HOME PURCHASE IN CHINA

A case study of Guangzhou from in-kind allocation to cash subsidy

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Abstract In China, promotion of home purchase has since 1979 been one of the major housing policies. Guangzhou is in the vanguard of housing reform. In 1997 the Guangzhou government announced an innovative housing initiative – the Housing Allowance Scheme (HAS). To enhance home ownership, this scheme endeavours to eliminate completely the existing welfare ‘in-kind’ allocation system. Civil servants appointed after 30 September 1997 no longer receive state housing. Instead they are provided monthly housing allowances ‘in cash’. This paper examines the feasibility of the HAS against its objective of ‘home purchase’. It reviews welfare housing development in Guangzhou in the context of policy development, housing need, and housing investment and provision. It then gives a systematic account of the key features of the HAS in Guangzhou and discusses its possible shortcomings as well as offering recommendations. The concluding section gives further suggestions for policy change.

Keywords Home purchase, housing reform, China, Housing Allowance Scheme (HAS).

INTRODUCTION

In recent times the Chinese leadership has acknowledged that housing problems in China are associated fundamentally with the nation’s traditional housing allocation system. During the Ninth National People’s Congress in March 1998, the leaders regarded the housing market as ‘a key engine of growth’ in China (South China Morning Post, 20 March 1998). The new prime minister, Zhu Rongji, announced that housing reform was one of the five major tasks of the State and claimed that the government was determined to eliminate its in-kind welfare housing allocation system. He also claimed to recognize home purchase as the major direction for housing reform and to this end in-cash housing benefits would be provided instead of in-kind welfare (Hong Kong Economic Times, 20 March 1998).
After the founding of the People’s Republic of China in 1949, housing was regarded as a welfare benefit for the people. Providing the individual with ‘an equitable share of items of personal and collective consumption’ is a fundamental belief of the socialist housing system (Sit 1997: 201). Hence, the PRC adopted the Soviet model for centrally planned housing production together with the work unit system (danwei), to ensure that every urban resident would be looked after by the State. A programme of housing reform was launched in 1979 to move away from this planned system. However, even in the 1990s, the socialist housing allocation system still registered a strong impact on the urban housing sector.

The Chinese government has undoubtedly played a dominant role in housing in China, especially through its direct involvement in housing provision and through welfare subsidies. In 1997 almost 80 per cent of the urban population lived in state-owned or collective-owned housing and each household received a subsidy of approximately RMB1,960 annually – representing 59.6 per cent of households’ total welfare subsidization (Chen 1997). Since 1995 a number of new housing programmes have been implemented in major cities such as Beijing, Shanghai, Tianjin, Guangzhou and Shenzhen. These new programmes include the National ‘Comfortable Housing Project’ (CHP) and the Housing Provident Fund. The former provides low-cost housing targeted at middle- and low-income groups while the latter aims to accumulate capital for individual home purchase (State Land Administrative Bureau 1997; Mao 1997: 32–5). The Home Allocation System (HAS) now under way in Guangzhou is a particularly interesting housing programme so we shall explore the HAS programme in this study. The principal direction of housing reform across the nation is to encourage individual home purchase. Yet little progress has been made with home ownership. According to an investigation conducted by a research institute in Guangzhou in 1996, the rate of individual home purchase accounted for only 15 per cent of all housing transactions.

Problems in the housing system, which is still dominated by the public sector, have largely involved quantity: housing shortage and insufficient investment in this sector. Other common problems have included unfair distribution, the low rent system and poor management (Wang and Murie 1996). The present programmes of housing reform therefore face major obstacles in attempting to move away from the old system. Because work units still bear the social obligation to provide housing, employees continue to receive housing from their work units at nominal (below-market) rent. Meanwhile, prices for the CHP are set too high for most households to afford. Entrenchment of the socialist housing allocation system and limited financial assistance for households have therefore hindered the implementation of the new housing programmes (Zhou and Logan 1996: 400–21; Kong et al. 1997; Chen 1997). Housing policy has thus become an
important research issue, leading to production of a large number of publications inside China. There is, however, almost no published information specifically concerning the Housing Allowance scheme in Guangzhou, an innovative scheme that has been taken up elsewhere in China. Because the scheme reveals useful insights into contemporary development of the nation’s housing policy we will examine it here in further detail (cf. Chu and Kwok 1990; Chiu and Lupton 1992; Wang 1992; Lau 1993).

**REVIEW OF WELFARE HOUSING DEVELOPMENT IN GUANGZHOU**

We begin with a review of welfare housing development in Guangzhou. In this section I aim to gauge the efficiency of current housing policy in a context of ‘partial equilibrium’, with other things equal. I consider the housing situation prior to implementation of the Housing Allowance Scheme, then turn to recent policy developments concerning housing need and allocation, investment and provision. This paves the way for considering where the HAS is likely to lead and the difference between proposals that lead to creation of new markets and proposals that lead to the provision of more subsidies to home buyers. On this basis I offer an assessment of what difference the new Housing Allowance Scheme may make.

**Recent policy development**

Realizing that the welfare nature of the housing system created inherent problems, the Guangzhou government has carried out a series of housing reforms since 1988. In 1997 the government announced that major tasks for housing reform were to accelerate the pace of reform by encouraging home purchase, with the aim of improving people’s living standards. According to a 1997 survey, in 26,000 households in Guangzhou people were living with less than 5 square metres per capita, referred to as ‘households with living difficulties’. Their income levels were the lowest of the middle- and low-income groups. Twenty-five per cent of these households were still waiting for arrangements to be made for them by their respective work units. These people are the major target groups of the housing reform in the coming years (*Guangdong and Hong Kong Information Daily*, 10 March 1997; *Nan Fang Fang Di Chan* 1997: 10). There are now two categories of housing for different groups of people, in addition to housing for the poor who have difficulties with relief housing. One category is low-profit housing (for employees to buy at low prices) and the other is commodity housing (for members of the public who are better off, to buy at market prices). ¹ Lack of data makes it very difficult to interpret the demand and supply for these two categories.
Housing need and allocation

Housing shortages have continued throughout the years of Communist rule even when state-owned enterprises were to take care of housing need and allocation. In 1996, the total urban population of Guangzhou was 6.5 million. This comprised 1.9 million households with an average floor space per capita of 7.5 square metres. The total urban working population was 2.03 million, of which 60 per cent worked in state-owned enterprises (Statistical Yearbook of Guangzhou 1997: 370). Work units have always faced a tremendous task in dealing with their employees’ housing needs. Given the huge number of people who need housing, a vast amount of resources has been put into housing production each year to develop the housing sector. As in other provinces, the Guangzhou government and work units have largely administered and controlled the housing sector to meet people’s needs, without the interplay of forces from demand and supply. This meant that in housing allocation, power and personal status were essential for access to good quality housing. In principle, the government and work units allocated housing units to employees according to factors such as their rank, years of service, family size and existing living area.

Housing investment and provision

Housing investment was provided solely by the state in the planned economy. This is no longer so. In 1996, total investment in real estate development in Guangzhou was RMB2.6 million. A significant 39.7 per cent was from joint ventures and 34.2 per cent from state-owned enterprises (Statistical Yearbook of Guangzhou 1997: 222). Joint ventures focused more on the non-housing sector. These data indicate that the government has remained a very important source of finance in the housing sector, though most property developments have been financed by bank loans. In the same year, the total residential floor space completed was 6 million square metres, of which 2.6 million square metres (43 per cent of housing construction) were built by state-owned enterprises. The government provided half of the total RMB6.4 million investment in fixed assets (including housing investment) (Statistical Yearbook of Guangzhou 1997: 156, 159, 226).

This evidence suggests the continuing importance of government in the financing and provision of housing. This involvement continues to put great pressure on the government’s budget. There was always a gap between the supply of housing and the amount of housing necessary to meet demand. There was also the government’s inability to improve the quality of housing caused by very low rents, shortages of housing investment, poor quality of new housing and poor management.

As part of the reforms, government has focused on the sale of public housing and by August 1997, 2,700 work units had sold public housing units
to sitting tenants. These public housing units totalled 17 million square metres, which accounted for 58 per cent of the saleable public housing stock. Today, housing reform in Guangzhou deals principally with two matters: (1) the marketization of housing and (2) the promotion of homeownership. Guangzhou is the pioneer of housing reform in China, formulating and establishing the ‘Housing Allowance Scheme’ for the State even before the Ninth National People’s Congress. This scheme was put into effect on 1 January 1998. Following Guangzhou, similar home purchase schemes have been put on the working agendas of other major Chinese cities including Shenzhen, Beijing and Shanghai.

A NEW INITIATIVE: THE HOUSING ALLOWANCE SCHEME (HAS)

The main objective of the Housing Allowance Scheme is to cut the link between work units and housing provision, and encourage home ownership in its place. From 1 January 1998, all civil servants who joined the government after 30 September 1997 and staff of government-funded institutions may apply for the housing allowances. They will no longer receive housing units from the government. Factors such as rank determine the amount of allowance for which a civil servant is eligible. By March 1998, 2,000 civil servants were participating in the new housing programme. By July 1998, the central government prohibited institutions from selling housing at low prices to their employees.

Two key features of the HAS in Guangzhou concern eligibility and subsidy payments. According to the Office of Housing Reform, civil servants are one of the most important categories of personnel involved, so here we will look particularly at this category. The main criteria for participants in the scheme appear below (Nan Fang Fang Di Chen 1997):

1 Civil servants appointed after 30 September 1997 must join the HAS.
2 Civil servants appointed before 30 September 1997 have the option of joining the HAS or continuing to accept the previously existing housing benefits:
   (a) Those who have not received a housing benefit are eligible to purchase Comfortable Housing at a discount.
   (b) Those who have received a housing benefit may, subject to certain conditions, switch to the new scheme.
3 No double housing benefits are allowed (i.e. if a husband has applied, his wife is not permitted to apply).

Under the scheme, if a married man has already received one of the housing benefits, such as allocation of a housing unit or a housing allowance, his wife is not entitled to any housing benefits provided by the government. This is to avoid giving double housing benefits to eligible
participants. There are, however, still some uncertainties about the scheme. For example, there is no clear rule on housing allowance for unmarried employees.

In parallel with the HAS, the Guangzhou government has issued a new housing directive that work units are no longer required to build housing for their employees. Instead the government is to provide new housing. Housing units built before the directive was issued were allowed to continue their extant rent levels until 31 December 1999. Meanwhile, ‘sitting’ tenants are allowed to purchase their units at a discount price. From 1 January 2000, housing prices and rent levels are to be set in line with the construction cost of the Comfortable Housing Project. These moves show clearly the Guangzhou government’s commitment to housing reforms as it attempts to shift away from its earlier in-kind welfare benefit system and rent policy to the new Housing Allowance Scheme.

Under the HAS, housing allowance is payable for a period of twenty years and, as stated above, the rates of allowance are determined by the staff member’s rank. Table 1 summarizes monthly allowances and housing areas allocated according to rank. Assessment of housing need is based mainly on the government status of the household head. It is not linked directly to the person’s income or housing situation and gives the greatest rights in housing to those with the highest status in government. Table 1 shows how higher rank and longer years of service reward civil servants in terms of their household space entitlement and monthly allowances. For example, junior staff receive only 0.2 square metres, while the mayor receives 2.6 square metres, thirteen times the juniors’ allocation. Money for these subsidies comes mainly from the government’s financial budget. Previously this money came under categories like ‘housing maintenance’ and ‘housing management’.

Now the money is used as ‘Housing Allowance’ and both government and work units have to make contributions. The level of subsidies is reviewed and adjusted annually. The formula used to determine an individual’s monthly housing allowance appears in Figure 1. There are a number of ways in which eligible civil servants can use their housing allowances:

1. **Private tenancy**: Eligible civil servants may draw a monthly housing allowance to rent private accommodation.\(^{10}\)

2. **Housing savings**: They can open a housing allowance savings account and pay in their monthly contribution for an agreed period of time. Upon maturity – say twenty years – they can draw the housing allowance to pay for their housing in full.

3. **Housing financing**: Eligible staff can apply for a government loan to cover the down payment on up to 30 per cent of the property price. The loan is to be repaid to his/her work unit from the monthly housing allowance.\(^{11}\)
Table 1 Housing allowance and housing area entitlements by staff ranking

<table>
<thead>
<tr>
<th>Rank</th>
<th>Space entitlement (sq. m.)</th>
<th>Space entitlement (according to rank) (sq. m.)</th>
<th>Space entitlement for each year of service (sq. m.)</th>
<th>Monthly housing allowance (RMB)</th>
<th>Cumulative (in 20 years)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(a)</td>
<td>(b)</td>
<td>(c)</td>
<td>(d)</td>
<td>Housing allowance (RMB) (d) × 12 × 20 yrs</td>
</tr>
<tr>
<td>Junior staff</td>
<td>1.5</td>
<td>0.2</td>
<td>1.7</td>
<td>347</td>
<td>83,280</td>
</tr>
<tr>
<td>Manager</td>
<td>1.5</td>
<td>0.4</td>
<td>1.9</td>
<td>388</td>
<td>93,120</td>
</tr>
<tr>
<td>Vice-head</td>
<td>1.5</td>
<td>0.6</td>
<td>2.1</td>
<td>429</td>
<td>102,960</td>
</tr>
<tr>
<td>Head</td>
<td>1.5</td>
<td>0.8</td>
<td>2.3</td>
<td>470</td>
<td>112,800</td>
</tr>
<tr>
<td>Vice-director</td>
<td>1.5</td>
<td>1.0</td>
<td>2.5</td>
<td>510</td>
<td>122,400</td>
</tr>
<tr>
<td>Director</td>
<td>1.5</td>
<td>1.2</td>
<td>2.7</td>
<td>551</td>
<td>132,240</td>
</tr>
<tr>
<td>Vice-chief</td>
<td>1.5</td>
<td>1.4</td>
<td>2.9</td>
<td>592</td>
<td>142,080</td>
</tr>
<tr>
<td>Chief</td>
<td>1.5</td>
<td>1.6</td>
<td>3.1</td>
<td>633</td>
<td>151,920</td>
</tr>
<tr>
<td>Vice-mayor</td>
<td>1.5</td>
<td>2.1</td>
<td>3.6</td>
<td>735</td>
<td>176,400</td>
</tr>
<tr>
<td>Mayor</td>
<td>1.5</td>
<td>2.6</td>
<td>4.1</td>
<td>837</td>
<td>200,880</td>
</tr>
</tbody>
</table>

Management of housing allowances follows the practice of the Housing Provident Fund. In the initial stage, the Management Centre of the Housing Provident Fund is to take care of the housing allowance.

THE HAS: PROBLEMS AND RECOMMENDATIONS

Establishment of the HAS in Guangzhou represents a notable step forward in housing reform in China. The scheme, as the Guangzhou government sees it, is certainly feasible and is bound to reshape the existing housing sector. The HAS embodies the government’s attempt to abandon altogether its in-kind housing welfare system. The government has tried hard to minimize adverse effects in implementing the HAS; however, there are still difficulties that policy-makers need to address to bring about the scheme’s long-term success. Let us consider some of the major problems and how they may be addressed effectively.

Affordability

Now that the State no longer allocates housing units to its employees, the financial capacity of employees to purchase property, and the affordability of housing, are crucial to the new scheme. To illustrate the significance of the affordability issue let us consider a typical newly married couple with both partners appointed to their work position after 30 September 1997. They are in the middle/low-income range with an annual household income of RMB16,000 (RMB8,000 each). They want to buy a housing unit with the suggested housing area for the rank of junior staff (34 square metres total construction area) at RMB3,500 per square metre. The total housing price will be RMB119,000 and the 30 per cent down payment will be RMB35,700. If the husband works as a junior civil servant, he is entitled to receive a housing allowance of RMB347 a month, or RMB4,164 a year (see Table 1). If the couple has also participated in the Provident Fund

<table>
<thead>
<tr>
<th>Monthly Subsidy Standard</th>
<th>Monthly Government Subsidy (MGS) + Monthly Work Unit Subsidy (MWUS)</th>
</tr>
</thead>
<tbody>
<tr>
<td>MGS = (Housing Price (HP) × Areas Entitled (AE)) × Proportion of Government Contribution (57%)/12</td>
<td></td>
</tr>
<tr>
<td>MWUS = (HP + AE) × Proportion of Work Unit’s Contribution (43%)/12</td>
<td></td>
</tr>
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</table>

Figure 1

*Housing price is based on the price level of Comfortable Housing in 1997, i.e. RMB3,500 per square metre.
Scheme, they will receive another 10 per cent of annual salary for housing savings (RMB1,600). Therefore their total annual amount for housing savings will be:

\[
\text{Housing allowances (RMB4,164) + Provident Fund Scheme (RMB1,600)} = \text{RMB5,764}
\]

The China Construction Bank requires households to have 30 per cent of the property price in their housing savings account to qualify for a housing loan. Given the allowances available, the couple in our case has to save money in the bank for at least 6.1 years to accumulate the 30 per cent down payment of RMB35,700 to qualify for a housing loan. This is a very long time by any international standards to accumulate a deposit of 30 per cent of the property price. According to a World Bank study, the ratio of housing price to income (PIR) averages about five in major cities. This means that in other major cities households need on average only 1.5 years of saving to reach the 30 per cent deposit.

Ordinary households in Guangzhou are like those in many other places in China; they cannot afford to buy their home outright. The HAS therefore needs to work with appropriate mortgage packages to achieve its principal objective of home purchase among the mass population. Failure to prepare mortgage packages that can reasonably be repaid will adversely affect two groups of staff in particular: (i) those who are newly appointed and (ii) those who have not yet received any housing benefits. If these people do not have a huge sum of start-up money, they might not be able to buy housing at all, which means that full payment for housing units is virtually impossible under normal circumstances. Participants in the HAS in Guangzhou may therefore need further financial assistance. As a remedial measure the State could, for example, set its interest rate on housing loans below the market mortgage rate for those in the scheme.

**Lack of funding and sources of investment**

There is no market for mortgages and mortgage-backed securities in China, so the Guangzhou HAS has operated under these circumstances. A World Bank assessment saw that this situation will undermine the potential of the HAS – particularly in fund accumulation (World Bank 1992: 132). With the China Construction Bank as virtually the only channel for housing finance, the absence of a variety of financing sources can adversely affect individuals who are interested in taking up the home purchase opportunity. For this reason, a market for mortgages and mortgage-backed securities should be developed alongside more channels for housing loans. Mortgage terms should be redesigned from ten years to periods of twenty to twenty-five years or longer where necessary. These moves will improve the affordability of housing for the people as the scheme seeks.
Investment in housing production was traditionally the role of government and so far construction under the Comfortable Housing Project has relied heavily on this source of funding. Foreign investment presents an important alternative if it can be attracted. However, despite recent efforts to encourage foreign investment in this area, foreign investors have put little into Guangzhou’s mass housing sector.\textsuperscript{15} It is expected that this failure to attract foreign investment could have an adverse effect on the housing supply, with negative consequences for the potential of the HAS to meet both housing demand and the scheme’s key objective of ‘home ownership’.

CONCLUSION

The Chinese government has for decades played a dominant role in housing via direct provision of housing and welfare subsidies. Guangzhou is today in the vanguard of housing reform in China through the initiative it has taken with the new Housing Allowance Scheme. Here we have considered the feasibility of this scheme against its objective of stimulating home purchase by reviewing welfare housing development in Guangzhou in the context of policy development, housing need, and housing investment and provision. The study has given a systematic account of the key features of the HAS for civil servants in Guangzhou,\textsuperscript{16} noting potential shortcomings and offering recommendations to overcome them.

The welfare-state housing system particularly involved problems of insufficiency such as housing shortages and insufficient investment. Today, housing reforms in the mainland still face many obstacles such as entrenchment of the work unit system and low affordability of homes for potential purchasers. And despite considerable differences with many Western governments, the Chinese government shares with its Western counterparts a very real dismay at the rising costs of welfare provision. Under these circumstances we can appreciate why the Chinese government is shifting the responsibility for housing provision from the State to the individual.\textsuperscript{17}

The new HAS is designed to eliminate completely the ‘in-kind’ welfare system by ceasing direct housing allocation. The government instead provides employees with housing allowances ‘in cash’ to provide a new pathway for Guangzhou residents to acquire their own housing. This housing reform looks promising, but the government still faces many difficulties. As discussed above, low affordability of housing presents a significant barrier to home ownership for households on the lower rungs of the housing ladder. To meet its objective of home ownership, the government must design policy mechanisms that are as workable as possible.

Young, low-to-middle-income families now cannot afford to acquire their own homes. It may therefore be appropriate to consider giving these people extra flexibility within the provisions of the HAS. One promising possibility is allowing those who undertake to purchase a property to pay ‘rent’ for
their accommodation with some or all of that money contributing to their 30 per cent ‘equity’ in the property. As soon as they have saved the 30 per cent, they could switch to the home purchase scheme. This flexible arrangement would have the advantages of: (1) reducing the possibility of several years of homelessness; (2) ensuring commitment to home ownership; and (3) encouraging the development of a rented sector. The rental sector could serve as a good buffer and provide another choice in housing options. At present, the private, open housing market is relatively small so the prospect of securing suitable housing is also small. Another way to expand both the housing market and the chances for households to find appropriate accommodation is to develop the market in second-hand housing. The second-hand housing market serves as an alternative for those who are unwilling or unable to pay for a new property.

In short, we see that the Chinese government is taking positive steps to implement its policy of moving away from reliance on state provision of housing. This shift in responsibility for providing housing represents a major cultural shift. The change has been spectacular across China and represents one of the most challenging tasks ever for the Chinese people. The government must tackle the fundamental institutional problems associated with the property market such as the absence of traditions that have a major impact on future prospects. These traditions that are absent from this scene are property rights, pride of ownership that encourages proper maintenance and institutional funding for home ownership. Given the sheer magnitude of existing housing problems facing China, the pace of change using a market-based approach is fast and encouraging. The HAS in Guangzhou shows the willingness of government to develop new policy options that replace in-kind allocation subsidies with cash subsidies. The HAS also constitutes an important landmark in housing policy transformation. Through the Housing Allocation Scheme, Guangzhou remains in the forefront of the housing reform process in China.

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NOTES

1 The danwei, or work unit, system refers to the practice of joining work and residence for employees. Every urban citizen is assigned to a work unit such as enterprise, school, hospital, factory or government department. The work unit
is also a multifunctional neighbourhood that plays a central role in organizing the activities of those who are employed in the work unit. From job offer to marriage, the life of an employee is controlled by the work unit. The advantage of joining work with residence is that it can help to create social solidarity (Whyte and Parish 1984: 25–6). Work units in cities were mainly divided into two categories: productive and non-productive. Productive work units were mainly and in principle SOEs (state-owned enterprises), while the non-productive units were schools, hospitals and the like.

2 In 1995 the State Council announced the ‘Implementation Plan for National Comfortable Housing Project’. Fifty-nine cities were selected to carry out experimental housing projects. The Comfortable Housing is built for middle- and low-income groups whose living area is less than 4 square metres per capita. The 1995 project was regarded as a focal point of urban housing reform for the following five years. This scheme helps to promote home ownership. The sale of Comfortable Housing Project units was the focal point of housing reform in Guangzhou in 1998. In March 1998, Comfortable Housing prices ranged from RMB3,000 per square metre to RMB3,500 per square metre, compared to the market level of RMB4,400 per square metre. Despite this, however, Comfortable Housing was still considered unaffordable because of the low-income level of households. According to 1997 statistics, the annual income level of middle- and low-income groups ranged from RMB8,000 per capita to RMB13,000 per capita. The average annual income level in Guangzhou, in particular, was RMB10,300 per capita. In other words, the annual income of a household with three members was approximately RMB30,000 (Yang Chen Wan Bao 1998). Assume wage rates and housing prices remain stable over time. Let us consider a couple with a child, in the middle- and low-income group, and an annual household income of RMB26,000 (RMB13,000 × 2). They wish to buy a housing unit of 60 square metres at RMB3,000 per square metre. At this price, they have to pay RMB180,000. This is seven times their annual household income. Understandably, without a mortgage, it is hardly possible for a household to buy the unit outright.

3 In 1991, the Shanghai government put forward a comprehensive reform plan: Implementation Plan for Housing Reform in Shanghai (the Shanghai Plan) that the State regarded as a model for other cities. The plan’s most significant suggestion was to introduce a housing savings scheme, the Housing Provident Fund. Most major cities including Guangzhou have established such a housing savings scheme for employees. This fund is compulsory and aims to accumulate capital for housing production and consumption. The savings belong to the employees and are used for home purchase, self-building and renovation of the employees’ housing units. The fund scheme requires both employers and employees who are permanent residents in Shanghai to contribute 5 per cent of employees’ salary to a personal housing savings account at the China Construction Bank. The rate of contribution will be adjusted in subsequent years.

4 Precise and reliable official data are not available for the demand and supply of different categories of housing. Interestingly, in China income is sometimes not the dominant factor affecting demand for categories of housing. Other key factors include savings per capita and the work units (danwei) to which the employees belong.

5 To house employees, employers sometimes build their own housing and/or purchase it from developers.

6 On the other hand, by August 1997 the Housing Provident Fund, which the
government launched in 1992, had accumulated RMB1.6 billion. There were 6,900 work units with 1.02 million staff participating in the fund at that time (Nan Fang Fang Di Chan 1997: 10).

7 Guangzhou began its housing reform in 1985. The government introduced property markets prior to establishing a proper housing system for residents. It was only after the launch of comfortable housing programmes that Guangzhou tried to accommodate both.

8 The central government prohibited the development and sale of housing by institutions to their employees starting from July 1998. Before that, some people had already begun to buy the housing allocated to them at very low prices.

9 Interview with a member of the Office of Housing Reform, Guangzhou, on 10 March 1998.

10 Participants who take up this option are prohibited from applying the allowance to their savings account.

11 The balance of the property price and associated expenses are to be funded by the participant him/herself, if all the allowance is used on the down payment.

12 The responsibilities of the Management Centre for managing the funds include collecting and giving out; arranging collection and spending; arranging the budget; examining applications for loans and withdrawals; supervising deposits and loans; and planning the ratio of contribution from employers and employees and loan interest. The Management Centre’s finance is independent and self-sustained. The centre’s work is just like that of a private fund company. The centre can use the funds to invest for profit in the financial sector of the market. The China Construction Bank was assigned under agreement with the centre. This bank provides normal banking services for individual savings accounts such as deposit and withdrawal of funds, settlement of accounts and loan repayments. The bank is not allowed to participate in decisions on spending the funds.

13 According to the World Bank, the world average PIR is 5, the lowest is 0.7 and the highest is 14.8.

14 In fact, a similar arrangement has been adopted for civil servants in Hong Kong. A total of 10,285 high ranking Hong Kong civil servants have enjoyed this benefit since the scheme’s inception in 1990 (Hong Kong Civil Servants Bureau 1997).

15 The People’s Bank of China announced in March 1998 that it would release its loan restrictions on CHP construction. Banks in China can now provide loans to development companies on the condition that (1) the development company has 60 per cent of the construction finance and (2) sales of housing reach 75 per cent of the development project (Sing Dao Daily News, 27 March 1998). This may help to encourage the participation of private developers in Comfortable Housing development.

16 This study is based on analysis of various materials in the Chinese language: documents concerning government legislation including local housing reform plans, relevant literature and press articles.

17 Housing reform in China today can be categorized into (1) the marketization of housing and (2) the promotion of homeownership. This involves the three major housing initiatives of the National Comfortable Housing Scheme, the Housing Provident Fund and, following Guangzhou, the Housing Allowance Scheme (HAS).

18 The rent they pay may be a little higher than the existing.
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