

CHAPTER 1

INTRODUCTION

1.1 Introduction

China has undergone economic reforms from a centrally planned economy to a state-led market economy since 1978. Although the central government still enjoys considerable powers, the transformation of the Chinese economy has changed the power structure among the different government bodies as a consequence. While a large literature has emerged to discuss policy practices, little works have addressed how institutions have shaped the allocation of urban housing in China. In addition, despite housing being a core development essential that should be provided to all, few in-depth analysis of the drivers of the production and allocation of houses in China, that *inter alia*, addressing questions of affordability and property prices is available.

A study of urban housing in China can also offer insights into the role of institutions as most works on institutions are dominated by the experiences of Europe and North America where the influence of culture has not been as important as in traditional societies, such as, China. Also, unlike the experience of the Western economies, China also seems offer a unique experience where transactions are influenced by several institutions.

Hence, this thesis seeks to analyze how institutional change has shaped governance structures, including the unfolding complexities between initiation, intermediation and implementation of housing policies in China since economic reforms began. Specifically, this thesis seeks to examine how the institutionalization of housing policies have transformed the role of State Owned Enterprises (SOEs), and the provincial and municipal governments in China's since market reforms began in 1978. In doing so, this thesis seeks to provide a fresh analysis of how institutions have shaped urban housing policies, and the interactions between major institutional players, such as, SOEs and the

different levels of government in China.

This chapter is made up of 7 sections. It starts with the research background that locates the impact of housing reforms on institutional changes in the urban housing market of China. The third section provides and problematizes urban housing in China, followed by the motivations of the study in the fourth section. The fifth section identifies the research questions and objectives. The key concepts used in the thesis are explained in the sixth section. The final section presents the thesis outline.

1.2 Background of Study

The provision of housing remains a severe challenge to most countries globally, in particular in the developing countries and those in transition. Despite the fact that the size and characteristics of the housing sector does vary across boundaries, the provision and access to affordable urban housing remains a serious social issue for a large proportion of the population in most countries regardless of their development status. According to United Nations Human Settlements Program, over 1 billion people were living in the slums in extremely poor living conditions in 2010 (Majale, Tipple, & French, 2011). Furthermore, it is estimated that over the next two decades, more than 2 billion people will add to this growing demand for housing and basic infrastructure services. The situation is more severe in the emerging economies where the federal state leaves it to local authorities to allocate the resource to meet the housing needs of the entire society.

Asia - which is the world's most populated continent - is urbanizing at the fastest rate in the world. Estimations suggest that Asia's urban population will double to 3.4 billion between 2010 and 2050, which means that the most crowded Chinese cities have to

accommodate approximately 120,000 new residents on average every day with approximately 20,000 housing units demanded daily (Majale, Tipple, & French, 2011). Under such circumstances, China has to strive hard to implement socially friendly housing programs and policies that can only be delivered with effective institutional instrument over the next few decades to well address the considerable housing challenges.

Housing provision in China poses a serious challenge as the country already had a population of 1.3 billion people in 2013. China's economic reforms in the urban housing sector were introduced to improve the living standards of urban dwellers with the market mechanism unleashed to influence housing provision and distribution in place of the in-kind housing distribution scheme. The *Reform Implementation Plan for a Gradual Housing System in Cities and Towns* of 1988 is considered as the beginning of the reform. This reform encourages private ownership to address the failure of the old public housing system so that the poor living conditions facing urban citizens are improved. At the same time, the establishment of the housing financial system has facilitated urban housing transactions and ownership. Except for the sale of publicly-owned houses Promotion Campaign, a wide range of new approaches and policies were designed to facilitate the commercialization of urban housing, such as, the Housing Provident Fund (HPF), which was launched in the 1990s. In addition, a set of policies and regulations were initiated to promote commercial housing development but without compromising on welfare protection to the disadvantaged as the government also simultaneously introduced the Economic Comfortable Housing (ECH) and the Cheap Rental Housing (CRH) programmes.

Although the shift toward a more market-oriented housing policy has greatly improved the living standards of urban dwellers in China, low affordability levels and skyrocketing

property prices have remained as a major challenge for government (Wang & Murie, 1999; Logan, Fang, & Zhang, 2009; Chen, Hao, & Stephens, 2010; Logan, Fang, & Zhang, 2010). Meanwhile, despite seeking to assist low- and middle-income households, affordable housing schemes are still facing serious pressure, especially in the supervision and monitoring of the schemes to ensure that they are allocated to the real needy (Deng, Shen, & Wang, 2009; Zhang & Zhou, 2011). Also, on the one hand, decentralization has given local government autonomy to perform, but on the other hand, has complicated the relations between the different levels of government authorities, as differences in incentive structures has directly affected the delivery of affordable houses as a consequence of ineffectiveness in local implementation in some provinces of China (Li, 2010; Zhang & Rasiah, 2014).

Evolving with the pace of reforms, SOEs have been given autonomy to manage their core businesses, and simultaneously to diversify into complimentary economic activities. Before reforms, urban housing provision was the complete responsibility of government, which owned and distributed houses as part of cradle-to-grave benefits to urban employees based on a range of non-monetary criteria, such as, job seniority, party membership, education and marital status (Huang & Clark, 2002; Pan, 2004; Logan, et al., 2009). However, this in-kind housing system was replaced by monetary compensation through the Housing Provident Fund (HPF) following reforms. At the same time, a booming housing market since 2003 encouraged SOEs to become housing developers. Released from their original role as house providers, SOEs' motives evolved to become commercial-oriented, including engaging in speculative activities, which further fueled a rise in property prices.

However, although market reforms have transformed the conduct and management of SOEs, they have remained very much an instrument of the state to shoulder the responsibility of taking care of social welfare by delivering affordable houses. Such a complex structure has made the conduct of Chinese SOEs in the housing market distinctly different from the typical state owned/linked firms in other economies.

Meanwhile, the new governance structure arising from institutional change has given provincial governments an increasingly important role as a crucial player in the urban housing sector. Following a set of reform measures in the fiscal system, land schemes and SOE management procedures, provincial governments began to enjoy some autonomy and discretion. Institutional change in the face of market reforms and the re-emergence of Confucian beliefs has set into motion the decentralization of policy planning in China. Although the provincialization of central planning has caused uneven development across the nation owing to regional differences in economic structure, social tradition, geographic conditions and infrastructure endowment, it has also offered provincial leaderships considerable autonomy to influence the formulation of urban housing policies in their respective provinces (Zhao & Tong, 2000; Dénurger, 2001; Bao, Chang, Sachs, & Woo, 2002; Lu, 2002; Chen, 2010; Fleisher, Li, & Zhao, 2010).

The decentralization processes triggered by market reforms has also led to strong participation by municipal governments in urban housing planning policies. Although the central government in principle has continued to lay out the broad policies, the implementing agent, i.e., the municipal government, has increased its role in calibrating these policies through the interaction with urban dwellers. The municipal government coordinates with the masses to ensure that urban housing policies generate the desired policy outcomes for targeted groups. Institutions governing the functions of

municipalities in coordination with the provincial and central governments have shaped the allocation of housing to urban dwellers. The autonomy enjoyed by municipal governments has enabled localized affordability characteristics, property prices and access to housing to shape the nature and pricing of houses in the different cities in China (Pan, 2004; Chen, et al., 2010; Song, 2010). While considerable work exists documenting affordability concerns raised over the increasing marketization of housing in urban locations in tier-1 cities¹, tier-2 cities have not been well studied where these housing-related problems have also become serious (Han & Wang, 2003; Lin & Comm, 2011).

1.3 Statement of Problem

China's land and housing markets have experienced considerable institutional change following reforms since 1978. Li and Yi (2007) divided housing reforms into three phases: Pilot Experimental State (1985-1991), Double Track Stage (1992-1997) and Complete Commercialization Stage (since 1998). Changes in housing production, allocation, and distribution over the transition period from central planning to a socialist market economy has been well documented (Mak, Choy, & Ho, 2007; Adams, 2009; Huang & Jiang, 2009; Logan, et al., 2009; Chen, et al., 2010; Song, 2010; Majale, Tipple, & Frech, 2011; Paik & Lee, 2012). These works describe changes in governance structures since economic reforms began in China's urban housing system. However, little work have examined how the urban housing policy of China has been institutionalized since reforms began. This is pertinent because a wide range of institutions, rather than markets alone, have influenced changes in the functions and power structure of the different government bodies in China.

¹ While various criteria exist for defining a particular tier, the tiers of cities in China originates from the development status of real estate development, and later are widely referred to other key characteristics of the city, including economic development, populations, advanced transportation systems and infrastructure, and historical and cultural significance. China's first-tier cities usually refer to Beijing, Shanghai, Guangzhou and Shenzhen, which are making "The Big 4."

Market reforms have not only been important in opening housing to relative prices, it has also freed traditional institutions, such as, beliefs and culture, to influence the evolution of urban housing policies in China. Hence, a work is needed to map the evolving governance structure in China's transitional urban housing market from a central command economy to a socialist market economy amidst the complex interaction among the key institutional players.

The role of SOEs – which is a key institutional player in China - in the urban housing sector remains little documented. More specifically, few studies have examined how the role of SOEs in China's urban housing sector has changed, and how institutions have been influenced their changed role since reforms began. It is particularly important to study how SOEs transformed from being confined to producing houses before reforms to become investors and speculators in urban housing markets after reforms. It is important to flesh out the institutional changes that transformed the role of SOEs before and after reforms. Although Wang and Bramley (2005) analyzed housing reforms in SOEs and their impact on the different social groups, this study did not capture the impact of institutional change on the role of SOEs in the urban housing sector in China. Hence, this thesis seeks to fill this void by evaluating the impact of market reforms and a wide range of institutions that were unleashed since on urban housing by analyzing changes in strategies adopted by the SOEs and in the delivery of urban houses in China.

Although numerous theoretical and empirical works exist on the relationship between central and local governments in China are available, few accounts have focused on the role of provincial institutions in shaping urban housing policies in China (Murdoch & Abram, 1998; Zhu, 1999; Malpass & Mullins, 2002; Deng, et al., 2009; Li, 2010; Li, Chiang, & Choy, 2011). The widening economic inequalities between provinces in urban

housing development in China is better studied through an analysis of institutions. Hence, research is required to look at the influence of institutions on provincial governance in urban housing planning, development and delivery processes. The evidence from such an analysis will be important as it suggests that institutional capacity will have a strong impact on housing provision in different provinces. In so doing, the study will also help explain how provincial governments coordinate with central planning in China. In addition, such an analysis will also help unravel the role of informal institutions in the provincialization of urban housing policies in China. In making this point, it is important to note that North (1997) and Kiser and Ostrom (2000) had emphasized the role of informal institutions on the formulation of formal institutions, and how they influenced collective decision-making (North, 1997; Kiser & Ostrom, 2000).

Given the implementation of numerous urban housing development projects in thousands of cities in China and the wide differences in their economic impact, it is important to study the role of municipal governments in the planning and implementation of urban housing policies in China. The decentralization of governance system in China has given enough space for municipal authority to calibrate policy at the prefectural level so as to absorb local specificities in the policies. Given the rising discretion enjoyed by municipal administrators, there is especially a need to evaluate the role of municipal institutions in shaping urban housing policy processes. In particular, it is important to study how local authorities institutionalize policy implementation to ensure that housing welfare of the collective community is adequately addressed.

1.4 Motivation of Study

The extant literature on urban housing in China has hardly broached the transformation of urban housing policies since market reforms began in 1978. In particular, there has been little work examining the institutions that have shaped the roles of important institutional players in the planning and provision of houses in the urban locations of China. While there has been much talk of the Beijing consensus following the rupture of Washington consensus when the global financial crisis struck in 2008-09, such a consensus still very much lack concrete pillars. An attempt to understand how economic transition has impacted on the provision of urban housing in China in general, and the way institutions have shaped the conduct of the SOEs and the provincial and municipal governments may be able to provide some clue towards the concretization of China's reform experience as a positive development outcome that other countries may view for adaptation.

A number of studies have emerged to explain access to houses, among them research on property prices, home mortgage and finance and factors affecting access to houses. The main contributions of these quantitative studies provide a lucid account of policy practices and how markets have impacted on housing reforms in urban China. While these quantitative findings are useful, a qualitative research substantiated with quantitative evidence is important to unfold the in-depth forces beneath market indicators and how they have influenced the formulation, implementation and outcomes of urban housing policies in China. The qualitative evidence is a critical compliment as strategies are formulated by humans and are often not quantifiable.

Hence, the motivation of this thesis is to provide a robust understanding of institutional change that has transformed the role of the different levels of government and SOEs in

the provision of urban housing in China since reforms began in 1978. Veblen's (1915) understanding of institutions is the starting point of our analysis - that "economic activities are shaped through the interactions of humans, which are driven by a combination of cultural, social, political and economic factors". Hence, a profound understanding of the link between institutions, organizations and the public will provide a good understanding of market reforms in the urban housing sector in China.

This attempt will also help unfold the manner with which decentralization has taken place in China. The understanding of the role of government, including its different components, is critical to capture institutional change in the urban housing sector. Given the limits of markets to allocate goods and services, especially public utilities and public goods that are essential for the masses, it is important to examine how the central, provincial and municipal governments have responded to coordinate with markets to address the provision of urban housing in China. In doing so, we attempt to analyze how institutions have redefined the role of SOEs, and provincial and municipal governments in the provision of housing in the urban locations of China.

Last but not least, existing works have not mapped government planning since reforms began effectively. Little works link central planning to the role of provincial and municipal governments in China, which has become important especially since economic reforms began. This work seeks to elucidate by documenting the role of institutions in defining the conduct of municipal governments in reshaping central planning through coordination with local institutions, and the central and provincial governments. Although some works have described that different government behavior has resulted in different policy choices in different cities (Huang, 2004), existing works have neither examined how municipal governments coordinate with civil society to calibrate policy planning nor

have studied how prefectural governments cooperate with provincial and central government to implement urban housing policies in China. Therefore, this thesis seeks to overcome this lacuna by studying the role of institutions that help shape the role of municipal governments in capturing civil society needs in calibrating urban housing policies.

1.5 Research Questions and Objectives

The main objective of this thesis is to examine how institutions have shaped the role of SOEs, provinces and municipalities in China since reforms began in 1978. The major objective is to show how institutions have shaped state policy at different levels of government and is exercised by different players, such as SOEs, and provincial and municipal governments to execute the state's central role in balancing private and public interests in the urban housing market of China. More specifically, by examining the new institutional arrangement facing the urban housing market, we aim to prove that state has remained a powerful instrument of the state to ensure that rapid economic growth is balanced by social harmony in the country.

The massive changes in the governance structures in China's urban housing sector has required different "players" to adjust their behavior according to the "rules" set by the "regulators" so as to adopt unique implementation methods tailored to specific situations. Hence, the institutional analysis undertaken here addresses two separate research questions, namely, one, the "players", i.e. the SOEs, and two, the "regulators", i.e. provincial and municipal governments. At the same time, this study looks at how interactions between "players" and "regulators" affects urban housing sector development, specifically, in particular in the urban locations of China. Thus, the following three research questions are framed:

Research Question 1: How has institutional change transformed the role of SOEs in China's urban housing sector?

Research Question 2: How have provincial institutions shaped China's urban housing policies?

Research Question 3: How have municipal institutions influenced the implementation of China's urban housing policies?

The analysis is targeted at meeting the following three objectives:

Objective 1: To understand how institutional change has transformed the role of SOEs in China's urban housing sector.

Objective 2: To capture how institutional change has re-shaped the role of provincial governments in China's urban housing sector.

Objective 3: To understand how institutions have shaped the role of municipal governments in China's urban housing sector.

1.6 Key Concepts

Given the absence of a universal definition and norm on the important concepts used in this thesis and the rising complexities that arise from institutional change in China, we present in this section their definition and scope. Institutions and states are arguably some of the most elusive concepts to define but they are the most important used in this thesis.

Institutions

We use North's (1991) definition of institutions as the 'rules of the game', and organizations and firms as the "players". To this we add the theoretical contribution of Nelson who argued that the broad 'rules of the game' include the way they are enforced, as well as, the norms that constrain behavior matter (Nelson, 2008b). At the same time,

we recognize the fundamental contribution of Thorstein (1915) - that institutions should be viewed as established social practices, or 'habits of thoughts', or forms of organizations, which can take formal and informal forms. The social implications of institutions are important, including the nexus between key players which helps connect the role of each player, ideas, strategies and interests so as to form a network of interdependent relations in society development. Both the system and the implementation of it are important (North, 1991, 1997).

The complex interaction of various institutions, such as markets, states, regulations and social norms in influencing the conduct of social actors was further examined (Buchanan, 1986; Boettke et al., 2006). Commons (1934) had conceived this concept when viewing economies as webs of relationships between people with diverging interests. A set of institutions rather than markets alone, such as, government regulations, property rights and trust relationships supported by particular socio-cultural and economic groups and intermediary organizations that matter in production allocation and economic development (Coase, 1937, 1992; Rasiah, 2011).

Evolutionary economists recognize the function of institution and meso-organization in economic activities. It has been argued that the influence of any one or set of institutions, or the composition or blend of them within a group in socio-economic action explains how economic transactions and change occur (Nelson & Winter, 1982; Nelson, 2008b, 2008a). The evolutionary economists cast their attempts in examining the coordination between the macro, meso and micro agents in an institutional arrangements. Meso organizations are intermediary organizations that connect macro and micro organizations and function primarily to address collective action problems and deliver public goods (Rasiah, 2011 pp.170).

Thus we use institutions to refer to social behavior that is established, fixed or routinized, shaped by formal/informal constraints arising from government regulations, or trust relationships supported by particular socio-cultural and economic groups and intermediary organizations, as well as, the nexus among institutional players that organize the production and distribution of urban housing in China.

States

In the general context, states refer to a territorial entity and its sub-entities, in which its absolute and unlimited authority over sovereignty is realized by the designation of government and governmental apparatus through which its purposes are formulated and executed. However, states in the development literature refer to a relatively abstract conceptual construct, which is permanent and continues from time immemorial with identical characteristics and nature due to the embeddedness of culture, beliefs and other social values. The Chinese state is more or less like a cultural state, which is significantly influenced by its culture and Confucian values. States typically act through governments, which is the designated agent that executes national policy through a set of regulatory measures to deliver policy outcomes.

Also, as explained by Polanyi (1944), the economy is not autonomous, but subordinated to politics and embedded in society and culture, and hence, effective state intervention is an integral part of successful economic development. Government plays an important role to ensure everyone has access to housing, and in particular, socially-oriented governments strive to see that the allocation and distribution of housing is not left entirely to market forces as market exclude those below the equilibrium clearing price (Baumol & Association, 1980; Weisbrod, 1988). Thus, as the guardian of universal interests, the state

is responsible to look after the general interest of civil society (Poulantzas, 1973; Evans, Rueschemeyer, & Skocpol, 1985 pp.46; Jessop, 1990). At the same time, Evans et al (1985 pp. 68) argued that a certain degree of autonomy is necessary “because some of the competing interests in economy and society will have to be sacrificed in order to generate the required collective good.”

In China, policy choices of the state are shaped through collective conduct, which complies with the aggregate will of the people and is implemented through coordination among governmental players at the central, provincial and municipal levels to achieve policy objectives. Since the focus of this study is on how institutional change in the housing sector has been effected by market reforms, we refer state as a concrete entity whose will is executed by different levels of government together with the institutions that shape their conduct.

Urban Housing

Housing policy refers to policies targeted at providing shelter to the community. In urban China, housing or dwelling units include common housing apartments, high-quality housing apartments, villas, and economically affordable housing, which is differentiated from rural housing units by ownership and production methods. The housing market refers to the institution where houses are purchased and sold either directly by owners or indirectly through market intermediation. While prices act as a clearing institution between the supply and demand in the housing market, other institutions have also been critical in the production and allocation of urban houses in China. Although private agents, property managers and financial institutions play important roles in buying, selling and renting houses, which is the essential elements in real estate markets, we focus in this thesis on the role of public policy in delivering houses to a wide spectrum of the urban

population. In so doing we discuss how institutional change has embraced market forces but without compromising on the allocation of affordable houses to those unable to participate in markets. Rather than analyzing housing-related business activities at the micro-level, this thesis takes a macro-approach to study how the state has actively transformed its role following market reforms to either directly provide houses or through a plethora of taxes, regulations, subsidies, rent controls, and longstanding programs design low cost houses with improved living quality for urban dwellers.

State-Owned-Enterprises

The State Owned Enterprise (SOE) is a legal entity created by the government to undertake commercial activities on its behalf. SOEs have evolved from work units in which it was the state's sole or partial property to assume a dual-role to serve both business and public policy interests following reforms. SOEs have become so diverse in their operations that it is difficult to determine specifically the threshold of state ownership when classifying them as state-owned their ownership structure has become complicated and ambiguous through corporatization and public listing. A blend of market forces and state directives work together to enhance the effectiveness of SOEs in meeting their social function (Evans et al., 1985). We define SOEs in this study as legal entities engaged in business affairs, which are completely or partially owned by state and under the supervision of regulatory authorities of State-owned Assets Supervision and Administration Commission (SASAC) at different levels.²

² While it also can be found certain number of huge collective entities are included by SASAC supervision list, it is not the aim of this research to clarify the categorization of modern SOE in a definitive way.

Central government

Central government in this study refers to the highest-level administrative division with primary power over the rest government organs, exercising state supreme power of National People's Congress. The central government is a concrete body in which the State Council acts as the leading executive agent of the primary legislative branch, which is the National People's Congress. The central authority governs a number of sub-ordinate organs all of which adhere to the line, principles and policies of the supreme state power. The State Council is the highest administrative organ led by the Communist Party of China (CPC) whose jurisdiction stretched over the entire country.

Provincial government

Provincial governments were subservient to the central government within the administrative hierarchy of China before reforms began. Decentralization following reforms has given provincial governments' considerable discretion on policy and regulatory matters. Since provinces existed before the establishment of the People's Republic of China, they are characterized by unique cultural features and native identification, which has its antecedents in history. In practice, the provincial government is a broad term which is characterized by various subdivisions, including provincial administrative apparatus, autonomous regions, municipalities, and special administrative regions. However, in this thesis we refer to the 22 traditional provincial governments, which have jurisdiction over the respective municipal governments in the Chinese administrative division.

Municipal Governments

Municipal governments in this study refer to prefectural-level cities, which administratively are a level below provincial governments but above of counties

administration in China. It differs in status with directly controlled cities which enjoy equal status with provinces, namely, the cities of Beijing, Tianjin, Shanghai, and Chongqing.

Affordable Housing

The Affordable Housing Program was introduced by the government of China to provide subsidized houses to the urban middle and low income households. It comprises four sub-programs, namely, Economical Comfortable Housing, Low Rent Housing, Public Rental Housing and Price-Capped Housing.

1.7 Thesis Outline

This thesis is organized into 7 chapters. The first three chapters set up the research questions, literature review and the research methodology. Chapter 1 presents the study background, motivation of study, discusses the research questions and objectives, and provides the definitions of the key concepts used in the thesis. It finishes with the thesis outline. Chapter 2 provides a comprehensive review of theories and empirical studies with a focus on institutions, states and housing. It finishes with an exposition of existing research gaps. Chapter 3 presents the general research framework, methodology and data that has been used in the analytical chapters. A mixed methodological approach is taken in this thesis where the role of institutions and institutional change are captured through both qualitative and quantitative research, including accessing official secondary documents on policies, and laws and regulations, and quantitative data from databases.

Chapters 4, 5 and 6 are the analytical chapters that examine the research hypotheses of the thesis. Chapter 4 analyses how the role of SOEs in the housing sector of China have been transformed by institutional change since reforms began in 1978. This takes a time-

bound approach to chronologically examine the evolving role of SOEs in the urban housing sector of China since economic reforms were introduced in 1978. This chapter analyses how institutional change have transformed the conduct of SOEs in the urban housing market through three distinct phases.

Chapter 5 uses the experience of two provinces to examine the role of institutions in shaping the role of provincial governments in the housing sector of China. This chapter discusses the rising importance of provincial governments in the urban housing sector of China. It examines the regulatory influence of the provincial state on the domestic housing sector with a focus on the role of formal and informal institutions. In addition to capturing the role of provincial institutions, this chapter also seeks to explain provincial and regional differences in the development of urban housing in China. Shandong and Shanxi are the provinces examined in this chapter.

Using the experience of Qingdao city, chapter 6 examines how institutional reforms have transformed the role of municipal governments in implementing housing policies in China. In doing so the chapter discusses the influences of provincial institutions in the calibration of housing policies which is initiated by the central government and intermediated by provincial government. The municipal implementation institution was disaggregated into four major policy exercises, namely policy delivery, diffusion, calibration and finalization.

Chapter 7 concludes with a synthesis of the research findings, followed by implications for theory and policy. In doing so the chapter also discusses the scientific contribution of this thesis to the body of knowledge. The chapter ends up with the limitations of this thesis and recommendations for future studies.

CHAPTER 2

LITERATURE REVIEW

2.1 Introduction

Governance instruments in the allocation of housing, though, are unique to the characteristics of being an essential good that should reach everyone, as well as, as a commodity that can be targeted at private dwellers seeking profits, have remained a major concern of policy makers. The rapid expansion of commercialization has caused a serious problem in a number of countries on the provision of essential goods such as housing. We examine in this chapter the state theories dealing with Marxist Structuralism and Instrumentalism, embeddedness of governance mechanisms and developmental states, as well as institutions and market transition theory before empirical evidence were amassed in the subsequent sections. In so doing, this chapter is structured as follows: after this Introduction, section 2 reviews four groups of theories to establish the theoretical framework, namely, one, Karl Polanyi's embeddedness, two, states, three, institutions, and four, markets. Section 3 reviews the empirical works on urban housing and land market in China, with focus on major institutional player, such as SOE and government. The last section presents the summary with the identification of research gaps in existing works.

The first objective of this chapter is to provide theoretical guidance of the thesis by examining the relevant theories. The second objective is to establish an analytical framework to examine contemporary development of China's housing market by reviewing existing empirical works. The review is targeted at: one, strengthening the research questions advanced in chapter 1, and two, to set the direction for the formulation of the methodology essential for the analytical chapters.

2.2 Theory and Evidence

We separate the literature review into two sub-sections. In the first section, theoretical arguments were reviewed to formulate the definition and role of the key social concepts, namely, states and institutions. *Inter alia*, we include in this sub-section a review of market transition theories to draw an evolving state of China before the empirical evidence were reviewed in the subsequent sections.

2.2.1 State Theory

The Miliband–Poulantzas Debate

A good understanding on the role of states in economic development can only be made with a profound review of state theory. Ralph Miliband and Nicos Poulantzas were some of the early Marxist economists who have initiated the discussion of the composition and nature of states. Miliband (1969) advanced the instrumentalist perspective of states based on its function to serve capitalist interests, while Poulantzas (1973) argued that state functions as the main institution in societies to reproduce the capitalist structure in its economic, legal, and political regime.

Sweezy (1942 pp. 243) had articulated instrumentalism by asserting that the state acts as “an instrument in the hands of the ruling class for enforcing and guaranteeing the stability of the class structure itself”. However, instrumentalism has much deeper roots in Miliband’s (1969 pp. 96) concise summary where he defines “in the Marxist scheme, the ruling class of capitalist society is the class which owns and controls the means of production and which is able, by virtue of its economic power thus conferred upon it, to use the state as its instrument for the domination of society”. Miliband identified the initial reference point for linking the capitalist class with the state. However, the composition and internal structure of the capitalist class will be specific to particular countries, and

hence, shall be characterized by various socio-economic structures with different historical and cultural backgrounds.

However, Poulantzas (1973, 1978) took a structural position when defining the role of the state, arguing that the state functions autonomously to meet the different expectations of a wide range of groups in capitalist societies (Poulantzas, 1973, 1978). Poulantzas (1978) was of the view that if members of the ruling class are the same people managing the state, it is merely a coincidence where the state serves the constituents of capitalist societies regardless of who is in charge. Focusing on the forms and structures in the context of production relations, Poulantzas viewed the state in a capitalist mode of production as taking a specifically capitalist form, not because particular individuals are in powerful positions, but because the state reproduces capitalist structures through its economic, legal, and political institutions (Barker, 2007). Hence, the structuralists would thus argue that the state and its institutions have a certain degree of independence from specific elites in the ruling or capitalist class. Obviously this means that Poulantzas took a different view from the instrumentalist perspective that Miliband took.

Evans (1995) discussed the role of states in cultivating and nurturing entrepreneurial forces directly in productive activities. In doing so, Evans articulated the participation of states in economic activities by drawing on examples of how state agencies, transnational corporations and local entrepreneurs shaped the emergence of computer industries in Brazil, India and Korea from the 1970s to 1980s. Furthermore, Evans, Rueschameyer and Stephens (1985, pp 46) highlighted that although states vary in the way they are organized and tied to society, the goals of state activities in society are not generated inside the state apparatus but rather are dictated by the general interest of civil society.

Building on Poulantzas (1973) definition of state power as the capacity of a social class to realize its objective interests through the state apparatus, Jessop (1990, pp. 221) argued that "state power is capitalist to the extent that it creates, maintains, or restores the conditions required for capital accumulation in a given situation and it is non-capitalist to the extent these conditions are not realized". Thus, the structuralists consider the effects of state policies on capital accumulation and the class structure as the main objective indicators of state power. Jessop went further to criticize Miliband's (1969) instrumentalism underlining the state as an embodiment of social relations with differential strategic effects, and that it is essentially determined by the interactions of the wider social forces in which it is situated, especially the relative influence of various social forces. In other words, the concept of the state cannot be viewed as something essential, fixed or static property, such as a neutral coordinator of different social interests, an autonomous corporate actor with its own bureaucratic goals and interests, or the 'executive committee of the bourgeoisie' as often described by pluralists or statist and conventional Marxists respectively. States and state power function as an evolving concept that have central role to shape the organization of production over time. The relative influence of the different political constituencies shapes the state's functions.

Although structuralism and instrumentalism share no consensus on the role and powers of states, they recognize the importance of state in production relations. However, it is one thing to argue over the importance of state intervention, but quite another to specify the methods through which effective state intervention is possible. "A bureaucratic apparatus with sufficient corporate coherence is firstly required" and, a certain degree of autonomy is "necessary... because some of the competing interests in economy and society will have to be sacrificed in order to generate the required collective goods" (Evans, et al., 1985, pp.68). The corporatist state charters or creates a small number of interest

groups, giving them a monopoly or representation of occupational interests in return for the right to control or monitor them. In doing so, state is therefore able to “maximize compliance and cooperation” (Wade, 2003, pp.27).

The real world requires states’ participation through regulation and policy planning to sustain economic development. Problems will arise if housing production and distribution is left entirely to market forces as markets would exclude those below the equilibrium clearing price (Baumol & Association, 1980; Weisbrod, 1988). Government should play an important role to ensure everyone has equal access to housing through an effective allocation and distribution. States’ intervention in the economy is justified on the grounds that it is targeted at protecting the disadvantaged and to regulate against socially undesirable behavior. Besides, as enshrined in the United Nations (1948) charter, reducing inequalities of wealth and improving the living environment of the poor is one of the key objectives of government.

In short, more than just a government executive with administrative functions, states enjoy a much wider economic and political role in economies. Unlike neoclassical explications of the term as a monolithic formation in which its role should be subservient to markets with a focus on infrastructure, law and order, states are defined here as polities created by constituencies and is there to serve particular or a wide set of interests.

The Embeddedness of States

Through the concept of Substantivism, Polanyi (1944) had argued that a cultural approach to economics requires that economies are embedded in society and culture. The notion of embeddedness was first initiated in Polanyi’s masterpiece, *The Great Transformation: The Political and Economic Origins of Our Time* (Polanyi, 1944 pp.7), according to which

the economy is not autonomous as it is viewed in economic theory, but subordinated to politics, religion and social relations. Resting on this basic rationale, his argument departs from the basic concept of neo-liberalism economists who believe that human society should be subordinated to self-regulating markets. Polanyi further argued in chapter 11 to 18 that market liberalism produced the concerted efforts to protect societal welfare from market failure. In doing so, Polanyi tried to explain the classical economists' argument with the concept of embeddedness. However, Polanyi's reasoning was challenged by Gemici (2007), as the concept of "embeddedness" falls short of economic sociology's goal of providing a theoretical alternative to neoclassical economics.

Based on the above concept, Polanyi's work also targeted at the role of the state in the economy. He rejects the liberalist view that the state is outside of the economy by arguing that a well-functioning economic system requires "statecraft and repression to impose the logic of the market" (Polanyi, 1944 pp.56). This politically embedded role of state was embraced by many scholars. Krippner et al (2004) absorbed Polanyi's argument by putting forth the requirement of a set of legal rules and institutions and Evans (1995) used embeddedness as a way to rebut neo-liberalist by distinguishing different kinds of states as "midwife" and "demiurge". Nicole Biggart pointed to the incapacities of markets without the participation of state as a regulator (Krippner et al., 2004).

While his work is cited frequently and the quantity of secondary literature is expanding, the concept of embeddedness has been a source of enormous confusion and criticism. The controversy mostly focuses on incoherency in theoretical orientation, as well as, methodological robustness, especially compared to the systematic methodology proposed by neo-liberalism (Hejeebu & McCloskey, 1999; Gemici, 2007). In addition, Beckert (2007) believes that significant contributions from Polanyi's concept have vanished,

while others have been added according to different scholars' standing points. However, Block (2003) justified the epistemological break in his work by taking the history circumstance, where he believes Polanyi was working within a specific type of Marxist framework and changed his theoretical orientation afterward.

The new development of Polanyi's theory is centered on the provision of the application of the concept, such as, to explain environmental problems (Boulding, 2011). Otis (2008) employed the embeddedness concept to understand the "moral economy," in which Fred Block referred to markets as being always morally embedded (Krippner, et al., 2004).

To sum up, although Polanyi's theory is controversial in terms of methodological robustness and theoretical incoherence, which was constrained by the history circumstances during WWII and Polanyi's self-imposed time deadline, this thesis is underpinned by the embeddedness concept of the state, as we are firmly of the view that economic schemes cannot be well understood unless they are located in a political and historical context. Particularly, the role of the state in regulating economic activities as advanced by Polanyi (1944), is crucial as markets and its price mechanism are only one institution that is important in comprehending economic growth.

Developmental States

The concept of developmental state is largely attributed to Chalmers Johnson who uses the role of the Ministry of International Trade and Industry in Japan to discuss how such a state introduces institutions to cultivate and nurture organizations and firms to spearhead economic development (Johnson, 1982). Johnson (1982 pp.19) referred to developmental states among late industrializers in which "the state itself led the industrialization drive, that is, it took on developmental functions. These two different orientations toward private

economic activities, namely the regulatory orientation and the developmental orientation, produced two kinds of business-government relationships. The United States is a good example of a state in which the regulatory orientation predominates, whereas Japan is a good example of a state in which the developmental orientation predominates. Besson (2004 pp. 30) referred to developmental states as states that “influence the direction and pace of economic development by directly intervening in the development process.”

States engaged in shaping progressively the development process are sometimes led by state-business relations, which are institutionalized formally or informally (Evans, 1995). Polanyi (1944) had demonstrated elements of state embeddedness when arguing that state-social relations provide an effective “double movement” so that societies shape politics to contain their roguish tendencies. Low (2001) discussed the close associational ties between state bureaucrats and domestic social classes among other social groups in the development of Singapore. Gordon (1984) defined a developmental state as a “crucial stimulant and organizer of socio-economic progress” and “a major agent of social transformation”. In other words, developmental states are characterized by social existence, institutional character, modes of operation and developmental potential to guide economies. The East Asian economies of Japan, Singapore, South Korea and Taiwan are examples of states that have played critical roles as executors of national economic interest through the promotion of a vibrant micro-economy that operates in competitive markets.

The developmental state concept has been widely accepted by international political economy scholars as a critical political formation that has spearheaded state-led macroeconomic planning. Studies of several countries have helped bolster the significant role played by developmental states in economic development. For example, Amsden

(1989) credited the state for the industrial transformation that turned South Korea as a developed economy. Woo (1991) made the same observation on South Korea. Wade (2003) argued that the state's governance of market helped propel Taiwan into a developed economy. Low (2001) argued that the state's proactive role through a combination of a competent bureaucracy to stimulate rapid growth by intervening effectively to support businesses. Huff (1995) observed a strong role of state when comparing the economic development of Singapore with South Korea's and Taiwan.

While many scholars wonder if developmental state theory has underpinnings in Asian culturalism and neo-Confucianism (Low, 2004), the successful developmental state in France (Loriaux, 1999), Mexico and Brazil (Schneider, 1999) suggest that the concept has a universal basis (Wade, 1988; Wu, 1994). There are also some discussion in the same direction with Johnson's (1999, pp.40) argument that China has adapted features of the developmental state with its own policy structure and governance features.

While existing works promote the concept, much still needs to be done to construct a clear account of developmental states to balance state functions and market forces, and to incorporate the influence of culture in economic activities so that the theory can be applied universally. Indeed, this is an important challenge that must be taken seriously if one were to accept Thorstein's (1915) definition of institutions. Although constant attacks on the state by neoliberal scholars has created an inhospitable environment for developmental states, several governments are actively seeking ways to undertake their developmental functions through effective policy planning and implementation (Beeson, 2004). Even the World Bank has highlighted the positive role of state intervention, and in the process acknowledged the continuing efforts of states to accelerate economic development through designing policies, offering subsidies and monitoring effectively business-

government relations, as well as, investing in basic social services and infrastructure. The state is central to economic and social development, not as a direct provider of growth but as a partner, catalyst and facilitator (World Bank, 1997 pp.1)

While most scholars have breached the ideological divide to appreciate the strengths of the different schools of thought, some scholars have remained highly critical of the statist perspective that underpins East Asian political economy. For example, despite acknowledging the successful role state interventions played in the rapid growth and structural change achieved by South Korea and Taiwan, it is argued that these experiences are not only too risky but are also not possible under the changed economic circumstances that has prevailed after the 1980s. Also, Moon and Prasad (1994) argued that the statist perspective lacks its claims to explain economic performance being neglectful of the intra-state dynamics, and provides little explanation of state-society relations. It is also argued that the developmental state perspective says little on the key elements of politics, institutions and leadership choice and how these factors interact to constitute the policy to shape the trajectories of economic development (Moon & Prasad, 1994), and hence, claim that the evidence of the successful cases used may not bring a systematic theoretical model to the rest of the world. Albeit serious methodological problems have been noticed by some scholars over the use of the total factor productivity model (Rasiah, 2009), Young (2003) and Krugman (1994) threw “cold water” at the growth experience of Singapore, South Korea and Taiwan by claiming that their input-driven growth cannot be sustained.

To summarize, we refer to the developmental state as a phenomenon of state-led macroeconomic planning in which the state uses its autonomous political power to coordinate social relations targeted at stimulating rapid growth and structural change. There is consensus that a developmental state governs the economy through its regulatory

agencies and institutional settings. It is empowered to enforce a variety of standards of behavior to protect the public against market failures, as well as to sustain economic growth and structural changes. However, existing accounts have not only touched little on whether the Chinese state has performed this role in urban housing market through the enforcement of regulatory tools and policy planning, the developmental state model has also not provided a robust account of how institutions and institutional change has affected the role of developmental states in the provision of essential goods, such as housing. In particular, existing works have not broached systematically the influence of formal and informal institutions in shaping the conduct of institutional players, such as state and government, in formulating national policy in a changing institutional environment after China's economic reforms in 1978.

2.2.2 Institutions

Apart from North's (1991) definition of institutions which is highlighted in Chapter 1, we have also absorbed Nelson (2008b) argument that within the broad legal regime it entails, that institutions also address the way the rules are enforced, as well as, how the norms constrain the behavior of the players (Nelson, 2008b). We also found it's pertinent to recognize Veblen's (1915) definition that institutions should be viewed as established social practices, or 'habits of thought', or a form of organization.

Veblen's (1915) arguably began the first serious attempt when he referred to institutions as social forces that determine economic outcomes and that they are constantly ongoing evolution. While Veblen did not assume an economically deterministic account of institutions, other scholars attempted to view social production being attributable to the optimal interaction of various institutions of the market, such as states, regulations and social norms (Buchanan, 1986; Boettke, et al., 2006). While Wesley Mitchell understood

institutions from the angle of business cycles (Mitchell, 1913), Ayres (1952, 1978) identified technology as a core institutional outcome by arguing technological advancement as being always one-step ahead of socio-cultural institutional development. Commons (1934) consolidated this concept by advancing the concept of an economy as a web of relationships between people with diverging interests, where institutions -- rather than merely markets, including government regulations, property rights and trust relationships supported by particular socio-cultural and economic groups and intermediary organizations -- matter in production allocation and economic development (Coase, 1937, 1992; Rasiah, 2011). Government generally plays a mediating role between social groups with different interests in this framework.

In general, the new institutional and evolutionary economists share a consensus over the importance of institutions in shaping economic behavior throughout the evolutionary process of society and economy, though they differ over the importance of each of the institutions. Various institutional economists, such as, Veblen (1915), Commons (1934), Ayres (1952) and Nelson (2008) argue that the market is only one of a number of institutions that socially determine economic outcomes, and the new institutionalists regard markets as the prime allocator (Coase, 1937; North, 1997; Williamson, 2000).

Evolutionary economists argue that the influence of any one or set of institutions, or the composition or blend of them within a group in socio-economic action explains how economic transactions and change occur (Nelson & Winter, 1982; Nelson, 2008b, 2008a). This definition is consistent with Schumpeter's (2013) argument that the capitalism can only be understood as an evolutionary process of continuous innovation and creative destruction (Drechsler, Kattel, & Reinert, 2009 pp.126; Schumpeter, 2013). Although to Schumpeter economic growth is driven by rapid spurts of entrepreneurial activity,

institutional change is necessary to facilitate economic change in capitalist economies. However, Veblen (1915) emphasized the influence of norms and behavior taking account of cultural variation in shaping economic activity.

Recognizing the different levels of organization states assume to address collective action problems, evolutionary economists examine the coordination between the macro instruments, meso organizations and micro agents when discussing institutional arrangements (Katz, 2000). Meso organizations are highly recognize in this study as they translate 'rules' or institutions when the good or service required involve public goods and collective action problems for the use of the micro-agents. Rapid growth and structural change require strong support from institutions and intermediary organizations, while the lack of them is characterized by states gripped by institutional failure (Rasiah, 2011 pp.170).

In short, the new institutional and evolutionary economists recognize the importance of institutions and institutional change in spearheading growth and structural change. However, while the market is the dominant institution in the former the latter posits that relative importance of each of the institutions depend on the activity involved, the location and the time. While the new institutional economists provided a clear definition and importance of institutions, the evolutionary economists offer a better understanding of how institutions impact growth and structural change over time. In the context of state theory, institutions mediate the 'rules of the game' so that states' delivery of goods and services are conditioned by relative interests in society.

2.2.3 The State in Transitional China

While there are extensive accounts of the role of states, little accounts exist on their successful role in stimulating rapid growth and structural change in transition economies. The collapse of the Soviet Union and the ensuing economic problems associated with marketization has driven some to question whether states have assumed an authoritarian role in capitalist markets. China offers a refreshing experience, which is reflected in the arguments of market transition that China is facing a paradigm shift where markets are gradually replacing administrative order and political power as the driver of social development. Economic reform in China was launched by the central authority in 1978 aimed at addressing rising social tension, which is consistent with Polanyi's (1944) embeddedness concept that both society and the economy are subordinated to political order (Nee Matthews, 1996). As argued by Nee (1989, 2000), transition economy of China offers a new dimension to understand the role of states because of the emergence of new social issues that require innovation in organizational capacity brought about by institutional change to coordinate production relations in mixed economies (Nee, 1989, 2000).

While acknowledging the positive developments, Lin (1996) argued that reforms have also created problems. In addition, as argued by Qian (1999) China's path of transition challenges the conventional wisdom of leaving the transition entirely to market forces. Instead, China's transition has been shaped by uneven changes in economic conditions, political constraints, and the official ideology. Any attempt to capture the pressures and processes of transition will require focused research on the different dimensions of social change taking account of the diverse cultural and geographical setting of China. While the Chinese economy does not in any way depict the features of Western democracy, there has been increasing participation of the citizenry in policy making albeit under a socialist

structure. Hence, the evidence to support the claims made by Acemoglu and Robinson (2012) that absence of such a notion of democracy leaves China as an extractive state is unfounded. It is for these reasons that the conclusion they draw that China's development cannot be sustained is baseless as the country has experienced rapid growth and structural change since the 1980s (Rasiah, Miao & Xin, 2013).

Indeed, China's relentless march economically has attracted studies on the state's embedding in culture and social history, which is increasingly gaining currency as the Beijing Consensus (Ramo, 2004). It is argued that the development of China after economic reforms has its own characteristic features that cannot be classified as one dominated by the market doctrine. It has been noted that China has largely adopted gradualism featured by trial and error approach of "groping for stones to cross the river" (Turin, 2010), and China's reforms is largely led by collective leadership and driven by neo-Confucianism values, which is dominated by pragmatism, gradualism and experimentalism. Rather than prescribing a rigid set of recommendations that have typified western economies, institutional change has shaped production relations in China through Chinese culture and philosophy (Huang, 2010). "This idea of the new road is at the heart of Chinese thinking about their own development path" (Ramo, 2004 pp.36).

The evolution of the Beijing Consensus encompasses elements of the "BEST Consensus (short for Beijing-Seoul-Tokyo)," which in essence is the distillation of the successful economic achievement by Japan, Korea, Taiwan and China. It can be viewed as a set of flexible precepts that underpin policies and strategies, which focus on building an institutional platform to stimulate latecomer effects (Lee & Mathews, 2010). In so doing, Lee, Jee and Eun (2011) argue that the Chinese experience of attracting foreign investment, follows "East Asian sequencing" rather than the Washington Consensus.

However, the Beijing Consensus as a framework is still unfolding and has yet to be bolstered with concrete theory. One dissenting view is that the blending of market economics with state control shows some characteristics of market authoritarianism in which “commercial decisions... are heavily guided by political actors, and the motivations behind investment decision are often as political as, or more political than, they are economics” (Halper, 2010 pp.123). In addition, the utility of Beijing Consensus has been challenged for its lack of specificity and implications (Dirlik; Turin, 2010). Besides, although the Beijing Consensus has acted as a useful touchstone to consider the evolution of developmental paradigms, it has not been as well understood as the Washington Consensus with explicit policy recommendation (Li, 2009). Furthermore, albeit mistakenly, some claim that the Chinese growth experience through liberalization shows more the characteristics of the Washington Consensus than the perceived view about the Beijing Consensus (Huang, 2010). We argue that although the concept of Beijing Consensus partially applied to the context of China, the civilizational state in Chinese society is much more than what Ramo had conceived given the fact that the Confucian fashion which was greatly embedded in the societal orientation long before Beijing Consensus theory was conceptualized. Although the elements of Beijing Consensus would seem to be mirrored in the China’s experience, understanding a civilizational state with deeply rooted Confucian value need a different theorizing to capture the special characteristics of China Model (Kuhn, 2002; Shambaugh, 2002; Zhang, 2011).

Overall, this sub-section reviewed related works on states in the transition economy of China. Although the existence of the Beijing Consensus remains controversial, the purpose of this review is to providing a contextual setting to examine the influence of institutions and institutional change on the Chinese state since reforms began. The attempt

to understand the formation and functioning of the Chinese state shall go a long way to answering the question whether the Beijing Consensus is a real alternative to the Washington Consensus.

2.3 Empirical Works

Of significance in this sub-section is a review of emerging literature on institutional changes, and the role of institutional players since reforms began in China. With the objective to identify research gap, this sub-section reviews firstly urban housing institution and land reforms, and subsequently the conduct of major institutional players, government and SOE, in the new institutional arrangement of China's urban housing market.

2.3.1 Urban Housing Institution

Houses were treated as welfare items that were produced and distributed by state owned enterprises (SOEs) to citizens before economic reforms (Zhao & Bourassa, 2003; Li, 2010). Housing was classified as welfare items and they were allocated based on a set of non-monetary factors, such as, job rank (Huang & Clark, 2002), education (Wu, 2004; Fan, Hall, & Wall, 2009) and *hukou* (household registration system) status (Huang & Clark, 2002; Huang, 2003; Wu, 2004; Li & Huang, 2006; Fan, et al., 2009; He, Liu, Wu, & Webster, 2010), marital status (Huang & Clark, 2002; Huang & Deng, 2006; Li & Li, 2006), membership of party (Pan, 2004; Li & Li, 2006; Song, 2010) and household size (Huang & Clark, 2002).

However, the inefficient communist system could not be sustained as it began to face serious problems, such as, economic stagnation and serious supply shortages (Zhao & Bourassa, 2003). Urban housing reforms took a different dimension with the rise of public housing rentals following the privatization of production and consumption in the early 1980s (Huang & Clark, 2002; Logan, et al., 2010). Based on the fundamental changes from central-planning to marketization which significantly transformed production relations in China, Li and Yi (2007) divided the urban housing privatization process into 3 periods (Table 2.1).

Table 2.1: Periodization of Urban Housing Reforms, China, 1978-2012

Stage	Time	Characteristics
Pilot experimental stage	1978 - 1991	Reform experiments were conducted.
Double track phase	1992 - 1997	wide housing privatization; both supply-side and demand-side programs introduced
Full marketization phase	1998 - 2012	Abolishment of the welfare allocation of housing. Market assumes pivotal role

Source: Adapted from (Li & Yi, 2007)

One of the milestone of market reforms is the establishment of three pillar schemes, namely Housing Provident Fund Program (HPF), Economical and Comfortable Housing Program (ECH) and Cheap Rental Housing Program (CRH). Three major affordable housing programs were introduced by the government to improve affordability in the newly-established urban housing market. Despite criticisms over their effectiveness, inequality and validity (Lee, 2000; Zhao & Bourassa, 2003; Sun, 2004; Duda, Zhang, & Dong, 2005; Zhang, Yuan, & Skibniewski, 2011), the implementation of these schemes shows government efforts to install markets mechanism in the production and distribution of China's urban housing sector (Lee & Zhu, 2006; Deng, et al., 2009).

However, the provision of affordable housing has become a tough policy task for Chinese government (Sykora, 1999), especially when marketization has reduced the affordability of urban housing with the ever-growing property prices (Wang & Murie, 1999; Shen, 2006; Chen, et al., 2010) although the transition to a more market-oriented system from a planned-economy has greatly improved the living standard of the people (Rosen & Ross, 2000; Logan, et al., 2010). While new indicators and methods have been introduced to measure affordability (Yang & Shen, 2008; Chen, et al., 2010), demographic factors (Huang & Clark, 2002; Huang, 2003, 2004; Li & Li, 2006), institutional factors (Pan, 2004; Li & Yi, 2007), and socio-economics factors (Huang & Clark, 2002; Huang, 2004; Li & Li, 2006; Yang & Shen, 2008) are still the main determinants of access to housing. In addition, despite that a number of works are available examining the relationships between property prices and interest rates (Huang, Yang, & Jiao, 2009; Wang, Yao, & Zhang, 2009; Wen & Zhou, 2009; Yan, 2009; Diao, 2010), tax level (Du, Wu, & Huang, 2008; Lan, 2009; Diao, 2010), inflation rates (Huang, Wu, & Du, 2008; Zhang, 2008) and other market fundamentals, including income, construction costs and employment rates (Hui & Yue, 2006; Yu, 2007; Huang, et al., 2008; Hui & Huang, 2008), these works merely relate property prices with economic variables, instead of capturing in-depth institutional changes underpinning the movement of property cycle (Lee, 2000; Rosen & Ross, 2000; Li, 2010).

2.3.2 Urban Land Institutions

Any profound understanding on housing sector will not be complete without a careful examination on land matters. The past few decades witnesses a continuous efforts to reform land scheme by the government of China. Before reforms, land could be privately owned and legally traded through mutual agreement before the founding of the People's Republic of China in 1949. The Communist Party confiscated private property from the

wealthy landlords and redistributed to the poor since 1949, as a result, all land were either possessed by the state or owned communally by the year of 1958 (Ding, 2003 pp.2). Land was allocated from then on to work units through administrative channels by municipal authority. It is quite common that state-owned companies occupied land reserves by building walls around them. To prevent the unproductive use of land, SOEs were required to return unused land back to the state. However, there were neither economic incentives nor penalties in practice for them to return unused land.

The introduction of sale and transfer of land-use rights helped rationalize land management through land markets instead of administrative channels. Public land leasing has been legalized since 1990 so that urban land can be acquired by developers for a fixed period of time by paying rent to the state. The pricing of rent is determined by location, type and density of proposed development, while users are allowed to let, transfer, rent, and mortgage land use rights. While the ultimate land ownership remains with state, separation of land ownership and use rights enabled market mechanism to be installed to rationalize land distribution and allocation so that land use efficiency is improved.

Furthermore, land reforms was further carried out by the central government aiming to establish a land market. The direct result of reforms was witnessed by an increase in the sales of land use rights, which climbed to 545 lots in 1991 from 5 lots in 1987. The number of land transactions expanded sharply to exceed 100,000 lots annually since 1995 (Table 2.2). Meanwhile, the high peak of 1992 when land price skyrocketed from 110 yuan/m² in 1991 to 2,398 yuan/m² in 1992 was partially the effect of new enactment of land use rights. The massive rise in price in 1992 can be explained by the combination of an expansion in real demand and expectations, which created a huge bubble at the same time. However, land price eventually fell to its real value of 1060 yuan/m² in 1993. Most SOEs

made a fortune by leasing out the land use rights from their reserves. It is believed that a part of the revenue earned from the land use rights leased was used to compensate SOE employees due to their low salaries with the balance used as the initial capital to start real estate projects and to expand production. In addition, it is believed that the income generated from land use rights leasing was utilized by SOE to subsidize public-owned housing, such as maintenance expenses and management fees, as the dismal nominal rent collected from the tenant is not enough to meet end.

Table 2.2: Land Transactions, China, 1987 to 1996

Year	Lot	Area (ha)	Sales (million yuan)	Price (yuan/m ²)
1987	5	15.7	35.2	224.20
1988	118	389.1	416.2	106.96
1989	127	625.2	447.2	71.53
1990	482	948.2	1052	110.95
1991	545	1036.1	1136.9	109.73
1992	2800	2189	52500	2398.36
1993	42076	3822.5	40529.3	1060.28
1994	97405	3295.5	35928.5	1090.23
1995	105473	2872.8	33285.7	1158.65
1996	103921	2269.9	29048.4	1279.72

Source: China Statistical Yearbook (various years)

2.3.3 Institutional Players

As to how governments regulate housing sectors by making policies and how the role of SOE evolve in economy is an appealing topic for many scholars. The regime shift from a centrally-controlled economy to a state-led socialist market economy greatly transformed the conduct and role of institutional participants. While different regimes design policies and act differently according to their own circumstances, decentralization trend allow modern SOEs more discretion to balance their social responsibility and business interest in a new manner. In this section, we will examine how the Chinese government acts to the emergence of new governance structure of China, and subsequently how SOEs evolved according to the changes of institutional environment of China in the post-socialist market economy.

2.3.3.1 Government

How government works to coordinate the interrelationship between central and local levels has been widely discussed (Milbourne, 1998; Clapham & Kintrea, 2000; Malpass & Mullins, 2002). Policymakers tend to make decisions by anticipating future implications of current public policies, and adjust their current policy frameworks based on their anticipation accordingly (Stimson, Mackuen, & Erikson, 1995). It is argued the state still often overrides local demands in making strategic policy decision and the relations between state and local still remain hierarchical although the shift in governance encourages community involvement in some areas (Murdoch & Abram, 1998). Theoretical work in this area still remains divided. On the one hand, Stafford (1978) called for a reduction of government intervention in housing sector that requires a reconstruction of policy according to liberal Paretian criteria. On the other hand, Lansley (1979) presented a vigorous defense of state intervention in the housing system to address social inequality problems that chronic market failures generate.

Given the transitional context of decentralizing China, local authorities have been given capacity and autonomy to affect local affairs (Li & Zhang, 2012). Although research drawing implications of housing reform for government or quasi-governmental organization is quite popular (Duda, et al., 2005; Yang & Shen, 2008; Huang & Jiang, 2009; Logan, et al., 2009), most of them is focused on how central and local governments coordinate in the housing governance system. Existing evidence show that the difference in incentive structures of central and local governments have significantly affected land and housing prices in the past two decades (Li, 2010). While evidence shows strong coordination between the central and local governments in the allocation of urban houses (Ye & Wu, 2008), the urban housing market increasingly shaped by local governments (Li, et al., 2011). The participation of governments on different levels and their

coordinates and negotiation through formal and informal ways indicate that the evolution of China's urban property market cannot be explained by economic fundamentals alone.

However, as it is to be expected, local governments in different cities behave differently in the urban housing sector, which is one of the reasons that has exacerbated regional inequalities in the provision of urban housing (Huang, 2004). Using evidence of the failure to deliver sufficient low-cost housing to the targeted people, Huang (2012) argued that local governments have become key players as the lack of commitment directly contribute to the dilemma of inadequate provision of low-cost urban houses. In addition, it also has been argued that local governments act as policy entrepreneurs in promoting policy innovation before extending successful local experiences to other localities and provinces or even up to the national level (Zhu, 2012). It is clear that local authority has become a key player in implementing central housing policies (Lin & Comm, 2011).

2.3.3.2 SOE

Chinese SOEs have undergone significant transformation in the course of economic transition from a communist-style central control system to market socialism (Bolesta, 2007). State-owned firms were targeted for reform under the economic revitalization exercise because of their importance to the Chinese economy³. The centralized control under the communist system before reforms left SOEs inefficient and mired in endless bureaucratic problems. Overstaffing, managerial agency problem and a lack of incentives burdened most Chinese SOEs despite state providing supports by granting extensive subsidies and special loan packages. Apart from production, SOEs had to provide employees welfare packages, such as housing, education and health care to its employees,

³ According to Dong (2003), SOEs accounted for three-quarters of China's total industry output and employed two-third of urban industrial employees before market reforms began, contributing 90% of all fiscal revenue.

which greatly burdened SOEs and distracted their focus on developing core business. In order to improve their economic performance, a resolution of SOE reform was proposed at the Third Plenum of the Eighth Central Committee in 1979.

Economic reform first sought to provide SOE managers' management autonomy. Aiming to decentralize SOEs and prepare them for more autonomy, the "Managerial Contract Responsibility System" gave SOE managers the motivation to seek financial gains beyond what was promised in government contracts. Managers were given the autonomy to formulate production plans and marketing strategies since the assignment of production quotas and price fixing were no longer restricted. At the same time, the government offered SOEs the discretion to determine the wages of employees and to dismiss surplus labor⁴. It is estimated that the number of laid off workers reached the highest level of 6.57 million in 2000 (Ministry of Labour and Social Security, 2000). However, part of the laid-off labor was absorbed and rehired by the non-state sector since the rapid economic growth demanded a large number of urban workers. In doing so, the new employment arrangement relieved SOEs from their social burden and offered markets greater flexibility in allocating labor.

The transformation of traditional SOEs to "modern enterprises" with clarified responsibility and scientific management started in 1993 when Vice Premier Zhu Rongji took office in charge of economic reform. Under the framework of "retaining the large state enterprises, while releasing the small ones through integration and consolidation, privatization, sale and closure, only about 1,000 central SOEs were categorized as central enterprises (*yangqi*). The remaining central SOEs transformed themselves to fit into the

⁴ However, while managers are given autonomy to lay off labour under the new Contract Responsibility System, it was not widely practiced until the *Zhu Rongji* administration took office in the late 1990s (Levine, 2013)

new state-led capitalism by converting to joint-ventures with foreign companies or listing in the international stock exchanges. Evidence shows that 2,692 recognized large enterprise groups with more than 26,000 subsidiaries employed over 30 million urban Chinese by 2004 (Sutherland, 2007, pp.3). It has been argued that this strategy gave rise to a new economic structure, which was conceptually positioned between a liberal open economy and a centrally planned model under Zhu's leadership from the mid-1990s to the early 2000s (Cheong, Li, & Zhang, 2012). The corporatization was part and parcel of reform strategy to nurture a national champion, forming the pillar of the national economy and enhancing its international competitiveness.

The phenomenal expansion of the large SOEs resulted in the diversification of business in a way that is not only more specialized on their core business, but also into complementary activities related to their function in producing, purchasing and selling houses. The expansion into complementary activities, including in real estate industry, offered Chinese SOEs the room to develop new lines of profitable businesses. The restructuring of the state sector helped the development of SOEs' complementary activities, such as real estate. According to the State-owned Assets Supervision and Administration Commission (SASAC), set up in 2005 to exercise state ownership and control of SOEs, 94 out of 129 central enterprises owned or controlled real estate businesses by the end of 2009 (China Times, 2010). Also, the data from two national industrial surveys confirmed SOE's expansion in the housing sector (Table 2.3). Gross profit soared from 337 billion yuan in 2003 to 1,997 billion yuan in 2008 and total assets increasing from 71 trillion yuan in 2003 to 131 trillion yuan in 2008. The decrease in the number of employees is the result of privatizations of small SOEs, as well as, the policy of Manager Responsibility System, which allowed firms to lay off labour.

Table 2.3: Expansion of State-owned Real Estate Enterprises, China, 2003 and 2008

Item	2003	2008	Average Annual Growth Rate (%)
Total Assets (Trillion yuan)	71.23	131.20	12.99
Total Liability (Trillion yuan)	52.73	89.89	11.26
Number of Employed Persons	163,495	126,294	-5.03
Gross Profit (Billion yuan)	337.07	1,997.75	42.75

Source: 1st and 2nd National Economic Survey, National Bureau of Statistics.

The participation of SOEs in the housing market could be traced back to the beginning of the country. In the centrally planned economy, SOEs acted as the major provider in allocating social production and resources, including houses (Wang, et al., 2005; Cheong, Li, Tan, & Zhang, 2011). Urban housing reforms following reforms led housing marketization with profound changes in the role of SOEs in the production and distribution of urban houses. However, existing works are not only scant but also discuss little how these changes have occurred following economic reforms. Perhaps the only exception is a study which examined the impact of reforms on different categories of SOE employees (Wang, et al., 2005). Meanwhile, Lai (1998) focused only SOE reforms, which was largely attributed to the failure of SOEs to meet the social obligations it was entrusted with. For example, SOEs were increasingly running deficits in the function to deliver low-cost houses to the urban people.

However, the conduct of SOEs since reforms began, especially in the marketized era, has been transformed by the interaction of new institutions with old ones and some of these developments has been captured by the recent research. There is evidence to show that the SOEs have evolved to become major consumers of commoditized houses in most urban locations (Wu, 2001; Barboza, 2010). SOEs participation in real estate markets has also raised controversy because of, inter alia, the speculative function it has assumed, as well as, the huge amount of profits they have started to make (Gyourko, 2011). Although the Chinese media often presents SOEs as having a role to play in delivering affordable

houses to middle- and low- income urban dwellers, little concrete evidence exists to prove this point (China Times, 2010; Deng, Morck, Wu, & Yeung, 2011; People's Daily, 2012). Hence, there is a clear need for fresh research to examine this issue.

The dynamics of housing provision in contemporary China has shown strong characteristics where the government and its instrument, the SOEs, perform welfare functions in urban housing sector. That social obligations remain a major function of government and the SOEs shows that the Chinese model of the market economy is in no way identical to that of Western democracies (Huang & Jiang, 2009; Cheong, et al., 2011). In China's political economy, the state not only uses market instruments and administrative order to regulate the market, but also acts as an active market participant through its control of the SOEs (Xu, Yeh, & Wu, 2009; Barboza, 2010).

To summarize, this section presented a review of empirical works on the evolving new institutions in the urban housing sector of China. The major contribution of these studies relate to policy practices on housing reforms in urban China. However, relatively few studies have examined how the role of SOEs in China's housing markets has changed since reforms were launched in 1978. Especially, there is scant work on how the SOEs, as agents of the state, have transformed its role in the evolving economic regime. In addition, existing works studying relationships between the different government levels focus only on central and local levels without much emphasis on the intermediary role of provincial governments. Furthermore, existing works have not studied carefully institutional change and how that has impacted on the urban housing market in China.

2.4 Chapter Summary

This chapter reviewed the key theories and past empirical findings to initiate the setting of the examination on the provision of urban housing in China since economic reforms began in 1978. Polanyi's (1944) articulation of the concept of embeddedness and the Miliband-Poulantzas debate provided the initiation for the theoretical review. Four dimensions of theory are important from the review, namely, embeddedness, developmental role, institutions and institutional change and the specific structure of China as a transition economy.

The broader concept of the state with features of embeddedness and its developmental role are central to this thesis with the key of institutions and institutional change. Meanwhile, the empirical studies on housing development in China have been carefully examined. The review of past works show that substantial amount of research has gone on to explain the transformation of the Chinese state following economic reforms. However, existing works fall short of providing a sufficiently rigorous explication of institutions and institutional change and how the different levels of government and SOEs have responded to these changes.

Hence, we seek to address three research gaps in this thesis. Firstly, we seek to use the concept of the state and institutions to examine how the role of SOEs in China's housing sector has changed since reforms were launched, with a particular focus on the interaction between the SOEs and the government in the production and delivery of urban houses. Secondly, we analyze the intermediary role of provincial governments in policy formulation in the urban housing sector. Thirdly, we evaluate the influence of institutions on municipal governments and the latter's participation in the calibration and finalization of urban housing policies in China. In general, given the fact that indigenously evolved

Chinese state existed long before western theories were conceptualized, existing works on Europe and North America have examined institutions but very mechanistically. The deeply embeddedness of Chinese Confucianism culture in national policy system of a civilizational state like China requires a different kind of theorizing.

CHAPTER 3

METHODOLOGY AND DATA

3.1. Introduction

Given the complexities involved in researching the decentralization processes in China, we discuss the methodologies and data used in the thesis under the two categories of general and specific. The general framework is discussed in this chapter while the specific frameworks are discussed in the individual analytical chapters. We also include in this chapter the model of institutional analysis and the analytic framework.

The chapter starts with a review of two major institutional models that we adapt for use in this thesis. The third section presents the analytic framework with the subsequent section explaining the research mode and data sources. The last section presents the chapter summary.

3.2 Institutional Methodology

The introduction of market reforms since 1978 has transformed urban development in China, including the institutional instruments governing construction and housing industry (Krabben & Lambooy, 1993; Krabben & Boekema, 1994; Han & Wang, 2003; Zhu, 2005; Li, 2010). Such changes require a profound institutional analysis of housing policies to articulate the structure of the institution, and the interaction among the agents and institutional rules. A useful concept to start this is to look at Healey and Barrett's (1990) Structure-Agency Institutional (SAI) model to understand the nexus between the role of players in the real estate market, which helps connect the role of players, ideas, strategies and interests so as to form a network of interdependent relations in urban development. This approach is theoretically consistent with what Ball's (1998) Structure of Building Provision, which expounded the connection between agencies and markets. Both approaches call for the identification and analysis of the role of players and power

relations, as well as, how they relate to the structural resources, rules and regulations in the allocation and distribution of urban housing.

In the Structure-Agency Institutional Model, Healy and Barrett (1990 pp.98) acknowledge the importance of the roles and strategies of agents involved in the development process, arguing that the interrelations between structure and agency may be observed through the way in which agencies, individuals and organizations define and implement strategies in relation to the rules they acknowledge. Four intersecting themes can be discovered (Table 3.1).

Table 3.1: Four Intersecting Themes of Structure-Agency Institutional Model

No.	Key Words	Content
1	Housing Finance & Investment	Address the relation between the financial system and investment
2	Types and Strategies	Explore the way the resources and the rules of economic organization constitute the types and strategies of firms
3	State	Assess the way the state structures land and property development processes through its contribution to constitution of rules and resources
4	Outcome	Evaluate the outcomes of these processes

Source: Healey & Barrett (1990)

However, both institutional theories are not bereft of problems as they rigidly assume that agencies do not evolve or change, and thus, lack a major condition essential to examine housing policies in China, which has undergone significant institutional change since market reforms began. Hence, it is pertinent that the methodology used in this study captures institutional changes that have taken place since market reforms began in the allocation and distribution of housing in urban locations. Within the framework of SAI model, it is important that the methodology takes account of transformations in the form and role of agencies as a consequence.

Moreover, we found little works examining the property sector in Asian economies using the Structure-Agency Institutional model advanced by Healey and Barrett (1990). Despite its limitations, this model can be adapted to make it more exhaustive by assuming that institutions evolve to interact both ways to social and economic structures and agents. Whereas the formulation of the Structure-Agency Institutional model with western underpinnings may not have required change as a key pillar owing to the mature economic formations reminiscent of the constituent economies, China's rapidly evolving economic structure demands such an assumption. The need to incorporate institutional change is even more pressing as substantive work is needed to understand institutional in transitional economies to better understand the dynamics of economic development, and in this thesis, on housing. Specifically, there is a need to study how institutional rules, such as state policies, have changed to capture the consequent changing relationships among institutional players, and the conduct of social agents. For example, it is important to know how SOEs of China have responded to market reforms. This methodology lacuna can be solved through an understanding of the evolutionary economics perspective of institutions (Nelson, 2008). Also, a study of China will also provide strong empirical fodder to strengthen the usefulness of the Structure-Agency Institutional model.

Meanwhile, the Institutional Analysis and Development (IAD) framework proposed by Ostrom, Gardner and Walter (1994) and Kiser and Ostrom (2000) permits analysts to make comparisons and evaluations of public policy that draw on institutional approaches. IAD framework suggests a multi-dimensional approach to analyze formal institutions at three levels of action, namely,

- 1) The highest level relate to constitutional decision making where political and legal arrangements are established. It is where decision-makers determine how collective

choice participants will be selected and the relationship among members of the collective choice body, such as voting rules.

- 2) The second tier is regulatory framework, which is collectively chosen and formulated. The collective choice is where decision-makers create rules to impact the operational level activities.
- 3) The operational level, which is in the third level, allows actors who are individuals or organizational units to interact within the institutional framework. Day-to-day activities at this level affect the system directly.

In essence, constitutional choice outcomes affect collective choice decision-making, which in turn affects operational level activities. Institutional actors may move among the different levels, seeking their best position within a given set of rules.

Although the IAD presents a complete analytical framework on players' formal actions, the underlying informal institutions, such as, customs and social traditions are not very clear. By acknowledging such a methodological gap, we recognize the distinction made by Helmke and Levitsky (2004) that formal institutions are openly codified, in the sense that they are established and communicated through channels that are widely accepted, whereas informal institutions are socially shared unwritten rules, which are created, communicated and enforced outside of officially sanctioned channels. Compared with formal institutions, informal institutions, though equally important, are not laid down in writing albeit they tend to be more persistent than formal rules (North, 1997). Hence, we absorb the role of informal institutions to the IAD analytical framework.

Thus, we construct in the next section an alternative analytical framework to study institutional change in China's urban housing sector. We use the SAI and IAD models as

the starting point in formulating our analytic model to answer the empirical questions in chapters 4, 5 and 6.

3.3 Analytic Framework

Following our review of the literature in chapter two, the analytical direction assumed in this thesis views states and its agents, and institutions as important instruments that govern urban housing in China with the objective of sustaining economic growth and performing the welfare role in the country. Institutions and institutional coordination have evolved to embrace market reforms to achieve these objectives. The first research objective draws on evolutionary theory to capture the evolving role of SOEs as market reforms transform institutions that govern housing production and allocation. The second and third research objectives focus on understanding how the decentralization of state planning has transformed the role of provincial and municipal governments respectively. Although the central government still leads by initiating housing allocation and distribution policies, it is important to understand the new roles played by provincial and municipal governments in the planning and implementation process. The analytic framework to examine these developments is shown in Figure 3.1, which illustrates the three phases of initiation, intermediation and implementation of housing policies in China. While the detailed use of the analytical framework is undertaken in the analytical chapters 3, 4 and 5, we discuss the main elements briefly in this section.

Using the Structure-Agency Institutional Model advanced by Healey (1992), chapter 4 examines the evolving role of one of the most important players, i.e. SOEs in urban housing production and allocation. In so doing we examine institutional changes brought about by market reforms, and its impact on the conduct of SOEs in housing market, including its consequences on work units and the allocation of affordable houses in China.

Drawing on evolutionary economics, this chapter identifies three phases in the evolution of the role of SOEs in the housing market since 1978, particularly on how they have responded to changes in macro-level institutions in the way they deliver houses at the micro-level.

Chapter 5 analyzes the rising important role played by provincial governments in urban housing market from the perspective of formal and informal institutions. We used the methodology advanced by Kier and Ostrom (2000) to analyze changes in the institutions that has shaped role of provincial governments in decentralized governance framework in China. To explain the influence of locational factors, including autonomy enjoyed by provincial leaderships, we examine the empirical evidence of Shandong and Shanxi Provinces. The choices were deliberately taken to compare institutional development arising from market reforms and its consequences on the provision of affordable housing. Informal institutions, such as leadership style and cultural custom have been important in explaining the different policy outcomes achieved by the two provinces. In so doing, we capture the role of informal institutions to complement the formal institutional analysis promoted by IAD framework.

By using in-depth case studies of tier 2 city-Qingdao, chapter 6 six uses an in-depth case study of the tier 2 city of Qingdao to capture the role of municipal governments in the housing planning and allocation process. The selection of medium-size city of Qingdao is based not only on the lack of studies tier-2 cities in China, but also because of the dynamic role played by its municipal government in the planning process. The refined analytic framework adapted from the IAD and SAI models is used to analyze interactions among different institutional players that address collective action problems, and their impact on policy implementation at the municipal level in China.

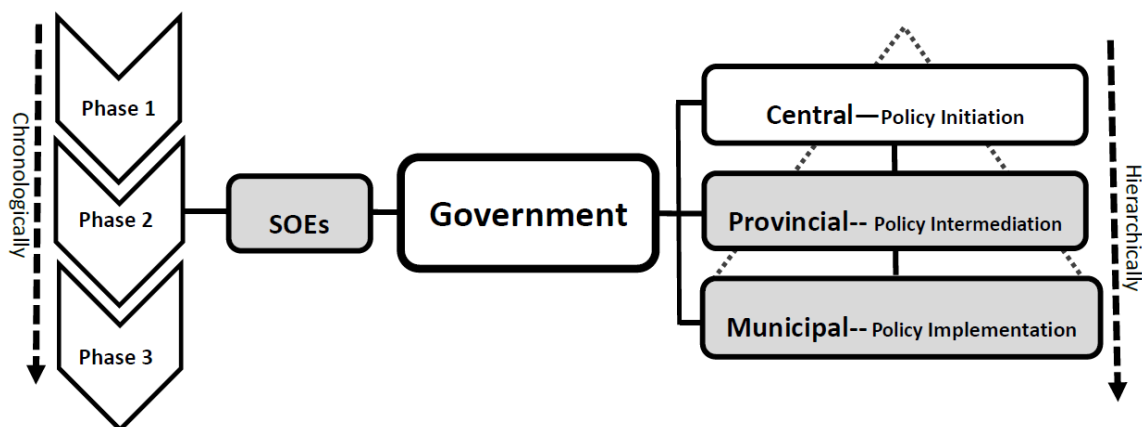


Figure 3.1: Analytic Framework
Source: author

3.4 Research Mode and Data

This thesis uses a mixed methodology, relying on both qualitative and quantitative research techniques. Researchers use either qualitative or quantitative research modes or combine the two. The latter is referred to as mixed methodology (Johnson, Onwuegbuzie, & Turner, 2007). Most research tends to overlap and rely on both qualitative and quantitative methodologies. We use a mixed methodology to complement qualitative research with quantitative evidence for clarification, illustration and interpretation of social behavior (Patton, 1990). The use of qualitative and quantitative information brings to fore the benefits of both approaches in research so as to offer greater validity to the results and analysis (Skinner, 2012). By leveraging on the strengths of both approaches, corroborative results from mixed methodologies strengthen the robustness of research.

While all quantitative data is drawn from secondary sources, qualitative information is drawn from primary and secondary sources, such as interviews and observation, as well as secondary sources, such as, government reports and internet sources since institutional influence, government planning processes and the public opinion cannot be easily

quantified. Qualitative approaches, including the use of case studies have natural merits in gathering in-depth understanding of human behavior and the rationale behind such behavior. As argued by Doyle (2003), the case studies used are purposive rather than exhaustive because the objective is interpretive rather than predictive.

3.4.1 Qualitative data

Qualitative information is drawn from interviews, observations, documentary reviews and other materials gathered from field work, through both primary and secondary sources. Documents could be laws, regulations, administrative files, historical records, newspaper article, speech manuscript, online videos through visiting the library, archives, universities and other relevant channels.

The primary qualitative data is mainly collected from open-ended interviews through the use of a check list that is based on a coherent theme and a structure of similar questions. Open ended questions allow subjects to express themselves freely with a number of unidentified details. Thus, the interviews were flexibly structured because they are impossible to categorize into a few responses that can be fitted into questionnaires. We made direct contact with the respondents as that approach allowed clarifications and the pursuance of a wide variety of questions. Also, the direct selection of the officials helped reduce the possibility of respondents being ‘coached’ by government authorities. Respondent selection was based on a set of criteria that took account of authority, accountability, reliability and relevance to the research. For example, in chapter 5, we avoided the use of government officials to select company managers so as to avoid government bias in firms’ responses. Respondents were interviewed both face to face and through telephone. The checklist was given to the respondents ahead of the actual

interviews.

We used a time span of 1978-2013 so as to capture institutional change over a long enough period. While the documented evidence used go as far back as 1970, the interviews included tracing development from respondents from their involvement in the processes or living conditions faced since 1978. The selection criteria included the involvement of the respondents over that long a period so that they are aware of the institutional changes before and after reforms in the housing sector. For the confidentiality reasons, we could not reveal the specific SOEs studied, and some respondents. The data collection steps and analysis is listed below (Table 3.2).

Table 3.2: Steps of Data Collection by Case Studies

Step	Action
Step 1	Determine and design research questions
Step 2	Case selection and framing of questions
Step 3	Field work to collect and record data
Step 4	Analyze data
Step 5	Formulate the report

Source: author

Case Studies

In-depth case studies are undertaken as the predominant qualitative research approach for this thesis since it enjoys unparalleled advantages in intenerating policy formulation and implementation compared with other approaches, such as, phenomenology, ethnography, grounded theory and historical research. The objective of this study could be achieved through descriptive, interpretive and evaluative in-depth case studies. Adelman, Jenkins & Kemmis (1983, pp.3) describe the case study approach as an “instance drawn from a class” while MacDonald & Walker (1977, pp.181) defines it as an “examination of an instance in action”. Case studies, in their true essence, explore and investigate

contemporary real-life social phenomenon through detailed contextual analysis of typical events in certain social conditions. It is most appropriate in situations where it is impossible to separate the phenomenon studied from its context (Yin, 1994). This is critical for this research which seeks to analyze ‘players’ behavior within an institutional framework to understand the evolution of urban housing in contemporary China. To avoid over-generalization, several social agents are interviewed and the information is then cross-checked with various other sources. We even use two provinces in chapter five to include a comparative dynamic to the study.

The final justification for the use of case studies lies in the inability of quantitative methods to explain social phenomena, especially dynamic interactions between different players within the institutional settings. This thesis focuses on understanding how institutional change effected by market reforms has impacted on policy formulation and implementation, which cannot be studied by simply confining the analysis to quantified data. Hence, we use a mix methodological approach to examine institutional change in the housing sector in China since reforms began in 1978.

3.4.2 Quantitative data

Although a distinction is commonly drawn between qualitative and quantitative aspects of scientific investigation, the two methods go hand in hand in this study. Since quantitative data are only used for substantiating arguments made using qualitative interviews, they do not constitute the usual meta-physical assessments that lead to hypothesis. Nevertheless, metaphysical data is deployed extensively in this thesis to compare and analyze physical development and economic performance. Most of the quantitative data sets in this thesis were obtained from authoritative bodies of China from

secondary sources, such as China Statistical Yearbook, China Real Estate Statistics Yearbook, Database of Asia & Emerging Markets (CEIC) and the Hexun Database. Unlike customized surveys that are small, large surveys and censuses by government agencies are more representative. While quantitative data is essential and can be used to deduce policy outcomes, state policy and interaction among institutional players are difficult to be quantified or measured by such approaches. In this thesis, quantitative data is used as the primary means of describing how things are or have changed rather than seeking to explain why they are the way they are or have changed (Maxim, 1999; Somekh & Lewin, 2005 pp.215).

The quantitative data we acquired from secondary source has been processed with basic economic techniques to enhance data reliability and validity. For example, the statistical data on affordable housing and commercial residence of China from 1997 to 2008 was extracted from China statistical yearbook. The prices of both affordable and commercial housing are converted to constant 2000 prices using GDP deflators from World Development Indicator. By doing so, we aim to improve the consistency and stability of time-series data. Due to different data processing has been exercised separately based on the characteristics of each quantitative data acquired, instead of generalizing the techniques in this section, we have discussed each method accordingly in the analytic chapter. In addition, because all quantitative data is obtained from official sources, the problem of any subjective bias does not arise with this mode of research. However, as explained earlier, the prime explanatory research mode is through qualitative research.

3.5 Chapter Summary

This chapter presented the main methodological framework and data sources used in the thesis. An analytical framework was developed by adapting the SAI and IAD models to evaluate changes in housing policy planning of China since market reforms began in 1978. Methodologically, this thesis seeks to go beyond the SAI and IAD models. In contrast to the SAI model, we assume that institutional agents do undergo change. Similarly, we add informal institutions to the formal institutions that IAD models are characterized with. Using a mix of qualitative and quantitative data, the thesis attempts to examine in the analytical chapters the research hypothesis that the state has remained as a powerful instrument to perform the social welfare function in the urban housing sector amidst institutional change arising from the decentralization of planning that has followed market reforms in China. Three main propositions are extracted from the research hypothesis for analysis in the analytical chapters of this thesis. The first proposition examines the changing role of SOEs in the housing market in China since market reforms began. The second evaluates the changing function of provincial governments to an intermediary role in the urban housing sector since reforms began. The third analyzes the implementation role of municipal governments in the urban housing sector since reforms began.

CHAPTER 4

INSTITUTIONAL CHANGE AND STATE-OWNED ENTERPRISES IN CHINA'S URBAN HOUSING MARKET

4.1 Introduction

Housing is a basic human right, as well as, an economic item with characteristics that poses challenges in the conceptualization of its allocation. The provision of housing remains a problem in most countries, particularly in the developing and transition economies. Little wonder the problem the government of China has faced in the formulation and implementing regulations in the urban housing sector. Market reforms during economic transition have brought major changes in the provision and distribution of housing. As an integral part of reforms, state-owned enterprises (SOEs) have been reformed to give them autonomy to manage their core business better, and to diversify into complimentary economic activities. However, although market reforms have transformed the conduct and management of SOEs, they have remained very much an instrument of the state. Such a complex structure has made the conduct of Chinese SOEs in the housing market distinctly different from the typical state owned firms.

A number of works have emerged to discuss urban housing reform since 2000 (Wu, 2001; Hui & Wong, 2006; Quan, 2006; Wang & Li, 2006; Yeung & Howes, 2006; Mak, et al., 2007; Wang, Song, & Xu, 2011). The major contribution of these studies relate to policy practices on housing reforms in urban China. However, relatively few studies have examined how the role of SOEs in China's housing markets has changed since reforms were launched, especially, the interaction between institutions and the players in the production and delivery of houses. An exception to this, is a study by Wang and Bramley (2005), which analyses housing reforms in SOEs and their impact on the different social groups. However, their study did not capture the role of institutional change by looking at how SOEs transformed to adjust their roles to the changing environment as a consequence of government housing policies. Thus, this chapter seeks to evaluate the impact of market reforms on urban housing by analyzing changes in strategies adopted

by the SOEs and in the delivery of houses in China.

Using primary and secondary data, this chapter examines critically the changing role of SOEs in the housing market since reforms began in 1978 with a focus on urbanization and marketization, including planning and implementation, and their consequences on the allocation of housing. Specifically, this chapter seeks to study the new institutional networks that have emerged to support, execute and deliver housing in urban China. In addition, this chapter attempts to capture the transformation that SOEs have undergone to embrace market reforms, and to meet growing demand and complexities in the allocation of housing.

A few case studies drawn through fieldwork are used to complement the analysis. The case studies help deepen our understanding of SOEs' social behavior and urban institutions in China. Thus, in addition to secondary data drawn from the China Statistical Yearbook, China Real Estate Statistics Yearbook and Databases for Asia & Emerging Markets (CEIC database), primary data was collected through in-depth interviews on H Group. For confidentiality reasons, we could not reveal the name of the SOE involved. Established in the 1980s, H Group is now the single largest Chinese multinational home appliances manufacturer employing more than 70,000 employees worldwide. In 2002, H Real Estate Development Co., Ltd, which is a subsidiary engaged in real estate development. By 2007, this company had development projects in more than 10 cities. Although a work unit in real estate business whose core business is not real estate, H Group has become a typical SOE that has increasingly engaged in the housing sector of China since market reforms began.

This chapter is made up of five sections. The next section discusses the key theoretical issues essential to examine institutional change in China's urban housing sector. Section three analyses by phases the changing role of SOEs in China's urban housing market. Last section presents the conclusions.

4.2 Theoretical Considerations

Drawing from the argument by Polanyi (1944) in Chapter 2, the economy is not autonomous, but subordinated to politics and embedded in society and culture, and hence, effective state intervention is an integral part of successful economic development. So, the intervention in the economy by the state can be justified in a way to protect the disadvantages and regulate the undesirable behavior. Reducing inequalities of wealth and improving living environment of the poor is one of these objectives (United Nations, 1948). The introduction of market reforms since 1978 has transformed urban development in China, including the institutional instruments governing construction and housing industry (Krabben & Lambooy, 1993; Krabben & Boekema, 1994; Han & Wang, 2003; Zhu, 2005; Li, 2010). While North (1991) defined institutions in general perspective, Healey and Barrett (1990) focus on real estate market by introducing the concept of Structure-Agency Institutional Model to understand the nexus between the role of players, and their ideas, strategies and interests so as to form a network of interdependent relations in urban development. Such an approach is consistent with what Ball (1998) acknowledged in his concept of Structure of Building Provision, which expounded the connection between agencies and markets. Both approaches call for the identification and analysis of the role of players and power relations, as well as, how they relate to the structural resources, rules and regulations in the allocation and distribution of urban housing.

As presented in Chapter 3, in their Structure-Agency Institutional (SAI) model, Healy and Barrett (1990 pp.98) acknowledge the importance of the roles and strategies of agents involved in the development process, arguing that the interrelations between structure and agency may be observed through the way in which agencies, individuals and organizations define and implement strategies in relation to the rules they acknowledge. Hence, this chapter focuses on the way through which the state has structured land and property development processes. However, in contrast to the SAI model we take the view that institutional institutions and institutional organizations undergo change, and hence, we incorporate these aspects to capture institutional change faced by the SOEs since reforms began and how their roles have changed since.

The new institutional environment facing urban China poses a challenging topic for both policy makers and scholars. Since Healey and Barrett's approach is based on European evidence, we attempt to assess its relevance by looking at the experience of China, whereby the involvement of players who are directed by different interests and principals (especially with government ownership) has created a complex urban network distinctly different from Europe. Within the context of broader state theory articulated by Poulantzas (1973), Jessop (1990) and Evans (1995), the institutions advanced by North (1991), the Structure-Agency Institutional Model expounded by Healey and Barrett (1990) can be used to examine the changing roles and strategies of housing developers in China.

Hence, this article seeks to add to the understanding of the impact of market reforms in China by focusing on the role of SOEs in the housing sector since 1978. In doing so, we aim to provide evidence on how SOEs have continued to remain as instruments of government within a dynamically changing economic environment in which the

governance structure of SOEs have become more autonomous to force them to absorb modern management practices.

4.3 The Evolving Role of SOEs in Urban Housing Markets

In this section, we examined analytically how SOEs transformed their role in the housing sector over the reform period. The government has been the key institutional architect designing housing policies in the country, while the SOEs as the instrument of the state, responded by adjusting their conduct accordingly to fall in line with changes in national policy. The reforms transformed the conduct of SOEs in the housing sector from housing allocators in a centrally planned economy to investors in a dynamic housing sector that was increasingly shaped by modern management practices. Given the normal operations associated with tradable and normal goods, the SOEs should have abandoned involvement in purchasing and allocating houses so as to avert generating the unintended consequences of market reforms. Although SOEs' participation in the housing market has attracted considerable controversy, we argue that institutional change led the SOEs to pursue the twin objectives of raising profits through the absorption of modern management practices while at the same time maintaining social responsibility by delivering affordable urban housing. We identify three phases of institutional change in China's urban housing sector (Table 4.1).

Table 4.1: The Evolving Role of SOEs in Urban Housing Sector, China, 1978 to 2012

Phase	Year	Housing Sector Development	State Policy Orientation	Role of SOE
1978–1988 Experimental Pilot	1982-1988	Few Pilot Experiments in selected cities—Raise of rent and Sale of public houses	Initial attempt to replace welfare-based housing system by conducting pilot reform measures	Constructor, distributor & property manager
1988–1998 Dual-track	1988	Raise rent of publicly-owned houses and introduce land-use rights	A series of housing programme were introduced aiming to establish housing market.	Transitional Role as the seller of houses and contributor to HPF, Sharing welfare responsibility with state, municipal government and employees.
	1991-1992	Housing Provident Fund was introduced, start of Public housing sale in major cities		
	1993	National Comfortable Housing Programme was launched		
	1995	Regulations on sale and resale of real estate issued		
1998–2013 Marketization	1998	Abolishment of in-kind housing distribution, establishment of residential mortgage	To tackle over-heated housing market and regulate player's conduct in housing market	Developer, investor, speculator and social responsibility taker
	2003	Prosperity of housing sector with the increasing property price		
	2005-2007	National administrative control measures to cool down overheating housing sector		
	2007	Real estate market downturn started with policy tightening		
	2008	Unwinding of tightening measures to revive housing market		

Source: author

4.3.1 Phase 1: Constructor, Distributor and Property Manager (1978--1988)

Urban housing prior to 1978 in the planned-economy period consisted of nearly free dwellings, which were produced and allocated by an unsustainable single-channel system. As the basic unit of socialist production and distribution, SOEs provided employees with an equitable amount of personal and collective consumption items. This nationalized communist system also applied to urban housing provision. The World Bank (1992 pp.7) estimated that the state contributed 90% of nationwide investment in urban housing on average in the 1980s. Housing was considered as an in-kind welfare item in this phase that shall be allocated to all employees. Meanwhile, the importance of SOEs lies in their role in linking the state and employees in the social organization and production processes. We argue that the SOEs acted as an instrument of the state in exercising state control over housing production and consumption. In practice, SOEs were involved in every stage of housing production and consumption.

1) Raising Funds

Acquiring funds is the first step in SOEs efforts to build houses for employees. The Manager Responsibility System allowed SOEs to keep certain portion of profit. Owner-raised funds from retained earnings and other channels are the main source of financing housing production. However, a wide variance in economic performance among SOEs caused considerable disparities in the delivery of housing welfare. The successful SOEs demonstrating better performance had more resources to provide better houses, while employees of SOEs gripped by poor performance suffered. Urban employees had to live in tube-shaped apartments (*tongzi lou*) which was characterized by shared corridors with rooms and doors built side by side. Each family was allocated only one room and they had to share the bathroom and kitchen

(Zhang & Rasiah, 2013). The consequent inequalities created from wide differences in performance of the SOEs raised serious social concerns among the policy makers whose objective was to ensure that market reforms did not undermine the egalitarian housing system that was in place in China before 1978.

The poor living conditions of the urban poor showed that the institutional coordination of SOEs failed to deliver decent living standards to the majority. For example, the poor living conditions of employees in H Refrigerator Plant (subsidiary of H Group) was attributed to its poor economic performance in the 1980s. Xu Xiumei, a retired employee of H Group, when interviewed, told us that she was allocated a single bedroom measuring 20 m² in 1987. She described living in that tube-shaped apartment was “hard to imagine for today’s young persons”. The food became cold before it reached her room, which was 30 meters away from the shared kitchen. Official information confirms such an account. The average living space of employees at Qingdao city, where H Group is headquartered was less than 6 square meters in 1990. It is also the case that state-owned work units facing insufficient funds pooled money to build the houses through joint ventures with other work units. For example, a 6-floor building was co-funded by H Air-conditioner Plant (subsidiary of H Group) and former Municipal Instruments Bureau in the late 1980s. The arrangement offered H Air-Conditioner Plant was 8 out of 48 units.

2) Acquiring Land

Before market reforms began, the main approach of getting land was through administrative allocation. Since the state remained the ultimate owner of land, enterprises had to apply for its use by submitting proposals to the supervisory authority, such as Municipal Urban Planning Bureau. Without a pledged planning

system in communist China, land could easily be given by supervisory government agencies. Alternatively, houses could be built directly on SOEs' land reserves, avoiding the application process for new land and improving the land use efficiency.

3) Constructing houses

After acquiring the land, SOEs could either construct the houses themselves by employing construction workers, or contract the whole project out to professional construction companies. The first alternative required SOEs' presence in every aspect of construction, such as purchasing building materials, teaming up with construction workers, monitoring construction and controlling building quality. Compared with the first alternative, the second approach saved SOEs a lot of time and expense. What was needed was only the transfer of draft plans from work units to state-owned developing companies in advance according to which construction was undertaken. The development company would then be paid in accordance with the contract when the project was handed over.

4) Allocating houses

After the completion of construction, the finished houses would be distributed to employees based on a number of non-monetary factors, such as, education attainment, party membership, job seniority, current residence status and marital status (Huang & Clark, 2002; Pan, 2004; Huang & Deng, 2006; Li & Li, 2006). Table 4.2 presents an example of the housing allocation scheme which was adopted by H Air-Conditioner Plant in 1987. It was designed to evaluate and determine employees' tenure of publicly-owned houses. This evaluating system was enacted in the employees' general meeting and implemented by the committee of housing allocation.

Applicants who accumulated higher points enjoy preferential access to the houses. SOEs monitored the entire process acting as the housing allocator to their employees.

Table 4.2: Evaluating System of Housing Distribution, H Air-Conditioner Plant, China, 1987

Standard	Note
Length of Service	a) 1 year is equivalent to 1 point; b) study period could be taken as service period for the applicant with bachelor degree or above; 1 year of study is equivalent to 2 points;
Expertise and Seniority	a) Vice-senior title is equivalent to 30 points; b) Middle title or head of department is equivalent to 20 points; c) Deputy head of department is equivalent to 15; d) Primary title is equivalent to 10 points.
Working Status of Spouse	Applicant with employed spouse shall get extra 4 points;
Number of Children	Applicant who has one child shall get extra 2 points;
Military Status of Spouse	Applicant with spouse serving in military shall get extra 4 points.

Source: author

In the absence of markets, social distribution was totally undertaken and organized by SOEs. Under such circumstances, state-owned work units participated in each stage of housing production and distribution, acting as the representative and agency of state distributing houses resources. The testimony from our interviews as stated above provided us the empirical evidence that SOEs were involved in every single stage in urban housing production and distributions.

4.3.2 Phase 2: Transformation Role (1988 – 1998)

The second phase began following the enactment of "*Implementation Plan for a Gradual Housing System Reform in Cities and Towns*" in 1988 (The State Council of China, 1988a). Subsequently, a large number of SOE employees managed to

purchase houses with either partial or full property rights depending on the level of subsidy and contractual constraints imposed on them. The houses were allowed to be sold in the market after 5 years since the date of purchase. The objective of such an exercise was to establish a housing market so that properties could be bought and sold in the market. With advancing housing reforms, the function of work units as home buyers was gradually replaced with house sellers. In the following section, we discuss the role played by SOEs through two schemes during the transitional phase:

1) Seller of Houses

Before market reforms began, employees paid nominal rents, which heavily subsidized by work units. For example, the monthly rent of a medium-size apartment in the coastal city of Qingdao was only 0.5 yuan/m² on average. Mr. Zhang Jian, a housing management officer revealed that the average construction cost of urban residence in 1980s and 1990s was estimated at around 800-1000 yuan/m². Based on a nominal rent of 0.5 yuan/m² per month, it would have taken work units more than 130 years to cover the construction costs, which is well beyond the lifespan of a normal building. Besides, the low rents could hardly cover maintenance and management expenses so that the government still had to bear a large burden of the costs that there rarely existed any surplus to recoup building costs. Despite having a socialist governance framework, housing production and distribution in this phase that was characterized by state ownership, rent compensation and welfare provision failed to meet the government objective of housing for all. Hence, the sale of publicly-owned houses was initiated to reduce SOEs' welfare burden, as well as, to ease the plight of disadvantaged urban Chinese dwellers, though the old ones hardly met decent standards.

The sale campaign was also deliberately designed to improve economic performance through improving the usage efficiency of fixed assets. Before market reforms began, half of SOEs' non-productive fixed assets were in form of housing stocks.⁵ Instead of being used for income generation, this large volume of houses generated only nominal rent. Thus, the sale off house stocks at the market prices was highly favored by SOEs to enhance profitability. The pressure increased further when SOEs advanced into international stock exchange since net fixed assets relative to sales revenue was an important indicator of capacity utilization, which would directly reflect economic performance of company. Hence, getting rid of large volumes of non-productive assets gave SOEs an incentive to sell off publicly-owned houses (Holz, 2002).

Hence, the government launched the sale of publicly owned houses throughout the country in 1988 after the success of pilot experiments in selected cities. This policy called for raising public housing rent and selling urban houses to the sitting tenants with subsidized price, which was determined by a series of non-monetary factors. The central government aimed to replace the welfare-oriented housing system with a market-oriented one by issuing the following directive:

“Existing publicly owned houses should be sold as a crucial step in the housing reform by local government. Twenty percent of existing housing have to be sold by 1991.” (The State Council of China, 1988b)

Being the state's agent with the responsibility of delivering houses to house buyers,

⁵ In 1985, 34.57% of fixed asset investment by all SOEs nationwide was in non-productive fixed assets, compared to 24.72% in collectively owned units.

SOEs provided service to facilitate the transfer of urban housing ownership to urban dwellers. Following reforms, work units responded by organizing and executing the sale of houses through special committees under the housing management department. A standard pricing formula used by H Group in 1998, which reflects the dwelling condition and socio-economic status of purchaser, is given as an illustrating example as follows:

$$TSP = CP + Premium$$

with

$$CP = cp \times F$$

$$cp = [BC \times (1 - r_{Dep.} \times Y_U) - (r_s \times Y_s)] \times (1 + r_{Stor.} + r_{Ori.} + r_{Cov.}) \times \delta_{ns}$$

and

$$Premium = p_{excd} \times (1 - Y_U \times 2\%) \times F_{excd}$$

whereby

TSP: Total Selling Price
 CP: Cost Price
 cp: Unit Cost Price
 F: Floor Space
 BC: Basic Cost Price
 $r_{Dep.}$: Depreciation Rate
 Y_U : Number of years in use

Y_s : Number of service years
 r_s : Seniority Discount Rate
 $r_{Stor.}$: Storey of the House
 $r_{Ori.}$: Coefficient of House Orientation
 $r_{Cov.}$: Coefficient of Convenience
 δ_{ns} : Non-suite Discount Rate
 $F_{excd.}$: Floor Space Exceeded
 p_{excd} : Unit Price Exceeded

Information from our fieldwork showed that most houses were sold by work unit at around half the price of commercial houses in the market. Whereas over 82% of urban houses were publicly owned in 1981, 80% of these houses were sold to their occupiers by 2002. According to the data released by the Qingdao municipal government, a total of 38,859 houses totaling over 2 million m² were sold by the end of 1996, including 16,733 units under the management of Municipal Housing Bureau and 22,126 under the jurisdiction of work units. SOEs organized, executed and promoted this largest privatization campaign in the history of China. The house re-sale programme became

the first significant step in the housing privatization process during which SOEs translated the central housing policy into reality (Wu, 1996; Wang & Murie, 2000).

2) Housing Provident Funds

The in-kind houses supply function gave way to employees' Housing Provident Fund (HPF) since 1991. HPF is "a compulsory housing saving scheme in which both employers and employees contribute a certain percentage of employees' salaries to HPF accounts" (Deng, et al., 2009 pp. 13). Work units contributed a cash subsidy to their employees, which are then expected to use HPF for property acquisition or housing renovation. The HPF is the core component of the overall housing reform policy and it guarantees a flexible scheme of fulfilling the urban housing needs without state subsidy.

The HPF, which has been launched nationwide,⁶ shows strong participation by SOEs (Table 4.3). The significance of the HPF is reflected in the higher share of contributors among SOE employees compared to other contributors. At the sector level, state apparatus' and SOEs accounted for 66%, and 18% of the work units contributing to HPF in 2005. Non-state sector participants still only accounted for only 16% of the contributors, which shows a significantly higher financial support by state-related sectors (84%) than non-state related work units for urban dwellers.⁷ At the sub-sector level, work units from the government organizations and government agencies accounted for 39.5% and 26.5% respectively of the HFP contributors. SOE work units accounted for 15.1% of the HPF contributors.

⁶ The scheme had accumulated over 2.6 trillion yuan and provided about RMB 1.5 trillion in loans to their contributors with over 73 million urban employees participating in by 2008 (Deng, et al., 2009 pp.14).

⁷ We could not get HPF data by employees.

Table 4.3: Ownership and HPF Coverage, China, 2005

Sector	Percentage Share	Sub-sector	Number of work units participating in HPF	Percentage Share (%)
State-owned (controlled) Enterprises	18.04	State-owned	39,401	15.10
		100% government funded	1,596	0.61
		State controlled	6,072	2.33
State Apparatus	65.98	Government Organizations	103,019	39.48
		Government Agency	69,121	26.49
Non-State Sector	15.98	Collective-owned Enterprises	6,263	2.40
		Share-holding Enterprises	3,663	1.40
		Private Enterprises	7,390	2.83
		Foreign Company	3,913	1.50
		Limited Liability Company	14,960	5.73
		Others	5,511	2.11

Source: Compiled from Chinese Trade Unions Statistical Yearbook (2006)

The shift from in-kind to monetary compensation posed a financial challenge on employers as they were required to contribute a certain amount of funds to their employees' accounts. Although it did not burden SOEs in the initial stage owing to the funds they accumulated from the sale of publicly owned houses, funds from such a source diminished eventually as the publicly owned houses were gradually sold off. Nevertheless, with the new implementation of HPF, the housing financial burden has been successfully transferred to urban SOE employees. Compared with little nominal rent earned in the pre-reform era, SOE employees now had to contribute an equivalent amount with their employers to the HPF account in order to purchase urban dwelling. It is true that shift of compensation method from in-kind distribution to monetary approach relieved SOE's of their social welfare obligation directly but the burden has been transferred to urban employees by increasing their share of house cost. Compared to 1% of the average urban worker's monthly earnings as rent prior to market reforms, housing costs for ownership rose to nearly 20 % of monthly salaries of urban employees after reform (Duda, et al., 2005 pp.2). Such a policy exercise is consistent with marketization, which led to SOEs to reduce their social obligation to provide welfare housing. Urban dwellers now have to shoulder heavy housing cost, especially in metropolitan cities like Beijing and Shanghai, though SOE work units' role in employees' housing payments have been drastically reduced.

In short, SOEs role was changed from house buyers to house sellers. In addition, the in-kind compensation scheme was replaced with a monetary approach following the introduction of the HPF scheme. Thus, the role of SOEs as intermediaries between house producers and house buyers has fallen with the increasing participation of individuals as independent buyers in the market. The role of SOEs in providing directly welfare housing to urban employees was gradually reduced. However, the socialist elements of

government policy drove SOE work units to function as guardians of urban employees welfare as SOEs still participate in coordinating the sale of houses and the HPF scheme. In other words, although the compensation method changed after market reforms, the role of SOEs as the state's instrument through which the state's governance was executed over the whole economy still remained, albeit with much less control.

4.3.3 Phase 3: Developer, Investor and Speculator (1998 – 2013)

The third phase witnessed a total abolishment of in-kind distribution of houses, and establishment of a real estate market. The huge profits generated from soaring property prices encouraged increasing numbers of SOEs to extend their business to the real estate industry (Figure 4.1)⁸. SOEs participation in the real estate market has raised considerable controversies because of, *inter alia*, the speculative function it has assumed, as well as, the huge amount of profits they have started to make. The share of SOE and holding enterprise investment in the real estate market exceeded over 50% of the total in January 2004 and July 2010.

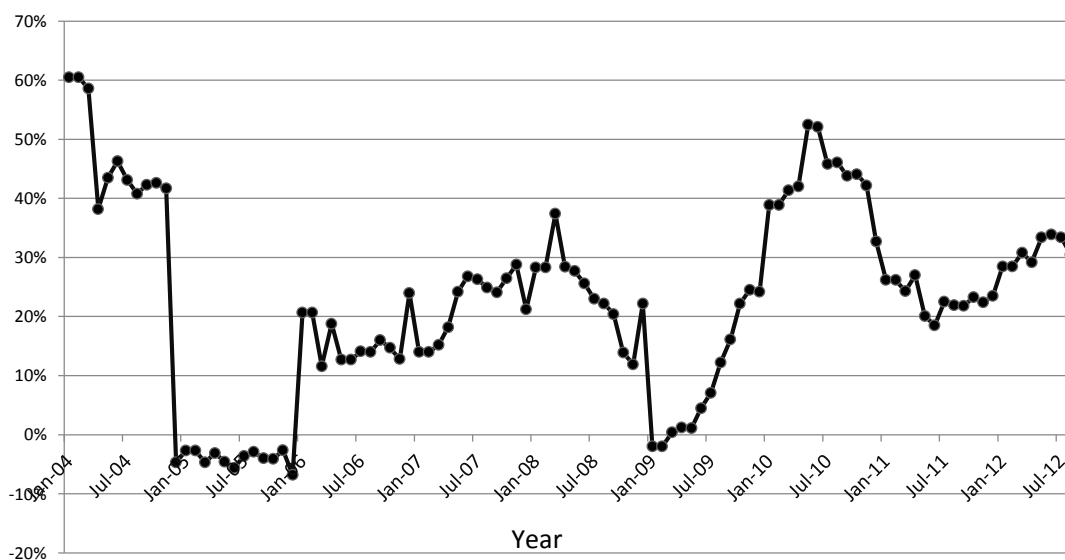


Figure 4.1: Real Estate Investment, SOEs (holding), China, 2004 to 2012
Source: CEIC Database

⁸ The highest level of investment from SOEs reached 60% of all investment in early 2004. Although the investment declined as a share of total investment after 2004, SOEs' investment in real estate generally remained above 20%.

Despite the positive developments over the reform period, the changing role of SOEs in the housing market has also given rise to undesirable practices in China's economy. Given that housing is also an essential good that should reach all, allowing SOEs to speculate has been argued to be one of the reasons for the high prices faced by those seeking to purchase houses from the real estate market (Mak, et al., 2007). The massive conversion of non-tradable to tradable shares during the financial reform began since 1994 attracted considerable speculation as a massive volume of capital was diverted to unnecessary activities. While the conversion was to reduce government ownership of SOEs and at the same time to maintain control, there is still little disclosure over what was done with the capital raised from the shares issued. In addition, the provision of preferential access to land use rights and credit to SOEs has disadvantaged the small private developers.⁹ Furthermore, by allowing SOEs to retain a high share of their profits,¹⁰ they have also reduced the capacity of government to introduce comprehensive social safety nets to address strongly the interests of the disadvantaged poor (Cheong, et al., 2012). Also, the aggressive purchasing conduct of SOEs has also driven up prices of land use rights to record levels, which has obviously raised serious moral hazard problems. Finally, the close interrelationship (*guanxi*) between SOEs top management and local officials has led to the growth of socially unhealthy collusive alliances in China's political economy, which has seriously disadvantaged the small entrepreneurs. Indeed, SOEs easily outbid private developers in acquiring land use rights so that the share of bids won by SOEs in the capital Beijing, rose from 59% in 2009 to 62% in 2010 (Hu, 2009), though the share of SOE enterprises in total real estate developers has fallen from 32.6% in 1998 to 3.9% in 2011 (Figure 4.2).

⁹ Nationwide, the vacant floor space of commercial buildings in 35 cities rose from 2004 to 2010 growing steadily from 14,324 m² in 2004 to 22,542 m² in 2010.

¹⁰ For example, from the 2 trillion yuan accumulated wealth recorded in 2009, only 5% dividend was paid to shareholders. The remaining 95% was declared as retained earnings targeted at reinvestment.

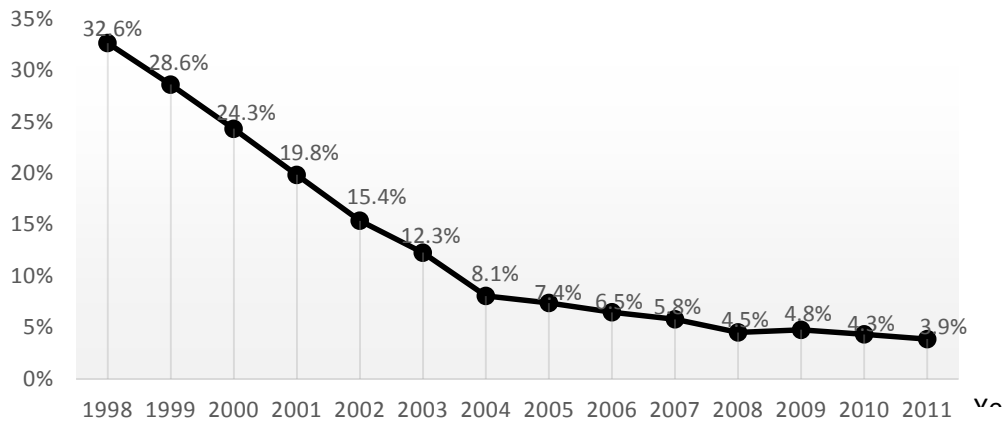


Figure 4.2: The Share of SOEs Real Estate Developers in Total Real Estate Developers, China, 1998 to 2011
Source: China Statistical Yearbook (2011)

To regulate SOEs' undesirable conduct in the urban housing market, a series of macroeconomic controls have been implemented. The SOEs whose core business is not real estate have since been pressured to exit from real estate business since they shoulder a major responsibility in upgrading and innovating industrial technology. On March 18, 2010, SASAC issued a notice that the SOEs, which are focused on industries outside of real estate, shall exit the housing market gradually. The 78 large companies would restructure to offload their housing business, thereby leaving only 16 with permission to remain (State Council Information Office of the People's Republic of China, 2010). Policy makers believed that the housing industry being essentially a non-tradable industry has distracted SOEs from their traditional to enhance international competitiveness. However, the non-mandatory measure was difficult to enforce without the effective cooperation of local governments, which often acted in the opposite direction by lifting land rent caps and freeing property prices to boost revenue.

The transition from full social responsibility of providing housing before reform to one in which the burden is shared with urban dwellers has caused concerns. Nevertheless, despite the problems arising from the nature of market reforms introduced, we argue that

the government has taken steps to ensure that SOEs did not completely remove the welfare function from their activities. The complex transformation experiments undertaken by the SOEs during market reforms have demanded an innovative but flexible regulatory framework to solve the growing problems, many of which have resulted from the unintended consequences of market reform.

The government of China launched the Affordable housing scheme since the early 1990s, which consists of the Cheap Rent Housing (CRH) scheme, Economically Comfortable Housing (ECH) scheme etc. so that SOEs are compelled to deliver reasonably priced housing for the lower or middle income households. Affordable housing was designed to balance demand and supply in commercialized housing markets and was introduced by policy makers as a tool to deliver affordable houses to the masses. However, because of the low profit margins, the scheme offered was initially not popular among profit-seeking developers. Despite being open to the lucrative real estate industry, the government forced SOEs to meet their obligations by requiring them to produce and deliver affordable houses. SOEs that helped local authorities to provide more affordable houses are often rewarded with better opportunities to acquire prime lands for future commercial projects. Meanwhile, penalties were introduced on SOEs that failed to deliver affordable houses, such as halting the supply of commercial land or suspending the transaction of land-use rights. Managers of such SOEs have also been issued official warning, or were replaced when they failed to meet their affordable housing targets. Although it is difficult to determine whether the SOEs developers met their affordable housing targets due to the lack of data, Hui & Wong (2006), Knowledge@Wharton (2011) and Wang (2011) offered evidence to show that SOEs have actually attempted to meet these targets. The trial-and-error approach has been the hallmark of new initiatives implemented to reform institutions in the Chinese economy (Kissinger, 2011).

In order to make affordable housing sufficiently profitable, local governments have been encouraged to intervene to ensure strong participation by local SOEs. For example, the Qingdao government designed the “Project Proportion Scheme” into the construction portfolio of SOEs with the rationale that “affordable housing should be led by government, operated in the market place and played by the enterprises”. As such, all new commercial residence projects had to include at least 20% of total units reserved for the affordable housing scheme. In addition to incentives, such as, tax concessions, the government lowered land-use fees to help the SOEs raise their profit margins. As a consequence, Wang (2005 pp.1870) estimated that developers could complete construction at approximately half of the cost of normal commercial projects. Both SOE and private developers responded to the incentives to expand their participation in the affordable housing scheme. This new institutional framework helped the SOEs to meet simultaneously their social obligation and commercial interest.

We illustrate empirically the above-mentioned scheme by presenting the case of H Group. H Tribe is located on a land plot, which used to be an old plant of H Refrigerator. After the plant was moved to a new location, the land was confiscated by the municipal government before it was re-allocated to H Real Estate to develop a residence project at estimated price of 32.22 million yuan in 2011. The “Project Proportion Scheme” required that 50% of all the commercial houses developed must be reserved for the affordable housing scheme (cheap rental houses in this case), while the rest could still be sold in the market as commercial houses for profits. As a consequence, 1,200 units totaling 110,000 square meters of completed houses went to the affordable housing scheme as cheap rental houses. According to the senior project coordinator of H Real Estate, the percentage share of houses to be reserved for affordable housing is determined through numerous negotiations and informal contact between company and local supervisory authorities,

such as, land resource bureaus and municipal planning commission.

The positive role played by SOEs in balancing the profiteering motive and social wealth distribution obligation is reflected in its provision of cheap houses to vulnerable people. We illustrate SOEs duty as the caretaker of their employees by using the example of Zhen Garden, which was developed by H Real Estate. Zhen Garden is an affordable housing project, which is located on H Refrigerator Plant’s land reserve. All apartments in this project were sold to H Group’s employees whereby the sale and purchase process was organized jointly by the company’s Labour Union and management, while the local affordable supervisory authority monitored the procedures shown in Figure 4.3. According to H Group’s regulations, only employees with annual incomes less than 22,990 yuan in 2006 and per-capita living space lower than 20 m² were eligible to apply to purchase affordable houses. Compared with the average selling price of 14,981 yuan/m² in Shinan District where Zhen Garden located, the selling price of Zhen Garden houses was only 5,724 yuan/m² on average, which was less than half of market price in 2008. Eventually, 642 units were distributed to the disadvantaged employees of H Group (Table 4.4).

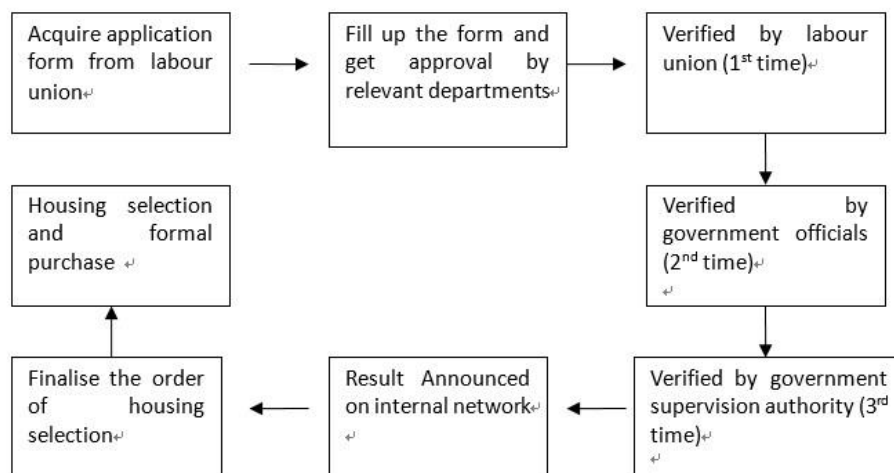


Figure 4.3: Application Process, Purchase of Subsidized Houses, H Group, 2007
Source: author

Table 4.4: Comparison of Zhen Garden Purchaser and Municipal Average, 2007 to 2008

Item	Zhen Garden	Qingdao Urban
Average Sale Price (yuan)	5,724	14,981*
Average Annual Household Income (yuan)	12,904	15,179
Average Living space per capita (m ²)	13.04	23.73

Source: author

Note: * the figure of Shinan District on March, 2008.

The stable expansion of affordable housing sector is also confirmed by official data. The growth rates of affordable housing nationwide in terms of sold areas remained positive from 1997 till 2008 with the exception of 2004 and 2005 (Figure 4.4). The share of affordable housing over commercial residence reached its highest level of 22.7% in 2000 due to a sharp expansion in 1997-1999. The falling share after 2000 is a consequence of rapid expansion in commercial residence rather than a fall in the growth of affordable housing. Commercial residence has enjoyed fast development with double digit growth rates achieved throughout the 1997-2008 period. The relatively lower growth of affordable housing compared to commercial residence also shows that the rapid and continuous economic annual growth rates has offered Chinese citizens greater financial capacity to purchase houses from the private real estate market. It might be also caused by that fact that profitable commercial houses are favored by property developers, including SOEs. Nonetheless, the sold space of affordable houses still grew from 12.1 million in 1997 to reached 36.3 million square meters in 2008, expanded by over three times in a decade. At the same time, investment of affordable housing in constant 2000 prices rose from 18,533 million yuan in 1997 to 68,911 million yuan in 2008, growing on average by 12.7% annually in the period 1997 to 2008 (Table 4.5).

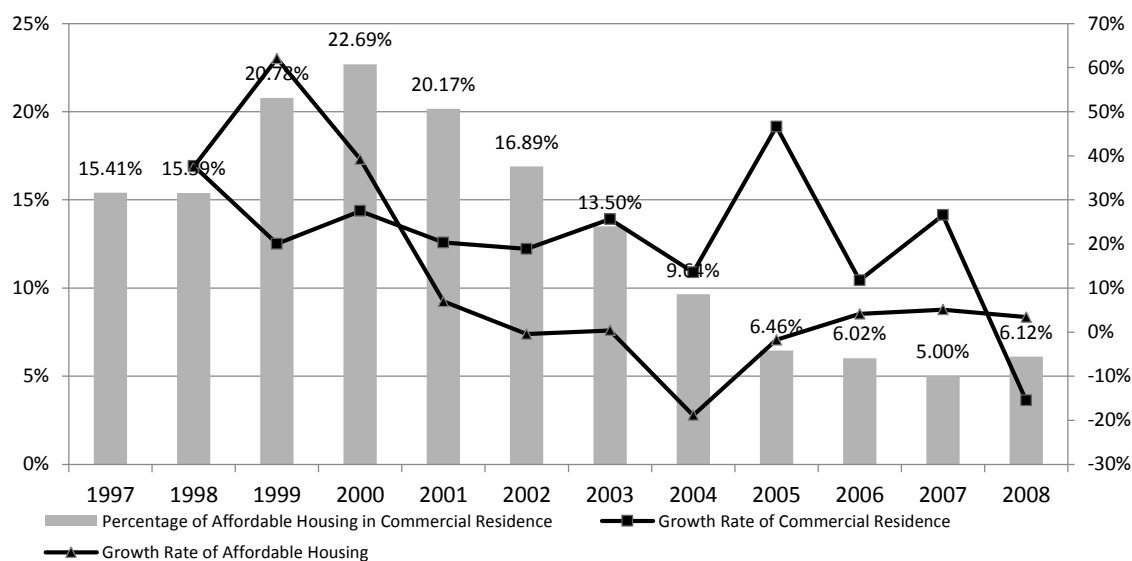


Figure 4.4: Comparing Sold Area of Affordable Housing and Commercial Residence, China, 1997 to 2008

Source: China Statistical Yearbook (various years)

Table 4.5: Affordable Housing and Commercial Residence, China, 1997 to 2008

Year	Investment Completed (million yuan)				Floor Space Sold (million m ²)	
	Nominal Prices		Constant 2000 Prices*		Commercial Residence	Affordable Housing
	Commercial Residence	Affordable Housing	Commercial Residence	Affordable Housing		
1997	153,938	18,549	153,809	18,533	78.64	12.11
1998	208,156	27,085	209,783	27,297	108.27	16.66
1999	263,847	43,702	269,288	44,603	129.97	27.01
2000	331,198	54,243	331,198	54,243	165.7	37.6
2001	421,667	59,964	413,185	58,758	199.38	40.21
2002	522,775	58,904	509,284	57,384	237.02	40.03
2003	677,668	62,198	643,377	59,051	297.78	40.18
2004	883,695	60,638	784,732	53,847	338.19	32.61
2005	1,086,093	51,918	927,996	44,361	495.87	32.05
2006	1,363,840	69,683	1,122,808	57,368	554.22	33.36
2007	1,800,541	82,092	1,377,606	62,809	701.35	35.07
2008	2,244,087	97,090	1,592,764	68,911	592.8	36.27

Note: * Converted to constant 2000 prices using GDP deflators from World Bank (2012).

Source: World Bank Indicator and China Statistical Yearbook (various years)

Overall, the Chinese government managed to increase management decision making by the SOEs to allow managers to adjust their operations to absorb market elements of private management. The transformation of urban institutions has attracted dynamic professional practices to better manage SOEs by introducing competition, property ownership, private management and the room to motivate managers to help modernize China's housing industry. However, the nature of market reforms has also generated considerable undesirable practices by SOEs. By allowing SOEs to speculate in the real estate market and to retain a high share of profits these enterprises have not only driven the prices facing normal house purchases in real estate markets up, it has also obfuscated their role in providing service to normal citizens, as well as, in providing a comprehensive social safety net that is essential to shield the poor from the vicissitudes and volatilities typical of markets. Also, the preferential access to land use rights and credit, and collusive alliances between SOEs and state officials has also seriously disadvantaged the private developers. Nevertheless, the Chinese reform experience supports Poulantzas' (1973), Jessop's (1990) and Evan's (1995) conceptualization of the state as an apparatus relatively autonomous to powerful capitalist classes and as one that seeks to meet a wide range of goals, and hence, has attempted to balance diverse interests to meet both professional management standards, as well as, social stability.

4.4 Conclusions

Using Poulantzas (1973), Jessop (1990) and Evans (1995) conception of the state, North's (1991) definition of institutions, and an adapted framework of the Structure-Agency Institutional Model (Healey & Barrett, 1990), we examined urban institutional change brought about by market reforms, and its impact on the conduct of SOEs in the housing market, as well as, its consequences on work units and the allocation of houses in China. We identified three distinct phases in the role of SOEs in China's urban housing market

since economic reforms began. Reforms in China were not only carried out to inject professionalism into the market, such as, competition and modern management principles, but has also been carefully implemented to take account of the complexities arising from extensive socioeconomic changes that were unleashed by market reforms and rapid economic growth.

The role of SOEs in the housing market in China changed considerably over the three phases during the reform period with significant ramifications for the production and distribution of houses. In the pilot phase of 1978 to 1988, SOEs assumed the role of house producers and distributors whereby work units, exerted control over the use of resources, including the allocation of funds in the construction of houses and the power to distribute them. The role of SOEs changed again during the second phase of 1988-1998 whereby the focus was on the promotion of the sale of public houses and HPF. Although the role of SOEs in this period has been described by others as somewhat arbitrary, we provided evidence in the chapter to show that work units changed their function from being house purchasers (for their employees) to that of house sellers following the government's campaign to promote the resale of public houses. SOEs were able to provide social welfare to their employees by contributing to the HPF. The major change that took place in this period is in the financing of house purchases with SOE work units playing the role of intermediaries between house producers and house buyers. SOEs role in house production gradually fell in this phase. In the third phase, which started since 1998, the introduction of real estate developers and the autonomy enjoyed to specialize on their core business, as well as, expand into complimentary activities, drove SOEs to transform their role into market players. SOEs began to operate as developers, investors and speculators in this period. The sudden unleashing of market forces into the management of SOEs did cause land use rights prices to soar in certain years. In light of the state's

responsibility in housing is confined to servicing the needs of the poor, efforts must be taken to remove the speculative role in markets where its role can be seriously detrimental to the interests of the general public, and the emerging private housing developers.

As instruments of the state, SOEs still perform the role of providing social welfare to urban dwellers in China. The social obligation of directly supporting the disadvantaged was abandoned. Nevertheless, the SOEs are still required to provide affordable housing with particular shares of urban commercial housing reserved for the disadvantaged. Although, the share of income urban dwellers had to pay to access housing rose after reforms, the quality of housing enjoyed by them improved considerably. Hence, China's market reforms show that the state has continued to retain autonomy from private interests to balance private and public interests in the urban housing sector (Poulantzas, 1973; Jessop, 1990). Although there are problems with how the affordable housing scheme has been implemented against a massive proliferation of private management principles in the housing market, the state has remained a powerful instrument to ensure social balance in the country by keeping control of the SOEs. However, as is the case with most broad-brush approaches, this chapter did not broach the intricacies and problems faced by specific segments of the urban dwellers in the different urban locations. Given the complexity of the governing structure and uniqueness of Chinese SOEs, in-depth case studies using primary data should be carried out to bolster these arguments.

CHAPTER 5

THE PROVINCIALIZATION OF STATE POLICY: THE FOUR “L”S OF URBAN HOUSING INSTITUTIONS IN CHINA

5.1 Introduction

Housing provision remains a major challenge to most countries. China is no different where reforms since the 1980s have affected urban housing. The most important aspect of this change has been the decentralization of policy design and coordination with the central government confining its role to general policy planning, the municipal governments to implementation, and provincial governments to intermediation. The intermediary role of provincial governments in the decentralization process on urban housing has hardly been documented.

It is widely acknowledged that the Chinese economy is embedded in the Confucian cultural tradition. The *Fumu Guan*, when literally translated, means parental official, is from where provincialization and localization of central planning originated. *Fumu Guan* was appointed by the central government with the power to make decisions on local affairs. The increasing shift towards provincialization and localization has attracted again discretion and autonomy in China, and hence, as Ramo (2004) has noted, China does not have in place a uniform set of solutions for every issue. With its large population size and regional socioeconomic differences, the “groping for stones to cross the river” approach is widely adopted in China (Turin, 2010). National policies are intermediated by provincial governments to fit local conditions. Thus, China’s decentralized administrative structure has given the provinces strong institutional space to coordinate economic activities (Cheong & Goh, 2013 pp.103).

Although Murdoch and Abram (1998) had argued that the central state still overrides local demands hierarchically, most scholars recognize the importance of community participation (Milbourne, 1998; Huang, 2004; Li, 2010; Li, Chiang, & Choy, 2011), including in urban housing in China (Lin & Comm, 2011). Deng, Shen and Wang (2009)

went further to argue that local governments eventually bear most of the costs in the construction of affordable houses. However, most works have broached the role of the central and local governments (Han & Wang, 2003; Tao, Su, Liu, & Cao, 2010; Tang, Wong, & Liu, 2011), without sufficiently evaluating the role of provincial institutions in the development of urban housing in China. Hence, we seek to examine the increasingly important role of provincial institutions in the urban housing sector. Specifically, we wish to examine how provincial governments influence policy implementation in the urban housing sector of China.

The rest of the chapter is organized as follows. Section two presents the theoretical considerations, while section three discusses the methodology adopted. Section four analyses the regional differences in urban housing development. Sections five compares Shandong and Shanxi by analyzing the four provincial “L” institutions of leadership, legislation, land use and living culture. Section six concludes.

5.2 Theoretical Considerations

As discussed in Chapter 2, the role of the state in the allocation of resources in addressing competing interests in society was recognized by Poulantzas, (1973), Evans, Rueschemeyer and Skocpol (1985) and Jessop (1990). Chang (1994) argued that the effectiveness with which states can seek and deliver developmental objectives depends on the relative autonomy they enjoy from instrumental capture. What is clear is that a certain degree of autonomy is necessary “some competing interests in the economy and society will have to be sacrificed in order to generate the required collective good” (Evans, et al., 1985 pp.68). However, as Evans (1995) subsequently noted, the capacity of states to assume developmental roles also depends, *inter alia*, on strong developmental leadership and an efficient bureaucracy. Institutions help guide the rules of governance

targeted at developmental goals.

While Veblen (1915) had noted that economic behavior is socially determined and economic organization as a process of ongoing evolution, Commons (1934) noted that the economy is a web of relationships between people with diverging interests. Thus, institutions ---such as markets, government regulations, property rights, trust relationships --- matter in economic development (Coase, 1992). In the meanwhile, evolutionary economists use the same definition of institutions noted above except that they argue that the influence of any one or (a set of) institutions, or the composition or blend of them within a group in socio-economic action influence how economic transactions and change occur (Nelson & Winter, 1982; Nelson, 2008). Meso organizations are often created to coordinate the smooth translation of macro-influences onto the micro-agents to solve collective action problems. Successful economic transition requires positive institutional macro, meso and micro coordination (Rasiah, 2011 pp.170). Although developments in “evolutionary economic geography” has helped the understanding of the processes of regional growth and changes, a more rigorous approach under the rubric of the political economy of geography is necessary to make it more useful (MacKinnon, Cumbers, Pike, Birch, & McMaster, 2009).

Housing allocation takes place from a complex interplay between agents, such as, national and local government, and laws and regulations, and economic and cultural influences (Paddison, Docherty, & Goodlad, 2008). Economic transition since market reforms started has led to the emergence of new governance structures in China. Provincial and municipal governments have become increasingly important in the allocation of economic resources, including the governing of state-owned-enterprises. Zhang and Rasiah (2014) had argued that redefinition of critical institutions following market

reforms led to changes in land use rights. While the state has continued to own land, land lease rights in urban locations have been transformed to allow private ownership. In the housing sector, the government has also approved private developers to construct and sell houses while making institutional changes to allow SOEs to participate in the provision of commercial housing. The changed institutional framework has altered the power structure in China with provinces and municipalities enjoying the autonomy to implement national policy.

In short, provincial governments, as intermediary organizations, have sought to solve collective problems by taking account of local social, economic, political and cultural conditions in China. The legacy of a centrally controlled economic system driven from Beijing of the pre-reform era has been disappearing fast. While the decentralization processes have been documented by past researchers, little work exists on how particular provinces and cities have shaped their participation in the allocation, construction and distribution of houses.

Hence, we analyse the role of provincial institutions in the provision of commercial and affordable urban housing in China. Since the central government has maintained control of economic resources, institutional change has attracted the introduction of instruments to ensure that the expansion of commercial housing does not deny the masses the right to affordable housing. Therefore, the meso organizational custodians of the nationally defined housing policy, such as provincial governments, have been encouraged to promote commercial housing but without compromising their responsibility to deliver affordable housing to the masses. However, since the demand for the two types of housing are influenced by wealth distribution, provinces with higher concentration of wealth are likely to experience greater expansion of commercial housing, while provinces with a

lower concentration of wealth are likely to experience greater emphasis on affordable housing.

We present the analytic framework in Figure 5.1. The new institutional framework has targeted the construction and distribution of commercial houses to those who can afford market prices, and affordable houses to low-income household (Zhang & Rasiah, 2014 pp.63). The state structure that governs the delivery of the dual housing scheme in China follows from institutions that are defined by the central government, but the provincial government enjoys autonomy to interpret and implement the dual housing schemes. Meanwhile, the municipal government enjoys the authority to implement these policies.

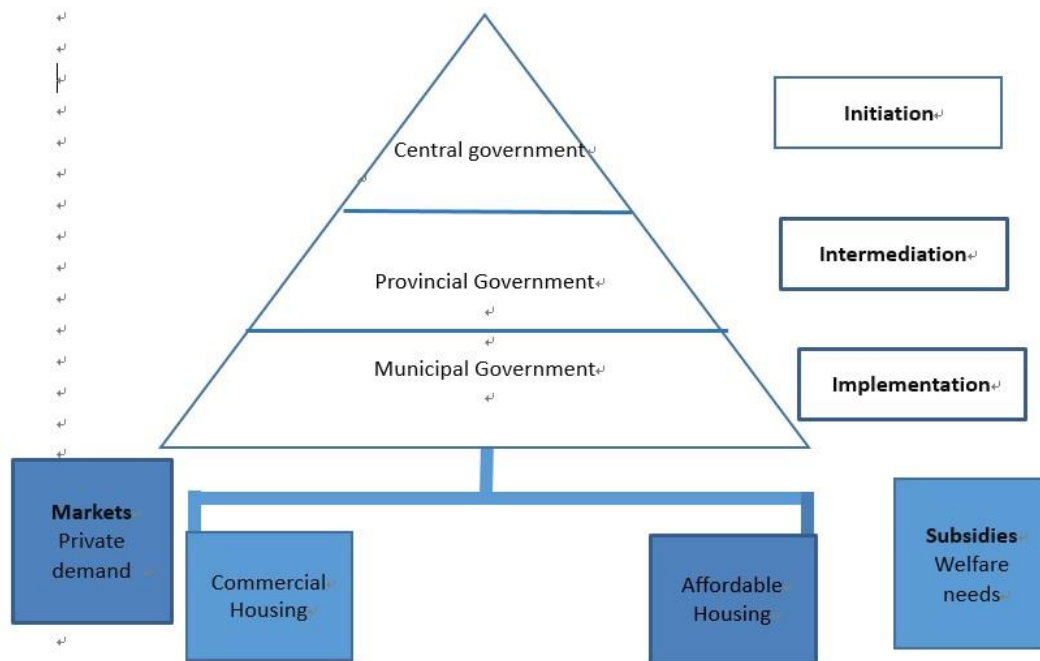


Figure 5.1: Housing Funding and Provision, China
Source: author

5.3 Methodology

Following Kiser and Ostrom (2000), we adopt a three-level evaluation of the provincial role in the allocation, construction and distribution of houses in Shandong and Shanxi as follows:

- 1) The highest level we analyse the constitutional decision making where political and legal arrangements are established.
- 2) At the second level, we examine the regulatory framework, which is collectively chosen and formulated by officials.
- 3) At the third level we study the role of actors (individuals and organizations) to capture the actual implementation of the housing policy.

We also acknowledge the distinction made by Helmke and Levitsky (2004) that formal institutions are openly codified, in the sense that they are established and communicated through channels that are widely accepted as official, whereas informal institutions are socially shared unwritten rules which are created, communicated and enforced outside of officially sanctioned channels (North, 1991). Hence, we use the analytic framework shown in Table 5.1.

Two types of data were compiled to undertake the analysis. Aggregate meta-physical data was obtained from China Statistical Yearbook and provincial statistical yearbooks. We used interviews to interpret the role of the critical actors in the provision of housing to analyse the role of provincial governments in Shandong and Shanxi. The two provinces were chosen on the basis of different development levels and data availability. The key indicators of real estate developers are shown in Table 5.2 where in general Shandong was ahead and Shanxi below the national performance standard in real estate development, such as operating revenue, per capita floor space of commercial houses sold.

Table 5.1: The Four “L” Institutions, Shandong and Shanxi

Institutions		Shandong	Shanxi
Leadership	Supervisory Organization structure	Tight, clear and well defined	Loose and not clear
	Leadership Style	Highly proactive	Not prominent
Legislation	Regulations	Autonomy to legislate	
Land Use	Land Use Rights Leasing	Strong reliance	Low reliance
	Land Use Tax		
Living Culture	Custom	Small households.	Large households

Table 5.2: Key indicators of Real Estate Developers, Shandong and Shanxi, 1998 to 2011

Year	1998			2000			2006			2011		
Item	SD	SX	National Average	SD	SX	National Average	SD	SX	National Average	SD	SX	National Average
Number of Real Estate Development Enterprises	1,107	259	786	1,297	262	880	3,127	1,393	1,893	5,589	2,156	2,852
Number of Employees	45,315	12,028	26,641	58,349	14,590	31,352	110,419	34,267	51,642	164,407	46,665	72,805
Average Selling Price of Commercial Buildings (yuan/m ²)	NA	NA	2,063	1,427	1,118	2,112	2,541	1,988	3,367	4,448	3,432	5357
Operating Revenue (Billion yuan)	9.75	1.61	9.86	17.2	2.4	14.56	99.98	12.62	58.21	278.131	35.492	143.52
Sale of Commercial Buildings Sold (100 million yuan)	92.1	12.3	81.0	153.8	21.3	126.9	1,059.9	157.3	671.8	4,259.1	441.0	1,889.9
Land purchase by real estate developer (10,000 m ²)	NA	NA	326.1	1,165.9	117.8	545.3	3,203.0	415.1	1,197.7	3,691.1	697.6	1,429.9
Per Capita Floor Space of Buildings Started (m ²)	NA	NA	NA	0.88	0.28	0.70	1.84	1.41	1.47	3.57	2.45	3.0
Per Capita Floor Space of Commercial Housing Sold (m ²)	0.3	0.15	0.31	0.45	0.22	0.44	1.29	0.76	1.15	2.43	1.11	1.72

Note: SD – Shandong; SX – Shanxi; NA – not available

Source: calculated based on Statistical Yearbook of China, Shandong and Shanxi (various years)

Shandong is a coastal province in northeast China. With a GDP of 4.5 trillion yuan, it ranked as the third richest province in the country in 2011 after Guangdong and Jiangsu. The population of Shandong in 2011 was 96.4 million. It is also one of the biggest industrial producers in China. Being geographically proximate to Korea and Japan, Shandong benefits from both countries in terms of foreign direct investment and tourism. In contrast, landlocked Shanxi, located West of Shandong is less developed with GDP per capita lower than the national average (Figure 5.2). In fact, the GDP per capita between the two states have widened sharply since the 1980s. Also, the lack of arable land and water resources has restricted agriculture development. Nevertheless, Shanxi possesses 260 billion metric tons of coal deposits, which accounted for nearly a third of China's total coal reserves in 2010. Hence, industrial development in Shanxi has concentrated on heavy industries, such as coal production, power generation, and metal smelting.

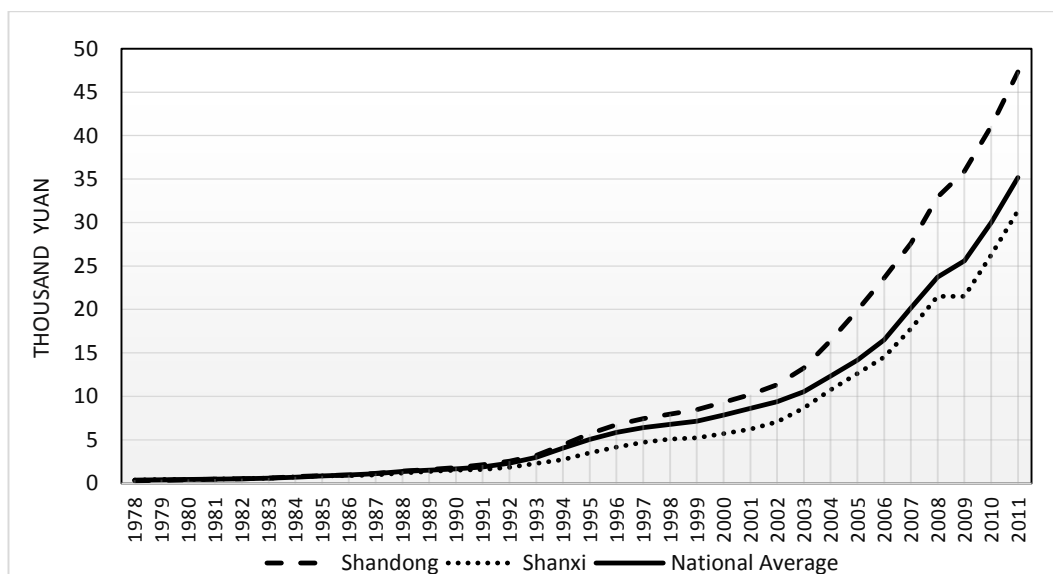


Figure 5.2: GDP per capita, Shandong, Shanxi and China, 1978 to 2011
 Source: Statistical Yearbook, Shandong, Shanxi and China (various years)

5.4 Uneven Development

While market reform has driven rapid growth, it has also caused uneven development in China. Existing accounts on uneven development have only focused on geographic conditions, economic structure, social tradition, and infrastructure endowments (Zhao & Tong, 2000; D'énurger, 2001; Bao, Chang, Sachs, & Woo, 2002; Lu, 2002; Chen, 2010; Fleisher, Li, & Zhao, 2010). We argue in this chapter that provincial institutions have been a major cause of uneven development in China.

The real estate boom in China has also raised regional disparities. The maximum floor space of commercial buildings sold in 2011 reached 95.8 million m² in Shandong, 12.8 million m² in Shanxi and 180 thousand m² in Tibet¹¹ (Figure 5.3). While floor space sold is influenced by land type and its availability for construction, house prices are largely determined by demand and supply. Shanghai, Zhejiang, Guangdong, and the rim of Bohai Gulf, such as Beijing and Tianjin have enjoyed high prices. The capital city Beijing had the highest average price of 16,851 yuan/m² while Qinghai had the lowest price of 3,248 yuan/m² in 2011 (Figure 5.4). Average prices were at 4,447 yuan/m² and 3,532 yuan/m² in Shandong and Shanxi respectively.

¹¹ The average floor space of commercial buildings sold per capita in Shandong (0.99m²) was still higher than in Shanxi (0.35m²) and Tibet (0.06m²) in 2011.

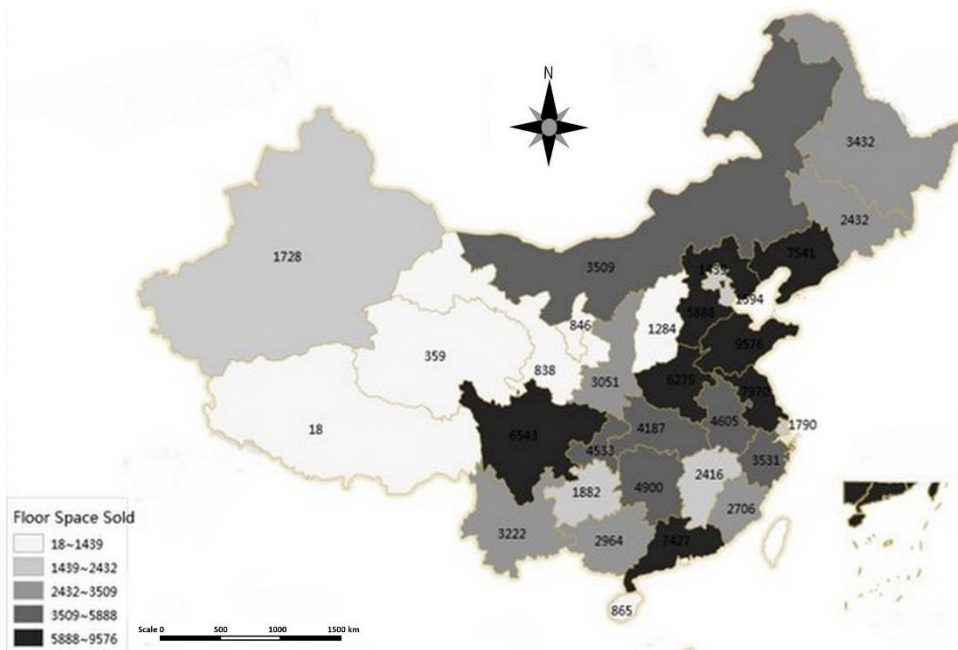


Figure 5.3: Floor of Commercial Building Sold, 2011, China (10,000 m²)
Source: China Statistical Yearbook (2011)

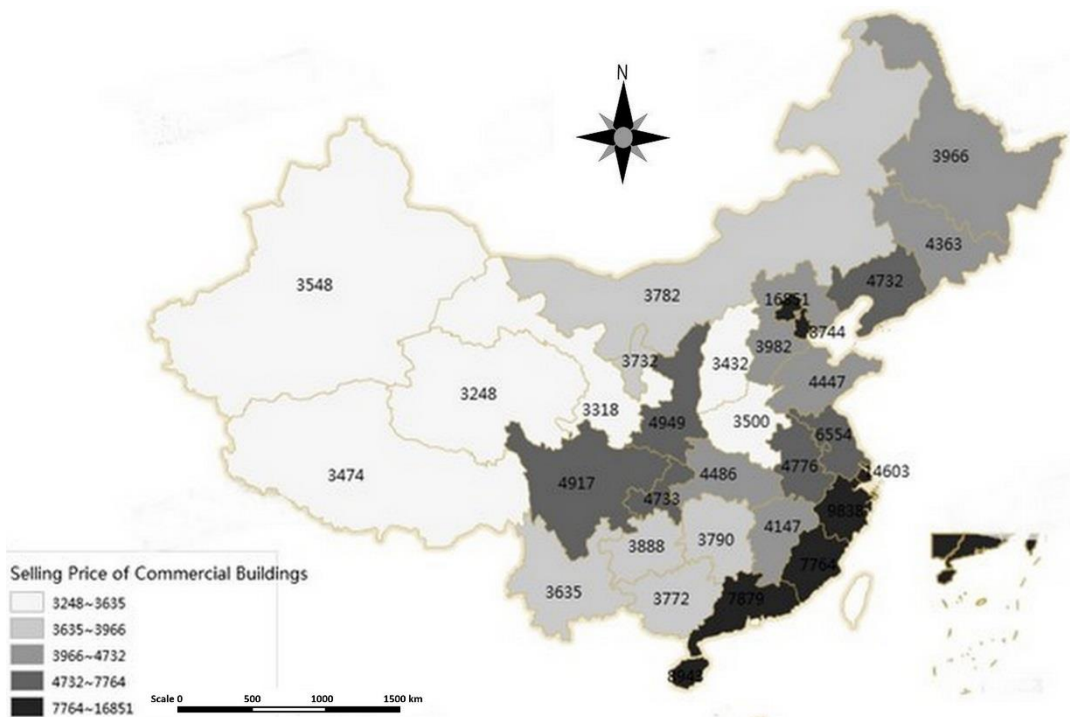


Figure 5.4: Average Price of Commercial Buildings, 2011, China (yuan)
Source: China Statistical Yearbook (2011)

Figure 5.5 presents the results of a simple estimation dividing cost of houses completed and sold in China, which shows housing demand in most provinces is high because most ratios exceeded 100% in 2011. Shaanxi and Yunnan stood out with the highest ratio, demonstrating the highest demand against supply. Shanxi recorded the lowest ratio of 42%

with over half of the houses completed unsold in 2011. The commensurate ratio in Shandong was 160% in 2011.

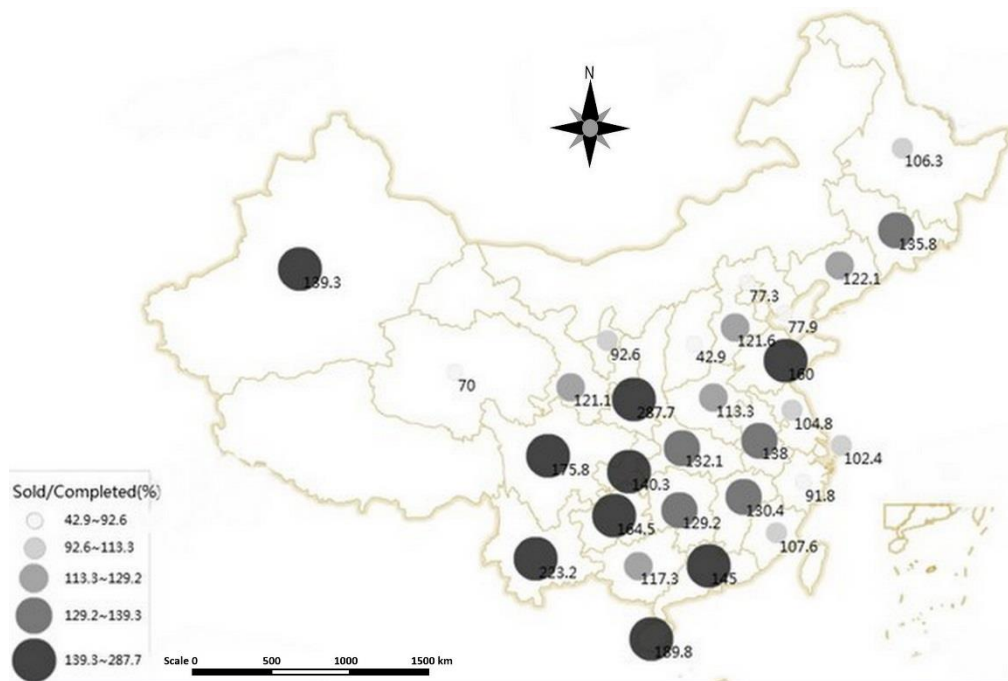


Figure 5.5: Percentage of Residential Buildings Sold over Completed, China, 2011
Source: China Statistical Yearbook (2011)

Table 5.3 presents statistics on real estate companies and employees in China in 2011. East (4,322) and Central South China (3,728) had the highest number of enterprises. Although the average person employed per enterprise in each of the regions remains similar, there was a huge difference in the number of employees. There were over 100,000 employees each in East and Central South China, while there were only 27,000 employees in Northwest China. East China meant that its operating revenue of 35,200 million yuan was 8 times higher than Northwest China.

Table 5.3: Regional Real Estate Developer Development, China, 2011

Area	Number of Enterprises	Number of Employees	Average person employed per enterprise	Operating Revenue (100 million yuan)
North China	2,404	65,617	27	148.20
Northeast China	2,456	60,730	25	127.51
East China	4,322	102,610	24	352.87
Central South China	3,728	101,605	27	253.58
Southwest China	2,287	56,787	26	95.32
Northwest China	994	26,971	27	41.37

Source: China Statistical Yearbook (2011)

In short, rapid economic growth has also caused uneven distribution of houses in China. The fastest growing provinces of the East and the South have enjoyed greater construction and allocation of houses than the other regions. While initial endowments are important in the skewed distribution, we will show in the next section that provincial institutions have also been important.

5.5 Contrasting Experiences of Shandong and Shanxi

Geographical endowments provided the initial basis for provincial differences in China. While the landlocked status of Shanxi has left the province economically disadvantaged over the economically more prosperous and sea-fronted Shandong, these differences have been pointed out by other studies (Cheung, Chung, Chöng, & Lin, 1998; Chen, Guo, & Zhu, 2011; Hendrischke, 2013). Institutional differences have also contributed to the diverging construction and distribution of houses in Shandong and Shanxi. Because of the intermediary role played by provincial governments in coordinating directives of the central government for execution by municipal and county governments, the four provincial “L” institutions of leadership, legislation, land use and living culture have played important roles in the delivery of urban housing in China. In this section, we analyse the institutional differences that have contributed to the contrasting experiences

of Shandong and Shanxi. In doing so, we discuss both the provision of affordable and commercial housing.

5.5.1 Leadership Institutions

While central planning imposes broad guidelines, it is open enough for provincial and municipal governments to raise implementation efficiency and reach. The provincial government enjoys the authority to also design the programme for action. Hence, while central planning defines the direction, provincial and municipal governments strategize the implementation of urban development programme in China.

The effective enforcement of central housing policy requires a profound understanding of policy by provincial and local government. The growing size and complexity of provincial governments have also raised pressure on sustaining effective administrative coordination of the urban housing programme, which has been one major source of provincial performance.

Because institutions are inseparable from people, provincial leadership is important in coordinating the link between central planning and municipal implementation. Interviews show that the proactive leadership of Jiang Daming was important in driving the implementation of housing policies by municipal governments in Shandong. Jiang took office as the Deputy Governor of Shandong in 1998 before being made Governor in 2008 where he served until 2013. Jiang was at the central committee of the Communist Youth League for 10 years where he acquired considerable knowledge about planning. His stellar performance in Shandong earned him the position of head of the Ministry of Land and Resources of China in 2013. Interviews show that Jiang's kind and smiling but strict approach allowed him to make tough decisions effectively. For example, Ling Ying, an

administrative employee at the Governor of Shandong's office, reported that:

*You may always see a smiling face in Governor Jiang. He is kind, unassuming and easy to get along with. However, he is also known not to compromise on standards. He also communicates easily because he never uses bureaucratic jargon.*¹²

The following speeches reinforce the leadership of Jiang:

The affordable housing scheme is compulsory for Shandong government, which should be taken unconditionally. For those who cannot fulfil this task, prepare to take off your black gauze cap!" (Wusha Mao, symbolizes government position, at a meeting on 7th, April, 2011) (Xu, 2011)

We must stick doggedly with our aims, and not delay their achievement. It does not matter whether we solve several small problems or one big one in a year so long as we get to achieve our objectives. (Economy and Nation Weekly, 2013)

Motivated by the proactive approach of the provincial government of Shandong, the sub-provincial¹³ governments have been able to uphold the institutions governing even commercial urban housing schemes aggressively to cap prices as reflected in the following statement:

¹² Telephone interview was conducted on August 12, 2013. His view was similar to that of Liu Shengkui, an employee on of the Municipal Housing Security Centre of Qingdao (Interview conducted on February 5, 2013).

¹³ Sub-provincial units refer to governing body in municipal and county level (Cheung, 1998, pp. 13).

The government of Qingdao promises its people that price increases of newly built commercialized houses shall not exceed increases in disposable incomes of urban residents in 2011 (Qingdao government representative during the Telecommunication Meeting on the Implementation of Affordable Housing Scheme on 7th, April, 2011 cited in Xu, 2011).

Hence, a strong and proactive leadership has ensured that Shandong's organizational structure undertook affordable housing schemes effectively, as well as, capped prices of commercial houses from rising excessively. The construction of affordable houses is given in the form of political order from central to municipal governments. A clear organizational structure has been designed with each municipality possessing specialized institutions to supervise and implement the affordable housing policy. Although they have taken different names, a clear structure can be identified among its 14 cities (Table 5.4). The Housing Security Centre functions as a one-stop agency to effectively manage land use permissions, planning and design, project finance, construction, trade-ins and asset management of affordable housing.

Each housing project is monitored throughout and the committee entrusted to appraise the quality after completion, *inter alia*, uses the monitoring process to improve future appraisal. According to *The Notification to Strengthen the Management of Project Quality and Security of Affordable Housing* by Shandong government dated July, 2011, a special-purpose department monitors the construction and conduct of inspections throughout the construction process. A lifelong accountability system oversees the execution of contract, and to detect any delivery of inferior houses. Penalties are imposed if houses are completed fail to meet the contract specifications, which ensures that the person in charge, even after leaving office, shall face legal consequences until the building is out of use.

Besides, the blemished record will be documented and publicized, while severe conditions will be imposed against blacklisted companies when they tender bids in future. The penalties include disqualification and jail sentence.

Table 5.4: The Organizational Setting of Affordable Housing Schemes, Shandong

City	Supervisory Authority	Implementing Institutions
Jinan	Jinan Municipal Bureau of Housing Security and Management	Jinan Municipal Housing Security Centre
Qingdao	Qingdao Municipal Bureau of Housing Security and Management	Qingdao Municipal Housing Security Centre
Zibo	Zibo Municipal Bureau of Housing Management	
Zaozhuang	Zangzhuang Municipal Bureau of Urban and Rural Development	Zaozhuang Municipal Office of Housing
Dongying	Dongying Housing and Urban & Rural Development Commission	Dongying Housing Development Centre
Yantai	Yantai Municipal Bureau of Housing and Urban & Rural Development	Yantai Municipal Housing Security Centre
Weifang	Weifang Municipal Bureau of Housing and Urban & Rural Development	
Jining	Jining Housing Development Commission	Jining Municipal Office of Housing Security
Taian	Taian Municipal Bureau of Housing Management	
Weihai	Weihai Bureau of Housing Security and Administration	Weihai Municipal Office of Housing Security
Rizhao	Rizhao Construction Commission	Rizhao Municipal Office of Housing Security
Laiwu	Laiwu Municipal Bureau of Housing Management	Laiwu Housing Security Centre
Linyi	Linyi Municipal Bureau of Housing Security and Management	
Dezhou	Dezhou Municipal Bureau of Housing and Urban & Rural Development	Dezhou Municipal Office of Housing Security
Liaocheng	Liaocheng Municipal Bureau of Housing Development	
Binzhou	Binzhou Municipal Bureau of Real Estate Management	
Heze	Heze Municipal Bureau of Housing Security and Management	

Source: Ministry of Housing and Urban-rural Development, Shandong

In contrast, the administrative set-up in Shanxi is underdeveloped with no official website. The Department of Housing and Urban-Rural Development (DoHURD) of Shanxi is the main government institution to finance and construct affordable houses. According to Gao Guofang, an official with Ministry of Construction and Urban and Rural

Development of Shanxi, the province is only responsible for formulating regulations, while the rest of the procedure are handled by the municipal authorities.¹⁴ No specific body is entrusted to supervise and implement affordable housing projects in the province.

The lack of strong institutions has not only prevented information access, but it has also undermined administrative efficiency, which may be one of the causes of the sluggish growth in the provision of affordable housing in Shanxi (Table 5.5). Hence, whereas a well-defined organizational structure has propelled Shandong's provision of affordable housing, the lack of it has undermined the capacity of Shanxi.

Table 5.5: Per Capita Floor Space of Affordable Houses Sold, Shandong and Shanxi, 2007 to 2010

Year	Shandong			Shanxi		
	Floor Space of Affordable Housing (m ²)	Low-income Population ¹	Per Capita Floor Space of Affordable Housing (m ²)	Floor Space of Affordable Housing (m ²)	Low-income Population	Per Capita Floor Space of Affordable Housing (m ²)
2007	2462097	613212	4.02	1,094,327	882182	1.24
2008	2016504	609073	3.31	579,228	912809	0.63
2009	2453453	611419	4.01	385,200	918672	0.42
2010	2450886	676000	3.63	287,688	928157	0.42

Source: Hexun Macroeconomic Database

Note: ¹ the number of urban residents who entitled to basic living allowances.

5.5.2 Legislative Institutions

Provincial differences extend into regulations. Although the broad legislatures remain with the People's Congress, provinces enjoy authority to introduce their own regulations. Hence, the resolutions and decisions issued by subordinate state organs, such as, the provincial government and the local people's congress, actually contains laws. In general, legislative hierarchy in China consists of four tiers (Figure 5.6). Provinces introduce

¹⁴ Telephone Interview on August 13, 2013.

regulations to translate the general principles laid out by the central government for local authorities. On the one hand, provincial governments introduce decrees and regulations in sync with legal framework issued by central authorities. On the other hand, provincial governments design local laws and policy based on local conditions. Hence, provincial administrative regulations are important elements of the legal system that define the legal principles contained in national laws.

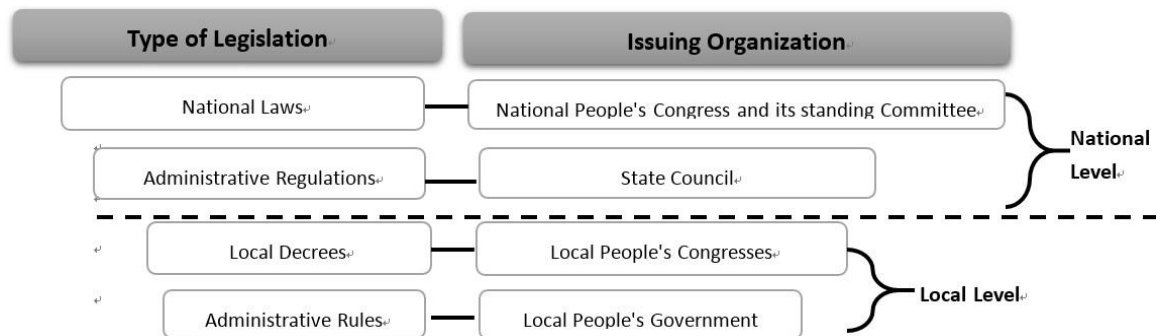


Figure 5.6: Legislative Hierarchy, China
Source: author

Because of differences in social and economic conditions, national laws have been designed to offer provincial flexibility. *The Law of the People's Republic of China on Urban Real Estate Administration* was promulgated by the Standing Council of the 8th National People's Congress in 1994, which is a major milestone in urban housing development since it provided a comprehensive legal framework for real estate industry development in China. Following this national law, *Regulations of Shandong Province on Urban Real Estate Transaction* and *Regulations of Shanxi on Urban Real Estate Transactions* were issued in 2004 and 2002 respectively by their respective People's Congresses.

Some of the differences in regulations between two provinces are shown in Table 5.6. For example, the house acquisition right is granted when 25% of investment in the project is made in Shandong, while in Shanxi when 33% of the main building is completed. Also,

there is no item on time limit to register housing lease contracts with local authorities in Shandong, while in Shanxi this has to be done within 30 days after the signing of the contract. Another regulatory difference relates to foreign transactions, which exists in Shandong but not in Shanxi. Shandong has a strong need for legal guidelines to regulate foreigners in housing market owing to its proximity to Korea and Japan.

Table 5.6: Selected Differences in Regulations, Shandong and Shanxi, China

No.	Item	Shandong	Shanxi
1.	Acquisition right	25% of total investment of whole project shall have been invested in construction (Chapter 2, Article 7)	33% of main body of building shall be completed (Chapter 3, Article 15)
2.	Time limit to register lease contract with local authority	No time limit (Chapter 3, Article 19)	30 days after the contract been signed (Chapter 5, Article 36)
3.	Property Intermediary Service	Not applicable	Chapter 6 from Article 40 to Article 43 regulate conduct of property agents.
4.	Property Transaction Supervision ¹	Chapter 5 from Article 30 to Article 38 provides guidelines for supervision.	Not applicable
5.	Foreign related contract	Foreign transaction rules shall apply (Chapter 1, Article 3)	Not applicable

Source: author

Note: ¹ it provides the regulations on transactions, including property price evaluation, state-owned property auctions/mortgage.

5.5.3 Land Use Institutions

Fuelled by fiscal decentralization initiatives provincial strategies have been shaped strongly by their economic endowments. Hence, whereas the mineral rich Shanxi has focused more on mining and smelting, Shandong has relied on more diversified range of economic activities. Land use laws were transformed during the reforms so that the state began to assume the multi-roles of landowner, public welfare provider and promoter of markets (Deng, 2005). With private agents began to enjoy land use rights leased by the government, provincial governments enjoyed the autonomy to target income generation from appropriated urban land. In fact the fast urbanizing states of sea-fronted East China

have continuously extended urban lands at the expense of arable land farmed by rural households (Song, Zenou, & Ding, 2008; He, et al., 2010; Li, 2011; Xu, Tang, & Chan, 2011; Paik & Lee, 2012; Wu, Zhang, & Webster, 2013). Because Shandong has been led by proactive leaderships it has managed to target agriculture, manufacturing, construction and services to appropriate income, while the lack of such a proactive leadership in Shanxi has resulted in the province becoming dependent largely on mining and smelting activities. In doing so, the provincial government of Shandong has often redefined land use rights, breakdown of net income by the different government levels and land use taxes.

The Shandong government has exercised more regulatory calibration on land revenue and payment rates than the Shanxi government (Table 5.7). Following *The Notification to Strengthen Funds Management from Land Use Rights Leasing* issued by the State Council, the earliest efforts could be traced to May, 1989 when the government of Shandong announced that 68% of land income from land lease shall be reserved for provincial use, while the remaining 32% shall be handed over to central government. At that moment, income from land use was classified as fees generated from land lease, land lease extension, compensation income from contract amendments and other related fees. However, the authorities reclassified income from land use right as the sum of income from land lease and land value incremental fees in 1992. Provincial and sub-provincial city¹⁵ governments enjoy the authority to set payment rates. Payments collected from land related transactions are submitted to the local and central governments, which can only be used for urban infrastructure construction and land development. In October 1997, land transfer fees were reclassified, which specified the transfer of all net income from land transactions to the municipal government's *ad hoc* account before the land

¹⁵ Sub-provincial cities, or vice-provincial cities in the People's Republic of China, are prefecture-level cities that are ruled by provincial governments, but administered independently (State Commission Office for Public Sector Reform, 1995).

development cost are audited. The municipality enjoyed full authority for distributing and allocating land-related income to urban infrastructure, land development and agricultural upgrading. The Shandong government further legislated in 2004 to provide 20% of average net income from new construction-based land lease activities to finance agricultural land development, allocating the balance to the central government (30%), provincial government (30%) and the local governments (30%)¹⁶. These rates were changed again in 2005 with 30% of income from land lease going to the central government and the remaining 70% shared equally by the provincial, municipal and county governments. Income from land use right lease in Shandong rose by 9.5 times since 2000 to reach 40.2 billion yuan in 2005 (Shandong Government, 2005).

The less proactive Shanxi province enjoyed fewer changes in land use rights regulations than Shandong. Following the *Regulations of Shanxi Province Concerning the Management of Funds from Leasing Publicly-owned Land Use Rights* issued on July, 1989, the income from land use right sale after the deduction of administrative fees should be handed over to local department of finance from which 20% shall be reserved for municipal use. From the remaining amount, 60% shall be kept by municipal governments, while the remaining 40% shall be submitted to the central government. Subsequent amendments in May, 1995 with the breakdown of 20%, 10% and 70% for provincial, municipal and county governments respectively.

¹⁶ This is reflected by government efforts to reserve large portions of fiscal income from land transfer to develop rural infrastructure since 2005 following the launching of “New Rural Construction” scheme by central government.

Table 5.7: Regulatory Framework of Land Use Rights, Shandong and Shanxi, China

Year	Shandong	Shanxi		National Standards	
1989	68% of net land income to municipal government (20% reserved as land development fees), 32% to central government	1989	Net land income 68% to municipal government (20% reserved as land development fees), 32% to central government	1989	Net land income 68% to municipal government (20% reserved as land development fees), 32% to central government. Municipal government determines the share going to provincial governments.
1992	5% of land transfer fees to central government, 5% of transaction or land lease to central government as land revenue/ value-added fees. Share to municipal government is determined by provincial authority.				
2000	30% of new construction land use fees to central government, 70% to provincial government, from which 20% to provincial, 10% to municipal and 40% to county	1995	20% of net income from land right lease to provincial government, 10% to municipal government and 70% to county government	1999	30% of compensation for new construction land to local, 70% to municipal government (used for arable land development)
2004	30% of new construction land fees to municipal government (including county level) specifically used for arable land reclamation. 40% for municipal and county government, 30% to central government.				
2005	30% of income from land lease to central. 23.3% for each provincial, municipal and county government.				

Source: author

The regulatory framework facing urban housing in Shandong is more dynamic than in Shanxi because of its greater reliance on income from land lease. While the share of land-related income in total fiscal revenue of Shandong peaked at 50%, that of Shanxi peaked at only 17.8% in 2007 (Figure 5.7). Although land use prices in the latter caught up with the former to be almost equal in 2008, the difference in land income has remained large as a consequence of differences in space sold -- floor space use transferred in Shandong was 15,578 ha compared to 2,394 ha in Shanxi (Table 5.8). On the one hand, the high volume of space sold in Shandong is influenced by its geographic endowment of alluvial plains. On the other hand, Shandong has experienced higher level of urbanization, and thus, has consumed more urban land for spatial development than Shanxi.

In addition to land lease fees, land use tax (LUT) was introduced as a measure to enhance land use efficiency¹⁷. The regulations for the urban and rural LUT was implemented following the promulgation of *Provisional Regulations on Urban Land and Township Use Tax of the People's Republic of China* by the State Council in September 1988, which requires establishments and individuals in cities, counties, towns and industrial and mining areas to pay LUT. These regulations were formulated to rationalize and regulate land use and incomes, and improve efficiency and administration of urban land use by government.

Provincial differences also arise from different interpretations of LUT by central policy. Table 5.9 compares LUT rates in the two provinces and the national tax rate. The minimum tax rate imposed by Shanxi is slightly higher than by Shandong,¹⁸ but the LUT income of Shanxi is significantly lower than the LUT income of Shandong (Table 5.10).

¹⁷ Land Use Right Lease Fees refers to a fee, which is paid in a lump sum to the land authority until the lease period ends, while LUT is a tax that must be paid by land users annually to tax authorities. All land users (apart foreign entities, government and non-profit agencies, and agricultural industries) are required to pay LUT.

¹⁸ Counties, towns, and industrial and mining areas are exempted, which is partly due to the low productivity of mining compared to other activities, such as residential and commercial lands.

This is partly because Shanxi has experienced lower urbanization and relies heavily on industrial and mining activities (especially coal), which generates low LUT levy. Given the need for land for urban housing development, provincial institutions have had a strong impact on the construction and distribution of houses. Furthermore, provincial governments use taxes as a tool to regulate the economy. Hence, provincial land use institutions have been a major cause of divergent land market transactions in China.

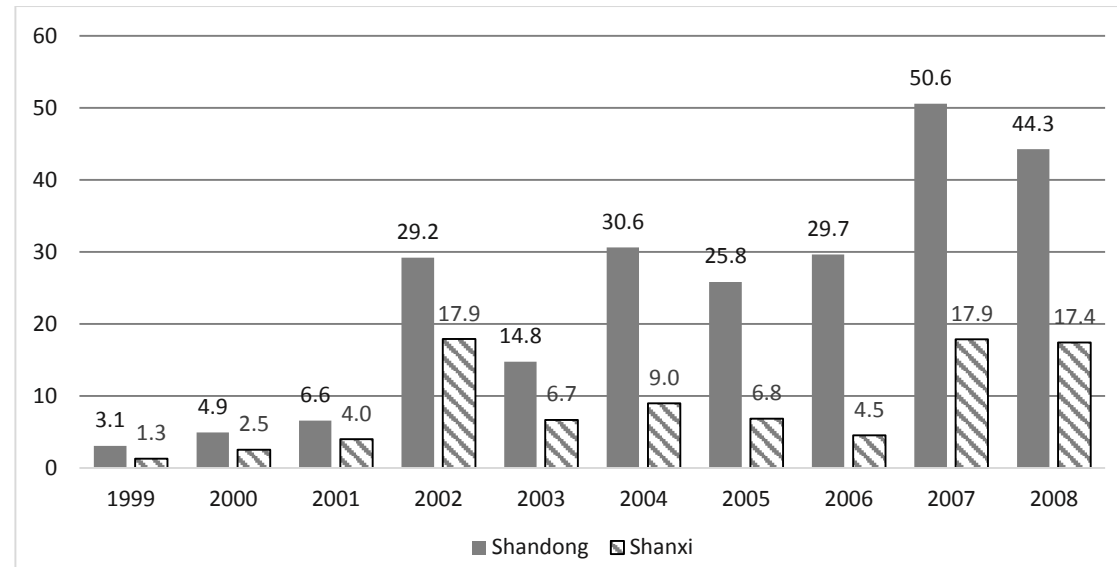


Figure 5.7: Share of Land Income in Total Revenue, Shandong and Shanxi, 1999 to 2008
Source: China Land & Resource Almanac (various years)

Table 5.8: Land Use Right Lease, Shandong and Shanxi, China, 1999 to 2008

Item	Province	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Average Price (10,000 yuan/ha.)	Shandong	55.72	58.51	63.08	121.54	44.29	131.01	154.34	164.94	419.58	555.87
	Shanxi	77.97	93.73	93.15	146.18	43.65	119.24	119.62	104.08	232.85	544.81
Space Sold (ha.)	Shandong	2241.1	3907.7	5971.8	14672.7	23784.8	19359.9	17959.4	24379.8	20196.4	15578.8
	Shanxi	180.9	309.6	574.0	1848.3	2846.1	1935.3	2105.9	2544.9	4591.6	2394.8

Source: China Land & Resource Almanac (various years)

Table 5.9: LUT Rates, Shandong and Shanxi, China, 2006 (yuan/m² annually)

National		Shanxi	Shandong	
Category	Rate	Rate	Category ¹⁹	Rate
Big City	1.5-30.0	3-30.0	Jinan and Qingdao	1.5-30.0
Medium City	1.2-24.0	3-24.0	Other cities with sub-districts	1.2-24.0
Small City	0.9-18.0	1.8-18.0	Cities without sub-district	0.9-18.0
Counties, Towns and Industrial and Mining Area	0.6-12.0	0.9-3.0	Other urban entities	0.6-12.0

Source: author

Table 5.10: LUT Income, Shandong and Shanxi, China, 1994 to 2011 (10,000 yuan)

Year	Shandong			Shanxi		
	LUT Income	Total Tax Income	% in Total Tax Income	LUT Income	Total Tax Income	% in Total Tax Income
1994	27,765	711,160	3.90%	N/A	N/A	N/A
1995	27,115	958,861	2.83%	N/A	N/A	N/A
1996	31,878	1,375,788	2.32%	N/A	N/A	N/A
1997	32,532	1,728,779	1.88%	N/A	N/A	N/A
1998	47,481	2,001,695	2.37%	N/A	N/A	N/A
1999	71,806	2,255,298	3.18%	21,033	1,606,592	1.31%
2000	88,201	2,559,480	3.45%	N/A	N/A	N/A
2001	89,100	3,330,439	2.68%	19,891	2,077,101	0.96%
2002	117,203	3,452,384	3.39%	21,392	2,637,048	0.81%
2003	198,079	3,939,643	5.03%	21,211	3,401,288	0.62%
2004	211,727	4,852,650	4.36%	24,779	4,783,400	0.52%
2005	294,435	6,098,304	4.83%	44,970	6,843,555	0.66%
2006	359,712	7,447,742	4.83%	50,608	8,229,707	0.61%
2007	659,575	9,469,906	6.96%	57,297	10,739,488	0.53%
2008	1,035,691	11,043,935	9.38%	N/A	N/A	N/A
2009	1,208,809	12,328,248	9.81%	N/A	N/A	N/A
2010	1,376,896	15,829,283	8.70%	219,661	16,352,284	1.34%
2011	1,584,567	19,769,074	8.02%	250,530	20,332,061	1.23%

Source: Shanxi Financial Yearbook (various years) and Shandong Tax Yearbook (2012)

¹⁹ Big, medium and small cities refer to municipal locations whose non-agricultural population exceed 500,000, 200,000 and less than 200,000 respectively.

5.4 Living Culture Institution

Given its large size, the living culture²⁰ that evolved over several centuries has influenced living habits in China. Cultural diversity often help transform habitats to sustain society development (Miles & Paddison, 2005 pp.833). Whereas the fertile lands and the seafrent of Shandong evolved a culture of spreading far, the harsh land conditions and culturally close kinship links in Shanxi encouraged extended family households (Knapp, 2000 pp.188; Hendrichske, 2013).

Since ancient times, Shandong people lived by the rivers and canals to cultivate land. The *Lu* cultural trait to locate at fertile locations discouraged peasants in Shandong to stick with extended families, while the living culture of Shanxi shows a strong preference for living in extended households. Hence, the average number of permanent residents per household in Shanxi was higher than the commensurate figure of Shandong between 1984 and 2010 (Figure 5.8). Although family sizes in China have become small following the introduction of the one-child policy in the 1970s, large households have restricted growth in housing demand in Shanxi.

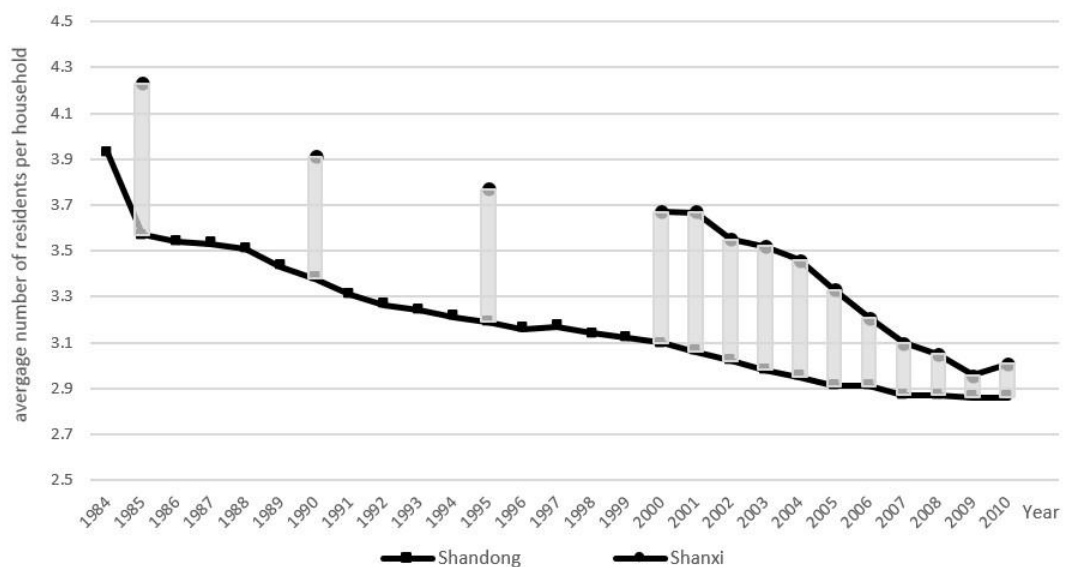


Figure 5.8: Permanent Residents per Household, Shandong and Shanxi, 1984 to 2011
Source: Provincial Statistical Yearbook, Shandong and Shanxi, various years.

²⁰ Culture is defined as shared norms, values and assumptions (Schein, 1996).

Owing to geographic and climatic disadvantages, Shanxi people have become less dependent on agricultural resources than Shandong people. The lack of fertile land and water has driven Shanxi dwellers to participate in logistics activities, especially to supply army provisions, such as salt, grain and munitions, during wars since the Ming Dynasty, which gradually expanded into various industries, such as finance and trading, giving rise to the *Jin Shang* (entrepreneurial) culture during the Ming and Qing Dynasties (roughly from 1368 A.D. to 1840 A.D.). Wealthy businessmen built luxurious residences, which is called Shanxi Compound with family names. For example, Wang's Compound is one of the Shanxi Compounds, which is still around in Lingshi County. It was first built between 1762 and 1811 by the descendants of the Wang Family, one of the Four Big Families of the Qing Dynasty (1644 to 1911). Altogether there were 231 courtyards and 2,078 houses, covering a total area of 250,000 square meters in 2012 (Figure 5.9). More precisely, it is a cluster of a few independent courtyards with each of equipped with a kitchen yard and a private school yard. All of Wang's family lived in this Compound over several generations isolated from major cities, backward villages and small towns (Knapp, 2000 pp.188).



Figure 5.9: Wang's Compound, Shanxi, China. Shanxi people in old days tend to believe that this multi-generation co-living created powerful family identity among the community, and provided social and emotional support for one another.

Source: official website of Wang's Compound.

Hence, the tradition in Shanxi saw “four generations living under one roof” (*Sishi Tongtang*). Shanxi people believe that this multi-generation co-living created powerful family identity among the community, and provided social and emotional support for one another. Thus, living habits conditioned by historical and geographical factors have differentiated household size and with that the demand for housing in Shandong and Shanxi, which has also contributed to the provincial differences in the provision of housing in China.

5.6 Conclusions

The evidence suggests that there is a need to revisit existing state theories as the processes of policy planning and execution in China has evolved differently from the experiences of other countries. Central planning has focused on the initiation of policies, while municipal and county governments have specialized on the implementation of these plans. Provincial governments have assumed an intermediary role of coordination between central planning, and execution by municipal and county governments. This unique framework helps explain how China has managed to guide the evolution of urban housing through the processes of market reforms. In so doing, provincial governments have begun playing the intermediary role of coordinating central planning with local implementation.

By studying institutions in Shandong and Shanxi, we showed how provincial institutions have shaped urban housing in China. The four institutional “L”s have differed in Shandong and Shanxi, i.e. leadership style, legislative institutions, land use institutions and living culture institutions. In other words, provincial institutions have played an important role in shaping urban housing in China, which explains why housing provision between provinces has been unequal. Provincialization and localization of policy

planning in China are consequences of decentralization processes generated by market reforms. The emergence of provincial institutions in the urban housing sector has helped China coordinate effectively central planning. The decentralization of decision making gave provincial institutions the opportunity to intermediate the functions of the central and local governments.

The evidence supports the powerful arguments of Poulantzas (1973, Jessop (1988), Skocpol (1985) and Evans (1995) that successful states perform important functions to deliver services to a wide spectrum of people. However, the evolution of urban housing in China shows that state theory should incorporate elements of institutional and evolutionary theory as advanced by Thorstein (1915), Commons (1934) and Nelson (2008). Also, the adapted three-level framework of Kier and Ostrom (2000) is useful in evaluating provincial institutions in the allocation, construction and distribution of urban houses.

However, as argued by evolutionary economists, location, timing and sectors matter in institutional change (Nelson, 2008), a more profound understanding of the provincialization process in urban planning will require similar studies on all of China's provinces. In addition, it is also important to examine informal institutions, such as, interrelationships (*guanxi*) and informal credit schemes to explain provincial differences in China. Thus, future research should extend this study by addressing these issues.

CHAPTER 6

INSTITUTIONAL CHANGE IN CHINA'S URBAN HOUSING MARKET: THE ROLE OF MUNICIPAL GOVERNMENTS

6.1 Introduction

Economic reforms in China that were begun in 1978 triggered institutional change in the governance structure of urban housing, where the municipal government has become an increasingly important player in China's urban housing market. The decentralization process helped central planning to take account of location specificities, which is important in a large country, such as China as it has a population of over 1.3 billion. The decentralization has led to the central, provincial and municipal governments playing the roles of initiation, intermediation and implementation respectively. Although it allowed increasing participations from different levels of governments, the effectiveness and efficiency of urban housing production and allocations are eventually determined by policy implementation by municipal governments. Institutional governance in China has transformed to offer the state the autonomy to serve the interests of the people (Poulantzas, 1973, 1978). As a consequence, municipal governments have begun playing an active role in coordinating local institutions to fulfill the objectives of supporting economic growth and social welfare.

Although the relationship between central and local government has been a topic of academic interest (Huang & Jiang, 2009; Li, 2010; Li, et al., 2011; Zhang & Rasiah, 2014), little accounts exist to explain the role of municipal governments in formulating their own strategies in coordination with the central and provincial governments to implement the policies. Specifically, the literature is blur on how municipal governments interact with collective communities in the diffusion and calibration of urban housing policies to complete the policy transmission loop that involves initiation by the central government and intermediation by provincial governments. Meanwhile, although significant works have emerged to explore the development of China's urban housing market in selected urban areas, especially in metropolitans, such as, Beijing (Song, 2010), Shanghai

(Mostafa, Wong, & Hui, 2006), Guangzhou (Wang & Li, 2006), and Shenzhen (Hao, Geertman, Hooimeijer, & Sliuzas, 2013), such works have not been comprehensive in understanding the implementation role of municipal governments as it is important to also analyze the functions performed by second-tier cities²¹, such as Qingdao.

Hence, the objective of this chapter is to examine how institutional governance of municipal governments coordinate with the urban housing policy functions of the central and provincial governments. It is the aim of this chapter to capture the institutions that facilitate municipal governments' roles in coordinating with the local collective communities in exercising urban housing policy. An in-depth study of the second-tier city of Qingdao is used to capture the dynamics between the meso organizations established by the government to support coordination with social collective communities to execute policy implementation. The rest of the chapter is organized as follows. The following section presents the theoretical consideration followed by the methodology section. Section four discussed the institutions that govern policy delivery and diffusion. It also analyzes the institutions created to support for policy discussion and calibration. The final section presents the conclusions.

6.2 Theoretical Considerations

Theoretical Framework

As argued in chapter 2, three major concepts are important in this thesis, namely, institutions, states and urban housing institutional governance. While institutions refer to influences on the conduct of economic agents (including organizations), both formal binding and informal non-binding, states have a much wider role to play in society. State

²¹ Although there is no official definition of city tier in China, people reached the consensus that Beijing, Shanghai, Guangzhou and Shenzhen are clearly-defined tier-1 city based on the criteria, such as, population, development of services and infrastructure, and the cosmopolitan nature of the city.

power varies with particular political formations. An understanding of institutions is critical as they play an important role in shaping urban housing policies. Hence, we review existing concepts to construct an elucidating framework for analysis here.

Thorstein's (1915, pp.252) emphasis on established social practices, 'habits of thought' that are embodied in organizations, and that economic behavior is socially determined so that economic organizations are always evolving. This view of institutions is consistent with Polanyi's (1944) concept of embeddedness that economies are not autonomous, but that they are influenced and subordinated by political and socio-economic factors. Thus, these authors view social production to evolve through the interaction of various institutions, which includes the market, government, regulations and social norms taking account of localities and the unique features of each of the social production systems (Buchanan, 1986; Boettke, et al., 2006). Institutions are also often supported by particular socio-cultural and economic groups and intermediary organizations, so that they have a bearing on production allocation and economic development (Commons, 1934; Coase, 1937, 1992; Rasiyah, 2011). It is this broader notion of institutions that we assume for this work

Being a dominant institutional shaper, states have attracted considerable theoretical arguments on its role in organizing social production and distribution. A revival in Marxist discussion of the State, especially the debate between Marxist Instrumentalism and Structuralism where the instrumentalists put forth the argument that the state functions as an instrument of capitalist interests (Sweezy, 1942; Miliband, 1969; Evans, 1995), while the structuralists argue that the state functions as an autonomous organization with the responsibility of social benefits to the wider population (Poulantzas, 1973, 1978; Jessop, 1990).

An “inclusive” political institution where people are included in the process of governing can exhibit continued growth as the exploitation is either attenuated or absent (Acemoglu & Robinson, 2012). However, Acemoglu and Robinson’s (2012) framing of China as an “extractive” one-party political regime is simplistic as it assumes that power and control in China is centralized, and therefore, state captured by the political party would combust rather than develop the country in the long run. As we show in the chapter we argue that Acemoglu & Robinson’s (2012) failure to understand Chinese culture, as well as, institutional coordination has reduced their ability to understand governance structures in China. Cultural institutions are embedded cognitively in the way the different levels of government are organized in China. Based on the belief that society is an extension of the family, a strong sense of social responsibility has manifested in autonomous and horizontal responsibilities allocated to the provincial and municipal governments by the central government.

Although governance capabilities and outcomes have varied across the provinces and municipalities in China, they has been a clear differentiation of authority with the central, provincial and municipal governments specializing on policy initiation, intermediation and implementation respectively. While this structure is still different from the democratic space that Acemoglu and Robinson (2012) claim to be important for wider and longer term development, the debate between dispersed individualized and socially coordinated group-based power structures is still contested. One can argue that a dynamic policy transmission process in which different levels of government specialize on some functions and whereby institutions are cohesively coordinated as that of China may be superior to the uncoordinated and incoherent spontaneous responses that emerge in open democracies.

The transformation of China's urban landscape from central planning to a decentralized governance framework coordinated considerably by markets has given driven by changes in institutional governance structures in which the state has maintained its regulatory power but the decentralized framework has differentiated the role of the central, provincial and municipal governments (Zhu, 1999; Haila, 2007; Wang, et al, 2009). Although the debate on the role of market as a coordination mechanism in China's land and real estate sector has reached no consensus, the organization of decision making and the mechanisms for coordination have evolved substantially, to the extent that it is distinct enough to differentiate the current economic system from rigidly planned economies (Gregory & Stuart, 1999; Zhu, 2009).

Because of market imperfections (including missing markets), which is especially serious in the emerging economies, states play a crucial role in urban housing development as housing is a welfare item and a basic need that should delivered to a wide range of the population. Unlike in the socialist regime prior to 1978 where the pricing mechanism acted as a serious obstacle for raising efficiency, the regulatory regime of china has restructure the governance mechanisms so that the new institutions have enabled greater roles for markets without compromising on the social welfare of ordinary citizens (Zhang and Rasiah, 2014). Municipal institutions have increasingly become important in the implementation of state housing policies targeted at delivering affordable houses to urban dwellers (J. M. Zhu, 1999; Li, et al., 2011). This emerging institutional structure governing urban China is better understood through a multi-dimensional institutional analysis (Healey & Barrett, 1990; Ball, 1998; Kiser & Ostrom, 2000).

Alternative Framework

Zhang and Rasiah's (2014) account of urban housing policies as being initiated by the central government, intermediated by provincial governments and implemented by municipal governments is the starting point of the alternative framework used in the chapter.²² Figure 6.1 presents the role of the different levels of government in the formulation and implementation of urban housing policies in China. The collective communities at the grassroots level are policy recipients, but are empowered to participate in policy discussion with the issues throughout policy implementation. This two-way interaction between the community and the municipal government has helped government authorities to calibrate policy implementation before policy feedbacks are transmitted to the provincial and central authorities. Throughout the process, a set of formal and informal institutions function to facilitate transmission. Urban housing institutions are created and utilized by municipal governments to enable institutional players' participation in the implementation urban housing policies. Hence, institutions play an important role throughout the urban housing planning process as they provide a dynamic environment for exchange and synchronization between opinion, practices and implementation though its impact varies with locational specificity.

Policy implementation by municipal governments is disaggregated into four pillar practices here:

- 1) **Policy delivery** is directed from provincial to municipal authority within the governmental hierarchy for implementation. This process emphasizes policy learning by government officials and targeted group. The institutional set by municipal

²² This framework was conceptualized without the inclusion of district government in the policy implementation process, as its huge number makes it difficult to generate an identifiable pattern of governmental behavior in urban housing sector. Hence, this study acknowledges municipal government as the bottom administration in urban housing governance hierarchy of China.

governments facilitates the flow of policy transmission.

- 2) **Policy diffusion.** In this stage, policy goes beyond the targeted group (e.g. governmental agents) and is horizontally diffused towards the general public through social media, such as television, newspaper and Internet to reach a wider range of public.
- 3) **Policy suggestions and calibration.** Feedback from policy practice by collective communities are collected and directed to municipal authorities to improve or calibrate policies through a set of institutions. Meanwhile, professional advice from consultancy activities, policy suggestions of minority parties, opinions from public hearings are also gathered through formal and informal channels for local policy makers to calibrate and revise policies at the municipal level.
- 4) **Policy finalization and legalization.** Under the current legal framework of China, policies are finalized by local people's congress as municipal authorities have the responsibility to ensure that regulations and legal documents are enforced consistently with the legal framework set up by provinces. The agents involved in this stage constitute the authority at the prefectural and provincial levels.

The above-mentioned four processes are closed linked with each other to form the entire policy transmission process (see Figure 6.1). Centered on municipal governments, this chapter is conceptualized to examine its interactions with the provincial authorities (upper level) and collective communities (lower level). The large physical area and population with diverse geographical and cultural backgrounds has required that policy planning takes account of the complexities that come with it. It is difficult to examine the whole governance structures in one piece of work, and hence, this chapter focuses on only the institutions of prefectural implementation in China.

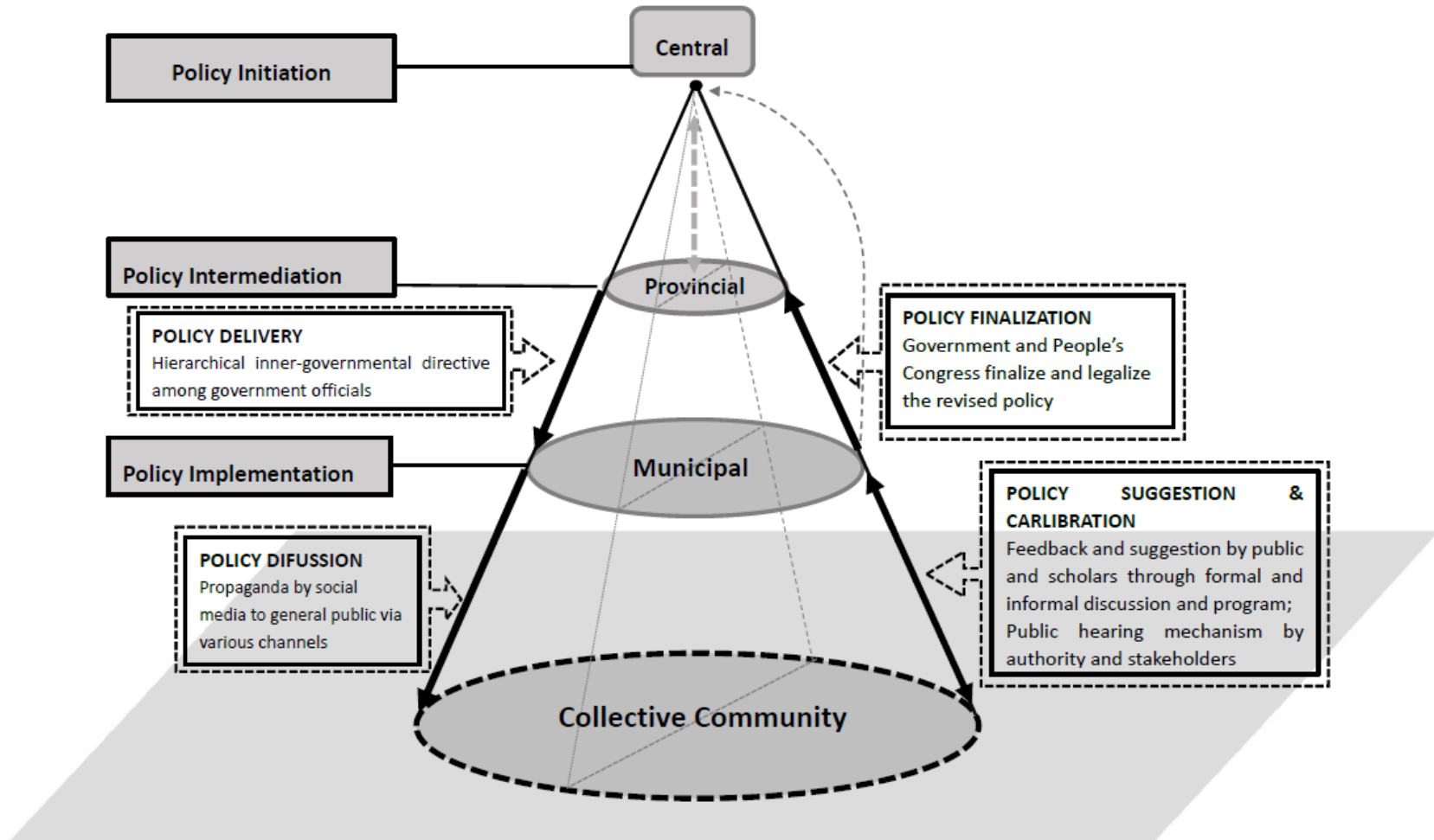


Figure 6.1: Analytic Framework of Chapter 6
Source: author

6.3 Methodology

This chapter adopts a mix methodology to examine the problem in question. Quantitative evidence is drawn from official government statistics while the conduct of institutional players is either extracted from government circulars, reports or social media, through interviews with individuals representing the institutional players.

An in-depth case study of Qingdao was selected as a dominant research approach due to its unparalleled advantages in interpreting institutions designed for policy diffusion and calibration. This meta-ethnographic approach using a case study is purposive rather than exhaustive, because the objective here is interpretive rather than predictive (Doyle, 2003). In doing so the selection of Qingdao also provides evidence on how a tier-2 city participates in the decentralized urban housing planning framework. Qingdao is located in the south of Shandong Peninsular by the Yellow sea, with a total permanent resident population of 7.63 million in 2010 and an area of 10,654 km² in 2012 (Zhang & Rasiah, 2013). Also, the vice-provincial²³ status of Qingdao also provides the possibility of investigating coordination links between the municipal government and the central government bypassing the provincial government. Since the concern here is on the state addressing the wider interest of society, the focus is on the provision of affordable housing²⁴ in urban location of Qingdao.

The qualitative research was extracted from both primary and secondary sources and was collected from interviews, observations, documentary review and internet. The primary data is mainly gathered from open-ended interviews with a checklist defined by specific

²³ Sub-provincial cities, or vice-provincial cities in the People's Republic of China, are prefecture-level cities that are ruled by provincial governments, but administered independently (State Commission Office for Public Sector Reform, 1995)

²⁴ Affordable Housing Program is a general notion and composed of four sub-programs, which are Economical Comfortable Housing, Low Rent Housing, Public Rental Housing and Price-Capped Housing.

themes. Respondent selection was based on a set of purposive criteria to guarantee the accountability and relevance of the acquired information. The quantitative data was extracted from secondary sources, such as China Statistical Yearbook, Municipal Statistical Database of Qingdao, China Real Estate Statistics Yearbook and Databases for Asia & Emerging Markets.

6.4 Institutions Governing Policy Implementation

We analyze the institutions that help the municipal government of Qingdao coordinate the policy direction by the central and provincial governments' interests of the community they represent. Institutions are differentiated to articulate policy delivery, diffusion, calibration and finalization of urban housing policies.

6.4.1 Policy Delivery – Governmental and Social Organizations

Although policy delivery and diffusion are difficult to divide as the channels through which the main policies are transmitted remains rigid and unchanged without any re-configurations and modifications, because policy delivery occurs vertically within the government bodies, while diffusion processes happen horizontally and is targeted at the general public we discuss the former in this section and the latter in the next section. Policies are delivered by provincial governments to municipal governments through compulsory administrative directives.

Most government directives are carried out by government agencies. However, government policies drawn by provincial governments are subjected to comments, feedback and detailed implementation measures by municipal governments before they are fine-tuned for application. Once provincial governments complete policy planning, it

is the responsibility of municipal governors to organize meetings, which is attended by a small group of targeted officers. In addition to the emphasis on the ‘spirit’ behind the formulation, central and provincial leaders then will present the key points from the documented policies, which are then captured, analyzed and expanded with details and elaborations by the provincial and municipal participants through policy learning sessions (*zhengce xuexi hui*). Although the messages carried by meeting are essentially government directives, the implementation is decided upon by the municipal government. It is an important form of policy learning before implementation measures are formulated. Opinions are exchanged via formal and informal discussions, which are attended by related departments and bureaus. Eventually, the documents are officially distributed to finalize the decisions as important reference points for policy implementation.

Although the minutes of such meetings are considered confidential,²⁵ the following statement by a top municipal officer confirms that any policy has to undergo numerous discussions before they could be finalized and announced to the public.²⁶

People complain that Chinese bureaucrats do nothing but only attend meetings. In making such claims, they have no idea about how much effort the officers place to finalize policies. The implementation of each policy involves wide range of interest groups and they all need to be considered carefully. The discussions during these close-door meetings could sometimes be unimaginably heated. A good policy needs numerous rounds of back and forth investigation, negotiation and consideration, as the municipal government wants implementation to be effective to optimize the general social welfare of

²⁵ The author’s request in January 2013 for access to the minutes of such close-door meetings was declined during her field visit to the local archive and government archive offices.

²⁶ Interview with local government officer was conducted on 31st, January, 2013 in Qingdao, China.

the people.

The complexity of issues involved means that government meetings on implementation several forms as explained by the same officer:

The inner governmental meetings also take many forms. Some aim to promulgate the policy while others are organized to formulate implementation measures. The latter requires brain-storming from administrators, as the flexibility and space reserved by national and provincial authorities require local administrators to explore their own method for policy implementation.

What matters is not only the understanding of policies by specific individuals or groups, but also the ability to coordinate municipal institutions to implement policies. To make sure that the implementation is effective, the person in charge is often requested to sign “Warrior’s Oath” (*Jun Ling Zhuang*), making sure that the policy shall be successfully implemented. For example, *The Responsibility Contract of Affordable Housing Construction* was signed with 7 district mayors continuously over 7 years since 2006 in Qingdao. It specifies the quantity of high-quality affordable houses that should be delivered. By doing so, the municipal government strengthens its leadership and supervisory role through dispatching tasks to each district with specific time tables. The principal of the related department would be removed from his or her position or sent to jail upon any failure to deliver the targeted quantity and quality of affordable houses according to the contract signed. The testimony from the interviewee confirms the positive role of accountability contracts in providing affordable housing,

Signing such a responsibility contract makes the principal of related

departments and district mayors as the stakeholders who are held accountable to their people, and at the same time, their political official position (Wusha Mao) provides them the motivation to effectively deliver what is promised.

The official announcements of regulatory documents symbolize the finalization of implementation directives within the government body before it is put forward for practice. After the implementation procedures are released, policy implementation procedures allow for further changes to facilitate delivery. The organizations that undertake this include state-owned-enterprises, public organizations and some industry NGOs. Supported by top management and labor unions²⁷, policy delivery at the work unit level are often organized and studied by party members first, before they are conveyed to normal employees through mobilization meetings (*Dongyuan Hui*) headed by department principals. Given the fact that most of top management officials in public work unit have party memberships, policy delivery is supported strongly by them through both administrative obligation and party compliance.

Meanwhile, the private sector responses to urban housing policies are less directive-oriented than the public sector. However, their voluntary participation in industry NGOs provides the sector firm-level access to industry (including housing) policies. Nevertheless, given the unique structure of the Chinese social system, unlike their role in typical Western democracies, NGOs in China carry the responsibility to support national industrial policies. For example, the NGO we visited during field work, i.e. Qingdao Real Estate Association, is organized around real estate development companies. The

²⁷ Labour Unions in China are an imported concept from the West. It essentially functions as a normal department of work units, as it is financed by the state with the top management being appointed by the government.

association whose nature is an industry company alliance states its aim as “promote the propaganda, implementation and study of industry policy”. The participation of top managers of the real estate firms regardless of public or private ownership has created a channel linking macro industry policy with micro economic agents so that urban housing policies can be delivered to a wider range of industry players. Compared with policy transmission in the public sector, which is carried out through compulsory directives, policy delivery in the private sector is powered through subtle means. Although the association’s participants have no legal obligations to take part in policy delivery, they do it voluntarily because of social responsibility.

6.4.2 Policy Diffusion—Social Media

Because policy diffusion is targeted at the general public, the process requires more powerful institutional tools to strengthen policy influence of government to reach individual stakeholders in society. Stakeholders include those who are not briefed in earlier delivery process, such as the retired and unemployed. Compared to the previous process in a linear delivery path, policy diffusion emphasizes reach, and thus, social media is used to facilitate policy propaganda. Also, given the fact that the media is distributed through centralized television/broadcast stations and presses that are controlled by the state, the mainstream media is employed by the state as its instrument for information diffusion and the circulation of policy directives. Thus, understanding critically the importance of the media in policy diffusing is necessary to understand the different facets of political institutions.

Since the establishment of communist China in 1949, one cannot deny that the Chinese traditional media plays a major role in Chinese politics as the dominant force in political

campaigns. Since all Chinese media are regulated by the Chinese Communist Party's (CCP) Central Publicity Department (CPD), which is a state agency,²⁸ the top management are the responsible flag bearers of government's political mission. The ministry-level Xinhua News, founded in 1931, was the most authorized agency in supplying the news for television, newspaper and radio programs. Subordinated to the State council, Xinhua operates 107 foreign bureaus worldwide, collecting news and organizing events as the only avenue for the distribution of important news related to the CCP and government. Most newspapers rely on Xinhua for reporting. For example, the People's Daily, used Xinhua news materials for over half of its stories from 2000 to 2012. Media-government relations is also present in local-level newspapers, such as the Qingdao Daily, which is the mouthpiece of CCP, which is the pioneer newspaper of Qingdao Daily Group, a state-owned news conglomerate. We observed over the period 2009-13 the front page of Qingdao daily generally carried CCP's propaganda and government policy issues. Government bodies and state-owned work units, including firms and institutes, are required to subscribe the Qingdao Daily.

However, since accounts of the mainstream media where government control is complete, is well known, we focus here on the widely accessible Internet and how it is used to build institutional capacity in spreading national housing policies. More specifically, we examine this channel to understand how the municipal government of Qingdao uses internet resources to facilitate policy implementation. Also, we chose the Internet because of its two-directional roles with the social community, which are more spontaneous than traditional media, such as, newspaper and television. The internet has increasingly become an important channel for social information exchange and it captures the wide

²⁸ CPD is indeed powerful with the top editors of most newspapers and television stations who are appointed and removed directly by CPD.

spectrum of public opinion as it is less subject to censorship by the government. Also, traditional media is constrained by geographical distance.²⁹ Finally, the internet users have grown tremendously rate (Table 6.1).

Table 6.1: Internet Subscriber and Newspaper Subscriber, Qingdao, China, 2005 to 2012

Year	Number of Subscriber (by ten thousand)	Annual Growth Rate (%)	Share of Internet User in Total Population	Usage Time (by billion minutes)	Annual Growth Rate (%)
2005	84.3	27.7	11.38%	27.6	N.A
2006	106.74	27.3	14.24%	42.1	48.9
2007	123.49	23.79	16.29%	58.7	42.2
2008	149.4	20.6	19.62%	81.1	39.3
2009	161.4	9.2	21.16%	102.5	23.3
2010	188.3	16.6	24.66%	147.4	44.1
2011	185.69	-1.4	24.23%	169.6	15.1
2012	218.2	17.5	28.35%	198.0	16.8

Source: Qingdao Municipal Statistical Yearbook (various years)

As a complementary information source to traditional media, the internet is emerging as an important instrument that cannot be ignored by government in policy propaganda. Although the development of the internet in China is still in its embryonic stage, its development has strengthened communication between local government and the social community. The government launched a networking campaign to publish policies online and has tried to implement them effectively and transparently. Each municipal bureau is required to have their own official website to update their working process, and publish relevant national policies. For example, the Qingdao Housing Security Network (HSN) is operated by the Qingdao Housing Security Center, which aims to create convenient access for general public to all information on affordable housing, including application results announcements, national policies on affordable housing, municipal meetings and

²⁹ Local media are, more or less, enjoying more freedom than central in publishing what is most interesting to their consumers and likely in attempt for a larger share of the market (Tong, 2010).

new project initiations (Table 6.2). These efforts have not only advanced ICT technology development, but it has also generated profound implications for power relations in Chinese society.

Table 6.2: Information on Publicity of Housing Security Network, Qingdao, China, 2013

No.	Information Category	Total Number*	Example(s)	Objective
1.	Organizational Setting	3	<ul style="list-style-type: none"> ● Function and responsibility and contact information 	basic information provision
2.	News Feed	53	<ul style="list-style-type: none"> ● Inspect tour by director of Municipal People's Congress on the completion of affordable housing ● Provincial Bureau of Housing and Urban-rural Construction (HURC) held annual administration meetings 	Build a platform to announce news and information; Increase executive transparency and receive public's supervision
3.	Policy and Regulations	24	<ul style="list-style-type: none"> ● Speeding up the Construction of Public Rental Housing (issued by municipal government) ● Notification of Issuing the Implementation Details of Affordable Housing Applications (issued by bureau alliance of Qingdao) ● The Implementation Scheme on Deepening Urban Housing Reform (issued by Municipal government) ● The Notification of Implementation on Solving the Housing Problems facing Urban Low-income Household (issued by Ministry of Finance) ● Standard Measures to Identify Urban Low-income Household (issued by central ministry alliance) ● The Advice on Solving the Housing Problems Facing Urban Low-income Housing (issued by Shandong Provincial Government) 	Provide access to housing policy benchmark setting for implementation
4.	Public Announcement	18	<ul style="list-style-type: none"> ● Affordable Housing Projects started in 2013 ● Completed Affordable Housing Projects in 2012 	Invite public's supervision
5.	Project Construction	2	Annual Proposal for New Affordable Housing Project (in several years)	Information update
6.	Operational Orientation	31	<ul style="list-style-type: none"> ● Applicable criteria on affordable housing purchase? ● How to define household income? 	Public Service Provision
7.	Enquiry Service	3	<ul style="list-style-type: none"> ● Points of Household to identify the order to purchase affordable housing) ● Order of Housing Selection 	
8.	Documentary Download	6	<ul style="list-style-type: none"> ● Application Form to Use Maintenance Funds ● Notification to Improve Usage and Management of Maintenance Funds 	

Source: compiled by author from HSN

Note: by 29th, Jan. 2014

Table 6.2 shows information provided by the official website of HSN. The main body of the website is composed of several columns, among which the most dynamic is *News Feeds*. Composed of 53 items, it synthesizes the latest information on the development of affordable housing in Qingdao, including new national, provincial and municipal policies, construction and completion of affordable housing projects, announcement of affordable housing application criteria, and land and capital usage for affordable housing projects. Meanwhile, the affordable housing policy at each level is compiled separately under *Policies and Regulations*, which addresses all official reference to policies on affordable housing. Once policies are delivered inside the government body, official websites target a wide range of stakeholders in society. Hence, instead of confining policies within political elites, housing policies are widely diffused among the whole society through instruments, such as, HSN, which is coordinated by the government with the objective of connecting with the community.

Other than the official website, the Qingdao government also employs a wide range of internet-assisted methods to facilitate policy diffusion and to enhance interaction among general public, market and civil actors. Among those, Chinese micro-blogging, Weibo, a twitter-like online platform, is constructed in virtual space for information exchange and diffusion. Ordinary Weibo users are able to direct housing issues to the official account, which is managed by government agents. In the digital world where local citizens have some freedom to publish their online discourses, government uses this medium to expand its own legitimacy to serve its purpose by getting involved in this new medium of political expression. Although Weibo may be argued as a contentious front with ordinary people being able to update their pose through Weibo, official Weibo account holders are verified before they get to publish official policy documents. For example, *Qingdao Zhufang Baozhang* was registered as the official Weibo account in Sina Weibo, one of the most

populous Weibo operators in China. By the time of this chapter was drafted dated in April, 2014, the following tweets were posted by account holders:

“CCP General Secretary Xi Jinping’s reinforce the importance of institutional construction for affordable housing supply, to achieve the mission of housing all Chinese urban, on the 10th collective learning”

“The household, who has demand of affordable housing but has not registered to purchase, are encouraged to fill up the application form with sub-district office”

“The survey on affordable housing demand has commenced. Please join us by registering with the sub-district office”

Heated debates and strong engagement has not been observed since, which suggests that the official Weibo account has reached only a small group. Nevertheless, as a compliment to conventional media, it is used by government to read the community’s reaction to its policies and it has to some extent led to consensus-building. However, the government must introduce strategies to seek participation by masses to ensure that the policies meet the aspirations of the people. Weibo’s provision of easy networking should be used to reinforce such strategies. Although Qingdao Housing Security Center is not so active on Sina Weibo, we argue that micro-blogging services and functioning as complements of official networks will expand their circulation functions further, which cannot be overlooks as an important emerging institutional tool to diffuse housing policies.

To sum up, policy delivery and diffusion at the municipal level requires that the powerful institutional capacity of local government accommodate a wide range of players. The

hierarchy inside government and the relationships among association members provide institutional structures to facilitate policy delivery. As part of policy implementation, the comprehensive delivery of policies is a pre-condition for effective enforcement. Meanwhile, as a new phenomenon, the emergence of industry associations provides a solution as it fulfills the collective needs of a number of players from the private sector. The new forms of policy delivery, together with hierarchical directives exercised inside the governmental system in the policy delivery process cannot be separated. At the same time, online media was created by municipal administrations to compliment conventional media to support policy propaganda so that national policies could reach a wide range of society. Market reforms enabled the emergence of new forms of institutional coordination to facilitate policy delivery and diffusion. Hence, this new trend requires government efforts to upgrade its capacity to absorb change and address the new policy innovations introduced by reforms.

6.4.3 Policy Calibration—Public Hearing

Once a policy is diffused to social communities, its feedback from the public is channeled through a set of institutional mechanisms that the municipal authority uses for modification and calibration. Despite the presence of an array of instruments to address masses' opinions, we focus in this section on public hearings. Meanwhile, although public hearings are well known as an institution of both lawmaking and formulation of administrative regulations, our focus here is on the latter one. Hence, the administrative hearing in this study refers to the institutions which allow open access to citizens through negotiation and discussion throughout the course of policy implementation.

The emergence of public hearings incorporates greater citizen participation in the decision-making process (Huang & Chen, 2011). As a measure to enhance the legitimacy and enforceability of policy, lawmakers have come to acknowledge the importance of institutionalizing public hearings as a new governance mechanism to make the decision-making process more open and transparent. Articles 35 and 58 in the Legislative Law requires that the National People's Congress (NPC), Standing Committee of the National People's Congress (NPCSC) and State councils to "listen to the opinions of various stakeholders through holding public hearings. Best practices of public hearings are spreading, while it has been incorporated into legislative procedural rules by most levels of government by 2002. Such direct interaction between the state and society is aimed at increasing compliance and facilitating policy enforcement. While the implementation of administrative hearings are still at a nascent stage, we examine one example of an administrative hearing that dealt with the replacement of the affordable housing distribution method in the following section to illustrate how public opinion is solicited in the decision-making process at the municipal level.

These public hearings are held to debate selection methods used in allocating affordable houses in urban Qingdao. Given the presence of government subsidies, the demand for affordable housing always exceeds supply. Since 2005, a selection method using public computer lottery was used to select eligible candidates among a large number of applicants. However, while the increasing disparity among eligible households this selection method often failed to identify important characteristics of applicants, such as household income, age and current living conditions. Hence, local authority officials noted that a comprehensive selection method is required to make sure that affordable houses go only to the disadvantaged household.

Before the notice of administrative hearing is advertised, a publication of the draft legislation is announced in the social media for comments. A press conference, jointly organized by the Municipal Department of Housing Management and Department of Land and Resource was held in January, 2012, at which time *the Provisional Measures on the Implementation of Points Calculation and Ranking System in Access to Economical Comfort Housing and Price-capped Housing of Qingdao*, hereafter as Provisional Measures, was announced through social media, such as, Government Official Website of Housing Security and Weibo official account of Affordable Housing Center. By the time the hearing was held, a total number of 239 feedback and comments from various sources, such as hotline and internet, were collected from the public. The internet has attracted critical feedback as can be seen in Table 6.3 whereby 81.7% only partially agreed with the replacement method.

Table 6.3: Public Feedback on the Initial Version of Provisional Measures, Qingdao, 2012

Opinion	Actual Number (out of 239)	Percentage
Fully agree the replacement	35	14.64%
Partially agree with minor adjustments on certain terms	194	81.7%
Oppose the replacement	10	4.18

Source: author

A Public Hearing Meeting was advertised on 14th, May, 2012, which was to be held on 31st, May, 2012. Invitations were then sent to members of the public and stakeholders to register as participants. In 2 weeks, 79 people registered on a voluntary basis to attend the hearing out of whom 67 supported while 12 opposed the replacement. Finally, 10 were selected randomly as representatives based on the order in which they registered, as well as, on geographic and socio-economic diversity. In addition, one representative of local People's Congress and two members of Chinese People's Political Consultative Conference (CPPCC) were invited to observe the hearing session.

On the date of the hearing, 8 out of 10 participated in the hearing session with 7 supporting the replacement of Lottery Selection by Points-Calculating Selection and only 1 opposing it.³⁰ These public hearing sessions seek to make regulations formulation at the municipal level democratic and transparent (Figure 6.2). They do at least result in adaptations, and also attract people with different viewpoints. For example, Ge Meifei reported:

“It would be fair to the young people if the weight of age in points-calculating system reduced. Otherwise, young people may face difficulties to purchase the affordable houses.”

The above account is not shared by the Chief Engineer of the Center, Mr. Xu Zhiyong who explained why preference should be given to seniors arguing that the young have greater potential to raise their living conditions. Also, Mr. Xu reported that:

“One can get 35 full point if the applicant is over 80 years old. However, the applicant who is above 80 years old is very rare from current statistical record. Among 1,000 applicants, there are only 16 household whose applicants above 80 years. Meanwhile, there are only about 10% of the total number of applicants aged above 60 and below 80. Hence, in terms of the category of seniority, there are relatively few who scored outstandingly high points.”

³⁰ The lone dissenting candidate noted that “participating in this hearing session is not only aimed at protecting my own interest, but it is also to acquire policy support for young applicants.”



Figure 6.2: Public Hearing Session, Qingdao, 2012
Source: Qingdao Daily (2012)

Although the processing of public opinion after public hearing remains unknown, revised versions of legislations are often made available so that the public can compare them with the original drafts. We found that weight of age in the calculations was eventually reduced from 50% to 44% in the final version. The calibrated versions (September, 2012) after public hearings shows distinct differences when compared to the initial versions (January, 2012) (Table 6.4).

The emergence of public hearings in China in the absence of participatory democracy demonstrates government efforts to attract collective community participation in policy implementation. Public hearings have institutionalized the link between the community and policy makers so as to embed public opinion in municipal government policies and

increase the influence of citizens in policy implementation processes. Public hearings are held to obtain public opinion from a wide range of civil society before collective will is preliminarily centralized at the municipal level, which is later processed further by provincial authorities.

Table 6.4: Selected Amendments to Regulations on the Implementation of Points Calculation System, Affordable Housing, Qingdao, 2012

Criteria	Scheme	Initial Version	Finalized Version	Remarks
Current Household Living Space	ECH	$\left(1 - \frac{\text{Average Living Space Per Person}}{13}\right) \times 40$	$\left(1 - \frac{\text{Average Living Space Per Person}}{13}\right) \times 35$	Denominators of “13” and “20” are the maximum of living space for applicant to be eligible to apply for ECH and PCH
	PCH	$\left(1 - \frac{\text{Average Living Space Per Person}}{20}\right) \times 40$	$\left(1 - \frac{\text{Average Living Space Per Person}}{20}\right) \times 35$	
Household Income	ECH	Additional 15 points for the household whose per capita monthly income is less than RMB 920 yuan.	Additional 10 points for the household whose per capita monthly income is less than RMB 920 yuan.	“920 yuan” is the municipal minimum standard of monthly wage in 2010; “1864 yuan” is the average monthly disposable income per household in 2009.
	PCH	Additional 15 points for the household whose per capital monthly income is less than RMB 1864 yuan	Additional 10 points for the household whose per capital monthly income is less than RMB 1864 yuan	
Average Age of Applicant Couple	ECH & PCH	$\left(\frac{\text{Average Age of Applicant Age}}{60}\right) \times 30$	$\left(\frac{\text{Average Age of Applicant Age}}{80}\right) \times 35$	The calculation of age is accurate to day.
The Headcount of Applicants Household	ECH & PCH	Additional 10 points for whose headcount being two (regardless of generational status), 15 points for those having three or more.	Additional 10 points for whose headcount being two in the same generation, 15 points for those having two but in two generations, 20 points for those having three or more.	NA

Source: Compiled by author

Note: ECH-Economical Comfortable Housing; PCH-Price-capped Housing

6.4.4 Policy Finalization – Regulation and Legislation

Revised policies are configured by municipal institutions and then submitted to provincial authorities within the governmental hierarchy. After receiving the public's feedback and suggestions, municipal government agencies employ a set of institutions to finalize the policy calibration and to legalize, if necessary, changes in the policy modification. More specifically, municipal governments coordinate policy calibration with provincial governments. The meso-organizations for policy finalization and legalization include, one, the People's Congress, the supreme political authority, as well as, the municipal government, which was designated by the People's Congress as an agent to implement policies.

Any discussion on government would not be complete without an assessment of its principal, i.e. the People's Congress. The Constitution of China identified the People's Congress as the supreme authority and government as its representative. Hence, it is the people's congress that has the supreme power to initiate, modify, revise and finalize policies and laws. Although municipal governments are legally supervised by provincial governments, regulations initiated by municipal governments shall be recorded and approved by provincial governments. Meanwhile, municipal policy makers are encouraged to seek the advice of the special committee at the provincial level before local regulations are initiated.

How do municipal governments finalize policy calibration? The supreme institutional player that finalizes policies is the People's Congress, which is responsible for policies that deal with the basic interest of people. Legislations³¹ by the People's Congress is

³¹ Although broad legislatures remain with the PC, municipal government enjoys authority to introduce their own regulations. Here we refer to the general notion of legislation which contains the resolutions and decisions issued by subordinate state organs, such as, government and local people's congress, which actually contain elements of law.

paramount in the framing of administrative regulations enacted by government agents because the former delegates the authority to latter. In practice, such an exercise is mainly executed by the Standing Committee of People’s Congress rather than the People’s Congress Meeting, which is held once annually. However, it is the People’s Congress Meeting that approves and legalizes all critical regulations drafted by the Standing Committee. The local legislation office of the Standing Committee is responsible for the legislation draft, which must be cognizant of opinions collected from the grass-root community, municipal agencies in charge, district People’s Congress and local legislation research committee. In addition, to enhance legislative quality, pre-legislation evaluations are led by the People’s Congress, which is facilitated by the governmental and conducted by consultants (e.g. Municipal Academy of Social Science and universities) with the participation of citizens. Hence, the coordination between governmental bodies and meso-organizations are institutionalized to facilitate policy finalization to support legislative progress since Qingdao was empowered with legislative powers in 1984 (Table 6.5).³²

Table 6.5: Legislation by the People’s Congress, Qingdao, China, 1984 to 2008.

Total Local Legislations	155
Legislation:	
Local Regulations	119
Legislative Decision	1
Decision on Legislative Revision	22
Decision on Legislative Abolishment	13
Authority undertaking:	
The 9 th Standing Committee of People’s Congress (1983-1988)	1
The 10 th Standing Committee of People’s Congress (1988-1993)	18
The 11 st Standing Committee of People’s Congress (1993-1998)	49
The 12 nd Standing Committee of People’s Congress (1998-2003)	45
The 13 rd Standing Committee of People’s Congress (2003-2008)	42

Source: People’s Congress of Qingdao (2013).

³² The first regulations legislated by local authority is *The Provisional Measures of Urban Publicly-owned Houses Management* in 1984.

Acemoglu and Robinson (2012) argue that the Standing Committee lacks democratic capacity because of the lack of large scale participation by the public. While the Chinese economy does not resemble a Western democracy, their claim that it will reduce the Chinese economy to an extractive state is unfounded. Besides, technically the Standing Committee is the natural representative of the people, which acts to solve collective action problems in the interest of specific social groups participating in the policy finalization process. Furthermore, the legislative discretion facing local governments is strictly confined to implementation procedures only and does not address the basic principles. Finally, the national law offers space for provincial and municipal governments to participate in policy formulation so as to address local socio-economic conditions.

The People's Congress delegates power to municipal governments to enact regulations, where the latter achieves this objective by issuing administrative regulations executed by subordinate departments or departmental alliance. Public hearings through numerous formal and informal meetings are held at the municipal level to preside over adjustments proposed by the Housing Security Center (HSC).³³ Meetings targeting policy finalization are attended by not only the top officials of HSC, but also the deputy mayor and top management of other municipal departments, such as Bureau of Finance, Bureau of Civil Affairs, and Bureau of Public Security. Involving other bureaus ensures cooperation among the bureaus so that the implementation of housing policies is successfully completed. For example, the Bureau of Civil Affairs is responsible for the release of the ranking score based on newly formed point-accumulating system through its sub-district office, as well as, provides confirmation documents, such as marital status of applicants. The Bureau of Public Security provides assistance in confirming the status of applicant's

³³ Municipal Housing Security Center is a one-stop government agent to effectively manage all the matters involving affordable housing, including planning and design, project finance, construction, trade-ins and asset management.

household registration (*Hukou*) status. Once the responsibility of each government agent is defined, the implementation of new calculation procedures are finalized and announced to the public. *The Rules of Points Calculating and Ranking in Access to ECH and PCH of Qingdao* was announced on the 26th, September, 2012 following policy finalization at the municipal level.

Policy finalization through the administrative channel is characterized by the participation of government agents, which is considered to be efficient and effective as the inter-bureaus coordination was institutionalized by the municipal government. However, the absence of public participation in policy finalization does not mean that their views will be ignored by government decision-makers as their interests is captured through the previous linkages.

While formulators generally undertake the implementation of policy, such practices can be discriminating as members of governments involved may seek to pursue their own self-interest. In order to avoid such a problem, the People's Congress has recently started to authorize third parties, such as law firms, to undertake legislation drafting.³⁴ In so doing, government is not the only agent that drafts new regulations. Law firms is in charge of inviting active participation from various social groups to draft "rules" through seminars, meetings and surveys, as professions carry the capacity to consolidate the general interests of different voices from various stakeholders. This way the interests of government and other institutional players, such as, development firms, property tenants and property management firms could be addressed. The inclusion of third parties into the legislation process reduces the government's power so that the existing monotonous legislation structure that has been dominated by the monopoly player of government

³⁴ For example, The Ordinance on Real Estate Development of Qingdao (Draft) was initially drafted by Qingdao Wenkang Law Firm in 2004.

could be improved through embedding multiparty players into the policy making process. Hence, an institutional channel has been established for all the stakeholders expressing their needs in the policy formulation process.

A member of the local People's Congress endorsed the positive role of third parties in improving the drafting of legislations with the following statement:

“The inclusion of lawyers, who has highly concrete professions in multidisciplinary social issues, will minimize the legal loophole and enhance the quality of legislation. Their sufficient experiences from legal practice make them advantageous to the government officials.”³⁵

Such voluntary modifications of the legislative system that are internally initiated by the local authority shows a move towards an accessible legislation system with a certain degree of openness, transparency, fairness and rationality. The outstanding feature of third-party legislative participation is the creation of mutual non-stakeholder formulation of rules for stakeholders, which helps to balance the interest of each party in the contract. Hence, the traditional legislation model in which the government dominated the entire process is giving way to one where third parties participate strongly to shape the “rules of the game” so that it is fair to each “player” (North, 1991).

Regardless of the enacting body, local legislations are categorized by two major types: executive legislation and innovative legislation. The former is designed to accommodate specific local socio-economic conditions to complement national and provincial legislations. Innovative legislations refer to regulations that cover domains where national

³⁵ Interview was conducted on 31st, January, 2014 in Qingdao, China

and provincial legislation is not available. They are formulated based on local affairs and its legitimacy is confined to local legislative jurisdiction. However, such innovative legislation shall be transformed as executive law, when local regulations are legalized by national authorities. Under such circumstances, local decrees have to be adjusted to be compatible with higher level legislations.

Two additional features of policy finalization at the municipal level need to be pointed out. Firstly, as complementary regulations, local regulatory legislation has to be compatible with the principal set by provincial and national legislative authorities regardless of the form they carry, such as, ordinance, decrees, notification and rules. Otherwise, higher level authorities have the right to declare them invalid. That is why regulations initiated by the municipal government need to be submitted to the higher authorities. Meanwhile, as a controlling measure, inspection on local legislation is often exercised by the working committee of the Provincial Standing Committee. Reports on law drafting and enforcement are required to hand up to supervision authority, while revised advisory documents returned to municipal law makers for feedback. Interaction between the authorities at both levels is undertaken through formal written/oral communication to ensure that the legislation is properly supervised and enforced.

Secondly, municipal governments do bypass provincial authorities to coordinate related matters directly with the central authority. Both formal and informal institutions help coordination between municipal and central authorities. On the one hand, as a consequence of decentralization, the establishment of vice-provincial city-schemes allow municipalities to be administered independently from provincial governments.³⁶

³⁶ Qingdao was designated as vice-provincial city in 1995 (State Commission Office for Public Sector Reform, 1995).

Qingdao, as a vice-provincial city, ranks higher than the normal prefectural city administratively, as it enjoys certain autonomy from the provincial authority of Shandong in deciding local affairs. The direct link between the Qingdao municipal government and the central government was made clearer with the establishment of the Qingdao Municipal office in Beijing in 1987, which is approved by State council. Thus, formal institutions aim to enhance the liaison between Qingdao and the central government. On the other hand, private interpersonal relations bring informal contacts between central and municipal leaderships, which is especially dynamic among the well-connected technocratic elites. Incentives sought by municipal governors are often found as the causes of informal contact, such as fiscal arrangement, foreign economic relations, and local developmental affairs.

6.5 Conclusions

Using a detailed case study, this chapter showed how urban housing policies in China were implemented by municipal governments since economic reforms began in 1978. Decentralization triggered by housing reforms witnessed a major transformation in the way housing policies have been implemented in China. Institutional change has attracted greater participation of the community in implementation of housing policies by municipal governments. While the delivery of urban housing policies is facilitated by the government and social organizations, new institutions have been created to stimulate diffusion to communities horizontally. Public hearings scheme has mushroomed to attract policy discussion and calibration. Policy finalization is meticulously organized so that the finalized version of policies, legislations and regulations embody public opinion. To better reflect the interests of the public, policy revisions and finalization are increasingly coordinated through the use of independent third-parties. Institutional change has

transformed the governance structure of urban housing so that the central, provincial and municipal governments have begun to specialize on policy initiation, intermediation and implementation. This framework where municipal governments engage social communities to ensure that the objective of housing policies embody the interests of the wider public suggests the emergence of an alternative model that vigorously involves political institutions so that the ordinary citizen gets to participate in horizontal decision making.

Institutional changes governing the urban housing market support the arguments of evolutionary institutional economists that socially-determined economic activities are always undergoing evolution (Thorstein, 1915). Municipal implementation schemes consolidate the interests of various institutional players through the institutionalization of state policies to deliver social production and economic development (Commons, 1934; Coase, 1937, 1992; Rasiah, 2011). Also, the upgrading of institutional capacity through the introduction of new institutional tools shows that social progress is an evolutionary process of continuous innovation and creative destruction (Schumpeter, 2013). Coherent coordination between macro- and micro-economic agents can help make state policy effective.

Meanwhile, the evidence dismisses Acemoglu & Robinson's (2012) claim that China's extractive one party political regime may not be able to sustain economic and political prosperity in a long run. In contrast, the evidence shows that policy implementation at the municipal level is institutionalized in an inclusive way as the 'rules of the regime' address the interests of the citizens, or in the words of North (1991) "the players". The state has become a critical institutional player that performs developmental and welfare functions to deliver services to a wide spectrum of people, which is consistent with the arguments

of (Poulantzas, 1973, 1978; Evans, 1995). The Chinese state through central initiation, provincial intermediation and municipal implementation has continued to decentralize housing policy-making with the objective of better meeting the aspirations of the people (Evans, Rueschemeyer, & Skocpol, 1985). This has been effected through institutional change so that market reforms is targeted at complimenting rather than colliding with the social needs of the citizens.

While this account of institutional change in China is backed strongly with empirical evidence, we acknowledge that the evidence is specific to the municipality of Qingdao and the province of Shandong. Given that institutional change is very much still unfolding in China the extent of institutional change experienced by the Qingdao municipality and Shandong province may not be seen yet in the poorer states, such as Tibet, Guizhou and Sichuan. Hence, while a promising model has emerged in Shandong, more research is essential before generalizations can be made on China as a model.

CHAPTER 7

CONCLUSION

7.1 Introduction

In our quest to understand economic reforms, we analyzed institutions and institutional change and they have impacted on the conduct of government in the urban housing sector in China. We found this objective particularly important following the simplistic categorization of the Chinese state as an extractive state by some authors (c.f. Acemoglu & Robinson, 2012). Also, existing works on urban housing in China have tended to describe the reforms without an attempt to contribute to the extension of state theory or to draw implications for institutional theory. Since market reforms began in 1978, China has experienced dramatic institutional change in the urban housing sector. In this thesis, we sought to evaluate the impact of these changes on the role of the SOEs, and provincial and municipal governments. In addition, we attempted to unfold changes in the policy structure arising from institutional change in decentralizing urban China. In doing so we captured the full range of institutional definition advanced by Veblen (1915) and North (1991) to capture both the legal and economic, as well as, the social and cultural norms that has transformed the landscape of the urban housing sector in China.

Hence, this thesis provided a profound assessment of the dynamics of institutional change in China's urban housing sector. This chapter is organized into 6 sections. Following this introduction section, section two provides the synthesis of the findings. Sections three to five discuss implications for theory, methodology and policy respectively. Section six finishes with the limitations of the thesis and recommendations for future research.

7.2 Synthesis of Findings

This thesis began by examining institutional change in China's urban housing sector since market reforms began in 1978 and how it has impacted on the role of the SOEs, and provincial and municipal governments. Chapter 1 problematized the economic transition and the changing role of government in China's urban housing sector. Chapter 2 reviewed the related literature associated with the research questions drawn from the problem statement. State and institutional theories became the fulcrum of analysis in this thesis. Chapter 3 introduced the methodology used to examine the three research propositions of the thesis, i.e. how institutions and institutional change has transformed the role of SOEs, and the provincial and municipal governments in the urban housing sector in China. In doing so we adapted the SAI and IAD models following the evolutionary arguments of Veblen (1915), North (1991) and Nelson (2008) to recognize that institutional agents do undergo change, and that informal institutions are also important when analyzing institutional change. Chapters 4, 5 and 6 present the findings of the thesis.

Chapter 4 examined the evolving role of SOEs in the new institutional networks that have emerged to support the production and delivery of urban housing in China. It discusses how SOEs have evolved to meet growing demand and complexities in the production and allocation of urban houses. The evidence shows that institutional change since market reforms began has effected significant transformation in the role of SOEs in China's urban housing market. Three distinct phases were identified with the first phase (1978-88) dominated by in-kind allocation of houses, the second phase (1988-1998) characterized by SOEs' contribution to the housing provident fund (HPF) and the dissolution of the in-kind housing allocation function, and the third phase (since 1998) led by SOEs participation in housing development, speculation and affordable house provision. While SOEs' participation in speculation has generated problems associated with markets, as

the instrument of the state they have been conditioned by government institutions to continue their role to serve the low and middle income urban dwellers with affordable housing.

Chapter 5 analyzed the impact of institutional change on the role of provincial governments in intermediating between central planning and municipal implementation of urban housing policies. The findings show that government planning in China has also been decentralized, where the central government has increasingly begun to confine its role to policy initiation, while the provincial and municipal governments have assumed the functions of intermediation and implementation respectively. As the intermediate between central initiation and municipal implementation, provincial governments have begun to play a major coordinating role to ensure that the goals set by the central government are carefully mediated with municipal governments. Hence, while geography has always been important in explaining the conduct and performance of particular provincial governments, the institutional strategies of these governments are also important in explaining why some provinces have outperformed others. This point is demonstrated using the examples of Shandong and Shanxi Provinces. Four key institutions, namely, leadership, legislative instruments, land use and living culture institutions were used to show why Shandong has outperformed Shanxi in the urban housing sector of China.

Chapter 6 evaluated the influence of institutions on the role of municipal governments as policy implementers. The chapter showed that municipal governments have increasingly begun to fine tune urban housing through the policy transmission processes, namely, delivery, diffusion, calibration and finalization. Using Qingdao as a case, this chapter showed how institutional change has offered municipal governments significant powers and autonomy to implement urban housing policies. Allowing municipal governments to

reshape urban housing policies has helped policy planning considerably as these sub-government possesses the best knowledge of the terrain in which these policies are implemented. We found that Qingdao government has not only used a wide range of instruments to deliver, diffuse, calibrate and finalize the allocation of houses, it has also actively coordinated with both the provincial and central governments to re-calibrate housing policies so as to ensure that overall urban housing planning took account of its impact on the targeted groups.

Having presented the findings in this section we turn to drawing implications for state and institutional theories, methodology and policy in the next sections.

7.3 Implications for Theory

The findings support the powerful arguments of Marxist Structuralism advanced by Poulantzas (Poulantzas, 1973, 1978) and Jessop (1990) that state and state power perform a central role in structuring the relations of production. The evidence shows that the institutionalization of state policy in China is targeted at reorganizing urban housing production and distribution to meet the interests of the people. This function of state is also consistent with the argument that the state structures production relations as a crucial institutional player to promote and stimulate socio-economic progress (Gordon, 1984; Evans, Rueschemeyer, & Skocpol, 1985; Evans, Rueschemeyer, & Stephens, 1985 pp.46). As a consequence of the developmental and welfare role of states, a new urban housing governance structure has been institutionalized by Chinese state, where central government initiates policy planning, provincial government intermediate policy conveyance and municipal governments implement policies. In so doing, the Chinese state has evolved to attract considerable participation by provincial and municipal

governments to calibrate policies before they are finalized. In contrast to instrumentalist arguments (Sweezy, 1942; Miliband, 1969), the evidence shows that SOEs not only participate in markets but also deliver affordable houses to low- and middle-income urban dwellers. As an instrument of the state, the SOEs play a wider role than simply dancing to the tune of markets. Instead, it has responded to institutional change to organize social production and distribution so that urban houses reach the target group in society.

The evidence also confirms that a bureaucratic apparatus with sufficient institutional strength and coherence is required, as well as a certain degree of “autonomy is necessary” for the state to deliver its broader societal goals (Evans, 1995 pp.68). Although the role of SOEs in the housing market in China changed considerably over the three phases of economic reforms, the obligation to deliver social housing welfare has remained under state control. Such state activities reveal characteristics of how a social corporatist state is run, where the state charters or recreates an organization by giving it autonomy or representation of occupational interests, and in return it enjoys decision-making powers so that it can maintain its guardian role of meeting the universal interest of society. This evidence is similar though in Wade’s work (2003 pp.27) used a corporatist state’s function using small interest groups. By no accident, such rationale beneath the corporatist state is in accordance with the Marxist structuralist view of the state where it remains the supreme authority to organize social production to deliver the long-term interests of the entire society.

The evidence also support the role of developmental states. The Chinese state through its sub-organs has played a substantial role as the provider of services and goods to meet national interests. By examining how provincial institutions shape urban housing development, this thesis firstly confirms that states achieve their developmental function

not only in promoting industrialization (Johnson, 1999) but also in promoting urban housing development through institution building. Secondly, institutional change has transformed the role of SOEs in China to balance private and public interests and in the process evolving a new pattern of business-government relations to complement the developmental role of government. SOEs' speculative behavior arose following the proliferation of private management principles that came with market reforms, but this conduct has increasingly been regulated. The SOEs have been conditioned to provide affordable housing with particular shares of urban commercial housing reserved for the disadvantaged.

The intervention in the economy by the state can be justified in a way to protect the disadvantaged and to regulate against undesirable behavior, such as speculation. China's unique state-business relations has bolstered the concept of state capitalism where the state has eventually remained a powerful instrument to ensure social balance in the country as it is still firmly in control of the SOEs (Evans, 1995; Szamosszegi & Kyle, 2011). Clearly then, the developmental role of the state stretches beyond the rapid industrialization experiences captured in Japan by Johnson (1982), in South Korea by Amsden (1989), in Taiwan by Wade (2003) and in Singapore by Huff (1995). This thesis shows that the state also performs a strong role in the delivery of social goods such as housing in the urban locations in China.

The 'trial and error' and 'groping for stones in the river' approaches that Confucian Chinese adopted to effect economic reforms is typify the notion of institutions advanced by Veblen (1915) that they are evolutionary. The "rule of game" definition of North (1991) has continued to evolve as market reforms has attracted institutions change with profound changes to both urban housing policies planning, as well as, to their delivery. Importantly,

the evidence supports the classical argument that institutions are socially determined and politically embedded (Thorstein, 1915; Polanyi, 1944). Some institutions are created by the government to condition institutional players, such as, firms and governmental agencies to orientate their conduct in markets (Buchanan, 1986; Boettke, et al., 2006). Due to embeddedness nature, institutions have wide roles as they not only accommodate the function of markets, but also coordinate different social behavior of diverging interests groups by defining and designing explicit rules. Hence, it is institutions, such as, legislative framework, urban land use rights, leaderships, and intermediary organizations, rather than the purely the market mechanism that shape production allocation and economic development (Coase, 1937, 1992; Rasiah, 2011).

Institutional change is a spontaneous consequence of evolutionary processes in an economy, which is what has taken place in China's urban housing sector. Institutional change in China's urban housing sector is a product of market transition from a central-planning economy to a socialist market economy. As Nolan (1995) had observed when classifying China's transition within a socialist structure as a success against Russia's fall to naked markets, China's state agencies and organizations have been fashioned strongly through the gradual introduction of markets but control held by its socialist government. The paradigm shift experienced in China's urban housing sector demonstrates Schumpeter's notion of creative destruction where new production and distribution schemes are continuously initiated to reflect the decentralization and marketization processes introduced by market reforms (Schumpeter, 2013). Hence, meso-organizations connecting micro- and macro-economic agents embed institutions to smoothen economic transition so as to provide a friendly institutional environment to appropriate market synergies (Nelson, 2008b; Rasiah, 2011). Simultaneous institutional coordination between the different levels of governments has been essential to build institutional

capacity, which reinforces the evolutionary argument that institutional and systemic support is critical to promote economy progression (Nelson & Winter, 1982; Rasiah, 2009).

The evidence suggests that there is a need to revisit existing market transition theories so as to incorporate the elements of institutional evolution during social transition, as the processes of policy planning and execution in China has evolved differently from the experiences of other countries due to the unique urban housing structure where central planning has focused on the initiation of policies, while the provincial and municipal governments have specialized on intermediation and implementation of these plans. Also, while the central, provincial and municipal governments have begun to specialize on initiation, intermediation and implementation respectively, the provincial and municipal governments also participate strongly in the planning process. Such a uniquely coordinated structure among different levels of government is a consequence of decentralization that has been brought about by market reforms, which is consistent with Polanyi's (1944) point that economies are political embedded.

The evidence also confirms the arguments on market transition of Nee (1989, 2000) and Nee and Mathews (1996) that the role of the state is important in establishing the institutional framework in especially mixed economies. Indeed, the sheer size of China as one of the biggest transitional economies, requires strong institutional capacity to accomplish the transition from a communist system to a socialist market economy (Nee, 2000). An essential extension from this argument is that the possibility still exists that further market transition may demand new searches for institutional solutions. Hence, it is worth the while for scholars to embrace the views of evolutionary economists to understand and appreciate the role of meso-organizations as they address the special

problems associated with public goods and public utilities to solve collective action problems (Rasiah, 2011).

China's success in evolving urban housing policies helps add empirical ammunition to the Beijing Consensus. *Inter alia*, the inter-governmental policy innovation that has emerged reflect an innovation in social and economic change (Ramo, 2004). The continued indispensable participation of state in urban housing policy planning provides convincing evidence that the state still acts as an indispensable player in shaping the conduct of players in the urban housing sector, which directly challenges the fundamental arguments of the Washington Consensus. The evidence produced in this thesis should attract more studies on China to make the Beijing Consensus sufficiently robust. A comprehensive understanding of planning and market reforms in China requires a thorough historical investigation of the state in China, which is embedded in strong Confucianism culture.

The identification of the intermediary role of provincial governments in urban housing offers state theorists an extra dimension of government. Although relations between central- subnational government has been noted especially since fiscal reform began in the 1990s, this thesis fills a gap in most works by focusing on urban housing sector, whereas most existed literatures draw implications from the general discussion (Chun, 1995; Wedeman, 2001; Wang et al, 2009). The evidence supports the argument of Li, Chiang and Choy (2011) who argued that the structure of housing governance is realized by coordination among different levels of government, though competition existed between provinces and municipalities due to conflicts in the incentive structure. In contrast with arguments that portray the state to as enjoying the power to override local power (Murdoch & Abram, 1998), the evidence work shows that the relationship between

the different levels of government are more horizontal than hierarchically vertical. Although the central, provincial and municipal governments specialize respectively on policy initiation, intermediation and implementation all three coordinate and calibrate the finalization of urban housing policies. Hence, China is no longer characterized by a single power (central or local) structure governing urban housing development. Instead it is characterized by a multi-power sharing matrix structure where each level of government coordinates and cooperates through institutional arrangements.

In addition, the evidence shows that state theory should absorb aspects of institutional and evolutionary theories to better capture the role of states in economic development. A key extension essential from our findings is that the state is not a single complex superstructure as demonstrated by the China experience. Instead, it is united by a relationship of cooperation, which has been institutionalized to link the different levels of government. Effective coordination between the different levels of government is essential to ensure that policy targets are achieved. China's experience provides a uniquely different example of state structure, and thus, it can be used as a model for adaptation by other countries so that the attempt can produce yet other examples of developmental states with different development trajectories (Li, et al., 2011). While China is certainly not an example of Western style democracy but the "inclusive" with which people participate through municipal governments in urban housing policies suggest that the model is friendly to people. This evidence obviously undermines the claims that China is an extractive state (Acemoglu & Robinson, 1998, 2012).

7.4 Implications for Methodology

This thesis has also made methodological contributions. Firstly we adapted the structure-agency institutional (SAI) model of Healey and Barrett (1990), Healey (1992) and Ball (1998) to take the evolutionary view that government agencies and meso-organizations do evolve over time. By identifying three distinct phases through which China's SOEs have evolved since reforms began in 1978, we were able to show how regulatory changes have changed the conduct of the SOEs in the urban housing sector.

Secondly, we adapted the Institutional Analysis and Development (IAD) model of Kiser and Ostrom (2000) to add informal institutions to formal institutions to study how institutions have shaped the conduct of government agencies and meso-organizations. In chapter 5 we showed how living culture, which is an informal institution, has intangibly influenced people's choices in the urban housing sector, and hence, has caused uneven development of urban housing in China. The evidence has reinforced the importance of informal institution (North, 1991; Helmke & Levitsky, 2004).

7.5 Implications for Policy

Although this epistemological set of findings is empirically based on evidence from urban housing sector, the **new institutional governance structure** that has emerged in China where state policy is initiated by central, intermediated by provincial and implemented by municipal governments can be observed in other industries and sectors. China's huge economy with vast and diverse geographical terrain requires that policy planning is cognizant of the capacities of the central, provincial and municipal governments. Similarly, the implementation of national policies needs strong institutional capacity by municipal governments to coordinate the meso-organizations to achieve the goals of the

policies. The different functions of the central, provincial and municipal governments provide evidence to show that the division of policy tasks helps to enhance the effectiveness of policy planning and implementation. This new institutional governance structure that has evolved following economic reforms is of great importance to understand the national policy system in China where authorities at different administrative levels with different priorities coordinate their activities to achieve national policy goals. Hence, the first important policy implication to be derived from this research is the need to understand government structures and the specific and complementary roles they shall assume to make planning effective so that they eventually meet the interests of the people.

The evidence also shows that the **state is still the key agent** to take care of the welfare of the people. While economic reforms in China led to the removal of the state's direct engagement in economic activities, state power was re-configured through institutional changes effected by market forces. China's decision to open up was built on the premise that the state's power must not be compromised when the market mechanism is introduced. After decades-long practice of gradualism and experimentalism, the blend of state's power and market forces that has shaped China's urban housing sector may provide a unique model for both market and transitional economies seeking to address problems of both communism and capitalism. The positive experiences include how the market, as an institution, is embedded in the government's welfare regime, and how policy is designed to meet civil interest. The evidence in designing urban housing policies in China shows that the state and the market need not be rivals. Also, unlike the Washington Consensus in which the market leads the state, the Beijing Consensus portrays that the state leads the market. This argument is consistent with Chakravarty's (1993 pp.420) point that the 'market is a bad master but can be a good servant'. Effective market-government relations

depend on how states design policies through which markets and government are institutionalized to coordinate their actions so as to take account of their respective strengths and shortcomings.

The evidence shows that states need to build their capacity through **creating and upgrading institutions and institutional organizations**. While cultural histories and informal institutions co-exist and exert strong influence over the conduct of players, governments can shape this process by actively intervening with legal and regulatory institutions. China has managed this by assuming an evolutionary framework in which the government has continued to design and implement innovative policies through a trial and error approach associated with ‘groping for stones in the river’ method. The role of meso-organizations, which are embedded in states and are conditioned by institutions, have been important in China. The experience of China provides an empirical example of how meso-organizations and the local level, such as the municipal government are utilized to calibrate policies to be in sync with the voice from the community. For example, the usage of micro-blogging and official web portal has created a direct communication ensuring that policy-making involve a wide spectrum of the social community.

The evidence shows that states, including sub-government bodies, should enjoy relative **autonomy** to participate in the formulation and implementation of urban housing policies. The comparative study of Shandong and Shanxi suggests that the processes and outcomes of policy implementation is largely shaped by a wide range of factors, such as legislation discretion, management competence and quality of service delivery. Hence, the decentralized arrangements governing the allocation of authority and responsibilities have been important in China’s urban housing sector, which has given the municipal administrators the space to display its full capacity, such as strategic entrepreneurial

behavior of the leadership. However, while relative autonomy is recommended, effective overseeing and monitoring should be available to ensure that implementation is effective, which requires the supervisory role of state that is conditioned by institutions. How China designs the governance structure provides an account on power delegation that other countries can learn from. While the central government enjoys the supreme right to make critical decisions, local administrators are empowered through administrative autonomy to implement central policies. The central control of state power enables the national economy to move in the same direction, while leaving enough flexibility to municipal authorities to formulate the execution of the policies. The transition experienced by China also shows the importance for former communist states to replace direct control with institutional governance, which is demonstrated by the flexibility enjoyed by decentralized China. However, like any other nation China is not a perfectly run economy as demonstrated by the Bo Xilai case in Chongqing. The central government must find a way to prevent lower level administrations from abusing the autonomy given to them. This way not only can government's reduce the incidence of misconduct by provincial governors, but also prevent them from as wasting resources simply by competing against each other, or moving away from the orientation set by central authority.

Governments should place special emphasis on **informal institutions**, especially when dealing with the roles of local governments in structuring an effective institutional system. Tradition and culture should be honored as they act as influential factors in determining the effectiveness of policy implementation. Chinese culture and its core values have often been taken into consideration in China's policy-making. The policy which respects traditional virtue would be more acceptable by policy target groups, which shall deliver better performance in achieving policy goals. Also, leadership should be taken as an extremely crucial factor, policy implementation requires careful planning, coordination

and execution. Based on such believe, leadership selection should be exercised in an open and fair manner, ensuring that capable candidates are selected to achieve policy objectives.

7.6 Limitations and Recommendations for Future Research

As with most studies, this study has some limitations. As argued by evolutionary economists, location, timing and sectors matter in institutional change (Nelson, 2008). Hence, the China experience must be treated with great caution. In-depth case studies on a specific location may not be able to broach the intricacies faced by other urban dwellers in the different urban locations. The interpretation presented by municipal Qingdao, and provincial Shandong and Shanxi may not fully be fully replicable, especially the decentralization that has enhanced the diversity of local government choices and behavior in China. While, this study may be extremely difficult to reproduce in different countries, a fuller study of China shall make the account on China more exhaustive. Hence, efforts must be taken to study more urban locations of China to provide an exhaustive picture of China.

In addition, a snowballing technique may be considered in future studies as it enables the mapping of institutions and institutional coordination within networks. Such a methodology was too expensive for this study as it would have required an extensive mapping of a wider set of agents/actors to strengthen the findings. This study can be further strengthened by examining more informal institutions, such as, interrelationships (*guanxi*) and informal credit schemes. It is suggested that future research can be conducted to capture more institutional factors to deepen our understanding of the institutions shaping the conduct of the players in the urban housing sector of China.

