



# Affordable housing policy in China: New developments and new challenges



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## ARTICLE INFO

### Article history:

Received 4 November 2015

Accepted 9 November 2015

Available online 15 December 2015

### Keywords:

Housing policy

Housing affordability

China

Urbanization

## ABSTRACT

This paper shows that the balance of several overriding policy objectives has determined the direction of the affordable housing policy in urban China. The priorities of the Chinese affordable housing policy agenda include promoting economic growth and urbanization through the efficient allocation of housing-related resources and ensuring political consolidation and social stability by maintaining housing affordability for mainstream society. The achievements and problems of affordable housing programs in post-reform China are introduced. We also discuss what lessons we can draw from the Chinese affordable housing policy developments.

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## 1. Introduction

Since the market-oriented reform of its welfare housing system in 1998, China has made impressive progress in improving the housing conditions for hundreds of millions of urban residents within a short period of time (Man, 2011). However, the affordability of housing still poses one of biggest challenge in urban China (Yang & Chen, 2014).

The existing research has shown that a shift in the provisional responsibility of urban housing from work units to the market was a precondition of the market-oriented reforms of state-owned enterprises in the early 1980s (Shaw, 1997; Wang, Wang, & Bramley, 2005; Wu, 1996), which made the revitalization of the Chinese urban economy possible. Nonetheless, the Chinese post-reform urban housing system has put too much priority on economic functions of housing investment, while largely overlooking the housing needs of low-income households (Chen, Hao, & Stephens, 2010). In recent years nearly all major Chinese cities has experienced rocketing growth of housing price: the national-level mean housing price soared from to 1854 RMBper sqm in 1998 to 5932 RMB per sqm in 2014 (NBSC, 2015). The mounting housing affordability crisis in urban areas has become an acute social issue and even pose threats to political stability (Chen, Yang,

et al. 2014). As described in a recent speech delivered by the Chinese President Jinping Xi, affordable housing policy has been attached with political significances such as ‘the inevitable requirement to promote social justice and ensure the public sharing the achievements of reform and development’ (Xi, 2013).

The discussion of the Chinese housing policy is often located in the literature of the East Asia model of housing regimes. It is widely hold that national housing systems in East Asia share an important common to use housing development as a means to drive urban development and economic growth (Doling & Ronald, 2014). Particularly, the research has elaborated the rationales of why the provision of owner-occupied housing is a pillar of welfare under productivity welfare regimes in East Asia. Through promoting asset-based welfare among homeowners, East Asian governments expect the family asset can functions as social security and the building up of “asset-based security” can preserve self-sufficiency and reduce the citizens’ demand to develop onerous and costly welfare states (Doling & Ronald, 2010; Groves, Murie, & Watson, 2007; Ronald, 2007; Ronald & Doling, 2012).

In Esping-Andersen (1990), the Polanyi’s concept of ‘de-commodification’ plays a central role in defining both what constitutes social rights and what is welfare state: the former are viewed in terms of ‘the degree to which they permit people to make their living standards independent of pure market forces’, while the latter is hold ‘when a service is rendered as a matter of right, and when a person can maintain a livelihood without reliance on the market’ (Doling & Ronald, 2014, pp.22). Under the influence of Esping-Andersen (1990), housing has been often treated in western

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countries as part of the package of social rights with appropriate degrees of de-commodification. In contrast, in the 1990s and early 2000s, housing provision in East Asia was typically featured with deep commodification and intensified marketization. Even public housing in the region is typically delivered by the states as commodified asset goods so that it can “help to resist potential de-commodification that would threaten to extend the autonomy of workers and a sense of social rights to public goods” (Doling & Ronald, 2014, pp.18).

However, the complete state withdraw from housing provision in East Asia has triggered persistent housing market turbulence, economic volatility, social fragmentations and wealth polarization (Ronald & Chiu, 2010). Accompanied by the increasing demand for social rights and democracy, the rapid ageing of the population, falling fertility and the erosion of the traditional family model, the East Asian housing model is under rapid reshaping (Doling & Ronald, 2014). This is same in China.

Against these backgrounds, this paper focuses on investigating why the Chinese government recently adopted a radical shift of post-reform housing policy and launched a massive construction plan of 36 million units of public housing between 2011 and 2015. This paper notes that the latest developments in the Chinese housing system should be closely connected to the adoption of the “harmonious society” development ideology of 2006 as well as the new urbanization strategy formally launched in 2013, which is essentially a reorientation of the development strategy of the Chinese economy (World Bank and DRC, 2013). In its focus, the recent public housing program serves as a propelling engine to promote accommodating millions of low-income migrants in cities permanently under the new urbanization strategy. Interestingly, the literature suggests that housing practices in China at the moment are actually not very different from those in western countries if we take the stage of development of urbanization in China into consideration (Chen, Stephens, et al. 2014). In many western countries, public housing was developed at a similar stage of rapid industrialization to accommodate industrial workers (Chen, Stephens, et al. 2014; Malpass & Murie, 1999). From this perspective, one may conclude that governments across the world are adopting “similar strategies” to address similar housing issues when facing the pressures of rapid urbanization (Chen, Stephens, et al. 2014). However, the Chinese experience of achieving a balance between economic prosperity and housing affordability during the rapid urbanization process is still unique and thus may carry wide policy implications.

## 2. The backgrounds of the Chinese post-reform housing system

Since 1998, the housing provision system in urban China has evolved gradually with economic development and the urbanization process. The shift in the provision responsibility of urban housing from work units to the market has made rural-to-urban migration and labor mobility much easier than before. However, the housing market boom has also been accompanied by a rapid increase in house prices, making home purchase increasingly unaffordable for low- and middle-income households and, in particular, for young workers and migrants (Chen et al. 2010; Yang & Shen, 2008). The housing market is thus polarizing property wealth between different tenures and different socioeconomic and demographic cohorts (Logan, Fang, & Zhang, 2010; Man, 2011). Meanwhile, the lack of affordable housing provision has produced severe obstacles for the sustainability of urbanization in China. The Chinese central government has over time reached a consensus that the imbalance between the housing sector and socioeconomic development can be largely attributed to the insufficiency and

inefficiency of the state provision of housing (Li, 2011; MOHURD, 2011; Qi, 2009).

### 2.1. Housing stock

An overwhelming majority of the public housing stock was quickly privatized within a few years after 1998. It is estimated that the size of the privatized public urban housing stock at the end of the 20th century was 2.5 million sq. m (roughly 70 percent of total public housing stock) and associated with an implicit market value of approximately RMB 2.5 trillion, or approximately 32 percent of China's GDP in 1998 (Adams, 2009). Privatization has helped raise home ownership levels among the permanent urban population to approximately 90 percent (cf. Table 1). It is estimated that 40 percent of (permanent) urban residents live in privatized housing. Enjoying a form of ‘state legacy welfare’, they are protected from the rising costs of housing in the market sector (Chen et al. 2010).

In tandem with the massive construction boom since the 1998 reforms, the improvement in housing conditions in urban China is substantial. According to the sixth national census (2010) (NBSC, 2012), the total construction space of the occupied housing stock in urban China doubled from 10.3 billion sq. m in 2000 to 20.3 billion sq. m in 2010, and the average housing space per person in urban China resulted in a 35.6 percent growth over the same period (22.36 sq. m vs. 30.33 sq. m).

However, the improvement in housing conditions in urban China is substantially uneven across regions. The housing conditions are generally quite good in the developed eastern region, but much poorer in the underdeveloped western area (cf. Fig. 1). Further, there are vast variations in housing conditions across cities with different sizes. Generally speaking, the prevalence of housing overcrowding is still high in large cities where the migrant population grows fast, for instance, Shanghai and Beijing.

### 2.2. Housing provision system

The market-oriented housing reform in 1998 aimed to shift the provision role of the state to the market. Nevertheless, the state did not plan to withdraw completely from the housing provision. A two-tier public housing system consisting of Cheap Rental Housing (CRH) and Economic Comfortable Housing (ECH) was introduced in 1998. The CRH program is targeted a accommodating lowest-income households with nominal rent rate, playing a residual role as in U.S. and other western countries (Chen, Yang, et al. 2014). The ECH program is expected to promote home ownership within low-to-medium income households who could not afford buying home at market price.

While the policies and mandates are set by the central government, the responsibility of producing and distributing ECH is placed on the shoulders of local governments. However, local governments usually appropriate state-owned land to real estate developers at zero or very low price and then direct them to take responsibility of the finance and construction of ECH. The profit for real estate developers are capped around 3%, so as to keep the price of ECH at a level that affordable for most low-income households. To get ECH, individuals need to apply to local housing authority and pass the qualification check that including local residence permit (*hukou*), asset, income and living space requirement.

ECH was officially designed as the predominant form of post-reform housing provision in the milestone document of 1998 housing reform (SC[1998]No.23). However, with the pressure of boosting GDP growth through a real estate boom (Rosen & Ross, 2000), the importance of public housing rapidly waned after 1998. In 2003, the State Council formally gave up the idea of ECH as the main form of post-reform housing (SC[2003]No.18). The role of

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