

# From Socialist Space to Capitalist Market Place: The Creation of China's Real Estate Market

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# **From Socialist Space to Capitalist Market Place: The Creation of China's Real Estate Market**

## **Abstract**

The booming development of China's real estate market has received surprisingly little attention in marketing and consumer research. This paper takes a historical perspective and analyses the emergence of China's housing market in the past decades. We interpret the changes in the country's real estate market through the theoretical lenses of institutional theories. Our findings highlight the politicized nature of Chinese market and broaden our theoretical understandings of political ideology and the consumption of space.

## **Key Words**

*China's real estate market, institutional theory, sociocultural*

## **Track**

*International marketing & Marketing in Emerging Countries*

## **1. Introduction**

Housing used to be allocated for free as social welfare in China and Chinese real estate market did not exist until the late 1980s (L. Zhang, 2012). However, within the timespan of a single generation, China has become one of the world's most developed housing markets with the youngest first-time homebuyers at an average age of 27. Obsessed with homeownership (L. Zhang, 2012), Chinese consumers pool together intergenerational resources to buy and own flats and single-family houses in cities such as Beijing and Shanghai. Such rapid change that has accompanied the country's social transition from a socialist planned economy to a hybrid market system has provided an unprecedented theoretical context to understand market creation in a contemporary consumer society.

In this exploratory historical study, we seek to understand the emergence of housing market in China and in particular, we investigate: 1) what are the driving factors in the creation of Chinese housing market and 2) what are the meanings of house ownership for Chinese consumers. Our initial findings have extended previous research by highlighting the politicized nature of Chinese markets. In addition, we explain various sociocultural and psychological factors that have shaped the rise of Chinese housing market. In the substantive front, we provide a much-needed sociocultural analysis of the housing market in the world's most populated country. We also discuss its broader implications for marketing and consumer research. In this essay, we report some initial findings based on our historical narrative analysis of Chinese housing policies since its housing reform in late 1970s in light of institution theory.

## **2. Institution Theory and Chinese Housing Market**

Institution theory helps to explain how the creation of organization is influenced and shaped by its interaction with environment (Huang & Sternquist, 2007). For instance, DiMaggio and Powell (1983) emphasized that organization emerges through three isomorphic processes—coercive, mimetic, and normative isomorphism. Scott and Christensen (1995) explained the importance of legal, social and psychological elements in this process. Institution theory has also been widely adopted in marketing and consumer research to study the creation of consumption-driving markets and how consumers shape market creations (e.g., Dolbec &

Fischer, 2015; Scaraboto & Fischer, 2012). Humphreys (2010) explained how the gambling industry in the US is created in a political and social process that is characterized by ideological and cultural conflicts. It is also found that institutional environments and governance strategies may influence the initiation of a market (Yang, Su, & Fam, 2012). However, less is known regarding how the shift of dominant political ideologies shapes the development of market practices. The rise of Chinese housing market in the past decades provides a unique context to explore such important theoretical issues and its creation can be understood in three dimensions: regulative, normative and cognitive.

### **2.1 Regulative Dimension:**

Legal and political factors are important in market creation (Scott, 1995). Government establishes laws and policies to create an environment for markets to emerge. In the past decades, real estate industry has been a key engine that drives China's economic growth (Chivakul et al., 2015). The reform of the urban residential system is the core of China's housing marketization (Fung et al., 2006). Since the founding of the People's Republic of China in 1949, the socialist state has provided employees with accommodation. This social welfare housing allocation lasted until the late 1970s.

The reform from welfare housing to home ownership took place in three stages in China. The first stage between 1978 to early 1987 was characterized by the lack of real estate market or private ownership. All land belonged to the state, and housing was managed exclusively by the government. After the economic reform in 1978, the Office of Housing Reform and Construction were instituted throughout the country. China's first housing company, China National Real Estate Development Group was established on January 16, 1981. This marked the start of four decades of China's real estate market creation. At the same time, a Hong Kong based developer, *New World Development Company*, was allowed to develop commercial projects in mainland China, starting with its *China Hotel Guangzhou*. *Shui On Land*, another Hong Kong real estate developer followed and established its mainland company in 1984. A year later, the *Kerry Group* cooperated with the State Economic and Trade Commission in 1985, spending \$380 million to build the Beijing International Trade

Center. Such external involvement played important roles in commercializing China's socialist space. The marketization of China's real estate market began to sprout to the country. The second stage of the late 1987 to 1991 started with the change of Chinese constitution. Prior to the change of Constitution in 1988, real estate industry only counted on 3 to 4 percent of China's GDP (Walker & HIN, 1994). In 1987, the newly established Shenzhen special economic zone sold the first land in China to raise money for its urban-expansion constructions, and this marked the start of China's real estate industry. On November 26, 1987, the Shenzhen Government allocated a piece of land of 8,588 square meters for a 50-year paid-for-use auction. This was the first time that China traded land as a commodity. A month later, the People's Congress of Guangdong Provincial passed the "Shenzhen Special Economic Zone Land Management Regulations" stipulating that land use rights can be transferred. In April 1988, Clause 4 of Article 10 of China's Constitution was modified "No organization or individual may appropriate, buy, sell, or lease or unlawfully transfer land in the other ways. Meanwhile, the right of land use can be transferred in accordance with the law" (Walker and McKinnell, 1995). Although land ownership still belongs to the state, the use right can be traded. The State Council set up Shanghai city, Tianjin city, Shenzhen city, Guangzhou city and Hainan province as pilot areas to begin trading land use rights in markets. The year of 1987 was a historic turning point in China's housing market. The third stage was from 1992 to present. The real estate industry took off rapidly. Although the state still owns land, the rights of land use and land improvement can be privately owned (Fung et al., 2006). The housing boom lasted for nearly 30 years until the government established some regulations to restrict house-purchase in order to contain the soaring price (Jia et al., 2018). Real estate development companies and agencies have sprung up. As a weak governance structure may fail to attract foreign investment (Hoskisson, Eden, Lau, & Wright, 2000), the state consummated related policies continue to attract foreign investment in the real estate industry(Walker & HIN, 1994) and encourage competition in the market.

## ***2.2. Cognitive Dimension***

The forms that the market takes often reflect historical and cultural environments. Institutional theory helps to explain the interplay of social and cultural factors in the market

creation process (Ashlee Humphreys). China's housing reform reflects Chinese consumers' desire of owning a house (Doyle, 1992). For many Chinese, a house represents stability. There's a long lasting traditional belief that where is a house, there is a home (family) as seen in the Chinese character 家(family), which is pictorially composed of a house and people. Lands and property also suggest a person's wealth and class. It is the symbol of social status. Historically in Chinese society, both royal court officials and wealthy farmers were keen to acquire lands and built stately homes and gardens, rather than engaging in capitalist reproduction (Stearns 2001). A house is a cultural object (Rakoff, 1977), and for many Chinese consumers, house ownership represents a faith in house as important means of providing a sense of security and achievement in rapidly changing society. In addition, resources are extremely unbalanced in contemporary China. Large cities and small cities, first- and second-tier cities, urban and rural areas vary in the availability of their educational, medical and network resources (Bian, Breiger, Galaskiewicz, & Davis, 2005). To have access to these resources, house ownership is a prerequisite. For Chinese consumers, house ownership represents the availability of quality life and good life choices. With fierce competition in society, parents do not hesitate to purchase properties in superior school districts in order to prevent their children from falling behind. This also fuels the development of Chinese housing market in the past three decades.

### ***2.3 Normative Dimension***

Norms in a society influence individual behavior (White, Smith, Terry, Greenslade, & McKimmie, 2009). We identified three normative factors that may have influenced the rise of the Chinese housing market. 1) *yearning for urban resident right (Hu Kou)*: For many Chinese, medical care system, educational system and other welfare system are all related to real estate. People without Hu Kou (urban residency status registration) may be checked by police. For many rural migrants, buying a house is to join urban Hu Kou (Chan & Buckingham, 2008) Chan & Zhang, 1999). 2) *premise of marriage* The development of housing market also fueled the notion of "No house, No marriage". Planning for marriage depends on flats or houses ownership and influences a person's popularity (Jiang, Zhang, &

Sánchez-Barricarte, 2015). Possessing more houses is a best way to be competitive in finding a partner (C. Zhang, An, & Yu, 2012). The three “must have” of marriage have also evolved from "watches, bicycles, sewing machines" in the 1970s to "refrigerators, color TVs, washing machines" in the 1980s, "air conditioners, audio, video recorders" in the 1990s., and now it has become "house, car, money". 3) *Investment* The rapid growth of China's real estate market, has turned housing as one of the most promising investment opportunities (Hongyu, Park, & Siqi, 2002).

### **3. Conclusion**

Much has been written about the spread of gated communities and the gentrification of the inner city, and the implications for understanding the politics of race, class, citizenship, and the built environment. Previous works explored the link between spatial configurations and class dynamics and demonstrated the detrimental impact of declining public space on democratic politics and the rights of the poor. The primary focus of this explorative study is to provide an overview and historical narrative of how China's real estate market develops from the relics of a socialist welfare system. We emphasized the role of regulative, cognitive and normative as three pillars of China's housing market and highlighted the political nature of housing marketization in China. Homes and architecture styles as we have witnessed today are China's symbolic responses to the conflicts between the fading communism and the now rampant consumerism and reflect its curiosity about the outside world. Chinese housing developers radically bundle established ways of life into Western and foreign-looking exteriors that evoke and resonate with the country's aspiration for a return of its former glory as the Middle Kingdom of its imperial era. The study of China's housing market has much to offer for our understandings of politics, market, and consumption.

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