

Urban Housing Policy Review of China: from Economic Growth to Social Inclusion

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Abstract

This paper reviews the housing policy of China from 1949-2013. It examines the housing tenure change, policy instruments, and impacts social structures in different time periods. After the welfare period of 1949-77, the dual provision period of 1978-1998, and the market dominant period of 1999-2011, China's housing policy was again reformed after 2011. The new policy focuses increasingly on social inclusion rather than merely on economic growth. In this perspective, this paper analyzes the interaction between housing policy and other reform processes such as corporation and welfare reform, hukou reform. This paper argues that housing policy is closely linked to the ideological and institutional transitions in China. It serves as an instrument to fulfill the comprehensive economic and social goals. It has been shaped by, but is also shaping the institutional context.

Keywords: housing, policy review, China, social inclusion

Introduction

Since its establishment of 1949, the People's Republic of China experienced enormous institutional changes. From the radical ideal of communism and socialism of the Mao Zedong era, to the more realistic, so-called socialism with Chinese characteristics (Qiu, 2000), politicians in China are adjusting their ideological declaration and policies to adjust to the mismatch of the political ideal and economic reality, policy goals and social responses. When the planning economy went into difficulty, the Chinese Communist Party, led by Deng Xiaoping at that time, initiated a reform movement to develop a Socialism with Chinese Characteristics, to boost economic growth with the help of market allocation and non-public organisations, and at the same time maintain the legitimacy of socialism. However, the transition of economic production and social organisation in reality is much harder than the transition of political aims. While the housing shortage in planning economy is intolerable, the liberal economy after transition, on the other hand, is increasingly leading China into social inequality. The development of China's urban housing demonstrates this transitional difficulty. During the planning time due to the housing shortage people were forced to live in crowded shelters. The housing quality and number of square meter per person increase considerably during the market transition, however, the rapidly increased house prices created a housing affordability problem.

This paper aims to describe whether and how social changes and housing policy are related in the transitional context of modern China, by analysing the interaction between the housing system and the dynamics of social structure in the context of China. It describes what housing policies have been launched in different periods in response to the transition of ideology. Moreover, how did the housing policies, thereafter, serve to the transition of economic production mode and social organisation mode?

This Paper argues that the aim of China's urban housing policy is to transfer from supporting economic growth to emphasising social inclusion and thus reducing unequal citizen rights. Even though, currently, the housing policies aiming to social inclusion are merely on pilot and its outcomes are not clear yet. It is that, in terms of the urban housing system, China already stepped on the way and will go further, to aiming at more social equality.

In the next section, I will introduce two institutions that play a key role in the transition: the system of work units and the system of Hukou, a resident register system in China. Then, based on the dominant housing tenure, I divide the housing policy period of China after 1949 into four periods (figure 1). In each period, I try to answer three questions: 1) What is the housing tenure policy in this period? 2) What are the aims and instruments in housing policy and how does it work? And 3) What are the impacts of these housing policies to social structure?

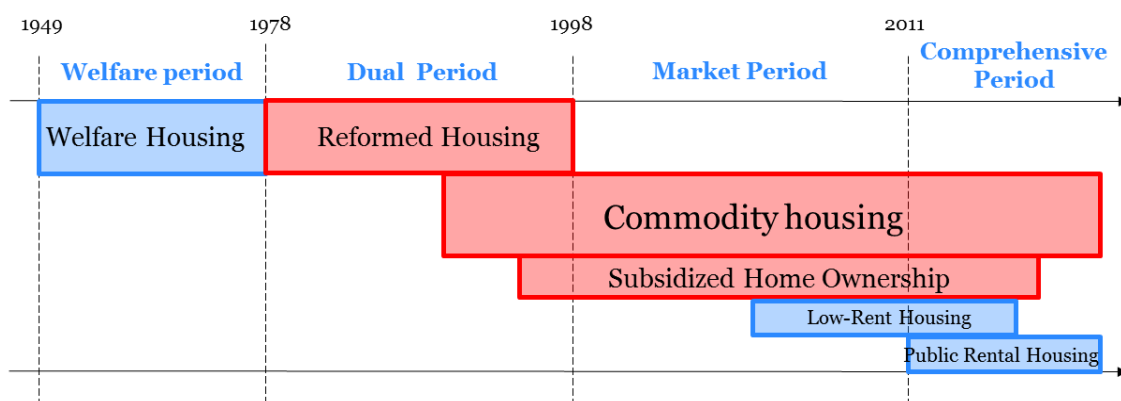


Figure 1: Housing Policy History of People's Republic of China

Institutional background of housing reform

The concept of danwei and dedanweism

The core of People's Republic of China's planning economy was to build a hierarchical administration system in the production sectors. The planning department in the central government made decisions on the input of industries and their allocation of output, and then distribute these resources and production quota into various levels of individual Danwei through this administrative system. Danwei (literately, unit) is a term in Chinese which is used to describe the individual entities in this administrative allocation system (see Francis, 1996; Perry, 1997). This entity has been referred to as an organisation that a person is working for, Chinese use the term of gongzuo danwei, literately in English, work unit. This dates back to the state-owned enterprises in the planning economy and later on spread to all kinds of employers in the process of economic reform, including government department, social organisations, private and joined companies. The term danwei is still in use of modern China, it refers to all kinds of employment entities which at the same time functioned as the welfare provider and administrative manager (Womack, 1991).

Since these work units are in different places in this hierarchical system, their ability to acquire resources and provide welfare are very different. Usually, the larger work units, the units higher in the administrative rank, and more crucial in the industrial system such as steel and machinery, are much more powerful. Employees in these powerful units are enjoying better public services than others. As stated by Perry (1997, p44), "it privileged a minority of the urban industrial work force at the expense of the majority". Housing is one of these welfare provided by work units in planning economy (Zhang, 2002). When China went into the transition of market economy with market allocation being the main allocation mechanism since 1980s, the allocation pattern of urban housing changed along with it.

In 1988 when China declared the housing reform formally, the aim of this reform was to "commercialisation", "shift from in-kind allocation into market allocation", "to enclose all the housing related economic activities, including the development, the construction, the marketing and management of real estate, into a socialistic planned commodity economy circle" (State Council, 1988). From then on, housing is no longer a welfare product, but became a commodity that should be provided and consumed in the open market based on market principles. The provision and allocation of housing are changing along this reform process. The main provider had changed from the overall welfare manager work units to the profit-oriented real estate developers. The determinants of acquired better housing, is also transferred from seniority, occupational rank, work units category and CPC membership (Wang, 1995; Zhang, 1997), to economic criteria such as income and assets.

Together with the decomposition of the danwei institution, the traditional of workplace-based welfare system was changed. I describe the welfare provision mode in Communist China as "workplace-based welfare system" which featured by the dominant provision role of danwei. Under this system, housing provision, as well as other welfare goods including health care, education and even commercial service, in urban areas is mainly carried out by employers and secondarily municipality governments. This is caused by the vertical administrative resource allocation of planning economy. But, since the absence of alternatives, it is dominant Chinese society after the reform.

In the planning period, education, health care, and pension was provided by work units. After retirement, pensions are been paid by former work units. Corporation reforms in 1990s, which are also part of market economy reform, stripped off the work units' function as social service and transferred them onto local governments (Wu, 2002). The initial goal of corporation reform was to remove welfare burdens for state-owned enterprises, to make these enterprises to compete in the market. In 1995 and 2002, the central government issued several decrees to encourage state-owned enterprises to get rid off their pension duty, and affiliated service organizations including schools, hospitals and other ser-

vice entities (State Commission of Economy and Trade et al, 1995; State Commission of Economy and Trade, 2002). Schools have been transferred into local educational bureaus; hospitals and other service entities have been transferred into dependent for-profit corporations. Pension duties have had been transferred to newly built pension bureaus and managed locally by Street Office (jiedao banchichu). The previous workplace-based welfare systems fragment Chinese society and created inequality. Now these reforms are trying to turn it into a more inclusive welfare system which is based on citizenship rather than Political and/or employment status.

The Hukou institution and its declining role

With a long term agriculture tradition, China's government was never supporting mobility. Rulers in the history always treat free migration as the root of upheaval. The policy of registering residents and forbidding migration date back to 200 A.D in China. A special resident registration system -- hukou system -- had been started in 1958. Every citizen registers himself as a rural resident (nongcun hukou) or non-rural resident (feinong hukou) to a certain territory based on his mother's hukou category, and is not allowed to move without permission of their work units (Perry, 1997; Wu and Treiman, 2004; Huang and Dijst et al., 2013). The purpose of launching this system is to prevent rural-urban migration and to ensure that the limited production at that time can be allocated to specific groups of people: the local urban residents. This was a strategy to support modern industry development by giving less priority to agriculture and promoting construction in urban areas.

A local Hukou used to be required to have access urban commodities including food, clothing, housing, education and all kinds of public services. Since the economic boom after market reform, especially in the Pearl River Delta area, Chinese governments began to tolerate rural-urban migration for the labour demand. Because of the absence of hukou and their lack of skills, these migrant workers usually had low-paid temporary jobs. Governments and employers are reluctant to provide public service and welfare goods to these migrants. Without secure employment and access to public service such as formal housing and education, migrant workers maintained a limited life in cities and brought as much as savings back to their rural home, renovated their housing and accommodated their children and parents there (Cheng and Selden, 1994; Chan and Zhang, 1999). These migrant workers were called floating population (liudong renkou) in China.

For a long time, their contribution to urban prosperity was ignored, and they were treated as the cause of urban problems such as public hygiene and crime. But now, this stigmatized stereotype was reduced and policies are changing (Wang, 2004; Bian, 2013). Scholars emphasised their importance to urban prosperity. the expectation is that the improvement of their situation will make them stronger, more devoted citizens, and their increased consuming power will eventually benefit Chinese economy. The initiative of hukou reform started in 1997. In 450 small towns, migrants from nearby rural areas are allowed to register as local residents, if they can prove their legal employment status and have stable and legal accommodation. This means the difference between urban and rural hukou is abolished.

At the same time, public services in urban China including housing, is increasingly opening to migrants in an equal way. Before the market economy reform in 1978, migrants without hukou had no access to formal urban housing. Although rural-urban migrants were encouraged to work in the cities, their access to housing was still limited. They got accommodation mainly in their workplace, in a slum, or in an illegal construction in the outskirts (Wu, 2002; Wu, 2004; Jiang, 2006; Liu and Wang et al., 2013). In 1990s, along with the promotion of commodity housing, migrants had more housing options. The term "blue print hukou" had been created and issued to migrant home buyers, by which they can be treated partly like local citizens (Wu, 2001, p1074; Jiang, 2006). Buying a house in the city became best way of changing their hukou status and improve their position (Huang and Dijst et al., 2013). However, migrants without hukou have no access to affordable housing schemes such as Economic

Comfortable Housing(ECH). The cost for migrants to access housing are much higher than for their local peers (Chen, 2012). In 2011, a new affordable housing tenure type –the Public Rental Housing (PRH) – has been created, and the central government stipulated that before the end of 2013 all the big cities should open their PRH schemes to migrant workers.

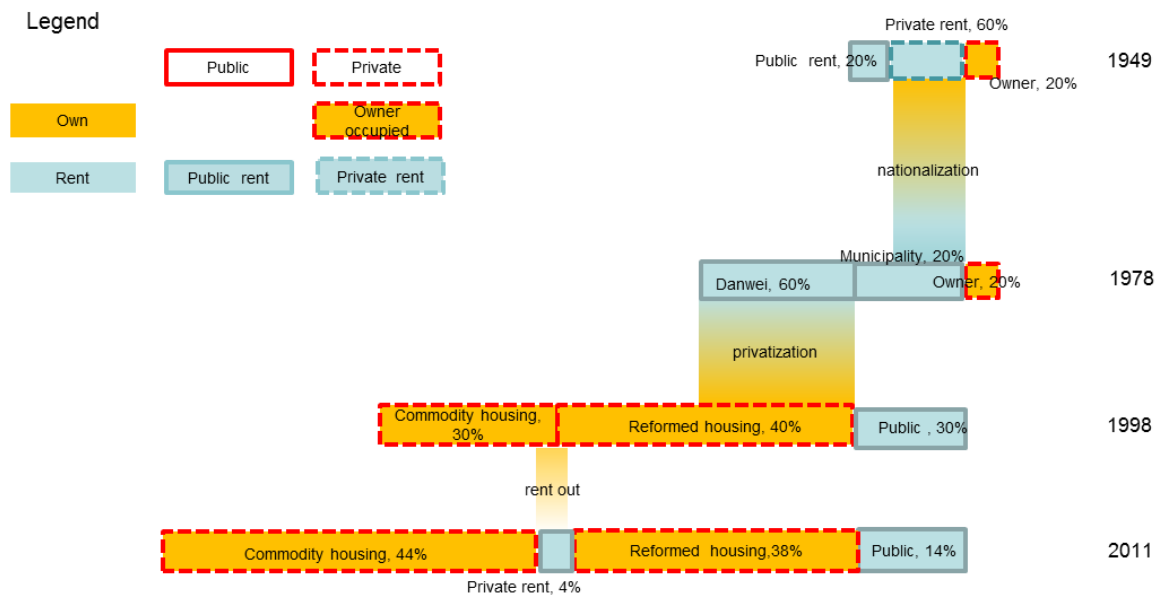


Figure 2: housing tenure distribution transition, 1949-2011

Note: this figure is for showing the general trend of tenure transition and new provision. The percentage in this figure is estimated based on situations in main cities recorded by various literature.

Source: Secretariat of the Central Committee of the CPC, 1955; Wang, 1995; Zhao & Bourassa, 2003; NSB, 2013

1949-1978: the establishment of a workplace-based welfare housing system

Housing tenure change

Welfare housing was the dominant housing tenure in this period. Welfare housing, in the context of Communist China, refers to rental dwellings provided by the municipality or work units, for a symbolic price. In these time the slogan was “production first and life second” and investment in housing is low, about 5% of the total investment in 1960s and 70s (figure 2). The public housing sector increased from about 20% in 1949 to 80% in 1978 by nationalization of the housing stock and new construction of welfare housing. There are two kinds of welfare housing; the first one is provided and managed by work units, and the second by municipalities. In 1978, about 60% of the urban housing stock was owned and managed by work units and 20% by municipality. The rest of the 20% was owner-occupied and almost all of them were built before 1949 (figure 2).

In the planned economy system, financial and physical resources were allocated within sectors. For example, a new industrial project was either planned and financed by industrial departments in the city government, or the provincial government, or for major projects with national importance, by the industrial ministry in central government (Wang, 1995). A factory, planned by the province or national government is usually more connected to provincial or national government department than to the local city government it located in. the larger part of the profit of these work units is has to be submitted to provincial or national government and therefore local authorities felt no responsibility to provide accommodation for the employees of these organizations. Thus, work units set up housing offices that built and managed houses for their own employees.

Under the work unit system, the housing provision and allocation, along with other public services such as education and health care, became a means of realize socialistic ideology. The integration of the workplace and welfare ensured the maximum exposure of people to the ideal of “collective living (jiti shenghuo)” and to educate citizens to be socialists. Concerning housing socialism is promoted through public ownership, central planning and investment, and collective inhabitation (Zhang, 1997). There are four main features of housing policy in this period. The first one is the low rent policy, which demonstrated the ideal that housing should be affordable for every worker. By the end of 1950s, most big cities had managed to limit the rent-income-rate under 10%. The second one is public provision and management; work units and local governments were both owners and managers of these welfare housings. The third one is the collective form of public housing. Urban planners designed multi-story dormitories in which several families have their own bedroom but share kitchen and bathroom. The fourth feature is to strengthen the linkage between work units and housing services. The authorities promote work units to design, build and allocate housing to their workers according to the workers’ contribution to the society. The larger the contribution to society, which is most effectively measured by the work unit, the more living space they were allocated.

Policy goal and instruments

Both work units and local government used a waiting lists with a points ranking system to allocated the dwellings to the workers. When a batch of dwellings had been completed or planned, the employee on the top of the list could first chose dwelling they prefer, then the second one and so on. These ranking system included the amount of years this employee serving in this work unit, his or her administrative rank, CPC membership, political status, household size and current living condition. There were also criteria to decide what type of dwelling employees should be allocated. These criteria were not only based on the needs and family circumstances of the employee, but on the work position and the status achieved (Wang, 1995; Zhang, 1997; Wang and Murie, 2000). For example, in Xi’an the capital of Shaanxi province, housing allocation by the provincial organisation is based on the administrative rank of the household head. For the head of household whose rank is equal to provincial governor, their families can be allocated 60-95m² at most; for those whose rank equals to department chief, their families can be allocated 46-68m² at most; and then ordinary workers are allocated maximum 5m²(Wang, 1995, p66).

Impact on social structure

In this traditional welfare system, two dimensions of inequity can be distinguished: vertical inequity and horizontal inequity (Logan and Bian et al., 1999; Zhao and Bourassa, 2003). Vertical inequity indicated the differences within the work units and between different administrative ranks of worker, like the case of Xi’an in previous paragraph. Horizontal inequity indicated the difference among work units in their economic power (industry, size and profit ability) and administrative rank (belong to the national, provincial, municipal or collective level). Usually, state-owned work units were more prestigious than those collectively-owned or private work units. These enterprises were given the highest priority also in the provision of land, capital and housing (Zhang, 1997, p449). In a survey of 273 work units in Jinan municipality, all of the big work units with more than 500 employees had their own housing stock. Among medium-sized work units with 100 to 500 employees, 83 percent had their own housing. Among small work units with less than 100 employees, only 34 per cent had their own housing (Zhao and Bourassa, 2003).

1979-1998: a gradual reform and the dual system of housing provision

Housing tenure change

From the start of the housing reform in 1978 to the official termination of reformed housing system in 1998, China was in a dual housing provision period. Two kinds of housing tenure were provided in this period: the Reformed Housing (fanggai fang, or the privatized housing), and Commodity Housing (shang pin fang).

Reformed housing implied those dwellings that had been developed by work units or governments and sold to households usually at subsidized price. During the reform almost all the apartments owned by work units and local governments had been sold to households. These included former welfare housing constructed before 1978 as well as newly constructed housing¹ (see figure 1). Commodity housing referred to those dwellings built upon on leased urban construction land, developed by real estate developers, and sold in the open market with market prices.

Both reformed housing and commodity housing are homeownership. The main difference between them is the price and the property rights. Reformed housing was strongly subsidized and its prices were much lower than commodity housing. Therefore any for-profit actions such as letting or selling are forbidden. Later on, these regulations had been reduced to promote second-hand housing provision. After 1994, owners of reformed housing were allowed to sell the dwelling after 5 years of purchase, and they need to return part of the profit, usually 30%, to the local governments or their work units.

In this period, the owner-occupied sector in China increased to 70%: 40% was reformed housing and 30% was commodity housing. The remaining 30% were public housing for those low-income households who cannot afford to buy. Moreover it includes those residential buildings which were not independent apartments, such as dormitories with shared toilet and kitchen. The share of original owner-occupied housing, which existed before 1949, was decreased to 3% in this period (figure 2).

Housing development showed its positive influence on the economy this period. The percentage of real estate industry, which mainly composed of housing, among the total Gross Domestic Production increased from 1.9 in 1978 to 4.5 in 1998. The percentage in two closely related sectors including construction and finance are also increased, respectively from 3.8 to 5.9 and from 2.2 to 4.7. From 1978 to 1988, China experienced the housing construction boom of work units. According to a study in major Chinese cities, about 75% of the new construction in this period was made by work units between 1980 and 1988 (Wang, 1995; Zhao and Bourassa, 2003).

Policy goal and instruments

At a national administrative conference in 1978 housing provision was prioritised and this resulted in a decision to initiate a housing reform. The aim of the housing reform was to solve the housing shortage problem and to reduce the government expenses at the same time. Work units and individuals were encourage to invest more in urban housing. Moreover, the housing provision method changed from "in-kind" distribution to "monetary distribution"(State Council, 1978).

The housing reform started with a reduction of planning control towards work units and to the work units retain their profits. Moreover they were allowed and supposed to compete with each other in the

1 Some of the reformed housing were constructed as commodity housing, but purchased and resold to the occupiers by work units. These housing are also referred as reformed housing in this article.

market. These policies were called "corporation reform" and their goal is to improve economic efficiency in production and allocation. The profits can be invested in reproduction, or distributed to employees' as bonus or housing.

The dwellings built by work units were sold rather than rented out to the urban workers. In 1979 and 1982, several Chinese cities such as Shanghai started pilot schemes to sell the public housing stock to setting tenants, in the beginning for the market price and later on at a subsidized price. Other cities followed up this pilot.

The provision of commodity housing also started with pilot schemes.. In 1982 the municipality of Shenzhen in South China started a pilot with land lease to real estate developers and sold the housing constructed in this land. After that, several other cities followed up. 1988, the national government issued an important document to declare the beginning of a nationwide housing reform. In this document, the central government encouraged more cities to implement the housing reform including rent increase and housing stock sales. Series of policies involving land development and housing finance had been launched to boost commodity housing construction and consumption. In 1994, another national reform document had been issued to lay out the whole housing reform plan, including:

- the Housing Provident Funds (HPF): a housing financing scheme,
- a rent reform: rents were increased and meant to cover all cost of maintenance,
- sale of the public housing stock (including newly built housing),
- the Economic Comfortable Housing (ECH) scheme: a subsidized home ownership scheme.

A series of policies were launched to promote the supply and consumption of commodity housing. The for-profit land use provision became an important source of income for local governments. Moreover, a pre-sale method was introduced. This allowed the developers to sell the dwellings before completion (SCC, 1994). The method allowed real estate developers use the money of buyers to construct housing therefore enlarged the provision substantially.

On the demand side, there is a savings fund - called Housing Provident Fund - which started in Shanghai and was spread out to the whole nation. This is a compulsory housing saving policy and it allowed contributors to get loan with lower interest rate (State Council, 1994). The mortgage market was open to all kinds of lenders, the limitations of maxima loan and maximum loan period were loosened, and the requirement to a down payment was cancelled (State Council, 1998). The resale of subsidized housing, including both reformed housing and Economic Comfortable Housing, had also been introduced in 1994, and was meant to enlarge the provision of second hand housing. This policy aimed to allocated the cheaper reformed housing to first time buyers, and enable previous owners to purchase better commodity housing with the revenues of the sold dwelling.

These policies had been launched because citizens were reluctant to buy commodity housing, especially those households who may still have the chance to buy the cheaper reformed housing. Since international investors, especially overseas Chinese, began to invest in tertiary industries such as real estate and finance in late 1990s, the real estate market became heated. Chinese citizens gradually realized the investment value of owning a dwelling. Both commodity housing consumption and the public housing sale accelerated in this period (Tong and Hays, 1996).

In the late 1990s, the provision of different housing tenures was relatively balanced. Until 1998, the completion of commodity housing was 141 million square meters, which accounted for 30% of the total market; government-subsidized home ownership ECH accounted for 36%, and others provided by work units 34% (NSB, 2013). The price of commodity housing fluctuated but overall increased substantially since the start of commodity housing. Between 1991 and 1998, the average price per square meter of commodity housing increased from 208 RMB yuan to 1854 RMB yuan, and the average price-

to-income rate for a double-income household to purchase a 90 square meters apartment increased from 5,5 to 15,4 (figure 4). In this period, work units played a very active role in commodity consumption and it disturbed the market. Because they wanted to help their employees to overcome affordability problems, work units bought commodity housing from the market and then sold them to their workers at a large discount. Their soft budget constraints inflated their purchasing power therefore and pushed up housing price obviously (Zhu, 2000).

In the 1980s and early 1990s, the commodity housing was a supplement to the dominant public welfare housing provision regime. It was housing for high-income households that got incentives in the form of relaxed regulation: such as no holding tax, no restriction on the number of units one could purchase, no penalty for leaving purchased housing unoccupied, and no size standards. However, when it became the dominant way of housing provision in the new century, the insufficient regulation failed to ensure affordability (Cao and Keivani, 2014, p62). Besides, there is a mismatch of housing supply and demand. Luxury apartments for wealthy households had been oversupplied, while middle-income households could not find appropriate and affordable dwelling (Wang and Murie, 1999). Many of these expensive dwellings were left unoccupied after purchase (Barth, J. R. and M. Lea, et al., 2012, p12). The owners bought them as investment rather than as accommodation. These speculation-oriented purchases reduced effective supply and pushed up prices.

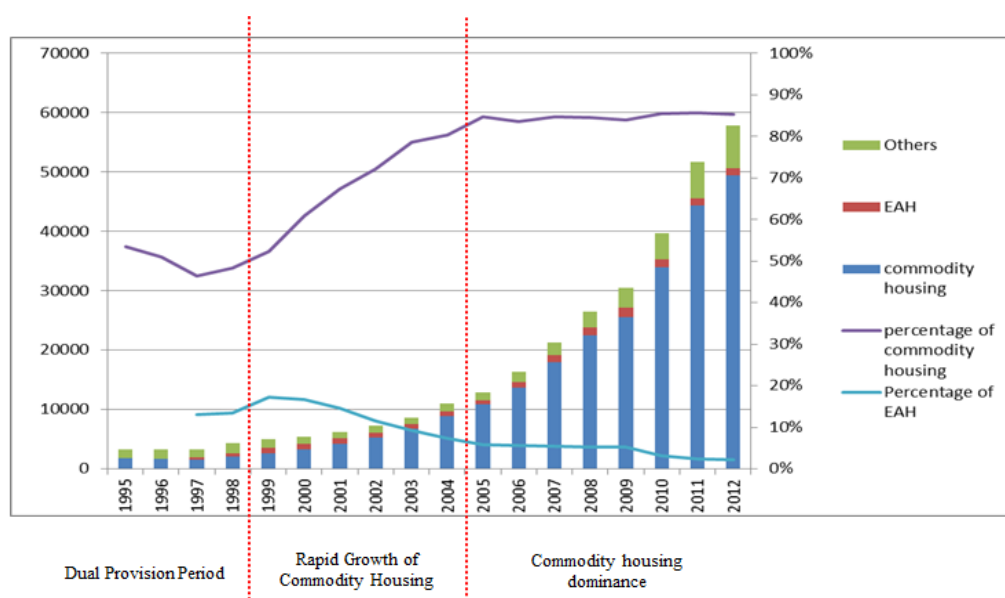


Figure 3: The structure of housing investment in urban China, 1995-2012, thousand square meters

Source: Barth, J. R. and M. Lea, et al. (2012)., NSB 2013,

Note: Others there including all the other housing tenures exist, including Low-rent housing, Public Rental Housing, housing constructed by the owners

Impact on social structure

In this period the overall housing quality of Chinese urban households, including living area and facilities, did improve substantially. From 1979 to 1998, the average housing area per capita in urban China increased from 3,6m² to 13,6 m² (NSB, 1999). However, the inequality of housing distribution, especially the housing inequality between workers in different sectors and work units, increased in this period.

In the welfare period, the housing differences among various work units had been partly mitigated, by taking the extra profits from big and rich work units to support small and poor work units. Since the reform this redistribution stopped and the richer work units became more monopolistic in the market and had stronger capability to provide adequate housing and with a lower cost (Zhao and Bourassa, 2003).

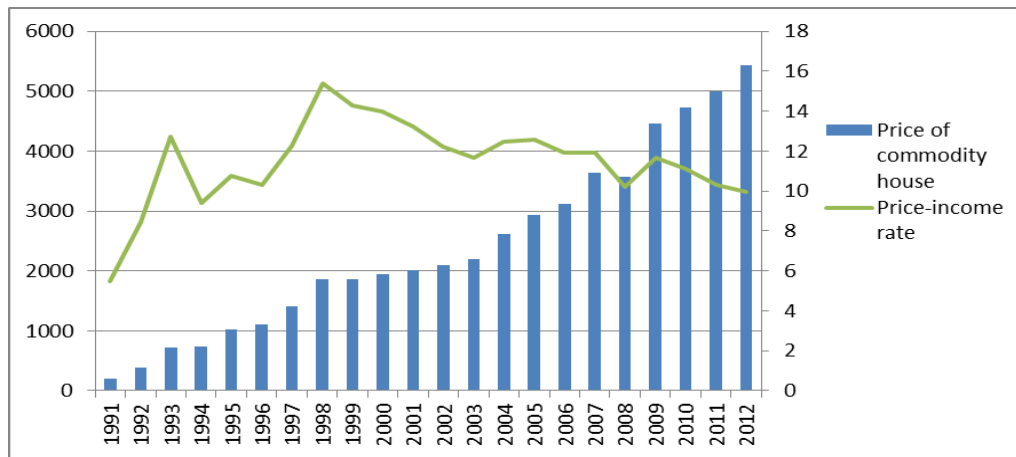


Figure 4: Housing price and affordability in urban China, 1991-2012, RMB yuan per square meter

Source: NSB, China Statistic Year book, multiple year

Note 1: 1 RMB yuan = 0,12 euro (2012)

Note 2: Since China collect housing price data not by the whole unit but by price per square meters, this price-income rate is calculated by (average urban housing price per square meters*90 square meters)/average personal disposable income*2. It stands for the average price-to-income rate for a double-earned household to purchase a 90 square meters apartment.

The difference existed in two aspects. First of all, only workers in powerful and profit making work units had access to subsidized reformed housing. Employers in loss making work units and small private companies had no access to reformed housing as well as rural-urban migrants (Sato, 2006). The stronger the work units', the more influence they had in the housing allocation process (Huang and Clark, 2002). Private corporations also took part in the reformed housing provision. Since they had less access to land available for construction, they usually bought commodity dwellings in the open market and then sold them to employees with subsidy (Francis, 1996). In 1986, 86% of the new commodity housing was bought by work units and then sold to their employees (NSB, 1998). In this dual period, policies which aimed to strengthen the affordability only benefits urban workers with local hukou, especially those in powerful work units (Zhou, M. and J. R. Logan, 1996). These policies include housing subsidy and low interest rate loan from Housing Provident Funds.

Secondly, the cost of reformed housing and commodity housing is very different. The Population Census 2000 showed that, in eight major Chinese cities, the average price of commodity housing in the open market is about five times of the reformed ones. There is a similar difference for rental dwellings: the average rent in the public sector is about one fifths of the average rent in the private rental market (Logan and Fang et al., 2010).

In this reform period, work units still played an important role in the provision of welfare goods including housing. Households who work for state-owned enterprises, state or provincial government agency prefer by reformed housing over a commodity dwelling (Li, 2000; Ho and Kwong, 2002; He and Xia et al, 2012). This appeared to be the paradox of China's reform. The goal of the reform, was that work units were supposed to reduce their role in welfare provision. However, because of the absence of alternative welfare provision, employees still tend to acquire their welfare needs to employers rather than government (Zhang, 2002). This meant that the role of work units was not reduced, on the contrary work units still played a key role. The reform of urban housing turned out to be a chance for a particular group of urban residents to take advantage of the institutional change. The dual provision of urban housing resulted a dual housing market. In this dual housing market, official workers in powerful work units benefited a lot while the rest of the population suffered. The difference in occupational status among residents in the socialist period resulted in a substantial difference in terms of living conditions and value of assets. The persons with higher status in the original socialist system maintained and even expanded their privileges during the reform period.

1999-2011: the market-dominant period and housing market regulation

Housing tenure change

After the housing reform decree in 1998, central government has officially forbidden work units to provide reformed housing to their employees, although they continued to do so at a smaller scale. China came into the market-dominant period of housing provision. Commodity housing is the main housing tenure promoted in the Chinese policies in this period. In terms of housing investment, the proportion of commodity housing increased from 50% in late 1990s to about 85% after 2005. The proportion of affordable housing, mainly Economic Comfortable Housing (ECH), decreased from 17% in 1999 to 2% in 2011 (figure 3). The remaining 13% consisted of public rental housing and reformed housing.

In the terms of tenure distribution, until 2011, the proportion of households who lived in commodity housing increased to 44% and reformed housing slightly decreased to 38% (see Figure 2). This means that the home ownership sector already reached 82% in 2011. The remainder of the dwelling stock consist of public rental housing (14%) and private rental housing (4%).

In this period, commodity housing development was seen as “a pillar of the economic growth” (State Council, 2003). It played a crucial role in boosting economic growth. From 1999 to 2011, the Gross Domestic Production of the real estate industry increased 20% annually. And its contribution in the total domestic economy increased from 4,2% to 5,7% (NSB, 2013). Real estate development and land leasing income became more important to local government. The percentage of land leasing income among total local government income increased from 8% in 1998 to 22% in 2011(NSB, 2013). Local governments don't have to share the income from the land lease fee with the national government and they have strong discretion on its expenditure.

Policy goals and instruments:

Housing policies in this period aim to adjust the provision structure in order to prevent that the consumption of “ordinary commodity housing” is ruled out by the consumption of “luxury commodity housing. Other policy goals were the prevention of too much house price inflation and speculation (State Council, 2003; MHURD et al, 2006). The first policy goal was not reached, however, since house prices showed a continuous growth since 1998 (Figure 4).The decision makers are hesitating between maintaining the growth and keeping real estate industry prosperous one the one hand, and curbing house price inflation and improving affordability on the other hand. Market regulation policies were on and off in this period. Central government restricts housing transactions and tightens the land and finance provision when there is believed to be a bubble, and again loosens these restrictions when there are signs of economic stagnation (Barth and Lea et al., 2012).

1999-2005, market regulation

As a result of the strongly increasing house prices, affordability problems started to appear in the 1990s. Furthermore, issues such as ecological damage, illegal land use, and relocation conflicts, all related to the housing construction boom, raised nationwide complaints. In early twenty-first century, Chinese central government began to regulate the land and real estate market. On the one hand, it formalized and standardized its procedures, making them more transparent in order to prevent illegal transactions and corruption. All the for-profit land use was required to be leased by bid and auction rather than by covert agreement. All the land transactions and subtractions had to be registered in a land management system (State Council, 2001; MLR, 2002; MLR, 2003; General Office Of State Council, 2006; MLR, 2006; MLR et al, 2007). Policies towards housing transactions also changed in order to prevent speculation. Anonymous purchase and resale of dwellings before completion was prohibited

after 2005. The government also decided to charge business tax if commodity housing was resold in the first 2 years after the first purchase (General Office Of State Council, 2005). This business tax, however, was easily transferred to subsequent buyers who therefore faced increasing affordability problems (Zhang and Wu, 2013). In addition to this, stricter criteria for accessing construction land and loans were introduced. Land use planning and urban development planning became more important.

The housing market did cool after 1999. The proportion of housing investment among all asset investment dropped from 24% in 1999 to 17% in 2005 (figure 2), and housing completions remained stable from 1999 to 2004. However, on the micro-level perspective, the situation of ordinary house-seekers who had a real housing demand did not improve. The regulation policies increased the atmosphere of scarcity and house prices continued to increase (Figure 4). Moreover, the rise in interest rates (from 5,76% in 2002 to 7,83% in 2007) resulted in higher mortgage costs for home-buyers.

2006-2011, provision structure adjustment

Strong criticism had been put onto the untargeted supply side regulation policies and its negative impact on the affordability of ordinary households. As a reaction to this criticism, the central government attempted to develop more targeted and sophisticated policy measures.

As far as land provision is concerned, policies began to secure land provision for “ordinary commodity housing” and subsidized affordable housing. The land provision for “ordinary commodity housing”, whose area is no larger than 90m², should take up at least 70 % of the total residential land provision. Construction land must be developed on time, otherwise the developers will be charged a fine and the land will be confiscated (after 2 years) (MHURD et al, 2006; State Council, 2011).

As far as financial policies are concerned, a differentiation in down-payment requirements and loan interest rates was introduced in order to discourage housing speculation and, at the same time, protect demand for first-time and local buyers. Higher down payment rates and loan interest rates were charged to non-first-time home buyers, in order to weaken their ability to speculate. In 2006, the required down payment rate for commodity housing was at least 30%, but for first-time home buyers it was only 20% (MHURD et al, 2006). This requirement gradually increased to 60% for non-first-time buyers and 30% for first-time home buyers in 2010. The loan interest rate increased to at least 1.1 times the basic interest rate for buyers who already owned a home; and even more for those who already owned two houses or more. Furthermore, mortgage loan provision to buyers who had no local hukou registration or taxation record was stopped (State Council, 2010). These policies became even more rigorous in 2011, when house purchases from non-local residents were totally forbidden (General Office Of State Council, 2011).

Impact on social structure

In this period, housing consumption increased substantially, housing quality improved and the home ownership rate became higher. From 1999 to 2011, the average housing area per capita in urban China increased from 13,6m² to 32,7m² (NSB, 2013).

However, housing inequality caused by dual provision of reformed housing and commodity housing, as well as by house price inflation, increased as well (Yi and Huang, 2014; Fang, 2014). Initially, privileged households, who usually been employed in state sector or powerful work units had a higher housing quality than those less privileged households. The housing privatisation based on the traditional system provided the privileged households a shortcut to become home owners against relatively low costs (He and Xia, 2012).

This advantage was further enhanced by the house price inflation. Some of the privileged households cashed out on their dwellings by selling it in the second-hand market, subsequently purchasing larger and better facilitated commodity housing. Regulation policies worked out in late 2000s, but the value-to-income rate had already been pushed up to above 10 (Figure 4). Even though much better than the ratio of 15 in 1998, it is still very hard for young households to afford purchasing a home. What is worse, purchasing commodity housing and become home owner is almost the only option if one wants to get a stable and decent accommodation. Since China has limited affordable housing provision and unregulated private rental market, households have been forced into the unaffordable commodity homeownership market.

Nevertheless, a transitional trend is emerging. In the welfare period, the main determinants of dwelling allocation were related to political status such as membership of the CCP, work unit category and cadre rank, as well as other demographic variables such as age, marital status and household size (Zhang, 1997). After the housing reform, more market-oriented factors such as education and total household income began to impact (Luo, 2013; Yi and Huang, 2014). The economic ability of households is replacing their social and political status in determining their housing outcomes.

After 2011: social inclusion by social housing and wealth redistribution by real estate tax

Housing tenure change

In the late 2000s, the discussion about housing policies, both among scholars and decision makers, no longer focuses on economy and real estate industry only, but also on how to secure the equal housing rights of citizens and improve social inclusion. After 2011, the central government focuses more on subsidized housing provision and even more regulation towards commodity housing speculation.

Large-scale subsidized housing schemes operated after 2011 and their focus shifts from low-income home ownership to rental housing. Currently, there are no clear data about the effects of these schemes on the housing tenure distribution. But in terms of new completions, the Chinese government plans to construct 36 million affordable dwellings from 2011 to 2015, that is about 7.2 million each year (Yu, 2010). The housing completions in the commodity housing sector in 2011 and 2012 were 7.4 million and 7.9 million dwellings respectively. If the subsidized housing schemes can be carried out fully, their output will thus be almost equal to the commodity housing provision. According to the statistic record in the ministry, 19.5 million affordable dwellings had been completed during 2010 to 2013 (Liu, 2014). It looks like the ambitious housing plan is coming true. Estimated, at the end of 2015, the proportion of affordable units in the whole housing stock will be around 20%.

Commodity housing is nevertheless still dominant in this period, and the regulation policies continued. But these policies are more diversified towards different consumers. They aim increasingly at protecting the housing demand of local first-time home buyers and preventing housing speculation (See also Section 5). Besides the different financial and purchase permission policies, a real estate tax on second and/or luxury housing was introduced in pilot cities in 2011.

Policy goal and instruments:

Subsidized housing schemes:

Subsidized housing schemes have been proposed nationally and locally since the beginning of the housing reform. Subsidized housing is defined here as a housing tenure in which subsidy from either the government or the employer is involved, purchase or rent. These subsidized housing has lower

costs than the market price, although it is not by definition affordable (according to income or assets) for the household that lives in the subsidized dwelling.

Generally, two kinds of subsidized housing had been developed in China: subsidized Home ownership and subsidized rental housing. The most historical and prevalent form of subsidized home ownership is Economic Comfortable Housing (ECH, Jingji Shiyong Fang, some scholars also translated it as Economic Affordable Housing) and it dates back to 1994. It is a nationwide scheme which exists in almost every city. Municipalities sometimes have specific housing schemes based on the situation of the local economy and governance, such as Double Limited Housing (Shuang Xian Fang, from early 2000s) and Owner-occupied homeownership (Zhi Zhu Xing Shang Ping Fang, from 2013) in Beijing. No matter how they are called, the common feature for them is that they are for sale with a discounted price and their property rights are conditional.

The ECH provision dates back to the Comfortably Living Programme (Anju gongcheng) from 1988. From 1994 and onwards, it was described as a special housing tenure as part of the national housing supply system, which “targets to low and middle income households and have the nature of social security”(State Council, 1994). The reform plan in 1998 emphasized the ECH as the “main” subsidized housing tenure in the housing provision. The investment on ECH reached its peak in 1999 when it accounted for 17.2% of the total urban housing investment. The method to make it “affordable” is to provide specially allocated land (with no or a lower land lease fee) that is free of municipal tax and other administrative fees to government-contracted developers. In return for this facility, the governments can regulate the sale price and limit the profit for the developers “within 3%”(State Council, 1998). Conditions are attached to these subsidized ECH dwellings. The resale of these properties is forbidden until 5 years after purchase and part of the profit, usually 30%, should be returned to the municipality. Local governments were reluctant to promote ECH provision because they would lose a large amount of land income and other fees.

Even though they have a discounted price, the ECH dwellings are still out of reach for many low and middle income households. What is worse is that the difference between the purchase price and the real value makes these dwellings a profitable investment outlet for households with a higher income. Although they don't belong to the target group, many richer and resourceful households managed to get subsidized home ownership dwellings. These wealthy households pushed up both developing standards and prices (Duda and Zhang et al., 2005). In order to solve this problem, layout standards and eligibility criteria based on household income and households assets have been launched. In 2007, the central government set up a national standard dictating that the area of ECH dwelling should be no larger than 60m² (State Council, 2007). Unfortunately, the Chinese government had no tools to effectively investigate the total income and asset of buyers. As a result, the less luxury ECH dwellings and the stricter eligibility requirements could not completely avoid investment-oriented purchases (Tomba, 2005; Deng and Shen et al., 2009). Considering the above problems, the ministry is now considering to completely abolish the ECH provision (National Business Daily, 2013). Some municipalities are already implementing this idea, for example Zhengzhou, Yantai and Chongqing.

The subsidized rental housing schemes consist of two categories: Low-Rent Housing (LRH, Lian Zhu Fang in Chinese, some scholars translate it as Cheap-Rent Housing) and Public Rental Housing (PRH, Gong Gong Zhu Ling Fang in Chinese). Nationwide, the Low-Rent Housing scheme started in 2003 and targeted the lowest income households with a local urban Hukou. Public Rental Housing started from 2010, has relatively lower requirement on eligibility and therefore a lower level of subsidy. Readers can check figure 5 and Appendix 1 for the difference of each affordable housing scheme.

The term LRH firstly showed up in the national reform document in 1998. It had been referred to as “let the households with lowest income live in a rental dwelling provided by the government or the work unit” (State Council, 1998). In 2004, the central government stipulated that the living area per

capital of LRH dwellings should not exceed 60% of the average in the same area (MLR, 2006). The LRH scheme involved both allocation of dwellings with a below market rent and rent subsidy. It has been heavily subsidized. According to the income and assets of the tenants, they can get a rent subsidy equivalent to maximum 95% of the market rent. In 2009, the ministry declared that there were still 7,5 million low-income households in a difficult housing condition. Therefore it issued an ambitious plan to accommodate these families during 2009 to 2011. This plan included 5,6 million newly developed LRH units, and 1,9 million households who were supposed to receive rent subsidy. The goal of LRH development is to fulfill the housing needs of households whose current living area is below 13 m² per capital (MHURD et al, 2009).

The PRH scheme came later in 2010, and it is the first time the government suggested to include “new workers and migrant workers who have stable employment and already lived in the city for a certain years”(MHURD et al, 2010). Before this, no effort was made to accommodate the housing needs of the growing population of low-income rural-urban migrants and new workers without a hukou who have no savings to pay for the down payment necessary to buy commodity housing.

At the end of 2013, the Chinese central government issued a document that intends to unify the LRH and PRH schemes. Some municipalities are already implementing this idea. In the some pilot cities such as Zhengzhou and Chongqing. In experiments, all the subsidised housing will be in the form of PRH. From then on, all the provision and maintenance of for-rent subsidized housing will be operated by the PRH corporation. PRH corporations were established at the municipality or district level to develop PRH dwellings. They are government agencies but they have a substantial autonomy. They can attract funds from both the governments and the market. Central government encourages municipalities to develop transparent rules for the allocation of subsidized rental dwelling, such as queue or lottery, as well as transparent rules for determining the different levels of housing subsidy, based on the income level of the household and affordability criteria (MHURD et al, 2013).

In the perception of the central government, PRH schemes should also cover the housing needs of migrant workers. But based on Wang and Li’s investigation in 2011, among the 8 municipalities which already started the PRH scheme, only 2 of them did not require a local Hukou (Wang and Li, 2011). Later, in 2013, the central government issued a document that stated that, before the end of 2013, all the city-level municipalities should include migrant workers that have stable employment and meet certain eligible criteria into the local housing subsidy plan (General Office Of State Council, 2013).

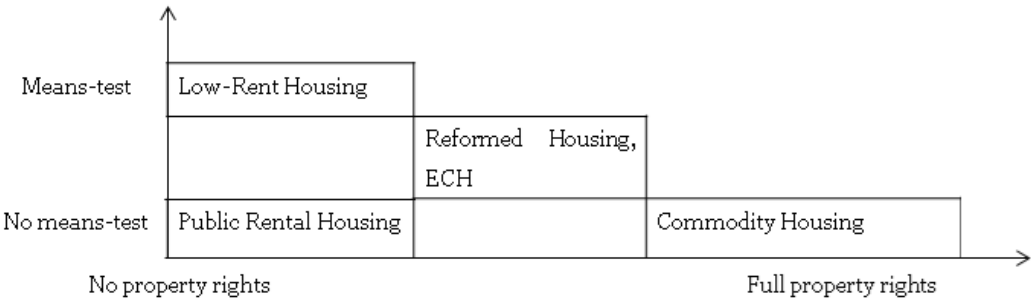


Figure 5: Housing tenure types in China
 Note: this table only describes the general condition of housing tenure in China and a slight differences, sometimes significant, exist between cities.

Real estate tax:

When housing speculation became a widespread problem in last period, the governments tried to regulate it by setting up and raising a transaction tax. But, as long as the supply-demand relation remains unbalanced and price levels remain high, speculation continues to be profitable and will not stop. After

all, transfer taxes can easily be transferred to buyers, thus further deteriorating affordability. From 2011, China start to charge a real estate tax on some luxury and second dwellings. This is the first time since the establishment of PRC that the possession of residential property is taxed. There are two main reasons for the introduction of the real estate tax. First of all, the government wants to increase the costs of possessing an investment-oriented dwelling and furthermore redistribute income and wealth. Second, the government wants to reform the local tax system, making it less reliant on one-off land leasing fees and more on income from continuous taxation.

The process of implementing such a tax transition takes place very cautiously and step by step. Similar to other housing policies, the housing tax reform starts from pilot schemes in specific cities. In the beginning of 2011, Shanghai and Chongqing launched two different housing tax schemes. Shanghai charged a fixed rate on the second home for owners with local hukou, and on any home for owners without such a local hukou. Chongqing charged progressive rates to owners of newly purchased luxurious dwellings, as well as to owners of a second home without a local hukou. Since the taxed properties only cover a fraction of total dwelling stock, the impact of the new taxation has remained limited until now. Until 2013, Shanghai collected about 600 million RMB Yuan and Chongqing 400 million (Xinhuanet, 2014). This accounts for even less than one thousandth of their total local revenues.

The central government affirmed that China will "accelerate real estate tax legislation" and continue the real estate tax reform. The goal of this reform is to "improve the local tax system" and "increase the proportion of direct tax" (The Third Plenary Session of the Eleventh Central Committee of the CPC, 2013). Currently, the housing tax is based on a state council report and it is actually against the law. It is at odds with the decree Provisional Regulations on Property Tax issued in 1986, in which the tax exemption of personal non-profit property was confirmed. Scholars suggest that it is very likely that the state will legislate the real estate tax first and then enlarge it to a wider range of dwellings. And the further reform may not just be about housing or real estate property, it may also include , urban land use tax, land value increment tax, and farmland conversion tax(People, 2013).

Another precondition for the real estate tax is the real estate registration system. The Ministry of Land and Resources of PRC is working on a nationwide real estate property registration system. This system intends to establish a management platform with property rights information about land, real estate, grasslands, sea area and so on. It is believed that such a system prevents corruption. However, the idea of a national real estate registration is confronted with fierce opposition from vested interest groups at the local level, and the broadness and complexity of the topic content is also making its progress slow.

Even though there are still doubts about the extent in which the real estate tax can impact on the housing market, China is already on its track and continue to promote this tax in order to come to a more equal distribution of both housing quality and wealth.

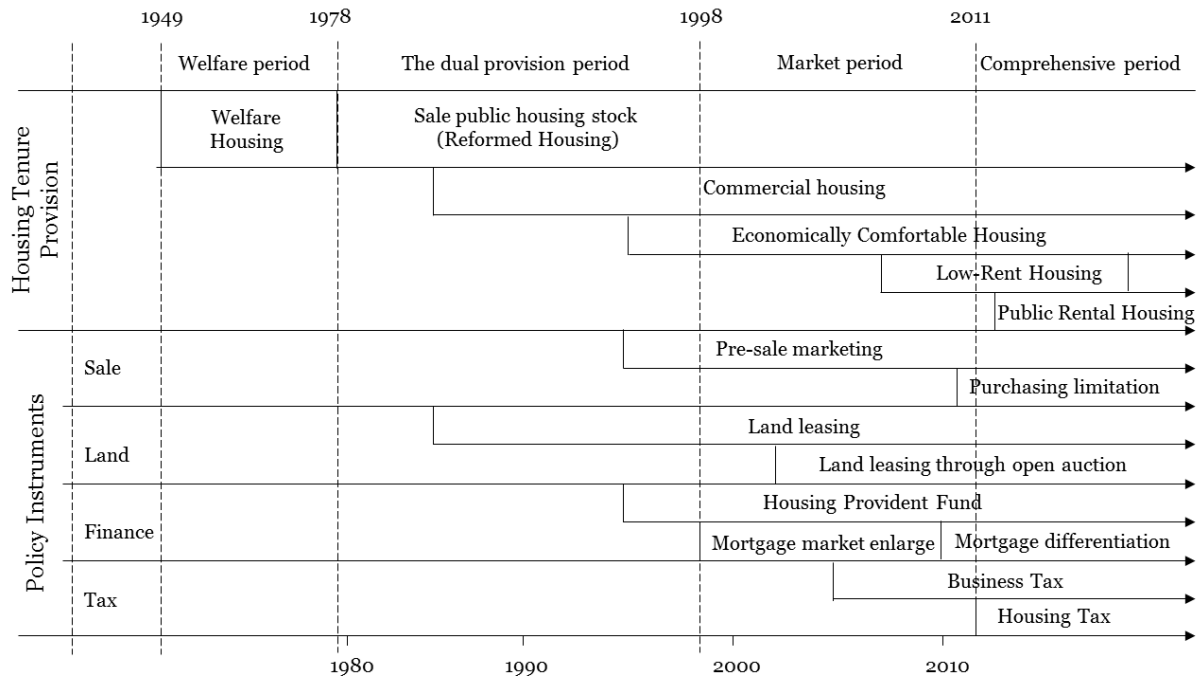


Figure 6: Historical line of China's housing tenure provision and policy instruments

Conclusion

China applied a gradual approach in its reform after 1978 and experienced an incremental "dual-track" transition afterwards. The term "dual-track system" refers to the parallel existence of a new(market) and the unreformed old(plan) system. If the growth rate of the new track is higher than that of the old track, then the old system will be gradually phased out (Fan, 1994; Lau and Qian, et al. 2000). The process of China's housing reform followed the dual-track approach too. Home ownership developed as the new track after the 1980s and eventually replaced the old welfare track based on subsidized renting which dominated the welfare housing period (1949-1978)(figure 6).

Gradualism and dual-track creates economic distortion and market segregation (Young, 2000). In the dual period of housing provision (1979-1998), both work units and the market provided housing, with each form of housing having its own costs and property rights. Reformed housing, subsidized home ownership housing provided by work units or the state, was only accessible to those who were privileged in the traditional socialist system. Less privileged citizens and migrants had to purchase commodity housing against a market price. Thus, the housing market was segregated based on social status (Pan, 2003). Even when China moved to the post-reform era and the market became the main housing provider, the distortions from the past are still influencing the segregation and differentiation of current Chinese society. The gap between privileged and non-privileged urban households further increased with the property inflation in the market period (1999-2011). The privileged households have experienced a substantial increase in wealth whereas the non-privileged households suffer from serious accessibility and affordability problems.

Considering these problems, current Chinese housing policies have expanded their scope to social inclusion in order to provide more equal chances to every citizen. National and local governments have become more active in protecting citizens' housing rights, rather than mainly focusing on economic growth.

Housing policies of China from the twenty-first century demonstrate this trend. The emerging housing policy framework after 2011 serves to broader societal goals such as sustainable urbanization and

welfare reform. Related to this, there are ideas to reform or even abolish the traditional Hukou system that has such a large influence on people's access to welfare services. Another new approach is the welfare reform by which the local authorities and/or non-profit organizations replace the work- units as the main provider and manager of welfare services.

By transferring housing provision from work units to the market and to social entities such as housing associations, a more inclusive housing market is emerging in China. In this inclusive market, housing difference will still exist, but the cause of these differences should be mainly determined by differences in individuals' economic ability rather than by differences in political and/or employment status.

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Appendix Features of China's affordable housing tenure

	Rent /Sale	Provision	Management	Subsidy		Layout standard	Eligibility		
				Supply side	Demand side		Localism	Income limitation	Asset limitation
ECH	Sale (70% equity)	Developer	Developer	Land, facility fee and tax waiver	Price regulation	Around 60 m ²	Hukou	very strict	very strict
LRH	Rent	Developer, PRH company, Municipalities	PRH company	Land, facility fee and tax waiver, revenue	at most 95% rent subsidy	No bigger than 60 m ²	Hukou	extremely strict	extremely strict
PRH					30% rent subsidy	No bigger than 60 m ²	Hukou or tax record	strict	strict

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