

Public Housing Development and Provision Structure in China

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ABSTRACT

Public housing development has been a critical part of the social welfare system in China since the economic reform in 1978. This paper examines China's contemporary public housing development and attempts to understand the critical factors that affect its provision structure, which has made the current implementation of public housing programs contentious. More specifically, it examines China's political and fiscal structures as well as its land system in relation to its public housing implementation and seeks to uncover why the land parcels allocated to public housing projects are mostly located along the urban fringe. This research has identified three major factors that have led local governments to locate public housing projects mostly in the suburbs: the inter-governmental system, fiscal burdens in the local implementation process, and political risks that local governments would face in the provision of land. Local governments have taken advantage of the decentralized authority of policy implementation by locating public housing projects in less-developed suburban areas in order to minimize their fiscal burdens and political risks.

Tiantongyuan and Huilongguan are two mega public housing projects that were built in Beijing, China in the late 1990s and early 2000s and house a population of over 800,000. Setting a record in November 2013, more than 20,000 commuters flooded the subway stations in the north Tiantongyuan-Huilongguan area in just two hours.¹ Researchers from Capital Normal University and Beijing Union University conducted a joint survey on the issue of job-housing imbalance in 2012 and found that people who live in public housing communities have, on average, the longest commuting time and distance.² China is at a critical stage in re-evaluating its development of public housing, an essential tool in restructuring its welfare system that would allow for the creation of decent homes for its growing population in the next decade. The local implementation of public housing programs remains contentious and unsatisfactory in spite of the strong political will expressed by the central government.³ There are two main “unintended consequences” related to public housing programs: one is that there is an insufficient supply of public housing units; the other is that public housing projects are always located in relatively disadvantaged places such as the urban fringe, where there is a lack of adequate access to employment opportunities and public services.⁴ Although the provision of public housing is generally considered an important policy step, and governments have invested a huge amount of money to build public housing units, public satisfaction with public housing is lower than the government’s expectation.

This paper focuses on understanding what shapes China’s public housing development in order to uncover the barriers impeding local implementation and the factors that lead to unintended consequences. First, this paper examines the historical development of public housing policy in China. The second section explores how China’s political and fiscal structures, as well as its land system, have shaped the current public housing provision structure, and then elaborates

on the critical factors that have deeply influenced its provisioning and site selection processes. This research aims to help city planners and policymakers think about how to integrate public housing development in future city development.

HISTORY OF CHINA’S PUBLIC HOUSING DEVELOPMENT

China’s public housing development has experienced three phases after the economic reform in 1978. From 1979 to 1998, the welfare housing system maintained the legacy of communist public housing policies from the Mao period. From 1998 to 2007, the Central Government launched the modern public housing system. From 2007 to present, public housing development has rapidly expanded.

Before the 1980s, under the in-kind socialist housing distribution scheme, China did not have a private housing market. In 1981, over 82 percent of urban housing was publicly owned and was built by state-owned enterprises or other state organizations.⁵ Work units allocated housing to their employees as a kind of welfare; low rent compensated low wages. This welfare housing system, however, was an impediment to economic growth.⁶ During the 1980s and 1990s, China enacted urban housing privatization reform through which housing units were sold to sitting tenants at a discount.⁷ In the 1990s, China’s housing provision system shifted towards being more market-oriented, which aided the revitalization of the Chinese urban economy.

In 1998, the central government issued *A Notification from the State Council on Further Deepening the Reform of the Urban Housing System and Accelerating Housing Construction*, which terminated the welfare-housing provision and introduced a two-tier public housing system consisting of Cheap

Rental Housing (CRH) and Economic and Comfortable Housing (ECH).⁸ The former was rental-oriented, in the form of heavily subsidized social welfare targeting low-income households, whereas the latter was homeownership-oriented, and provided incentives for developers to construct low-cost housing that would be sold to low- to middle-income households at government-controlled prices. ECH was designated as the predominant form of housing provision in this housing reform (SC[1998]No.23). The intention was, on the one hand, to increase home ownership and promote housing commodification and marketization and, on the other hand, to stimulate domestic consumption in response to the Asian financial crisis.⁹ Nevertheless, the interest in public housing development rapidly waned after the 1998 housing reform; the national focus shifted towards economic growth, leading to a real estate boom.¹⁰ In 2003, the State Council officially terminated the designation of ECH as the main form of housing provision (SC[2003]No.18), and since then the role of public housing has been downgraded dramatically. The post-reform housing provision emphasized the role of housing in economic development while overlooking the housing needs of low- and low-to-middle-income households, leading to a rapid increase in housing prices.

Within a short period of time, housing affordability became a pressing social issue resulting in tremendous social discontent. Under strong social and political pressures, in 2007 the central government brought public housing programs back on the agenda and committed to meeting the basic housing needs of low-income households through a revival and expansion of public housing programs (SC[2007]No.24).¹¹ Since then, China has established a comprehensive public housing system, and public housing development has experienced a 'Great Leap Forward.' In order to counteract the negative shocks of the global financial crisis in 2008, China released a plan to construct 7.47 million public housing units across the

country (SCGO[2008]No.131) as a key part of the four trillion RMB economic stimulus package.¹² In 2010, China's 12th Five-Year Plan officially included public housing as a critical component of its social welfare and public service system.¹³ In 2011, the Premier announced the plan to construct 36 million public housing units between 2011 and 2015, aiming to accommodate one-fifth of the Chinese urban population.¹⁴ Nonetheless, China is still experiencing rocketing housing prices. For example, the national-level mean housing price soared from 3576 RMB per square meter in 2008 to 7203 RMB per square meter in 2016.¹⁵ Chinese President Xi Jinping, in his speech at the 10th collective learning meeting of the Central Politburo of the Communist Party of China (CPC) in 2013, described the evolution of public housing policy as "the inevitable requirement to promote social justice and ensure the public sharing the achievements of reform and development."¹⁶

INTER-GOVERNMENT STRUCTURE AND PUBLIC HOUSING DEVELOPMENT

In order to understand the structure of the current public housing system in China, it is necessary to examine China's political structure, fiscal structure, and land system, which have all played a role in public housing implementation. It is then possible to draw the general framework of China's public housing provision system and determine the three major factors that influence China's public housing development, as well as understand how national policy design has shaped the local implementation of public housing programs, including spatial patterns of public housing development.

Political Structure

China's political structure mixes elements

of both centralization and decentralization. The Chinese government has five levels: central, provincial, prefectural, county, and township. The latter four are referred to as “local governments.”¹⁷ According to Xu, China’s inter-governmental system is a “regional decentralized authoritarian system [...] characterized as a combination of political centralization and economic regional decentralization.”¹⁸ Under this system, the central government has the authority to mandate and instruct lower-level governments, yet at the same time lower-level governments have the ability to impact national economic and political development.¹⁹

China’s political regime is characterized by rigorous personnel controls, which hold local officials liable for failing to fulfill top-down political mandates.²⁰ Local officials are annually evaluated by higher-level officials based on their political performance. Therefore, local officials have a strong political incentive to promote economic growth, which is the main evaluation criterion for their promotion or dismissal.²¹ However, the Central Government also assigns annual and long-term public housing construction tasks for local officials as another evaluation criterion, expecting that public housing programs will contribute to housing affordability and alleviate public discontent.²² A conflict thus arises for local governments, which are expected to provide sufficient public housing, often at the expense of economic growth.

Fiscal Structure

Before 1978, China had a highly centralized fiscal system. The Central Government collected and allocated all revenue. From 1979 to 1993, fiscal power and responsibilities were decentralized to local governments, giving priority to local economic growth and signaling their expectation of an efficient allocation of public resources.²³ This move helped China’s

economic growth in the 1980s and 1990s but led to a sharp decline in the central government’s revenue and administrative powers. To strengthen its fiscal and political position, the Central Government enacted a tax reform in 1994.²⁴ Under this tax reform, the Central Government was able to collect increased tax revenue through a value-added tax, business tax, and enterprise tax. While local governments still had the same spending responsibilities (e.g., public services, public housing provision, etc.), their share of tax revenue shrank. As compensation, the Central Government allowed them to have “some extra-budgetary revenue” (primarily the land-leasing revenue) to finance local expenditures.²⁵ The land-leasing revenue, which is positively correlated with local economic development, has become the primary revenue source for local governments. Therefore, local governments are incentivized to finance infrastructure, which effectively attracts investments and promotes the local economy, and favors allocating land towards more profitable uses such as market-based housing or commercial development. This land use decision generates more tax revenue than financing and allocating land to public housing projects.²⁶

Under this fiscal structure, public housing programs have imposed heavy fiscal burdens on local governments. First, the Central Government mandates local governments complete assigned quotas of public housing construction, but only contributes a small part of the cost. For example, in 2011 the Central Government planned to develop ten million public housing units but only budgeted for eight percent of the required investment, leaving local governments to shoulder the rest of the cost.²⁷ Second, current public housing policy design emphasizes free land allocation and other financial incentives for developers, which makes local governments give up part of their revenue from land-leasing and administrative fees.²⁸

Some innovative strategies have been employed to alleviate fiscal burdens for local governments in public housing development, including utilizing manifold funding sources (e.g., bonds, trust funds, etc.) and encouraging investments from private capital.²⁹ Moreover, local governments have called for developers to participate and share the fiscal burden. Advantageously, professional developers are experienced at reducing construction costs while guaranteeing high construction quality, and this system provides an opportunity for the leading developers to demonstrate their social responsibility.³⁰

Land System

China maintains the socialist legacy of the urban/rural dual-track land system, in which the state owns urban land and the village collectives own rural land.³¹ During the Maoist period, the Central Government adhered to the national plans of production and urban planning when making every urban land use decision.³² Before the 1980s, urban land was largely free, allocated to various *danwei* (work units) by the government. Since the 1980s, urban land use reform has ushered in a nationwide market-based orientation, which has privatized urban land use rights and has created a land use system requiring payment on the basis of land value and other market factors. This has given rise to different types of land and real estate markets.³³ Whereas the rural land has always been collectively owned, after the 1980s the Central Government released a new household responsibility system that privatized land use rights for individual households. Ever since, the village collectives started to function like contractors, subcontracting their land to village households. The village households have then been able to keep all the income that they gained from their land after they paid taxes to the village collectives.³⁴ This wave of privatization in both urban and rural land use rights led to

significant economic and agricultural growth in the 1980s.

China has a strict quota on the conversion of agricultural land into urban development to ensure its food security. Therefore, while the urban population is rapidly growing, there is a decreasing supply of land devoted to urban development.³⁵ Local governments need to acquire land from both the state and the village collectives and then lease it to manufacturers or developers to collect land-leasing fees to finance local expenditures. State-owned land can be leased directly, whereas China's constitution mandates that converting rural land uses into urban land uses must go through a state requisition process before leasing.³⁶ In theory, the law decrees that collective-owned land cannot be leased for real estate use; however, in practice, many villages have directly leased out their collective land for housing development at discounted prices. This kind of housing, called "property rights-limited housing," is theoretically illegal and carries no property rights.³⁷ Until recently, the Central Government suggested that local governments could rent collective-owned land to develop Public Rental Housing (PRH). In 2017, the Ministry of Land and Resources (MLR) and the Ministry of Housing Urban-Rural Development (MOHURD) issued the "Pilot Scheme for the Construction of Rental Housing Using Collective Construction Land," allowing for 13 cities in China, including Beijing, to develop PRH projects on collective-owned land.³⁸ Since implementation, Beijing has started plans to allot 1,000 hectares of rural collective land designated for PRH construction by 2021.³⁹ This pilot reform would become one of the most important policy innovations in public housing development. As experts have suggested, it will help solve the housing problem for floating populations and "improve the economic and social environment in suburbs."⁴⁰

Factors in Public Housing Provision and Site Selection

Three factors have affected the provisioning and site designation for public housing projects in China. First, the inter-governmental system tasks local governments with implementing public housing programs. The current structure of public housing provisioning in China has both a hierarchical and a top-down framework, “with relevant government departments at different levels divided by policy and implementation responsibilities.”⁴¹ The Central Government not only formulates general policy and strategy but also assigns and mandates local governments to meet the public housing construction targets given to each province. Under this mandatory command, local officials face administrative punishments if they fail to meet the quota [SCGO[2010]No.4; SCGO[2011]No.45]. This performance evaluation system over-emphasizes the quantity (total number of units) of housing construction, while ignoring other critical aspects such as construction quality, location, and accessibility. Since the Central Government has not provided a comprehensive and detailed regulatory framework, local governments have the freedom to design their own public housing provision structures. Consequently, this ‘decentralized policy implementation’ has empowered local governments to implement public housing programs that advance their local political agendas.⁴² For example, local governments are more likely to allocate public housing as a subsidized benefit to specifically target groups they want to attract and retain, such as highly-educated individuals and skilled labors.⁴³ Furthermore, it is reasonable for local governments to build public housing projects in less-developed suburban areas so that they can reduce their revenue losses while leasing expensive land in the urban core for other developments to maintain economic growth. As a result, this inter-governmental system plays a key role in the less desirable placement of public

housing projects across cities in China. Second, there are serious fiscal burdens placed on local governments’ shoulders, including the opportunity costs from the lost land lease revenues and land requisition costs that occur during the implementation of public housing programs, both of which significantly impact public housing provision and site selection. Based on the current public housing provision system in China, local governments have to take up the majority of responsibilities for public housing development, such as land supply, facility management, provision of infrastructure, and maintenance.⁴⁴ This bundle of responsibilities has imposed heavy fiscal burdens on local governments. Local governments are less willing to place public housing projects in the urban areas, where the land in those areas could contribute a considerable amount of revenue from land-leasing fees, and are more likely to place them along the urban fringe where the land is much cheaper, in an attempt to minimize their land-based revenue losses.⁴⁵ Moreover, the fiscal burdens also include financial or administrative costs incurred during the land acquisition process. If the site were in the urban core, it would likely have a higher density and would cost more to be demolished, requiring higher resident relocation compensation. Thus, local governments tend to avoid well-developed sites because of the concerns over land acquisition costs.

The political risks that local governments face in land provisioning is the third factor that influences public housing development. Because of the urban/rural dual-track land system, local governments face different kinds of political risks when providing urban or rural land for public housing projects. Even though local governments can lease state-owned urban land directly to public housing developers without political concern, they are still responsible for acquiring the land from the original property owners. In many cases, urban land acquisition involves a long and complicated process of negotiation with sitting tenants about demolition or

relocation, which places tremendous political and fiscal pressure on local governments if tenants refuse to be relocated or demand exorbitant compensation.⁴⁶ The village collectives, however, are striving to find ways to generate income. They are more willing to lease out their collective land in order to obtain long-term and stable benefits. Therefore, local governments face less resistance and lower political risks in rural land acquisition, which also means lower fiscal pressure. The recent pilot reform of the land system allowing PRH to be built on collective-owned land will further lower the political risks when allocating collective land to public housing projects. As a result, local governments would prefer developing public housing in the suburbs of collective land rather than in the urban core, after they weigh the political risks involved when implementing public housing programs in each situation.

CONCLUSIONS AND RESEARCH IMPLICATIONS

Providing enough quality public housing is one of the main targets of current housing policies in China. China's recent history has demonstrated that, when constructing a large amount of public housing, it was effective in absorbing surplus capital and labor, which stimulated domestic consumption and thereby counteracted the negative shock of financial crisis. As cities in China experience rapid urbanization, a housing affordability crisis has led to social instabilities. Under social and political pressure, the timely supply of a sufficient number of public housing units has been the key concern for the local and central governments.⁴⁷ Viewed more broadly, public housing development could be considered instrumental in promoting urbanization and sustainable urban development, and a tool that local governments could use to facilitate other policy initiatives.

Because of the inter-governmental system, fiscal burden, and political risk, local governments are reluctant to allocate more profitable and expensive land parcels in urban areas to public housing projects. Local governments take advantage of the system of decentralized authority when implementing public housing projects in order to minimize their fiscal burden and political risk: they simply locate public housing projects in less-developed suburban areas where land is much cheaper and easier to acquire.

The fact that large-scale public housing projects have brought large populations as well as public services and facilities to the urban fringe in conjunction with China's rapid urbanization needs to be further explored. It is important to examine how these mega-communities contribute to China's suburbanization. For example, Tiantongyuan was one of the largest planned public housing projects when it started in 1998, projecting to house over 180,000 people – a similar population size to that of a large county. There was no subway service connecting Tiantongyuan with the central city until 2007.⁴⁸ Since then, this suburban area has experienced a period of rapid growth, which undoubtedly has accelerated the development of infrastructure systems and other public services, and made land parcels more attractive to developers. The increased demand for land raised property prices in this suburban area, which has pushed new public housing projects to locate even further towards outer suburbs. Therefore, future studies should examine the relationship between public housing development and China's urban expansion and suburbanization, which happens at the outer edge of urban development in a much broader and continuous process, and how public housing developments can be integrated into the city for the future. ■

ABOUT THE AUTHOR

Weican Zuo is a first-year doctoral student in architecture. She received her Bachelor of Architecture from Xi'an Jiaotong University, China and Master of Architecture from University of Minnesota. Studying the dynamics of forces that are critical in framing contemporary models of public housing in China, as well as China's urbanization and sustainable urban development are important topics that she is interested in exploring during her doctoral studies.

ENDNOTES

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