

Impacts of WTO Admission on Chinese Real Estate Prices

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Abstract

This paper attempts to give a preliminary study of the impacts on real estate prices in China following her admission to the World Trade Organisation (WTO). China was formally admitted to the WTO in November 2001. Prior to China's admission the WTO, end users, investors, researchers and practitioners in China were very concerned about the likely impacts on the Chinese real estate market, in particular, the impacts on real estate prices. A number of articles have been written in China about this issue.

It is interesting to find out the actual impacts on prices experienced by the Chinese real estate market since the WTO entry. In this paper, Shanghai and Hangzhou are the study areas. The research finds that real estate prices in these two study areas have been performing well before and after the WTO entry. There is no clear evidence to show prices changes due to the impacts of WTO membership.

Keywords

WTO, Chinese real estate market, foreign investments, impacts

Introduction

China formally became a WTO member in November 2001. The WTO membership is very important to China and the rest of the world. On the one hand, it opens up the world market to China; on the other hand it also opens up the Chinese market to the outside world. The impacts of WTO treaties will no doubt affect all sectors of the Chinese market including the real estate sector.

Since the historic auction sale of Land Use Rights (LURs) in Shenzhen in December 1987, the Chinese real estate market was revived (Chan, 1999). Subsequently there has been rapid development in the real estate market. So far, the market is mainly dominated by Mainland Chinese players for cultural, legal and political reasons. At the end of 2001, there were about 30,000 property firms in China. About 3,000 were Hong Kong, Macau and Taiwanese firms, and only about 1,000 were foreign firms (China Statistical Yearbook, 2002). This market dominance is facing great challenges following China's admission to the WTO.

Under the WTO accession protocol, China has obligations to remove trade barriers and obstacles and to give foreign firms and investors national treatment. To the Chinese market players, it means their dominance and interest are under threat. The opening of the Chinese market to foreign investors also means more demand for real estate floor space. On the other hand, the entry of foreign investors into the Chinese real estate market will bring along more supply and promote competitions with local market players. Real estate prices may thus be subject to great impacts. There have been a number of articles on the likely impacts brought about by the WTO membership. There are positive and negative views in this regard.

This paper reports these concerns and aims at carrying out a preliminary study to find out if there is evidence to show that significant impacts on the real estate prices have been brought

about by the WTO membership. At the time of writing this paper, systematic market data for 2003 are unavailable. So 2002 is chosen for the period of the study. As it is impossible to carry out an analysis of all market data of China in this paper, two cities, Hangzhou and Shanghai, are used for case study. Assuming WTO impacts are experienced more by economically well-developed cities, the findings from Shanghai and Hangzhou real estate markets may provide a snapshot of the condition in the whole country.

Concerns of WTO impacts on the Chinese real estate prices

In China, there have been a lot of concerns about the likely impacts of WTO on real estate prices. The general view is that the WTO accession will attract a large number of investors to China and the status quo of the property market will certainly be affected. Under the protocol on WTO accession, China has agreed to a number of commitments. The majority of the agreements are about regulating government behaviours such as the removal of discrimination against foreign investors, reducing trade barriers, allowing fair competitions, and increasing transparency in government regulations and policies (Chen & Fu, 2002), only two of the agreements concern enterprises (Han, 2001).

There have been a lot of speculations about changes in real estate prices after China's admission to the WTO. Prior to the entry to the WTO, a relevant survey was conducted in Beijing. About 30% of the respondents believed that real estate prices would fall; about 13% believed that prices would rise; about 27% believed that prices would remain unchanged, while the rest 30% had no idea (Li, 2001).

A number of articles about the possible real estate price changes have been published in China both before and after the WTO admission. The views can be broadly divided into two camps – price fall and price rise.

Price fall camp

In this camp, reasons for price fall include:

1. Lower building material and installation costs

Following WTO entry, China will open its market for imported goods, including high quality and low cost building materials and installations. The Ministry of Construction in China expects that more and more foreign building material manufacturers will go to China to take up market shares and more foreign building materials will be used in China (People's Daily, 2001). In the above Beijing survey, about one third of the respondents believed that the main reason for a fall in real estate prices was caused by the import of building materials and installations. This view is also shared by the authors of a number of articles (Century 21 China, 2001, Real Estate Market 2001, Real Estate News, 2001, Wang, 2002, etc.).

2. Import of advanced building technology and innovative design concepts

At present, the costs of construction and installations are about 30 – 35% of real estate prices (Zhang 2001). As the existing building technology in China is relatively backward and inefficient, it is difficult for these costs to come down. After WTO entry, foreign investors are expected to bring new design concept, advanced and more efficient building technology into China. This helps lower real estate prices (Wang, 2002, Real Estate News, 2001, Real Estate Market 2001).

3. Increase in competition

The American Chamber of Commerce in China believes that China will ultimately be the world's largest real estate market after WTO entry (AmCham, 2002). Overseas real estate investors are very interested in getting market shares in the country. For example, housing developer Hines Limited Interests Partnership in the US has passed the Chinese government's assessment and become the first overseas developer awarded with "AAA" title (Peoples' Daily, 2003b). Following the entry of foreign real estate developers into China, supply of real

estate is expected to increase and prices may fall due to competition.

4. Removal of unreasonable taxes and charges

In China, property developments are subject to a number of taxes and levies. Zhang (2001) pointed out that there used to be more than 200 real estate taxes and levies in China. A lot of these taxes and levies are unreasonable. Very often, the amount payable for charges is higher than taxes. Since charges are not included in the budget of relevant government departments, the charges become extra revenues outside the budget of the departments (Zhang, 2001). The central government understands the seriousness of the problems and has tried to reduce the number of taxes and levies since 1996 (Jia, 2001). Today, despite the central government's efforts, there are still around 100 relevant taxes and levies in China.

Apart from the problems of taxes and levies, import tariffs in China are also problematic because they are among the highest in the world. The high tariffs increase the costs of using foreign building materials (Century 21 China, 2001). No doubt, the consumers will be the ultimate party to bear the costs.

The WTO accession protocol requires the Chinese government to take steps to remove the unreasonable taxes and charges, and to lower import duties (ChinaBig Yellow Pages, 2002). It can be foreseen that the cost of import building materials will be lowered and real estate prices may fall as a result (Century 21 China, 2001, Shen, 2002).

5. Increasing transparency and fairness in land procurement

The majority of Chinese real estate firms have official background and enjoyed preferential treatments from the government. Market prices of real estate are often distorted due to the lack of fair competition (Chan, 1999). The American Chamber of Commerce in China has identified “[i]nconsistent and sometimes biased application of laws, regulations, and standards results in discriminatory treatment of foreign investors and traders” to be main problems of the Chinese legal and regulatory environment (AmCham, 2002).

According to the WTO agreements, China will implement “systematic reforms designed to establish a more transparent and predictable regime for business dealings” (ChinaBig Yellow Pages, 2002). Regarding land sales, the Chinese government has taken action to phase out dealing by private treaties. Public auctions of land use rights (LURs) have become a mandatory means in assigning commercial land use in 16 Chinese provinces and regions, such as Guangdong, Zhejiang, Jiangsu and Heilongjiang provinces (People's Daily, 2002). Real estate firms, domestic and foreign alike, will have to bid for land on equal footings.

Price rise camp

People in this camp believe that prices are expected to rise because of the increase in demand due to influx of foreigners. Following China's WTO entry, there will be increase in demand for top quality commercial, industrial and residential properties from foreign firms and existing firms that need to expand (Century 21 China, 2001).

One of the WTO agreements requires China to give national treatment to foreign investors. In this regard, the boundary between “domestic sale” housing and “foreign sale” housing has to be removed. Shanghai had taken the lead to abolish the boundary on 1 August 2001 (Yang, 2002). Beijing followed suit to remove the boundary on 20 November 2001 (Real Estate Market, 2001). As a result, a portion of housing for Chinese nationals will be sold to foreigners (Zhongwai Real Estate Report, 2002). The higher demand for housing originally reserved from Chinese nationals will increase the prices.

The facts

China's economy has been booming in recent years. Her economic performance is summarised in Table 1.

Table 1 Economic performance in China

China	1997	1998	1999	2000	2001	2002	2003f
Economic Growth (%)	8.8	7.8	7.1	8.0	7.3	8.0	7.0
Inflation (yr av, %)	2.8	-0.8	-1.5	0.3	0.7	-0.8	0.5
Budget Balance (% of GDP)	-0.8	-1.2	-2.1	-2.8	-2.6	-3.0	-3.2
Current Account (% of GDP)	4.1	3.3	2.1	1.9	1.5	2.9	0.9
External Debt (US\$bn)	147	144	152	146	170	181	202
Ext Debt/GDP Ratio (%)	16.2	15.1	15.2	13.5	14.3	14.7	14.5
Ext Debt/Exports Ratio (%)	67.4	67.5	66.2	49.8	54.9	48.4	47.0
Short Term Debt/Reserves (%)	22.0	11.6	9.6	7.8	20.4	18.0	
Debt Service Ratio (Paid) (%)	8.5	8.6	11.7	9.3	7.8	5.2	4.7
Debt Service Ratio (Due) (%)	8.5	8.6	11.7	9.3	7.8	5.2	4.9
Foreign Exchange Reserves (US\$bn)	143	149	158	168	216	291	321*

*March 2002

Source: IMF, Economist Intelligent Unit, ANZ Bank, ANZ Country Update, 2 July 2003

WTO accession is no doubt beneficial to the Chinese economy. In 2002, China received more than US\$52.7 billion foreign investment. For the first time she surpassed the USA to become the No. 1 country in the world in attracting foreign funds (People's Daily, 2003a). Regarding the impacts of WTO entry on real estate prices, Shanghai and Hangzhou are used for case study.

Shanghai is the largest city in China. It has a total area of about 6,340km² and a city area of about 5,300km². The population is over 13 million. The per capita GDP in 2001 was US\$4,500, which is expected to rise to US\$7,500 by 2007 (Shanghai City Statistic Bureau, 2003). Hangzhou is the provincial city of Zhejiang Province. It is about 2 hours' drive south of Shanghai. It has a total area of about 16,600km² and a city area of about 3,100km². The population is about 6.3 million. The per capita GDP at the end of 2001 was US\$3,845, which is expected to rise to US\$4,000 by 2005 (Statistic Information of Hangzhou, 2003).

Shanghai is generally regarded as the locomotive of economy in China. Hangzhou, despite being a secondary city to Shanghai, is the capital city of Zhejiang province that has been enjoying double-digit annual economic growth for the past 11 years. Its per capita GDP is one of the highest in China. In this study, it is assumed that the impacts of WTO accession are experienced more in economically well-developed cities than backward cities. The findings of changes in real estate prices in these two cities will provide an indication of WTO impacts on the real estate market in China.

Shanghai market

The Shanghai real estate market has been growing at high speed in recent years. Table 2 shows the amount of LURs assignments in Shanghai in recent years. It can be seen that prior to WTO entry in November 2001, the land area of LURs assigned had been rising sharply from 12.45 million m² in 1995 to 52.28 million m² in 2001. The amount of LURs assigned was in line with the good economy depicted in Table 1.

2002 was the year following China's WTO accession. In this year, although the number of lots sold was reduced, the land area involved was a substantial rise from 52.28 million m² to 67.29 million m² (a 28.71% change). Regarding permitted building area, there was an increase in the commercial and industrial sectors. In contrast, there was a decrease in the residential and office sectors. This may be due to the government's policy to regulate the heated residential and office market and that the government favours more commercial and industrial development. The percentage change in total permitted building area in 2001/2002

does not show that the Shanghai government has substantially raised the land supply to meet the likely rise in real estate demand due to WTO accession.

Table 2 Shanghai LURs Assignments (area in million m²)

Item	1995	2000	2001	2002	% change 2001/2002
Number of lots	499	1325	1981	1621	-18.17
Land area	12.45	21.83	52.28	67.29	28.71
Total permitted building area	13.43	35.02	58.77	59.77	1.70
Residential	7.21	18.68	37.29	33.93	-9.01
Office	1.67	0.44	6.73	4.97	-26.15
Commercial	0.01	0.93	2.03	2.77	36.45
Industrial	4.24	14.17	11.27	17.17	52.35
Others	0.30	0.80	1.45	0.93	-35.86

Source: Table 6.13, Shanghai Statistical Yearbook 2003

Tables 3 and 4 below show the amount of real estate investment, the floor space under construction and completed in Shanghai in recent years. Since 1995 there has been double-digit percentage increment in the total amount of real estate investment. In 2002, the first year after WTO entry, investment had increased in residential and office sectors but decreased in commercial and other sectors. It highlights that investors were more confident in residential and office developments despite the government's action to reduce land supply in these two sectors.

Table 3 Shanghai real estate investment (billion Rmb)

Item	1995	2000	2001	2002	% change 2001/2002
Total investment	46.62	56.62	63.07	74.89	18.76
Residential	28.04	40.88	43.92	56.78	29.28
Office	8.17	5.75	2.63	3.35	27.38
Commercial	3.24	5.15	6.27	6.25	-0.32
Others	7.17	4.84	10.27	8.51	-17.14

Source: Table 6.15, Shanghai Statistical Yearbook 2003

Regarding the overall floor space under construction, the increase between 1995 and 2001 was fairly consistent. The bigger jump in 2002 may probably be stimulated by the WTO factors. In 2002, there was over 10% growth in the amount of floor space completed and value of building completed. The WTO factors may not be the driving force because real estate development period often spans over several years. There may not be sufficient foreign participation in one year after WTO entry to cause the double-digit rise.

Table 4 Shanghai real estate development & completed value

Item	1995	2000	2001	2002	% change 2001/2002
Floor space under construction (million m²)	50.75	55.23	59.86	68.57	14.55
Residential	38.43	42.64	48.42	57.27	18.28
Office	6.35	5.15	3.63	3.12	-14.05
Commercial	2.75	4.38	4.23	4.33	2.36
Others	3.22	3.06	3.58	3.85	7.54
Floor space completed (million m²)	7.00	16.44	17.91	19.85	10.83
Residential	5.30	13.88	15.24	17.08	12.07
Office	0.31	0.96	0.62	0.55	-11.29

Commercial	0.51	1.00	1.14	1.28	12.28
Others	0.89	0.60	0.91	0.94	3.30
Value of buildings completed (billion Rmb)	10.26	35.58	37.94	42.36	11.65
Residential	7.22	27.03	29.86	33.88	13.46
Office	0.95	4.54	2.72	2.30	15.44
Commercial	0.79	2.43	3.08	4.05	31.49
Others	1.30	1.58	2.28	2.13	-2.29

Source: Table 6.16, Shanghai Statistical Yearbook 2003

There had been speculation that construction cost would fall after WTO accession. However, this view is not supported by evidence. Table 5 shows the average construction cost in Shanghai in recent years. The last column shows that while there was a fall in the construction cost in office and other sectors. However, there was also an increase in the construction cost in residential and commercial sectors. A falling trend of construction cost across the board has not yet been established.

Table 5 Average construction cost (Rmb/m²)

Item	1995	2000	2001	2002	% change 2001/2002
Residential	1363	1947	1959	1983	1.23
Office	3075	4733	4377	4205	-3.93
Commercial	1552	2425	2712	3165	16.70
Others	1458	2654	2488	2270	-8.76

Source: Table 6.16, Shanghai Statistical Yearbook 2003

As far as real estate prices are concerned, there are also mixed signals as shown in Table 6.

Table 6 Shanghai average real estate price (Rmb/m²)

Item	1995	2000	2001	2002	% change 2001/2002
Ordinary residential	2477	3326	3659	4007	9.51
Villas, high class apartments	6732	6109	6126	5787	-5.53
Office	5663	9223	9500	8343	-12.17
Commercial	4140	5110	6156	4968	-19.30
Others	3940	2639	3256	3489	7.16

Source: Table 6.17, Shanghai Statistical Yearbook 2003

There was some growth in ordinary residential and other real estate sectors. However, the high end residential, office and commercial sectors recorded negative growth. Commercial prices had the biggest fall at 19.30%. As at the end of 2002, China had obtained WTO membership for 1 year. Since real estate development period might span over 2-3 years, a price fall due to competition from foreign investors could not have taken place. A possible reason is that there is an oversupply of commercial property following the large amount of commercial land supply since 1995 (see Table 2).

Hangzhou market

Like Shanghai, the Hangzhou real estate market has been booming in recent years. However, unlike Shanghai, its statistical real estate market data are not as detailed. The available data do not cover office, commercial and other property types. Nevertheless the following analysis still provides a picture about the Hangzhou real estate market. Table 7 below gives a snapshot of LURs assignment in Hangzhou in recent years.

Table 7 Hangzhou LURs assignment via tenders and auctions

Year	Number of lots	% change from previous year	Area ('000 m²)	% change from previous year
1998	2	-	11.50	-
1999	8	300.00	72.40	529.57
2000	23	187.50	324.00	347.51
2001	23	0.00	673.80	107.96
2002	28	21.74	883.20	31.07

Source: Chen, 2003 Table 2.2

The Hangzhou government adopted a land bank policy in 1997 and used tender and auction as the main means for LURs assignment. Figures in the second column of Table 7 show the number of lots sold following the introduction of new LURs assignment system. The fourth column shows that land supply began to rise sharply since 2000. The figures highlight the heated real estate market in recent years. The Hangzhou government has tried to regulate the buoyant real estate market. The figure in the last column shows that the percentage growth of LURs assignment in 2002 had only a relatively modest 31% rise.

Table 8 shows the amount of floor space under construction and completed, value of buildings completed and the average construction cost from 1995 to 2001. The table shows the conditions of the Hangzhou market prior to the WTO accession. Figures for 2002 are not available. It can be seen that the overall figures were increasing since 1995. It highlights the buoyant real estate market in Hangzhou during this period.

Table 8 Hangzhou real estate development and cost

Year	Floor Space Under Construction (million m ²)		Floor Space Completed (million m ²)		Value of Buildings Completed (billion Rmb)		Average construction cost (Rmb/m ²)	
	Total	Residential Buildings	Total	Residential Buildings	Total	Residential Buildings	All types	Residential Buildings
1995	13.21	7.38	5.24	3.19	49.17	27.43	937	859
1996	13.99	7.58	5.83	3.55	68.86	37.05	1182	1045
1997	13.64	6.61	6.42	3.38	87.14	44.92	1357	1329
1998	14.56	7.44	5.15	2.72	70.97	39.06	1378	1437
1999	16.81	9.56	7.09	4.11	111.91	64.17	1578	1560
2000	17.22	9.49	7.44	4.20	120.78	70.90	1622	1689
2001	23.19	12.52	8.30	4.02	131.04	67.95	1579	1688

Source: Table 6-06 of Hangzhou Statistical Yearbook 2002

The last row of Table 9 shows the amount of real estate investment in 2002. Despite the government's attempt to reduce land supply, developers were still full of confidence. The total amount of real estate investment in 2002 was the highest over previous years. In addition to the high demand due to the good economy in recent years, the WTO factors certainly help strengthen developers' confidence.

Table 9 Hangzhou real estate development investment

Year	Amount (billion Rmb)	% change from previous year
1999	8.35	25.40
2000	10.0	19.76
2001	14.09	40.90
2002	19.64	39.40

Source: Hangzhou City Socio-economic Development Statistics Communiqué 2000, 2001, 2002 & 2003.

There was speculation that real estate price might drop due to more investments and competitions following WTO accession. The market evidence in Table 10 however does not support this view. It can be seen that instead of a fall, residential prices had a hefty 30% gain in 2002. The prices rise could not have been caused by influx of foreign investors in 1 year after WTO entry. Such rise could be more likely driven by the continual increase in domestic demand.

Table 10 Hangzhou average residential price (Rmb/m²)

Year	Average residential price	% change from previous year
1995	2040	-
1996	2180	6.86
1997	2200	0.92
1998	2650	20.45
1999	2820	6.42
2000	3780	34.04
2001	4500	19.05
2002	5862	30.27

Source: Chen, 2003 Table 1.2 & Fang, 2003

Why WTO impacts on real estate prices are not prominent?

The majority view expected a fall in real estate prices after WTO entry. However, the analysis in the previous sections does not find sufficient evidence to support this view. This anomaly

may be explained by the following reasons:

1. Economic growth driven demand

China has been enjoying substantial economic growth in recent years. More people are rushing from the rural areas to the cities in search of employment opportunities. At the same time, existing firms are expanding their business, and new firms, both domestic and foreign alike, are being set up to fight for market shares. The demand for real estate has increased in line with the rapid economic growth.

Shanghai, being the leader in Chinese economy, is the ideal destination for job seekers and business enterprises. Hangzhou, while attracting fewer enterprises, manages to attract a large number of well off people who want to live in this scenic city. Meng (2003) reports that about one third of the housing in Hangzhou is purchased by non-Hangzhou residents. The various market forces stimulate more demand in all sectors of the real estate market. Since the supply of real estate is relatively inelastic, real estate prices keep on rising as a result. As at the end of 2003, the average housing price in Shanghai has risen to Rmb 5830/m² (People's Net, 2003). In Hangzhou city centre area, the average housing price in August 2003 has exceeded Rmb 8000/m² (China Economic Times, 2003).

2. Constrains of land supply

Like many cities in China, both Shanghai and Hangzhou are old cities. Their land area is subject to various physical and geographical constrains and vacant land within the cities is scarce. The government has tried to increase land supply through urban renewal schemes and acquisition of farmland at the outskirts of the cities. However, the high cost of compulsory land acquisition, the resistance from existing land occupiers and the time taken to make the land suitable for redevelopment are hindering land supply.

In order to improve market transparency, the Chinese government has adopted tender and auction as main means to assign LURs. Under this new rule, developers find it more difficult, if not impossible, to get land through the backdoor or other unfair and uncompetitive methods. Finally, the government tries to control the heated real estate market by regulating the amount of LURs assignment. All these factors make it difficult to increase land supply even though the demand for land is expected to rise after WTO entry. It reduces the opportunity of foreign developers to invest in the real estate market.

3. Restriction and time factors

Before China's WTO accession, a lot of foreign firms were talking about entering China. While they might have done some preparation for the move, many firms did not want to commit themselves too early and took a wait and see attitude. The condition has changed since China becomes a WTO member. In 2002, China approved over 34,000 foreign-invested enterprises (FriedlNet, 2003). While the number of foreign firms in China has increased, the expected real estate 'gold rush' has not occurred.

Under the WTO treaties, China has obligations to open its market to the outside world. However, she did not promise to open the real estate market (China Daily, 2002). The following restrictions are in force at present:

- a) foreign firms are not allowed to be sole proprietors of up market real estate projects (such as high class hotels, apartments, golf course, etc.). They may be sole proprietor for other type of developments;
- b) foreign firms are only allowed to form partnerships/joint venture companies with Chinese companies to provide real estate services; and
- c) sole proprietorship is permitted within 5 years WTO accession.

(Xian Real Estate Information Net Information Centre, 2002)

It can be seen that even if foreign firms have learned how to deal with the Chinese bureaucracy and to survive the corrupt environment, it will take at least 5 years before they are allowed to fully operate in the Chinese real estate market. In the meantime, the impacts on real estate prices from foreign firms will not be substantial.

4. Foreign investors are cautious to enter Chinese real estate market

Apart from the restriction and time factors, foreign investors are cautious to enter the Chinese real estate market. At present, the market transparency is very low. Market data are virtually in the hands of the government. Unless one has the necessary connection, it is difficult to get relevant transaction data (Chan, 1999). Standard market practices are not yet established in China. For example, a single standard for floor area measurement is not available. It creates “confusion, uncertainty, and opportunity to abuse.” (AmCham, 2002).

On the other hand, the Chinese real estate market has been very buoyant in recent years. According to the figures from the China State Bureau of Statistics, during January – August 2002, China completed Rmb558.8 billion real estate investments, representing about 30% growth over the same period in the previous year. By November 2002, real estate investment in 7 provinces recorded over 40% increment, and in 8 provinces, new floor space under construction had exceeded 150% growth (Sina, 2003). The real estate frenzy has triggered a fear that the bubble may burst at any time. Apart from causing much worry among the Chinese people and the government, it also makes foreign investors hesitate to enter the Chinese real estate market. It was reported that the US\$52.7 billion foreign funds in 2002 were mainly invested in industries such as IT, petroleum chemicals, finance, insurance, securities, etc. (People’s Daily 2003a).

5. 9/11 event and unfavourable world economic climate

The September 11 terrorist attack in 2001 followed by the collapse of major corporations such as Enron and WorldCom in the US, and HIH in Australia etc., depicted a gloomy world economy. Although China still enjoys a healthy 7 – 8% economic growth throughout the period, her major trading partners such as the USA, Japan, Hong Kong and Taiwan, etc. are still struggling. The bad economy imposed great economic stress in many countries. Firms were busy at keeping their own company in good shape and were reluctant to take risk. While the open of the Chinese market is good news to the world, doing business in China nevertheless involves considerable risk. Unless and until foreign firms feel comfortable to do business there, the expected influx of foreign investors into China may remain to be seen.

Conclusion

Before WTO entry, there was speculation that real estate prices in China would fall as a result. One of the reasons for the price drop was falling construction cost. Analysis of 2002 market evidence in Shanghai and Hangzhou shows that there is no evidence to show a drop in real estate prices or construction cost. Prices kept on rising in 2002 in line with the unabated domestic demand. The analysis also shows that there is no abatement to the rising trend of real estate investment. Apparently the WTO factors have strengthened developers’ confidence. Nevertheless, the government in both cities did not supply extra land to cope with the expected increase in demand from foreign investors, fearing further fuelling the already overheated market.

Based on the assumption that economically well-developed cities experience more impacts from WTO factors, the findings from the Shanghai and Hangzhou markets may infer that real estate prices in China have not dropped following WTO entry. There are several reasons for this phenomenon. One of the more prominent ones is “restriction and time factors”. At present, the Chinese real estate market is not fully open to foreign investors. The present market dominance enjoyed by Chinese firms may continue for a few years.

Since real estate is a lucrative business, and given China’s sheer market size, foreign investors

will surely try their best to enter the market. The determining factor is timing. At present, the Chinese market is so hot that both the government and people are concerned that the bubble may burst at any time. It will be very risky for foreign investors to enter the market now. Since the Chinese government is obliged to improvement investment environment and provide a level playing field for foreign investors, the unfavourable conditions will gradually change. When the market swings back to a less buoyant stage, the real estate restrictions are gradually removed and market transparency has increased, foreign investors will definitely enter the market. While this preliminary study does not find significant impacts on real estate prices in China after 1 year of WTO entry, it can be foreseen the condition will be substantially changed in a few years.

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