



# Localization of state policy: Shandong's experience in financing Cheap Rental Housing in urban China



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## ABSTRACT

China's urban housing sector has undergone a tremendous transition from a centrally-controlled economy to a socialist market-oriented scheme as a consequence of evolutionary processes of institutional change. By studying the institutions governing Cheap Rental Housing (CRH) financing, this paper analyses the intermediary role of the provincial government of Shandong in implementing centrally initiated government policies in urban China. Shandong's experience in leveraging Land Use Right Leasing and Housing Provident Funds to fund local CRH schemes amplifies that urban governance structure has been evolving where governments at sub-national levels assume an increasingly important function in executing national policies. The rising participation of provincial governments in affordable housing sector demonstrates that Chinese state can no longer be considered as a single superpower that overrides the role of local governments. The corollary of the changing power matrix in China shows that governments at each level coordinate and collaborate through the new institutional arrangements that have evolved in the planning and delivery of affordable houses. However, intra-governmental political and fiscal structures need to be increasingly calibrated to balance resource allocation to make CRH development in urban China more sustainable.

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## 1. Introduction

The provision of affordable housing (AH) remains a serious challenge in most transitional economies. China, with a large population of 1.3 trillion in 2014, is facing serious challenges in providing adequate, affordable and quality housing to its people in urban locations. Following economic reforms since the 1980s, housing privatisation and commercialization has largely transformed the socialist housing distribution scheme into a market-oriented dynamic. The removal of in-kind housing distribution as welfare goods and the consequent rise in property prices has made housing affordability a pressing issue (Cai & Lu, 2015; Hui Eddie, Liang, Wang, Song, & Gu, 2012; Shen, Hui Eddie, & Liu 2005). While the construction and consumption of commercial housing have been left to market forces, it requires governments' intensified participation in providing AH and improving social welfare (Quan, 2006; Ronald & Kyung, 2013).

As a government program to provide subsidized houses to middle- and low-income family after urban housing reforms, the affordable housing scheme has evolved into a series of housing sub-programmes, which include Economically Comfortable Housing (ECH), Cheap Rent Housing (CRH), Public Rental Housing (PRH), Price-Capped Housing (PCH), and Squatter Resettlement Program (SRP). Although the State Council targeted to provide 36 million AH units in the Twelfth Five-year Plan (2011–2015), the actual share of AH in total houses declined from 13.5% in 2003 to 3.5% in 2009. Therefore, it is clear that AH delivery to urban dwellers who cannot afford the market-based equilibrium clearing price remains a daunting task. Being a public utility that should reach the bulk of the population, leaving the housing allocation merely to market forces will certainly prevent the disadvantaged from access to decent housing.

The Maoist economic structure centrally-controlled by Beijing has been replaced by the emergence of a new political structure in which governments on sub-national levels increasingly enjoy the autonomy to cooperate and coordinate tightly for policy implementation. One of the characteristics of the new institutional framework is the increasingly important role played by local

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governments in executing policies. It has altered the governance structure in pre-reform era by re-defining the role of institutional players, such as provincial and prefectural governments. While the central government still plays an unparalleled role in initiating development goals, a trend in central-local relations has emerged where local governments have assumed an increasingly important function in devising procedures and solutions through leveraging on local institutions (Fu, 2014; Tao, Su, Liu, & Cao, 2010).

The role of local government in providing affordable housing is not distinctly different from its management of other scarce resources. However, there is a need to examine its implications for the urban housing sector. Firstly, affordable housing is an important topic relevant to people's welfare as it is a public utility that should reach everyone. Secondly, the way that government governs the institutional instruments makes the sector uniquely different from several other sectors (e.g. manufacturing). Institutional change in urban housing in China has attracted a plethora of articles analysing interactions among its different stakeholders (Fu & Lin, 2013; Wang, 2005; Wang & Li, 2006; Wang & Murie, 2011). Yet, scant attention has been devoted to analysing the role of local government in financing affordable housing schemes, especially the Cheap Rental Housing. Compared to other public utilities, affordable housing requires intensive government coordination as it cannot be left entirely to market forces as it shall undermine the delivery of welfare services. It is in such sectors that the state plays a major role, which therefore is sector of great priority to local government.

Therefore, this paper aims to examine the role of provincial governments in financing CRH programs by using policy instrument of Land Use Right Leasing Scheme and Housing Provident Funds. We attempt to analyse the function and discretion enjoyed by provincial governments in intermediating and adapting central government policies for local implementation. The rest of the paper is organized as follows. Section Two presents a recent development of AH scheme. Section Three discusses the theoretical considerations and methodology before the in-depth discussion is given in Section Four. Section Five concludes.

## 2. Affordable housing scheme

The origin of AH Scheme can be traced back to Economically Comfortable Housing Scheme (ECH) in 1995 when *National Action Plan of Anju Scheme* was introduced to provide subsidized housing ownership to the urban middle- and low-income families. Despite a slowdown in investment since 2001, ECH was revived when the State Council announced *The Implement Opinions of the State Council on Solving Housing Difficulties of Urban Low-income Household* in 2007 dealing with investment and land supply to support AH implementation. While AH development initially focused on providing ECH to targeted social groups, it has since transformed into a comprehensive indemnificatory housing system. Instead of meeting single target with uniform solutions, different solutions have been identified to satisfy the housing needs of different social groups. The new sub-schemes are anchored by a number of housing solutions, which are organized to meet different basic housing needs. Thus, Price-Capped Housing (PCH) and Public Rental Housing (PRH) schemes were added to the AH program when *The Notification on Promoting the Stable Development of the Real Estate Market* was launched in 2010 (Huang, 2012) (Table 1).

The Cheap Rental Housing (CRH) scheme is operated through the provision of in-kind houses or monetary subsidies to correct potential market failure that affect urban disadvantaged groups. Although CRH was started in 1998, its nationwide implementation only began in 2004. While it is believed that ECH was timed to stimulate domestic consumption during the Asia Financial Crisis, CRH was promoted widely after a shift in political leadership in

2004, coinciding with the national political campaign of moving towards a harmonious society (*hexie shehui*) (Firman, 2002). In so doing, the provision of housing welfare seems to take a “U-turn” from in-kind housing distribution in the 1990s to rent subsidies provision in 2003 and subsequently turn back to direct housing provision by providing CRH apartments (Huang, 2012 pp. 949). Nevertheless, instead of resuming mass provision of subsidized housing to every citizen before reforms, the CRH system has focused on low-income social groups only after reforms.

Differing significantly from ECH in several ways, CRH has evolved with continuous calibrations in program design, such as land acquisition and finance mode. These developments required: 1) **governments at all levels** to specialize in policy execution and actively collaborate and coordinate with each other, 2) **governments at different locations** to formulate action programs differently, albeit they share the same set of broad instructions from central government. These developments have led to the decentralization of urban housing governance in China.

Two characteristics emerged in the proliferation of AH scheme. Firstly, policy target has shifted from providing ownership-based compensation to use-right-based housing assistance. This development partially explains the decreasing significance of the ECH and the increasing importance of CRH and PRH in the current AH provision system. The compensation method has also been diversified with new solutions, such as monetary subsidies. Secondly, AH scheme demonstrates a tendency to protect not only low-income urban families with urban *hukou* status but also disadvantaged middle-income groups, including eligible rural migrants, fresh graduates and those relocated by urban renewal (Tao, Hui Eddie, Wong Francis, & Chen, 2015).

## 3. Theoretical considerations and methodology

This study is theoretically navigated by the state theory and developmental state in particular (Evans, Rueschemeyer, & Skocpol, 1985; Jessop, 1990). The effectiveness with which the state and its agents seek and deliver development objectives is largely determined by the autonomy and discretion they are given to design institutions where players with diverging interests, such as markets and states, interact based on human-derived constraints (Coase, 1992; Commons, 1934; North, 1991). Meanwhile, the ongoing reforms in China require evolutionary lens to interpret urban dynamics. While it is the anchor of evolutionary theory that intermediary organizations are crucial to “translate macro-economic policy for micro-agents to solve collective problems”, an efficient institutional setting is often characterized by smooth coordination and collaboration among macro, meso and micro agents (Rasiah, 2011 p. 170). Provincial governments, (which are meso-organizations), seek to solve collective action problems by dealing with the complex interplay between governments at different levels based on institutional rules.

Institutional analysis is deployed as the major analytical anchor of this paper, which is similar to the approach used by Huang (2011) and his contributors to analyse China's transformation. However, the stratified analysis of government at different levels is methodologically inspired by the three-level institutional approach of Kiser and Ostrom (2000), where:

- 1) Constitutional decision making is analysed on the highest level where political and legal rules are established. It determines how collective participants are selected and how collective stakeholders interact and interplay.
- 2) The second level deals with administrative procedures and regulatory framework, which are collectively formulated by intermediary organ. It is where decision-makers design practical

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