Dynamics of Asian Development

Miao Zhang
Rajah Rasiah

Institutionalization of State Policy

Evolving Urban Housing Reforms in China

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To the memory of Nelson Mandela
who viewed humans of all colour, class
and creed as one

Preface

The sustained expansion of China's economy has attracted considerable studies. While some consider the expansion to continue, many question its sustainability. The main detractors regard the Chinese economy to combust from overheating, climatic damage and civil unrest from the lack of open democratic space. This book focuses on the urban housing sector to analyze how market reforms since 1978 have impacted on China. The decentralization of policy planning that followed since has differentiated policy making into different levels of government. Institutional change has transformed the role of state-owned enterprises (SOEs) in China's urban housing sector, which can be divided into three distinct phases with the first phase characterized by in-kind housing construction and allocation, the second phase by SOEs' contribution to Housing Provident Fund and participation in publicly owned houses sale campaign, and the third phase led by participation in housing investment, speculation, and affordable house provision. As an instrument of the state, institutions have conditioned the SOEs to deliver affordable housing.

As the intermediate between the central and municipal governments, provincial governments have begun to play a major coordinating role to ensure that the goals set by the central government are carefully coordinated with municipal governments for implementation. Leadership, legislative, land use, and living culture were used to show how institutions have evolved to shape urban housing policies in Shandong and Shanxi. In addition, this book shows how institutions have influenced policy implementation by analyzing the role of the Qingdao government in policy transmission through delivery, diffusion, calibration, and finalization. By actively shaping coordination between the provincial and central governments, institutions help municipal governments consolidate the interests of various players to meet the interests of the people.

The findings support the role of the developmental state in restructuring production relations. Unlike a single complex superstructure as claimed by most Western analysts, the institutionalization of governance structures in China has taken place through a strong coordination between central, provincial, and municipal governments to meet targeted plans. Although the central government has

attempted to decentralize its planning functions since economic reforms began, for such a large country and one that is characterized by a wide diversity of cultures, inevitably the evidence we provide is largely applicable only to eastern and central China. Hence, while China has a long way to go to become developed, as well as democratic to enable strong mass participation in policy-making, it offers a unique alternative for countries seeking to strike a balance between capitalist and socialist instruments.

We wish to take this opportunity to thank the contribution of several persons that were important in the preparation of this book. The encouragement of Zhang Miao's parents, Zhang Jin and Fu Jun, and grandfather Zhang Jinjian is the most important. We are grateful to Dr. Cheong Kee Cheok who shared with us his vast knowledge of Confucian society. Finally, we are thankful to Tan Sri Ghauth Jasmon and the Brightsparks committee for offering Zhang Miao a scholarship, which financed the preparation of her thesis for the award of a Ph.D. at the University of Malaya.

Contents

Abbreviations

CPC	Communist Party of China
CPD	Central Publicity Department
CPPCC	Chinese People's Political Consultative Conference
CRH	Cheap Rental Housing Program
DoHURD	Department of Housing and Urban–Rural Development
ECH	Economic comfortable housing program
HPF	Housing Provident Fund Program
HSC	Housing Security Center
HSN	Housing Security Network
IAD	Institutional Analysis and Development
ICT	Information and communication technologies
LUT	Land use tax
NPC	National People's Congress
NPCSC	Standing Committee of the National People's Congress
PCH	Price-capped Housing
SAI	Structure-Agency Institutional
SASAC	State-owned Assets Supervision and Administration Commission
SOE	State-owned enterprise

Chapter 1
Introduction

Abstract Since economic reforms began in the 1980s, the central economic planning system of China has undergone profound institutional changes with the governance structure in urban housing market experiencing significant restructuring. The evolving institutional arrangements in urban housing sector have transformed the role of the key institutional players, such as state owned enterprises (SOEs) and provincial and municipal governments. This chapter problematizes the interactions between the different players to set the direction for the analysis in the subsequent chapters. The key concepts pertinent to this study are also presented here. Particular focus is placed on the changes experienced by the SOEs, and the governance relationships between the central, provincial and municipal governments in the delivery affordable housing in urban locations in China since economic reforms were launched in 1978.

Keywords Urban housing · Institutions · State-owned-enterprises · Provincial government · Municipal government · China

1.1 Introduction

This book examines the role of state-owned enterprises (SOEs), as well as, the provincial and municipal governments in new institutional arrangements that have emerged in China's urban housing sector since market reforms were launched in 1978. Although considerable work already exists to explain economic transition,[1] this book provides a fresh analysis of how a wide range of institutions have helped to shape the urban housing landscape of China.

The central economic planning system has undergone profound institutional change with the governance power structures in urban housing market experiencing significant restructuring (Perkins 2014a, b). Western accounts of market reforms are still dominated by accounts of China being dominated by an extractive

[1]See for example, Woo (2011), Yueh (2013), Rasiah et al. (2013).

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state that has continued to shut the doors to peoples' participation in the governance structures (see for example, Acemoglu and Robinson 2012). While China's overall governance structure is still socialist, we attempt to show that such accounts are devoid of a proper assessment of institutional change as China is so large and diverse. Such accounts are particularly not very reflective of Eastern and Central China. Institutions that were suppressed before 1978 have since re-emerged in new forms to influence the transition process in contemporary China. In addition to explaining the emergence of new forms of governance structures, this book also presents empirical evidence on how they have impacted on the economic structure of Eastern and Central China.

This introductory chapter is made up of 5 sections. It starts with research background where housing reforms triggered institutional changes in urban housing market of China. Section 1.2 provides problem statement, followed by motivation of study in the next section. Section 1.3 presents research questions and objective. The key concepts will be reviewed in the Sect. 1.4 before the outline of the book is presented.

1.2 Problematizing Urban Housing in China

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

Asia is urbanizing at the fastest rate in the world. Estimations suggest that the urban population of the continent will double to 3.4 billion between 2010 and 2050, which means that the most crowded Asian cities will have to accommodate approximately 120,000 new residents on average every day with approximately 20,000 housing units demanded daily (Majale et al. 2011). Under such circumstances, Asian countries have to strive hard to implement socially friendly housing programs and policies that will have to be delivered with effective institutional change over the next few decades.

With a population of over 1.3 billion in 2014 housing provision in China poses a great challenge to the government. Houses were treated as welfare items that were produced and distributed by State Owned Enterprise (SOEs) to citizens before economic reforms (Zhao and Bourassa 2003; Li 2010) based on a set of non-monetary

Table 1.1 Periodization of urban housing reforms, China, 1978–2012

Stage	Time	Characteristics
Pilot experimental stage	1978–1991	Reform experiments were conducted
Double track phase	1992–1997	Privatization of production and consumption; both supply-side and demand-side programmes introduced
Marketization phase	1998–2012	Abolishment of the welfare allocation of housing. Market assumes pivotal role

Source Adapted from Li and Yi (2007)

factors, such as, job rank (Huang and Clark 2002), education (Wu 2004; Fan et al. 2009) and *hukou* status (household registration system) (Huang and Clark 2002; Huang 2003; Wu 2004; Li and Huang 2006; Fan et al. 2009; He et al. 2010), marital status (Huang and Clark 2002; Huang and Deng 2006; Li and Li 2006), party membership (Pan 2004; Li and Li 2006; Song 2010) and household size (Huang and Clark 2002). However, the inefficient communist system of housing production could not be sustained as it began to face serious supply shortages and deterioration of living standards (Zhao and Bourassa 2003). Hence, housing reforms were launched in China since 1978 to solve this problem, though it also culminated in rising public housing rentals (Huang and Clark 2002; Logan et al. 2010). In so doing, the market mechanism replaced the in-kind housing allocation system that existed in China before 1988 to address the failure of the old public housing system so that the poor living conditions faced by urban citizens can be improved. Hence, fundamental change of production method from central-planning to marketization has greatly transformed production relations in China. Li and Yi (2007) divided the urban housing privatization process into 3 periods (see Table 1.1).

At the same time, the government also introduced the housing financial system to facilitate housing transaction and ownership. A range of new approaches and policies were initiated to facilitate the commercialization of urban housing, such as the Housing Provident Fund Program (HPF), and to provide welfare protection to the disadvantageous, such as Economic Comfortable Housing (ECH) and the Cheap Rental Housing (CRH) programs. While the government sought to solve problems of inefficiency by enabling markets to influence the production and distribution of urban housing (Lee and Zhu 2006; Deng et al. 2009), criticisms have mounted over their effectiveness in addressing inequality and validity (Lee 2000; Zhao and Bourassa 2003; Sun 2004; Duda et al. 2005; Zhang et al. 2011). Moreover, there is evidence that housing in the urban sector has increasingly become less affordable because of rising property prices (Wang and Murie 1999; Shen 2006; Chen et al. 2010). While new indicators and methods have been introduced to measure affordability (Yang and Shen 2008; Chen et al. 2010), demographic factors (Huang and Clark 2002; Huang 2003, 2004; Li and Li 2006), institutional factors (Pan 2004; Li and Yi 2007), and socioeconomics factors (Huang and Clark 2002; Huang 2004; Li and Li 2006; Yang and Shen 2008) have remained as the main determinants of access to housing. Although a number of works have examined the relationship

between property prices and interest rates (Huang et al. 2009; Wang et al. 2009; Wen and Zhou 2009; Yan 2009; Diao 2010), tax level (Du et al. 2008; Lan 2009; Diao 2010), inflation rates (Huang et al. 2008; Zhang 2008) and other market fundamentals, including income, construction costs and employment rates (Hui and Yue 2006; Yu 2007; Huang et al. 2008; Hui and Huang 2008), these works merely relate property prices with economic variables rather than capturing in-depth institutional changes on the movement of property prices (Lee 2000; Rosen and Ross 2000; Li 2010). In addition, despite decentralization efforts to assist the low- and middle-income households, affordable housing schemes have continued to face serious pressure, especially in the supervision and monitoring of the schemes to ensure that they are allocated to the needy (Deng et al. 2009; Zhang and Zhou 2011).

Decentralization has given local government autonomy to implement policies. However, it has also complicated the relationship between the different levels of government authorities. While the manner with which the government coordinates the relationship between the central and local levels has been widely discussed (Milbourne 1998; Clapham and Kintrea 2000; Malpass and Mullins 2002), policy makers tend to make decisions by forming future expectations from current public policies, and adjust their policy frameworks accordingly (Stimson et al. 1995). It has been widely observed that the state often overrides local demand in making strategic policy decisions, and the relations between state and local has remained hierarchical despite the shift in governance to encourage community involvement in some areas (Murdoch and Abram 1998). In general, the theorizing of the government's role in the housing sector in China is still unclear. On the one hand, Stafford (1978) called for a reduction of government intervention in housing sector that requires a policy reconstruction according to liberal Paretian criteria. On the other hand, Lansley (1979) presented a vigorous defense of state intervention in the housing system to address social inequality problems that chronic market failures generate.

Given the transitional context of decentralization in China, local authorities have been endowed with the capacity and autonomy to shape local affairs (Li and Zhang 2012). Although studies drawing implications of housing reform for government or quasi-governmental organizations are quite popular (Duda et al. 2005; Yang and Shen 2008; Huang and Jiang 2009; Logan et al. 2009), most of them are focused on how the central and local governments function in the housing governance system. Past works show that the difference in incentive structures of the central and local governments have significantly affected land and housing prices over the period 1990–2010 (Li 2010). The evolution of China's urban property market cannot be explained by economic fundamentals alone. While evidence shows strong coordination evolving by the central and local governments in the allocation of urban houses (Ye and Wu 2008), the urban housing market has increasingly been shaped by local governments (Li et al. 2011). However, local government in different cities behave differently in the urban housing sector, which is one of the reasons that has exacerbated regional inequalities in the provision of urban housing in China (Huang 2004).

The failure to deliver sufficient low-cost housing to targeted people has driven local governments to participate more aggressively in the provision of low-cost urban houses (Huang 2012). In addition, local governments also increasingly act as policy entrepreneurs in promoting policy innovation before extending successful local experiences to other localities and provinces (Zhu 2012; Lin and Comm 2011).

Since the provincial and municipal governments have become increasingly important in shaping the allocation of urban in China, the rigid centrally-planned system has given way to new governance structures in which the central government has increasingly confined its role to initiating the policy framework with the provincial and municipal governments focusing on policy intermediation and implementation respectively. Although the provincialization of central planning has also caused uneven development across the nation, (which has been caused largely by regional variances in economic structures, social traditions, geographic conditions and infrastructure endowment), it has also offered provincial and municipal leaderships considerable autonomy to influence the formulation of urban housing policies in their respective provinces and municipalities (Zhao and Tong 2000; Démurger 2001; Bao et al. 2002; Lu 2002; Chen 2010; Fleisher et al. 2010).

In the centrally planned economy before 1978, SOEs acted as the major provider in allocating social production and resources, including houses (Wang et al. 2005; Cheong et al. 2011). Urban housing was the complete responsibility of government, which owned and distributed houses as part of the cradle-to-grave benefits offered to urban employees based on a range of non-monetary criteria, such as, job seniority, party membership, education and marital status (Huang and Clark 2002; Pan 2004; Logan et al. 2009). Since housing reforms were launched in the 1980s, this in-kind housing distribution system was replaced by monetary compensation through the HPF. Some works have analyzed how the conduct of SOEs has been transformed by institutional change. For example, Wang et al. (2005) examined the impact of reforms on different categories of SOE employees (Wang et al. 2005), while Lai (1998) explained that SOE reforms was largely attributed to their failure to meet their social obligations, and for running increasing financial deficits.

As SOEs have been reformed to be more autonomous in managing their complimentary economic activities, the booming property price since 2003 has given SOEs a more active role as housing developer to make profit. Following their release from their original role as house providers, SOEs' activities have evolved to become commerce-oriented, including engaging in speculative activities. There is evidence to show that the SOEs have become major consumers of commoditized houses in most urban locations (Wu 2001; Barboza 2010). SOEs participation in real estate markets has also raised controversy because of, inter alia, the speculative function it has assumed, as well as, the huge amount of profits they have started to make (Gyourko 2011). Although the Chinese media often presents SOEs as having a role to play in delivering affordable houses to middle- and low- income urban dwellers, little concrete evidence exists to prove this point

(China Times 2010; Deng et al. 2011; People's Daily 2012). Hence, there is a clear need for new research in this area.

Despite extensive accounts of changes in housing production, allocation, and distribution over the transition from central planning to a socialist market economy (Mak et al. 2007; Adams 2009; Huang and Jiang 2009; Logan et al. 2009; Chen et al. 2010; Song 2010; Majale et al. 2011; Paik and Lee 2012), they have not examined the fundamental changes in the governance structures in the urban housing sector effectively. In other words, there is a need to analyze housing provision in China to see whether the government and its instrument, the SOEs, continue to perform the welfare function effectively in urban locations. This book seeks to fill three gaps in the literature on the provision of urban housing in China.

Firstly, the role of the SOEs in the urban housing sector remains little documented. More specifically, there is a lack of studies examining how the role of the SOEs in China's housing sector has changed since reforms were launched, especially how institutions and their influence on the players in the production and delivery of houses have unfolded. An exception, is a study by Wang et al. (2005), which analyses housing reforms in SOEs and their impact on the different social groups. However, this study did not capture the influence of institutional change on the role of SOEs in the urban housing sector in China. Hence, this book seeks to fill this void by evaluating the impact of market reforms on urban housing by analyzing changes in strategies adopted by the SOEs and in the delivery of urban houses in China.

Secondly, although numerous works deal with relationship between central and local governments, very few of them focus on the role of provincial institutions in shaping urban housing policies in China (see for example, Murdoch and Abram 1998; Zhu 1999; Malpass and Mullins 2002; Huang 2004; Deng et al. 2009; Li 2010; Li et al. 2011). Hence, research is required to look at the role of provincial governments in urban housing planning, development and delivery. There is especially a need to understand the governance structure of provincial governments and how they coordinate with central planning in delivering urban houses in China. In doing so, in addition to examining the formal institutions, we also analyze the influence of informal institutions on the provincial government, which intermediates the implementation of urban housing policies between the central and municipal governments.

Thirdly, given the numerous urban housing development projects that take place in thousands of cities, it is important to study the role of municipal governments in the planning and implementation process in China. There is especially a need to evaluate the role of institutions in shaping these processes. Existing works have not captured the changes that have taken place since market reforms began. In addition, most works on the urban housing in China use tier-1 cities as case studies (Wong et al. 1998; Ho and Kwong 2002; Hui and Yue 2006; Li and Li 2006; Wang and Li 2006; Li and Yi 2007; Chen et al. 2010; Song 2010). Hence, a study on a tier-2 city, such as, Qingdao, may unravel new institutional arrangements facing the urban housing sector in China.

1.3 Research Questions and Objectives

The main objective of this book is to examine the role of SOEs, provinces and municipalities in the new institutional environment that has emerged in China's urban housing sector following economic reforms since 1978. Specifically, we seek to explain how state policy has institutionalized the conduct of SOEs, and provincial and municipal governments to achieve the central government's goal of balancing private and public interests in the urban housing sector of China with a focus on the Eastern and Central provinces.

The transformation that has been introduced by reforms has re-shaped the conduct of older players while new players unleashed by market forces have intensified competition in the housing sector. Different players have had to adjust their behavior according to the "rules of the game" set by "regulators" and market forces. Hence, the institutionalization of housing policies have a bearing on institutions and organizations, which raise two separate research questions; namely, one, the changing role of SOEs; and two, the changing role of government. In addition, these two research questions call an assessment of how the changing institutional structures affect and are affected by urban development demands in particular locations on the ground in China. Hence, we attempt to answer the following three research questions in the book:

- How has the role of SOEs changed in China's urban housing sector since reforms began?
- What is the role of provincial governments in China's urban housing sector following reforms?
- What is the role of municipal governments in China's urban housing sector after reforms were introduced?

1.4 Key Concepts

Given the absence of a universal definition and a set of norms of the important concepts, and the rising complexities that arise from institutional change in China, we present here definitions and the scope of the important concepts used in the book. Institutions and states are arguably some of the most elusive to define but they are the most important concepts used in this book.

1.4.1 Institutions

We use North's (1991) definition of institutions as the 'rules of the game', and organizations and firms as the "players". To this we add the theoretical contribution of Nelson (2008a, b) who argued that it is also important to understand the

way institutions are enforced, as well as, the norms that constrain behavior of the players (Nelson 2008b). Also, we borrow from Thorstein (1915), that institutions should be viewed as established social practices, or 'habits of thoughts', or forms of organizations, which can take formal and informal forms. The social implications of institutions are important, including the nexus between key players, which helps connect the role of each player, ideas, strategies and interests so as to form a network of interdependent relations in the development of society development. Both the system and the implementation of it are important (North 1991, 1997).

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

Evolutionary economists recognize the function of institutions and meso-organizations in economic activities. It has been argued that the influence of any one or set of institutions, or the composition or blend of them within a group in socioeconomic action explains how economic transactions and changes occur casting their analytical net wide enough to examine coordination between the macro-instruments, meso-organizations and micro-agents (Katz 2004; Nelson and Winter 1982; Nelson 2008a, b; Rasiah 2013). Meso organizations are intermediary organizations that connect macro and micro organizations and function primarily to address collective action problems and public goods provision (Rasiah 2011, p. 170).

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

1.4.2 States

In general, states refer to a territorial entity and its sub-entities, in which its absolute and unlimited authority over sovereignty is realized by the designation of government and governmental apparatus through which its purposes are formulated and executed. However, states in the development literature refer to a relatively abstract conceptual construct, which is permanent and continues from time immemorial with identical characteristics and nature due to the embeddedness of culture, beliefs and other social values. The Chinese state is more or less like a

cultural state, which is significantly influenced by culture and Confucian values. States typically act through governments, which is the designated agent that executes national policy through a set of regulatory measures to deliver policy outcomes.

Also, as explained by Polanyi (1944), the economy is not autonomous, but subordinated to politics and embedded in society and culture, and hence, effective state intervention is an integral part of successful economic development. Government plays an important role to ensure everyone has access to housing, while socially-oriented governments strive to see that the allocation and distribution of housing is not left entirely to market forces as market exclude those below the equilibrium clearing price (Baumol 1980; Weisbrod 1988). Thus, as the guardian of universal interests, the state is responsible to look after the general interests of society (Poulantzas 1973; Evans et al. 1985, p. 46; Jessop 1990). Moreover, as Evans et al. (1985, p. 68) have argued that a certain degree of autonomy is necessary "because some of the competing interests in the economy and society will have to be sacrificed in order to generate the required collective good."

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

1.4.3 Urban Housing

Urban housing policy refers to policies formulated at providing shelter to the urban community. In urban China, housing or dwelling units include common housing apartments, high-quality housing apartments, villas, and economically affordable housing, which is differentiated from rural housing units by ownership and production methods. The housing market refers to the institution where houses are purchased and sold either directly by owners or indirectly through market intermediation. While prices act as a clearing institution between supply and demand in the housing market, other institutions have also been critical in the production and allocation of urban houses in China. Although private agents and property managers, and financial institutions play important roles in buying, selling and renting houses, we focus in this book on the role of public policy in delivering houses to a wide spectrum of the urban population. In so doing, we discuss how institutional change has embraced market forces but without compromising on the allocation of affordable houses to those unable to participate in markets. Rather than analyzing housing-related business activities at the micro-level, this book takes a broad-based approach to study how the state has actively transformed its role following market reforms to either directly provide houses or through a

mix of taxes, regulations, subsidies, rent controls, and longstanding programs, design low cost houses with improved living quality for urban dwellers.

1.4.4 State-Owned-Enterprises

The SOE is a legal entity created and owned by the government to undertake commercial activities on its behalf. SOEs have evolved from work units before reforms to the state's sole or partial agent to serve the dual role of meeting both business and public interests following reforms. SOEs have become so diverse in their operations that it is difficult to determine specifically the threshold of state ownership when classifying their ownership structure as they have become complicated and ambiguous through corporatization and public listing. A blend of market forces and state directives work jointly to ensure that SOEs meet the business objectives and social functions (Evans et al. 1985). To be more explicit, we define SOEs in this study as legal entities engaged in business affairs, which are under the supervision of the regulatory authorities of the State-owned Assets Supervision and Administration Commission (SASAC) at different levels.[2]

1.4.5 Central Government

Central government in this study refers to the highest authority in government administration with primary power over the rest of the government organs, which is exercised through federal power that the National People's Congress controls. The central government is a concrete body in which the State Council acts as the leading executive agent of the primary legislative functions. The central authority governs a number of sub-ordinate organs, all of which adhere to the line, principles and policies of the supreme power. The State Council, another term for the Central People's Government, is the highest administrative organ led by the Communist Party of China (CPC) with its jurisdiction covering the entire country.

1.4.6 Provincial Governments

Provincial governments were subservient to the central government within the administrative hierarchy of China before reforms began. Decentralization

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

following reforms has given provincial governments' considerable discretion on policy and regulatory matters. Since provinces existed before the establishment of the People's Republic of China, they are characterized by unique cultural influences and native identification, which has their antecedents in history.

In practice, the provincial government is characterized by various subdivisions, including provincial administrative apparatus, autonomous regions, municipalities, and special administrative regions. However, in this book we refer to the 22 provincial governments, which have jurisdiction over their respective municipal governments in the Chinese administrative division.

1.4.7 Municipal Governments

Municipal governments in this book refer to prefectural-level cities in China, which are administratively a level below provincial governments but higher than counties in the administrative hierarchy of China. It differs in status from directly controlled cities, which enjoy equal status with provinces, namely, the cities of Beijing, Tianjin, Shanghai, and Chongqing.

1.4.8 Affordable Housing

The Affordable Housing Program was introduced by the government of China to provide subsidized houses to urban middle and low income households after market reforms. It comprises several sub-programmes, such as, ECH, Low Rent Housing, Public Rental Housing, Price-capped Housing and Squatter Resettlement Programme.

1.5 Outline of Book

This book is organized into seven chapters. The first three chapters set up research question, literature review and the research methodology. This chapter problematizes the issues, discusses the objectives and research questions, and presents the key concepts used in the book. Chapter 2 critically reviews the extant literature of urban housing with a focus on institutions and states so as to identify gaps in the existing literature. Chapter 3 presents the methodology and data that has been used in the analytical chapters. We deploy a mixed methodological approach in which the role of institutions and governments are analyzed through qualitative research, including accessing empirical evidence from official documents and secondary sources, while quantitative evidence is extracted from established databases.

Chapters 4, 5 and 6 are the analytical chapters that examine the research questions of the book. Chapter 4 examines how institutional change has transformed

the role of SOEs in the urban housing sector of China since reforms began in 1978. This chapter analyses institutional change and its consequences on the conduct of SOEs based on three distinct phases.

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

Using the experience of Qingdao city, Chap. 6 examines how the new institutional settings have transformed the conduct of municipal governments in policy implementation in Eastern China. In doing so, the chapter discusses the influence of formal and informal institutions in calibrating housing policies initiated by the central government. It also discusses how municipal governments coordinate with provincial and central governments in shaping the policy calibration process.

Chapter 7 concludes with a synthesis of the research findings, followed by implications for theory and policy. This chapter also discusses the contributions of the book to the existing body of knowledge. The chapter ends with the limitations of the book, and presents recommendations for future studies.

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Chapter 2
Literature Review

Abstract This chapter reviews the theories relevant for understanding the impact of economic reforms in China's urban housing sector, namely, the embeddedness of states, developmental states, and the role of institutions. We subsequently analyze past work on the transition economies. These reviews form the theoretical basis for evaluating empirically the evolving urban housing governance mechanisms in China since economic reforms were begu.

Keywords State theory · Evolutionary theory · Institutions · Transition economies · China

2.1 Introduction

Governance instruments in the allocation of housing have remained a major concern of states, given the fact that housing is unique owing to its characteristics as an essential good that should reach everyone, and as a commercial good that can be targeted at private dwellers seeking profits. The rapid expansion of housing commercialization has caused a serious problem in a number of countries so that a profound understanding on the institutions supporting production and delivery of housing has become increasingly important for academic scholars and policymakers. Hence, this chapter aims to provide a comprehensive account on urban housing from theoretical and empirical perspective to guide our analysis in the subsequent chapters. The chapter is organized as follows. After this introduction, the subsequent sections review the key theories to establish the theoretical framework, namely one, developmental instruments; two, institutions; and three, market transition theory. The last section presents chapter summary by identifying research gaps. This review chapter is targeted at: one, strengthening the research questions advanced in Chap. 1, and two, to set the direction for the formulation of the methodology essential for the analytical chapters.

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2.2 Theory and Evidence

2.2.1 States

Although the concept of states existed for a long time, debates on its nature, structure, and influence over societies gained prominence following the Miliband–Poulantzas Debate in the 1960s and the 1970s. Subsequent works on the role of the state expanded with Jessop (1990), Evans et al. (1985), and Evans (1995) attempting to observe how the state functions in an economy to serve the various interests of society. Others analyzing the role of the state have focused on the mobilization of power to engender the conditions of rapid economic growth and structural change (e.g., Johnson 1982; Amsden 1989).

2.2.1.1 The Miliband–Poulantzas Debate

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

Sweezy (1942, p. 243) had articulated Marxist instrumentalism by asserting that the state acts as "an instrument in the hands of the ruling class for enforcing and guaranteeing the stability of the class structure itself." However, instrumentalism evolved further in Miliband's (1969, p. 96) concise summary where he defines "In the Marxist scheme, the ruling class of capitalist society is that class which owns and controls the means of production and which is able, by virtue of its economic power thus conferred upon it, to use the state as its instrument for the domination of society." Miliband (1969) identified the initial reference point for linking the capitalist class with the state. However, the composition and internal structure of the capitalist class will be specific to particular countries and hence shall be characterized by various socioeconomic structures with different historical and cultural backgrounds.

However, Poulantzas (1973, 1978) took a Marxism structural position when defining the role of the state, arguing that the state functions autonomously to meet the different expectations of a wide range of groups in capitalist societies (Poulantzas 1973, 1978). Poulantzas (1978) has the view that if members of the ruling class are the same people managing the state, it is merely a coincidence where the state serves the constituents of capitalist societies regardless of who is in charge. Focusing on the forms and structures in the context of production relations, Poulantzas viewed the state in a capitalist mode of production as taking a

specifically capitalist form, not because particular individuals are in powerful positions, but because the state reproduces capitalist structures through its economic, legal, and political institutions (Barker 2007). Hence, the structuralists argue that the state and its institutions have a certain degree of autonomy from specific elites of the ruling class.

Evans (1995) discussed the role of states in cultivating and nurturing entrepreneurial forces directly in productive activities. In doing so, Evans argued over why the participation of states in some cases works but it produces disasters in other cases by drawing on examples of how state agencies, transnational corporations, and local entrepreneurs shaped the emergence of computer industries in Brazil, India, and Korea from the 1970s to the 1980s. Evans et al. (1985, p. 46) highlighted that although states vary in the way they are organized and tied to society, the goals of state activities in society are not generated inside the state apparatus but rather are dictated by the general interests of society.

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

Although Marxist structuralism and instrumentalism share no consensus over the role and powers of states, they recognize their importance in production relations. However, it is one thing to argue over the importance of state intervention, but quite another to specify the methods through which effective state intervention is possible. "A bureaucratic apparatus with sufficient corporate coherence is firstly required" and a certain degree of autonomy is "necessary… because some of the competing interests in an economy and society will have to be sacrificed in order to generate the required collective goods…" (Evans et al. 1985, p. 68). The corporatist state charters or creates a small number of interest groups, giving them a monopoly or representation of occupational interests in return for the right to control or monitor them. The state is therefore able to "maximize compliance and cooperation" (Wade 2003, p. 27).

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

2.2.1.2 The Embeddedness of States

Through the concept of substantivism, Polanyi (1944) had argued that a cultural approach to economics requires that economies are embedded in society and culture. The notion of embeddedness was first initiated in Polanyi's (1944, p. 7) seminal work where he argued that the economy is not autonomous as it is viewed in economic theory, but subordinated to politics, religion, and social relations. Resting on this basic rationale, his argument departs from the basic concept of neoliberal economists who claim that human society should be subordinated to self-regulating markets. Instead, Polanyi (1944, pp. 130–209) argued that market liberalism should be abandoned to produce concerted efforts to protect society from the market. In doing so, Polanyi tried to explain the classical economists' argument with the concept of embeddedness. However, Polanyi's reasoning was challenged by Gemici (2007), as the concept of "embeddedness" falls short of economic sociology's goal of providing a theoretical alternative to neoclassical economics.

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

While Evans (1995) work is cited frequently and the quantity of secondary literature is expanding, the concept of embeddedness has been a source of confusion and criticism. The controversy generally relates to the incoherency in theoretical orientation, as well as methodological robustness, especially compared to the systematic methodology advanced by neoliberalism (Hejeebu and McCloskey 1999; Gemici 2007). In addition, Beckert (2007) believes that important contributions of

Polanyi's concept have vanished from subsequent accounts of the state by others, while the term has been contaminated by others depending on their attempts to put across their views. However, Block (2003) justified the epistemological break from Polanyi by distinguishing the history circumstances which faced Polanyi against subsequent developments.

The subsequent development of Polanyi's theory has centered on the provision of goods to address societal problems, such as environmental problems (Boulding 2011). Otis (2008) deployed the embeddedness concept to understand the "moral economy," while Fred Block referred to markets as being always morally embedded (Krippner et al. 2004). Hence, the essence behind Polanyi's articulation of the concept of embeddedness has been hijacked by some neoclassical economists so as to substitute its meaning with markets, which in economics is defined as relative prices.

In this book, we use embeddedness in the way Polanyi originally defined it so that the role of the state is viewed to encompass its immersion in society historically, socially, and politically to protect and meet the wider interests of the population. Particularly, the role of the state in regulating economic activities, as advanced by Polanyi (1944), is crucial as markets and the price mechanism are the many institutions that are important in understanding economic development. More than just a government executive with administrative functions, states enjoy a much wider economic and political role in societies. Unlike neoclassical explications of the term as a monolithic formation in which its role should be subservient to markets with a focus on infrastructure, law, and order, states are defined here as polities created by constituencies and thus are there to serve a particular or general set of interests.

2.2.1.3 Developmental State

The concept of developmental state is largely attributed to Johnson (1982) who used the role of the Ministry of International Trade and Industry (MITI) to discuss how the Japanese state introduced institutions to cultivate and nurture organizations and firms to spearhead economic development. Johnson (1982, p. 19) referred to developmental states among late industrializers in which "the state itself led the industrialization drive, i.e., it took on developmental functions." Whereas in the USA the state has largely confined its functions to a regulatory role, in Japan it has played both the regulatory and developmental roles. Beeson (2004, p. 30) referred to developmental states as states that "influence the direction and pace of economic development by directly intervening in the development process."

States engaged in shaping progressively the development process are sometimes led by state–business relations, which are institutionalized formally or informally and enjoy embedded autonomy (Evans 1995). Polanyi (1944) had demonstrated elements of state embeddedness when arguing that state–social relations provide an effective "double movement" so that societies shape politics so

as to contain their roguish tendencies. Low (2001) discussed the close association between state bureaucrats and domestic social classes among social groups in the development of Singapore. Gordon (1984) defined a developmental state as a "crucial stimulant and organizer of socioeconomic progress" and "a major agent of social transformation." In other words, developmental states are characterized by social existence, institutional character, modes of operation, and developmental potential to "guide markets." The East Asian economies of Japan, Singapore, South Korea, and Taiwan are examples of states that have played critical roles as executors of national economic development through the promotion of a vibrant microeconomy that operates successfully in competitive markets.

The developmental state concept has been widely accepted by international political economy scholars as a critical political formation that has spearheaded state-led macroeconomic planning. Studies of several countries have helped bolster the significant role played by developmental states in economic development. For example, Amsden (1989) credited the state for the industrial transformation that transformed South Korea into a developed economy. Woo (1991) made the same observation on South Korea. Wade (2003) argued that the state's governance of the market helped propel Taiwan into a developed economy. Low (2001) argued that the state's proactive role through a competent bureaucracy in support of national businesses helped stimulate rapid growth of Singapore. Huff (1995) observed a strong role of state when comparing the economic development of Singapore with South Korea's and Taiwan.

While some scholars have explored the possibility that the developmental state theory has its origins in Asian culturalism and neo-Confucianism (Low 2004), the successful developmental state of France (Loriaux 1999), Mexico, and Brazil (Schneider 1999) suggest that the concept has a universal base (Wade 1988; Wu 1994). Hence, the assessment of China in light of the development state is undertaken in this book from the standpoint of its universal roots rather than its cultural leanings toward Confucianism, though market reforms have freed the traditional cultural institutions to shape economic transition in the country. Indeed, Johnson (1999, p. 40) had noted China's adaptation of the instruments of the developmental state to support economic development.

However, while efforts have been started to understand the role of the developmental state in China, much still needs to be done to construct a clear account of how the processes have unfolded, particularly on how the state balances state functions and market forces, and how institutions have mediated the processes of economic change and the development needs of the people so that the theory can be applied universally. Indeed, this is an important challenge that must be taken seriously if one were to accept Thorstein's (1915) definition of institutions. Although constant attacks by neoliberal scholars have vulgarized the concept in some platforms, several governments are actively seeking ways to adapt and implement developmental functions through effective policy planning (Beeson 2004). Even the World Bank (1997) has highlighted the positive role of state intervention and in the process acknowledging the continuing efforts of states to accelerate economic development through designing policies, offering subsidies, and monitoring

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

While some scholars have breached the ideological divide to appreciate the strengths of the different schools of thought, other scholars have remained critical of the statist perspective that underpins East Asian political economy. For example, despite acknowledging the successful role of state interventions has played in the rapid growth and structural change achieved by South Korea and Taiwan, some argue that these experiences are not only too risky but are also not possible under the changed economic circumstances that has prevailed since the 1990s.

In addition, Moon and Prasad (1994) argued that the statist perspective is found lacking in its claims to explain economic performance and is neglectful of the intrastate dynamics while providing little explanation of state–society relations. Moon and Prasad (1994) also argued that the developmental state perspective says little about the key elements of politics, institutions, and leadership choice and how these factors interact to constitute the policy to shape the trajectories of economic development and hence claim that the evidence of the successful cases used do not offer the basis for formulating a systematic theoretical model. Albeit serious methodological problems have been raised by some scholars over the use of the total factor productivity model Rasiah (2009), Young (2003), and Krugman (1994) threw "cold water" at the growth experience of Singapore, South Korea, and Taiwan by claiming that their input-driven growth cannot be sustained.

To sum up, we refer to the developmental state as a phenomenon associated with state-led macroeconomic planning in which the state uses its autonomous political power to coordinate social relations targeted at stimulating rapid economic growth and structural change. To the advocates, a developmental state has the capacity to use its regulatory agencies to stimulate economic growth through structural change. It is empowered to enforce a variety of standards of behavior to protect the public against market failures and thus to sustain economic development and social welfare. However, existing accounts have touched little on whether the Chinese state has performed this role in the urban housing sector. In particular, existing works have not broached systematically the influence of formal and informal institutions in shaping the conduct of government and policy formulation.

2.2.2 Institutions

We acknowledge North's (1991) definition of institutions as the "rules of the game" and organizations and entrepreneurs as the "players." However, we have also absorb Nelson (2008b) argument that within the broad legal regime, institutions also address the way the rules are enforced, as well as how the norms constrain the behavior of the players (Nelson 2008b).

Also, it is also pertinent to examine Veblen's (1915) definition of institutions that they should be viewed as established social practices, or "habits of thought," or a form of organization. Veblen (1915) arguably began the first serious attempt to define the concept when he referred to institutions as social forces that determine economic outcomes and that they are constantly undergoing evolution. While Veblen did not assume an economically deterministic account of institutions, other scholars attempted to view social production as being attributable to the optimal interaction of various institutions—e.g., market, states, regulations, and social norms (Buchanan 1986; Boettke et al. 2006). Also, while Mitchell (1913) understood institutions from the angle of business cycles, Ayres (1952, 1978) identified technology as a core institutional outcome and technological outcomes as being always one-step ahead of sociocultural institutional development and in doing so reduced "ceremonial functions" to a residual role. Commons (1934) consolidated this concept by advancing an economy as a web of relationships between people with diverging interests, where a number of institutions rather than markets alone (e.g., government regulations, property rights, and trust relationships) that are supported by particular sociocultural and economic groups and intermediary organizations matter in production allocation and economic development (Coase 1937, 1992; Rasiah 2011). With this definition, the government generally plays a mediating role between social groups with different interests.

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

Evolutionary economists argue that the influence of any one or set of institutions, or the composition or blend of them within a group in socioeconomic action explains how economic change occurs (Nelson and Winter 1982; Nelson 2008a, b), which is consistent with Schumpeter's (2013) argument that the capitalism can only be understood as an evolutionary process of continuous innovation and creative destruction (Drechsler et al. 2009, p. 126; Schumpeter 2013). Veblen (1915) emphasized the influence of norms and behavior taking account of cultural variation in shaping economic activity. Although to Schumpeter economic growth occurs through rapid cycles of entrepreneurial activity, institutional change is necessary to facilitate the process in capitalist economies.

Recognizing the different levels of organization states assume to address collective action problems, some evolutionary economists also examine coordination between the macro-instruments, meso-organizations, and micro-agents when discussing institutional arrangements (Katz 2000; Rasiah et al. 2013). Meso-organizations are important in this study as they translate "rules" or institutions when the good or service required involve public goods or collective action problems. Rapid growth and structural change require strong support from institutions

and intermediary organizations, while the lack of them is characterized by states gripped by institutional failure (Rasiah 2011, p. 170).

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

2.2.3 A State in Transition

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

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

this book that the claims by Acemoglu and Robinson (2012) that the absence of open democracy has left China as an extractive state does not take account of changes that have taken place in the eastern and central provinces. China's socialist market economy is certainly different from those in Western, and the country's social forces are still evolving. If the Chinese state with its different levels of coordination assumes a developmental role to protect and strengthen the interests of its people, it can be better achieved through its current governance structure than simply leaving it to the self-selection process under conditions of power concentrations.[1] As Skocpol (1985) has argued, powerful interest groups dominate social outcomes in the USA such that the participation of minority groups has remained peripheral in key decision-making processes. It is for these reasons that the conclusion they draw that China's development cannot be sustained is baseless as the country has experienced rapid growth and structural change since the 1980s (Rasiah et al. 2013).

Indeed, China's relentless march economically has attracted studies on the state's embedding culture and social history, which is increasingly gaining currency as the Beijing Consensus. The development of China after economic reforms has its own characteristic features within a socialist market structure. Also, China has largely adopted a trial-and-error approach of "groping for stones to cross river" (Turin 2010). China's reforms is largely led by collective leadership and driven by neo-Confucianism values, which is dominated by pragmatism, gradualism, and experimentalism. Rather than prescribing a rigid set of recommendations that have typified Western economies, institutional change has shaped social relations in China through Chinese culture and philosophy (Huang 2010). "This idea of the new road is at the heart of Chinese thinking about their own development path" (Ramo 2004).

The evolution of the Beijing Consensus encompasses elements of the "BEST Consensus (short for Beijing–Seoul–Tokyo)," which is essentially the distillation of the successful economic achievement of Japan, Korea, Taiwan, and China. It can be viewed as a set of flexible precepts that underpin policies and strategies, which focus on building an institutional platform to stimulate latecomer to catch up effects. Although China is a major recipient of foreign direct investment, its structural movement from low to high value-added activities have been dominated by national firms and joint ventures. The telephone, consumer electronics, computer, and automotive industries are examples.

However, the Beijing Consensus as a framework is still unfolding and has yet to be bolstered with concrete theory and evidence. One dissenting view is that the blending of market economics with state control in economic sector shows some characteristics of market authoritarianism in which "commercial decisions are heavily guided by political actors, and the motivations behind investment decision are often as political as, or more political than economic" (Halper 2010, p. 123). In addition, the utility of the Beijing Consensus has been challenged for its lack of

[1] See Ellman (1979) for a lucid account of socialist planning.

specificity and implications (Turin 2010). Although Beijing Consensus has acted as a useful touchstone to consider the evolution of developmental paradigms, it has not been understood as well as the Washington Consensus (Li 2009). Furthermore, albeit mistakenly, some claim that the Chinese growth experience through liberalization shows more the characteristics of the Washington Consensus than the perceived view about the Beijing Consensus (Huang 2010).

Overall, this subsection reviewed related works on states in the transition economy of China. Although the existence of Beijing Consensus remains controversial, the purpose of this review is to provide the setting for examining the influence of institutions and institutional change on the Chinese state since reforms began. The attempt to understand the formation and functioning of the Chinese state shall go a long way to answer the question whether the Beijing Consensus is a real alternative to the Washington Consensus.

2.3 Summary

This chapter reviewed the key theories and their empirical advances to prepare the theoretical guide to examine the institutional changes of urban housing in China since economic reforms began in 1978. While Polanyi's (1944) articulation of the concept of embeddedness and the Miliband–Poulantzas debate provided the initial direction, existing works fall short of providing a sufficiently rigorous explication of institutions and institutional change and how the different levels of government and SOEs in China have responded to these changes.

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

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Chapter 3
Methodology and Data

Abstract This chapter presents the methodological framework and data sources used in the study. We use a mixed methodology to complement qualitative research with quantitative evidence. While most of the quantitative data are drawn from secondary sources, qualitative information was collected from primary sources, such as interviews and in-depth case studies. The Structure–Agency Institutional (SAI) model and the Institutional Analysis and Development (IAD) model are adapted and deployed to formulate the research framework to evaluate the impact of institutional change in the urban housing market, on the conduct of key institutional players, such as the state-owned enterprises (SOEs), and the provincial and municipal governments. The adaptations made took account of the differences in the historical origins of institutions in the Western economies and China so that the roles of informal institutions were added to the formal institutions that were originally used by the IAD model.

Keywords Mixed methodology · Case study · Institutions · Urban housing · China

3.1 Introduction

Given the complexities involved in researching the decentralization processes in China, we discuss the methodologies and data used in this book under the two categories of general and specific. The general framework is discussed in this chapter, while the specific frameworks are discussed in the individual analytical chapters. The chapter starts with a review of two major institutional models that we adapt for use in the book. Section 3.3 presents the analytic framework with the subsequent section explaining the research mode and data sources. The last section presents the chapter summary.

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3.2 Institutional Methodology

The introduction of market reforms since 1978 has transformed urban development in China, including the institutional instruments governing construction and housing industry (Krabben and Lambooy 1993; Krabben and Boekema 1994; Han and Wang 2003; Zhu 2005; Li 2010). These changes require a profound institutional analysis of housing policies to articulate the role of institutions in shaping the new governance structures in China. The prime focus of this study is to examine how institutional change has molded the functions of the state-owned enterprises (SOEs), and the provincial and municipal governments in China.

A useful concept to start this is to look at Healey and Barrett's (1990) Structure–Agency Institutional (SAI) model to understand the nexus between the roles of players in the real estate market, which helps connect the players' functions, ideas, strategies, and interests so as to form a network of interdependent relations in urban development. This approach is theoretically consistent with Ball's (1998) structure of building provision, which expounded the connection between agencies and markets. Both approaches call for the identification and analysis of the role of players and power relations, as well as how they relate to the structural resources, rules, and regulations in the allocation and distribution of urban housing.

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

However, the SAI model is not bereft of problems as it is based on the assumption that agencies do not evolve or change and thus lacks a major element essential to examine urban housing policies in China, which has undergone significant institutional change since market reforms began. It is pertinent that the methodological framework used in this study captures institutional changes governing the allocation and distribution of urban housing. Hence, we adapt the SAI model to make it

Table 3.1 Four intersecting themes of the SAI model

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

Source Healey and Barrett (1990)

more exhaustive by absorbing the assumption that institutions evolve to interact with social and economic structures and agents.

Moreover, we found little works examining the property sector in Asian economies using the SAI model. Whereas the formulation of the SAI model with Western underpinnings may not have required change as a key pillar owing to the mature economic formations reminiscent of the developed European economies, China's rapidly evolving economic structure is inevitably shaped by institutional change. The need to understand institutional change is even more pressing as little work exists explaining its impact on the transitional economies, especially on urban housing. Specifically, there is a need to study how the changes in state policies brought about have transformed the relationships between institutional players and the conduct of social agents. For example, it is important to know how the SOEs of China have responded to market reforms. The lacuna in existing methodologies can be solved through a profound application of the evolutionary perspective of institutions (Veblen 1915; Nelson 2008a, b). Also, a study of China will also provide strong empirical fodder to strengthen the usefulness of the SAI model.

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

1. The highest level relates to constitutional decision-making where political and legal arrangements are established. It is where decision-makers determine how collective choice participants will be selected and the relationship among them, such as voting rules.
2. The second tier is the regulatory framework, which is collectively established and formulated. Collective choice is where decision-makers jointly create rules to impact the operational-level activities.
3. The operational level, which is in the third level, allows actors who are individuals or organizational units to interact within the institutional framework. Day-to-day activities at this level affect the system directly.

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

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

persistent than formal rules (North 1997). Hence, we absorb the role of informal institutions to the IAD analytical framework. Thus, we construct in the next section an analytic framework to study institutional change in China's urban housing sector by using the SAI and IAD models as the starting point to answer the research questions of the book in Chaps. 4–6.

3.3 Analytic Framework

The analytic framework used in this book views state policies as important instruments that govern urban housing sector in China with the dual objectives of sustaining economic growth and performing welfare role in the country. We argue that institutions and institutional coordination have evolved to embrace market reforms to achieve these objectives. The first research question of the book draws on evolutionary theory to capture the impact of institutional change on the role of SOEs since market reforms were introduced. The second and third research questions focus on how the decentralization of state planning has transformed the role of provincial and municipal governments, respectively. Although the central government still initiates housing allocation and distribution policies, the provincial and municipal governments have becoming increasingly important in the planning and implementation of urban housing policies in China. The analytic framework to examine these developments is shown in Fig. 3.1, which illustrates the three roles of initiation, intermediation, and implementation of housing policies in China. While the detailed use of the analytical framework is undertaken in the analytical Chaps. 3–5, we discuss its main elements briefly in this section.

Using the SAI model advanced by Healey (1992), Chap. 4 examines the evolving role of one of the most important players in China's urban housing sector, i.e., SOEs. In so doing, we examine institutional changes brought about by market reforms, and its impact on the conduct of SOEs in the housing market. Drawing on evolutionary theory, this chapter identifies three phases in the evolution of the

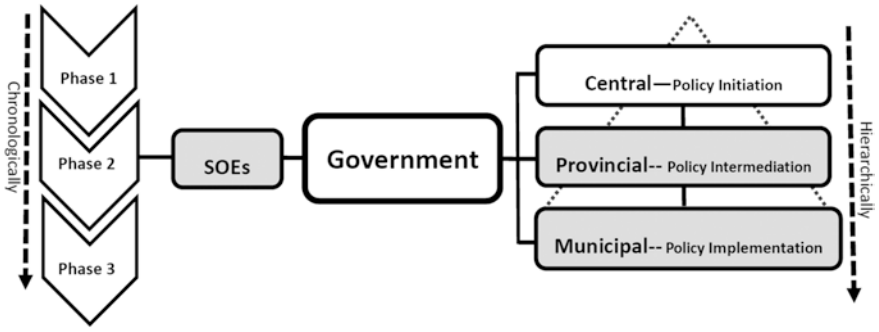

Fig. 3.1 Analytic framework. *Source* Authors

role of SOEs, particularly on how they have responded to changes in macro-level instruments in the way they deliver houses at the micro-level.

Chapter 5 analyzes the rising importance of provincial governments in the urban housing sector from the perspective of formal and informal institutions. We used the methodology advanced by Kiser and Ostrom (2000) to analyze changes in the institutions that has shaped the role of provincial governments in decentralized governance framework in China. To explain the influence of locational factors, including the autonomy enjoyed by provincial leaderships, we examine the empirical evidence of Shandong and Shanxi provinces. The provinces were deliberately chosen to compare different institutional development experiences and their consequences on the provision of affordable housing. Informal institutions, such as leadership style and living culture, have been incorporated in explaining the different strategies and policy outcomes achieved by the two provinces. In so doing, we capture the role of informal institutions to complement the formal institutional analysis promoted by IAD framework.

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

3.4 Research Mode and Data

We use a mixed methodology to complement qualitative research with quantitative evidence for clarification, illustration, and interpretation of social behavior (Patton 1990; Johnson et al. 2007). The use of qualitative and quantitative techniques enables the benefits of both approaches in research offering greater validity to the results and analysis (Skinner 2012). By leveraging on the strengths of both approaches, corroborative results from mixed methodologies strengthen the robustness of research.

While all quantitative data are drawn from secondary sources, qualitative information is drawn from primary sources from interviews and observation, as well as secondary sources from government reports and established sources. Due to the fact that institutional influences, government planning processes, and public opinion cannot be easily quantified, qualitative approaches, including the use of case studies, have natural merits in gathering in-depth understanding of human behavior and the rationale behind such conduct, including the reasons of why particular strategies are adopted. As what Doyle (2003) argued, the case studies used are purposive rather than exhaustive because the objective is interpretive rather than predictive.

3.4.1 Qualitative Data

Qualitative information of this research is drawn from various sources, such as interviews, observations, documentary reviews, and other materials through field work. The documents include laws, regulations, administrative files, historical records, newspaper article, speech script, online videos from libraries, and archives of government, universities, and other channels.

Primary qualitative information was mainly collected from open-ended interviews through the use of a checklist which is structured based on a coherent theme. Open-ended questions allow subjects to express themselves freely with a number of unidentified details. Thus, the interviews were flexibly structured because it is not possible to categorize into a few standard responses. We made direct contact with the respondents as that approach allowed clarifications and the use of a wide variety of questions. Also, the direct selection of the officials avoids the possibility of respondents being "coached" by government authorities. Respondent selection was based on a set of criteria that took account of authority, accountability, reliability, and relevance to the research. For example, we avoided the use of government officials to select company managers so as to reduce government bias in firms' responses. Respondents were interviewed both face-to-face interview or through telephone interview. A checklist was given to the respondents prior to the actual interviews.

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

Table 3.2 Data collection steps used in case studies

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

Source Authors

3.4.1.1 Case Studies

In-depth case studies were used as the prime qualitative research method for this book since it enjoys unparalleled advantages in intenerating policy formulation and implementation compared with other methods, such as phenomenology and ethnography, that are grounded in historical research. The justification for the use of case studies lies in the inability of quantitative methods to explain social phenomena, especially dynamic interactions between different players within the institutional settings. This book focuses on understanding how institutional change effected by market reforms has impacted on policy formulation and implementation, which cannot be studied by simply confining the analysis to quantified data.

Adelman et al. (1983, p. 3) describe the case study approach as an "instance drawn from a class," while MacDonald and Walker (1977, p. 181) defines it as an "examination of an instance in action." Case studies, in their true essence, explore and investigate contemporary social phenomenon through detailed contextual analysis of typical events in certain social environments. It is most appropriate in situations where it is impossible to separate phenomenon studies from its context (Yin 1994), which is critical for this study that seeks to analyze "players" behavior within an institutional framework to understand the evolution of urban housing in contemporary China. Hence, it is pertinent to have in-depth case studies in this research through descriptive, interpretive, and evaluative analysis. In addition, to avoid over-generalization, several social agents are interviewed with the information being simultaneously cross-checked with various other sources.

3.4.2 Quantitative Data

Although a distinction is commonly drawn between qualitative and quantitative aspects of scientific investigation, the two methods go hand in hand in this study. Since quantitative data in this study are only used for substantiating arguments made using qualitative interviews, they do not constitute the usual metaphysical assessment that leads to hypothesis. The quantitative data used in this book were obtained from authoritative secondary sources in China, such as *China Statistical Yearbook*, *China Real Estate Statistics Yearbook*, *Database of Asia and Emerging Markets* (CEIC), and the *Hexun Database*. Unlike customized surveys that are small, data from the large surveys and censuses by government agencies are representative of the entire population. However, while quantitative data is essential and can be used to deduce policy outcomes, state policy and interactions among institutional players are difficult to be quantified or measured by such approaches. Hence, we use quantitative data in this book as the primary means of describing how things are or have changed rather than seeking to explain why they are the way they are or have changed (Maxim 1999; Somekh and Lewin 2005, p. 215).

Some of the quantitative data from secondary sources were processed with basic economic techniques to enhance data reliability and validity. For example,

the price of affordable housing and commercial residence of China from 1997 to 2008 that was extracted from China statistical yearbook was converted to constant 2000 prices using GDP deflators from the World Bank (2013). In doing so, we have taken account of inflationary effects from the time series data.

3.5 Summary

This chapter presented the main methodological framework and data sources used in the book. We adapted the SAI and IAD models to formulate the research framework to evaluate the impact of institutional change in urban housing market on the conduct of major institutional players, such as SOE, and provincial and municipal government. The adaptations made took account of the differences in the historical origins of institutions in western economies and China by adding informal institutions to the formal institutions that the original IAD model used. Meanwhile, we adapted the SAI model by assuming that institutional agents undergo change.

By using a mix of qualitative and quantitative approaches, this book attempts to examine in the analytical chapters the research objective that the state has remained a powerful instrument to perform the social welfare function in the urban housing sector throughout the process of market reforms in China. In attempting to meet this objective, we seek to analyze how the role of SOEs, provincial governments, and municipal governments has changed since reforms began?

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Chapter 4
The Transformation of State-Owned Enterprises

Abstract This chapter analyzes institutional change and its consequences on the conduct of state-owned enterprises (SOEs) in China's urban housing sector since reforms began in 1978. Three distinct phases can be identified. In the pilot phase of 1978–1988, SOEs became producers and distributors of houses. In the second phase of 1988–1998, SOEs focused on the resale of public houses and became important contributors to the Housing Provident Funds (HPF). In the third phase since 1998, SOEs expanded their role to become developers, investors, and speculators in the housing market. The transformation of the urban housing sector from in-kind provision to market-based allocation helped turn losses made in the past to profits. The infusion of modern management principles has stimulated technological upgrading in the construction and designing of houses by SOEs. However, as instruments of the state, SOEs still function as providers of social welfare to urban dwellers, which shows that the state has remained central in balancing private and public interests in the housing market.

Keywords State-owned enterprises · Urban housing reforms · Institutions · China

4.1 Introduction

Housing is a basic human right, as well as an economic item with characteristics that poses challenges in the conceptualization of its allocation. The provision of housing remains a problem in most countries, particularly in the developing and transition economies. Little wonders the huge challenges the Chinese government had to face in the formulation and implementation of urban housing policy during the reforms. As an integral part of reforms, state-owned enterprises (SOEs) have been reformed to give them autonomy to manage their core business better, and to diversify into

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complimentary economic activities. However, although market reforms have transformed the conduct and management of SOEs, they have remained very much an instrument of the state. Such a complex structure has made the conduct of Chinese SOEs in the housing market distinctly different from the typical state-owned firms.

A number of works have emerged to discuss urban housing reform since 2000 (Wu 2001; Hui and Wong 2006; Quan 2006; Wang and Li 2006; Yeung and Howes 2006; Mak et al. 2007; Wang et al. 2011). While the major contribution of these studies relates to policy practices on housing reforms in urban China, relatively few studies have examined how the role of SOEs in China's housing markets has changed since reforms were launched, especially the interaction between institutions and the key players in the production and delivery of houses. An exception to this is a study by Wang et al. (2005), which analyzed housing reforms in SOEs and their impact on the different social groups. However, this study did not capture the role of institutional change by looking at how SOEs transformed their roles to the changing environment as a consequence of market reforms. Using primary and secondary data, this chapter seeks to examine critically the changing role of the SOEs in housing production and distribution with a special focus given to the new institutional networks that have emerged to support and execute delivery of urban houses in China so that to meet the growing demand and complexities in the allocation of housing after market reforms.

Case studies are used to complement the analysis, which is targeted at deepening our understanding of SOEs' social behavior and urban institutions in China. Thus, in addition to secondary data drawn from the *China Statistical Yearbook*, *China Real Estate Statistics Yearbook,* and *Databases for Asia and Emerging Markets* (CEIC database), primary data were collected through in-depth interviews on the H Group. Established in the 1980s, H Group is now the single largest Chinese multinational home appliances manufacturer with an employment size of more than 70,000 worldwide. In 2002, H Real Estate Development Co., Ltd., which is a subsidiary of the H Group, engaged in real estate development. By 2007, this company had development projects in more than 10 cities. Although its work unit in real estate business is not part of its core business, H Group has become a typical SOE that has increasingly its participation in the housing sector of China since market reforms began.

This chapter is made up of five sections. Section 4.2 discusses the key theoretical considerations essential to examine institutional change in China's urban housing sector. Section 4.3 discusses reforms directed at SOEs and land tenure since 1978. Section 4.4 analyzes by phases the changing role of SOEs in China's urban housing market. Section 4.5 presents the conclusions.

4.2 Theoretical Considerations

Following Polanyi (1944), we regard the economy as not autonomous, but subordinated to politics and embedded in society and culture, and hence, effective state intervention is an integral part of successful economic development. Also, the

state acts as a midwife and demiurge sometimes to cultivate and nurture entrepreneurial forces or involve directly in productive activities to perform a central role in organizing production (Jessop 1990; Evans 1995). The goals of state activities in society are not limited to the state apparatus but rather are strongly guided by the general interest of society (Poulantzas 1973; Evans et al. 1985, p. 46; Jessop 1990). Hence, interventions in the economy by the state can be justified to prevent undesirable behavior with reducing inequalities of wealth and improving the living environment of the poor being one of these objectives (United Nations 1948). Methodologically, we deploy an modified framework drawing on SAI model by Healey and Barrett's (1990) and IAD models by Kiser and Ostrom (2000) to analyze the impact of institutional change on the key players in the development of the urban housing sector since market reforms were introduced.

Hence, this chapter focuses on the way the SOEs have restructured their role in the provision of urban housing in the face of market reforms. The new institutional environment facing urban housing in China poses challenges for both policymakers and scholars. We undertake the impact of institutional change on the SOEs within the context of broader state theory articulated by Poulantzas (1973), Jessop (1990), and Evans (1995), institutions as advanced by Veblen (1915), North (1991) and Nelson (2008a, b) by deploying a methodological framework adapted from the SAI and IAD models. While institutional change has driven significant transformation in the role of SOEs, we will show in the next chapter that they remained as instruments of the state.

4.3 Market Reforms

Any discussion of market reforms in urban housing sector of China will not be complete without a profound understanding of the transformation of land tenure and the governance of SOEs. It is land reforms that took on the introduction of land lease function to facilitate house ownership, and it is SOE reforms that offered autonomy to SOEs diversify their operations into complimentary activities, such as housing business. Thus, this section introduces the reforms that took place in land tenure and SOE governance structure as a premise that SOEs' role in urban housing sector is able to evolve accordingly.

4.3.1 Land Reform

Land could be privately owned and legally traded through mutual agreement before the establishment of the People's Republic of China in 1949. The Communist Party confiscated private property from the wealthy landlords and held it under collective ownership since 1952. As a consequence, all land were either possessed by the state or owned communally by 1958 (Ding 2003 p. 2). Urban land was allocated from then on to work units through administrative channels

by municipal governments. It is common that state-owned companies occupied land reserves by building walls around them. To prevent the unproductive use of land, SOEs were required to return unused land back to the state. However, there were neither economic incentives nor penalties in practice for them to return land reserves.

The introduction of sale and transfer of land use rights helped rationalize land management through markets mechanism instead of administrative channels. Public land leasing was legalized since 1990 so that urban land can be acquired by developers for a fixed period of time by paying rent to the state. The pricing of rent is determined by location, type, and density of proposed development, while users are allowed to let, transfer, rent, and mortgage land use rights. Hence, the separation of land ownership and use rights enabled the trading of land under state ownership.

Based on the belief that the market mechanism will improve land allocation resources and the efficiency of land use, the central government aimed to establish a land market through land reforms. The direct result of reforms was witnessed by an increase in the sale of land use rights, which jumped to 545 lots in 1991 from 5 lots in 1987. The number of land transactions expanded sharply to exceed 100,000 lots annually since 1995 (Table 4.1). Meanwhile, the high peak of 1992 when land prices skyrocketed from 110 yuan/m^2 in 1991 to 2398 yuan/m^2 in 1992 was the result of new enactment on land use rights. The massive rise of price in 1992 can be explained by a combination of an expansion in real demand and expectations, which is followed by an eventual regression to 1060 yuan/m^2 in 1993. Most SOEs made a fortune by leasing out land use rights from their reserves. It is believed that a part of the revenue earned from the land use rights leased was used to compensate SOE employees due to their low salaries with the balance used as the initial capital to start real estate projects and to expand production. The provision of urban housing was not free before 1978, but it was heavily subsidized by work units.

Table 4.1 Land transactions, China, 1987–1996

Year	Lot	Area (ha)	Sales (million yuan)	Price (yuan/m^2)
1987	5	15.7	35.2	224.20
1988	118	389.1	416.2	106.96
1989	127	625.2	447.2	71.53
1990	482	948.2	1052	110.95
1991	545	1036.1	1136.9	109.73
1992	2800	2189	52,500	2398.36
1993	42,076	3822.5	40529.3	1060.28
1994	97,405	3295.5	35928.5	1090.23
1995	105,473	2872.8	33285.7	1158.65
1996	103,921	2269.9	29048.4	1279.72

Source China statistical yearbook (various years)

4.3.2 SOE Reforms

China's SOEs have undergone significant transformation from a communist-style central control to a decentralized market socialism system since 1978 (Bolesta 2007). SOEs were targeted for reform under the economic revitalization because of their importance to the Chinese economy.[1] The centralized control under the communist system before reforms left SOEs inefficient and mired in endless bureaucratic problems. Overstaffing, managerial agency problem and a lack of incentives burdened most Chinese SOEs despite of the provision of support through extensive subsidies and special loan packages by the state. Apart from production, SOEs had to provide welfare packages, such as housing, education, and health care to its employees, which greatly burdened them and distracted their focus from their core activities. In order to improve their economic performance, a resolution of SOE reform was proposed at the Third Plenum of the Eighth Central Committee in 1979.

Economic reform first sought to provide the SOE managers' management autonomy. Aiming to decentralize SOEs and prepare them for more autonomy, "Managerial Contract Responsibility Scheme" was introduced to give SOE managers the motivation to seek financial gains beyond what was promised in government contracts. Managers were given the autonomy to formulate production plans and marketing strategies since the assignment of production quotas and price fixing was no longer restricted. At the same time, the government offered SOEs the power to determine the wages of employees and to dismiss surplus labor.[2] It is estimated that the number of laid-off workers reached the highest level of 6.6 million in 2000 (Ministry of Labour and Social Security 2000). However, part of the laid-off labor was absorbed and rehired by the non-state sector, which has grown rapidly since reforms were introduced. In doing so, the new employment arrangement relieved SOEs from their social burden, while market reforms offered them greater flexibility in allocating labor.

The transformation of the traditional SOEs to "modern enterprises" with clearly defined responsibility and scientific management methods started in 1993 when Vice Premier Zhu Rongji took charge of economic reform. Under the strategy of "retaining large while releasing small state-owned enterprises" through integration and consolidation, privatization, sale, and closure, only about 1000 central SOEs were categorized as central enterprises (*yangqi*). The remaining central SOEs transformed themselves to fit into the framework of the new state-led capitalism by converting into joint ventures with foreign companies or getting listed in the

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

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

Table 4.2 State-owned real estate enterprises, China, 2003–2008

Item	2003	2008	Average annual growth rate (%)
Total assets (Trillion yuan)	71.23	131.20	12.99
Total liability (Trillion yuan)	52.73	89.89	11.26
Number of employed persons	163,495	126,294	−5.03
Gross profit (Billion yuan)	337.07	1997.75	42.75

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

international stock exchanges. There were 2692 recognized large enterprise groups with more than 26,000 subsidiaries employing over 30 million urban Chinese by 2004 (Sutherland 2007, p. 3). Cheong et al. (2012) argue that this strategy gave rise to a new economic structure in China, which is positioned between a liberal open economy and a centrally planned model. This corporatization was part and parcel of a reform strategy to nurture national champions, forming the pillar of the national economy to enhance international competitiveness.

The phenomenal expansion of large SOEs resulted in business diversification. While specializing more on their core businesses, the SOEs also extended their participation into complementary activities, which included producing, purchasing, and selling houses. The expansion into complementary activities, including in real estate, offered SOEs the room to develop new lines of profitable businesses. According to the State-owned Assets Supervision and Administration Commission (SASAC) (which was set up in 2005 to exercise state ownership and control over SOEs), 94 out of 129 central enterprises owned or controlled real estate businesses by the end of 2009 (China Times 2010) (Table 4.2). Meanwhile, gross profits of SOEs soared from 337 billion yuan in 2003 to 1997 billion yuan in 2008, while total assets grew from 71 trillion yuan in 2003 to 131 trillion yuan in 2008. The decrease in the number of employees is the consequence of the privatization of small SOEs, as well as the policy of the Manager Responsibility Scheme, which allowed labor laid-off.

4.4 Evolving Role of SOEs in Urban Housing Sector

The government has been the key institutional architect designing housing policies in China, while as the instrument of the state, the SOEs responded by adjusting their conduct accordingly to fall in line with changes in government policy. Market reforms transformed the conduct of SOEs in the urban housing sector from housing allocators in a centrally planned economy to investors in a dynamic housing sector which is increasingly shaped by modern management practices.

Given the problems of markets when dealing with essential goods, many argue that market-oriented SOEs should have abandoned the involvement in purchasing and allocating houses so as to avert generating the unintended consequences

of market failure. However, although SOEs' participation in the urban housing market has attracted considerable controversy, we argue that institutional change within a socialist structure led the SOEs to pursue the twin objectives of raising profits through the absorption of modern management practices while at the same time maintaining social responsibility by delivering affordable housing to the urban dwellers. We identify three phases of institutional change in China's urban housing sector (Table 4.3).

4.4.1 Phase 1: Constructor, Distributor, and Property Manager (1978–1988)

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

4.4.1.1 Raising Funds

Acquiring funds is the first step in the SOEs efforts to build houses for employees. The Manager Responsibility Scheme allowed SOEs to keep certain portion of the profits earned. Owner-raised funds from retained earnings and other channels are the main sources of financing housing production. However, a wide variance in economic performance among SOEs caused considerable disparities in the delivery of housing welfare. The successful SOEs demonstrating better performance had more resources to provide better houses, while employees of SOEs gripped by poor performance suffered. Urban employees had to live in tube-shaped apartments (*tongzi lou*), which was characterized by shared corridors with rooms and doors built side by side. Each family was allocated only one room and they had to share the bathroom and kitchen (Zhang and Rasiah 2013). The consequent inequalities created from such wide differences in performance of the SOEs raised serious social concerns among the policymakers whose objective was to ensure that market reforms did not seriously undermine the egalitarian housing system that was in place in China before 1978.

Table 4.3 The evolving role of SOEs in the urban housing sector, China, 1978–2012

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

Source Authors

The poor living conditions of the urban poor showed that institutional coordination of the SOEs failed to deliver decent living standards to the majority. For example, the poor living condition of employees in H Refrigerator Plant (subsidiary of H Group) was attributed to its poor economic performance in the 1980s. Interviews with Xu Xiumei, a retired employee of H Group, told us that she was allocated a single bedroom measuring 20 m^2 in 1987. She described living in that tube-shaped apartment was "hard to imagine for today's young persons." The food became cold before it reached her room, which was 30 m away from the shared kitchen. Official information confirms such an account. For example, the average living space of employees at Qingdao city, where H Group is headquartered, was less than 6 m^2 in 1990. It is also the case that state-owned work units facing insufficient funds pooled money to build the houses through joint ventures with other work units. For example, a 6-floor building was co-funded by H Air-conditioner Plant (subsidiary of H Group) and former Municipal Instruments Bureau in the late 1980s. This arrangement offered H Air-Conditioner Plant in return 8 out of 48 units.

4.4.1.2 Acquiring Land

Before market reforms began, the main approach of getting land was through administrative allocation. Since the state remained as ultimate land owner, enterprises had to apply for its use by submitting proposals to the supervisory authority, such as the Municipal Urban Planning Bureau. Without a pledged planning system in communist China, land could easily be given by supervisory government agencies. Alternatively, houses could be built directly on SOEs' land reserves, thereby avoiding the application process for new land and improving the land use efficiency.

4.4.1.3 Constructing Houses

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

Table 4.4 Evaluating system of housing distribution, H Air-conditioner plant, China, 1987

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

Source Authors

4.4.1.4 Allocating Houses

After the completion of construction, the finished houses would be distributed to employees based on a number of non-monetary factors, such as educational attainment, party membership, job seniority, current residence status, and marital status (Huang and Clark 2002; Pan 2004; Huang and Deng 2006; Li and Li 2006). Table 4.4 presents an example of the housing allocation scheme, which was adopted by H Air-Conditioner Plant in 1987. It was designed to evaluate and determine employees' tenure of publicly owned houses. This evaluating system was enacted in the employees' general meeting and implemented by the committee of housing allocation. Applicants who accumulated higher points enjoy preferential access to these houses. The SOEs monitored the entire process while acting as the housing allocator to their employees.

In the absence of markets, social distribution was undertaken and organized wholly by the SOEs. State-owned work units participated in each stage of housing production and distribution, while acting as the representative and agency of the state to distribute housing resources.

4.4.2 Phase 2: Transformation Role (1988–1998)

The second phase began following the enactment of "*Implementation Plan for a Gradual Housing System Reform in Cities and Towns*" in 1988 (The State Council of China 1988a). Subsequently, a large number of SOE employees managed to purchase houses with either partial or full property rights based on the level of subsidy and contractual constraints imposed on them. The government approved the sale of these houses in the market after 5 years since the date of purchase.

The objective of such an exercise was to establish a housing market so that properties could be bought and sold in the market. With advancing housing reforms, the function of work units as home buyers was gradually replaced by house sellers. In the following section, we discuss the role played by the SOEs through two schemes introduced during the transitional phase:

4.4.2.1 Seller of Houses

Before market reforms began, employees paid nominal rent, which was heavily subsidized by work units. For example, the monthly rent of a medium-sized apartment in the coastal city of Qingdao was only 0.5 yuan/m^2 on average. Mr. Zhang Jian, a housing management officer, revealed that the average construction cost of urban residence in the 1980s and 1990s was estimated at around 800–1000 yuan/m^2. Based on a nominal rent of 0.5 yuan/m^2 per month, it would have taken work units more than 130 years to cover the construction costs, which is well beyond the lifespan of a normal building. Besides, the low rents could hardly cover maintenance and management expenses so that the government still had to bear a large burden of the costs that there rarely existed any surplus to recoup building costs. Despite having a socialist governance framework, rent compensation and welfare provision failed to meet the government objective of housing for all urban dwellers. Hence, the sale of publicly owned houses was initiated to reduce SOEs' welfare burden, as well as to ease the plight of disadvantaged urban Chinese dwellers, albeit the old ones hardly met decent standards.

The sale campaign was also deliberately designed to improve economic performance through the improvement of usage efficiency of fixed assets. Before market reforms began, half of the SOEs' nonproductive fixed assets were in the form of housing stocks.[3] Instead of being used for income generation, this large volume of houses generated only nominal rents. Thus, the sale off house stocks at market prices was highly favored by the SOEs to enhance profitability. The pressure increased further when the SOEs began to participate in international stock exchange. Net fixed assets relative to sales revenue became an important indicator of capacity utilization, which would directly reflect economic performance of company. Hence, following the riddance of large stocks of nonproductive assets gave the SOEs an incentive to sell off publicly owned houses (Holz 2002).

Hence, the government launched the sale of publicly owned houses throughout the country in 1988 after successful pilot experiments in selected cities. This policy called for raising public housing rent and selling urban houses to the sitting tenants with subsidized prices, which was determined by a series of non-monetary

[3]In 1985, 34.57 % of fixed asset investment by all SOEs nationwide was in nonproductive fixed assets, compared to 24.72 % in collectively owned units.

factors. The central government aimed to replace the welfare-oriented housing system with a market-oriented one by issuing the following directive:

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

Being the state's agent with the responsibility of delivering houses to buyers, the SOEs provided service to facilitate the transfer of urban housing ownership to urban dwellers. Following reforms, work units are responded by organizing and executing the sale of houses through special committees under the housing management department. A standard pricing formula used by H Group in 1998, which reflects the dwelling condition and socioeconomic status of the purchaser, is given as an illustration example below:

$$\text{TSP} = \text{CP} + \text{Premium}$$

with

$$\text{CP} = \text{cp} \times \text{F}$$

$$\text{cp} = [\text{BC} \times (1 - r_{\text{Dep.}} \times \text{Y}_\text{U}) - (r_s \times \text{Y}_S)] \times (1 + r_{\text{Stor.}} + r_{\text{Ori.}} + r_{\text{Cov.}}) \times \delta_{\text{ns}}$$

and

$$\text{Premium} = p_{\text{excd.}} \times (1 - \text{Y}_U \times 2\,\%) \times F_{\text{excd.}}$$

whereby

TSP	Total selling price;
CP	Cost price;
cp	Unit cost price;
F	Floor space;
BC	Basic cost price;
$r_{\text{Dep.}}$	Depreciation rate;
Y_U	Number of years in use;
Y_S	Number of service years;
r_s	Seniority discount rate;
$r_{\text{Stor.}}$	Storey of the house;
$r_{\text{Ori.}}$	Coefficient of house orientation;
$r_{\text{Cov.}}$	Coefficient of convenience;
δ_{ns}	Non-suite discount rate;
$F_{\text{excd.}}$	Floor space exceeded; and
$p_{\text{excd.}}$	Unit price exceeded

Information from our fieldwork showed that the most houses were sold by work units at around half of the price of the commercial houses in the market. Whereas over 82 % of urban houses were publicly owned in 1981, 80 % of these houses were sold to their occupiers by 2002. According to the data released by the Qingdao

municipal government, a total of 38,859 houses totaling over 2 million m^2 were sold by the end of 1996, including 16,733 units under the management of Municipal Housing Bureau and 22,126 under the jurisdiction of work units. The SOEs organized, executed, and promoted this remarkable transfer of ownership from public to private hands in China. The house resale programme became the first significant step in the housing privatization process during which time the SOEs translated the central housing policy into reality (Wu 1996; Wang and Murie 2000).

4.4.2.2 Housing Provident Fund

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

SOEs participate strongly throughout China in the HPF scheme (Table 4.5).[4] The significance of the HPF is reflected in the higher share of contributors among SOE employees compared to other contributors. At the sector level, state apparatus' and SOEs accounted for 66 and 18 %, respectively, of the work units contributing to HPF in 2005. Non-state sector participants only accounted for 16 % of the contributors, while the state-related sectors accounted for 84 % of the contributors in 2005.[5] At the sub-sector level, work units from government organizations and government agencies accounted for 39.5 and 26.5 %, respectively, of the HFP contributors. SOE work units accounted for 15.1 % of the HPF contributors.

The shift from in-kind to monetary compensation posed a financial challenge on employers as they were required to contribute a certain amount of funds to their employees' accounts. Although it did not burden the SOEs in the initial stage owing to funds they had accumulated from the sale of publicly owned houses, it threatened to pose a problem once these funds were exhausted. Nevertheless, with the implementation of the HPF, the housing financial burden was successfully transferred to the employees of the urban SOEs. While they paid a nominal rent in the pre-reform era, SOE employees had to contribute an equivalent amount with their employers to the HPF account during the reform period in order to purchase urban houses. The shift of compensation from the in-kind to the monetary

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

[5]We could not get HPF data by employees.

Table 4.5 Ownership and HPF coverage, China, 2005

Sector	Percentage share	Sub-sector	Number of work units participating in HPF	Percentage share (%)
State-owned (controlled) enterprises	18.04	State-owned	39,401	15.10
		100 % government funded	1596	0.61
		State controlled	6072	2.33
State apparatus	65.98	Government organizations	103,019	39.48
		Government agency	69,121	26.49
Non-state sector	15.98	Collective-owned enterprises	6263	2.40
		Share-holding enterprises	3663	1.40
		Private enterprises	7390	2.83
		Foreign company	3913	1.50
		Limited liability company	14,960	5.73
		Others	5511	2.11

Source Compiled from Chinese trade unions statistical yearbook (2006)

scheme relieved the SOE's of their direct social welfare obligation with the burden being transferred to urban employees through an increase in their share of house cost. Compared to the 1 % of the average urban worker's monthly earnings as rent prior to market reforms, housing ownership costs following reforms amounted to nearly 20 % of the monthly salaries of urban employees (Duda et al. 2005, p. 2). Such a marketization policy exercise led the SOEs to reduce their social obligation in the provision of welfare housing. Urban dwellers now have to shoulder heavy housing costs, especially in metropolitan cities, such as Beijing and Shanghai, as the SOE work units' role in employees' housing payments have been drastically reduced.

In short, the role of the SOEs was changed from house buyers to house sellers. In addition, the in-kind compensation scheme was replaced with a monetary scheme following the introduction of the HPF. Thus, the role of SOEs as intermediaries between house producers and house buyers has fallen with the increasing participation of individuals as independent buyers in the market. However, the socialist elements of government policy drove the SOE work units to function as guardians of urban employees welfare, and hence, they still participate in coordinating the sale of houses and the HPF scheme. In other words, although the compensation method changed since market reforms were introduced, the role of the SOEs as the state's instrument through which its governance was executed over the whole economy still remained, albeit with much less control.

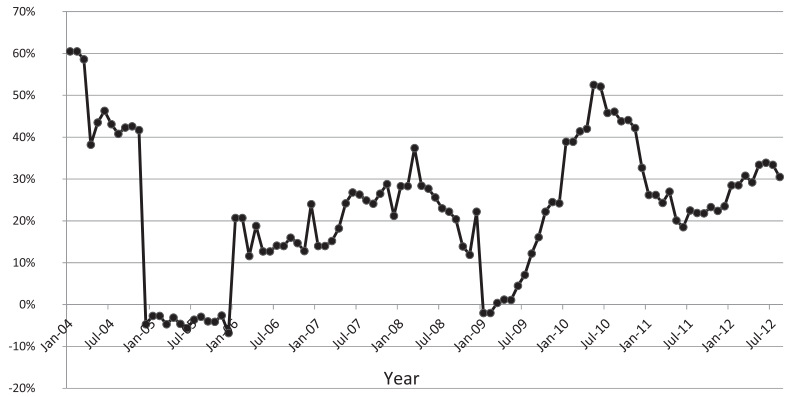

Fig. 4.1 Real estate investment, SOEs, China, 2004–2012. *Source* Plotted from CEIC database

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

The third phase witnessed the complete removal of the in-kind system of distributing houses and its replacement with the real estate market. Huge profits generated from soaring property prices encouraged increasing numbers of SOEs to extend their business to the real estate industry (Fig. 4.1).[6] However, SOEs participation in the real estate market has raised considerable criticisms because of, inter alia, the speculative function, as well as the huge amount of profits they have started to make. The share of SOE and holding enterprise investment in the real estate market exceeded over 50 % of the total in January 2004 and July 2010.

Despite the positive developments over the reform period, the changing role of SOEs in the housing market has also given rise to undesirable consequences in China's economy. Allowing the SOEs to speculate in housing sector has been argued to be one of the reasons for the high prices faced by those seeking to purchase houses in the real estate market (Mak et al. 2007). The massive conversion of non-tradable to tradable shares that began during the financial reform from 1994 attracted considerable speculation as a massive volume of capital was diverted to such unnecessary activities. While the conversion was to reduce government ownership of the SOEs and to maintain control, there is still little disclosure over what was done with the capital raised from the shares issued. In addition, the provision of preferential access to land use rights and credit to SOEs has disadvantaged the small private developers.[7] Furthermore, by allowing the

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

[7]Nationwide, the vacant floor space of commercial buildings in 35 cities rose from 2004 to 2010 growing steadily from 14,324 m^2 in 2004 to 22,542 m^2 in 2010.

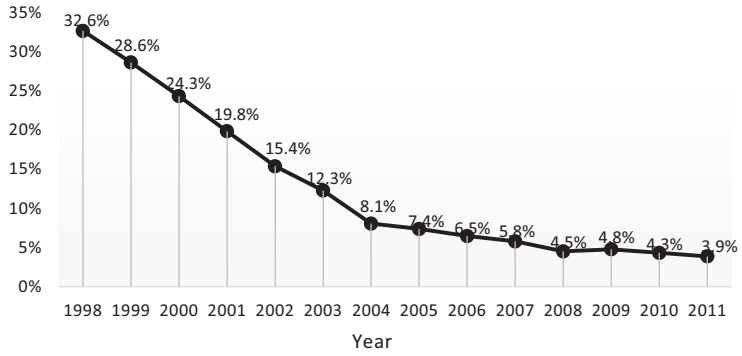

Fig. 4.2 The share of SOEs among real estate developers, China, 1998–2011. *Source* China statistical yearbook (2011)

SOEs to retain a high share of their profits,[8] they have also reduced the capacity of government to introduce comprehensive social safety nets to address adequately the interests of the disadvantaged poor (Cheong et al. 2012). Also, the aggressive purchasing conduct of the SOEs has driven up prices of land use rights to record levels, which has obviously raised serious moral hazard problems. Finally, the close interrelationship (*guanxi*) between the SOEs top management and local officials has led to the growth of socially unhealthy collusive alliances in China's political economy, which has seriously disadvantaged private entrepreneurs. Indeed, SOEs easily outbid private developers in acquiring land use rights so that the share of bids won by SOEs in the capital Beijing alone rose from 59 % in 2009 to 62 % in 2010, though the share of SOE enterprises in total real estate developers has fallen from 32.6 % in 1998 to 3.9 % in 2011 due to policy tight (Fig. 4.2).

The falling share of SOE in total developers is caused by a series of macroeconomic controls exercised by the Central government to regulate SOEs' undesirable conduct in the urban housing market. Those SOEs whose core business is not real estate have since been pressured to exit from real estate business following a notice by SASAC that was issued on March 18, 2010. As a consequence, 78 large SOEs were restructured to divest their housing business, thereby leaving only 16 SOEs with permission to remain (State Council Information Office of the People's Republic of China 2010). Policymakers believe that the housing industry has distracted the SOEs from pursuing international competitiveness. However, this non-mandatory measure was difficult to enforce without the effective cooperation of local governments, which often acted in the opposite direction by lifting land rent caps and freeing property prices to boost revenue.

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

The transition from full social responsibility of providing housing before reform to one in which the burden is shared with urban dwellers has caused concerns. Nevertheless, despite the problems arising from the nature of market reforms introduced, we argue that the government has taken steps to ensure that the SOEs did not completely remove the welfare function from their business activities. The complex transformation experiments undertaken by the SOEs during market reforms have demanded an innovative but flexible regulatory framework to solve these problems, which have resulted from the unintended consequences of market reform.

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

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

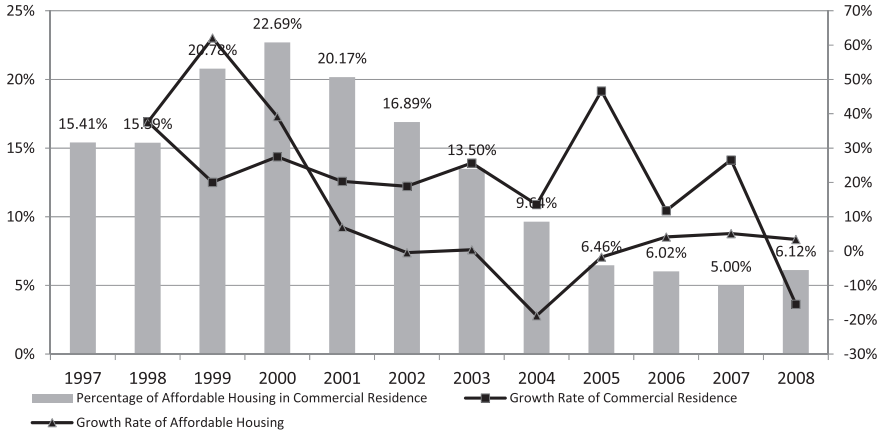

Fig. 4.4 Affordable housing and commercial residence sold, China, 1997–2008. *Source* China statistical yearbook (various years)

We illustrate empirically the above-mentioned scheme by presenting the case of H Group. H Tribe is located on a land plot, which used to be an old plant of H Refrigerator. After the plant was moved to a new location, the land was confiscated by the municipal government before it was reallocated to H Real Estate to develop a residence project at an estimated price of 32.22 million yuan in 2011. The "Project Proportion Scheme" required that 50 % of all the commercial houses developed must be reserved for the affordable housing (cheap rental houses in this case), while the rest could still be sold in the market as commercial houses for profits. As a consequence, 1200 units totaling 110,000 m^2 of completed houses went to the affordable housing scheme as cheap rental houses. According to the senior project coordinator of H Real Estate, the percentage share of houses to be reserved for affordable housing is determined through numerous negotiations and

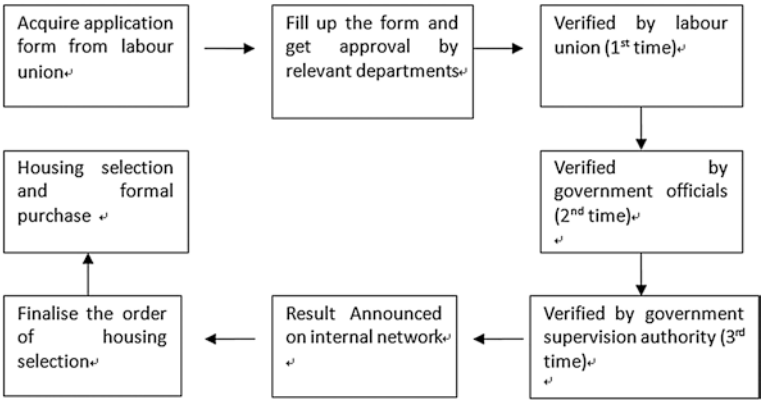

Fig. 4.3 Application and purchase of subsidized houses, H Group, 2007. *Source* Authors

Table 4.6 Zhen garden purchaser and municipal average, 2007–2008

Item	Zhen garden	Qingdao Urban
Average sale price (yuan)	5724	14,981[a]
Average annual household income (yuan)	12,904	15,179
Average living space per capita (m^2)	13.04	23.73

[a]Figure of Shinan District, 2008
Source Authors

informal contact between company and local supervisory authorities, such as the land resource bureaus and the municipal planning commissions.

The positive role played by the SOEs in balancing the profiteering motive with the social wealth distribution obligation is reflected in its provision of cheap houses to vulnerable people. We illustrate the fulfillment of the SOEs duty as the caretaker of employees by using the example of Zhen Garden, which was developed by H Real Estate. Zhen Garden is an affordable housing project, which is located on H Refrigerator Plant's land reserve. All apartments in this project were sold to H Group's employees, whereby the sale and purchase process was organized jointly by the company's labor union and management, while the local affordable supervisory authority monitored the procedures shown in Fig. 4.3. According to H Group's regulations, only employees with annual incomes less than 22,990 yuan in 2006 and per capita living space lower than 20 m^2 were eligible to apply to purchase affordable houses. Compared with the average selling price of 14,981 yuan/m^2 in Shinan District where Zhen Garden is located, the selling price of Zhen Garden houses was only 5724 yuan/m^2 on average, which was less than half of the market price in 2008. Eventually, 642 units were distributed to the disadvantaged employees of H Group (Table 4.6).

The stable expansion of the affordable housing sector is also confirmed by official data. With an exception of 2004–2005, the growth rates of affordable housing nationwide by sold areas remained positive from 1997 till 2008 (Fig. 4.4). The share of affordable housing over commercial residence reached its highest level of 22.7 % in 2000 after a sharp expansion in 1997–1999. The falling share following 2000 is a consequence of rapid expansion in commercial residence rather than a fall in the growth of affordable housing. Commercial residence has enjoyed double-digit growth rates throughout 1997–2008. The relatively lower growth of affordable housing compared to commercial residence also shows that rapid economic annual growth rates have offered Chinese citizens greater financial capacity to purchase houses from the private real estate market. Nonetheless, the sold space of affordable houses still grew from 12.1 million m^2 in 1997 to reached 36.3 million m^2 in 2008, which expanded by over three times in a decade. In the meanwhile, investment in affordable housing in constant 2000 prices rose from 18,533 million yuan in 1997 to 68,911 million yuan in 2008, growing on average by 12.7 % per annum in the period 1997–2008 (Table 4.7).

Table 4.7 Affordable housing and commercial residence, China, 1997–2008

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

[a]Converted to constant 2000 prices using GDP deflators from World Bank (2012)
Source World Bank Indicator and China Statistical Yearbook (various years)

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

4.5 Summary

Using structuralism conception of the state and an adapted methodology of SAI and IAD models, we examined the impact of urban institutional change on the conduct of SOEs in the urban housing sector, as well as its consequences on the production and allocation of urban houses in China. We identified three distinct phases in the role of SOEs in China's urban housing sector since economic reforms began. We found that reforms in China were not only carried out to inject professional management practices into the market, such as competition and modern management principles, but has also been carefully implemented to take account of the complexities arising from extensive socioeconomic changes that have been unleashed by market reforms and rapid economic growth.

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

As instruments of the state, SOEs still perform the role of providing social welfare to urban dwellers in China. The social obligation of directly supporting the disadvantaged was abandoned. Nevertheless, SOEs are still required to provide affordable housing with particular shares of urban commercial housing reserved for the disadvantaged. Although the share of income that urban dwellers had to pay to access housing rose after reforms, the quality of housing enjoyed by urban household improved considerably. Hence, China's market reforms show that the state has continued to retain autonomy from private interests to balance private

and public interests in the urban housing sector. Although there are problems with how the affordable housing scheme has been implemented against a massive proliferation of private management principles in the housing market, the state has remained a powerful instrument to ensure social balance in the country by intervening conduct of modern SOEs. However, as is the case with most broad-brush approaches, this chapter did not broach the intricacies and problems faced by specific segments of the urban dwellers in the different urban locations. Given the complexity of the governing structure and uniqueness of Chinese SOEs, in-depth case studies using primary data should be carried out to bolster these arguments.

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Chapter 5
Intermediary Role of Provincial Governments

Abstract This chapter examines the role of provincial governments in the urban housing sector of China. Evidence from Shandong and Shanxi provinces is used to analyze the influence of the provincial institutions of leadership, legislation, land use, and living culture in the allocation, construction, and distribution of commercial and affordable urban houses. The evidence shows that provincial governments, as the intermediary, play an increasingly important role in coordinating policy initiation and implementation by the central and municipal governments, respectively. The central government provides the broad guidelines with institutional space for municipal and county governments to adapt and implement policies according to local socioeconomics conditions. The provincial governments intermediate the coordination in the formulation and implementation of policies by the central, municipal, and county governments, respectively.

Keywords Institutions · State planning · Provincial government · Urban housing · China

5.1 Introduction

The most important aspect of the institutional change after market reforms has been the decentralization of policy design and coordination where the central government confines its role to general policy planning, municipal governments to implementation, and provincial governments to intermediation. This chapter seeks to examine the intermediary role of provincial governments in the decentralization process on urban housing, which has hardly been documented in the literature.

Indeed, the provincialization and localization of state policy have become one of the most outstanding features of the new institutional settings. Primordially, policy at central level was designed with constraints and opportunities, which encourages acting actors to devise adaptive institutional solutions that are not officially sanctioned. By so doing, it has been increasingly engaging local participation

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in policy design and implementation, as a uniform set of solutions for every issue is obviously unrealistic for China given its large population and huge variance in socioeconomic conditions. The new institutional arrangement governing urban housing sector has been designed in such way to give provincial authority institutional space ensuring national policies being customized accordingly to prepare for an effective implementation. While any central policy and regulation is issued in a uniform format with its legitimacy to be honored by every provincial authority, provincial varieties in the housing development also require autonomy and discretion to be given to provincial authority, so that central regulatory framework can be enriched with more practical details based on local socioeconomic situation. Hence, a comprehensive understanding on China's urban housing policy system shall not overlook the important role of provincial authority, which formulates action programs differently although they are facing same policy instructions from the central.

The rationale of the localization of state policy could be traced in the deeply embedded Confucian cultural. *Fumu Guan*, when literally translated meaning parental official, was appointed by the central government with the discretion to make decisions on local affairs. The increasing shift toward provincialization and localization has attracted again autonomy in China. Hence, as Ramo (2004) has noted, China does not have in place a uniform set of solutions for every issue. With its large population size and regional socioeconomic differences, the "groping for stones to cross river" approach is widely adopted in China (Turin 2010). National policies have to be shaped by provincial governments to fit local conditions before they are intermediated to prefectural level for implementation, as China's decentralized administrative structure has given the provinces strong institutional space to coordinate economic activities (Cheong and Goh 2013, p. 103).

Following the housing reforms, a growing number of literatures have become available with special focus given on the changing institutions in urban housing market, which governs the interactions among different stakeholders, such as governments at different levels. Despite Murdoch and Abram (1998) had argued that the central state generally overrides local demands hierarchically, Deng, Shen, and Wang (2009) argued that local governments eventually bear most of the costs in the construction of affordable houses. Nevertheless, Wang and Murie (2011) argued that scale and impact of the affordable schemes was limited as local authority views it as unprofitable and resource-draining activity. As a result, the relationship between central and local becomes complicated, whereas local government executed affordable housing policy under strong pressure from the central, but subsequently relaxed the control when the pressure is eased off (Wang et al. 2012). In addition, by discussing the relationship among different local governments from the perspective of administrative annexation, Zhang and Wu (2006) found that China's regional government is gradually changing from a traditional top-down to a bottom-up structure which is increasingly dominated by local government. However, while a growing body of literature focuses on the interrelationship between central and local in affordable housing provision (Zhou and Logan 1996; Wang and Li 2006; Yeung and Howes 2006), scant attention has been

devoted to sufficiently analyze the role of provincial government in the investment, construction, and delivery of affordable housing in urban China.

Hence, this paper seeks to examine the increasingly important role of provincial institutions in urban housing sector of China. Specifically, we wish to examine how institutions on provincial level intermediate central policy instruction to local government for implementation of state policy on urban housing. We consider a prerequisite discussion on how state policy is institutionalized at provincial level is pertinent before going further down to examine the institution supporting policy implementation on the municipal and prefectural level. The rest of the chapter is organized as follows. Section two presents the theoretical considerations, while section three discusses the methodology adopted. Section four presents regional differences in urban housing development. Section five compares Shandong and Shanxi by analyzing the four provincial "L" institutions of leadership, legislation, land use scheme, and living culture. Section six concludes.

5.2 Theoretical and Methodological Considerations

As government plays a key role to build institutions in allocating resources, state theory was put in first place to understand how institutions help guide the rules of governance targeted at developmental goals (Poulantzas 1973; Johnson 1982; Evans et al. 1985; Jessop 1990). Chang (1994) went further by arguing that the effectiveness with which states seek and deliver developmental objectives depends on the relative autonomy they enjoy from instrumental capture. Evans (1995) accorded subsequently by noting that the capacity of states to assume developmental roles also depends, inter alia, on strong developmental leadership and an efficient bureaucracy.

We adopted the definition of institution as the "rules of the game" with organizations and entrepreneurs being the "players" (North 1991). A study to map the complex interactions between institutions, such as markets, states, regulations, and social norms, is especially necessary to understand an economic system, which is like a web of relationships between various institutional players with diverging interests (Commons 1934; Coase 1992). In the meanwhile, the importance of institutions is also captured by evolutionary economists (Nelson and Winter 1982; Nelson 2008a, b). Meso-organizations are often created to translate macro-influences for micro-agents to solve collective action problems, as successful economic transition requires smooth institutional coordination among macro-, meso-, and micro-agents (Rasiah 2011, p. 170).

Provincial governments, a meso-organization as such, have sought to solve collective problems by taking account of a complex interplay between agents, such as national and local government, laws and regulations, and economic and cultural influences (Paddison et al. 2008). Zhang and Rasiah (2014) had argued that redefinition of critical institutional agents, such as state-owned enterprises, following market reforms led to changes in the mode of housing allocation and

distribution. Indeed, the changed institutional framework has altered the governance structure in China by redefining the role of important institutional players, such as provinces and municipalities, who is given the autonomy to perform in national policy system. The legacy of a centrally controlled economic system driven from Beijing of the prereform era has been disappearing rapidly, replaced by an emergence of new governance structure where governments at different levels cooperate and coordinate tightly in policy execution.

Despite this study looks at urban housing sector in China, special focus has been given to affordable housing scheme, as the housing sector after reforms has not only targeted on the construction and distribution of commercial houses to those who can afford market prices, but also focused on the provision of affordable houses to middle- and low-income household[1] (Zhang and Rasiah 2014, p. 63). Unlike commercial housing sector where market is the major force to distribute resources, government intervention is more vital in affordable housing sector as the developmental role it plays taking care of housing welfare to urban dwellers. It presents us a lens to look into policy dynamic itself without disturbances from other irrelevant factors, such as market fundamentals. Methodologically guided by the three-level evaluation approach promoted by Kiser and Ostrom (2000), where

1. The highest level analyzes the constitutional decision-making where political and legal arrangements are established. It is where decision-makers determine how collective choice participants will be selected and the relationship among members of the collective choice body, such as voting rules.
2. The second level examines the regulatory framework, which is collectively chosen and formulated by officials. The collective choice is where decision-makers create actual rules to impact the operational level activities.
3. The operational level, which is in the third level, allows actors who are individuals or organizational units to interact within the institutional framework. Role of actors should be studied to capture the actual implementation of the policy. Day-to-day activities at this level affect the system directly.

We conceptualize a new governance structure where policy is initiated at the highest level—central government, intermediated at second level by provincial government with regulatory details, before policy is fully implemented by municipal governments at the third level (Fig. 1). While policy delivery from central to provincial government, which emphasizes on policy infusion within the governmental hierarchy, takes on a linear path, the policy transmission from provincial to municipal level targets on diffusion and adaptation though multiple effect of institutions.

In the meanwhile, with the distinction made by Helmke and Levitsky (2004) that formal institutions are openly codified, established, and communicated through channels that are widely accepted as official, whereas informal institutions

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

are socially shared unwritten rules which are created and enforced outside officially sanctioned channels (North 1991), we identify three institutional variables, namely informal factor—leadership and living culture, and formal institution—legislation and land use scheme, to analyze how provincial institution influences provision of affordable housing in different provinces. Instead of exhausting all the possible variables causing the provincial difference, the purpose of this study is to give an example on how provincial institutions influence affordable housing provision, as the case study we use is interpretive rather than exhaustive (Doyle 2003). Hence, by embedding the three variables into the three-layer governance structure, we present the analytic framework of this study in Fig. 5.1.

In-depth case studies are undertaken as the predominant qualitative research approach since it has unparalleled advantages in interpreting policy formulation and implementation compared to other approaches, such as phenomenology, ethnography, and grounded theory (Adelman et al. 1983, p. 3). Instead of examining all the counties across China, this article is based on a case study of two provinces, namely Shandong and Shanxi Province. Except for data availability, the selection of the two provinces is based on their different levels at urban housing development. Indeed, focusing on two provinces on central and eastern China admittedly sacrifices comprehensiveness and generalizability, but it enables us to understand the rationale with actual details by combining quantitative cross-provinces' comparison and qualitative field research to better comprehend the intricacy and complexity of affordable housing development on local level. Although the findings of this study may not be fully applicable to all other provinces in the whole China, it

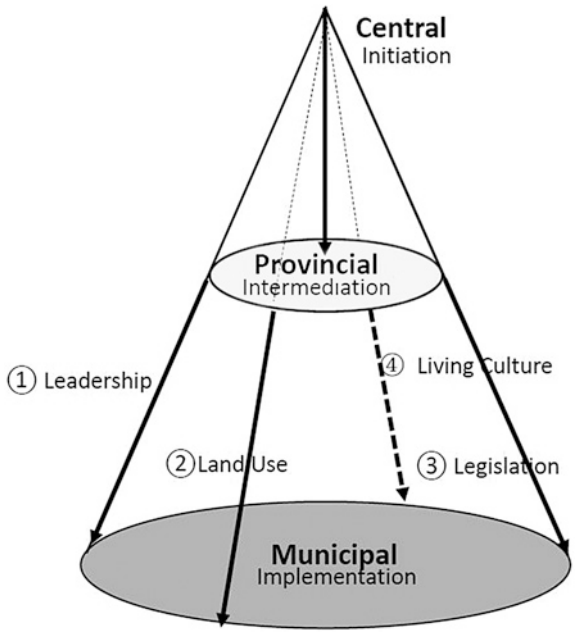

Fig. 5.1 Governance structure of urban housing policy, China. *Source* Authors

Table 5.1 The four "L" institutions, Shandong and Shanxi

Institutions		Shandong	Shanxi
Leadership	Supervisory organization structure	Tight, clear, and well defined	Loose and not clear
	Leadership style	Highly proactive	Not prominent
Legislation	Regulations	Autonomy to legislate	
Land use	Land use rights leasing	Strong reliance	Low reliance
	Land use tax		
Living culture	Custom	Small households	Large households

Source Authors

could, however, shed some light on the role of provincial government in arranging institutions to develop urban housing to urban household in China. By analyzing three institutional variables, we present how the differences in institutional arrangement on provincial level differentiate the performance of the two provinces in providing affordable housing to urban dwellers (Table 5.1).

Shandong is a coastal province in northeast China. With a GDP of 4.5 trillion yuan, it ranked as the third richest province in the country in 2011 after Guangdong and Jiangsu. The population of Shandong in 2011 was 96.4 million. It is also one of the biggest industrial producers in China. Being geographically proximate to Korea and Japan, Shandong benefits from both countries from inflows of foreign direct investment and tourism. In contrast, landlocked Shanxi, located west of Shandong, is less developed with its GDP per capita lower than the national average (Fig. 5.2). In fact, the GDP per capita between the two states has widened sharply since the 1980s. Also, the lack of arable land and water resources has restricted agriculture development in Shanxi. Nevertheless, Shanxi possesses 260 billion metric tons of

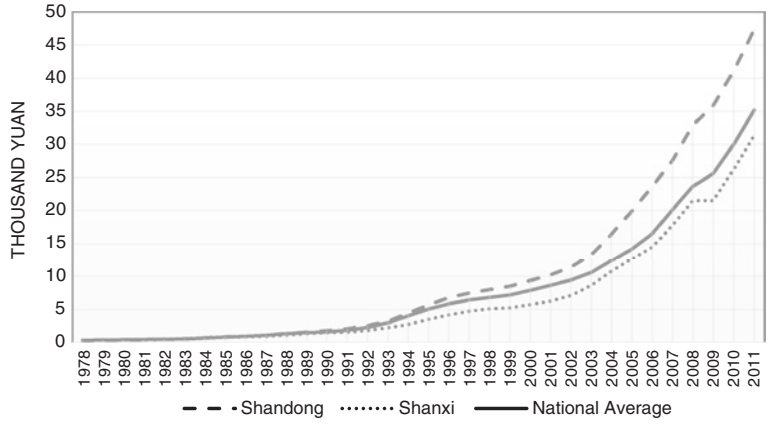

Fig. 5.2 GDP per capita, Shandong, Shanxi and China, 1978–2011. *Source* Statistical Yearbook, Shandong, Shanxi and China (various years)

coal deposits, which accounted for nearly a third of China's total coal reserves in 2010. Hence, industrial development in Shanxi has concentrated on heavy industries, such as coal production, power generation, and metal smelting.

5.3 Uneven Development

Urban housing development in China presents an uneven development nationwide with rising regional disparities. Existing accounts of uneven development have focused on geographic conditions, economic structure, social tradition, and infrastructure endowments (Chen 2010; Fleisher et al. 2010). The difference in socioeconomic condition, such as economic structure and migration structure, is reflected in different institutional settings, and subsequently led to different outcome of affordable housing provision. In other words, differences in initial endowment are materialized and codified into institutions which are established through formal or informal channel for widely practice by institutional participants. While initial endowments are important in the skewed distribution, we aim to contribute to the literature by tracing the differences in institutional setting that has led to different practices of affordable housing policy in China.

Table 5.2 profiles basic facts on the construction of urban housing in the two provinces where regional difference could be observed. The maximum floor space of commercial buildings sold in 2011 reached 95.8 million m^2 in Shandong and 12.8 million m^2 in Shanxi (Fig. 5.3). The average floor space of commercial buildings sold per capita in Shandong (0.99 m^2) was still higher than in Shanxi (0.35 m^2) in 2011. While floor space sold is influenced by land type and its availability for construction, house prices are largely determined by demand and supply. Shanghai, Zhejiang, Guangdong, and the rim of Bohai Gulf, such as Beijing and Tianjin, have enjoyed high prices. The capital city of Beijing had the highest average price of 16,851 yuan/m^2, while Qinghai had the lowest price of 3248 yuan/m^2 in 2011 (Fig. 5.4). Average prices were at 4447 and 3532 yuan/m^2, respectively, in Shandong and Shanxi.

While market reform has driven rapid growth, it has also caused uneven development in China. While existing accounts on uneven development in China have only focused on geographic conditions, economic structure, social tradition, and infrastructure endowments (Zhao and Tong 2000; Démurger 2001; Bao et al. 2002; Lu 2002; Chen 2010; Fleisher et al. 2010), we argue in this chapter that institutional arrangement on provincial level has been one of the major causes of provincial inequality in urban China.

Figure 5.5 presents the results of a simple estimation dividing cost of houses completed and sold in China, which shows housing demand in most provinces is high because most ratios exceeded 100 % in 2011. Shaanxi and Yunnan stood out with the highest ratio, demonstrating the highest demand against supply. Shanxi recorded the lowest ratio of 42 % with over half of the houses that were completed unsold in 2011. The commensurate ratio in Shandong in 2011 was 160 %.

Table 5.2 Key indicators of real estate developers, Shandong and Shanxi, 1998–2011

Year	1998			2000			2006			2011		
Item	SD	SX	National average	SD	SX	National average	SD	SX	National average	SD	SX	National average
Number of real estate development enterprises	1107	259	786	1297	262	880	3127	1393	1893	5589	2156	2852
Number of employees	45,315	12,028	26,641	58,349	14,590	31,352	110,419	34,267	51,642	164,407	46,665	72,805
Average selling price of commercial buildings (yuan/m^2)	NA	NA	2063	1427	1118	2112	2541	1988	3367	4448	3432	5357
Operating revenue (Billion yuan)	9.75	1.61	9.86	17.2	2.4	14.56	99.98	12.62	58.21	278.131	35.492	143.52
Sale of commercial buildings sold (100 million yuan)	92.1	12.3	81.0	153.8	21.3	126.9	1,059.9	157.3	671.8	4,259.1	441.0	1,889.9
Land purchase by real estate developer (10,000 m^2)	NA	NA	326.1	1165.9	117.8	545.3	3203.0	415.1	1197.7	3691.1	697.6	1429.9
Per capita floor space of buildings started (m^2)	NA	NA	NA	0.88	0.28	0.70	1.84	1.41	1.47	3.57	2.45	3.0
Per capita floor space of commercial housing sold (m^2)	0.3	0.15	0.31	0.45	0.22	0.44	1.29	0.76	1.15	2.43	1.11	1.72

SD Shandong; *SX* Shanxi; *NA* not available

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

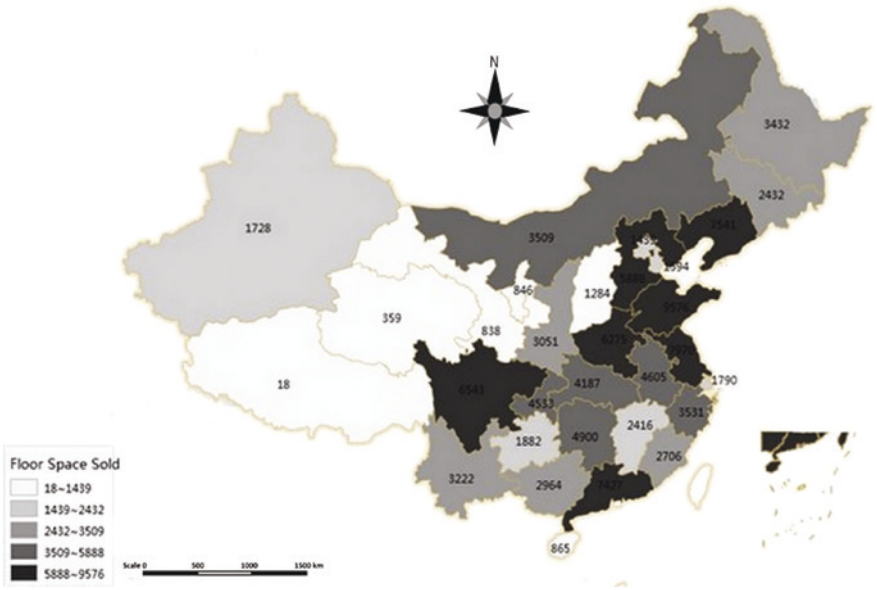

Fig. 5.3 Floor area of commercial building sold, 2011, China (10,000 m^2). *Source* China Statistical Yearbook (2011)

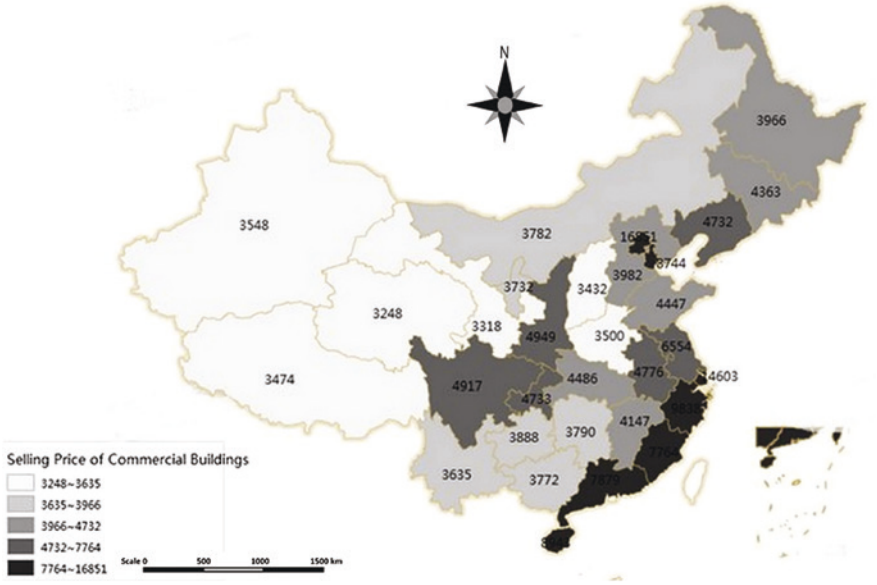

Fig. 5.4 Average price of commercial buildings, 2011, China (yuan). *Source* China Statistical Yearbook (2011)

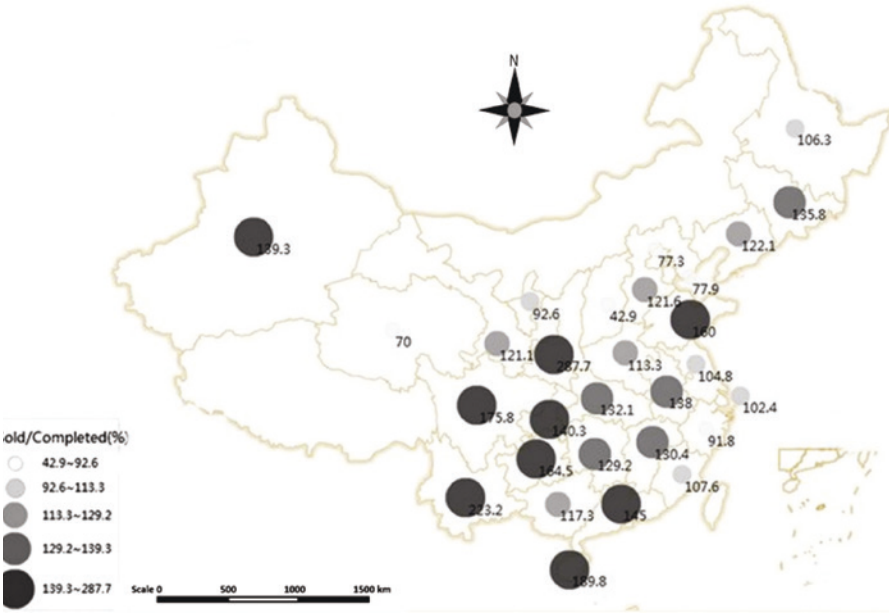

Fig. 5.5 Percentage of residential buildings sold over completed, China, 2011. *Source* China Statistical Yearbook (2011)

Table 5.3 presents statistics on real estate companies and employees in China in 2011. East (4322) and Central South China (3728) had the highest number of enterprises. Although the average person employed per enterprise in each of the regions remains similar, there was a huge difference in the number of employees. There were over 100,000 employees each in East and South China, while there were only 27,000 employees in northwest China. East China's operating revenue of 35,200 million yuan was 8 times higher than that of northwest China.

Table 5.3 Regional real estate developers, China, 2011

Area	Number of enterprises	Number of employees	Average person employed per enterprise	Operating revenue (100 million yuan)
North China	2404	65,617	27	148.20
Northeast China	2456	60,730	25	127.51
East China	4322	102,610	24	352.87
South China	3728	101,605	27	253.58
Southwest China	2287	56,787	26	95.32
Northwest China	994	26,971	27	41.37

Source China Statistical Yearbook (2011)

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

5.4 Contrasting Institutional Experiences

Geographical endowments provided the initial basis for provincial differences in China. While the fact that landlocked Shanxi has left it economically disadvantaged over the economically prosperous and sea-fronted Shandong has been pointed out by other studies (Cheung et al. 1998; Chen et al. 2011; Hendrischke 2013), institutional arrangement has been seldom discussed as an important factor contributing to the uneven distribution of houses in the two provinces. Because of the intermediary role played by provincial governments in coordinating directives of the central government for execution by municipal and county governments, the four provincial "L" institutions of leadership, legislation, land use, and living culture have played important roles in the delivery of urban housing in China. In this section, we analyze the institutional differences that have contributed to the contrasting experiences of Shandong and Shanxi by examining the provision of affordable housing.

5.4.1 Leadership

While central planning defines the broad guidelines, it is open enough for provincial and municipal governments to raise implementation efficiency and reach. The provincial government enjoys the authority to design the program for action. Hence, while central planning defines the direction, provincial and municipal governments strategize the implementation of urban development programs in China. The effective enforcement of central housing policy requires a profound understanding of policy by the provincial and local governments. The growing size and complexity of provincial governments have also raised pressure on sustaining effective administrative coordination of the urban housing programs, which has been one major source of differences in provincial performance.

Because institutions are always inseparable from people, provincial leadership is important in coordinating the link between central planning and municipal implementation. Interviews show that the proactive leadership of Jiang Daming was important in driving the implementation of housing policies by municipal governments in Shandong. Jiang took office as the Deputy Governor of Shandong in 1998 before being made Governor in 2008 where he served until 2013. Jiang

was at the central committee of the Communist Youth League for 10 years where he acquired considerable knowledge about planning. His stellar performance in Shandong earned him the position of head of the Ministry of Land and Resources of China in 2013. Interviews show that Jiang's kind and smiling but strict character allowed him to make tough decisions effectively. For example, Ling Ying, an administrative employee at the Governor of Shandong's office, reported that:

> You may always see a smiling face in Governor Jiang. He is kind, unassuming and easy to get along with. However, he is also known not to compromise on standards. He also communicates easily because he seldom uses bureaucratic jargon.[2]

The following speeches reinforce the leadership of Jiang:

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

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

Motivated by the proactive approach of the governor of Shandong, the sub-provincial[3] governments have been able to uphold the institutions governing even commercial urban housing schemes aggressively to cap prices as reflected in the following statement:

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

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

Each housing project is monitored throughout, and the committee entrusted to appraise the quality after completion, inter alia, uses the monitoring process

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

[3]Sub-provincial units refer to governing body in municipal and county level (Cheung et al. 1998, p. 13).

Table 5.4 The organizational setting of affordable housing schemes, Shandong

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

Source Ministry of Housing and Urban–Rural Development, Shandong

to improve future appraisals. According to *The Notification to Strengthen the Management of Project Quality and Security of Affordable Housing* by the Shandong government dated July 2011, a special-purpose department monitors the construction and conduct of inspections throughout the construction process. Penalties are imposed if the houses completed fail to meet the contract specifications, which ensure that the person in charge, even after leaving office, shall face legal consequences until the building is out of use. The blemished record

Table 5.5 Per capita floor area of affordable houses sold, Shandong and Shanxi, 2007–2010

Year	Shandong			Shanxi		
	Floor space of affordable housing (m^2)	Low-income population[a]	Per capita floor space of affordable housing (m^2)	Floor space of affordable housing (m^2)	Low-income population	Per capita floor space of affordable housing (m^2)
2007	2,462,097	613,212	4.02	1,094,327	882,182	1.24
2008	2,016,504	609,073	3.31	579,228	912,809	0.63
2009	2,453,453	611,419	4.01	385,200	918,672	0.42
2010	2,450,886	676,000	3.63	287,688	928,157	0.42

[a]The number of urban residents who entitled to basic living allowances
Source Hexun macroeconomic database

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

In contrast, the Department of Housing and Urban–Rural Development (DoHURD) of Shanxi, the main government agency to finance and construct affordable houses, has no official portal with clear information on the administrative setup. According to the interview with an official[4] in the Ministry of Construction and Urban and Rural Development of Shanxi, the province is only responsible for formulating regulations, while the rest of the procedure is handled by the municipal authorities.[5] We found no specific ad hoc body being entrusted to supervise and implement affordable housing projects in Shanxi. The lack of strong institutions has not only prevented information access, but also undermined administrative efficiency, which may be one of the causes of the sluggish growth in the provision of affordable housing in Shanxi (Table 5.5). Hence, whereas a well-defined organizational structure has propelled Shandong's provision of affordable housing, the lack of it has undermined the capacity of Shanxi.

5.4.2 Legislative

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

[4]Telephone interview with Ms. Gao Guofang on January, 2014.

[5]Telephone Interview on August 13, 2013.

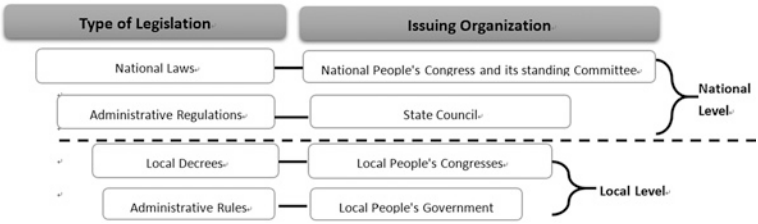

Fig. 5.6 Legislative hierarchy, China. *Source* Authors

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

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

Some of the differences in regulations between the two provinces are noted in Table 5.6. For example, house acquisition rights are granted when 25 % of investment in the project is made in Shandong, while in Shanxi when 33 % of the main building is completed. Also, there is no item on time limit to register housing lease contracts with local authorities in Shandong, while this has to be done within 30 days after the signing of the contract in Shanxi. Another regulatory difference relates to foreign transactions, which exists in Shandong but not in Shanxi. Shandong has a strong need for legal guidelines to regulate foreigners in the housing market owing to its proximity to Korea and Japan.

5.4.3 Land Use

Fueled by fiscal decentralization initiatives, provincial strategies have been shaped strongly by their economic endowments. Hence, whereas mineral rich Shanxi has focused more on mining and smelting, Shandong has diversified into several economic activities. Land use laws were transformed during the reforms so that the

Table 5.6 Selected differences in regulations, Shandong and Shanxi, China

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

[a]It provides the regulations on transactions, including property price evaluation and state-owned property auctions/mortgage
Source Authors

state began to assume the multi-roles of landowner, public welfare provider, and promoter of markets (Deng 2005). As private agents began to enjoy land use rights leased by the government, provincial governments received the autonomy to target income generation from appropriated urban land. In fact, the fast urbanizing states of sea-fronted eastern China have continuously extended urban lands at the expense of arable land farmed by rural households (Song et al. 2008; He et al. 2010; Li 2011; Xu et al. 2011; Paik and Lee 2012; Wu et al. 2013). Whereas Shandong has managed to target agriculture, manufacturing, construction, and services to appropriate income, Shanxi has become dependent largely on mining and smelting activities. While economic structure often determines the design of urban land use rights, the provincial government of Shandong has often redefined land use rights to enjoy positive net income from various land-related activities.

It is observed that Shandong government has exercised more regulatory calibration on land revenue and payment rates than Shanxi government (Table 5.7). Following *The Notification to Strengthen Funds Management from Land Use Rights Leasing* issued by the State Council, the earliest efforts could be traced to May 1989 when the government of Shandong announced that 68 % of land income from land lease shall be reserved for provincial use, while the remaining 32 % shall be handed over to the central government. Income from land use was classified as fees generated from land lease, land lease extension, compensation income from contract amendments, and other related fees in 1989. However, the authorities reclassified income from land use right as the sum of income from land

Table 5.7 Regulatory framework of land use rights, Shandong and Shanxi, China

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

Source Authors

lease and land value incremental fees in 1992. Provincial and sub-provincial city[6] governments enjoy the authority to set payment rates. Payments collected from land-related transactions are submitted to the local and central governments, which can only be used for urban infrastructure construction and land development. In October 1997, land transfer fees were reclassified, which specified the transfer of all net income from land transactions to the municipal government's ad hoc account before the land development cost is audited. The municipality enjoyed full authority for distributing and allocating land-related income to urban infrastructure, land development, and agricultural upgrading. The Shandong government further legislated in 2004 to provide 20 % of average net income from new construction-based land lease activities to finance agricultural land development, while allocating the balance to the central government (30 %), provincial government (30 %), and local governments (30 %).[7] These rates were changed again in 2005 with 30 % of the income from land lease going to the central government and the remaining 70 % shared equally by the provincial, municipal, and county governments. Income from land use right lease in Shandong rose by 9.5 times since 2000 to reach 40.2 billion yuan in 2005 (Shandong Government 2005).

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

The regulatory framework facing urban housing in Shandong is more dynamic than in Shanxi because of its greater reliance on income from land lease. While the share of land-related income in total fiscal revenue of Shandong peaked at 50 %, that of Shanxi peaked at only at 17.8 % in 2007 (Fig. 5.7). Although land use prices in the latter caught up with the former to be almost equal in 2008, the difference in land income has remained large as a consequence of differences in space sold—floor space use transferred in Shandong was 15,578 ha compared to 2394 ha in Shanxi (Table 5.8). On the one hand, the high volume of space sold in

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

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

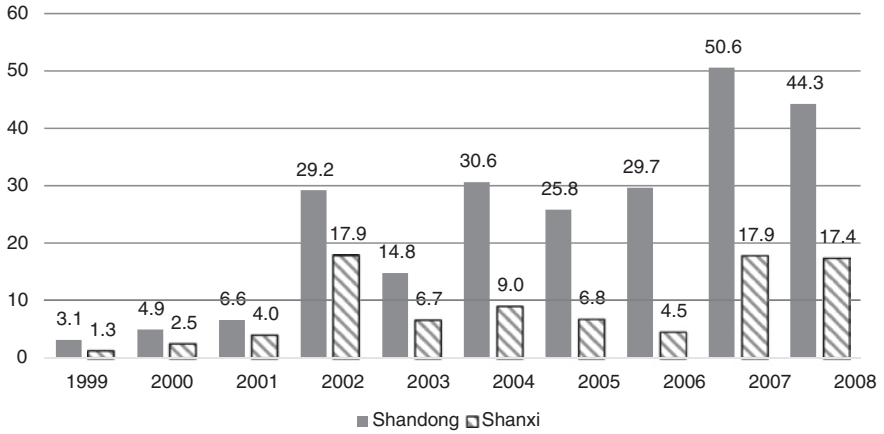

Fig. 5.7 Share of land income in total revenue, Shandong and Shanxi, 1999–2008. *Source* China Land and Resource Almanac (various years)

Shandong is influenced by its geographic endowment of alluvial plains. On the other hand, Shandong has experienced higher level of urbanization and thus has consumed more urban land for spatial development than Shanxi.

In addition to land lease fees, urban land use tax (LUT) was introduced as a measure to enhance land use efficiency.[8] The regulations for the urban and rural LUT were implemented following the promulgation of *Provisional Regulations on Urban Land and Township Use Tax of the People's Republic of China* by the State Council in September 1988, which requires establishments and individuals in cities, counties, towns, and industrial and mining areas to pay LUT. Provincial differences also arise from different interpretations of LUT by central policymakers. Table 5.9 compares LUT rates in the two provinces with the national tax rate. We found that the minimum tax rate imposed by Shanxi is slightly higher than by Shandong,[9] but the LUT income of the former is significantly lower than the LUT income of the latter (Table 5.10). This is partly because Shanxi has experienced lower urbanization and relies heavily on industrial and mining activities (especially coal), which generates low LUT levy. The design of land use rights reflects policy choices adopted by different provinces.

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

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

Table 5.8 Land use right lease, Shandong and Shanxi, China, 1999–2008

Item	Province	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Average price (10,000 yuan/ha)	Shandong	55.72	58.51	63.08	121.54	44.29	131.01	154.34	164.94	419.58	555.87
	Shanxi	77.97	93.73	93.15	146.18	43.65	119.24	119.62	104.08	232.85	544.81
Space sold (ha)	Shandong	2241.1	3907.7	5971.8	14,672.7	23,784.8	19,359.9	17,959.4	2,4379.8	20,196.4	15,578.8
	Shanxi	180.9	309.6	574.0	1848.3	2846.1	1935.3	2105.9	2544.9	4591.6	2394.8

Source China Land and Resource Almanac (various years)

Table 5.9 LUT rates, Shandong and Shanxi, China, 2006 (yuan/m^2 annually)

National		Shanxi	Shandong	
Category	Rate	Rate	Category[a]	Rate
Big city	1.5–30.0	3–30.0	Jinan and Qingdao	1.5–30.0
Medium city	1.2–24.0	3–24.0	Other cities with sub-districts	1.2–24.0
Small city	0.9–18.0	1.8–18.0	Cities without sub-district	0.9–18.0
Counties, towns and industrial and mining area	0.6–12.0	0.9–3.0	Other urban entities	0.6–12.0

[a]Big, medium, and small cities refer to municipal locations whose non-agricultural population exceed 500,000, 200,000, and less than 200,000, respectively
Source Author

Table 5.10 LUT income, Shandong and Shanxi, China, 1994–2011 (10,000 yuan)

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

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

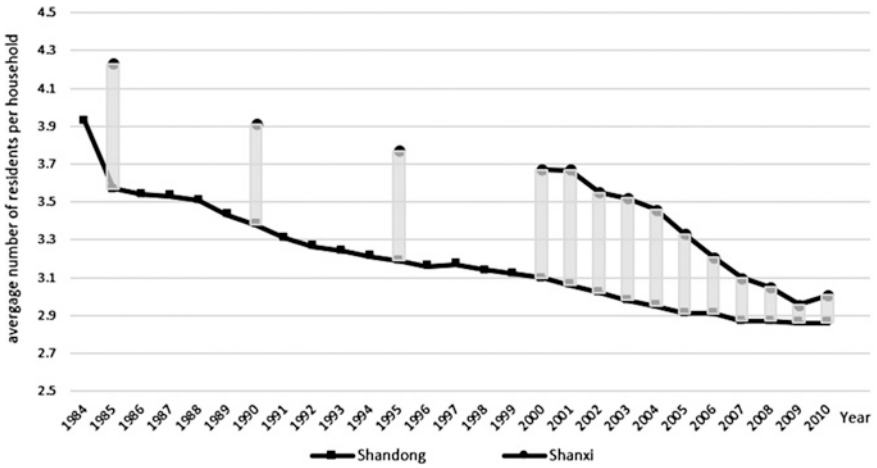

Fig. 5.8 Permanent residents per household, Shandong and Shanxi, 1984–2011. *Source* Provincial Statistical Yearbook, Shandong and Shanxi (various years)

5.4.4 Living Culture

Given its large size, the living culture[10] that evolved over several centuries has influenced living habits in China. Cultural diversity often helps transform living habitats to sustain society development (Miles and Paddison 2005, p. 833). Whereas the fertile lands and the seafront of Shandong evolved a culture of spreading far, the harsh land conditions and culturally close kinship links in Shanxi encouraged extended family households (Knapp 2000, p. 188; Hendrischke 2013).

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

Owing to geographic and climatic disadvantages, the inhabitants of Shanxi have become less dependent on agricultural resources than the inhabitants of Shandong. The lack of fertile land and water has driven Shanxi dwellers to participate in logistics activities, especially to supply army provisions, such as salt, grain, and munitions, during wars since the *Ming* Dynasty, which gradually expanded into various industries, such as finance and trading, giving rise to the *Jin Shang* (Shanxi entrepreneurial) culture during the Ming and Qing Dynasties (roughly from 1368 A.D.

[10]Culture is defined as shared norms, values, and assumptions (Schein 1996).

Fig. 5.9 Wang's Compound, Shanxi, China. *Note* Shanxi people in old days tend to believe that this multi-generation coliving created powerful family identity among the community and provided social and emotional support for one another. *Source* official Web site of Wang's Compound

to 1840 A.D.). Wealthy businessmen built luxurious residences, which is called Shanxi Compound with family names. For example, Wang's Compound is one of the Shanxi Compounds, which is still around in Lingshi County. It was first built between 1762 and 1811 by the descendants of the Wang family, one of the "Four Big Families" of the Qing Dynasty (1644–1911). Altogether, there were 231 courtyards and 2078 houses, covering a total area of 250,000 m^2 in 2012 (Fig. 5.9). More precisely, it is a cluster of a few independent courtyards with each of them equipped with a kitchen yard and a private school yard. All of Wang's family lived in this Compound over several generations and were isolated from major cities, backward villages, and small towns (Knapp 2000, p. 188).

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

5.5 Summary

The evidence suggests that there is a need to revisit existing state theories as the processes of policy planning and execution in China has evolved differently from the experiences of other Western countries. In a governance structure where central planning has focused on the initiation of policies and municipal governments have specialized on the implementation of these plans, provincial governments

have assumed an intermediary role of coordination between central planning and municipal execution. This unique framework has helped to explain how China has managed to guide the evolution of urban housing through the processes of market reforms. In so doing, provincial governments have begun playing the intermediary role of coordinating central planning with local implementation.

Through a study of Shandong and Shanxi, we showed how formal and informal institutions shape the intermediary role of provincial governments in the urban housing sector of China. The four institutional "L"s have differed in Shandong and Shanxi, i.e. leadership, legislative institutions, land use institutions, and living culture. Provincial institutions have played an important role in shaping urban housing in China, which partly explains why housing provision between these provinces has been unequal. The provincialization and localization of policy planning in China are consequences of decentralization processes generated by market reforms, but the role of provincial governments have been strongly conditioned by a wider set of institutions. While the decentralization of decision-making gave provincial governments the opportunity to intermediate the functions of the central and local governments, not only markets but also localized leaderships, legislative changes and cultures have increasingly shaped the role of provincial governments in the urban housing sector in China.

The evidence supports the powerful arguments of Poulantzas (1973), Jessop (1990), Evans et al. (1985), and Evans (1995) that successful states perform important functions to deliver services to a wide spectrum of people. However, the evolution of urban housing in China shows that state theory should incorporate elements of institutional and evolutionary theory as advanced by Veblen (1915), Commons (1934), and Nelson (2008a, b). Methodologically, the adapted three-level framework of Kiser and Ostrom (2000) is useful in evaluating the impact of institutions on the provincial government in the allocation, construction, and distribution of urban houses.

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Chapter 6
Implementation Role of Municipal Governments

Abstract Institutional changes since economic reforms were launched have transformed the implementation role of municipal governments. Using a detailed case study of Qingdao, this chapter analyzes how institutions have shaped the implementation of urban housing policies by municipal governments. Four institutional platforms characterize policy implementation by municipal governments, namely delivery, diffusion, calibration, and finalization. Meso-organizations and legal instruments are created to stimulate the participation of civil communities so that policy objectives embody the interests of the general public. Albeit it is still in its infancy, the evidence shows the emergence of innovative institutional instruments, which suggests the emergence of an inclusive model to ensure that ordinary citizens can participate in decision-making on urban housing matters.

Keywords Institutions · Urban policies · Urban housing · Municipal government · China

6.1 Introduction

Institutional changes triggered by economic reforms in 1978 have also brought about profound changes to the governance structures at the municipal level in China, where municipal governments have become increasingly important players in the urban housing sector. Such institutional context enables central planning taking account of location specificities, which is important in a large country such as China. Although it has enabled increasing participations by different levels of governments, the effectiveness and efficiency of urban housing production and allocations are eventually determined by policy implementation by municipal governments. Indeed, municipal governments play a key role in housing provision to urban dwellers in China. As a consequence, localized institutions have increasingly shaped the role of municipal governments to fulfill the objectives of supporting economic growth and social welfare.

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Although the relationship between the central and local governments has been a topic of academic interest (Huang and Jiang 2009; Li 2010; Li et al. 2011; Zhang and Rasiah 2014), little accounts exist to explain the role of municipal governments in formulating their own strategies in coordination with the central and provincial governments to implement the policies in particular locations in China. Specifically, the literature is absent on how municipal governments interact with collective communities in the diffusion and calibration of urban housing policies to complete the policy transmission loop that involves initiation by the central government and intermediation by provincial governments. Meanwhile, although significant works have emerged to explore the development of China's urban housing sector in selected urban areas, especially in metropolitan cities, such as Beijing (Song 2010), Shanghai (Mostafa et al. 2006), Guangzhou (Wang and Li 2006), and Shenzhen (Hao et al. 2013), such works have not been comprehensive in understanding the role of municipal governments in second-tier cities,[1] such as Qingdao.

Hence, the objective of this chapter is to examine how institutional governance of municipal governments is coordinated with the urban housing policy functions of the central and provincial governments. This chapter seeks to analyze the institutions that have shaped municipal governments' roles in coordinating with the local collective communities in implementing urban housing policies. An in-depth study of the second-tier city of Qingdao is used to capture the dynamics between the meso-organizations established by the government to support coordination with social collective communities. The rest of this chapter is organized as follows. The following section presents the theoretical considerations, followed by the methodology and data. Section 6.4 discussed the institutions that govern policy delivery and diffusion. It also analyzes the institutions created to support policy discussion and calibration. The final section presents the conclusions.

6.2 Theoretical Considerations

Two major concepts are important in this book, namely institutions and states. While institutions refer to influences on the conduct of economic agents (including organizations), both formal binding and informal non-binding have a much wider role to play in society. State power varies with particular political formations. An understanding of institutions is critical as they play an important role in shaping urban housing policies. Hence, we review existing concepts to construct an elucidating framework for analysis here.

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

6.2.1 Institutions

Once again, we take on North's (1991) definition as "rules of the game," and organizations and firms as the "players," and differentiate it into two categories, i.e., the institutions themselves and the effect they bring to a system (North 1991, 1997). While this new institutionalism concept has been dominant in how the meaning of institutions is used, North (1991), Coase (1937), and Williamson (1985) consider the market as the superior institution. While accepting North's basic definition of institutions, we do not regard markets as the superior institution shaping the spaces left for the other institutions. Economic behavior is socially determined so that economic organizations are always evolving to keep peace with social development (Thorstein 1915, p. 252). This view of institutions is consistent with Polanyi's (1944) concept of embeddedness that economies are not autonomous, but that they are influenced and subordinated by political and socioeconomic factors. Thus, these authors view social production to evolve through the interaction of various institutions, which includes the market, government, regulations, and social norms taking account of localities and the unique features of each of the social production systems (Buchanan 1986; Boettke et al. 2006). Institutions are also often supported by particular sociocultural and economic groups and intermediary organizations, so that they have a bearing on production allocation and economic development (Commons 1934; Rasiah 2011). It is this broader notion of institutions that we assume in this book.

6.2.2 States

Being a dominant institutional shaper, states have attracted considerable theoretical arguments on its role in organizing social production and distribution. Unlike the position taken by the instrumentalists that "states are the agents of powerful interest groups" (Sweezy 1942; Miliband 1969), we take the argument advanced by the structuralists that "states are autonomous organizations with the responsibility of delivering social benefits to the wider population" (Poulantzas 1973, 1978; Jessop 1990).

An "inclusive" political institution where people are included in the process of governing can exhibit continued growth as the exploitation is either attenuated or absent (Acemoglu and Robinson 2012). However, the framing of China as an "extractive" one-party political regime is simplistic as it assumes that power and control in China is centralized, and therefore, a state that is captured by a political party would combust rather than develop the country in the long run. We will show in this chapter that in the eastern and central provinces, the Confucianist concept of "parental state" is embedded cognitively in the way the different levels of government are organized in China. Based on the belief that society is an extension of the family, a strong sense of social responsibility has manifested in autonomous

and horizontal responsibilities allocated to the provincial and municipal governments by the central government.

It is also important to note that the withdrawal of the central state from decision-making has also encouraged the role of non-market institutions in the decentralization processes, such as Confucian cultural institutions that have evolved over several centuries. If markets are defined as relative prices, we regard cultural institutions as non-market institutions as norms and mores have increasingly become important in shaping the conduct of government agencies and organizations in China in the urban housing sector. The fact that increasing involvement of local community in policy practice is enabled by the new institutional instruments not only undermines the claim of Acemoglu and Robinson (2012) that China is an extractive state, but also puts into perspective the nature of reforms that has impacted the urban housing sector in China.

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

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

Because of market imperfections (including missing markets), states have to play a crucial role in urban housing development as housing is a welfare item and a basic need that should be delivered to a wide range of the population. Unlike in the socialist regime prior to 1978 where the pricing mechanism acted as a serious obstacle for raising efficiency, the regulatory regime of China has restructured the governance mechanisms so that the new institutions have enabled greater roles for markets and non-market/non-state institutions without compromising on the social welfare of ordinary citizens (Zhang and Rasiah 2014). Municipal institutions have increasingly become important in the implementation of state housing policies targeted at delivering affordable houses to urban dwellers (Zhu 1999; Li et al. 2011).

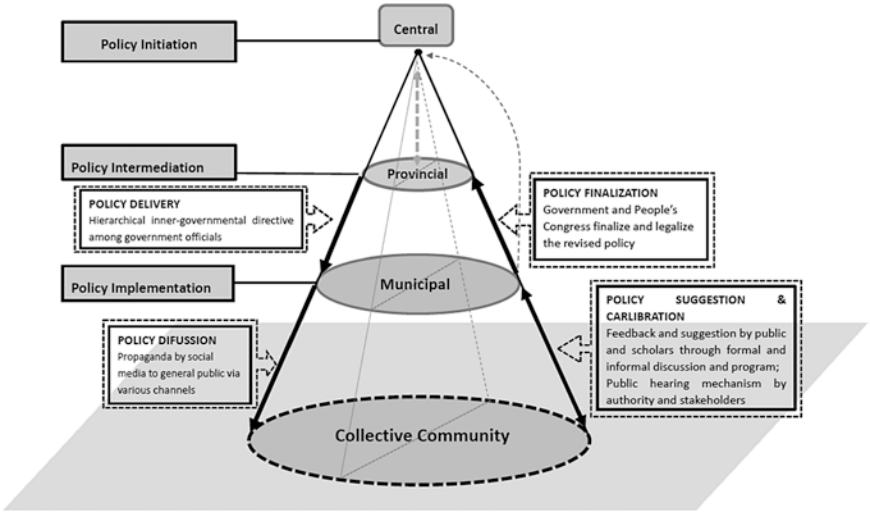

Fig. 6.1 Analytic framework. *Source* Authors

This emerging institutional structure governance system in urban China is better understood through a multi-dimensional institutional analysis (Healey and Barrett 1990; Ball 1998; Kiser and Ostrom 2000).

6.2.3 Analytic Framework

Zhang and Rasiah's (2014) account of urban housing policies in China as being initiated by the central government, intermediated by provincial governments and implemented by municipal governments, is the starting point of the analytic framework used in this chapter.[2] Figure 6.1 presents a conceptualized framework of urban governance through different levels of government coordinating to execute national policy while still specializing, respectively, in the formulation, intermediation, and implementation of urban housing policies in China. As policy recipients, the collective communities at the grassroot level are empowered to participate in policy discussion with the issues throughout the policy implementation. This two-way interaction between the community and the municipal government has helped government authorities to calibrate policy implementation before

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

policy feedbacks are transmitted to the provincial and central authorities. Throughout the process, a set of formal and informal institutions function to facilitate transmission. Urban housing institutions are created and utilized by municipal governments to enable institutional players' participation in the implementation urban housing policies. Hence, institutions play an important role throughout the urban housing planning process as they provide a dynamic environment for exchange and synchronization between opinion, practices, and implementation though its impact varies with locational specificity. Policy implementation by municipal governments can be disaggregated into four policy functions as follows:

1. *Policy delivery* is directed from provincial authority to municipal authority within the government hierarchy for implementation. While this process requires policy learning by government officials and targeted groups, institutions are defined by municipal governments to facilitate policy transmission.
2. *Policy diffusion* goes beyond the targeted groups (e.g., government agents) and is horizontally diffused toward general public through social media, such as television, newspaper, and Internet to reach a wider range of the public.
3. *Policy calibration* involves feedback from policy practice by collective communities, which are collected and directed to municipal authorities to improve or calibrate policies through a set of institutional settings. Opinions from communities are often channeled directly or indirectly through public hearings for local policymakers to calibrate and revise policies at the municipal level.
4. *Policy finalization and legalization* is important in China whereby policies are finalized by local People's Congress as municipal authorities have the responsibility to ensure that regulations and legal documents are enforced consistently with the legal framework set up by provinces. The agents involved in this stage constitute the authority at the prefectural and provincial levels.

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

6.3 Methodology and Data

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

individuals representing the institutional players. Open-ended interviews with a checklist defined by specific themes were adopted with respondent selection being based on a set of purposive criteria to guarantee the accountability and relevance of the acquired information. The quantitative data were extracted from secondary sources, such as China Statistical Yearbook, Municipal Statistical Database of Qingdao, China Real Estate Statistics Yearbook, and Databases for Asia and Emerging Markets.

An in-depth case study of Qingdao was selected as a dominant research approach due to its unparalleled advantages in interpreting institutions designed for policy diffusion and calibration. This meta-ethnographic approach using a case study is purposive rather than exhaustive, because the objective here is interpretive rather than predictive (Doyle 2003). In doing so, the selection of Qingdao also provides evidence on how a tier-2 city participates in the decentralized urban housing planning framework. Qingdao is located in the south of Shandong Peninsular by the Yellow Sea, with a total permanent resident population of 7.63 million in 2010 and an area of 10,654 km^2 in 2012 (Zhang and Rasiah 2013). Also, the vice-provincial[3] status of Qingdao also provides the possibility of investigating coordination links between the municipal government and the central government bypassing the provincial government. Since the concern here is on the state addressing the wider interest of society, the focus is on the provision of affordable housing[4] in urban location of Qingdao.

6.4 Institutions Governing Policy Implementation

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

6.4.1 Policy Delivery by Government and Social Organizations

Although policy delivery and diffusion are difficult to differentiate as the channels through which the main policies are transmitted have remained rigid and

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

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

unchanged without any reconfigurations and modifications, because policy delivery occurs vertically within government bodies and diffusion processes happen horizontally targeting at the general public, we discuss the former in this section and the latter in the next section.

As policies are delivered by provincial governments to municipal governments through compulsory administrative directives, most government directives are carried out by government agencies. However, government policies drawn by provincial governments are subjected to comments, feedback, and detailed implementation measures by municipal governments before they are fine-tuned for application. Once provincial governments complete policy planning, it is the responsibility of municipal governments to organize meetings, which are attended by a small group of earmarked officers to study the policies before they are implemented. In addition to the emphasis on the "spirit" behind the formulation, central and provincial leaders will present the key points from the documented policies, which are then captured, analyzed, and expanded with details and elaborations by the provincial and municipal participants through policy learning sessions (*zhengce xuexi hui*). Although the messages carried to meetings are essentially government directives, the implementation details are decided upon by the municipal government. It is an important form of policy learning before implementation measures are formulated, as opinions are exchanged via formal and informal discussions among related departments and bureaus. The policy learning session then becomes more like a mission dispatched session where each of the responsible departments discusses the possible solutions and detailed action plans for policy execution with clearly defined obligations and responsibilities for each participatory bureau. Eventually, the documents with implementation guidelines are officially distributed, which are then used as important reference points for policy implementation.

Although the minutes of such meetings are considered confidential,[5] the following statement by a top municipal officer confirms that any policy has to undergo numerous discussions before they could be finalized and announced to the public.[6]

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

The complexity involved in the coordination of urban housing policy issues also includes government meetings on implementation matters with several groups as explained by the same officer:

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[5]The author's request in January 2013 for access to the minutes of such closed-door meetings was declined during her field visit to the local archive and government archive offices.

[6]Interview with local government officer was conducted on January 31, 2013, in Qingdao, China.

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

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

> Signing such a responsibility contract makes the principal of related departments and district mayors as the stakeholders who are held accountable to their people, and at the same time, their political official position (Wusha Mao) provides them the motivation to effectively deliver what is promised.

Official announcements of regulatory documents symbolize the finalization of implementation directives by government bodies before they are put into practice. After the implementation procedures are released, social organizations and the public sector participate widely to facilitate policy delivery, including the SOEs, public organizations, and industry nongovernmental organization (hereafter as NGO). Supported by top management and labor unions,[7] policy delivery at the work unit level is often organized and studied by party members first, before they are conveyed to normal employees through mobilization meetings (*Dongyuan Hui*) that are headed by department principals. Given the fact that most of the top management officials in public work units have party memberships, policy delivery is supported strongly by them through both administrative obligation and party compliance.

Private sector responses to urban housing policies are less directive-oriented than the public sector, but their voluntary participation in industry NGOs provides the sector firm-level access to industry (including urban housing) policies. Given the unique structure of the Chinese social system, (unlike their role in typical Western democracies), NGOs in China have the responsibility to support national industrial policies. For example, the NGO we visited during the field work, (i.e.,

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

Qingdao Real Estate Association), is organized by real estate development companies. This association, which is an industry company alliance, states its primary aim as "to promote the propaganda, implementation, and study of industry policy." The participation of top managers of real estate firms regardless of public or private ownership has created a channel linking macro-institutions with micro-agents so that urban housing policies are delivered to a wider range of industry players. Compared with policy transmission in the public sector, which is carried out through compulsory directives, policy delivery in the private sector is powered through subtle means. Although the association's participants have no legal obligations to take part in policy delivery, their existence actually helps policy delivery to reach a wider spectrum of policy recipients.

6.4.2 Policy Diffusion by Social Media

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

Since the establishment of communist China in 1949, one cannot deny that the traditional Chinese media plays a major role in Chinese politics as the dominant force in political campaigns. Since all Chinese media are regulated by Central Publicity Department (CPD), which is a state agency,[8] the top managements are the responsible flag bearers of government's political mission. The ministry-level Xinhua News, founded in 1931, was the most authorized agency in supplying the news for television, newspaper, and radio programs. Subordinated to the State Council, Xinhua operates 107 foreign bureaus worldwide, collecting news and organizing events as the only avenue for the distribution of important news related to the CCP and government. Most newspapers rely on Xinhua news feed. For example, the People's Daily used Xinhua news materials for over half of its reports from 2000 to 2012. Media–government relation is also present in local-level newspapers, such as the Qingdao Daily, which is the mouthpiece of CCP and is the

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

Table 6.1 Internet and newspaper subscribers, Qingdao, China, 2005–2012

Year	Number of subscribers (by ten thousands)	Annual growth rate (%)	Share of Internet user in total population (%)	Usage time (by billion minutes)	Annual growth rate (%)
2005	84.3	27.7	11.38	27.6	NA
2006	106.74	27.3	14.24	42.1	48.9
2007	123.49	23.79	16.29	58.7	42.2
2008	149.4	20.6	19.62	81.1	39.3
2009	161.4	9.2	21.16	102.5	23.3
2010	188.3	16.6	24.66	147.4	44.1
2011	185.69	−1.4	24.23	169.6	15.1
2012	218.2	17.5	28.35	198.0	16.8

Source Qingdao Municipal Statistical Yearbook (various years)

pioneer newspaper of Qingdao Daily Group, a state-owned news conglomerate. We observed over the period of 2009–2013 the front page of Qingdao Daily and found that it is used almost completely as a carrier of CCP's propaganda and government policy issues. That is why government bodies and state-owned work units, (including firms and institutes), are required to subscribe the Qingdao Daily.

However, since accounts of the mainstream media where government control is complete are well known, we focus here on the widely accessible Internet and how it is used to build institutional capacity in spreading national housing policies. More specifically, we examine this channel to understand how the municipal government of Qingdao uses Internet resources to facilitate policy implementation. We chose the Internet to discuss because of its two-directional feature with the social community, which are more spontaneous than traditional media, such as newspaper and television. Internet has increasingly become an important channel for social information exchange and it captures the wide spectrum of public opinion as it is less subject to censorship by the government. While traditional media is constrained by geographical distance,[9] Internet enjoys incomparable advantages to reach the general public, and hence, its subscribers have grown rapidly (Table 6.1).

As a complementary information source to traditional media, the Internet has emerged as an important instrument that cannot be ignored by government in policy propaganda. Although the Internet in China is still in its embryonic stage, its development has strengthened communication between local government and the community. The government launched a networking campaign to publish policies online and has tried to implement them effectively and transparently. Each municipal bureau is required to have their own official Web site to update their working process and publish relevant national policies. For example, the official portal Qingdao Housing

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

Security Network (HSN) is operated by the Qingdao Housing Security Center, which aims to offer convenient access for the general public to all information on affordable housing, including application results' announcements, national policies on affordable housing, municipal meetings, and new project initiations (Table 6.2). These efforts not

Table 6.2 Information on publicity of housing security network, Qingdao, China, 2013

No.	Information category	Total number*	Example(s)	Objective
1.	Organizational setting	3	• Function and responsibility and contact information	Basic information provision
2.	News feed	53	• Inspect tour by director of municipal People's Congress on the completion of affordable housing • Provincial Bureau of Housing and Urban-rural Construction (HURC) held annual administration meetings	Build a platform to announce news and information; Increase executive transparency and receive public's supervision
3.	**Policy and regulations**	24	• Speeding up the construction of Public Rental Housing (issued by municipal government) • Notification of issuing the implementation details of affordable housing applications (issued by bureau alliance of Qingdao) • The implementation scheme on deepening urban housing reform (issued by municipal government) • The notification of implementation on solving the housing problems facing urban low-income household (issued by Ministry of Finance) • Standard measures to identify urban low-income household (issued by central ministry alliance) • The advice on solving the housing problems facing urban low-income housing (issued by Shandong Provincial Government)	Provide access to housing policy benchmark setting for implementation
4.	Public announcement	18	• Affordable housing projects started in 2013 • Completed affordable housing projects in 2012	Invite public's supervision

(continued)

Table 6.2 (continued)

No.	Information category	Total number*	Example(s)	Objective
5.	Project construction	2	Annual proposal for new affordable housing project (in several years)	Information update
6.	Operational orientation	31	• Applicable criteria on affordable housing purchase? • How to define household income?	Public service provision
7.	Enquiry service	3	• Points of household to identify the order to purchase affordable housing • Order of housing selection	
8.	Documentary download	6	• Application form to use maintenance funds • Notification to improve usage and management of maintenance funds	

* by term, updated until 4, April, 2014.
Note 29 Jan, 2014
Source compiled by authors from HSN

only have advanced Internet technology development, but have also generated profound implications for power relations in the Chinese society.

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

In addition to the official Web site, the Qingdao government also employs a wide range of Internet-assisted methods to facilitate policy diffusion and to enhance interaction among general public, market, and civil actors. Among those, Chinese micro-blogging outfit, Weibo, a twitter-like online platform, has been constructed in virtual space for information exchange and diffusion. Ordinary Weibo users are able to direct housing issues to the official account, which is managed by government agents. In the digital world where local citizens have some freedom to publish their online discourses, government uses this medium to expand its own legitimacy to serve its purpose by getting involved in this new medium of

political expression. Although Weibo may be argued as a front for ordinary people to participate in information exchange with state officials, official Weibo account holders have to be verified before they get to announce official policy documents. For example, *Qingdao Zhufang Baozhang*, which was registered officially under the Weibo account with *Sina* Weibo, is one of the most popular Weibo operators in China. It posted the following tweets as a way to promote newly announced urban housing policies:

> In the 10th collective learning session, CCP General Secretary Xi Jinping reinforces the importance of the construction for affordable housing supply to achieve the mission of allocation housing to all urban Chinese dwellers.
>
> Households seeking affordable housing but having not registered their demand, are encouraged to fill the application form with the sub-district office.
>
> The survey on affordable housing demand has commenced. Please join us by registering with the sub-district office.

Although heated debates and strong mass engagement have hardly been observed, (which suggests that the official Weibo account has reached only a small group), Weibo is used by government to read the community's reaction to its policies and consensus-building as a compliment to conventional media. While the government must introduce strategies to seek strong participation by the masses to ensure that the policies meet the aspirations of the people, Weibo's provision of easy networking has made it easier to reinforce such strategies. Although the Qingdao Housing Security Centre is not sufficiently active on Weibo, we argue that micro-blogging services are complements of official networks that help expand their circulation functions further, and hence, it cannot be overlooked as an important emerging institutional tool to diffuse information on urban housing policies in China.

To sum up, the evolution of policy delivery and diffusion at the municipal level has resulted in the development of powerful institutional capacity in local governments to accommodate a wide range of players. The hierarchy inside government and the relationships between association members provide institutional links to facilitate policy delivery. As part of policy implementation, the comprehensive delivery of policies is a precondition for effective enforcement. Meanwhile, as a new phenomenon, the emergence of industry associations provides a solution as it fulfills the collective needs of a number of players from the private sector. The new forms of policy delivery, together with hierarchical directives exercised inside the governmental system in the policy delivery process, cannot be separated. At the same time, an online media was created by municipal administrations to compliment conventional media to support the government's policy propaganda, ensuring that national policies reach a wide range of society. It can be seen that market reforms enabled the emergence of new forms of institutional coordination to facilitate policy delivery and diffusion. These developments have driven the government to upgrade its capacity to absorb change and address the new policy innovations introduced by reforms, which, inter alia, include the introduction of social media for information exchange between the public and the government.

6.4.3 Policy Calibration by Public Hearing

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

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

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

Before the notice of administrative hearing is advertised, a publication of the draft legislation is announced in the social media for comments. A press conference, jointly organized by the Municipal Department of Housing Management and Department of Land and Resource, was held in January 2012, at which time *the Provisional Measures on the Implementation of Points Calculation and Ranking System in Access to Economical Comfort Housing and Price-capped Housing of Qingdao*, hereafter as Provisional Measures, was announced through social media,

Table 6.3 Public feedback on initial provisional measures, Qingdao, 2012

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

Source Authors

such as Government Official Website of Housing Security and Weibo official account of Affordable Housing Centre. By the time the hearing was held, a total number of 239 feedback and comments from various sources, such as hotline and Internet, were collected from the public. The Internet has attracted critical feedback as is shown in Table 6.3 whereby 81.7 % only partially agreed with the replacement method.

A public hearing meeting was advertised on May 14, 2012, which was to be held on May 31, 2012. Invitations were then sent to members of the public and stakeholders to register as participants. In two weeks, 79 people registered on a voluntary basis to attend the hearing, out of whom 67 supported while 12 opposed the replacement. Finally, 10 were selected randomly as representatives based on the order in which they registered, as well as on geographical and socioeconomic diversity. In addition, one representative of local People's Congress and two members of Chinese People's Political Consultative Conference (CPPCC) were invited to observe the hearing session. Finally, 8 out of the 10 selected participated in the hearing session with 7 supporting the replacement of Lottery Selection by Points-Calculating Selection and only 1 opposing it.[10] This public hearing session seeks to make the formulation of regulations at the municipal level democratic and transparent (Fig. 6.2). They at least result in adaptations and also attract people with different viewpoints. For example, Ge Meifei reported that:

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

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

> One can get 35 full point if the applicant is over 80 years old. However, the applicant who is above 80 years old is very rare from current statistical record. Among 1000 applicants, there are only 16 household whose applicants above 80 years. Meanwhile, there are only about 10 % of the total number of applicants aged above 60 and below 80. Hence, in terms of the category of seniority, there are relatively few who scored outstandingly high points.

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

Fig. 6.2 Public hearing session, Qingdao, 2012. *Source* Qingdao Daily (2012)

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

The emergence of public hearings in China in the absence of participatory democracy demonstrates government efforts to attract collective community participation in policy implementation. Public hearings have institutionalized the link between the community and policymakers so as to embed public opinion in municipal government policies and increase the influence of citizens in policy implementation processes. Public hearings are held to obtain public opinion from a wide range of society before collective will is preliminarily centralized at the municipal level, which is then processed later by provincial authorities.

Table 6.4 Selected amendments, regulations on implementation of points calculation system, affordable housing, Qingdao, 2012

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

Note ECH Economical Comfortable Housing; *PCH* Price-capped Housing
Source Compiled by authors

6.4.4 Policy Finalization by Legislation

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

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

How do municipal governments finalize policy calibration? The supreme institutional player that finalizes policies is the People's Congress, which is responsible for policies that deal with the basic interest of people. Legislations by the People's Congress are paramount in the framing of administrative regulations enacted by government agents because the former delegates the authority to latter.[11] In practice, such an exercise is mainly executed by the Standing Committee of the People's Congress rather than through the People's Congress Meeting, which is held once annually. However, it is the People's Congress Meeting that approves and legalizes all critical regulations drafted by the Standing Committee. The local legislation office of the Standing Committee is responsible for the legislation draft, which must be cognizant of opinions collected from the grassroot community, municipal agencies, the district's People's Congress, and the local legislation research committee. In addition, to enhance legislative quality, prelegislation evaluations are led by the People's Congress, which are facilitated by the municipal government and are conducted by consultants (e.g., Municipal Academy of Social Science and universities) with the participation of citizens. Hence, institutions shape the coordination between government bodies and meso-organizations to facilitate policy finalization to support legislative progress since Qingdao was empowered with legislative powers in 1984 (Table 6.5).[12]

[11]Although broad legislatures remain with the PC, municipal governments enjoy the authority to introduce their own regulations. Here, we refer here to the general notion of legislation, which consists the resolutions and decisions issued by subordinate state organs, such as county government and local People's Congress, which actually contain elements of law.

[12]The first regulation legislated by local authority is *The Provisional Measures of Urban Publicly-owned Houses Management* in 1984.

Table 6.5 Legislation by the People's Congress, Qingdao, China, 1984–2008

Total local legislations	155
Legislation	
Local regulations	119
Legislative decision	1
Decision on legislative revision	22
Decision on legislative abolishment	13
Authority undertaking	
The 9th Standing Committee of People's Congress (1983–1988)	1
The 10th Standing Committee of People's Congress (1988–1993)	18
The 11th Standing Committee of People's Congress (1993–1998)	49
The 12th Standing Committee of People's Congress (1998–2003)	45
The 13th Standing Committee of People's Congress (2003–2008)	42

Source People's Congress of Qingdao (2013)

While the Chinese economy in the eastern and central provinces certainly does not resemble a Western democracy, their claim that it has reduced the country to an extractive state is unfounded. Besides, technically the Standing Committee is the natural representative of the people, which acts to solve collective action problems in the interest of specific social groups participating in the policy finalization process. Furthermore, legislative discretion facing local governments is strictly confined to implementation procedures only with no compromise on the basic principles. Finally, the national law offers space for provincial and municipal governments to participate in policy formulation so as to address local socioeconomic conditions.

The People's Congress delegates power to municipal governments to enact regulations, where the latter achieves this objective by issuing administrative regulations executed by subordinate departments or departmental alliances. Public hearings through numerous formal and informal meetings are held at the municipal level to preside over adjustments proposed by the Housing Security Center (HSC).[13] Meetings targeting policy finalization are attended by not only the top officials of HSC, but also the deputy mayor and top management of other municipal departments, such as Bureau of Finance, Bureau of Civil Affairs, and Bureau of Public Security. Involving other bureaus ensures cooperation among the bureaus so that the implementation of housing policies is successfully completed. For example, the Bureau of Civil Affairs is responsible for the release of the ranking score based on newly formed points-accumulation system through its sub-district office, as well as provides confirmation service on key particulars, such as marital status of applicants. The Bureau of Public Security provides assistance in

[13]The Municipal Housing Security Center is a one-stop government agent that effectively manages all the matters involving affordable housing, including planning and design, project finance, construction, trade-ins, and asset management.

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

Policy finalization through the administrative channel is characterized by the participation of government agents, which is considered to be efficient and effective. Institutions, shaped by government regulations, markets, and cultures, have shaped the inter-bureaus coordination framework of the municipal government. While it is true that mass public participation in some open democracies has been lacking, policy finalization takes account of various stakeholders' views as observed in the several policy revisions that have taken place in Qingdao.

While policy formulators also generally undertake implementation, such practices can be abused as members of governments involved may seek to pursue their own self-interest. In order to avoid such a problem, the People's Congress recently started to authorize third parties, such as law firms, to undertake legislation drafting.[14] In so doing, the government is no longer the only agent that drafts new regulations. Law firms now are in charge of inviting active participation from various social groups to draft "rules" through seminars, meetings, and surveys, as professions carry the capacity to consolidate the general interests of the different voices from various stakeholders. This way, the interests of government and other institutional players, such as development firms, property tenants, and property management firms, could be addressed. The inclusion of third parties into the legislation process has reduced the government's power to monopolize legislations. China has gradually witnessed a transition from government-monopolized to one embedding multi-party players in the policy-making process. Hence, institutional change with increasing participation of non-government players has attracted various stakeholders to express their views in the policy formulation process.

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

> The inclusion of lawyers, who has highly concrete professions in multidisciplinary social issues, will minimize the legal loophole and enhance the quality of legislation. Their sufficient experiences from legal practice make them advantageous to the government officials.[15]

Such voluntary modifications of the legislative system that are internally initiated by the local authority show a move toward an accessible legislation system with a certain degree of openness, transparency, fairness, and rationality. The outstanding feature of third-party legislative participation is the creation of mutual

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

[15]Interview was conducted on January 31, 2014, in Qingdao, China.

non-stakeholder formulation of rules for stakeholders, which helps to balance the interests of each party in the contract. Hence, the traditional legislation model in which the government dominated the entire process is giving way to one where third parties participate strongly to shape the "rules of the game" so that it is fair to each "player."

Regardless of the enacting body, local legislations are categorized by two major types: executive legislation and innovative legislation. The former is designed to accommodate specific local socioeconomic conditions to complement national and provincial legislations. Innovative legislations refer to regulations that cover domains where national and provincial legislations are not available. They are formulated based on local affairs, and its legitimacy is confined to local legislative jurisdiction. However, such innovative legislation shall be transformed as executive law, when local regulations are legalized by national authorities. Under such circumstances, local decrees have to be adjusted to be compatible with higher-level legislations.

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

Secondly, municipal governments bypass provincial authorities to coordinate related matters directly with the central authority. Both formal and informal institutions help the coordination between municipal and central authorities. On the one hand, as a consequence of decentralization, the establishment of the vice-provincial city-schemes has enabled municipalities to be administered independently from provincial governments.[16] Qingdao is a vice-provincial city and hence ranks higher than the normal prefectural city administratively, as it enjoys certain autonomy from the provincial authority of Shandong in deciding local affairs. The direct link between the Qingdao municipal government and the central government was made clear with the establishment of the Qingdao Municipal office in Beijing in 1987, which was approved by the State Council. Thus, formal institutions aim to enhance the liaison between Qingdao and the central government. On

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

the other hand, private interpersonal relations bring informal contacts between central and municipal leaderships, which are especially dynamic among the well-connected technocratic elites. Incentives sought by municipal governors are often found to be the causes of informal contact, such as fiscal arrangement, foreign economic relations, and local development affairs.

6.5 Summary

Using a detailed case study of Qingdao, this chapter showed how urban housing policies in China were implemented by municipal governments since economic reforms began in 1978. While decentralization witnessed a major transformation in the way housing policies have been implemented in China, the ensuing institutional change has attracted greater participation of the community in the implementation of housing policies by municipal governments. While the delivery of urban housing policies is facilitated by the government and social organizations, new institutions have been created to stimulate diffusion to communities horizontally. The public hearings scheme has mushroomed to attract policy discussion and calibration. Policy finalization is meticulously organized so that the finalized version of policies, legislations, and regulations embody public opinion. To better reflect the interests of the public, policy revisions and finalization are increasingly coordinated through the use of independent third parties. Institutional change has transformed the governance structure of urban housing so that the central, provincial, and municipal governments have begun to specialize on policy initiation, intermediation, and implementation. This framework where municipal governments engage social communities to ensure that the objective of housing policies embodies the interests of the wider public suggests the emergence of an alternative model that vigorously involves political institutions so that the ordinary citizen gets to participate in horizontal decision-making. At the same time, this framework also better represents the community compared to open democracies where the rich tend to dominate the political process.

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

Meanwhile, the evidence from eastern and central China dismisses the claim that China's extractive one-party political regime may not be able to sustain economic and political prosperity in the long run. In contrast, the evidence shows

that policy implementation at the municipal level is institutionalized in an inclusive way as the "rules of the regime" address the interests of the citizens, or in the words of North (1991) "the players." The state has become a critical institutional player that performs developmental and welfare functions to deliver services to a wide spectrum of people, which is consistent with the arguments of (Poulantzas 1973, 1978; Evans 1995). The Chinese state through central initiation, provincial intermediation, and municipal implementation has continued to decentralize housing policy-making with the objective of better meeting the aspirations of the people (Evans et al. 1985). These processes have been shaped through institutional change so that market reforms are targeted at complimenting rather than colliding with the social needs of the citizens. Indeed, at least in the provinces of Shandong and Shanxi, China appears to represent more than the USA, the autonomous state that Poulantzas (1973) and Jessop (1990) articulated to take care of the interests of the wider community.

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

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Chapter 7
Conclusions

Abstract This concluding chapter presents the synthesis and draws implications for theory, methodology, and policy from a profound assessment of the impact of economic reforms on China's urban housing sector. The synthesis shows how the roles of the different organizations of the state, i.e., the state-owned enterprises (SOEs), and the provincial and municipal governments, have evolved since economic reforms were launched to strengthen the production and delivery of urban houses in China. Rather than taking a simplistic view of a state-market dichotomy to explain the changes, the evidence shows the influence of a broader range of institutions that includes regional variations in the influence of Confucian culture and leaders. While the account supports the powerful arguments advanced by structuralist Marxists, the evidence also shows that state theory should absorb the influence of institutional and evolutionary theories to better capture the role of developmental states in economic development. A key extension essential from our findings is that the state of China is not a single complex superstructure, and that countries are complex enough so that different regions end up evolving differently.

Keywords Marxist structuralism · Institutions · Evolutionary theory · Beijing consensus · Urban housing reforms · China

7.1 Introduction

In our quest to understand economic reforms, we analyzed institutions and institutional change together with their impact on the conduct of major institutional players, such as state-owned enterprises (SOEs) and governments at different levels in the urban housing sector in China. We found this objective particularly important following the simplistic categorization of the China as being governed by an extractive state, albeit our empirical investigation was confined to the provinces of Shandong and Shanxi. Also, existing works on urban housing in China have tended to describe the reforms without an attempt to contribute to the

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extension of state theory or to draw implications for institutional and evolutionary economic theories. Since market reforms began in 1978, China has experienced dramatic institutional change in the urban housing sector, which has been characterized by not just the influence of markets but also by non-market institutions, such as Confucianism and other cultural influences. In this book, we sought to evaluate the impact of these changes on the role of SOEs, and the provincial and municipal governments. In the meanwhile, we attempted to capture the changes in the urban governance structure arising from institutional change in decentralizing urban China. In doing so, we used the full range of institutional definition that was advanced by Veblen (1915), Nelson and Winter (1982) and North (1991) to analyze the legal and economic schemes, as well as the social and cultural norms that have shaped the landscape of urban housing sector in China.

Thus, this book provided a profound assessment of the dynamics of institutional change in China's urban housing sector. This conclusion chapter is organized into 6 sections. Following this introduction section, Sect. 7.2 provides the synthesis of research findings. Sections 7.3–7.5 discuss implications for theory, methodology, and policy, respectively. Section 7.6 finishes with the limitations of the book and recommendations for future research.

7.2 Synthesis of Findings

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

Chapter 4 examined the evolving role of the SOEs in the new institutional networks that have emerged to support the production and delivery of urban housing in China. It discussed how the SOEs have evolved to meet growing demand and complexities in the construction and allocation of urban houses following the introduction of market reforms. The evidence shows that institutional change has brought about significant transformation in the role of SOEs in China's urban housing market. Three distinct reform phases were identified: The first phase (1978–1988) dominated by in-kind allocation of houses, the second phase

(1988–1998) characterized by SOEs' contribution to the Housing Provident Fund (HPF) and the dissolution of the in-kind housing allocation function, and the third phase (since 1998) led by SOEs participation in housing development, speculation, and affordable house provision. While SOEs' participation in speculation has generated problems of market failure, SOEs—being instruments of the state—have been conditioned by government institutions to continue their role to serve the low- and middle-income urban dwellers with affordable housing.

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

Chapter 6 evaluated the role of municipal government in policy implementers. The chapter showed that municipal governments have increasingly begun to fine-tune urban housing policies through four main transmission processes, namely delivery, diffusion, calibration, and finalization. Using Qingdao as a case, this chapter analyzes how institutional change has offered municipal governments significant powers and autonomy to implement urban housing policies. Allowing municipal governments' participation in making urban housing policies has considerably enhanced efficiency of policy implementation, as the sub-national government possesses the best knowledge of the terrain in which these policies are executed. We found that the Qingdao government has not only used a wide range of instruments to deliver, diffuse, calibrate, and finalize the allocation of houses, but it has also actively coordinated with both the provincial and central governments to recalibrate housing policies so as to ensure overall urban housing planning taking account of its impact on the targeted groups.

7.3 Implications for Theory

The findings support the powerful arguments of Marxist Structuralism advanced by Poulantzas (1973, 1978) and Jessop (1990) that state and state power perform a central role in organizing production relations. The evidence shows that

the institutionalization of state policy in China is targeted at reorganizing urban housing production and distribution to meet the interests of the people with strong emphasis on the low- and middle-income groups. This function of state is also consistent with the argument that the state structures production relations to strengthen its role as a crucial institutional player to promote and stimulate socioeconomic progress (Gordon 1984; Evans et al. 1985a, b, p. 46). As a consequence of the developmental and welfare role of states, a new urban housing governance structure has been institutionalized by the Chinese state, where central government initiates policy planning, provincial government intermediate policy conveyance, and municipal governments implement policies. In so doing, the Chinese state has evolved to attract considerable participation by provincial and municipal governments to calibrate policies before they are finalized. In contrast to instrumentalist arguments (Sweezy 1942; Miliband 1969), the evidence shows that SOEs participate not only in segments of the urban commercial housing sector that is dominated by markets, but also in segments of the sector to deliver affordable houses to low- and middle-income urban dwellers. As an instrument of the state, SOEs play a wider role of guardians than simply dancing along the tune of markets. Instead, it has responded to institutional change to organize social production and distribution so that urban houses are not only sold in markets for profit but also to ensure that affordable houses reach the target group in China's urban community.

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

The evidence also supports the arguments advanced by developmental state theory. The Chinese state through its sub-organs has played a substantial role as provider of services and goods to meet national interests rather than just limiting its functions to a regulatory role. By examining how provincial institutions shape urban housing development, this book firstly confirms that states achieve their developmental functions not only in promoting industrialization (Johnson 1999) but also in promoting urban housing development through institution building. Secondly, institutional change has transformed the role of SOEs in China to balance private and public interests and in the process it has evolved a new

form of business–government relations to complement the developmental role of governments. SOEs' speculative behavior arose following the proliferation of private management principles that came with market reforms, but this conduct has increasingly been regulated by the state government. The SOEs have been conditioned to provide affordable housing with particular shares of commercial housing reserved for the disadvantaged urban dwellers.

Selective interventions in the economy by the state can be justified to protect the disadvantaged and to regulate against the undesirable behavior of economic players, such as participation in speculation. China's unique state–business relations has bolstered the concept of state capitalism where the state has continued to remain a powerful instrument to ensure social harmony in the country as it is still firmly in control of SOEs. This is consistent with the role of the developmental state expounded by Johnson (1982), Evans (1995), and Szamosszegi and Kyle (2011). Clearly then, the developmental role of the state stretches beyond the rapid industrialization experiences examined in Japan by Johnson (1982), in South Korea by Amsden (1989), in Taiwan by Wade (2003), and in Singapore by Huff (1995). We show in this book that the state also performs a strong role in the delivery of social welfare goods, such as housing in the urban locations of China.

The "trial and error" and "groping for stones in the river" approaches that closely follow Confucian principles that China adopted typify the evolutionary institutional change advanced by Veblen (1915). The "rules of game" which is defined by North (1991) has continued to evolve as market reforms have attracted institutional changes with profound ramifications in both urban housing policy planning and housing delivery. Importantly, the evidence supports the classical argument that institutions are socially determined and politically embedded (Thorstein 1915; Polanyi 1944). Some institutions are created by the government to condition institutional players, such as firms and governmental agencies to orientate their conduct in markets (Buchanan 1986; Boettke et al. 2006). Due to the characteristics of embeddedness, institutions have wide roles as they not only accommodate the function of markets, but also coordinate different social behavior of diverging interests groups by defining and designing explicit rules. Hence, it is institutions, such as legislative framework, urban land use rights, leaderships, cultures, and intermediary organizations, rather than market mechanism alone that has shaped production allocation and economic development in China (Coase 1937, 1992; Rasiah 2011).

Institutional change in China's urban housing sector is a consequence of evolutionary processes of national economy. It is a product of market transition from a central-planning economy to a socialist market economy. Nolan (1995) had observed this when classifying China's transition within a socialist structure as a success against Russia's fall to naked markets. China's state agencies and organizations have been fashioned strongly through the gradual introduction of markets with control being held by its socialist government. The paradigm shift experienced in China's urban housing sector demonstrates Schumpeter's notion of "creative destruction" where new production and distribution schemes are initiated through decentralization and marketization processes following market reforms

but under a regulated structure (Schumpeter 2013). Hence, meso-organizations connecting micro-agents and macroinstitutions embed the governance structures to smoothen economic transition so as to provide a friendly institutional environment to appropriate market synergies (Nelson 2008b; Rasiah 2011). Simultaneous institutional coordination between the different levels of governments has been essential to build institutional capacity, which reinforces the evolutionary argument that institutional and systemic support is critical to promote economic growth and structural changes (Nelson and Winter 1982; Rasiah 2007, 2011).

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

The evidence also confirms the arguments on market transition of Nee (1989, 2000) and Nee and Mathews (1996) that the role of the state is important in establishing the institutional framework in transitional economies. Indeed, the sheer size of China as the most populous developing economies requires strong institutional capacity to accomplish the transition from a communist system to a socialist market economy (Nee 2000). An essential extension from this evolutionary argument is the possibility of further changes that may require new searches for institutional solutions. Hence, it is worth the while for scholars to embrace the views of evolutionary economists to understand and appreciate the role of meso-organizations as they address the special problems associated with public goods and public utilities to solve collective action problems (Rasiah 2011).

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

The identification of the intermediary role of provincial governments and the implementation role of municipal governments in urban housing

policy formulation offers state theorists a sub-national dimension to the role of government. It also fills a gap in most works on the governance in China, which discuss the link between the central and local governments without a focus on provincial governments. The evidence supports the argument of Li et al. (2011) who argue that the structure of housing governance is realized by coordination among different levels of government, though competition exists between provinces and municipalities due to conflicts in the incentive structure. In contrast with arguments that portray the central government as having the superpower to override the role of local governments (Murdoch and Abram 1998), the evidence shows that the relationship between the different levels of government is more cooperative than hierarchically vertical. Although the central, provincial, and municipal governments specialize, respectively, on policy initiation, intermediation, and implementation, all three coordinate and calibrate the finalization of urban housing policies. Hence, China cannot any longer be characterized as any economy with central as a single dominating power governing urban housing development. Instead it is characterized by a multi-power sharing matrix where each level of government coordinates and cooperates through institutional arrangements in the planning and delivery of urban housing.

In addition, the evidence shows that state theory should absorb aspects of institutional and evolutionary theories to better capture the role of states in economic development. A key extension essential from our findings is that the state is not a single complex superstructure as demonstrated by the China experience. Instead, the state should be viewed as a body of different levels of government that is united by a relationship of cooperation through institutional linkages. Effective coordination between the different levels of government is essential to ensure that policy targets are achieved. China's experience provides a uniquely different example of state structure, and thus, it can be used as a model for adaptation by other countries so that the attempt can produce yet other examples of developmental states with different development trajectories (Li et al. 2011). While China is certainly not an example of Western-style democracies, the inclusiveness associated with peoples' involvement in the calibration of urban housing policies through public hearings and participation in the Weibo networks suggests that an inclusive model which is friendly to the people is emerging in China.

7.4 Implications for Methodology

This book has also made methodological contributions. Firstly, we adapted the SAI model advanced by Healey and Barrett (1990), Healey (1992), and Ball (1998) to take the evolutionary view that government agencies and meso-organizations do evolve over time. By identifying three distinct phases through which China's SOEs have evolved since reforms began in 1978, we were able to show in Chap. 4 how regulatory changes have changed the conduct of the SOEs in the urban housing sector. Secondly, we adapted the IAD model of Kiser and Ostrom

(2000) to add informal institutions to institutional analysis to study how institutions have shaped the conduct of government agencies and meso-organizations. In Chap. 5, we showed how living culture, which is an informal institution, has intangibly influenced people's choices in the urban housing sector and hence has caused uneven development of urban housing in China. The role of culture and leadership in the implementation of affordable housing production has also reinforced the importance of informal institutions (North 1991; Helmke and Levitsky 2004).

7.5 Implications for Policy

Although the epistemological set of findings presented in the book on the urban housing sector is empirically grounded, the **new institutional governance structure** that has emerged in China where state policy is initiated by central, intermediated by provincial and implemented by municipal governments can also be observed in other industries and sectors. China's huge economy with vast and diverse geographical terrain requires that policy planning is cognizant of the capacities of the central, provincial, and municipal governments. Similarly, the implementation of national policies needs strong institutional capacity by municipal governments to coordinate the meso-organizations to achieve the goals of the designated policies. The different functions of the central, provincial, and municipal governments provide evidence to show that the division of policy tasks helps to enhance the effectiveness of policy planning and implementation. This new institutional governance structure that has evolved following economic reforms is of great importance to understand the national policy system in China where authorities at different administrative levels with different priorities coordinate their activities to achieve national policy goals. Hence, the first important policy implication to be derived from this study is the need to understand governance structures and the complementary role they assume to make planning effective so that they eventually meet the interests of the people.

The evidence also shows that the **state is still the key agent** to take care of the welfare of the people. While economic reforms in China led to the reduction of the state's direct engagement in economic activities, state power was reconfigured through institutional changes brought about by the introduction of market forces. China's decision to open up was built on the premise that state power must not be compromised when the market mechanism is installed. After decades-long practice of gradualism and experimentalism, the blend of state power and market forces that has shaped China's urban housing sector may provide a unique model for both market and transition economies seeking to address problems facing communism or capitalism. The positive experiences include how the market as an institution can be embedded in the government's welfare regime, and how policies can be designed to meet the interests of society. The evidence in designing urban housing policies in China shows that the state and the market need not be rivals.

Also, unlike the Washington Consensus in which the market guides the state, the Beijing Consensus portrays the state as the leader and the market as its follower. This argument is consistent with Chakravarty's (1993, p. 420) point that the "market is a bad master but can be a good servant." Effective market–government relations depend on how market and government are institutionalized to coordinate their actions so as to take account of their respective strengths and shortcomings in the delivery of public goods and services to the entire society.

The evidence also shows that states need to build their capacity through both absorbing elements from prevailing institutions, and **creating and upgrading institutions and institutional organizations**. While cultural histories and informal institutions coexist and exert strong influence on the conduct of players, governments can shape this process by actively intervening with legal and regulatory institutions. China has managed this by assuming an evolutionary framework in which the different levels of government have continued to design and implement innovative policies through a trial and error approach associated with "groping for stones to cross river" method. The role of meso-organizations (which are embedded in states and are conditioned by institutions) have been important in China. The experience of China provides an empirical example of how meso-organizations at local level, such as the municipal government, are utilized to calibrate policies to be in sync with the voice from the community. For example, the popularity of micro-blogging and official Web portal has created direct exchange of information to ensure that policy-making involves a wide spectrum of the society.

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

However, while relative autonomy is important, effective overseeing and monitoring is also critical to ensure that implementation is effective. This requires the supervisory role of state through the conditioning role of institutions. The evolution of China's governance structures provides an example of power structures and delegation that other countries may learn from. While the central government enjoys the supreme right to initiate policies, provincial and local administrators are empowered through administrative autonomy to intermediate and implement policies. The central control of state power enables the national economy to move in the same direction, while leaving enough flexibility to the provincial and municipal authorities to formulate the strategies in the intermediation and execution of national policies.

The transition experienced by China also shows the importance for former communist states to replace direct control with institutional governance, which is demonstrated by the flexibility enjoyed by the provincial and municipal

governments in decentralized China. However, like any other nation, China is not a perfectly run economy as demonstrated by the detention of a number of top officials on suspicion of corruption in Shanxi Province (Meng 2014). The central government must find a way to prevent lower level administrations from abusing the autonomy given to them, which is critical to reduce the incidence of misconduct by provincial governors. It will also prevent governors and municipal heads from wasting resources simply by competing against each other, or moving away from the orientation set by central authority.

In addition, governments should place special emphasis on **informal institutions**, especially when dealing with the roles of local government in establishing an effective institutional coordination system. Tradition and culture should be honored as they act as influential factors in determining the effectiveness of policy implementation. Chinese culture and its core values have often been taken into consideration in China's policy-making, as policies that respect traditional virtues are more acceptable to policy target groups with better performance in achieving policy goals. Also, leadership should be taken as an extremely crucial factor as policy implementation requires careful coordination and execution. Hence, the selection of leaders should be exercised in an open and fair manner to ensure that capable candidates are selected to achieve policy objectives.

7.6 Future Research

As with most studies, this study has some limitations. As argued by evolutionary economists, location, timing, and sectors matter in institutional change (Nelson 2008a). Hence, the China experience must be treated with great caution. In-depth case studies on a specific location may not be able to broach the intricacies faced by other urban dwellers in different urban locations. The evidence from the municipal government of Qingdao, and the provincial governments of Shandong in the East, and Shanxi in the Central may not be fully replicable elsewhere, as the decentralization processes have enhanced the diversity of local government choices and behavior nationwide. While these examples are enough to contest the claim that China is governed by an extractive state, an extensive study of more urban locations shall make the account on state planning in China more exhaustive.

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

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