



# BUILDING PROSPERITY

HOUSING AND ECONOMIC DEVELOPMENT



## CASE STUDY

### HOUSING IN CHINA

Like many developing countries, the People's Republic of China now accepts that housing people is increasingly important to its economic reforms.

The reforms have virtually ended the government's welfare approach, while creating new institutional and financial structures for housing provision deemed vital to ongoing reforms and national socioeconomic development as a whole. With an annual real gross domestic product (G.D.P.) growth of over 10 per cent, and per capita income of over USD 2,000, up from USD 280 in 1985, China is one of the world's fastest growing economies. *G.D.P. is an economic measure of the all the goods and services produced by all the people in a country.* China is the world's most populous nation, with 1.3 billion people, of whom 40 per cent live in urban areas.

#### HOUSING IN THE SOCIALIST CONCEPTUAL FRAMEWORK

Before its economic reforms of the 1970s, housing was the sole preserve of the State. This was in line with the country's socialist thinking in which housing was seen as a non-productive investment and a "a right for citizens". For this reason, it received low priority relative to other investments. Average state yearly spending on new housing and maintenance was, respectively, between USD 1.5 billion (RMB 10 billion) and RMB 25 billion. In comparison, the average annual income from housing rents during that period was only RMB 1 billion, which could cover neither the costs of maintenance nor the initial investment. The net result was a persistent financial deficit for the housing sector.

#### ECONOMIC AND HOUSING POLICY REFORM

Since the reforms housing has become a centrepiece in the national policy agenda, and more money has been pumped into new construction, including through innovative funds. In this regard, the Housing Provident Fund was established in Shanghai, in 1991. It was aimed at raising long-term private money to meet the housing needs of workers, without state subsidy.

There are three central objectives of the fund: i) To provide an effective means to promote the transformation of housing from welfare to commodity; ii) to provide financial support to increase housing production and to meet the housing needs of those families in poor living conditions; iii) to establish a housing system under which the State, work units and individuals would join together to provide for housing development.

All employees and employers are required to contribute a proportion of workers' salaries on a monthly basis to the fund. At first, the rate was 5 per cent, but this was subsequently increased to 7 per cent in 1999. Savings under the scheme can be withdrawn to purchase a home, house repairs or other shelter-related improvements. The fund has been crucial in mobilizing money for housing development and individual purchases. By the end of 2002, it had raised a massive RMB 57.7 billion in Shanghai alone. Because of its success, the government has ordered that the fund be implemented in other cities.

The government now views rising homeownership as a stimulus to economic growth and a sign of economic progress and prosperity. To demonstrate its new commitment to housing, a National Commission of Housing reform was set up in the early 1990s. Rapid residential development homeownership became a top policy priority, with the explicit goals of increasing economic efficiency and reducing government involvement in the housing market. This is borne out by shifting the responsibility for housing development to the private sector and the decentralization of power from the central to local governments. In addition, with regard to housing

finance, systematic attempts have been made to mobilize money from individuals and work units, and to replace government allocation with investment loans.

Due to reforms, total urban housing investment between 1979 and 1995 has reached RMB 1,050 billion; compared with an average annual residential housing investment of RMB 1.3 billion between 1952 and 1978.

About 30.5 per cent of urban housing in China has become privately-owned since reform; household housing investment increased from 17.9 per cent in 1983 to 43.1 per cent by the late 1990s. Investment in housing as a proportion of gross national product (*the total dollar value of all final goods and services produced for consumption*) rose to 3.7 per cent in the late 1990s, up from less than 0.8 per cent in the pre-reform era. In addition, individual living space increased from 3.6 square metres in 1978 to 8.8 square metres in 1997.

China's experience offers these key lessons: i) a re-conceptualization of housing from being tagged as a 'non-productive' investment to an investment good; ii) the enormous importance of housing markets in economic reforms, which allows these markets to compete effectively for private capital; iii) private homeownership has become the main investment form for most Chinese families.

### **Significance of housing for national economic development**

- *A tool of economic recovery from recession:* investment in housing can be used as a pump-priming device in times of economic slowdown
- *Economic Growth:* residential construction is an important economic activity that impacts significantly on the overall economy
- *Employment and income generation:* residential activities create significant employment directly through on-site employment and indirectly through both backward and forward linkages with related industries
- *Housing as stimulus to save:* investment in housing is a stimulus to save for a large segment of the population
- *Housing investment generates additional income* through home-based enterprises and renting
- *Housing as an improver of health:* good housing and related services contribute to good health and improve labour productivity
- Housing contributes positively to social *harmony, safety and security*