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**FINANCIAL ASPECTS OF DEVELOPMENT OF HOUSING PROVISION POLICY IN CHINA**

**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. With the reform movement, Chinese welfare-based urban housing system turn into a market-based housing provision scheme. As a result of this significant housing policy changes, China has successfully expanded urban home ownership and the housing market has become one of the major sector in the country's economic advancement. However, today the Chinese government also faces significant challenges because of the financial aspects of the housing provision policies. This study explores the housing reform movement and its impacts on Chinese society. It examines the financial measures taken by Chinese government for improvement of the housing and evaluates their sufficiency.

**Keywords:** China, Housing Reform, Financial Development, Housing Provision, Housing Policies

**KONUT EDİNDİRME POLİTİKALARININ ÇİN`DEKİ GELİŞİMİNİN FİNANSAL YÖNÜ**

**ÖZET**

Daha iyi konut şartları sağlamak için birçok ülkede uzun bir süre boyunca konut reformları ve stratejileri denenmiş ve uygulanmıştır. Bu stratejilerin ve reformların tümü mevcut şartları iyileştirmeyi hedeflese de çoğunun topluluklar üzerindeki etkisi yeterli olmamıştır. Reform hareketleri ile birlikte, Çin'in refaha dayalı konut sistemi pazara dayalı konut edindirme planına dönüşmüştür. Konut politikasındaki bu önemli değişimin sonucu olarak, Çin kentsel ev sahipliğini genişletmiş ve konut pazarı ülkenin ekonomik gelişmesinde önemli sektörlerden biri haline gelmiştir. Bununla birlikte Çin hükümeti konut edindirme politikalarının mali yönleriyle ilgili önemli sorunlarla karşı karşıyadır. Bu çalışma konut reform hareketini ve bu hareketin Çin toplumu üzerindeki etkilerini araştırmakta ve Çin hükümeti tarafından konut gelişimi için alınan finansal önlemleri incelemekte ve bu önlemlerin yeterliliklerini değerlendirmektedir.

**Anahtar Kelimeler:** Çin, Konut Reformu, Finansal Gelişme, Konut Edindirme, Konut Politikaları

## 1. INTRODUCTION (GİRİŞ)

Houses, the special resource in the modern society, are provided to the residents by the governments using all kinds of welfare means in various degrees. In the housing system practice, what kind of regime is implemented relates to not only economic developmental level, but also political policy and historical and geographical conditions in different countries. Even in a country, housing policies are various in different historical periods and socio-economic development (Zhang, 2010; 99).

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; 502). 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; 621).

In China, for decades, urban area was considered as an affordable place to live, with housing available for people on all parts of the economic spectrum. Government plays an expansive role in housing allocation and helps solve all the housing problems. When the late Chairman Mao Zedong proclaimed the founding of the People's Republic of China 56 years ago, the Soviet-style planned economy was the only ready blueprint for the country to follow in striving for national reconstruction. In Chinese cities, housing became a fringe benefit for staff members of government institutions and industrial workers, which amounted to a social welfare program as virtually all industrial enterprises in China were owned by the State. It was distributed according to official rank or job seniority. Rents were nominal, barely enough to cover the expenses of housing repairs. But the situation has changed tremendously in the past few years. With explosive population growth and economic development, governments had no sufficient funding to continue the welfare-oriented public housing distribution system (Zhang, 2010; 101).

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; 506). 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; 1) after 1949. Yet, during this transformation urban sustainability has not been taken into consideration.

The main goal of the study is to research the influence of political development on urban development and transformation. Inside of the fact that housing reform movement in China is known as the largest reform movement how it is turned out to be insufficient for urban poor will be presented and to throw fresh light on housing provision policies financial aspects of them will be evaluated.

## 2. RESEARCH SIGNIFICANCE (ÇALIŞMANIN ÖNEMİ)

This study examines housing provision policy development in China and evaluates the financial measures' sufficiency which is related to these policies. This paper explores, the strategies of housing reform in two part by their specific aims; as prevention and rehabilitation movements and also determines these strategies' impacts on the Chinese community. The study also summaries how China's housing finance system has been restructured by the housing reform.

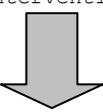
### 3. HISTORY OF HOUSING PROVISION POLICY IN CHINA (ÇİN`DEKİ KONUT EDİNDİRME POLİTİKALARININ GEÇMİŞİ)

The early stages of China's housing reform were largely motivated by the need to address the failure of the old public housing system to provide adequate housing for the country's citizens and the excessive government burden of managing a massive public housing stock. Under the old system, housing was treated merely as a component of social welfare and was provided mostly for free by government institutions and state-owned enterprises, also known as work units. Since the nominal rent collected did not even cover the cost of basic maintenance, there was little incentive for housing investment and improvement. As a result, China experienced continuously deteriorating urban living conditions and a widespread housing shortage under the old system (Li,1998; Deng et all, 2011; 2). Due to misunderstanding concept of housing as if it is only a basic need of city- dwellers, it was remained in the back ground in general planning decisions of Chinese government.

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

Table 1. Housing intervention of Chinese government (Source:Mostafa and Wong, 1998; 2)

(Tablo 2. Çin hükümetinin konut müdahaleleri) (Kaynak: Mostafa and Wong, 1998; 2)

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

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; 3). 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; 3). 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; 3). 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; 3). 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; 6). In the first quarter of 1990s, as a result of these measures taken by the government the investment rate of the construction industry visibly increased by the state owned units (Table 2).

Table 2. Capital construction investment of state-owned units by sector (Source: National Bureau of Statistics of China, 2011)

Tablo 2. Kamu idarelerinin sektörlere göre yatırım yatırımları (Kaynak: Çin Ulusal İstatistik Bürosu, 2011)

| Year | Total   | Farming, Forestry, Animal Husbandry and Fishery | Excavation | Manufacturing | Electric Power, Gas and Water Production and Supply | Construction | Geological Prospecting and Water Conservancy |
|------|---------|---|------------|---------------|---|--------------|--|
| 1985 | 1074.37 | 16.71   | 101.56     | 223.33        | 121.60  | 22.00        | 26.45  |
| 1986 | 1176.11 | 15.81   | 109.11     | 243.90        | 178.63  | 18.53        | 26.36  |
| 1987 | 1343.10 | 19.61   | 129.68     | 322.80        | 230.31  | 15.43        | 29.82  |
| 1988 | 1574.31 | 23.10   | 153.17     | 385.57        | 273.84  | 15.26        | 29.01  |
| 1989 | 1551.74 | 20.20   | 170.68     | 361.14        | 290.40  | 13.84        | 35.62  |
| 1990 | 1703.81 | 25.78   | 204.64     | 382.03        | 365.93  | 10.41        | 46.21  |
| 1991 | 2115.80 | 33.46   | 243.31     | 477.96        | 425.94  | 12.60        | 59.03  |
| 1992 | 3012.65 | 43.51   | 303.22     | 599.31        | 555.78  | 23.25        | 81.80  |
| 1993 | 4615.50 | 46.22   | 351.32     | 884.52        | 768.61  | 115.02       | 98.38  |
| 1994 | 6436.74 | 56.77   | 394.55     | 1216.33       | 1150.79   | 138.35       | 120.61                                       |
| 1995 | 7403.62 | 76.59   | 437.77     | 1540.08       | 1258.49   | 145.55       | 165.83                                       |

Indeed, with the introduction of the market economy, welfare services provided by employers were substantially reduced in order to improve production efficiency. Also, because of the market economy system, house prices started to soar in cities and the gap between the rich and the poor widened, especially in cities. The housing policies introduced in 1998 envisaged that about 5 percent of low-income urban families would rent social housing (*lian zu fang*) from the municipal government. However, its development was very slowly and by 2003, only few provinces had produced local regulations for social housing. Furthermore, in most cities that implemented this policy, fewer than five percent of households actually received some help (Zenou, 2010;19).

#### **4. PROGRESS OF HOUSING REFORM STRATEGIES IN CHINA (ÇİN`DEKİ KONUT REFORMU STRATEJİLERİNİN GELİŞİMİ)**

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 impacts 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 of 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; 10).

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 (Wang, 2000; 857). Employers are required to set up this savings account for employees, and the money in this account can only be withdrawn when the employee buys a house or retires. An additional subsidy provided by many work units is based on the number of years that the person was working prior to establishment of the Housing Provident Fund (and if the spouse was in the same work unit, those years would also be counted). In addition, work units that owned or controlled housing were free to offer different prices for different tenants. But for those who did not work for a government agency and whose work unit controlled no housing, as well as those who could not qualify for any subsidy (i.e. persons who are not employed, or who do not have a local urban registration), privatization offered no benefits (Logan et al, 2009; 104).

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 (Wang, 2000; 857). Although provision of affordable housing to mid- to low-income households is one of the major goals of housing reforms in the China, in reality the annual completion of affordable housing is far behind the actual housing needs. The major reason for insufficient affordable housing is the lack of incentives for real estate developers to develop such projects (Gao, 2010). 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; 857).

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; 856). A key question for China's policy makers was how to price the sale of public housing. Their approach was to set a standard price of construction in each city, based on floor space, and to adjust it according to characteristics of the location, the building and the housing unit itself. The discount rate was also adjusted according to characteristics of the purchaser. The most significant locational factor in that scheme was an assessment of land values in the neighborhood, which could vary the price by as much as 30 per cent. Access to shopping, availability of public transportation and other public infrastructure were also taken into account. A building factor adjustment considered such features as the age of the

structure (buildings more than 30 years old, for example, were discounted by 30 per cent), building materials, elevators and height. Unit characteristics included which floor the apartment was on (favoring the highest floors in buildings with elevators, and floors 3-4 in buildings without elevators) and the direction faced by bedroom windows (with a 3 per cent discount for west-facing bedrooms) (Logan et al, 2009;104).

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; 859).

The housing reform has led to the fact that the urban poor (most of them illegal migrants) have been marginalized into poor areas and locations while the rich and new middle class have emerged as the key players in the housing market.

Although home-ownership and asset building is certainly a better approach than the socialist welfare provision, new problems have emerged, especially with the relative increase of the urban poor in cities. Also, because housing building in the last ten years has been dominated by commercial property developers, new housing estates were built on different standards. This practice results in serious spatial segregation between the new and the old buildings and between the rich and the poor (Zenou, 2010; 19).

Since the market reforms, the central government has gradually realized that the housing socialistic approach did not result in the desired goal of "housing for all." To implement a new market-based housing system, the China began implementing laws and regulations to permit transferring, leasing, and mortgaging private rights to property, including housing (Gau, 2010).

##### **5. FINANCIAL ASPECTS OF HOUSING PROVISION POLICIES (KONUT EDİNDİRME POLİTİKALARININ FİNANSAL YÖNÜ)**

Like other housing policies, China's housing finance system has been completely restructured by the housing reform. Before the reform, all economic power was concentrated in the central government. Housing was financed solely by the government through budgetary funding, which had led to a serious housing shortage. By introducing market mechanisms, the housing reform has widened the funding sources for housing development (Zhang 2000; 342; Deng, 2011; 20). However, the restructuring of China's housing finance system was very unbalanced in its early stages. Most of the funds were distributed as development loans for production, with little left for housing consumption. In fact, in the early 1990s, the easy availability of development loans was one of the reasons for an oversupply of market housing in several regional real estate markets. This regional real estate crisis, however, taught the Chinese government its first lesson on how overextending credit to the development sector might damage the economy. Since then, it has been more careful to prevent real estate bubbles. On the other hand, the crisis also made the government realize that a housing market cannot be sustained without strong support for housing consumption (Deng, 2011; 20).

Finance was allocated in a way that could induce best state control over the implementation of state plans and the realisation of

the state's priority objectives. The budgetary housing finance system satisfied the needs of the central government economic control system but failed to meet the needs of the housing sector. The restructuring of the housing finance system has relaxed the state's control over housing finance. A relatively sophisticated structure of financial institutions has been established and financial sources have been widely expanded. One of the impacts is the changing role of the state from that of control over finance to that of enabling the financial institutions to work. The government's direct involvement has reduced significantly and changed its way of intervention from directly providing budgetary funding to providing loans through banks (Zhang 2000; 344).

In 1994, as part of the housing reform package, the Chinese government started to introduce mortgage loans to home buyers nationwide, but banks were not comfortable providing loans to individual households and often imposed strict restrictions on loan originations. For example, loans were available only to those who had bank savings equal to 30 percent of the home's value. Moreover, the loans had to be paid back in 5 years, and the first payment had to be no less than 30 percent (Zhang, 2000; 346; Deng, 2011; 21). Most urban households could not meet these criteria. As a result, individual home mortgages remained only a small portion of all bank loans.

Of course, as noted before, another significant development in the reform was the establishment of the Housing Provident Fund, which created a policy-driven housing finance channel. The market-oriented housing finance channel, the commercial mortgage sector, developed very slowly. Since work units were no longer allowed to build or purchase housing for their employees, most urban households had to buy housing from the market. In order to support this reform, the Chinese central bank, the People's Bank of China (PBoC), published the Residential Mortgage Lending Regulations, which established basic mortgage lending standards, including a maximum loan-to-value ratio of 70 percent and mandatory income verification. The maximum mortgage term was also extended to 20 years. PBoC also regulated the preferential mortgage interest rate and set the mortgage rate 10 basis points below commercial loans with the same terms. The relaxed lending standards, coupled with the strong housing demand released by the housing reform, have led to the unprecedented growth of the commercial mortgage sector. As a result of this by 2005, China has become the largest residential mortgage market in Asia (Deng, 2011; 22).

In addition to positive effects of a developing housing and mortgage market, the Chinese government is also grappling with new problems. By 2006, the housing and mortgage market was growing faster than Chinese economic planners believed was sustainable, thus sparking fears of a developing real estate bubble. While some housing markets, such as in Shenzhen, have recently stagnated or even declined, housing prices in some of China's major cities are still growing by as much as 10% a year. In addition to increasing speculative home purchases, individual Chinese investors (before the sharp downturn in stock prices in late October 2007) went as far as mortgaging their homes and using the money to invest in the Chinese stock market (Gibson, 2009; 182).

## 6. CONCLUSION (SONUÇ)

After 30 years' reform, China has achieved great success in its housing sector. Most urban households have experienced significant improvements in their living conditions, with a homeownership rate exceeding 80%. The housing industry has also become a major contributor to the nation's economic growth (Deng, 2011; 28). As a result of the reform movement, Chinese government gradually begins to play an active role in policy-making.

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.

The new housing market positively affected by the new housing finance system. In the new process the government influence on the financial affairs is reduced by the intermediation and banking system. According to the Zhang (2000), indicators to mark the success of the restructuring are: fast increase of housing investment, the expansion of the private housing sector and a more balanced tenure structure due to the increasing homeownership rate.

While it has much to be proud of, the Chinese government also faces significant challenges. Individuals of higher socio-economic and political status have had privileged access to housing of good quality and at a low cost. Housing was allocated partly on the basis of seniority through a continuous process over time of negotiating for larger or better-equipped housing. Income, education and Communist Party membership had positive effects on the size and quality of housing, as did employment in a larger and administratively more powerful work unit (Logan et al, 2009;104).

Another challenge is unbalance of production and consumption. The limited efforts of the new housing finance system in financing makes a world of difference between production and consumption. To solve this problem mortgage system was developed. But it didn't help very much because of borrowing restrictions in the form of savings and deposit criteria and short repayment periods.

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. Financial measures taken by Chinese government for improvement of the housing are insufficient and today housing prices are still growing in most cities of China. This situation indicates that housing finance cannot be properly be separated from the other political aspects of the housing reform.

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