

# Development of Housing Provision Policy in China

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## Abstract

Housing reforms and strategies were tested and implemented in most countries during a long time to create better housing conditions. Although all of these reforms and strategies are targeted to upgrade the existing conditions, most of their impact on communities has not been very sufficient. In socialist China, although housing provision is considered to be the responsibility of the state, housing investment of the government is seen at the bottom of the planning agenda. Only a low amount of funds was channeled into urban housing investment, whereas a big amount of capital investment was put in industrial projects. As a result, serious housing problems have occurred. When the housing policy in East European countries is examined, a strategy to increase the role of the private sector in housing can be seen. Since the 1980s, the People's Republic of China has followed a similar tendency in housing policy. In order to succeed in economic reform, commercialization and privatization of the public housing provision system have been used. However, housing privatization in China has more difficulties than those in the East European countries. This study examines housing provision policy development in China and evaluates its impacts on Chinese community. To implement the reform movement different strategies of housing reform were developed. These strategies can be divided in two part by their specific aims; as prevention and rehabilitation movements. Prevention strategies in Chinese Housing Reform especially aim to make easy to own a house by especially low income groups while rehabilitation strategies aim to upgrade the existing housing conditions. The study concludes that while these measures are put in practice, how urban community has been ignored –a component which is the fundamental to urban sustainability.

**Keywords:** housing provision, housing reform, China

## 1. Introduction

Housing reforms, as a component of economic reforms, have been launched since 1979 to redress the mistake by attempting commodification and marketization for the urban housing system in China (Zhu, 2000). Housing privatization involves an adjustment of the responsibilities of the government and a separation of housing provision from employment and the social benefit systems. Housing privatization, like reforms in other economic sectors, has to proceed within the communist political framework (Wang, 2001).

When the Chinese Communist Party came into power in 1949, a paramount task at the top of the new government's agenda was to develop a new socialist China. Top-down control mechanisms for resource allocation were installed, facilitated by the nationalization of land, property, and other means of production. The state ownership of production means became a corner stone of the new governance. Private housing was gradually phased out by the government policy that forced it to be converted to state ownership (Zhu, 2000). The transformation of the planned housing provision as an in-kind welfare benefit to a more market-oriented housing provision is the ultimate goal of the urban housing reform in China (Mostafa and Wong, 1998) after 1949. Yet, during these transformation urban sustainability has not been taken into consideration.

The main goal of the study is to research what sort of influence political development have on sustainable urban development and transformation. In spite of the fact that housing reform movement in China is known as the largest reform movement how it is turned out to be insufficient will be presented and to throw fresh light on housing provision policies in our country an evaluation will be done about these policies' influences on Chinese society.

## 2. History of housing provision policy in China

From 1949 to now, China's urban housing policy has undergone a number of profound changes (Mostafa and Wong, 1998). Due to the socialist principles and pervasive state ownership of properties, urban housing was taken as "welfare" distributed to workers according to their needs. The low-cost rental housing was consequently determined by the then low-wage regime. Owing to the misconception of housing as consumption goods rather than as a basic need of urban residents, investment into housing was given a low priority under the general planning framework that included promanufacturing factor-related investments (Zhu, 2000).

Chinese government housing intervention in economic development could be categorized into three major different stages (Table.1).

Table 1: Housing intervention of Chinese government (Source: Mostafa and Wong, 1998)

<i>Stages</i>	<i>Policy Measures</i>	<i>State Intervention</i>
<b>Stage 1</b>		
<i>Planned economy (1950-1977)</i>	<i>Welfare based housing policy</i>	<i>Maximum Government Intervention</i>
<i>GDP</i>	<i>In 1949- 1957, housing sectors were partially nationalized and managed by collectively or state owned enterprises, or work units at the local level</i>	
<i>Year 1950- RMB 2,243 million</i>		
<i>Year 1977-RMB 23,036 million</i>		
↓		
<hr style="border-top: 1px dashed black;"/>		
<b>Stage 2</b>		
<i>Socialist market economy (1978-1989)</i>	<i>Initial reform measures</i>	<i>Sharing responsibility among state, local government and work units</i>
<i>GDP</i>	<i>-Work units were allowed to invest in housing for their employees.</i>	
<i>Year 1978- RMB 27,281 million</i>	<i>-The sale of publicly owned housing was carried out.</i>	
<i>Year 1978- RMB 69,654 million</i>		
↓		
<hr style="border-top: 1px dashed black;"/>		
<b>Stage 3</b>		
<i>Rapid economic growth (1990-now)</i>	<i>Market oriented housing measures under the control of local governments</i>	<i>State Owned Enterprises (SOEs) play a vital role in the housing market</i>
<i>GDP</i>	<i>-The 1991 Housing Reform Programme</i>	
<i>Year 1990- RMB 75,645 million</i>	<i>-Provident Fund Scheme was introduced since 1991</i>	
<i>Year 2000- RMB 455,115 million</i>	<i>-National Comfortable Housing Project was introduced (1993-1998)</i>	

The first stage was concerned about the welfare housing system under the planned economy before urban housing reform. The second stage practiced the socialist market economy and the welfare housing system was replaced by a pro-market approach (Mostafa and Wong, 1998). During the 1970s

and 1980s, it has been increasingly clear in many countries that the government cannot maintain the role of a direct producer of housing, and that this role must be performed by the formal or informal private sector. Marketization and commoditization became the main goals in the reform of China's urban housing system (Meng et al, 2004). The introduction of urban housing reform changed the responsibility of state, local government and work units. Market elements were introduced in the housing system (Mostafa and Wong, 1998). China has undergone an important transition from an old system of allocating housing into a new system in which housing is provided by the market. The market is emerging as the main channel for housing supply. The housing sector has entered a phase of development led by demand.

It was the third stage that demonstrated by rapid economic growth, which was manifest to integrate both state and private sectors in a free market economy under local government planning measures. The most significant measure was the “Provident Fund for Housing”- a housing saving scheme. This measure aims to accumulate capital for housing production and consumption (Mostafa and Wong, 1998). The National Comfortable Housing Project was a housing project carried out by the central government from 1995 to 1998 as a very important instrument to push forward the reform of urban housing. During the period of the implementation of the National Comfortable Project, the old system of allocating welfare housing was still at work, but the new system of market housing was gradually taking shape (Meng *et al*, 2004).

When we look at the European countries, where there has been significant government intervention, three stages can be observed. In the first stage, governments concentrated on new construction to alleviate absolute shortages of housing by a range of direct provision and investment subsidies. In the second, the pressure was on reducing public expenditure and government involvement– and particularly on improving the management and maintenance of the existing stock, on increasing individual choice and on greater targeting of assistance. In the main this was accompanied by a range of deregulation policies aimed both at rented housing and at housing finance regimes as well as a shift from supply to demand side subsidies. In the third stage – in part as a result of the large-scale building programmes of the post war period - European countries are now entering a phase of upgrading housing provision within a broader programme of improving infrastructure and local services. They now appear to be moving into a fourth stage where housing plays a central role in ensuring the preservation of communities' sustainability (Whitehead, 2008), while China tries to differentiate new housing reform policies from the old system policies. In this context it is clear that Chinese government has ignored sustainability of the urban development during these three stages.

### **3. Housing reform of China**

To implement the reform movement, different strategies of housing reform were tested and applied. These strategies can be divided in two parts as prevention and rehabilitation movements. The most significant prevention strategies are housing provident fund, affordable housing, housing subsidy, whereas the most significant rehabilitation strategies are sale of public sector housing and new rental social housing.

Although all of these policies were aimed at the whole society, their impact on different social groups vary. And also it is important to recognize that, although housing reform in China has been referred to as the largest privatization programme this century, it is restricted to urban areas. It has very limited impacts on rural society apart from encroaching on large quantities of good agricultural land. (Wang and Murie, 2000).

The Provident Fund, appears to be a good idea to help the low-income families to save for housing. However, its impact is also limited to the better-off urban residents employed by the state sector, particularly the administrative and institutional organisations. The availability of this fund in enterprises depends on the performance of the enterprises themselves. It is very common for state enterprises to set up this system according to the government requirement, but only pay a very low rate. It takes a very long time for an employee in these enterprises to save enough money to buy a house. Many collective and private enterprises do not participate in this system and employees of these firms are excluded from this benefit. The development of affordable housing was aimed at the so-called medium to low-income groups, or the salaried groups. These groups mainly included the public sector employees of government departments and public sector agencies and institutions—the Chinese middle class. The subsidies associated with this type of housing were not available to the urban poor. These large, sometimes huge estates were designed for those who had a steady income (Wang, 2000).

Sale of public sector housing to the tenants, was certainly not targeted at the urban poor either. Collectives, small private sector firms, or enterprises that do not usually provide housing for their employees employ the poorest urban residents. Even in the large profitable state enterprises, sales tend to benefit those who are already living in public housing and have experienced no housing problems before (Wang, 2000). In addition to this, “building for sale programmes” was developed; but it was only possible for land-rich enterprises. Enterprises without spare land found it difficult to adopt this approach. More and more enterprises had to redevelop their older housing estates to enable “new build for sale projects” (Wang et al, 2005).

The idea of social house renting reflects a response to the increasing gap between different social groups and the emergence of large numbers of urban poor. The government anticipates that the very low-income group will include unemployed workers, particularly those who have been laid off by their employers through the restructuring of state-owned enterprises. The main condition for social renting will be that the family income will be below the officially defined local poverty line. It was anticipated that in the short term, the work units that employed these low-income families would provide subsidised rental housing. In the long term, the municipalities will play a major role in providing subsidised rental housing. As a quick response to the urban unemployment problem in large cities, this new policy was applied immediately to provide a safety net. For very poor families, the rent could be waived (Wang, 2000) (Table.2).

Table 2: Major current housing reform policies and their implications for the urban poor (Source: Wang, 2000)

Major reform Policies	Poor among the official urban residents	Poor of the unofficial residents	
	Workers laid off by state sector	Workers outside the state sector	Rural to urban migrants
Sales of Public Housing	Depends on access to work unit housing; those who have secured allocation in the past will benefit	Not applicable to the majority, apart from a few senior managers in the collective sector	Not relevant
Compulsory Savings (Provident Funds)	Applicable, but amount depends on the individual enterprises' financial situation; some provide while others do not	Depend on the willingness of each individual employer; most private sector small businesses do not provide	Not relevant
Affordable housing	Qualified for purchase, but depend on individuals' saving; most will find difficult to buy	Qualified for purchase; most low paid workers do not have enough savings and secured jobs for mortgage; small business owners could buy	Not qualified for purchase; if rich enough, could buy commercial housing at market price
Housing Subsidy	Only applies to those who were entitled to housing allocation	Not applicable	Excluded
New Social Rental Housing	Applicable and the main target; may seek help from employer or government	Applicable, but could only rely on the municipal government	Excluded

## 4. Conclusion

Experiences in other developing countries and Western industrialised countries indicate that housing is an important part of the urban economy and urban sustainability. A family's housing problems cannot be solved without the improvement of the family's economic situation. In most Developing Countries, housing does not only provide a shelter for the urban poor; it also provides an important economic base for the family (Wang, 2000). Housing reform in China is seen as the largest movement of the housing provision within the existing political system. According to Wang (2001), this reform is a major step toward the establishment of an urban housing market. However, strategies which are used, have followed a pragmatic approach and are very different from the quick privatization approach adopted by most Eastern and Central European countries. Wang and Murie say that (2000), although housing reform has brought significant challenges to the housing provision system and improved many urban residents' living standards, it has not entirely broken the national system. They also specify that, market reform has been a partial reform, preserving some features of socialism and particularly the advantages of many members of the old political class.

Although Chinese government tries to solve housing provision problems with rehabilitation and prevention measures, as indicated by this study, some of the important aspects of the old system have survived and reform has had very different impacts on different social groups. As a result of this some part of the urban community have ignored. In spite of changing responsibility of the State, local government and work units by the urban housing reform, public support for housing have continued for so long. It is seen that following wrong policies does not only have influences on sustainable urban development but also have influences on physical, psychological and socio-economic urban community structure which will form the urban development. As in China, ignoring the communities, which will be the source of sustainability, will be one of the inappropriate policies that will be applied. When we look at the position of our political environment it is clear that there are many lessons to be taken from Housing Reform movement applied in China --which we should take into consideration within other countries.

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