

# A Transitional Institution for the Emerging Land Market in Urban China

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**Summary.** Chinese economic reforms since 1978 have been a continuous process of fundamental institutional change. The new institution of ambiguous property rights over state-owned urban land evolves from the socialist people's landownership. This institutional change is driven by the changing economic system and by two new organisations—the local developmental state and *danwei*-enterprises. The new institution facilitates the formation of an emerging land market. This land market, structured by ambiguous property rights, has accounted for the dynamic urban physical growth in many of China's coastal cities in the 1980s and 1990s. Nevertheless, massive rent dissipation induced by the new institution does not provide market certainty, nor does it offer incentives for optimal development. The cost incurred by the institution is gradually overtaking its benefit. The ambiguous property rights are deemed to be a transitional institution during the development of land markets in urban China.

## 1. Introduction

China's economic reforms since the late 1970s have brought about tremendous changes in the country. The most significant change has occurred in the economy that has demonstrated a remarkable growth in GDP at a rate of about 9 per cent per annum on average since 1978. The quality of life of its citizens has improved markedly as a result. Market orientation and opening-up to the world are two key factors underpinning the economic miracle. Economic growth leads to physical change. It can be seen throughout China that infrastructure, urban amenities and housing have improved remarkably. China's cities have experienced a drastic transformation in the course of economic reforms. Urbanisation has reached a new height after 30 years' stagnation (1949–79) and, consequently, many more urban premises

were built during the period 1980–2000 than in the period 1949–79. Nevertheless, the fundamental achievement is the economic institutional change. The 'rules of the game' have been shifted from central planning to market orientation. An emerging urban land market is structured by newly evolved institutions which are responsible, to a large extent, for the phenomenon of rapid urban change. Formerly considered as a means of production, urban land is now regarded as an economic asset. The mode of China's urban land development and subsequently the built environment have thus been transformed significantly.

Based on a conceptual framework of institutions, this paper elaborates on how the socialist institution of people's landownership has evolved into a new form to structure an emerging urban land market. After presenting the new institution of ambiguous property

rights over urban land, the author argues that it is generated against the background of on-going gradualist reforms and emerging new organisations. The ambiguous property rights serve the local growth coalition which is formed by two new organisations—the local developmental state and *danwei*-enterprises, a phenomenon in China's urban politics arising during the economic reforms. On the one hand, the ambiguous property rights contribute to a dynamic urban physical growth in many Chinese cities by bringing up a local property industry and opening up a land redevelopment market. On the other hand, the emerging land market structured by the ambiguous property rights is characterised by rent-seeking, hasty capitalisation of land rents and inadequate order in land development. Distorted equilibrium of demand and supply, caused by the new institution, leads to building booms and oversupplies. It is argued that ambiguous property rights should be regarded as a transitional institution as they do not provide certainty—which institutions supposedly do—and they do not offer incentives for optimal land developments. An inadequate institution cannot survive for too long in an environment of market competition which pushes for further institutional change.

## 2. Transitional Institutions for the Land Market: A Conceptual Framework

Societies and markets are bound by institutions which are “the humanly devised constraints that structure political, economic, and social interactions” (North, 1991, p. 97). A society is deemed an organised community because individuals living together as group members share the same rules and customs which regulate their social behaviours. Institutions thus provide “regularities in behaviour which are agreed to by all members of a society and which specify behaviour in specific recurrent situations” (Schotter, 1981, p. 9). In the economic domain, institutions are deemed to be “sets of rights and obligations affecting people in their economic lives” (Matthews, 1986, p. 905). The functioning of an economic system depends on a

whole set of institutional conditions. As institutions determine an incentive structure for the market, an efficient market should be shaped by institutions which minimise transaction costs and encourage competition through price and quality (North, 1998). Uncertainty in the interactions or transactions is effectively mitigated by institutions that limit the set of choices and increase the predictability of social behaviour. On a pragmatic note, the World Bank (2002) defines institutions as rules, enforcement mechanisms and organisations. Organisations, whether they are political, economic or social, behave and perform as collective actors within a framework defined by institutions (Knight, 1992; Weimer, 1997).

Buildings or real estate are a special commodity in the market because of their heterogeneity, low liquidity, high transaction cost and location fixity. The real estate is thus geographically specific and differentiated in the marketplace. Neo-classical economics holds such precepts that individuals behave rationally in maximising utilities with preference, and relative prices drive the market towards a long-run equilibrium. Markets should therefore be structured as the players compete by price and quality rather than in other ways. Any real market is just a sub-optimal deviation from the neo-classical ideal. However, since social interactions and market transactions are conditioned by institutions, in the same vein, the market of urban physical development is structured by institutions as well (Healey, 1992; Guy and Henneberry, 2002). Healey and Barrett (1990) suggest the structure–agency approach for the analysis of property development processes. Structure is “the framework within which individual agents make their choices” in the property market (Healey and Barrett, 1990, p. 90). Similarly, the notion of “structures of building provision” was coined by Ball (1998) to refer to “the contemporary network of relationships associated with the provision of particular types of building at specific points in time” (Ball, 1998, p. 1513). The ‘structure’ within which ‘agents’ make choices determines the development of

the built environment. This 'structure', in the author's view, is the institution of property rights which are considered essential in the governance of the real estate market (Fischel, 1985; Webster and Lai, 2003). Clearly defined property rights are believed to be an imperative for economic efficiency. The Coase theorem specifies that free exchange with costless transactions tends to move resources to the highest valued uses, independent of prior allocation of rights (Coase, 1960). However, in reality, transaction costs are always positive. The assignment of property rights thus matters for the achievement of efficiency.

Economic and social transformations suggest profound institutional change. Since 1978, significant changes with the single goal of national economic growth have occurred in China where a social transformation is being spearheaded by economic reforms. It has been determined that the reforms shall raise economic productivity—that had been in a dire situation under the central planning system—and install a market system to aggregate individual choices. Because of political constraints, gradualism prevails, which brings in an approach of trial and error in the implementation of new initiatives. Gradualism leads to dualism which means a co-existence of new and old institutions. It is understood that the old institutions, which formerly played a pivotal role in the out-going planning system, have a vested interest in maintaining the *status quo* and are in a strong bargaining position to influence institutional change. Thus, not to become complete losers as a result of change, old organisations are given opportunities to adapt to the new game, to see if transformation can possibly proceed with the old actors managing the reforms.

Institutional change driven by gradual reforms thus produces institutions with the characteristic of transition (short-term)—the so-called transitional institutions which provide a link between the out-going socialist planning system and an in-coming system of market orientation. Not by design, but as a result of compromise and competition between the *status quo* interests and

forward-looking forces, transitional institutions, tentative in nature, provide incentives for collaboration and co-ordinate economic activities among diverse actors. As the economic reforms progress to an advanced phase, transitional institutions will be phased out. In North's (1990) and Eggertsson's (1994) views, institutional change is always made marginal, incremental and path-dependent by an immense stock of social capital in the form of an institutional matrix. In this regard, institutional change is made by means of a series of transitional institutions.

Change of institutions is related to social choices and social choices are constrained by cultural norms. At this juncture, the role of informal institutions is brought to the scene. Institutions are composed of both formal rules like constitutions, regulations and laws, and informal constraints such as conventions, moral rules and social norms. Formal institutions are explicitly enforced by the state and organisations. When formal institutions are weak in maintaining order and managing transactions/interactions, informal institutions prevail. Transitional institutions are basically informal, as they are unwritten and implicit. Institutions are supposed to enhance certainty in the market by providing regularity and making market behaviours predictable (North, 1990). Although transitional institutions provide a framework for economic activities during the dynamic transformation, the informality of the institutional environment creates uncertainty. Uncertainty could prompt the orderly invention of a wide variety of schemes such as farming co-operative, insurance and self-help groups to spread risks (Schotter, 1981). Uncertainty could also induce disorderly short-term behaviour. In a close-knit homogeneous community, informal institutions as a product of collective action and unwritten codes of social conduct may serve to co-ordinate members' expectations and behaviours. Being culture-specific, informal institutions may not be sufficient to provide order in the absence of formal institutions when society becomes diverse and heterogeneous (World Bank, 2002). Conventions,

moral rules and social norms are not necessarily shared and thus not necessarily observed among members of a diverse community (Mantzavinos, 2001; Elster, 1989). Although a move towards marketisation, transitional institutions may not provide sufficient order and certainty to the emerging real estate market in urban China. Institutional change continues until order and certainty prevail.

### 3. The Advent of Ambiguous Property Rights

#### 3.1 *Ambiguous Property Rights over Urban Land*

Since the founding of the socialist centrally controlled system in 1949, urban land in China has been nationalised and controlled by the state in the interests of the public. Local governments allocated land to users as a production means through directives, rather than by pricing mechanisms. Urban land was not considered a commodity according to Marxist principles of socialist people's ownership and thus economic transactions of land were deemed illegal between owner and users.<sup>1</sup> After nationalisation in the 1950s, China's urban economy became overwhelmingly state-owned. From 1954 to 1984, urban land was virtually a free good allocated through administrative channels (IFTE/CASS and IPA, 1992). State-owned-enterprise (SOE) users' entitlement to land use rights became a unique institution incorporated in the formation of socialist cities. Free resources encourage users to overconsume without considering affordability. Land squandering was prevalent (Fung, 1981). As there were no incentives to relinquish occupied land—no compensation—land users held their land plots virtually in perpetuity. Land use rights, a distinctive socialist institution, extended SOE land users' *de facto* property rights over assigned state-owned land (Marcuse, 1996; Zhu, 2004a).

After a 10-year trial in the Shenzhen Special Economic Zone, commoditisation and marketisation of urban land have formally replaced the free allocation of land in all

Chinese cities since 1988 when the National People's Congress approved an amendment to the 1982 Constitution that states: "the right of land use can be transferred in accordance with the law" (Zhu, 1999). Complementing an emerging market economy, public land leasing is legalised such that urban land can be leased to developers or users for a fixed period of time after a payment of rental in lump sum to the state. Land leasehold can be acquired through tender, auction or negotiation. After 30 years' practice of free allocation as a socialist production means, urban land has been restored as an economic asset.

Land leaseholds are supposedly acquired at market prices. Transfers of land rights through auction and tender are allocated through market mechanisms, reflecting the full market value of land, while purchasing leaseholds through negotiation is a practice where land prices are determined by negotiations between two parties: the local government as a seller and developers as buyers. Sales by auction and tender are transparent to the market, whereas sales through negotiation are non-transparent deals where land prices can vary very much. A dual land market has thus been invented (Zhu, 1994). Compared with the market of land acquisition through negotiation, the market of land acquisition by auction and tender is insignificant in terms of size. In the period 1988–99, 36.4 sq km land was allocated through land leasing of which 97.7 per cent was by negotiation, 2.0 per cent by tender and 0.3 per cent by auction in Shenzhen, a pioneer of the urban land reform (SZBS, 2000). During 1992–99, 17 sq km land in Shantou was leased, 98.8 per cent by negotiation and only 1.2 per cent by tender and auction (STBS, 2000). Between 1992 and 2002 in Guangzhou, a total of 251 sq km of land plots were transferred to applicants, of which 144 sq km, accounting for 57 per cent, were passed to SOEs with small payments (Li, 2002). Price disparities between the two modes of land supply are substantial. Price discounts implied in land leasing by negotiation are 80 per cent on average and, in many cases, are as much as 100 per cent

(Liao, 1994). The old system of free allocation of land survives in the guise of land leasing by negotiation. This practice is derived from the ambiguous delineation of property rights over land between the principal and agents—i.e. between the central state, local governments and SOEs. The ambiguous property rights have arisen during the gradual reform of the economic system and with the emergence of two new organisations—the local developmental state and the *danwei*-enterprises.

### 3.2 *Change in the Economic System: Gradualism and Dualism*

A planned economic system with central controls was adopted in 1949, and then top-down control mechanisms were installed, assisted by the nationalisation of economic resources. The use and allocation of resources were determined by central plans. Prices, one of the most important mechanisms in the market system for resource allocation, bore little relationship to the equilibrium of demand and supply. Demand in marketplaces was often ignored by the rigid planning system. After the disappointing performance of the planned economy for a period of 30 years, economic reform was launched in 1978 aiming towards the grand goal of building an efficient and strong economy. The rigid, centrally controlled, planning system has been under restructuring in order to give room to bottom-up initiatives. Decentralisation of economic management has set off an unprecedented transformation which is gradually replacing central directives with material incentives to the agents at local levels. Replacing the People's Commune, farm households become production units making decisions on what to grow and to sell at market prices after fulfilling the required planned output quotas. Urban SOEs are given autonomy in their production in the same manner. Commoditisation and marketisation, penetrating into the economic system at the margin initially, have been driving the economy from plan-controlled to market-led.

Nevertheless, institutional change brought about by the economic reform is intended in principle to improve productivity without fundamental changes to the system (Wang, 1994). The goal of establishing a socialist market economy has initiated changes in the economic organisations, but the political organisations, which used to be crucial components of the out-going planned economy, are still more or less in place. A noticeable trait is that pragmatism has substituted for socialist idealism. This pragmatism implanted in the reform process determines that transformation is incremental and gradual, as opposed to the drastic 'shock therapy' adopted by the former Soviet Union and eastern European socialist countries. Gradualism is meant as an instrument to legitimise rather than undermine the existing political system. The reform has thus turned out to be a process of 'muddling through' without a blueprint to guide the unprecedented changes. 'Crossing the river by groping for stones' is a succinct adage revealing the underlying philosophy. It is exemplified by how the country is opened up to foreign capital and how non-state-owned sectors grow. Both foreign capital and the private sector were driven out after the Communist Party gained control over China in 1949. Foreign investment was sought out at first in four Special Economic Zones set up in 1979, and then in 14 'coastal open cities' in 1984. Only in 1992, were cities in other regions granted autonomy to attract foreign investment with favourable policies (Qian, 2000). Initially, foreign partners were allowed as a minor party and later majority ownership was permitted. Foreign capital returning to China since 1978 has been in a dual process of gradual penetration: geographical expansion and ownership domination (Morris *et al.*, 2002). In the course of the reforms, non-state-owned enterprises have been growing and have become an indispensable component of the economy. State-owned and collective-owned enterprises accounted for 77.6 and 22.4 per cent of the total industrial output in 1978 respectively. There were no private-owned industries then. In 1999,

state-owned and collective-owned enterprises contributed 28.2 and 35.4 per cent respectively and the remaining 36.4 per cent was produced mainly by private-owned industrial firms (SBS, 2000).

In spite of these fundamental changes, gradualism remains the key spirit of the economic reform which has already been ongoing for a quarter of century. Dualism, the co-existence of new and old institutions, thus emerges as a result of compromise and co-operation. It is meant to provide a mechanism that introduces market elements while retaining planning controls for the sake of social stability. It is expected to provide a path to transition by mitigating the effects of the redistribution of political powers and economic benefits entailed in the reform process. In short, it is “to implement a reform without creating losers” who are likely to hamper the reform (Lau *et al.*, 2000, p. 122). One of the dualist measures was dual-track pricing, implemented in the 1980s and early 1990s (Wu and Zhao, 1987). Lau *et al.* explain its rationale as that

a market track is introduced under which economic agents participate in the market at free-market prices, provided that they fulfill their obligations under the preexisting plan (Lau *et al.*, 2000, p. 121).

It was applied to agricultural goods at first, and then extended to industrial goods and labour markets (Sicular, 1988; Byrd, 1991; Lin, 1992). Markets are, therefore, expected to ‘grow out of the plan’ (Naughton, 1995). Local governments as well as SOE agents take more responsibility for making decisions. Incentives for profit maximisation mediated by the market have come into force on the one hand. On the other hand, socialist redistribution between profit-making and loss-making SOEs, co-ordinated by the remnants of planning control remains effective to a certain extent (Xiao, 1991). Both co-ordination mechanisms of top-down directives and bottom-up initiatives are at work. Both material and coercive incentives, which link the principal’s goals to agents’ performance, are in place to motivate agents (Zhu, 2000).

### 3.3 *The Two New Organisations Hatched Out during Transition: The Local Developmental State and Danwei-enterprises*

The socialist state and SOEs are two essential actors in the out-going centrally planned system. Acting as an omnipotent provider, the state, together with its agents—SOEs and local governments—dominated the economy and society. Without these two organisations, the centrally controlled economy would not have been sustained. The state is transforming itself from an economic producer and socialist welfare provider to an advocate of marketisation. The socialist authoritarian state is changing from a pre-occupation with political correctness to the pursuit of economic growth in order to legitimise itself by improving the livelihood of its citizens, with the progressive reforms that are gradually phasing out unsustainable socialist welfarism and letting the market take over its role of provision. In the same vein, SOEs as agents of the socialist state are shedding their obligatory social responsibilities to become independent modern enterprises.

As the leading paradigm for the development of East Asian capitalist economies, the developmental state places top priority on economic development, productivity and national competitiveness (Johnson, 1982). China’s developmental state emerges from its origin as a socialist state in this context (White and Wade, 1988; Woo-Cumings, 1999). At the same time, devolution occurs in the central–local intergovernmental power structure and localities are given more latitude in making investment decisions and managing local growth. This process is led by the fiscal decentralisation initiated in 1984 to change the fiscal system from profit remittance to taxation levy. Local fiscal revenue and expenditure were controlled by central planning to a great extent in the pre-reform era, as the control of revenue resources was one of the very essential components of the centrally controlled planning system (Oksenberg and Tong, 1991; Huang, 1996). The kernel of revised fiscal contracts between the central and local governments is

that the latter have become 'residual claimants' of fiscal revenue—a strong incentive for local governments to pursue local economic development (Qian, 2000).

No longer being passive agents of the central government, China's provincial and municipal governments are made active actors pursuing local growth because of decentralisation, which results in competition between the centre and localities (Solinger, 1992; Wang, 1994; Nolan, 1995; Oi, 1995; Unger and Chan, 1995; Wong *et al.*, 1995; Huang, 1996). Advancing development strategies that can stimulate local growth and expanding fiscal capacity become two indispensable goals of local governments (Wong, 1987, 1992), resulting in the re-emergence of localism in China's national politics.<sup>2</sup> As a result, autonomous local governments are highly motivated to maximise local revenues and subsequent increases in the state budget deficit have compromised the central government's capacity (Breslin, 1996; Lin, 2000). China's local governments have become an economic interest-group with their own policy agenda and preferences and thus have become the *local developmental state*—a term coined to capture its unique characteristics.

The developmental state plays an active and strategic role in guiding market forces to achieve the goal of economic growth. A capitalist developmental state is "a plan-rational economy with market-rational political institutions" (Johnson, 1995, p. 28). 'Embedded autonomy', or insulation from political and social pressures, allows the developmental state to be relatively free from predation and rent-seeking (Evans, 1995). By this definition, China's local developmental state has close links (embedded) to society, but it is not independent from the political and business interests of society (insulation) (Zhu, 1999; 2002). In this regard, having the same rationale of pro-growth legitimisation, China's local developmental state is different from the paradigm of Asian developmental states in three aspects: its socialist origin, competition between localities and the tenure of its local leaders being dependent on the authorities at

a higher level. Dependence is twofold. On the one hand, the common interests in local growth entice a reciprocal relationship between the local developmental state and business interest-groups. Facing intense competition from other localities, the local developmental state endeavours to create a favourable business climate for businesses to prosper, which directly leads to local growth. On the other hand, political central control over local developmental states is still retained as a main instrument, for the Party-led central government to remain relevant. Despite the considerable experience gained by local officials in managing the locality, their political existence and advancement are still determined by the central state according to their performance. This performance has been largely measured by economic growth rates and urban physical changes. Short-term quantitative growth is thus pursued at the expense of long-term quality development.

The reform of SOEs is intended to substitute market mechanisms for mandatory planning co-ordination. Under the central planning system, the state and state-owned economic units or *danwei*<sup>3</sup> were closely related as one entity, rather than as two parties—the principal and independent agents. By separating management from the state ownership of enterprises, the SOE reform has taken several steps to change the business decision-making process and to improve production efficiency with instilled managerial responsibility and financial accountability (Aram and Wang, 1991; Fan, 1994; Perkins, 1995; Hope, 1996). After almost two decades of SOE reforms, SOEs have gained a certain, but not a complete, degree of autonomy. It is believed that government officials are still making important decisions for many large-sized SOEs based on non-economic logic (Hu, 2000). Although there has been a remarkable achievement in the ownership change of enterprises (Xu and Wang, 1999; Zweig, 2001) and although non-state-owned firms contribute an ever-increasing share to the industrial output (Scalapino, 1999), SOEs

remain the largest employers in the country. SOEs employed 78 per cent of the urban workforce in 1978 and the figure was only reduced to 55 per cent in 1999 (SBS, 2000). The SOE's role of providing full employment, jobs for life and welfare to workers made SOEs a profound socialist institution in the pre-reform era (Putterman and Dong, 2000). Socialist comprehensive welfare has been phased out in the course of reforms, but a social security system is yet to be established.

Nevertheless, rising unemployment rates, increasingly a menace to social and political stability (Weller and Li, 2000), prevent the SOE reform from further deepening (Hu, 1996; Hassard *et al.*, 2002). SOEs still have to shoulder some of social responsibilities on behalf of governments to avoid a massive outbreak of social problems. Having to retain redundant workers and shoulder the heavy burdens of welfare obligated to retired workers, SOEs can easily justify their continuous access to the soft-budget guarantees provided by the government, until the transfer of welfare provision (social safety-net) from *danwei* to local governments finally takes place.<sup>4</sup> Thus, SOEs are concerned with profits and losses, but are not entirely responsible for them. The state has to help some loss-making SOEs survive for the overriding goal of political stability. Therefore, SOEs are transformed to take a dual role. Many SOEs are both an agent of the state (*danwei*) and an actor in the emerging market (enterprise). The term *danwei*-enterprise is coined to suggest this dual nature, between a quasi-state and an enterprise. *Danwei*-enterprises, being a hybrid of independent enterprises and apparatuses of the local developmental state, possess characteristics of both *danwei* and autonomous firms.

### 3.4 Ambiguity to the Advantage of Localities

The gradual reforms without a blueprint lead institutional change on an uncharted route. The distinctions between the governing rules of the two economic entities created by dualism are often blurred to the advantage of parties with vested interests. The problematic

formulation of central–local intergovernmental fiscal relations reflects the scope of central–local tensions regarding the extent of decentralisation (Wong *et al.*, 1995). The local developmental state pushes local autonomy to the limit. Since 1978, the consistent growth of extra-budgetary funds, which are outside the central planning system, has testified to the extent of decentralisation that localities have gained (Blecher, 1991; White, 1991; Wang, 1995). While decentralisation is the spirit of the economic reforms, the central government does not wish to see its roles of central co-ordination and regional redistribution marginalised. The scope of decentralisation is thus made negotiable, which induces competition between the centre and localities. Competition without clear rules yields ambiguity.

Ambiguous property rights over state assets are pursued and administered by the local developmental state that aims to capture state assets as much as possible, for the advantage of localities. Economic growth, physical change and social stability are the fundamental objectives of the local developmental state, while *danwei*-enterprises struggle to survive and keenly pursue expansion. It is local growth that bonds the two actors. Growth coalitions, similar to 'urban regimes' (Mollenkopf, 1983; Logan and Molotch, 1987; Swanstrom, 1988; Stone, 1989; Zhu, 1999), are formed between the local developmental state and *danwei*-enterprises in China's urban politics. Ambiguous property rights are the key mechanism in the operation of growth coalitions. The local developmental state, because of its intimate involvement in the economic sphere, may still be engaged in redistribution between profit-making and loss-making SOEs in the management of local economies (Wei and Wang, 1997; Nanto and Sinha, 2002; Wang, 2002), instead of being a disinterested state for third-party enforcement of market rules and social redistribution. As agents of the local developmental state, *danwei*-enterprises are engaged in a dual role as production units for profit and as quasi-states because of their residual role in managing social stability. A reciprocal



relationship is thus found between these two organisations. *Danwei*-enterprises receiving assistance in the form of asset appropriation need to shoulder some responsibilities on behalf of the local developmental state by retaining redundant workers (Wang, 2002) and undertaking unprofitable but socially significant projects (such as slum clearance and redevelopment of dilapidated high-density housing).<sup>5</sup>

However, with the separation of control from state ownership, *danwei*-enterprises begin to command the assets held and become agents in autonomous pursuit of their own interests. Principal-agent problems emerge as a consequence of there being no simultaneous privatisation process. The line is often blurred between implicit taking of state subsidies and illegitimate poaching of state assets. The ambiguous property rights are to the advantage of local growth coalitions and at the expense of the central government's land revenue income. The local developmental state and *danwei*-enterprises are clear beneficiaries.

#### 4. An Emerging Real Estate Market Structured by Ambiguous Property Rights

Economic change in China since 1978 is significantly reflected in the degree of marketisation and openness. Increasingly autonomous SOEs, structural change in enterprise ownership and profits instead of commands as co-ordination mechanisms indicate how far the economy has progressed towards a

market.<sup>6</sup> Decentralisation and marketisation create an environment for competition and competition seemingly hatches out a market. Market orientation since the 1980s is deemed a key factor contributing to the extraordinary economic growth which has brought about rapid urbanisation and urban land development. Between 1949 and 1978, urban population as a percentage of the total national population only increased from 10.6 to 17.9. By 2001, it had risen to 37.7 per cent, with a net increment of 308.1 million urban residents between 1978 and 2001. As a result, the total urban built-up area increased from 9386 sq km (1985) to 24 027 sq km (2001) and the total building floor space in cities increased from 2.32 billion sq metres (1985) to 11.01 billion sq metres (2001) (SBS, 2002). There were no commercially developed buildings before 1978. An increasing percentage of buildings has been produced by developers in the market since the 1980s; these are the so-called commodity buildings whose prices are determined by the equilibrium of demand and supply (see Table 1).

It appears that building supply responds to demand. Buildings as economic assets are seemingly sold and bought at prices determined by buyers and sellers. Albeit not perfectly and efficiently, property prices have been changing and adjusting according to situations in the marketplace. During the period 1988–94, Shenzhen's housing prices had fluctuations of between +95 per cent and –22 per cent (ECSYRE, 1995). Entry into the development market does not seem restricted.

**Table 1.** Development of commodity buildings/housing in China and Shanghai

Year	Commodity building floor space as a percentage of the total building floor space	Commodity housing floor space as a percentage of the total housing floor space
<i>China</i>		
1994	8.1	NA
1997	9.5	NA
<i>Shanghai</i>		
1990	2.9	4.3
1994	13.5	23.7
1997	40.4	54.1

Sources: SBS (1995, 1998); SMBS (1991a, 1995a, 1998a).

There were no developers at all in 1980. In 2001, there were 29 552 developers registered in China (SBS, 2002). However, China's emerging real estate market is not a neo-classical model where the 'invisible hand' governs. It is structured by the transitional institution of ambiguous property rights.

If property rights are not clearly delineated, some valued assets will be left in the public domain, subject to open access (Barzel, 1989). Open access to land assets in the public domain brings in hasty capitalisation of land assets before the option vanishes. Because of ambiguity, *danwei*-enterprises' land use rights take priority over the landowner's rights. In the context of gradual reforms that do not endorse any long-term measures, the ambiguous property rights are hardly protectable and stable. Although robust market demands for buildings and acute shortages of urban premises (resulting from suppressed building construction in the previous era of centrally controlled urbanisation) press for supply, *danwei*-enterprises are also motivated to rush out hasty development projects in order to capitalise land assets held, rather than to maximise land value by waiting for the best timing and opportunity. Land plots could be taken back by the government (the landowner) if not developed promptly.

The ambiguous property rights further implicate the process of land development. Meant to provide certainty to ensure the maintenance of quality neighbourhoods, land use planning control as a collective property right is made uncertain because of ambiguity. The land development right as a component of land rights should be defined by land use planning which regulates the land market according to how land should be developed. China's land use planning is adapting itself from being a constituent of the centrally controlled system to being a regulation authority for the emerging market economy. Rigid control is discarded and replaced by flexible and responsive rules. While the local developmental state is not a disinterested regulatory third party in the economic sphere, the land use planning system is used as a tool by the

growth coalition which requires a great deal of discretion in the implementation of development projects. Land use planning is highly discretionary and decision-making in the planning process is not transparent at all (Zhu, 2004a). An underdeveloped legal system also contributes to an absence of effective development controls, as planning procedures and operations are often open to interpretation and manipulation by the authorities.<sup>7</sup> The land development right is highly unpredictable as it is ambiguously defined, which creates disorder in the land development market.

## 5. Ambiguous Property Rights: A Transitional Institution

### 5.1 Performance

Under the auspices of local growth coalitions, the institution of ambiguous property rights over urban land has helped to create a local property development industry and to open up a market for urban land redevelopment which was locked up by the old socialist institution. As a result, many of China's cities have seen tremendous urban physical growth since the late 1980s. Prior to 1980, the development of socialist cities was entirely a matter for the state, as the state owned all the means of production. All land and building developments were carried out either by governments on behalf of users or by occupants themselves. Marketisation and rapid economic growth in the 1980s at first created a market of user demand for land and buildings from overseas investments and local businesses. A property development industry was needed to meet the market demand for premises. A substantial amount of capital required up-front, however, hindered any SOE from initiating developments. SOEs had not been moulded as real enterprises operating under market conditions and there was hardly any source from which to raise development finance. The first generation of local developers grew up by participating in joint-ventures between foreign development capital and local land plots in the late 1980s. The local SOE partners were given access to land as initial capital to

contribute to the venture. The ambiguous property rights allowed these SOEs to appropriate state land assets. A strong demand for buildings and initial state land assets brought back market-oriented local developers, after an absence of 40 years from China's cities (Zhu, 1999). In Guangzhou, for example, there were 553 local developers in 1994. The number of developers went up to 925 in 2001 (GZBS, 2002).

Due to dynamic market demands, the widening gap between the potential capital value of 'the highest and best land use' and the present capital value<sup>8</sup> of the existing land use constituted a powerful incentive for land redevelopment in many vibrant Chinese cities where many existing structures had been built before 1949. However, redevelopment of these brownfield sites remained hampered by the sitting land users, although land leasing has led to a development market for greenfield sites since 1988. There was hardly any leasing of brownfield sites for redevelopment before the early 1990s. Capitalisation of the land capital value gap had a supply-side constraint, tenants' land use rights having become *de facto* ownership rights. SOE land tenants were then offered an option to develop land plots based on their land use rights, which was meant to eliminate the supply-side constraint, and land redevelopment could be carried out in response to market demand. This measure, based on the institution of ambiguous property rights, should be considered effective in freeing land redevelopment shackled by old institutions during the transition. A survey reveals that during 1992–2000 in a district of Shanghai, 77.6 per cent of a total of 8.26

million sq metres of building floor space were developed on sites of that nature (Zhu, 2004a).

The era of economic reforms since 1978 can be divided into three periods with regard to the characteristics of land development: Period I (1978–87) when land was still a free means of production; Period II (1988–92) when greenfield land sites were developed extensively under the new regime of land commoditisation; and Period III (1993–present) when brownfield land sites were brought into the land market by *danwei* land users. According to a sample of five cities, land and building developments occurred in ever-increasing numbers (see Table 2). Nationally, on average, the floor areas of buildings under construction in 1995 were 80.3 per cent more than those in 1990. An examination of seven provinces/municipalities (Shanghai, Zhejiang, Shandong, Guangdong, Hainan, Guizhou and Gansu) revealed that there were increments of between 14.6 per cent (Gansu) and 127.6 per cent (Zhejiang) during the same period (SBS, 1991; 1996). Shantou, a medium-sized city in Guangdong Province, saw its built-up area expand from 7.8 sq km (1979) to 63.7 sq km (1999) in a period of just 20 years (STSB, 2000). Dongguan, a county town in the same province, witnessed its urban area increasing from 16.2 sq km (1988) to 41.1 sq km (1993) (Yeh and Li, 1999). Between 1993 and 2000 in a district of Shanghai, 4.81 million sq metres of building floor area were constructed, while 2.49 million sq metres of old structures were demolished (SMBS, 1994b–2001b). The total building stock by 1990 was 9.08 million sq metres (SMBS, 1991b). These figures suggest that a quarter

**Table 2.** Development of buildings, floor space on average every year (million sq metres)

	Shanghai	Guangzhou	Wuhan	Xi'an	Chengdu
Period I, 1978–87	8.35	3.92	2.88	1.88	6.19
Period II, 1988–92	9.58	6.29	5.36	2.11	10.49
Period III, 1993–2000	21.97	12.62	10.13	4.23	17.95
Increase rate, I–II (percentage)	14.7	60.5	86.1	12.2	69.5
Increase rate, II–III (percentage)	119.3	100.6	89.0	113.6	71.1

Sources: SMBS (2002a); GZBS (2002); WHBS (2002); XABS (2002); CDBS (2002).

of the building stock was demolished and 53 per cent was added during the period. Similarly, during the same period, building construction and demolition in the whole city of Shanghai were undertaken on an unprecedented scale: 131.2 million sq metres constructed and 30.5 million sq metres demolished (SMBS, 1994b–2001b). In all, 17.7 per cent of the total building stock of 172.6 million sq metres in Shanghai municipality in 1990 was demolished during 1993–2000.

### 5.2 *Implications*

The ambiguous property rights, however, induce rent-seeking. Price disparities between the two land markets (land leasing by auction/tender and land leasing through negotiation) generate rents.<sup>9</sup> It has been estimated that, during the period 1987–2000, 300 000 ha of land were leased out nationwide, of which only 5 per cent was through auction and tender.<sup>10</sup> Rent dissipation reportedly occurred at a rate of about ¥10 billion every year at the cost of the state landowner's revenue income.<sup>11</sup> It is the two-tier incentive structure that has constructed the dynamics of building construction booms. On the one hand, the commoditisation and marketisation of buildings make property development a viable business driven by profit-pursuing. On the other hand, the capitalisation of land rents generated between the two land markets is another driving force behind rapid land (re)development. Since property development projects on publicly leased land make up an insignificant fraction of the total supply of commodity space, the unprecedented urban physical change in the 1990s is mainly accounted for by the developments in another land market which was driven by property demand as well as by the capitalisation of land rents.<sup>12</sup>

Oversupply of commodity buildings occurred as a result (Jackson, 1997; Zhao *et al.*, 1998). Shanghai was allegedly facing the biggest property glut in its history in the late 1990s (Lee, 1998; Haila, 1999). Between 1991 and 2000 in Guangzhou, 54.6 million sq metres of commodity buildings were on

sale and only 30.5 million sq metres were sold. The unsold floor space accounted for 44 per cent of the total. Similarly, during the same period, 30.4 million sq metres of commodity housing were on sale and only 22.5 million sq metres were sold (Li, 2002).

Hasty land developments are driven by land holders' rent-seeking behaviours, because rents generated from the dual land market cannot be safely stored for long during an uncertain transition period. Gradualism implies unpredictable changes and dualism will not be perpetual. The ambiguous property rights, based upon gradualism and dualism, are thus insecure. When uncertainty occurs, it prevents actors from making rational and most appropriate decisions because of not knowing the causality, which deprives actors of a long-term perspective. Land leasing projects can wait for the best timing to be initiated because of secure property rights. Furthermore, risk is part-and-parcel of real estate businesses. Underpriced land causes a weak sense of risk-bearing, which makes developers less cautious in initiating projects than they should be if land is acquired at market prices. Uncertainty induces prompt capitalisation of land rents. Capitalisation of land rents has to be materialised only through undertaking land (re)development. The opportunity of rent capitalisation could be otherwise lost. Between 1997 and 2002, 1466 ha, out of a total of 8550 ha of sites which were not promptly developed, were taken back from land holders by the Guangzhou municipal government (Li, 2002).

The ambiguous property rights compromise the third-party role of the state in the emerging land market. Having sampled the cases of development control dealt with by the Shanghai Municipal Planning Bureau in the 1980s, a survey disclosed that 46.8 per cent of the cases were in discordance with the requirements of the land use master plans, after 3.3 times of negotiation (bargaining) on average for each case (Sun and Deng, 1997). The author's survey shows that the bargaining propensity did not change much in the 1990s. Numerous negotiations are observed from a sample of 23 cases which are selected from

a census of 296 real estate projects conducted during the period 1992–2000.<sup>13</sup> The bargaining results in many discrepancies. After negotiations, revision rates in 4 development control parameters (land use, plot ratio, site coverage and building height) reach the extent of 71 per cent. Bargaining even goes into the construction stage. Discrepancies in the same 4 planning parameters reach 34 per cent between what are stipulated in land use planning and what are actually built. Almost all cases bargain for higher densities and more floor space. Externalities imposed by these alterations fail to internalise and certainty for the real estate market is seriously undermined. Furthermore, there are rents generated from changing land use and land use density. This planning system thus invites rent-seeking and creates disorder in the land development market.

Sub-optimal developments ensue. A comparison between two compatible groups (in similar locations) of redevelopments shows that land leasing projects are overall of higher quality than those projects with ambiguous property rights (see Table 3). Developers who have acquired land through land leasing at market prices are under cost pressure to distinguish their products from the competition of low-priced alternatives. As a result, a sub-market emerges where tenants are willing to pay 30–40 per cent more rent for office buildings developed in the land leasing mode. Office buildings developed in this mode saw an average vacancy rate of 7.1 per cent (based on 19 samples) and

those developed in the mode of ambiguous property rights suffered an average vacancy rate of 14.1 per cent (based on 8 samples) by the end of 2002.

Rent-seeking inevitably implicates government officials in charge of land allocation. Between 1999 and 2002, there were 549 000 cases of corruption involved with land deals, and 3800 officials were accused nationwide.<sup>14</sup> All the costs incurred by the institution of ambiguous property rights are increasingly becoming greater than its benefits.

### 5.3 *Pushing for Further Institutional Change*

Institutions are generated to cope with pervasive uncertainty in the human world (Heiner, 1983) and institutions “reduce uncertainty by providing a structure to everyday life” (North, 1990, p. 3). Formation of rules thus aims to reduce complexity and uncertainty and to lower transaction costs (Williamson, 1985). Although providing incentives to land (re)development, the ambiguous property rights as unwritten and informal rules do not provide certainty for the emerging real estate market. Therefore, the ambiguous property rights are a transitional institution. Further institutional change is propelled by organisational change in the context of market competition. The local developmental state and *danwei*-enterprises, two prominent organisations during the gradual reforms, are given room and time by the ambiguous property rights to be transformed gradually while market mechanisms develop. The local

**Table 3.** Comparison of the quality of office property developments

	Class A as a percentage of the total	Class B as a percentage of the total	Class C as a percentage of the total
Developments in the mode of land leasing	74	26	0
Developments in the mode of ambiguous property rights	23	62	15

*Note:* classification of office property is done by local real estate consultants based on building quality. Class A is the highest and Class C the lowest among the three classes, while Class B is in between. These statistics are based on a sample of 36 cases.

*Source:* author's survey.

developmental state adapts itself to fit into the market and *danwei*-enterprises evolve to become full market players.

The SOE reforms deepened in the mid 1990s when the term 'socialist market economy' was officially coined, indicating the long-term direction of economic reforms. Privatisation of small and medium-sized SOEs and the corporatisation of large SOEs began. Many SOEs have since completed the transformation towards shareholding companies and have been listed on the Shanghai and Shenzhen Stock Exchanges (Broadman, 1995; Iskander, 1996). SOE's roles in urban physical development have been diminishing (see Table 4). In Guangzhou, SOE developers' share in the real estate development market in 1995 was 46.3 per cent in terms of floor space. Their share in 2001 dropped to 13.3 per cent (GZBS, 2002). Non-state-owned entities and private firms are taking over SOEs as main actors in the new economy. The *danwei* is fading out and *danwei*-enterprises are discarding their *danwei* responsibilities and becoming independent enterprises. The amount of housing purchased by *danwei* at market prices and then assigned to employees at subsidised prices has been decreasing. A total of 78.5 per cent of all housing units in the market were sold to *danwei* in the period 1991–93 (SMBS, 1994b). This dropped to 2.8 per cent in 2002 (SMBS, 2003b).

Without insulation from the political and social interests of society, China's local developmental state is not a detached and disinterested state. A strong pro-growth position and weak leverage in guiding market forces make local governments and the state unable

to play the role of the third party. The local developmental state is not so conducive to the construction of a market. The land use planning system is an illustrative case in this regard. Land use planning is intended to reduce or eliminate the impact of negative externalities and thus it is expected to lead to an efficient and equitable land use structure. Without appropriate land use planning controls, sub-standard overcrowded 'urban villages' appear in many of southern China's cities (Jin, 1999; Du, 1999; Zhu, 2004b). Sub-optimal developments are mostly related to the land plots with ambiguous property rights. Market competition exposes the inferiority of these projects, resulting in high vacancy rates in these buildings. Slums in the midst of glittering modern buildings and a large amount of vacant buildings damage the creditability of local developmental states. Moreover, the local developmental state and *danwei* enterprise coalition is gradually losing its relevance while *danwei*-enterprises are becoming autonomous enterprises. It is in the best interest of local governments to take the third party role to provide order to the market where building development is increasingly commoditised (see Table 5).

Having seen rampant irregularities, rent dissipation and political threats caused by land-related corruption, the central government decided to clarify land rights, while the institution of ambiguous property rights has been found to be no longer serving its purposes in the advanced coastal cities. Since 1 July 2002, urban land leasing has been governed by Decree 11—Regulations on Land Leasing through Auction and Bidding, issued by the Ministry of Land

**Table 4.** Investment in fixed assets by SOEs as a percentage of the total in five cities

Year	Shanghai	Guangzhou	Wuhan	Xi'an	Chengdu
1980	88.6	94.5	96.7	97.2	93.3
1985	80.9	86.4	78.5	88.2	71.8
1990	84.7	89.0	86.6	89.0	70.3
1995	59.8	61.9	59.0	59.8	50.2
2001	38.1	46.4	50.0	58.1	49.3

Sources: SMBS (2002a); GZBS (2002); WHBS (2002); XABS (2002); CDBS (2002).

**Table 5.** Commoditisation of building development in Shanghai

Year	Commodity building floor area as a percentage of total building floor area	Commodity housing floor area as a percentage of total housing floor area
1998	46.7	63.3
2000	50.2	80.8
2001	64.0	90.8

Sources: SMBS (1999a, 2001a, 2003a).

Resources on 9 May 2002. Since 1 August 2003, urban land leasing through negotiation has been strictly controlled by Decree 21—Regulations on Land Leasing through Negotiation, issued by the same ministry on 11 June 2003. It appears that the state land-owner's property rights over urban land have been strengthened. Since 2002, there have been 9 launches of land sales through transparent public bidding in Shanghai, which are publicised on the government website,<sup>15</sup> while during the period 1988–95, only 9 out of a total of 1303 land plots were allocated through tender (Zhao *et al.*, 1998).

Nevertheless, the ambiguous property rights may still be needed to advance local growth by strengthening local growth coalitions in less-developed regions. Market-driven economic growth has not occurred evenly throughout the whole country (see Table 6). The degrees of marketisation and commoditisation are lower in the central and western regions where SOEs remain dominant in the economy. There are indications that the new decrees issued by the Ministry of Land Resources may not be strictly observed in

less-developed cities. As of 2003, there were 3837 development zones nation-wide with a total area of 36 000 sq km, of which only 232 were approved by the central state council and 1019 by the provincial governments.<sup>16</sup> Most of the development zones without the blessing of upper-level authorities are set up by localities in the central and western regions. Under the regime of ambiguous property rights, land in development zones has already been conveyed at very low prices to local-government-owned land developers, and thus is beyond the jurisdiction of the new decrees which only control land conveyance from local governments. It is perceived that the ambiguous property rights practised in the developed cities in the 1990s would still be practised in developing cities in the 2000s, as the institution offers an incentive conducive to local growth in the initial stage of marketisation.

## 6. Conclusion

China's emerging urban land markets are structured by the new institution of ambiguous

**Table 6.** Regional disparities in economic growth and marketisation (2000)

Region	Population as a percentage of total	Urban population as a percentage of total	GDP as a percentage of total	Development of commodity building as a percentage of total	Percentage of total industrial output contributed by SOEs
Eastern region <sup>a</sup>	42.4	52.2	59.4	62.4	38.0
The rest <sup>b</sup>	57.6	47.8	40.6	37.6	70.1

<sup>a</sup>The Eastern region comprises Beijing, Tianjin, Hebei, Liaoning, Shanghai, Jiangsu, Zhejiang, Fujian, Shandong, Guangdong, Guangxi and Hainan, with a land area of 1.3 million sq km.

<sup>b</sup>The rest (Central and Western regions) consists of the remaining 19 provinces with an area of 8.3 million sq km.

Source: SBS (2001).

property rights which has evolved from the socialist people's ownership of land in the context of economic reforms characterised by gradualism and dualism. The new institution has helped the local growth coalition between the local developmental state and the *danwei*-enterprises in their endeavour to develop the local economy. It has also facilitated the release of land, formerly locked up by the old socialist institution, to the urban land redevelopment market. Although regarded as a positive change towards the establishment of land markets in a matrix of institutions related to central planning, the ambiguous property rights create land rents. Capitalisation of land rents undermines the emerging land market: the distorted equilibrium between demand and supply leads to building booms and oversupplies, and the absence of the state as the third party gives rise to inadequate order in the land development market. The ambiguous property rights do not achieve what an institution should—providing certainty to the market and incentives for the optimal utilisation of resources. The institution of ambiguous property rights is deemed transitional as the cost it incurs is increasingly becoming greater than the benefit it brings.

Building effective institutions for markets is a great challenge to many developing countries and transitional economies. In this endeavour, the state is a crucial actor and its capacity is a key factor. A critical test for the transitional economies, which are undergoing a make-over from a centrally controlled system to a market economy, is to build market mechanisms in their economies. Market failures are prevalent in many developing countries, evidenced by shortages of basic private/public goods such as housing and infrastructure. One of the characteristics of the Third World countries' urbanisation is that informal developments dominate in their cities (Brennan, 1993). However, it has been argued that market failures are often caused by government failures (World Bank, 2002). A functional market would not exist without effective market institutions

and building institutions for the market is a challenging task for the state as well as for the community. China's experience in establishing urban land markets has demonstrated that openness, competition and a capable and responsive government are the critical factors in the process of institutional change towards a market system. The state has a very constructive role to play in the building and managing of functional markets. Functional markets cannot be established instantly, as building market institutions is always a gradual process.

With broadening openness and intensifying competition, local economies of the advanced regions have progressed to a phase where it is quality development, instead of speedy but shoddy growth, that measures the performance of local governments. It is not so necessary for the local government to help SOEs at this stage as SOEs are increasingly being weaned from state subsidies to stand on their own feet and non-state-owned-enterprises are taking a leading role in the economy. When the shortage of urban premises comes to an end, thanks to the economic reforms, inferior developments brought in by the transitional institution are exposed and discredited, rather than serve, the local developmental state. The continuous decentralisation since the reforms has somehow been making the central government a regulatory state playing the role of the third party, while the local developmental state is an active actor in its local economy. Since 2002, the central government has reiterated that it should strengthen its governance of urban land leasing and has stressed its property rights over urban land.<sup>17</sup> Without an effective state serving as the third party, uncertainty could induce disorderly short-term behaviour in the market. An orderly invention with measures to spread risks would be a viable option when there are governments maintaining order. Institutional change for the establishment of land markets in urban China is on the path towards a complete system of state land leasehold where the state principal's rights over land are fully in force.



## Notes

1. Clause 4, Article 10 of the 1982 Constitution stipulates: "Urban land belongs to the state. ... No organisation or individual may appropriate, buy, sell, or lease land, or unlawfully transfer it in any way".
2. In the late 1980s and early 1990s, local governments bargained for retention of more fiscal income and pushed the central state to the limit in granting special policies to localities for offering preferential measures in order to attract foreign investment (Reich, 1991; Nolan, 1995). The central state's role in national development is undermined owing to insufficient central fiscal funds (Wang, 1994). The declining capacity of the central government in redistributing budgetary funds between regions inevitably revives competition between localities (Goetz and Clarke, 1993). On 2 March 2003, a report on the competitiveness of Chinese cities was published by the China Academy of Social Sciences, which ranked cities according to their achievements in sciences and technologies, economic growth rates, etc. Hong Kong was ranked the first, followed by Shanghai and Shenzhen (<http://finance.sina.com.cn/g/20030303/0751316063.shtml>; accessed 16 July 2003). Seeing Guangzhou ranked sixth, behind Shenzhen in the same province, the mayor of Guangzhou complained and doubted if the ranking was fairly done (<http://news.sina.com.cn/c/2003-03-09/1402939281.shtml>; accessed 16 July 2003). After Beijing had won the 2008 Olympic Games, and Shanghai 2010 Expo, Guangzhou felt left behind these competitors and decided to bid for the 2010 Asian Games. It has won the bidding.
3. State-owned units in socialist countries, or *danwei* in China, are a link in social redistribution chains. The *danwei*, literally meaning work unit in English, is a profound socialist institution which used to be essential and is, to certain extent, still important to Chinese urban residents. The functions of *danweis* are more than just organising required production. They are a mechanism through which the state distributes socialist welfare to workers (Li, 1993).
4. SOEs had heavy 'social burdens', providing an array of social services (housing, medical insurance, pensions). A quick look at the issue of retirees reveals the enormous social obligation borne by SOEs. Retirees accounted for 25 per cent of the total number of urban workers in 1997; about 20 per cent of SOEs' capital assets were buried in social projects; housing for employees cost SOEs an extra 35–40 per cent of total wages; and, the cost for medical care accounted for 12 per cent of total wages (Liu, 1997).
5. Shanghai's housing development and provision in the 1980s and 1990s are an example in illustration. Commoditisation or privatisation leads to an increasing share of private housing in the market over the years and private housing has become the norm for housing supply since the late 1990s. There was no commodity housing in 1982. However, provision of commodity housing accounted for 95.2 per cent of total housing space supplied in 2000 (SMBS, 2001a; 2001b). Commodity housing sold to households had to be subsidised by the state in the 1980s. While the percentage of households buying housing at market prices has been increasing since the late 1980s, *danwei*-enterprises have taken over the role of the state by assigning their employees subsidised housing which is purchased directly in the market. During 1982–84, *danwei* acquired 31.0 per cent of total housing units at market prices. In the period 1991–93, *danwei* purchased 78.5 per cent of total housing units in the market (SMBS, 1994b).
6. Openness brings in competition and thus enhances consumer sovereignty. Only 3 per cent of total retail sales in China were transacted at market prices in 1978 (Naughton, 1995, p. 14). By the late 1990s, 60–70 per cent of goods and services had their prices determined in the market (Zhao, 1999). Imports and exports as percentages of GDP suggest how open an economy is to the world economy. Imports and exports only accounted for 5.2 and 4.6 per cent of China's GDP in 1978 respectively. The percentages rose to 21.2 (imports) and 23.3 (exports) in 2002 (SBS, 2003). Whereas, the sum of exports and imports as a percentage of GDP is about 30 per cent in America, Japan, India and Brazil (Woodall, 2004, p. 8).
7. China's land use planning system is elaborated thoroughly by Xu (2001), Ng and Xu (2000) and Xu and Ng (1998). An illustrious case about the workings of the planning system is provided by Xu (2001). During the period 1992–96, the mayor of Guangzhou issued at least 2000 memos to the city planning bureau to request planners to follow his suggestions in dealing with development applications.

8. The present capital value of land is "net returns expected to be earned in future years" (Harvey, 1987, p. 97).
  9. According to Krueger (1974) and Tullock (1993), rent-seeking normally arises in the context of artificial interference with markets by the state whose restrictions give rise to rent in a variety of forms. It is a societally costly pursuit of transfers, when individual efforts to maximise value generate social waste rather than social surplus (Buchanan, 1980, p. 4), so-called the welfare-reducing effects of political competition over redistribution (Olson, 1982).
  10. See <http://www.people.com.cn/GB/14857/15304/21521/2081658.html>; accessed 10 September 2003.
  11. See <http://www.peopledaily.com.cn/GB/14857/22238/28463/28464/2015058.html>; accessed 10 September 2003.
  12. Several in-depth case studies can be found in Wang and Hung (1997), Zhao *et al.* (1998), Wu and Zhang (2000) and Zhu (2002, pp. 50–51).
  13. It is noticed that land acquired through open leasing is not subject to negotiation. Negotiations for changing land development parameters occur on land held by *danwei*-enterprises.
  14. See <http://www.people.com.cn/GB/2014899.html>; accessed 24 September 2003.
  15. See <http://www.shanghai.gov.cn>; and <http://www.shfdz.gov.cn/tdsyqcr/zbzg.asp>; accessed 20 October 2003.
  16. See <http://www.people.com.cn/GB/14857/22238/28463/28464/2015058.html>; accessed 10 September 2002.
  17. Decree 11 [2002] regulates land leasing through auction and bidding. Decree 21 [2003] regulates land leasing through negotiation. Decree 71 [2004] requires that Decree 11 should be applied to all previous land leasing cases and those outstanding cases should be settled by 31 August 2004. In October 2004, the Prime Minister Wen Jiabao spoke to local land bureau cadres on the central government's determination to manage national land assets effectively. The State Council released a document about strict controls over land leasing in December 2004.
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