

## **DRIVERS OF CHINA'S URBANISATION AND PROPERTY DEVELOPMENT**

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**ABSTRACT:** The mainstream scholarship that seeks to explain China's urban development tends to favour a macro discourse that focuses on institutional factors, such as globalisation, economic growth, and national policy reforms. These are important contributing factors, but they do not necessarily suffice to capture the complexities and interrelations of the immense magnitude of China's urban development. In this article, I approach the endogenous factors to explain China's urban development through the lenses of urbanisation and property development. I posit a dichotomy of institutional drivers and non-institutional drivers. I argue that the dichotomy of institutional and non-institutional drivers provides an integrated framework to explain China's urban development, and fills the gap of missing non-institutional drivers in the mainstream scholarship. Discussions through this dichotomy reflect progress, identify problems and suggest further research agendas for both institutional and non-institutional drivers.

**KEY WORDS:** urbanisation, property development, drivers, China

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### **1. INTRODUCTION**

China's contemporary urban changes are transformative rather than transitional, functioning through a variety of complex and interrelated factors that are manifesting themselves in an expanding urban landscape (Morley, 2009). An increasing amount of scholarship has been produced to crystallise factors out of these complexities and interrelations. However, the mainstream scholarship tends to favour a macro discourse that focuses on institutional factors, such as globalisation, economic growth, and national policy reforms. These are important contributing factors, but they do not necessarily suffice to capture the complexities

and interrelations of the immense magnitude of China's urban development. Important factors are missing from the scholarship.

In this article, I approach the endogenous factors to explain China's urban development, through the lenses of urbanisation and property development. I posit a dichotomy of institutional drivers and non-institutional drivers. The institutional drivers refer to the policy reforms and institutional changes that have directly shaped China's urban development as policy objectives. The non-institutional drivers are not directly related to policy reforms or institutional changes; rather, they are informal factors that characterise China's social, cultural and political conditions, or they are derivative effects of the institutional drivers. Compared with the roles of their institutional counterparts, the roles of the non-institutional drivers in China's urban development are less conspicuous and more elusive; hence, they have attracted less attention. I argue that the dichotomy of institutional and non-institutional drivers provides an integrated framework for explaining China's urban development, and fills the gap of missing non-institutional drivers in the mainstream scholarship.

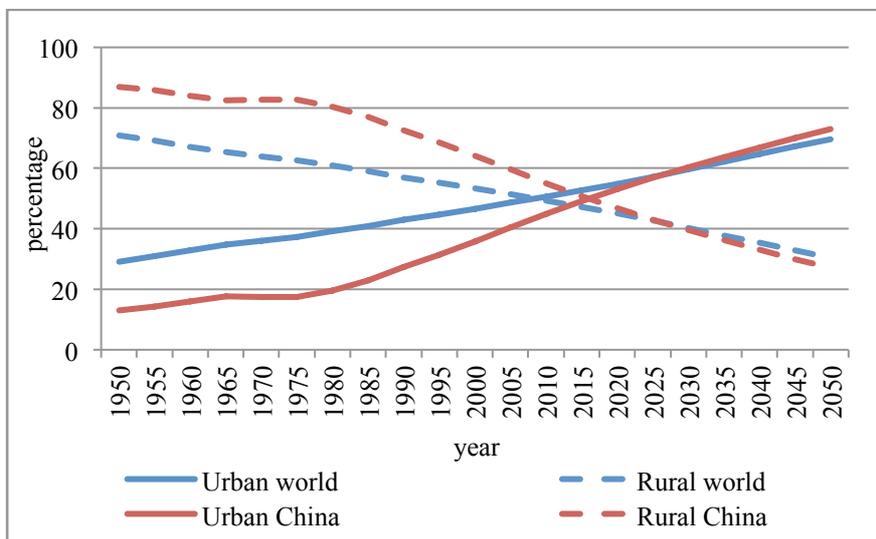
Following this introduction, section 2 presents a literature review that identifies the knowledge gap and justifies this article's propositions for explaining China's urban development. Section 3 discusses the institutional drivers in three areas – land reform, housing reform and property law – with a critical assessment of their progress and problems. Section 4 examines the non-institutional drivers, including demographic movement, entrepreneurial governments, consumer behaviours, and market speculation. The last section summarises the previous discussions and suggests two further research agendas. First, the problems inherent in the institutional drivers point out future reformist directions. Second, the insufficient coverage of the non-institutional drivers in the mainstream scholarship requires continuing theoretical and empirical research.

## **2. EXPLAINING CHINA'S URBAN DEVELOPMENT: WHAT HAS BEEN SAID AND WHAT IS MISSING?**

A classic definition of urbanisation is provided by urban sociologist Kingsley Davis (1965); urbanisation refers to the proportion of the total population concentrated in urban areas, or else to a rise in this proportion. Based on this definition, Hu (2008) asserts that the half-century between 1980 and 2030 is China's urban age because the country's annual urban population growth rate is much higher than the world's average. China's annual urban population growth rate was especially higher in the period

between 1980 and 2005, when China was the driving centre of the world's urbanisation development.

Figure 1 compares the urbanisation rates of China and the world in the past and the future. The world urbanisation rate surpassed the milestone line of 50 percent in 2007. It is estimated that China's urbanisation rate will reach 50 percent in around 2015. However, estimates vary depending on data sources and calculation methods. A report released by the Chinese Academy of Social Sciences at the end of 2011 indicated that more than 50 percent of people already lived in cities and towns in China in 2011.



Data Source: Population Division of the Department of Economic and Social Affairs of the United Nations Secretariat.

**Figure 1.** Urban and Rural Population Percentages of the World and of China: 1950-2050

China is midway through its urban age. At the 17<sup>th</sup> Congress of the Communist Party of China in 2007, President Hu Jintao announced China's target of reaching urbanisation rate of 60 percent by 2020. A study by the McKinsey Global Institute reveals that if China's current urbanisation trend continues, then nearly one billion Chinese people will live in cities by 2030 (Woetzel et al., 2008). If China has One billion urban populations in 2030, then the country will contain 221 cities with populations of more than one million compared with 35 cities in Europe

today, of which 23 cities will have more than five million people. In addition, 40 billion square metres of floor space will be built, 5 billion square meters of road will be paved and 170 mass-transit systems could be built.

The literature that explains China's urban development has provided two broad categories of driving factors. One category is global forces; the other is local forces. The former refers to the exogenous factors of globalisation, such as foreign direct investment (FDI), technological progress, and knowledge diffusion. The latter refers to the endogenous factors of policy reforms that seek governance decentralisation and marketisation. The marked difference is that the exogenous factors enjoy a certain degree of independence from the endogenous factors, although their influences are interrelated. It is the 'synergetic' effect of global and local forces that transformed urban China (Wu, 2001). These two categories of driving factors correspond with the Chinese slogan of 'reform and opening up' which summarises the need to reform local policies and the need to open up to global forces.

The literature on globalisation as an exogenous factor has particularly focused on the role of FDI. FDI's role has been more than simply providing investment for developing China's economy and cities. FDI has been more productive than domestic investment through bringing management, technologies, training, overseas markets, and favourable policies and infrastructure construction by the local governments (Fujita and Hu 2001). FDI is identified as a significant contributing factor in economic growth in the forms of agglomeration economies, employment increases in manufacturing and services, and per capita gross domestic product (GDP) growth (He *et al.*, 2008; Lin and Song 2002; Zhang, 2002). Empirical analyses also find that FDI is a positive contributor to China's urban growth rates and a significant source of urban economic growth (He and Zhu 2010; Wu and Barnes 2008; Zheng *et al.*, 2010).

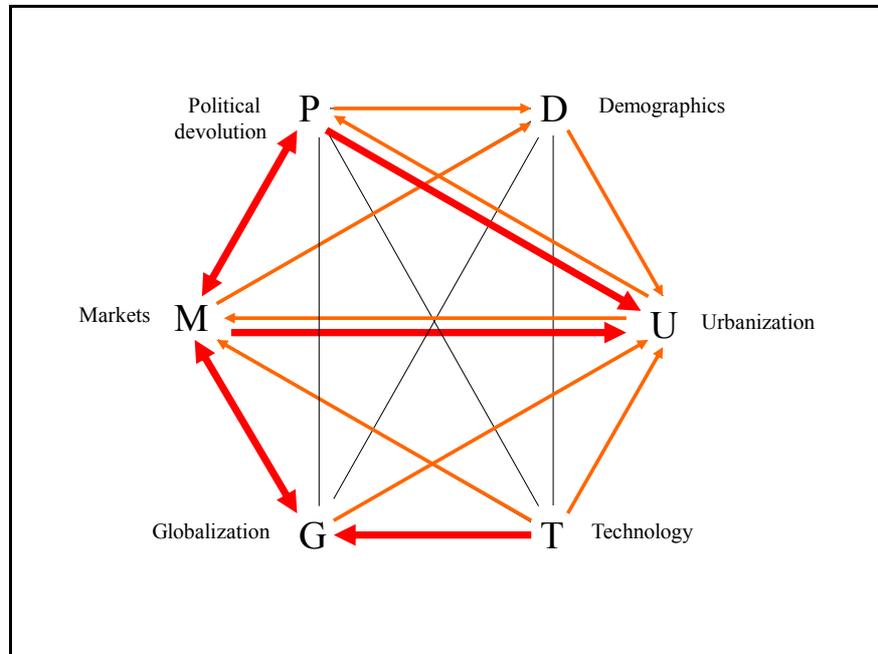
The roles of FDI and other global forces in driving China's economic growth and urban sector have been examined through the expansion of productive factors, like physical capital, human capital, labour and technology (Ding and Lichtenberg 2011). According to this strand of literature, the global forces have contributed to the country's economic growth, which has led to urban spatial expansion. In the association between economic growth and urban expansion, urban expansion has been viewed as an outcome of economic growth (Anderson and Ge 2004; Seto and Kaufman 2003). However, Ding and Lichtenberg (2011) employ an opposite angle to investigate how urban spatial expansion influences economic growth in Chinese cities. They find that land availability has a

larger proportional impact on economic growth than domestic and foreign investment, labour supply, and government spending. The importance of urban land in economic growth helps explain the driving forces that cause urban development to achieve economic growth, and the local governments' pro-growth land management policies.

The literature on the endogenous factors has centred on the decentralisation of the state government's control and the marketisation of land and housing. Both decentralisation and marketisation are outcomes of institutional reforms. The state government decentralised its governance of economic decision making and public finance (Ding and Lichtenberg 2011; Lichtenberg and Ding 2009). Through relaxing controls over investment decisions and growth management, the state government transferred its responsibilities to governments at local levels. The result was the 'local development state', a term that refers to pro-development local governments that are dedicated to economic growth (Zhu, 2004b). Decentralisation has proven to be more efficient in promoting economic development, since local officials are more informed about local economic conditions and needs and are more responsive to local economic demands (Jin *et al.*, 2005). With a top-down reformist mechanism, promoting economic growth has been a priority for all levels of the Chinese government. At the same time, the decentralised public finance reform allocated tax revenues in favour of the central government at the expense of local governments, which presented financial pressures on local government officials. Land development offers the promise of promoting economic growth and relieving financial pressure at the same time (Lichtenberg and Ding 2009). Decentralisation of state control has promoted China's urban development both directly and indirectly.

No literature on the endogenous factors has missed the marketisation of land and housing, the most important variables in urban development. The marketisation of land and housing has been of strategic importance in China's urban development as well as overall economic reform. The purpose of land reform was to encourage a more efficient use of urban land through economic incentives; the housing reform aimed to increase housing investment (Wu, 2001). Much literature has documented the evolutions of these reforms, and their impacts on China's urban development (Li *et al.*, 2010; Logan *et al.*, 2009; Song, 2010; Xu *et al.*, 2009; Zhu 2004a). Linking these endogenous reforms with the exogenous factor of globalisation, Wu (2001) argues that economic globalisation has created an imperative for growth, and that land and housing reforms have provided the needed internal changes.

There are scholarly efforts trying to clarify the relationships between the interrelated factors, exogenous and endogenous. Heikkila (2007), for example, proposes a simultaneous model of interaction where urbanisation is neither a lone dependent nor independent variable, but part of an interrelated web of mutualities that feed on each other while transforming each other (see Figure 2). The identified contributing factors of China's urbanisation are transition to a market-driven economy, political devolution, demographic changes, globalisation, and technological change, which basically include the important variables in most literature. In line with the mainstream scholarship, Heikkila (2007) highlights two primary and interlocking causal chains to explain China's urbanisation: one exogenous and one endogenous. The exogenous causal chain represents the forces of globalisation, linking the factors of technology, globalisation, and market to impact urbanisation. The endogenous one is dominated by the strong mutuality between the factors of markets and political institutions, both affecting urbanisation forcefully. Of all the factors of China's urbanisation, Heikkila (2007) concludes, markets are the central contributing factor, with globalisation and political institutions as important helpmates. Heikkila (2007) offers a conceptual model for approaching China's urbanisation. In this model, the relationships of causality and mutuality between factors are mostly based on a scholarly consensus. Overall, this model summarises the mainstream scholarship that explains China's urban development. Questions may be raised, however, concerning the suggested relationship between certain factors and the weighting of such relationship. For example, demographics are depicted as a contributing factor of urbanisation in a one-way direction. China's urbanisation has resulted from, as well as contributed to, the massive rural-urban migration; hence, a more accurate depiction of this relationship is not a one-way causality, but rather a mutuality.



Source: Heikkila 2007, p. 67.

**Figure 2.** Contributing Factors in China's Urbanisation

An overview of the mainstream scholarship on explaining China's urban development has revealed a few outstanding features:

Most literature is built upon a macro discourse to focus on the global and local forces, or the exogenous and endogenous factors, such as globalisation, economic growth, and policy reforms. China's urban development is approached as a node in an interlocking web of causality and mutuality. China's urbanisation has occurred as a consequence of strategic transformations in economic, political and social domains. In addition China's urbanisation has also contributed to such transformations.

The literature on the endogenous factors is dominated by a focus on institutional changes. The institutional changes range from macro national reforms to specific policy reforms with regard to urban development. Representative reforms of the former category include decentralisation of governance power and public finance responsibilities from the central government to local governments. Representative reforms of the latter category include the marketisation of land and

housing, and the establishment of a housing financing market. As institutional drivers, these reforms have been instrumental in China's urban development.

China's urbanisation is a multidimensional process, a phenomenon with different facets, and it should be explained in the context of China's economic transformation, as well as by other historical, political, and institutional factors (Song and Ding 2007). However, overreliance upon a macro discourse and an exclusive focus on the institutional drivers restricts the mainstream scholarship from fully capturing the complexities and interrelations of China's urban development, and providing sufficient explanation. Important factors (such as demographic changes, cultural issues, consumer behaviours, market speculations, and derivative policy effects) are either missing or insufficiently acknowledged in the majority of the literature. In order to fill this gap in the literature, this article provides an integrative framework based on a dichotomy of institutional and non-institutional drivers, within the endogenous factors, to explain China's urbanisation and property development. The institutional drivers include benchmark policy reforms in land, housing, and property laws, which have facilitated China's urban development. The non-institutional drivers are the variables that are not government policies, but are imbedded in Chinese social and cultural contexts.

### **3. INSTITUTIONAL DRIVERS**

#### ***Land Reform***

China did not have a land market before 1978 (Ding, 2003). Its land use system before that year could be summarised as 'administrative allocation, unpaid land use right, infinitive tenure of use, and uncirculated land parcel' (Wu *et al.*, 2007), which essentially means the non-existence of a land market. China's land reform in the post-1978 era fell into two phases, with the year 1998 as a dividing line. Before 1998, the reforms targeted marketisation of land use rights; after 1998, the reforms emphasised tightening land supply and building a transparent market for land use right transfers.

Practices preceded institutional reforms in the marketisation of land use rights before 1998 (Ding, 2003). Experiments were first carried out in selected coastal cities until sufficient experience was obtained, and then official policies were released for wider application. Guangzhou and Shenzhen were the first experiment cities to apply paid land use right to overseas investment. The municipal governments either utilised land use

rights as capital investment in joint ventures or charged overseas investors lump sum or annual land use fees (Wu *et al.*, 2007). This formula was later extended to domestic enterprises. In 1984, land use fees were charged nationwide.

However, charging land use fees in the early 1980s did not constitute a land use market; land use right could not be transacted, and the charged land use fees were too low to reflect the true market values (Wu *et al.*, 2007). In the subsequent years, a series of reforms were made to decentralise the land power to local governments and to permit the market-based transfer of land use rights. As has been studied, these measures played significant roles in driving China's economic growth and urban development (Ding, 2003; Tian and Ma 2009; Wu *et al.*, 2007).

On the other hand, the state monopoly of land and the prevalence of land use right transfer (through administrative allocation and negotiated conveyance) resulted in rampant corruption, distorted land prices, local discretion in land acquisition and supply, and illegal land transactions and speculations in primary and secondary land markets: the primary market refers to the transfer of land use rights from the state to the users through deals reached by negotiation, tender and auction; the secondary market refers to the transfer of land use rights among users through land transaction and other land circulations such as leasing land use rights or using land use rights as collateral (Wu *et al.*, 2007). Increasing social discomfort was expressed toward the loss of state equity, unaffordable housing price, and development-related corruption in cities (Tian and Ma 2009). The agricultural land and peasants' housing plots, under rural collectivity ownership, were often forcibly acquired by the local governments and thereafter sold to private developers without proper compensation, resulting in disempowerment and impoverishment of the villagers (He *et al.*, 2007).

In 1998, the Ministry of Land and Resources was established and the Land Management Law was modified to centralise the power to grant land use rights, showing the central government's intention to tighten regulations on the land use right market. A series of regulations on land use was enacted to curb corruption, streamline land supply, and enhance market transparency. They are better signified by an oxymoron 'state-regulated marketisation'.

Firstly, development types eligible for administrative allocation of land parcels, which are free of charging land use fees, were specified. The purpose was to avoid ambiguity in local practices which might generate spaces for corruption. As a result, the local governments' power and revenues from granting land use rights were significantly withdrawn (Hin,

1999). Secondly, land use right transfer by tender, auction and quotation was enforced to restrict negotiated deals in the primary market. This was to curb non-transparent transactions between the government and developers which often involved corruption and loss of the state assets. Thirdly, illegal land transactions and land speculation in the secondary market were dealt with by specifying development requirements and timeframe in the land-leasing contract.

The role of the state has changed in the development of China's land marketisation. The state has rearticulated its power in land governance since the late 1990s, as a contrast to the decentralisation of land governance power in the 1980s. If the market is an emerging institution in China's land commodification, the development of the market has been supported by the state (Xu *et al.*, 2009). However, it is the strong role of the state that is linked to two fundamental problems remaining in China's land use system. One is the complex hierarchical system of primary and secondary markets mixed with multiple players under the state land tenure and socialist legacy (local governments, developers and the state land users) (Hsing, 2006). The other is the institutional ambiguity pertaining to the state and collective ownership of lands (Ho, 2005). These intrinsic problems have restricted the reformist measures from fully reaching their efficacy.

### ***Housing Reform***

Housing was allocated by the state work-units as welfare before 1978 in China. Housing reform was centred on building a market-based housing system. Before 1998, housing reform was slow and piecemeal (Wu *et al.*, 2007), and a dual-track system of welfare housing and housing privatisation was in effect (Ye and Wu 2006). A 'radical' approach to completely marketising housing provision was adopted by the State Council, headed by Premier Zhu Rongji, in 1998. Before 1998, reforms focused on privatising public housing; after 1998, reforms focused on commodifying all housing provision.

The pre-1998 housing reforms raised rents of public housing, sold public housing and created joint housing investment among the state, the work-units and individuals. These reforms were first tested in certain areas. In 1988, the State Council officially incorporated housing reform into the comprehensive reform packages of both the central and the local governments. Transitioning welfare housing allocation to monetary payment allocation through raising the rents of public housing was the first step; a series of subsequent policies by the State Council then pushed

the housing reform further towards marketisation and commodification. These reform efforts, however, fell far short of establishing a housing market because of the state work-units' continuing roles as mediators in the housing market, which could not be justified in a market-led economy (Zhang, 2000).

In 1998, the State Council issued the Notice on Further Deepening Urban Housing Reform and Accelerating Housing Construction, which was marked by 'the monetisation of housing allocation and the establishment of multiple housing supply systems as well as the standardisation of housing transaction market' (Ye and Wu 2006). This milestone housing policy required a complete conclusion of the in-kind allocation of welfare housing through the state work-units, a practice that had been in effect for almost five decades since 1949. In addition to pursuing a market-based housing system, this reform attempted to relieve the heavy financial burdens on the state owned enterprises (SOE) and stimulate domestic demand in the aftermath of the 1997 Asian Financial Crisis. The 1998 housing reform also introduced a housing financing system of mortgages and instalments to amplify housing affordability and consumption.

The 1998 housing reform ushered in a series of follow-up policies on housing property rights and financing mechanisms. Applying the market-housing model advocated by the World Bank to examine Chinese housing policy indicates that the extensive housing privatisation in China is supported by a system of urban housing property rights and a growing residential mortgage market (Stephens, 2010). With this system, China basically established a housing market. However major concerns remained, including the social cost of the marketisation of China's housing provision. One criticism for China's housing market is a dilemma marked by increasing inequality and distributive injustice (Lee, 2000). The bulk of the urban migrant population remains excluded from any formal housing policy, such as social and subsidised housing (Stephens, 2010). Legacies of the planned economy (such as urban household registration status, access to redistributive powers and organisation links via employment with SOEs and party memberships) contributed to the competing sources of housing inequality in a market-oriented economy (Logan *et al.*, 2009; Song, 2010).

### ***Property Law Reform***

China's rapid urban development called for the clarification of property rights as further institutional change (Zhu, 2002, 2004a). Concurrent with

China's rapid and extensive urbanisation, the country is transitioning from a centrally planned economy with weak property rights towards a market-oriented economy with stronger and more privatised property rights (Abramson, 2011). The biggest milestone in the progress of property right reform was the final passage of the Property Law by the National People's Congress in 2007. This law, which might be the most influential and controversial law ever enacted in post-reform China, covers the creation, transfer, and ownership of property. Hence, it has profound ideological, legal, and institutional implications.

One prominent feature of the Property Law is its equal protection of the property of the state, the property of the rural collectives and the property of the private individuals. It is in line with the amendment to the Constitution in 2004, which specified that 'citizens' lawful private property is inviolable', in order to ease the concerns of the rising middle and upper classes. The Property Law stipulates on establishing national standards for property registration. It will facilitate efforts by current and prospective holders of real estate property to establish clarity of property entitlement (Wong and Arkel 2007).

The Property Law settled a few important uncertainties in China's land and housing markets. China's land market is essentially a leasehold system of land use rights (Wu *et al.*, 2007). Land parcels have limited tenures of occupation, which expire depending on the types of land use: seventy years for residential use; fifty years for industrial, educational, science and technology, cultural, public health, or mixed use; forty years for commercial, tourism and entertainment use. What will happen to the land parcels as well as the properties fixed on the land parcels when the tenures of occupation expire? This question has been a major concern for the proprietors and the land use right holders. The Property Law stipulates that 'the tenure of a residential land use right will automatically renew upon expiration'. However, the law does not clarify the measures for non-residential land uses. Instead, it vaguely states that 'the renewal of the tenures of non-residential land use rights should be conducted according to laws and regulations upon expiration'. The Property Law follows the central theme of the post-1998 land reforms – it seeks to enhance market transparency, to streamline land supply, and to protect agricultural land. Further, it provides a legal framework for the possibility of levying a property tax as a useful tool to lever social wealth redistribution and regulate the property market (Wong and Arkel 2007).

The effectiveness of the Property Law remains to be seen, despite its objective of protecting property rights. Clearly further legislation and administrative regulations are needed to clarify and deepen some

uncertain areas. It is challenging to interpret the concepts enshrined in the Property Law at the local levels, where most problems arise (Howlett and Hong 2007). Cases of coercive demolition of residents' properties for urban development in urban and suburban areas are reported on a daily basis; numerous encroachments on private properties, in the context of urbanisation and property development, have generated pervasive social discomfort, and, in extreme cases, developed into anti-government unrests (Hu, 2012). To 'keep social stability' is the government's priority according to the mainstream propaganda. The real solution, however, is to make further institutional reforms to balance the interests of various social groups.

#### **4. NON INSTITUTIONAL DRIVERS**

##### ***Rural-urban Migration***

Rural-urban migration was the major driving force of urbanisation during the Industrial Revolution in today's developed world (Davis, 1965). The formula of concurrent industrialisation and urbanisation is also applicable to China's current urbanisation. The abundance of rural youth provided the ready, cheap labour demanded by the mushrooming factories and construction sites in cities. These youths represented the worse-off majority of the rural labour force, and they moved into cities as officially unacknowledged 'floaters' (Friedmann, 2005). The minority of them survived the competition, and gradually settled down in cities. The majority of them, however, spent most of the year working in cities, but occasionally returned back to their rural hometowns (for example, for the lunar Chinese New Year, for family reunions). The perpetual existence of this sizable group means a huge addition to the permanent de facto urban population (Chan, 1994).

Although rural-urban migration is a contributing factor in China's contemporary urbanisation, the urbanisation patterns differ between growing cities and growing towns: the growth of cities was mostly driven by rural-urban migrants, and the growth of towns was mostly driven by the urbanisation of local rural population (Li, 2004). The latter pattern is an explanatory factor of the rapidly growing towns in China (Cheng, 2006; Wang and Hu 1999). However, it is important to recognise that this migration is itself fuelled by the transition to a market economy and by the easing of political controls over household registration (Heikkila, 2007).

However, China's massive rural-urban migration, which meets the labour shortage of industrialisation in cities, does not necessarily differentiate China's urbanisation from the West's urbanisation in history. A few Chinese social and cultural features, which are not often covered in the literature, provide this rural-urban migration with a flavour of Chinese characteristics. One component of the rural-urban migration was the rural elites who moved to cities by means of education or entrepreneurship. Attending a university and then working and living in a city have long been an enviable way for rural youths to leave the countryside, a process dubbed 'jumping over the dragon gate'. This is an intellectually competitive and challenging process. For the capable youths who could not access tertiary educational opportunities, entrepreneurship offered another channel for seeking opportunities in cities. These youths normally started with small businesses, like groceries, convenience stores, restaurants, and subcontractors on construction sites – jobs that urban residents do not want (Roberts, 2002). Some of the youths grasped good opportunities in the early stage of China's economic transition and later became very successful businessmen. Another opportunity available for rural elites was joining the army and then, as veterans, receiving government-allocated jobs in cities. This 'elitist' migration was small in scale, and it was different in nature from the massive labour movement from the countryside to the cities (Hu, 2011).

Another defining feature of China's urbanisation is the impact of the one child policy. As a result of this policy, rural-urban migration became the major source of urban population growth. Since the policy's commencement in the late 1970s, it has been more strictly and effectively implemented in urban areas than rural areas (Kaufman *et al.*, 1989). Urban residents are normally organised in work-units and living communities, making it easier for government officials to monitor and enforce the policy. Additionally, urban residents tend to have lower birth rates than rural residents, a phenomenon associated with educational and socio-economic backgrounds (Kaufman *et al.*, 1989). Consequently, the urban natural population growth rate has been lower than the rural rate; statistics in the 1980s, for example, indicated that the component of net rural-urban migration accounted for about three-quarters of the urban population increase (Chan, 1994).

### ***Entrepreneurial Governments***

Building a socialist market economy was enshrined as a national strategy in the 14<sup>th</sup> National Congress of the Communist Party of China

in late 1992 (Wu *et al.*, 2007). In the decade from 1992 to 2002, when a new generation of central government leaders were in power, the government's policy priority was redirected towards pro-market economic development, which had temporarily stagnated after the Tiananmen Prodemocracy Movement in 1989. Since the second half of the 1990s, Chinese regional economies have entered a new phase, and in many ways, local officials have become more aggressive in pursuing industrialisation and urbanisation for GDP growth (Tao *et al.*, 2010). Property development and related fixed asset investment were regarded as an 'economic growth pole' that would improve GDP growth under an ideology of 'land developmentalism' (Tao *et al.*, 2010). GDP growth was counted as the most important indicator in assessing government officials' performance and in determining their promotion. In addition, urban development in property and infrastructure represented a city's ostensible progress. Local government officials tended to use them as 'vanity projects' to show off their performance in and contribution to the local development. Under this development-oriented approach, local governments are committed to GDP growth and city image (Tian and Ma 2009).

Another justification of the local governments' enthusiasm for promoting urban development is the revenues obtained from land lease. In the mid-1990s, the State Council introduced a tax-sharing system between the central government and local governments. Overall, the new tax system raised the central government's share of revenues and shrank the local governments' shares. One direct result was that the local governments faced tighter budget constraints (Tao *et al.*, 2010). In addition to financing normal public goods, rapid urbanisation prompted the local governments to explore new sources of public revenues to finance the enhanced demand for urban infrastructure and services (Tang *et al.*, 2011).

Through urban development, the local governments gained a convenient revenue source from selling land use rights to property developers. Since China's urban land ownership belongs to the state, private property developers need to purchase the land use rights from the local governments, which work as the agents of the true land owners, the state. Land development has not only functioned as a passive outcome of urbanisation, but also been actively pursued by local governments as a means of revenue generation, forming interrelationships among land development, local public finance, and urbanisation (Lin and Yi 2011). As a result, land acquisition has been used heavily by local governments to fuel urban development and finance the provision of infrastructure

(Ding, 2007). In the context of fiscal decentralisation, land rent residuals have accelerated urbanisation by encouraging the local governments to extend and intensify land usage (Li *et al.*, 2010). The local governments' interest in promoting urban development has been associated with the decentralisation of the central state's governance and public finance, but it was not a designed objective of such institutional changes. Hence, pro-development local governments should be categorised as non-institutional drivers of China's urban development.

### ***Market Demands and Consumer Behaviours***

Drivers of China's booming housing market are present in both the supply side and the demand side (Hu, 2011). Drivers in the supply side refer to the institutional changes to build a market-based housing system, which are discussed in the previous section. The facilitator of the institutional drivers is the state. Drivers in the demand side are non-institutional, deriving from the market demands and consumer behaviours. The formal termination of welfare housing provision in 1998 made private purchase in the market the only option for masses of urban residents seeking to meet their housing demands (Wu *et al.*, 2007). Housing demands resulted from either housing shortages or the low standards of welfare housing. With a per capita housing area of no more than 10 m<sup>2</sup> in 1978 and almost no private housing ownership, the housing market demand was huge (Li, 2003). Another market demand arose from the massive rural-urban migration, as mentioned earlier. The migrants entered the housing market as owners or renters, contributing to the housing market demand both directly and indirectly (Logan *et al.*, 2009).

The consumer behaviours associated with Chinese social and cultural traditions played a role in driving the housing market, and these behaviours have not been sufficiently discussed in the literature. Historically, Chinese people prioritised the purchase of housing and land once they became wealthy or powerful. Home and land were fundamental components of the traditional feudal system in China (Wah 2000). Chinese socio-economic relationships and values have strong attachment to families (Xu *et al.*, 2007). Self-owned housing is perceived as the foundation of family-centred relationships and values, physically (providing shelter) and psychologically (sense of belonging and security). Self-owned housing also represents a consciousness of accomplishment in Chinese values. Renting a residence is sometimes interpreted as an inability to afford a home, resulting in a loss of face for renters. To purchase housing with a mortgage becomes a priority for consumers once

they earn enough money and can afford the deposit. Hence, the demand for home ownership is partly hinged on the importance of home owning in traditional Chinese culture (Wah, 2000).

China's property boom also coincided with the maturity of the first generation of the one child policy. The children of this generation, now in their 20s or early 30s, had reached marriageable ages. They were privileged to receive financial support from their parents and grandparents, which permitted them to buy housing, since each person was the only child and only grandchild for the families on both parents' sides. Empirical studies reveal that the one child policy has reinforced child-centric household consumer behaviour in China (McNeal and Yeh 2003). The children's parents were both the actors and the beneficiaries of China's rapid economic growth in the post-reform decades. They were able to spend their accumulated wealth on buying housing for their only children.

### ***Market Speculation***

Overinvestment and market speculation constitute another contributing factor in China's property boom. China's increasingly unequal social wealth distribution and underdeveloped financial market combined to boost property investment and speculation. The concentration of social wealth in a few, coupled with a lack of diversified and reliable financial markets, made the housing market an optimal outlet of investment for the wealthy class (Hu, 2011). A typical example is the collective housing purchase groups from Wenzhou or Shanxi, where people are known for their wealth originated respectively from doing business and coal mining. These groups have entered the housing markets in the leading cities of Beijing, Shanghai, and Shenzhen in recent years. Collective housing purchase groups, which formed informal investment syndicates, were wealthy people who usually came from the same hometown area. Collective purchasing and bargaining were more rewarding and efficient than individual transactions. It is common to find many wealthy people owning more than one property each in various leading Chinese cities. Such purchases have been accused of spoiling the housing market. On the one hand, housing affordability has been a persistent problem for ordinary residents (Mak *et al.*, 2007). On the other hand, the housing market was featured with high price, high vacancy rate, and an omen of bubbles (Dreger and Zhang 2010).

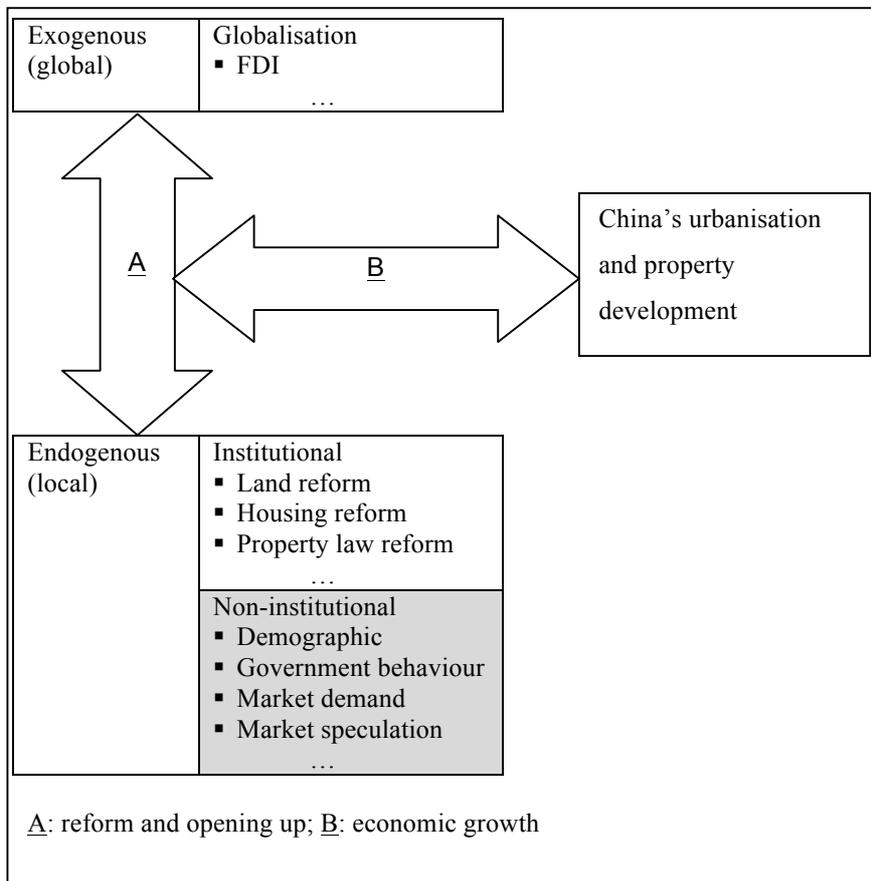
SOEs were even more influential speculators in the housing market. The recent decade has witnessed the revival and supremacy of China's

large SOEs, retaining the commanding height of the Chinese economy. Compared with their private counterparts, SOEs have been favourably positioned to access government support and financing from the major state-owned banks (Deng *et al.*, 2011). Some large SOEs turned to property development for easy profits. Investment from the SOEs in the property market was reinforced by the central government's stimulus package to address the global financial crisis in 2008. The stimulus package mostly benefitted the SOEs, which then transferred the stimulus funding into property development. These centrally-controlled SOEs overbid substantially in the land market, fuelling a real estate bubble and souring land auction and housing prices in major cities (Deng *et al.*, 2011).

Overinvestment and speculation from both the private sector and the public sector have led to two consequences in the Chinese housing market. One is the juxtaposition of rocketing housing price and high vacancy rate in the property market; the other is the inability of ordinary residents to afford housing. The disparity between the housing price increase and the urban resident income increase has enlarged since 1998 (Ye and Wu 2006). It is generally acknowledged that China's housing market is ridden with bubbles, especially in the leading cities.

## **5. CONCLUDING REMARKS**

The relationships involved in China's urban development, as discussed in previous sections, are outlined in Figure 3. The combined effects of both exogenous and endogenous factors have contributed to China's urban development. The interaction between them is signified by 'A reform and opening up', a macro process that has triggered China's contemporary transformations in all aspects. Reform has decentralised the state's control over economic activities, and opening up has attracted FDIs to facilitate growth and access to overseas markets. Nevertheless, their contribution to China's urban development should not be treated as a singular cause-and-effect relationship. They form an interaction process via 'B economic growth'; China's urban development has taken place as a significant constituent of the country's overall economic growth. Both exogenous factors and endogenous factors have facilitated China's urban development. Rapid urbanisation process, in turn, has attracted FDIs and necessitated policy reforms for land, housing and properties.



Source: the Author.

**Figure 3.** Relationships in China’s Urban Development

The relationships outlined in Figure 3 summarise the mainstream scholarship that explains China’s urban development. The central argument of this article is presented in the highlighted area of Figure 3. The mainstream scholarship has focused on the macro factors, both exogenous and endogenous, and it has been deficient in capturing the less tangible factors that are embedded in China’s social and cultural contexts. Thus, a dichotomy of institutional and non-institutional drivers is proposed within the endogenous factors.

The proposed dichotomy of institutional drivers and non-institutional drivers provides an integrative framework for explaining China’s urbanisation and property development. This framework contributes to

the existing literature on China's urban development through its inclusion of non-institutional factors. It helps draw conclusions as well as necessitate further research. For institutional drivers, it is more meaningful to identify their problems than their progress. Their outstanding problems include the strong role of the state in the land use system, the social cost of the housing marketisation, and further legal clarification and execution of the property law. It is these problems that will shape China's future institutional changes in urban development, and will determine the ensuing socio-economic consequences. These problems, and the resulting institutional reforms, will continue to attract scholarly attention. For the non-intuitional drivers, their explanatory roles in China's urban development, on the other hand, have been overlooked in the mainstream scholarship. Further research is necessary to theorise their contributions to China's urban development, and their relationships with the institutional drivers. Further research is also needed to test these drivers empirically.

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