Pergamon

PII: S0264-2751(00)00030-5

Cities, Vol. 17, No. 5, pp. 339–348, 2000

Printed in Great Britain
0264-2751/00 $-see front matter

www.elsevier.com/locate/cities

The restructuring of the housing finance system in urban China

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The increasing housing crisis and financial deficiencies in the late 1970s made the government re-think the over-centralised financial system which excluded market forces and the initiative of individuals and work units in the finance process. The restructuring of the housing finance system entails the development of financial institutions and instruments to relax the government's control over housing finance, to widen the financial sources and to produce an adequate and stable flow of funds to the housing sector.

Keywords: Housing finance system, Restructuring, China

Introduction

Housing is a major sector of any national economy and particularly important for urban development. Finance is one of the most crucial factors for housing and urban development (Doling, 1987; Okpala, 1994). "The way cities are built reflects the way they are financed because methods of financing dictate modes of construction rather than the reverse" (Renaud, 1987:28) It has been argued that types of financing determine the patterns of urbanisation in cities. Changes in the housing finance system will change the characters and forms of cities. Housing and urban development are heavily dependent on the nature of the housing financing system and the availability of credit. However, the study of housing finance systems lags considerably behind the strong foundations laid in other areas of urban studies (Doling, 1987; Okpala, 1994; Renaud, 1999).

Housing finance systems have been under some fundamental changes in western countries (see for example, Doling, 1987; Renaud, 1999; Rosen, 1984; Rosenberry and Hartman, 1989). However, as China moves from a socialist central planned economy into a market one, the restructuring of its housing financing system is probably more fundamental than in any developed countries. The past two decades have seen dramatic changes in the housing finance system in Chinese cities, as reform policies have changed the dependence of housing development on the state's finances. Before reform in 1978, all the economic power was concentrated on the central government. Virtually housing was solely financed by the state through budgetary funding[1] On average, every year the state spent 25 billion yuan in new housing construction and another 10 billion yuan on maintenance. But it received only 1 billion income from housing rents (Cui, 1991). The increasing financial deficit of the housing sector impeded housing investment. Between 1952 and 1978, housing investment accounted for only 0.78% of GNP and the average living space per capita actually decreased from 4.5 m^2 to less than 4 m^2 (IFTECASS and NYIA, 1996). The indebtedness of the housing sector was viewed as the culmination of the weakness of the state's housing finance system. As a result of its dependency on state finance, housing investment was particularly vulnerable to changes of the state's ideology and development priorities. Single-channel state investment could not be sustained on economic terms. The primary objective of the housing reform is to restructure the housing finance system (State Housing Reform Leading Group, 1994), to meet China's existing and growing demands for housing. The old system was unable to properly facilitate the flow of funds to housing. So

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[1]Budgetary Funding, also known as State Funding (*guojia touzi*) is used for capital construction and allocated through the State Budget. Housing is regarded as part of capital construction.

reform requires resources beyond those that the state can provide and examination of how we can channel non-state resources into the housing sector through restructuring the financial system. Nonetheless, the housing finance system remains a neglected aspect in the growing English literature of Chinese housing research (see, for example, Barlow and Renaud, 1989; Chiu, 1995; Dowall, 1994; Fong, 1989; Lau, 1993; Kirby, 1990; Lee, 1988; Scott, 1993; Wang and Murie, 1999; World Bank, 1992; Zhang, 1998; Zhou and Logan, 1996).

The paper begins with the examination of the socialist housing finance pattern before 1978. Attention will then be given to the changes of the housing finance system. The main features of the new finance system are addressed. Finally, we look at its impacts on housing development before reaching a conclusion.

The housing finance system in 1949–1978

Material resources (land and building materials), financial resources (capital) and labour are widely regarded as three main factors of production. In a market system, it can be argued that finance is the most important of the factors, since all other resources can be acquired with adequate finance on the market. The way housing is built reflects the way it is financed because methods of financing determine modes of production (Okpala, 1994). The characteristics of a housing finance system are affected by broader social and economic policy considerations that are largely derived from political and ideological objectives (Garnett *et al*, 1991). In China, housing development prior to the 1980s was determined by the interplay of ideology and the scarcity of resources. Demand was to a considerable extent shaped by ideology. Ideology provided a framework for the direction of housing policy, objectives, targets and programs. On the other hand, resource constraints restricted production capacities and the ability to supply adequate housing for the large urban population (Eckstein, 1975). The interplay of ideology and scarcity pushed China to adopt a more concentralised planning system, which reflected the dominant role of the government in the housing finance system.

The Chinese socialist concepts were rooted in Marx and Engels' ideology that regards the private ownership as a means for exploitation of labour. To terminate the exploitation of man was to eliminate the private ownership of resources. Therefore for socialist theorists, the control of the resources (particularly financial resources) by the state was extremely important to achieve socialist goals. On the other hand, housing was not regarded as an economic good but a social good. It was regarded as a right for citizens. Under such a socialist conceptual framework, the financing of housing became inevitably the sole responsibility of the state through the central government budgetary funding. However, the central budget did not set aside special housing funds. Housing funding was included in the central and local governments' capital construction investment[2] funds. It was provided in four different ways: (1) *project-led investment*: housing finance was provided to work units[3] (*daiwei*) as an integrated part of new large or medium-sized projects or the establishment of new work units; (2) *departmental investment*: housing finance was allocated to sub-ordinary work units through individual state council departments; (3) *work units self-funding*: housing finance was raised by state-owned enterprises (work units); (4) *local government-led investment*: housing finance was provided by local governments (Liu, 1992; Shanghai Housing Editorial Department, 1993). The key feature of the system governing housing finance prior to the 1980s was that housing was solely funded by the state's budgetary funding despite the fact that the state budgetary funding might be allocated through different approaches, as already mentioned. Private and informal modes of housing finance were virtually non-existent in the urban housing sector. The final recipients of most budgetary funding were either work units or local governments. At the aggregate level, work units received 90% and the rest went to local governments' housing authorities. Fig. 1 showed the process and structure of the housing finance system prior to the 1980s. The government's central budget first determined a national total amount of capital construction funds in which housing funds were included. This total amount was shared among local governments and central governmental departments and further allocated to either work units or housing bureaus. However, one point must be stressed: although work units' housing investment was funded through the central budget, the government did not provide any funds directly to enterprises unless it was involved in the setting-up of new work units. The money for work units had to be raised from their own profits. Budgetary funding meant that work units could retain a certain amount of their surpluses for housing investment within the approved budgetary limit by the government. This system not only stressed the importance of government by control over the overall national investment scale through the central budget, but also boosted the role of work units in housing finance.

After the establishment of the People's Republic of China, the communist party immediately shifted its efforts to the nation's industralisation and economic growth. Mao Zedong stated in 1949 that the people's

[2]Capital Construciton Investment refers to investment which is sepnt on the new construction projects or extension projects and the related work of the enterprises, intstitutions or administrative units mainly for the purpose of expanding production capacity or improving project efficiency covering only projects each with a total investment of 500,000 yuan and over. Housing investment is included in the capital construction investment plan.

[3]Work units refer to all kinds of enterprises, organisations or institutions that provide people to work.