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Foreign Capital and Local Politics in China's Real Estate: A Study of Hong Kong Investment in China

The gradual liberalization of the Chinese economy and the relaxation of rules governing inbound investment flows have led to the rise of foreign real estate investment in reform China. Although the property sector remains one of the most tightly regulated, investors from Hong Kong appear to have made exceptional inroads into the mainland market. By considering politics at both the national and subnational levels, this paper goes beyond the culturalist focus on ethnic ties and relational assets to demonstrate how political calculations and economic pragmatism are central to the predominance of foreign investment from the city. A close examination of the local impact of foreign investment reveals how the particular mode of cooperation forged between local governments and property developers that is founded on land rents extraction may bring about social outcomes that the local population perceives to be undesirable and as such contributes towards growing public discontent over the pro-growth model of development that has thus far characterized the Chinese reform experience.

Keywords: Real estate; foreign investment; China; Hong Kong

Introduction

The landscape of urban China has undergone tremendous changes in the past three decades. From a visual-spatial order that reflected the ambition of maximum industrialization and the promotion of collective consciousness, the new Chinese city saw the rise of towering skyscrapers, central business districts and giant shopping complexes that testify to the reform leadership's embrace of a market economy. One key agent behind this ongoing territorial transformation is foreign real estate capital, which has become increasingly active in the mainland market since China opened its door to overseas investment in the late 1970s. Within a decade of the enactment of the 1979 Equity Joint Venture Law, a landmark legislation that enabled foreign investors to possess *de jure* land use rights, the real estate sector has grown to account for over one-third of total realized foreign direct investment (FDI) in the country by the mid-1980s. Chinese real estate attracted over US$1 billion in FDI in 1986, and the property boom of 1992-3 further brought inflows up to an astounding US$10 billion in 1993. The subsequent introduction of cooling measures by central authorities kept annual volumes to half that level between 1997 and 2006, but the size of investment grew again and reached the new height of US$17 billion in 2007 (He & Zhu, 2010).

A significant proportion of the real estate FDI China receives has come from Hong Kong, a former British colony that reverted to Chinese rule in 1997. Together with Taiwan and Macau, capital from the city consistently accounted for at least 60 percent of foreign real estate investment in the People's Republic. That such a large proportion of China-bound property capital in fact originates from constituents of Greater China on the one hand puts into perspective the ascribed foreignness of the real estate FDI China receives; on the other it sheds important light on the robustness of transboundary linkages within the regional political economy. This paper studies the dynamics of Hong Kong real estate investment in China and examines its implications. It situates these cross-border exchanges within political, economic and sociocultural networks to demonstrate how, rather than being purely representative of globalizing market forces, the flow of capital is crucially mediated and shaped by local structures of power and actors. The predominance of Hong Kong real estate investment in reform China is not only attributable to ethno-cultural proximities, but is also a direct product of political considerations and economic pragmatism manifested at both the national and subnational levels. For the central government, the encouragement of investment from Hong Kong and the extension of privileges to the city's developers is part and parcel of its broader project of cooptation and incorporation. On the ground, local governments have capitalized on such openings and negotiated profitable arrangements with the developers, using foreign inflows to realize their own territorial ambitions and replenish municipal finances. The impact of these dynamics of partnership on local economy and society will continue to shape the changing landscape of China as well as the relationship between state and society.

Literature review

The unique role of Hong Kong in China's reform experience is a much-researched subject area. It is well noted that pioneer capital from the then-British colony had played a direct part in shaping China's economic transformation well before the country's foreign investment regime was formally liberalized in the late 1970s. The study of cross-border investment in these early reform years has focused primarily on the flow of industrial capital and the contracting of production processes. Directed towards small cities and counties where land and labour were cheaper, these small- and medium-scale inflows exhibited a distinct border orientation and were found to be influential in spurring rural industrialization and exogenous urbanization especially in the Pearl River Delta region (Sit & Yang, 1997). Researchers of these investment relations often emphasize its "socially mediated" nature (Smart & Smart, 1991). Personal ties rooted in social institutions, such as kinship and native place associations, are identified as the key factors accounting for the particular patterns of cross-border investment.

The accordance of analytical primacy to ethno-cultural factors in these studies is shared by the broader literature on overseas Chinese investment (e.g. Hsing, 1996; Chen & Chen, 1998; Wong, 1999; Wang, 2000; Tseng, 2002; Smart & Hsu, 2004; Zhang, 2005; Jean, Tan & Sinkovics 2011). This body of scholarship highlights the functionality of cultural networks and ethnic connections in promoting economic cooperation. The robustness of relational networks underlying overseas Chinese investment patterns has informed the scholarship on new regionalism and animated discussions of the regional as an analytically significant spatial-economic scale. Transnational ethnic social capital, for example, has been identified as a source of Asia-Pacific subregionalism (Chen, 2000). The growth in investment to China from Southeast Asian countries including Thailand, Malaysia, Singapore, Indonesia and the Philippines has also been cited as evidence of an expanding "overseas Chinese economy" rooted in social networks and cultural affinity (Wank 1998; Wong 1999). The salience of such transnational linkages and their constitution of distinct regional economic orders are seen as challenging assumptions about the homogenizing effect of globalization as well as the presumed borderlessness of global capital flows (Crawford, 2000).

Hong Kong, together with Taiwan and the coastal provinces of Guangdong and Fujian, has featured in conceptualizations of "south Chinese regionalism" (Crawford, 2000) and the "Greater Southeast China Subregion" (Chen, 2000). Situating Hong Kong within such regional networks aptly highlights the ethno-cultural proximities that investors from the city enjoy as foreign Chinese investors. The business communities of Hong Kong and Taiwan both consist of many first- and second-generation immigrants whose respective native places are cities, towns and villages in Guangdong and Fujian provinces. Aside from the sharing of cultural norms and understandings, they are also connected to China by dense networks of particularistic ties based on trust, reciprocity and obligatory norms (*guanxi*). These informal connections enhance information sharing and prevent defection through the enforcement of community sanctions (Rauch & Trindade, 2002), mitigate uncertainties and risks in business transactions and thereby compensating for institutional weaknesses often associated with transition economies (Chen & Chen, 1998; Wang, 2000), even improve efficiency and responsiveness in policy-making as local officials are willing to bypass bureaucratic red tape in providing favourable conditions for investors with whom they have developed close personal ties (Chen, 2000). Extant studies of Chinese real estate have shown how the possession of such relational capital has enabled foreign Chinese investors to better navigate and adapt to local market conditions. He & Zhu (2010) observe that in comparison to foreign investors, developers from Greater China are less concerned about the degree of economic liberalization and land commercialization when choosing where to invest. Whereas their non-Chinese counterparts seek after destinations with strong pro-market institutions that offer a degree of institutional guarantee and protection for their property, foreign Chinese developers appear less encumbered by uncertainties and devote a more singular focus on profit opportunities.

While the emphasis on cultural and relational capital offers an alternative perspective to neoclassical economic explanations of foreign investment, on its own a culturalist perspective is insufficient in shedding light on the politics of identity and the processes leading to its activation and mobilization. Cultural identity, or foreign Chineseness in our case, is not a ready-made, inherent property or essence to be possessed and owned by persons or groups (Siu, 1993; Nonni & Ong, 1997; Tseng, 2002). It is rather fluid and open to construction and re-interpretation, by social groups and powerful actors in accordance to particular agendas and prerogatives. Taking such a view necessitates an examination of the political, economic and sociocultural forces that participate in the constitution of the meanings and functions of foreign Chineseness. There is thus need to “politicize” the narrative and move beyond purely economic and culturalist considerations, to zoom in on politics at different levels of state and society in order to fully comprehend the role of foreign capital in China’s transformation (Yeung, 2000).

The adoption of such a nuanced approach is both important and fitful for the study of Hong Kong investment in China. If in the culturalist perspective Hong Kong is similar to other overseas Chinese communities in its ethno-cultural proximities with China, then in the geopolitical respect distinction should be drawn given the city's special political status. From the mid-19th century up until 1997, Hong Kong was ruled by the British colonial government as a result of its cession following China's defeat in the Opium Wars. For China, Hong Kong has been and remains a formerly colonized territory to be re-integrated and re-unified with its motherland. Governed as a Special Administrative Region (SAR) that operates under a "one country, two systems" framework, Hong Kong constitutes a "zone of exception" to normalized Chinese rule, created, as Aihwa Ong (2004) argues, for its contingent re-absorption into the Chinese national landscape. The geopolitics of sovereignty and national unification thus underlies China's interaction with Hong Kong, and such prerogatives have found expression in the nature of the relationship between the Chinese government and the city's political and financial elites, including Hong Kong's real estate developers. Moving beyond a culturalist focus is also important in unravelling the local political economies of foreign real estate investment on the ground. The reform era in China has seen a devolution of power to a multiplicity of state and social actors, with local governments in particular assuming a much more active and agential role in decision making. According politics a central role in explaining foreign investment hence requires also that the disaggregated, non-unitary nature of the Chinese state be taken into account in our analytical narrative. The rest of the paper thus considers Hong Kong real estate investment in China at both the national and subnational levels to observe politics at both spatial scales as well as the interplay of dynamics between the central and the local.

The Politics of Hong Kong Real Estate Investment in China

Foreign investment in transitional economies is often considered costly and risky due to a number of institutional constraints. These include a lack of established procedures which reduces the transparency of transactions, an immature legal system, as well as property rights that are often vague, ambiguous, and "fuzzy" (Verdery, 1999). For investment in real estate, the difficulty is compounded by the highly localized nature of the industry. Property development requires not only extensive local knowledge but also the ability to navigate complex regulatory regimes from land rights delineation to urban planning and construction guidelines. In reform China, the confluence of both sets of conditions has effectively created an enclosed land and real estate market that presents significant entry barriers to foreign investors (Hsing, 2006). Since the mid-2000s, foreign capital accounted for just about 10% of total realized investment in Chinese real estate (Hui & Chan, 2014). Western companies such as those from Europe and the United States are often restricted to making indirect investment, such as establishing and selling Real Estate Investment Trusts or purchasing and operating built property (Hsing, 2006). In comparison, Hong Kong property capital appears to have made exceptional progress in its entry into the mainland market. The multibillion-dollar investments made by the city's real estate developers have successfully entered both first- and second-tier Chinese cities not just along the coastal area but also further inland. Furthermore, they have diversified from commercial real estate and hotel development to residential projects and even the redevelopment of entire neighbourhoods. This section examines the dynamics that have facilitated the dominance of Hong Kong capital amongst foreign investment in Chinese real estate.

The property developers of Hong Kong are transnational business conglomerates with subsidiaries engaged in a wide range of sectors from infrastructure and retail to utilities and telecommunications. The largest dozen of these rank amongst the 2015 Forbes list of the world's biggest two thousand public companies; some of their owners also top the list of the richest twenty real estate billionaires worldwide. Among these, the most established five developers include the Cheung Kong-Hutchison group, owned by business tycoon Li Ka-shing and family; Sun Hung Kai Properties, founded by Kwok Tak-seng who passed ownership to his three sons, known as the Kwok Brothers; Henderson Land Development, owned by billionaire Lee Shau-kee and family; New World Development, owned by "jewellery king" Cheng Yu-tung and family; and the Wharf-Wheelock conglomerate, founded by the late shipping magnate Pao Yue-kong who passed ownership of both groups to his son-in-law, Woo Kwong-ching.

These companies are essentially controlled by the respective founding families, whose members own between 40% and 80% of the shares of the listed firms.[i] The ascendance of the property elite in colonial Hong Kong dates back to the late 1940s and early 1950s, when the end of the Second World War and Communist victory in China brought huge waves of immigration into the British-ruled colony and invigorated industrial activities, creating a spike in demand for factories and housing. The companies strategically put the initial wealth accumulated through manufacturing and other industries into land acquisition and property development, and built up significant land reserves by purchasing vast tracts of agricultural land in the rural hinterlands of Hong Kong (Poon, 2011). They also expanded by taking over assets from retreating businesses when the market experienced downturns. The first such window materialized in the late 1960s, when fears of political instability brought on by the Chinese Cultural Revolution caused many British firms to dispose of their land and property assets in distress sales (Goodstadt, 2009; Wong, 2015). The uncertain prospects raised by negotiations over Hong Kong's return to Chinese rule in the early 1980s and the further departure of foreign capital created a second opportune moment for local companies, which the property elites were well-positioned both politically and financially to capitalize on. The high-profile acquisition of Hutchison Whampoa by Li Ka-shing's Cheung Kong in 1979 is a notable example. The acquisition helped Li gain control of one of the city's two largest supermarket chains; and it was through Hutchison that Li subsequently acquired Hong Kong Electric, the company that supplies half the city's electricity. Similar purchases of public utilities and transportation companies were made by other property elites throughout the 1980s. Lee Shau Kee's Henderson, for instance, purchased majority shares in towngas monopoly Hong Kong and China Gas, and later acquired the city's cross-harbour ferry company (see Poon 2011).

The financial strength of Hong Kong's property developers, their identity as ethnic Chinese, and the influence they possessed both with the British colonial leadership and local Hong Kong society, made them ideal partners for the Chinese government. Firstly, these qualities allowed them to act as crucial mediators in a period of political sensitivity when Beijing were in heated negotiations with the British over Hong Kong's political future. In the years leading up to the signing of the Sino-British Joint Declaration of 1984, the document that confirmed the British colony's imminent return to Chinese sovereignty, Beijing made concerted efforts in soliciting the support of the real estate elites (Goodstadt, 2009). Ties between the two sides were further consolidated in the aftermath of the 1989 Tiananmen tragedy, when the central government faced international condemnation for its brutalities towards students and protestors. The incident heightened anxieties in Hong Kong and triggered a wave of emigration, adding to the numbers that had already left the city. The need for elite supporters with high standing within the society caused Beijing to reinforce its commitment in enlisting the property elites as its local partner. Developers' open pronouncement of their confidence in Hong Kong's future was rewarded with political appointments including seats on the Preparatory Committee for the Hong Kong Special Administrative Region, which gave developers a direct role in shaping the post-handover government (Wong, 2015).

The above forms of political cooptation were closely intertwined with broader processes of economic incorporation. The gradual entrenchment of Hong Kong business interests in mainland China and the thickening of economic ties between the two sides had paralleled the consolidation of political partnership. Notably, the invitation to invest in Chinese real estate was extended to Hong Kong developers before the country's formal opening to foreign investment. In 1978, mainland officials approached six developers including the heads of Cheung Kong, Sun Hung Kai, Henderson and New World Development to negotiate an agreement that eventually materialized as the China Hotel, the country's first joint-venture luxury hotel located in Guangzhou (Chen, 2015). Gordon Wu, a Princeton-educated engineer who founded the Hong Kong-based real estate company Hopewell Holdings, oversaw the construction. At around the same time, the Guangzhou government also approached Richard Charles Lee of Hysan Development, another Hong Kong property developer, to negotiate plans for the construction of Guangzhou Garden Hotel (Chen, 2015). Both hotels were opened in the mid-1980s to much fanfare, and reform leader Deng Xiaoping himself inscribed the plaque for Guangzhou Garden Hotel when he conducted his first southern tour in 1984.

As foreign Chinese investors in these early reform years, when the dust was far from settled concerning the debate between the socialist and capitalist paths, Hong Kong developers' ethnic identity provided a convenient cover for the conduction of business deals. The labelling of overseas Chinese investors as “compatriots” helped reform-minded factions in Beijing navigate the apparent conflict between economic pragmatism and ideological symbolism (Smart & Hsu, 2004). The “foreignness” of capitalist investment was mediated by the geopolitical and ethnocultural proximities of Hong Kong. Chinese leaders with pro-business inclinations could open up to “patriotic” foreign capital while still proclaiming ideological adherence to socialism. By producing landmark outcomes such as the China Hotel, Hong Kong developers helped buttress pro-reform forces and played a direct role in precipitating and deepening the liberalization of foreign investment in China. The subsequent ascendance of these pro-reform forces in Chinese politics meant that the property elites were duly rewarded with political connections and further market access. Gordon Wu, for example, became a permanent policy advisor to the State Council and was given a seat on the influential Chinese People’s Political Consultative Conference, chaired by Deng Xiaoping and then his son from 1978 to 1988 (Ye, 2014: 54). Lee Ka-shing established close personal relationships with the son and son-in-law of Deng Xiaoping and the son of then Vice President Yang Shangkun, and built up connections with leaders of state-owned enterprises (Ye, 2014: 54). Given these inroads into the top echelons of power, both developers began the systematic expansion of their investment in China. Gordon Wu branched out to power plant and superhighway construction and earned lucrative rights to develop residential apartments and shopping centres along transportation throughfares. By 1992 the mainland had already eclipsed Hong Kong as Wu’s primary investment, accounting for 60-70% of Hopewell’s portfolio (Baldinger, 1993). Lee Ka-shing similarly focused on infrastructure development and secured many projects for Hutchison Whampoa in building container ports for coastal cities. The extension of such market privileges, in turn, strengthened the political partnership that the two sides have developed as networks of power and accumulation became increasingly intertwined.

Granted preferential access as a result of political considerations and economic pragmatism, Hong Kong's property elite became major beneficiaries of China's further liberalization in the early 1990s. The reform of China's land administration system, which enabled the commercial circulation of urban land use rights towards the formation of an urban real estate market, was just beginning to take effect. The central bank decreased interest rates three times in 1990 and 1991, and the availability of loans spurred an influx of investment in Chinese real estate (Jiang et al, 1998). The amount of realized real estate FDI rose from US$0.5 billion in 1991 to US$3.4 billion in 1992, of which an approximate US$1.5-2.5 billion originated from Hong Kong. Reports of the time noted how Hong Kong developers had signed up for Chinese projects "at a frantic pace", issuing special shares to raise funds and taking money out of projects in Europe and the United States to capitalize on a "window of opportunity that may disappear within a few years" (Ross & Rosen, 1992b). Sun Hung Kai, New World Development and Kerry Properties signed contracts worth a total of US$645 million with Beijing in 1992, while Shanghai and Guangdong province each secured no less than eight agreements with Hong Kong developers. Deals were also successfully concluded, as joint ventures with Chinese companies, with the local governments of Tianjin, Zhejiang, Fujian, Hainan, Shandong and Sichuan. By the end of the year, Hong Kong developers had gained rights to develop an estimated 200 million square feet of land in China (Ross & Rosen, 1992a). Most of these projects were retail, residential, and commercial developments, with several involving the redevelopment of entire districts into modern, mixed-use neighbourhoods.

In July 1997, Hong Kong officially became a Special Administrative Region of the People's Republic of China. With the formal re-incorporation of the breakaway territory into the national landscape, the pattern of interaction developed between the Chinese government and the city's elite in the first decades of reform, which combined political cooptation and economic integration, was consolidated and re-enacted. The logic of re-absorption through the cultivation of vestedness found clearest expression in the signing of the Closer Economic Partnership Arrangement (CEPA), the first Free Trade Agreement between China and Hong Kong, in 2003. CEPA contained provisions that would integrate and bind the city's economy much more tightly with that of the mainland. Designed to lure the financial elite, CEPA granted Hong Kong's service industries effective market access to China's service sector by lowering entry thresholds. Specifically, it extended special treatment to the real estate sector in two important ways (Hong Kong Trade and Development Council [HKTDC], 2003b): First, Hong Kong developers could now set up wholly-owned holding companies to manage their assets in China, without being required to set up a joint venture for each mainland project. This freedom to choose between sole ownership and equity joint venture and the eased restrictions on direct capital flow significantly lowered development costs. Second, CEPA allowed property-related service providers to enter the mainland market. This facilitated Hong Kong developers' operation as complete industry chains, as architecture and design firms that developers have a working relationship with could now enter the mainland.

The extension of preferential treatment through CEPA further entrenched the dominance of Hong Kong real estate capital among foreign investors. A week after the signing of CEPA, over ten major developers were invited for a group visit to Shanghai where they met with local leaders and negotiated a combined investment of 25 billion yuan in the municipality (HKTDC, 2003b). Unfavourable market conditions at home due to the outbreak of the Severe Acute Respiratory syndrome further motivated Hong Kong's property elites to revise their corporate strategy and shift investments northwards. The Wharf-Wheelock group, for example, made high-profile acquisitions of twelve land sites in Chengdu, Hangzhou, Suzhou, Chongqing, Nanjing, Changzhou and Wuxi in 2007 and 2008, and invested a further 30 billion yuan from 2009 to 2012 to secure another 34 plots of land for residential and commercial development (Peng, 2014). By the 2010s, many of the developers have built up significant reserves of developed and developable land in China through successful acquisitions. The most established amongst them is New World Development, which, through its mainland property flagship New World China Land, boasts an investment portfolio of 27.5 million square meters in gross floor area spread across 21 cities and regions. Cheung Kong, Henderson, Wharf-Wheelock and Shui On each possesses 11 to 15 million square meters of land reserve, while Sun Hung Kai operates a land bank of 7.5 million square meters in mainland China, double the amount of land the company has in Hong Kong (see Table 1).

Hong Kong-based Company	**Market capitalization (HK$)**	**Land bank in mainland China (sq. m.)**
Sun Hung Kai Properties	363,657,282,313	7.58 million
Cheung Kong Property Holdings	246,440,472,225	14.7 million
Henderson Land Development	176,074,905,952	11.7 million (in gross floor area)
The Wharf (Holdings)	157,916,523,737	11.1 million
Hang Lung Properties	104,511,583,111	20 million
New World Development	91,210,574,557	24.7 million (in gross floor area)
Sino Land	78,990,950,347	2.24 million
Chinese Estates Holdings	55,511,715,199	1.3 million
Kerry Properties	43,807,474,208	4 million
Shui On	18,059,917,925	12.3 million
K. Wah International Holdings	11,845,405,648	2 million

Lai Sun Development	3,878,244,978	1 million

Table 1. List of select Hong Kong developers and their land reserve in mainland China. Source: Compilation from company reports and newspaper articles.

The account of Hong Kong real estate investment in China presented in this section demonstrates the centrality of politics in explaining the apparent dominance of property capital from the former British colony in comparison to investment from other regions. It highlights the importance of considering the transborder capital flows in question within broader political and economic frameworks, which in the extant case are structured by the Chinese project of national sovereignty. The city's property elite constitutes a special kind of foreign investors not just in the sense that they are ethnic Chinese, as are other diasporic entrepreneurs, but more importantly because they represent a body politic with unique political status in China's sovereign landscape. Beijing's granting of preferential treatment to Hong Kong developers should thus be understood as part and parcel of its "zoning strategy" aimed at generating the conditions for eventual political integration through the overlapping of political and economic zones (Ong, 2004).

The local political economy of real estate investment

While political and economic considerations at the national level have shaped and structured the broader currents of capital flows, it is local governments on the ground to which such investments have accrued and with whom foreign developers have actively cooperated. As a result of these joint partnerships with subnational actors, foreign capital has participated in the remaking of both urban and rural landscapes in post-socialist China. The remaining two sections of this paper focuses attention on the local politics of foreign real estate investment and its impact. Real estate FDI from Hong

Kong has been directed predominantly to first and second-tier cities in the coastal area, but increasingly it has deepened its territorial reach inland. The activism of local governments in attracting foreign capital is a direct product of the decentralization of administrative and fiscal authority in the reform era, which has enhanced the agential role of local governments in urban development and created local economies dependent on land-derived revenues.

To begin with, the downward transfer of power has given local governments greater autonomy in overseeing infrastructural construction and planning territorial development. With the implementation of new policies such as the City Planning Act in 1989, local governments gained the authority to supervise land development projects as well as the power to grant planning permissions (Yeh & Wu, 1999). Financially, local governments were empowered by the opening up of the economy to FDI and Beijing's decision to allow local authorities to set up financing platforms for fund raising. Reform of the land management system further opened up an entirely new stream of revenue for municipal coffers. The introduction of a market track created a nascent leasehold market, in which commercial users could now purchase the use rights of urban land from the state by paying conveyance, a rental fee. Because local governments are the designated representatives of state ownership for the land under their jurisdiction, they collect rent in their capacity as proprietor and manager and as such become the largest beneficiary of the commodification of land. The activism of municipal leaders in auctioning off premium land in cities helped engineer the real estate boom of 1992-3. Revenue from urban land leasehold sale generated an accumulated total of 50 billion yuan by the end of 1992 and 123 billion yuan by 1993 (Chan, 1997).

This land-centered mechanism of bolstering municipal finances became imperative for many cities after the 1994 tax reform, which significantly reduced local budgetary revenues (Chung, 2001; Yang, 2006). Local governments had to finance expenditures by turning to off-budget sources, in which land conveyance fee often made up a single most important revenue source (Fan, 1998; Wong, 1998). The reliance on land rents intensified competition between cities as the ability to attract investment became crucial to a locale's financial viability. The logic underlying such a land-dependent economy initiates dynamics that are both cumulative and self-reinforcing: The more attractive and business-friendly the city is, the more able it is to attract foreign capital, the higher the price land and property will be valuated, the more revenue for governments and developers, and the more that can be re-invested into making the city attractive for investment. Over the course of the 1990s and 2000s, a distinct turn towards urban entrepreneurialism could be observed in China's first- and second-tier cities. The rise of pro-growth economic considerations in political thinking, as characteristic of the entrepreneurial city, has brought about closer cooperative relations between local bureaucracies and enterprises and foreign capital, who share similar interests in the maximization of land rents (Hubbard & Hall, 1998; Zhu, 1999; Zhang, 2002; Wu, 2003).

For local governments, cooperation with foreign developers offers financial resources, technical expertise, and reputational prestige. In this respect, Hong Kong real estate investment fits into conventional characterization of foreign investment as boosting local economies. Compared with their mainland counterparts, Hong Kong developers possess the advantage of being able to raise a large amount of capital within a short period of time, a fact that cash-strapped local governments might find particularly attractive (Wu, 2000). The ability to secure contracts with Hong Kong developers also improves other foreign investors' confidence in the city and helps accumulate further investment. In terms of expertise and prestige, property capital from the city is seen as a vehicle of modernization and internationalization that matches the needs and territorial ambitions of local officials in constructing world-class urban landscapes. In the reform era, the production of international spaces such as central business districts, convention halls and towering skyscrapers has become the most visible forms of political achievement municipal leaders could hope to demonstrate.

A survey of the kinds of collaboration between local governments and foreign developers reflects such prerogatives. One such kind is the construction of modern infrastructure. Packaged investments in the form of infrastructure-plus-property megaprojects are popular among local governments, in which Hong Kong developers help build ports, highways, bridges and rail links in return for the rights to develop land sites that neighbour such value-adding constructions. Aside from early pioneers of this model such as Hopewell and Cheung Kong, a more recent example can be found in the rail-plus-property model promoted by Hong Kong's Mass Transit Railway Corporation. Exporting a formula that has been immensely successful in Hong Kong, the Corporation secured the right to develop luxury housing estates along a rail link it built in Shenzhen in 2011 as well as the use right to 278,650 square meters of land in Tianjin atop Beiyunhe station in 2013.

Large-scale redevelopment projects have also been popular in these joint partnerships. Urban redevelopment in China has evolved from a welfare-oriented policy of reconstructing old and dilapidated houses for low-income households to a profit-oriented enterprise that involves entrepreneurial leaders and enthusiastic investors. It is a lucrative undertaking as the demolition of old neighbourhoods and the creation of high-value, high-density spaces on their site allow officials and developers to realize and capitalize the enhanced ground rent (Smith, 1996). Among Hong Kong developers active on the mainland, Shui On is best known for pioneering the property-led redevelopment model with its Xintiandi project in Shanghai, a commercial and recreational development based on the refurbishment of historical architecture (see He & Wu, 2005). In the 1990s, it made headlines for undertaking the most efficient large-scale eviction in its successful relocation of 3,800 households within 43 days (Zhou, June 3, 2013). The developer has subsequently replicated the same model of public-private partnership in Chongqing, Wuhan, Dalian and Foshan, completing four megaprojects under its successful Tiandi brand.

Redevelopment has also involved the remaking of rural landscapes. Because rural land is collectively owned, local governments often act as a crucial go-between in making the necessary introductions to link up foreign developers, who would otherwise lack such local contacts, with village power holders. By providing such connections, local governments play its part not just as an indispensable intermediary but also as the maker and authorizer of land development deals. Hong Kong developers have been active in rural redevelopment projects in Pearl River Delta cities such as Guangzhou, where they enjoy a relatively established presence. Sun Hung Kai and Hopewell are both involved, through the brokerage of the district government, in the redevelopment of Liede, a rural community situated in Guangzhou's new financial district. Sun Hung Kai also reached a deal with the cadres of Linhe to demolish and rebuild the centrally located village, which spans 65,000 square meters, into a commercial-residential neighbourhood. Given the considerable rent gap, the redevelopment of villages often yields rich financial rewards that are shared primarily between rural cadres, local governments, and property developers. As shall be discussed in the next section, the disruptive impact redevelopment effects upon resident communities and the often unequal distributive outcomes engendered have made it an increasingly controversial undertaking.

Local cultural politics and responses to foreign real estate investment

The deepening engagement of Hong Kong real estate capital in mainland China has raised the visibility of foreign developers and increased public scrutiny of their activities. The growth in public concern has paralleled the intensification of urban development and its increasingly visible impact on local livelihoods, from the continuous rise in housing prices to the destruction of indigenous cultural landscapes. While Hong Kong capital is certainly not alone in precipitating such changes, given its limited role in Chinese urban real estate in comparison to domestic developers, its very foreignness engenders a distinct cultural dimension. The literature has discussed the salience of local parochialism and how such protectionist cultural politics may lead to characterisation of foreign investment as invasive (Rogers & Dufty-Jones, forthcoming 2015). Overseas developers, for example, have had to deal with nationalistic sentiments against foreign capital's control of China's land, especially in landmark projects of political significance (Hsing, 2006). This parochial dimension, in contrast to the cultural politics of ethnic identity which appears to mediate difference, has rather drawn attention to the foreignness of Hong Kong developers.

Hong Kong developers have been at the centre of public criticism over the strategy of stockpiling land, which has been blamed for home prices increases. Stockpiling land involves a so-called "buy low, sell high" approach that builds up land reserves while waiting for land prices to go up. Having obtained the use right, land parcels were deliberately left idle or were developed at an extremely slow pace to enable speculation on future price increases. Accumulated land stocks can be used as collateral to obtain bank loans or as valuable assets to boost share prices of listed companies, which in turn generates additional capital for further investment (Wang, 2011). The phenomenon has the effect of driving home prices up as it reduces the supply of land. A research conducted by the financial research centre of Beijing Normal University estimates that a 70-percent increase in housing prices could be attributed to the phenomenon of land hoarding (Wu, December 5, 2007). It is estimated that over 70 percent of China's idle land has been designated for residential use. The increase in housing costs in turn feeds into the perverse incentives of local governments in maintaining a measure of scarcity in order to generate high land premiums. The lucrative income local governments receive from leasing land further reduces their willingness to assign land for the construction of affordable housing, which is to be allocated free of charge (Wang, 2011).

Although the Ministry of Land and Resources has made repeated attempts to crack down on the practice since the mid-1990s, implementation on the ground has been tenuous and ineffectual.[ii] Local governments have low incentive in disciplining developers as this might jeopardize investors' relations and reduce investment inflows. According to a Guangdong official, governments are wary of challenging developers, especially established ones that invest not only in real estate but also in infrastructure and logistics, as this would have an adverse impact on local revenues (Liu, 2014). Pleasing investors aside, local governments actually stand to benefit from the scarcity of land and rising urban property prices as this directly translates into higher land-granting premiums to be collected by them. Between 1999 and 2007, the gross premium collected by local governments increased from 51.4 billion yuan to 913 billion yuan (Wang, 2011). This money is often put into new urban megaprojects that would bring both financial and political rewards for city leaders. Mutual profitability and aligned interests mean that local governments often work with developers to circumvent national regulations. Because it is often difficult to distinguish between deliberate land hoarding and delays caused by administrative reasons, developers could place the responsibility on local governments, who could then shift the blame to a variety of bureaucratic issues such as changes in urban plans and delays in negotiations with evictees. The unlikelihood that local leaders could be held accountable for their active or passive complicity further mitigates the risks associated with partial enforcement.

Predicting that land and property prices have much growth potential in the mainland market, Hong Kong developers have made extensive acquisitions of Chinese land in the 1990s and 2000s. Some of these sites have been left idle. New World China Land, the Hong Kong developer with the most established presence, has a land reserve of 27.5 million square meters in gross floor area. Completed properties accounts for only 2.5 million square meters in the developer's investment portfolio, while 24.7 million square meters are said to be under development or held for future development.[iii] As public discontent over rising home prices grows, Hong Kong developers have been subject to tight scrutiny. While the employment of the tactic of stockpiling land is not unique to Hong Kong developers, their status as foreign investors has raised the profile of and heightened the sensitivity surrounding cases of their corporate malpractice. The Cheung Kong group, for example, has been criticized for its practice of leaving land sites undeveloped for years or even a decade, and its tactic of breaking down a single project into multiple phases that each took years to complete. It has been reported that the group acquired over 200 square meters of land in Zengcheng in 2005, but the groundbreaking ceremony did not take place until 2011 (Liu, 2014). Similarly, Sun Hung Kai's Shanghai Arch project was much criticized by the industry and dubbed a "marathon construction project". The company acquired the site in 2005 and allegedly left it idle for four years. Construction commenced in 2009, and sales only began in the first half of 2012. The rise in property prices during this seven-year development cycle earned Sun Hung Kai a profit margin of almost 100% (HKTDC, 2012). The perceived association of Hong Kong developers with the modus operandi of buying low and selling high has become so entrenched that the mainland press makes ironic references to the "Hong Kong model of stockpiling land to plant gold" (*Zhongguo Jingying Bao*, 2012). China Central Television, the country's national broadcaster, has openly criticized one Hong Kong developer for "blatant land hoarding" (*Ming Pao*, November 19, 2009). The popular news portal *Wangyi* even created a special web feature on the stockpiling practices of the "four kings" of Hong Kong developers, with interactive maps marking projects suspected of land hoarding by Cheung Kong, Sun Hung Kai, New World and Henderson.[iv]

To rein in hoarding behaviour, the Ministry of Land and Resources launched a nationwide campaign in 2010 to enforce discipline across the industry. Residential prices in 70 major cities jumped 10.7 percent in February 2010 from a year ago, while some 10,000 hectares of land was being left idle as of the end of 2009 (Ng, 2010). In March, the Beijing bureau of Land and Resources made an example of a Hong Kong developer for violating rules on the disposal of idle land. It imposed a punitive fine of one percent of the land grant premium on Pacific Century Premium Developments for leaving an acquired site idle. According to reports, the developer obtained the use rights of a land parcel in the Chaoyang district of Beijing in 2005 by paying 510 million yuan in premium. Instead of proceeding with development, the land was kept in reserve and subsequently sold to another Hong Kong developer, Shui On, at about 806 million yuan in 2009. The transaction generated some 230 million yuan in pre-tax profits for Pacific Century Premium Developments, the property arm of a company chaired by Li Ka-shing's son, Richard Li (Ng, 2010). The developer was further prohibited from making new land purchases in the capital city. This high-profile move targeting a foreign developer was widely circulated within the mainland press and interpreted as a sign of Beijing's resolve to curb increases in housing costs. Given the prevalence of the corporate practice, it is notable that Beijing has chosen a Hong Kong developer to showcase its commitment to the social goal of housing affordability. Closely following the incident, the government rolled out an action plan (Document No. 34) that tightened rules on idle land and increased the responsibility of local governments in supervising all development projects.[v] The actual effect of such rules, nonetheless, has thus far been debatable as they fail to correct incentive structures. Developers banned from leasing land in one city could shift their investment to another where rules are less stringently enforced, or continue doing so through other subsidiaries. As long as local governments are keen to attract foreign real estate investment, it is unlikely that central mandates will be strictly implemented.

Aside from being seen as contributing to the decline in housing affordability, real estate investment from Hong Kong has also become embroiled in controversies surrounding property rights and heritage preservation. As the recent literature on property rights activism and rising rights consciousness in China demonstrates, public opinion and societal forces are playing an increasingly significant role in shaping popular discourses about development and urbanization in China. Mainland civil society is beginning to question the singular focus on growth and challenge the legitimacy of undertaking large-scale demolition and forced evictions in the name of development. The kind of property-led redevelopment that Hong Kong developers have applied in the remaking of many neighbourhoods in Chinese cities has thus come under increased scrutiny. *Nanfang Metropolis Daily*, a liberal-leaning newspaper, has criticized Shui On for its "outdated" model of profit-driven redevelopment that "leaves no room for the representation of indigenous residents' rights" (Zhou, June 8, 2013). The paper accused local governments of their active complicity as “champions of the interests of real estate developers” in their desire to create political achievements for themselves (Zhou, June 8, 2013). The growth in public concern over the rapid loss of cultural heritage has also animated resistance to development. Hong Kong developer Lai Fung was pulled into a controversy in 2013 when its mainland subsidiary was charged with the unauthorized demolition of two historical buildings in Guangzhou (Li & Ng, June, 17, 2013). This destruction of indigenous cultural landscape caused immediate public outcry. A local newspaper printed an angry editorial condemning the demolition as representative of the “abnormal expansion of the power of real estate” and the hijacking of public policy making by property interests (Zhou, June 15, 2013). The developer, as the local news was quick to point out, was then chaired by the chief of the Hong Kong Tourism Board. Public pressure prompted the local government to deal out punitive measures, and the company was forced to issue a public apology. As in the case of land hoarding, these incidents are by no means exclusive to developers from Hong Kong. Nonetheless, the nationalistic trope of foreigner’s control over China’s land or the expansion of foreign capital interests at the expense of local welfare may have particular resonance amongst the local population in these cases of perceived misbehaviour, one that mainland civil society and the commercial press will find profitable to employ in their reaction toward what is seen as collusion and the erosion of rights.

Conclusion

If the particular brand of foreignness that Hong Kong property capital embodies, exported under the trope of compatriotism in the early reform years, has facilitated its entry into Chinese real estate and given it distinct advantages over other foreign investors, recent developments presented in the previous section serve as a poignant reminder that the meaning of foreignness is socially constructed and therefore fluid and open to re-interpretation. In the first two decades of reform, when China was navigating its path toward the development of a market economy, developers from Hong Kong were welcomed by reform leaders as compatriots contributing to China's modernization. Their mediated foreignness, as a result of ethnic and cultural ties, gave them privileged access to the Chinese real estate market that is not available to other foreign investors. The growing entrenchment of their economic interests in China was also seen as desirable by the Chinese government, whose political project of national re-unification has sought to combine elite cooptation with economic integration. At the subnational level, the foreignness of Hong Kong investment is desired by local governments for its reputational value. Its symbolism of modernity and internationalism generates both political and financial returns in the creation of valorized urban landscapes that attract further property investment, with lucrative outcomes for both state and capital. But if Hong Kong capital has been seen as agents of modernization or mediators of urban China's transition to transnational metropolises, it has also contributed to engendering geographies of separation and the creative destruction of rural and cultural landscapes. As socioeconomic goals such as housing affordability and alternative ideals such as historical preservation come to the foreground of local politics, the profitable arrangements between local governments and foreign developers that are based on the extraction of land rents have come under increasing scrutiny. In the last section we find instances where foreignness becomes a focal point for the organization and mobilization of public discontent.

Looking ahead, the state of Hong Kong real estate investment in China will continue to be shaped by the confluence of political, economic and cultural factors identified. Continuing state concerns over profiteering and speculative activities, and the need for the Chinese leadership to shore up legitimacy through the implementation of welfare-oriented policies such as affordable housing, mean that real estate will remain one of the most stringently regulated sectors. No less than ten pieces of legislation were imposed between 2006-7 that aimed at cooling the overheated market, as concerns over the adverse effects of unchecked foreign investment and speculation grew (see He & Zhu, 2010). These legislations have made it much more costly and difficult for foreign investment to enter China's market. Foreign developers also face intensifying competition from China's own developers as the mainland real estate industry matures. It is not rare for local governments to accord partial treatment to domestic developers, who are backed by powerful ministries and bureaucracies within the Chinese state, and privilege them in negotiations for well-located land (Hsing, 2006). Finally, local governments and both domestic and foreign developers alike can expect to be subject to strengthened public supervision concerning urban development projects. As the land-centred model of growth receives increasing scrutiny within the wider society, the sustainability of the current mode of cooperation between local governments and developers also comes under challenge. How, and whether, the increase in public discussions and the rise in public discontent will bring forth a shift in state-capital relations will have important implications not just on the future of foreign real estate investment in China but also the well-being of the Chinese society.

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Notes

[i] See the Global Family Business Index compiled by the Center for Family Business at the University of St. Gallen, Switzerland, in cooperation with EY's Global Family Business Center of Excellence, http://familybusinessindex.com/#table-info

[ii] In 1999, the Ministry introduced *Rules on the Disposal of Idle Land* to prohibit developers from stockpiling land without commencing development. Measures introduced in 2005 gave local governments the power to take action on land parcels left idle for two years, and a State Council notice issued in 2008 further granted local governments the authority to impose tax, of 20 percent of land grant premium, on sites left idle for a year, as well as the power to seize lots left idle for two years without compensating the developer.

[iii] See the corporate profile of New World China Land, updated as of December 31, 2014, at http://www.nwcl.com.hk/html/eng/corporate/nwcl_intro.aspx

[iv] See the interactive news webpage at http://gz.house.163.com/special/gz_gztd/

[v] Document No. 34 obligates land and resources bureaus at all levels to closely monitor the development progress of land parcels under its jurisdiction. Provincial-level departments are made responsible for reporting cases of idle land to financial regulators at the same level (Article 9). The policy tightening of 2010 culminated in the release of a revised *Rules on the Disposal of Idle Land*, which came into effect in 2012. The new amendments formally incorporated the aforementioned measures and corrected loopholes in the 1999 version by refining the definition of idle land, specifying the procedures by which idle land should be determined and disposed of, and clarifying the responsibilities of the local government in enforcing the provisions. Local officials may face civil or even criminal liabilities should they fail their obligations in checking intentional land hoarding.