, available at <http://www.xxhongji.com/UploadFolder/Images/201011316434992.pdf> (accessed on 3-05-2010) (In Chinese).

increased more than 160%.⁵ Obviously, the loose loan policy helped to boost housing consumption. It did not only save the real estate industry from recession, but also contributed greatly to the growth of GDP, the most widely adopted criteria used to measure economic growth.

What is more, a new imagination of housing has been established. Nowadays, people does no longer enjoy living in collective dorms shared bathroom and kitchen with their neighbors. Crowded rental public house with poor facilities loses its dominant role in housing reform. Instead, private house with property certifications has become the preferred tenure format.

5.1 A New Imagine of Housing and Housing Consumption

Although the pursuit of shelter is inherent in the nature of human beings, the preference for homeownership is indeed socially constructed. In 1980s, along with the implementation of housing reform, a new class of house owners has emerged, generating stratification between owners and renters. Additionally, urban houses are sorted into different grades, including luxury villas and also crowded shacks. The inequality of living conditions has becoming more and more server (Huang and Jiang, 2009).

The reform of housing production has generated a new imagination of ‘home’ by emphasizing on the value of house as a symbol of wealth and social status. Housing is a very special commodity. On the one hand, it is a necessary condition to guarantee labor reproduction because it provides shelter for labors. On the other hand, as one of the most important properties that owned by

⁵ National Bureau of Statistics

individuals, house does not only function as storage of value but also have the potential of rising value. Homeowners take their houses as the basis of a life time wealth strategy because they do not only benefit from the use value of their houses but also benefit from their property value (Perin, 1977). Optimistic expectations to the future motivate individuals to invest a great amount of their savings on housing consumption.

Owning one's own house is recognized as one of the most important symbols of self-success nowadays. Currently, the criterion of 'three *zi*' is widely approached. It refers to three words in Chinese: *fangzi* (house), *chezi* (automobile) and *piaozi* (money). The new criterion that emphasizes on the significance of wealth replaced the traditional ones such as political consciousness and motivation of work and becomes the new criterion that judge an individual's success and social status. A homeownership dream is deeply embedded in the imagination of the middle class life style or a 'middle class dream'.

As a result of the withdraw of state and working units in housing supply, peoples who did not benefit from the former welfare housing system have to meet their housing demand in the market. The transformation of housing system is complemented with the legalization of the principle that individuals should meet their own needs of reproduction by fighting for their own interests in the market. The incapability to access into house resources is more likely to be blamed as a failure of individuals than before.

In the winter of 2009, I interviewed Mr. Zhao and his family in Beijing. Mr. Zhao and his family lived in a small apartment which is approximate 40 square meters in Ba Li Zhuang, Chao Yang District. Both of he and his wife continued to work after retirement. Before getting retired, Mr. Zhao worked for an electronic instrument factory. In my conversations with him, it is interesting that his perceptions towards house problem before and after the housing reform are based

on substantially different assumptions:

“The housing price is too high now, but I still think the housing reform is good. You can buy house in the market if you have money, if you do not have money to buy, you can only blame yourself because you do not have the ability to make money but others do.”

When he mentioned the housing distribution before the reform, he blames the housing system at that time as this:

“It was very unfair. Only big working units can afford to construct houses for workers, those small ones, such as the factory I worked in, could only construct a few numbers of houses. Cadres and people have close connection with cadres were privileged in housing distribution, no matter whether they are qualified.”

He thought about the new housing system as a ‘modern’ one in which individual autonomy is prevented, and emphasized on the difference between the former and recent system measured by ‘alternative choices’. ‘

“You had no choice, you had to wait for the working units, or the city government to distribute you a house. Probably, you had to wait for several years, until you become ‘old workers’.” He said, “You could only live in the one distributed to you, no matter you satisfied with it or not.”

It is believed the new housing system is advantaged because the available of alternative choices: big house or small house, one bathroom or two bathrooms, with decorations or no decoration. You always have a choice if you can afford to pay. However, ‘if you cannot afford to buy, the only one you can blame is

yourself’, as Mr. Zhao said.

The proliferation of neoliberalism propagandizes the pursuit of individual freedom as a virtue and the market as the only approach to it. Peoples are persuaded to accept the emergence of inequality as an inevitable byproduct and blame it to individual failure rather than the flaws of the system. Therefore, while as homeownership has become one important symbol of self-success, failing in owning one’s own house is blamed to be an important stain in one’s life.

“We started to doubt ourselves, it did never happened before. We are good children for our parents, good students for teachers, good employees for companies, but now, we are not sure who we are” Xiao Zang said

Xiao Yang is 28 years old. I met her in a coffee shop in the winter of 2009. That was a cold day, but under her down jacket she wore only a thin sweater and a woolen skirt. She works for a multi-international company in Beijing, carefully dressing is one of her daily work. Xiao Yang told me she was considering to quit her job and to leave for their hometown with her boy friend, who works for a big state owned-enterprise.

“We are not unsatisfied with our jobs. My job is pretty good, I earn about 4000 RMB per month, and I have good insurance package. His job is even better than mine. The problem is, we cannot to buy a house, even a small one. Without house, we do not have home in this city. Our parents hope us to get married next year, but how we can get married without our own house? I am not blaming my boyfriend. I just do not understand this world. Why? We studies and works so hard. We used to believe that we can live a good life by working hard, but dream is dream.”

Xiao Yang and her boy friend feel they are lost in the bustling capital city. The question of 'who we are' puzzled them every time when they are forced to move by their landlords, when they look at the smile faces reflected on windows of others' houses. Their identity of 'self' is close connected with homeownership. A middle class dream in which they have their own house, or as they said having their own 'home' is necessary. They can only define themselves as a part of the city when they can live in their own house.

“We used to rent a house with a couple. Just as us, they are also come from little city and stay in Beijing after graduate from university. We have a lot of fights. They were accustomed to stay up late. Every day, we can hear the noisy made by their television until later than 2 o'clock. In summer, they usually took shower after 1 o'clock. The bathroom was just next door to our room, so I can hear the sounds of water very clearly. We were suffered enough and negotiated with them, but they did no change at all. At last, we felt we really need private space, so we moved out.”

In my interviews with another girl, Xiao Lin, She also described her bad experiences in renting a house with her friend.

“My landlord has a daughter lived in the United States. At the end of 2007, she suddenly decided to immigrant to the United States and to sell her house before leaving. We just signed a very simple contract in private when I moved in. She broke the contract unilaterally and told me to leave before the New Year. Because people were all preparing for the New Year, there were very few houses to rent. I looked for house every weekend but I could not find any one fit for me. At that moment, I felt I am a homeless person.”

Individual space is close associated with the image of freedom and safety in

people's minds. The disadvantages to be a 'renter' consolidate the aspiration to be a homeowner. The segregation between owners and renters is consolidated in everyday conflicts, and the imagination of middle class associated with individual freedom, private property, private space, safety and success has become an important discourse in social life.

The middle class dream is formatted in the diffusion of neoliberal ideology. It is based on the assumption that the realization of individual freedom in a market-led society will provide every people with necessary conditions for success. In the process of economic reform, the definition of success has been redeveloped by the principle of accumulating wealth. Stories about how sons of poor families get rich and gain social status are a major subject of mass media. Peoples are stimulated to unfetter from the bound of socialist system and acquire privilege status through aggregating private fortunes. The dream of realizing the value of life through education and hardworking has become a dominant discourse in the three decades. This is a middle class dream, in which the hope of the future is depicted as prospective and equal to everyone.

The role of housing as an important symbol of self-success is proved by the exclusive nature of commodity housing enclaves. Currently, most of the commodity housing projects are designed by professional architects and constructed according to the housing enclave model which is similar to gated communities in Western Countries. Using walls and fences to enclosure the parcel of land on which the community located, these commodity housing enclaves exclude outsiders (Wu, 2005). Every entrance of these communities is watched by security personnel, and every corner is inspected by monitors. Outsiders are required to register before entering the community.

Households lived in the same enclave community do not only share the same residential environment and enjoy access to services with the same quality, but

also share access to other resources embedded in the value of the land they occupied. For example, households lived in good locations probably take the privilege to access into priority school seats, and enjoy convenient transportation system. In the other word, they share similar life style and enjoy similar opportunities with each other. In this sense, homeownership has become an important factor that influences class formation.

Actually, besides its use value, a house's value as an access to other resources is widely utilized by real estate developers and is concretized in housing price. During 2008 to 2009, Mr. Liu and his wife had been looking for an appropriate house for more than one year. They represent a great number of young couples who buy houses in order to get school seats for their children.

In order to relieve the burden of large population on development, at the end of 1970s, China adopted the one-child policy, regulating that one family have only one child. This policy has been implemented strictly especially in cities. Any employee of state controlled working units who violates this policy will lose the job. As a result, currently most of young people in cities are only-children. Parents of only-child family usually share a strong expectation to the future of their children and their children are more likely to get into abundant education resources than those of families that have more than one child (Fong, 2002; Liu, 2008). The hope that the only one-child of the family will improve the social status and economic conditions of the family in the future is widely shared among parents. In the following decades, we see the booming of education industry in China. Children compete for seats in high middle schools and in universities. It is believed that a beautiful middle class dream will become true through getting education certifications.

In Beijing, it is regulated that a student should enter to the primary school near to the location of his or her home. However, in order to get into better education

resources, many parents move to districts equipped with priority elementary schools. Mr. Liu and his family lived in Xiao Jia He, a place located in the northwest of Beijing. In 2008, when his son had the third birthday, Mr. Liu considered to sell his house and buy another one in Zhong Guan Cun. He told me that: “Nothing is more important than education. Although the price of houses near to priority schools is higher, we have to pay for it.” They believed that the price they will pay is not only for the house, but more important, for the opportunities that their son will obtain. A house in good locations refers to the possibility and opportunity of success for their son and their whole family.

Many producers use ‘school district housing’, ‘located in Central Business District’ and ‘close to subway’ to label their projects. In my interview with a former employee of Longfor Properties Co. Ltd, one of the top 10 real estate producers in China, Mr. Du explained to me the marketing strategies of Directors Mansion, one of their major residential community projects. This project is located in Hai Dian District, surrounded by four of the most famous universities in China – Peking University, Tsinghua University, Renmin University of China, and Beihang University. There is only one block between the project and one of the most famous priority primary schools in Beijing – The Second Elementary School of Zhong Guan Cun. In advertisements of the project, the producer used highline of “Located in North Forth Ring of Beijing, Surrounded by 11 Chinese Famous Schools”, and emphasize on ‘arrive at the best elementary schools, middle schools and universities in five minutes. The producer promises on the priority of accessing into educations through offering a package of house and school seats. For any consumer who purchases a house of Directors Mansion, his children can get a seat in The Second Elementary School of Zhong Guan Cun.

The producer of Director Mansion also propagandizes a middle class life style associated with the high quality living conditions and services. With the constructions designed by an American company Bassania, and the gardens

designed by famous Japanese garden designer Yoshiki Toda, the project is built to be a land of idyllic beauty in the noisy city. The producer emphasizes on the characteristic of the project that it realizes the combination of ‘aristocrat life style’ and ‘cultural ambience’, which is generated by the specificity of the location, as the sales manager of the project said: “Unlike other real estate development models that can easily be copied, the Director Mansion, due to its specific location and abundant education resources, cannot be replicated.

The new spatial distribution method segregated between those who can access into additional resource and those who cannot afford to pay for it. In the process of pursuing their middle class dreams, many people found they are actually always excluded. The middle class dream that accompanied with the growing up of the after-1980s generation is strongly shocked when this generation confront with the problem of house inequality. Young peoples of this generation are between 20 to 30 years old and most of them have just started their own career life for a few years. Being different from their parents who are benefited from the former welfare house system, most of young people belonging to this generation have no other choice but meet their housing needs in the market. However, the housing price to income index indicates that, the house affordability in China is very low.

“I finally bought my dream house. Although it is small, at least I have my own houses. I thought I will be very happy if I have my own house one day. But you know what? The day when I and my husband signed the contract, we cannot laugh at all. In the following 30 years, I have to pay 6,700 Yuan every month, nearly half of our total income. Our parents spend almost all of their saves on this house. I cannot image the future. At that night, I said to my husband ‘congratulations! We officially became *‘fang nu’!*’”.

'Fang nu' (slave of house), a new Chinese word, is usually used to describe the life of young generations. Some of them spend almost all of their parents' saves to pay the down pay and use their own future 10 to 30 years to pay the remaining. Some of them spend the saves from the first half of their career life to pay the down pay and spend the saves in the future to pay the remaining. At the same time they are forced to bear the risk of real estate development. Instead of finishing the dream, homeownership, in large extent, actually destroy their middle class dream.

5.2 Illusions of Big City Dream for Rural Migrants

The 'big city dream' is constructed in the context of economic reform and social transition. Starting from 1980s, in response to two crucial problems, the state diminished the potency of the *hukou* system: First of all, agricultural reform and increase in productivity in rural areas unfettered a huge number of rural labors from land. Secondly, the adoption of open door policy and the rapid development of economy require more human labors. In the following years, tens of millions of migrant workers migrated into cities. However, high housing price has become the most serious barrier on their paths of realizing their city dream.

The increase of population mobility has not alleviated segregation between urban and rural residents, in contrary, the polarization between them has become more serious. The state firstly adopted the *hukou* system in 1951 in order to control over the movement of population in urban area, but later this policy was extended to cover rural areas. This system classified people mainly into rural householders and non-rural householders, and limited the transformation between different registration statuses. Residents with rural *hukou* were not allowed to migrate to cities without the permission from local states. Additionally, they were excluded from welfare system that benefits urban residents, for instance, they were unable to access into working-unit house or public house

provided by municipalities. In this sense, the *hukou* system determined a person's entire life opportunities (Solinger, 1993).

However, the abolishment of limitation on migration does not break down the invisible wall standing between rural and urban areas. The exclusion of rural populations from welfare benefits provided to urban citizens is remained. The institutional factors inherited from socialist era continue to sustain the invisible wall between village and city. What is more, the resurging of capital market exacerbates the gap between them.

In housing distribution sector, difference in *hukou* status generates significant spatial segregation. First of all, rural migrants are omitted from the housing security system. A great number of urban natives who used to work for working units turned into homeowners through purchasing former public owned houses. Even after 1998, when the state prohibited distribution of welfare houses to employees, there are still some people, usually those who work for profitable SOEs and government bureaus, can benefit from housing subsidies provided by their employers. However, for rural migrants who entered cities after 1980s, they are always excluded from accessing into public house, neither public purchased house nor public rental house. In the new security housing system, which is composed with economic and comfortable houses and low-rental houses, rural migrants are still excluded. Generally speaking, they can only meet their housing needs in the market, either through buying or renting commodity houses. However, the rapid increasing housing price has become almost impossible for a migrant worker to afford (Zhang et al, 2003).

There are several works have been done in order to point out the serious spatial segregation between rural and urban residents (Logan et al, 2009; Wang, 2000; Wang and Murie, 2000). Logan and his colleagues state statistics concerning the relationship between residence status and tenure format based on a research on

the data from Chinese census of 2000. They points that, the majority of urban natives, over 60%, lived in purchased or rented public houses, but at the same time, compared with people with other residential status, they are more like to purchase in the market, although the proportion is merely a little more than 10 percent. Similar as urban natives, established urban migrants (those who lived in the city they migrated to over 5 years) also enjoy high accessibility to public house resources. That is because urban established migrants 'have mostly moved to cities where they were assigned to a specific job'. As permanent employees of working units, they are assigned to public rental houses. At the same time, since they tend to have overall high socio-economic status, their purchasing power in the commodity housing market is also better than the other (Wu, 2004). Therefore, they are the most likely to live in public rental and purchased houses. It can be inferred from the statistics that the major reason for migrants between cities could be attributed to employment by working units.

In opposite, rural migrants, including both established ones and recent ones (those who lived in the city they migrated to less than 5 years) are the least likely to access to public house. Unlike the urban migrants who usually lived in working units owned corms at the early years of their migrants but moved to public rental or purchased house later, rural migrants are less likely to access to public house even after lived in the city for a long period. Oppositely, established rural migrants are more likely to move from collective house distributed by their employers to market rental house or self-building house. At the same time, they are the group of people who are the least likely to buy their own houses in either public or market methods. The reason is that rural migrants, especially recent ones are usually temporary workers, and they are usually excluded from the public housing distribution system.

Huang and Jiang's research(2009) reports similar results. Compared the data in 1995 China 1% Population Survey and the 2000 Census, they find that there was

clear housing inequality between people with different institutional and socio-economic statuses. People with non-local agricultural status, compared to those with local or non-local non-agricultural hukou status, were less likely to purchase commodity house in the market. Additionally, it is reported that besides the mode of tenants, inequality also exists in floor spaces and facility index. Migrant status is negatively correlated with living conditions and migrant peoples with rural status usually lived in crowded houses with poor fertilities.

One of the most important manifestations of housing inequality between rural and non-rural residents is the emergence of urban villages in Chinese cities. The formation of urban villages in China is a byproduct of urbanization. The formation of urban village is widely attributed to two reasons: firstly, rapid urbanization has led to urban sprawl and continuing loss of farmland. Urban villages emerge because some farmers lost their farmland but retain their housing land, and modern buildings replace the farmland originally surrounded their houses. These farmers are usually lack of knowledge and skills needed by employees, once they loss their major source of livelihood – the land, they can hardly to feed themselves. The only resource that they have is the collective-owned housing land that they lived on. Not surprisingly, many of them have turned to live on incomes from leasing their houses to outsiders – usually rural migrants from other villages and low income urban residents.

Secondly, the current housing system excludes migrant workers from accessing any other sources of housing. Low-paid migrant workers have no choice but live in the inexpensive shelters provided by urban villagers. As a part of city, an urban village is usually not far from the other areas where the migrant workers work. Besides of the rental behavior of individual migrants, employers are also more likely to place migrant workers in dorms located in urban villages. In the research of Zhang et al (2003), it is found that a significant number of migrants, about 25%, lived in collective dorms provided by their employers in urban

villages.

Urban villages are usually self-governed because they are constructed on the ground that the land which is collectively owned by the farmers. Collective committees organized by villagers have the right to determine the use of land. Being stimulated by the motivation of maximum rental income, unrestricted construction is a very common practice. What is more, effective regulation on the rental market is usually absent. As a result, it is not surprising to see over-crowded, disordered and slum-like urban villages. Although the housing condition is difficult, rental houses in urban villages are welcomed by migrant workers. Zhang et al (2003) found that the renting-out rates of urban village house is high, ranged from 50% to 90%. The most significant reason giving explanation to the statistics is its inexpensive price. In order to save more money, the poor living condition is found to be acceptable by migrant workers.

Besides living in urban villages, a great number of migrant workers live on their site of work. In cities that are experiencing rapid urbanization, it is common to see busy construction sites and temporary accommodations for construction workers. According to the Floating Population Census in 1994, in Beijing, 84% of the construction workers lived on new construction sites (Gu et al, 2006). In Chinese cities, the on-site accommodations for construction workers are usually constructed in the form of 'container houses' or tabernacles. With rare facilities, these temporary shelters are even unable to meet the most basic needs of living. Construction workers usually can only get limited places to sleep. There is not any private space at all. The lack of basic facilities, such as ventilation installations and heating, makes their living conditions much worse.

The contradiction between production and reproduction has becoming increasingly serious recently. Economic development is realized on the ground that reproduction necessities of labors are cut down to the lowest level Rural

migrant workers' disadvantage status in spatial segregation

Chapter Six Conclusion

In the past three decades, the enormous transition of landscapes in Chinese cities has surprised the whole world. The huge success in economic growth and urbanization in some extent has shifted people's sight in a more optimistic direction, but at the same time concealed the contradictions and conflicts by a pretended harmonious picture.

In recent years, as a result of the increasing housing price, the problem of spatial segregation attracts more peoples' attentions. However, any explanation based on the assumption that the power of market will autonomously lead to equilibrium of supply and demand has become unconvincing. In opposite, what peoples see today is a growing gap between rich and poor. As well as the incomes from land leasing has reached 100 billion in some cities and real estate elites occupied eight in top ten seats on the Hunrun Rich List, an increasing number of people have found that their dream of being homeowner has evaporated.

The proliferation of neoliberalism in China has restructured almost every factor of people's lives. The introduction of market mechanisms in land and housing distribution led to a new mode of production – a highly leveraged one relied on state controlled credit system. A series of institutional arrangements were carefully manipulated in order to meet the needs of capital accumulation, of course also to meet the needs of a newly emerged elite class. This class has many similarities with capitalist class, except that they perform capital accumulation based on one very special nature resource – the land. It is complicated to define the composition of this class, but the persistent role of political elites is a certainty. As we discussed in the first chapter, although the housing reform is claims to aim at minimizing the role of the state and encourage the market to perform its function. The states, are participating an actively role in even every link housing production chain. No matter in land development or housing

production, both the central and local states nowadays is associated with capital much closer than ever before.

Urban land reform has led to a new model of spatial production and reproduction. As a result of the reform, the value of land is realized in the market, according with the circulation of land-capital-land. The spatial distribution and production depend largely on the interaction between market and state forces. This is a specific form of land reproduction in which credit system plays an intermediate role. Both economic sectors and the state are participate in land value accumulation. Former SOEs for example, largely benefit from their land allocated in planned economic era. Through several approaches, they use land as an important assets to financing their survival or further development. At the same time, local states utilize their authority in the primary land market, establishing a system of 'land finance'.

Although in the past three decades, land market experienced huge transformation, the dominate role of state has not diminished at all. Their exclusive authority of land resources determines their indispensable role in supplying with the most important resources for house production in the land market. As a result of the tax reform in 1994, land related income has becoming the most important capital resource for local governments. The expenditure of land related incomes, especially land leasing fees was flexible. Local officials are pleased to attain more freedom in deciding how to spend money. Additionally, development of real estate market generates easily visible landscape transformations in cities. It is recognized as a good approach to represent the great achievement in economic development and urban construction. Thereby, local governments have strong motivation to promote the boom of land market. In different stages of land reform, they actually adopted very different strategies to sustaining their privileges in earning profit from land use right leasing. Through manipulating the land price in negotiated land conveyance, they strengthen their control over

urban land resource by establishing a land reserve system.

The turning point appeared in 2004, when land conveyance through negotiation was prohibited. In order to maximum their profits from negotiated conveyance, local governments accelerated conveyance through negotiation extremely in the time gap when the regulation was not yet widely implemented. In the following years, local states put emphasis on developing the land reserve system. Moreover, a 'land financing' system has been established Through making profit from the prices difference in the process of acquiring rural land and leasing out public land, the land conveyance system has become the most important instrument of land finance. At the same time, utilizing the land in stock as mortgage to claim loans from financial institutions, usually commercial banks, a specific form of land reproduction has been established. By operating the land-capital-land circulation, the risk of land development was largely transferred to financial institutions, mostly to state owned commercial banks. A tight relationship between land market and national economy is obvious. Although conflict between the central and local governments widely existed, the tight relationship between national economy and the land market tightly bounded them up.

In the secondary land market, real estate companies directly subordinated to government departments and other government-backed producers have always playing active roles in housing production. In the beginning years of housing revolution, a great number of working units and government departments set up their own real estate development companies, and their primitive capital were mainly from sales of public-houses. In the following years, especially when the commodity housing market was still unfledged, urban renewal programs provides with the most important opportunities for these real estate companies. These government-backed real estate developers are always enjoy the privileges of accessing into low-priced and high-quality land resources. Nowadays, when market forces play a more significant role than before, connection with the

government is still a decisive factor for the development of any real estate company. This tight relationship between local government, the exclusive authority in land distribution and the real estate developers, the land user, has generates serious problems of black market and corruption. Not only local government earn a great portion of its revenue from land leasing, also local officials makes big money by manipulating urban land use.

Besides the land resources, the state also exerts significant influence on housing production through controlling over credit system in the second and third chain in housing production. A credit system that supports the boom of real estate industry by providing bank loans to both developers and consumers has guaranteed capital flow in the construction link. It also contributes to boom demands and strengthen consumption power in the marketing link.

Besides loans from commercial banks, there is also an informal approach to sustain capital flow in housing production: financing through '*dian zi*' by contractors and subcontractors. The subcontract system sustains the capital flow of production by forcing subcontractors to tolerate the arrear of payment. In many cases, subcontractor's temporary '*dian zi*' was the mian resource of capital in certain period of construction.

Another important link in China's specific production chain is housing consumption by individual people. The operation of the highly leveraged production process in land and housing market is necessary to be sustained by constructing a boom demand and consumption power. The sustainable of land market development is largely relies on the flourishing of housing market, especially on the high housing price. Payback from developers to banks and to construction companies also rest on profits from housing consumption. Rather than cultural factors, people's preference of home ownership than other form of tenant is decided by institutional factors that accompanied with market

development.

In the process of housing reform, a new imagination of housing as the symbol of wealth and social status, as synonyms for private space and safety was constructed in the discourse of neoliberalism. However, in opposite to the claim of individual freedom asserted by neoliberal ideology, people's lives are rather fettered by the market when they are forced to become slaves of their property. It is ironically that a house which is imagined to complete one's middle class dream has actually made the dream evaporated. For those who dream the dream of big city, an invisible wall always stood between the urban and rural areas. The boom of housing market has not provided them with more choices as it is said, in opposite, high housing price is realized on the ground that the living costs of rural migrant workers are reduced to the lowest level.

We can clearly see the important role of capital in every link in the housing production chain, and the credit system usually plays the role of eliminating limitations on capital flow. Bank loan issued to support real estate development mainly is actually from residents' wealth. Payback to banks is mainly from housing mortgage loan or housing consumption by individuals. The direct capital sustains housing construction comes from arrear payment to construction workers. Generally speaking, housing production model today use the money of residents to produce high priced houses and compel them to pay more. In this process, social wealth has been concentrated in the hand of real estate elites. In opposite, ordinary peoples are compelled to spend most of their money to sustain a boom commodity housing market. Spatial segregation between owners and renters, between those who lived in high quality houses and who lived in slum-like crowded rooms will exacerbate.

Under the cover of neoliberal ideas, the commodification of land and housing production, and the free flow of capital are both supported as representatives of

free market and individual freedom. Also under its cover, the pursuing of profits from land leasing and property speculation is legitimized. However, once the state is tightly bonded with capital through actively involved in real estate production, it has become a necessary to sustain the high housing price in order to make sure the well performance of the national economy.

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