

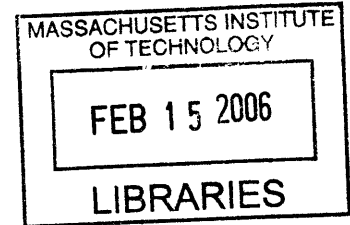
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Effects of Housing Policies on Intra-urban Inequality in Transitioning China

By

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Bachelor in Economics, 2001
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Submitted to the Department of Urban Studies and Planning
in partial fulfillment of the requirements for the degree of

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ABSTRACT

In the People's Republic of China, housing reform was launched in the 1980s as a component of the overall economic reform. In the 1990s, housing policies, privatization and subsidies combined, were found to contribute to over one-third of the overall inequality in urban income distribution in China.

My hypothesis is that housing inequalities are reinforced in the reform years. In the first half, I discuss three types of general mechanisms: the income-regressive nature of the Housing Provident Fund, the exclusion of rural migrants from urban housing welfare, and the strengthened work-unit-based inequality in reform years.

In the second half, to offer some empirical support, I conduct a case study of housing relocation in a large-scale urban redevelopment project—the Xintiandi redevelopment project in Shanghai. My main findings are that the government formed a pro-growth coalition with the private business, and middle-to-low income residents were excluded from the negotiation process. Families in difficulties and families with strong negotiation power received preferential treatment to facilitate the relocation process.

In summary, market reform has preserved some features of socialism, particularly the advantages of certain urban population groups with political implications. At the same time, the market forces are adding new forms of inequalities, which results in an increasing overall inequality level in urban housing.

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CHAPTER 1 Introduction

1.1 Background

In the People's Republic of China, intra-urban inequality has been on a similar level to intra-rural inequality since 1994 and had actually surpassed it in 1998 (Lu and Wang 2002). Since 1978, the economic reform in China has transformed the country from one with a socialist egalitarian income distribution to one with a more unequal income distribution. According to Khan et al.'s research, between 1988 and 1995 the *Gini* coefficient for the distribution of household income per capita increased from 0.233 to 0.332, or by 42.5%. Unfortunately, the subsidy system and other urban policies were not adjusted to compensate for the increased wage inequality. Instead, the housing reform, which was started in 1988, resulted in an extremely uneven distribution of housing assets and housing services. In 1995, housing policy (privatization and subsidies combined) accounted for 37% of the overall inequality in urban income distribution in urban China. Nearly 41% of the housing subsidies were received by the richest 10% of the urban population, and just over 60% of the rental value of owned housing accrued to the top 10% of the population. (Kahn et al. 1999)

Housing reform is a component of the overall economic reform launched in 1978. The older system was based on an implicit social contract that employees received many basic services, such as housing and medical services, at minimal cost with their low-paid permanent employment with the state-owned enterprises. As part of this "low-income-low-expenditure" system, most of China's urban housing was built, owned and maintained by public work units or city housing bureaus, for the benefit of their employees or residents. The low rent paid by public housing tenants did not even cover

maintenance costs in most cases. As economic reforms introduced market competition, state-owned enterprises became profit-seeking entities and could no longer shoulder the social benefits for its employees, including housing (Rosen and Ross 2000). Different housing-reform experiments were carried out cautiously and incrementally during the early 1980s which led to the introduction of a comprehensive housing-reform program by the central government in 1988.

With the overall objective of housing marketization, the 1988 National Housing Reform Conference introduced two major policy instruments for the municipal housing bureaus: first, continue to raise rents to a more competitive level, and, at the same time, distribute housing subsidies to offset the increases; and second, to begin implementation of the sale of public-sector housing. One major achievement of the reform during this period was the “socialization of housing” – meaning the housing-allocation system had to be delinked from the enterprise gradually through the raising of rents and allocation of rent subsidies. In 1998, the monetarisation of housing subsidies was widely implemented in Chinese cities. This involved the termination of welfare housing allocation through providing direct housing subsidies with a monetary distribution (Lee 2000). With these reforms, there appeared three major methods of housing supply in urban China: commercially built private housing at market prices for the high-income group; commercially built subsidized affordable housing for the middle and low-income groups; and social housing for rent to the very low-income group (State Council, 1998, quoted in Wang 2000).

For this study, I examine the contribution of urban housing policies to intra-urban inequality in transitioning China. The major research question is that, in the market

transitioning from socialism to market-oriented reform, does the introduction of market forces tend to compensate for the kinds of residential inequalities created by bureaucratic allocation, or will the commodification of housing create new inequalities and increase the overall inequality level? My hypothesis is that the latter one is true. Market reform has preserved some features of socialism, particularly the advantages of many members of the old political class. At the same time, the market forces are adding new forms of inequalities, which result in an increasing overall inequality level in urban housing.

1.2 Methodology

In order to explore the changing patterns of inequality in urban China, I first analyze the patterns and mechanisms of urban housing inequalities in Socialist China and transitioning China and discuss the key components of the housing reform. Second, I use the method of case study to analyze the inequalities in housing relocation in urban redevelopment projects in the late 1990s. The case I use is Xintiandi (Taipingqiao) Redevelopment project in Shanghai in 2003.

I begin by defining several important concepts. First, throughout, I discuss housing in the context of urban China. Since the establishment of the People's Republic of China in 1949, the state has been deeply involved in housing provision in urban China. In rural China, however, housing has largely remained an individual responsibility. Second, in the first part, I discuss housing inequalities in the context of urban China in general; and in the second part, I discuss the urban redevelopment in Shanghai Xintiandi specifically using a case study methodology. After an introduction of housing patterns in China, I expect the first part of this study to capture, on a general level, the most

important inner mechanisms of the housing inequalities. Urban China in the late 1990s has seen accelerated urban redevelopment with the relaxation of redevelopment policies, such as the legitimization of off-site relocation. I chose the Xintiandi project because of both its significant scale and my personal access to that community. I provide a detailed rationale in the latter part of the methodology. Third, I use two main terms to refer to the different development stages of housing policy in China. “Socialist China” refers to China from 1949 to before the 1978 reform; “reform years” or “transitioning years” refers to the time period from 1978 till now, during which China has become an authoritarian mixed economy.

I chose the case study method as my main investigation method. Yin (1984) proposed that there are three conditions in judging the appropriate research method: (a) the type of research question posed, (b) the extent of control an investigator has over actual behavioral events, and (c) the degree of focus on contemporary as opposed to historical events. He states that the case study is the most appropriate method when “a ‘how’ or ‘why’ question is being asked about a contemporary set of events, over which the investigator has little or no control” (Yin 1984: 20). In the case of this study, I ask a “how” type of inquisitive question about the inequality issues in housing relocation of an ongoing urban redevelopment project; therefore, a case study is a useful method of investigation. At the same time, I understand that a survey is very much needed in order to answer the “what” and “how much” types of questions. Because of the time and funding constraints, I was unable to conduct the survey research at this time. The case study I conducted should be viewed as a preliminary exploration of the topic, which can lead into a full-scale research project in the future.

The choice of a case study about housing relocation in the urban redevelopment process originated from my observations of housing conflicts in urban China. Urban redevelopments were prevalent in urban China since the late 1990s as a series of institutional changes, ongoing land and housing reforms, and prosperous real estate market emerged. Shanghai has been the largest city in China and grew significantly in the 1980s and 1990s. The area of the city's urban districts has expanded about 16 times and urban population increased by 70% from 1981 to 1998 (Zhang 2002). The Xintiandi project was one of the largest scale redevelopment projects in Shanghai with a budget of 3 billion U.S. dollars, involving a population of 70,000 (He and Wu 2005). The political economy of urban redevelopment and the inequalities in housing relocation demonstrate themselves fully in the case of Xintiandi redevelopment. As mentioned earlier, my access to that community helped me trace the relocated families and conduct the interviews, which was also an important reason for choosing this case.

I interviewed a total of nine families, and I also interviewed a Street Government officer. The selection of the interviewees reflects the mix of different social status and income level of the residents in the community to capture their different experiences in the relocation and compensation. I know one of the interviewed families personally, and I asked them to introduce me to the other eight families who used to be their neighbors. Requested by me, they intentionally chose families with different backgrounds. The sample is very small and may not be an accurate representation of the entire neighborhood. Nonetheless, it is adequate to provide preliminary insights into the inequalities in compensation in the urban redevelopment process.

As a final note, the proposal for this research was approved by the Committee on the Use of Humans as Experimental Subjects (COUHES) in December 2004. All the interviews were conducted after the approval and conform to the COUHES principles.

CHAPTER 2

Evolution of Housing Patterns in Urban China

2.1 Introduction

Housing patterns in urban China have gone through many changes since the establishment of Socialist China in 1949. In general, there are two major periods—the Socialist period and the Reform Period. In this study, the Socialist period refers to the phase between 1949 to 1979, i.e., from the establishment of the People’s Republic of China until the economic reform. In this period, China generally adopted the model of Socialist planning economy and the public sector dominated the production and distribution of urban housing. After 1979, the central and local governments carried out a series of experiments in urban housing provision in the context of general economic reform, which resulted in a changing housing pattern.

2.2 Housing Patterns in the Socialist Period

During the Socialist period, housing was mainly built, distributed, and managed by the work units (*Danwei*)¹ and the municipal governments in urban China. Below, I discuss housing delivery, housing quality and the spatial patterns in Socialist China as a background and comparison to the situation of transitioning China discussed in Chapter 3.

¹ The *Danwei* system is a hierarchy of state-owned workplace units (schools, factories, hospitals, government agencies, and the like) whose employees were guaranteed a variety of perquisites denied to peasants in the countryside, including secure jobs, affordable housing, inexpensive medical care, a range of subsidies for everything from transportation to nutrition and generous retirement pensions (Lu and Perry 1997).

2.2.1 Housing Delivery

Private housing in China experienced a dramatic decline after the People's Republic was founded in 1949. Between 1949 and 1956, the municipal governments claimed their exclusive ownership over lands in the city in accordance with the socialist transformation of the means of production. Remaining home owners, including business owners, former government bureaucrats, and well-paid professionals, were pressured to give up their "surplus" housing to help working-class families under the pressure of the socialist regime (Whyte and Parish 1983). Although home ownership was protected by the Chinese constitution, by the end of 1956 families owning private housing decreased to 30%-35%. Subsequently the number of private housing units has not changed much, although the private share has declined due to new construction in the public sector. The remaining privately owned houses were passed on from one generation to the next within the family (Howe 1968).

Under the socialist ideology, public-sector housing provision forms an important part of the socialist welfare system. Public housing includes work-unit housing and municipal public housing, and the former constitutes the majority of the supply. According to the first national survey of housing stock in 323 cities, in 1985 work-unit housing comprised 75% of the total housing floor area, while housing under direct management of the municipal housing bureau comprised only 9%, and private housing 16% of the total (Wu 1996). Financially, more than 90% of investments in urban housing were made from the state budget before 1980. By 1988, the state contributed only 16%, and the work unit (*danwei*) financed 52% of annual housing investment on average

(World Bank 1992, P7). Housing investment was seen as an important part of state enterprise capital investment.

From the individual's perspective, the housing allocation was a queuing process. Work units established either a formal or informal point system based on marital status, seniority, and other criteria on which all employees were ranked. Chinese urbanites paid nominal rent in the Socialist system. For those who lived in rental housing, rent was about 2-3% of total family income, with additional utility cost raising total housing expenditures to only 5% of total family income. (Whyte and Parish 1983)

Lee (2000) summarized that distributional inequalities in housing allocation within work organizations reflected a power relationship. With housing production and distribution being decentralized to the work unit level, housing distribution was based largely on the status of the household head, and his /her seniority and position within the work unit,

2.2.2 Housing Quality

Considering housing as a consumption good rather than a basic need of urban residents in the socialist system, investment in housing was given a low priority under the general planning framework that emphasized investment in industries. State investment in urban housing as a proportion of gross national product (GNP) averaged only 0.8% from 1949 to 1978 (Zhu 2000). In the largest 192 cities in 1978, the average floor space per person was only 3.6 square meters, a decline from a reported average of 4.5 square meters per person in the major cities in 1952 (Whyte and Parish 1983). Over 30 years, housing stock in Shanghai, the largest city in China, only increased by 58%, despite city

gross domestic product (GDP) expanding by 670%, and urban population growing by 38% (Shanghai Municipal Statistical Bureau [SMSB] 1981, quoted in Zhu 2000).

According to a population census conducted in 1982, 47.6% of urban households in Shanghai had poor housing, such as dilapidated structures and lack of amenities, and overcrowding. About 25.1% of households were virtually homeless, temporarily living with their parents or relatives while waiting for government assignment. About half of the total housing floor area was substandard without necessary facilities (Shanghai Annuals 1983, quoted in Zhu 2000).

Nevertheless, Whyte and Parish (1984) suggested that housing quality in Socialist China was on par with other developing countries of a similar income level. In the mid-1970s, the number of rooms per dwelling in China was only slightly below the average of that in other developing cities and there were fewer dwellings with just one room. Some of the housing amenities in Chinese cities were considerably better than those in other developing cities. Chinese urbanites were much more likely to have piped water and electric lighting, but fewer Chinese urban families, on average, had access to private kitchen, toilet and bathing facilities. They often had shared facilities in the building or within a short distance (Table 2-1).

Whyte and Parish (1983) also pointed out that another characteristic of Socialist China is the relative absence of slums. In the 1950s, soon after the revolution, the state moved quickly to clear the slums in large cities. Most of the buildings in that period had brick and concrete structures (89% in Whyte and Parish's sample 1983), with few of the wood and tin shantytowns of other developing countries. By Socialist Chinese standards, they were still considered crowded urban neighborhoods without in-the-building

amenities. Zhou Shulian and Lin Senmu wrote that “20% of urban residents are slum dwellers.” Many of these slums are often the concentration of uncleared private housing. Examples include Zhabei and Nanshi in Shanghai, Daobei in Xian, and Daowei in Harbin (People’s Daily, 5 August 1980).

Table 2-1. Urban Housing Conditions in Selected Countries, 1970s

	China (Mean)	Other Developing Countries ^① (Mean)	(Range)
Size and Density			
1. Average rooms per dwelling	2.5	2.9	2.0-3.3
2. Dwelling with only one room	18%	31%	9-52%
3. Persons per room	1.6	2.0	2.8-1.4
4a. Dwelling with 3 or more persons per room	24%	27%	50-16%
b. Dwelling with fewer than 1 person per room	18%	31%	9-52%
5. Persons per household	4.4	5.3	4.0-6.5
Amenities			
6. Piped water inside house	62%	43%	4-88%
7. Piped water inside house or within 100 metres	79%	67%	23-94%
8. Electirc lighting	99%	64%	4-96%
9. Kitchen	72/93% ^②	79%	61-100%
10. Toilets	18/29% ^②	88%	67-99%
11. Fixed bath or shower	23%	40%	4-85%
Ownership			
12. Owner-occupied	42%	56%	47-74%

Source: China: Whyte and Parish 1983, P78, Weighted neighbor sample, N=274.

Others: United Nations Statistical Office, Compendium of Housing Statistics, 1972-1974.

Note:

① Sixteen countries with a per capita gross national product in 1976 U.S. dollars of \$130 to \$600, which brackets China’s 1976 figure of \$200-300

②The percentage with a private facility is shown to the left of the slash. The percentage including those sharing facilities with other households in the same building is to the right.

2.3 Housing Reform

In April 1980, Deng Xiaoping, China's top leader, made a speech on urban public-sector housing to central government leaders

... urban residents should [be allowed to] buy houses, or to build their own houses. Not only new houses could be sold, old ones could be sold too. [The buyers] may buy out-right; [they] may also pay by instalment over a period of 10 to 5 years. [We] must adjust the [public-sector] rent according to house building costs, and make people think buying worth more than renting... When increasing rent, low-income workers should be subsidized. (Deng 1980, quoted in Wang and Murie 1996: 974)

This statement changed the long-standing policy of urban housing being provided by the state as social welfare, and legitimized the commoditization of housing in China. Throughout the 1980s, the Chinese government experimented with a series of reform programs. The first housing reform experiments of selling new housing for building cost was carried out initially in two selected cities: Xian and Nanning. By 1981, over 60 different cities and towns all over the country had carried out similar experimental schemes. The average price per square metre of construction floor space was between 120 and 150 yuan. The cost of a typical housing unit was the equivalent of about 10-20 years' salary at that time. Most cities reported low demand for housing purchase. Beleaguered by high prices, low affordability, inflexible payment methods, and the alternative choice of low-rent public housing, this round of experiment was formally abandoned in 1982 (Wang 1992).

In 1983, the State Economic Reform Commission made a proposal to carry out new pilot tests of commercialization for urban housing. In order to break the demand constraint, this round of the policy test offered an opportunity for an individual buyer to pay only one-third of the total price of their housing, including both the new and the existing housing stock. The other two-thirds were to be subsidized by the employer (usually a state-owned or affiliated institution) of the buyer and by the city government (Wang and Murie 1996, Cao and Chu 1990). The local government and reforming state work units complained about the heavy cost of the subsidy; the buyers did not find the deal especially attractive in comparison with the low rent of the public housing. The property rights over the acquired housing units were muddled. What the buyers obtained were “partial property rights”—rights to reside in but not trade the units on the market. This round of a sales-oriented reform was terminated in 1985. The policy-makers concluded that a more comprehensive approach was required, which, at least, should deal with the financial balance between buying and renting. The draft of the 7th Five-year Plan called for the formulation of “a set of well-considered methods as soon as possible to gradually commercialize housing”(CCP Central Committee, 1985, quoted in Wang and Murie 1996: 976).

A central government Housing Reform Steering Group was set up by the State Council in February 1986. At the city level, similar organizations—the Housing Reform Offices—were set up. In 1988, the State Council Plan for Housing Reform in Urban Areas formally set up guidelines for the reform of housing rental and promotion of home ownership. The central Housing Reform Steering Group proposed a comprehensive reform strategy: adjust rents in the public sector and introduce housing subsidy for all

public-sector employees; and promote sales of public-sector housing (old and new). Simultaneously, wages were rising with the evolution of market reform, partly in compensation for the welfare burden shift to individuals. The commodity housing was to be built and sold by property developers rather than built and distributed by the government or work unit. The whole scheme was based on the premise that housing rentals would be increased gradually to the point that buying housing units became a more sensible decision than renting (Zhu 2000).

Contrary to the policy goal, the housing rental increase, on average, lagged behind wage increases in the reform era. Housing rental as a percentage of household expenditure actually declined from 2.6% (1964) to 0.7% (1992). In Shanghai, although the absolute rentals increased by 3.7 times from 1991 to 1997 (SMSB 1998), housing rental as a percentage of household expenditures dropped from 0.9% to 0.7%. Resistance to the housing reforms by social groups with a vested interest in the existing housing system constrained the momentum of housing rental increases (Zhu 2000). The powerful group of people who benefited from housing inequalities under the previous redistribution were still in position to influence policy making in the reform period. The extent and the scale of rental increases in other cities were far from the level that could make the maintenance of housing stock commercially viable and the purchase of housing units economically sensible. In some cities, sales of public housing to the sitting tenants were tried as another pragmatic measure to get rid of maintenance burdens to raise funds for housing development. Public housing has been sold since 1994 in Shanghai at a discount according to the tenant's number of years serving in the danwei and entitlement to benefits based on seniority, deemed as the cashing out of housing benefits that tenants

deserve over the years of low-wage employment. Up to the end of 1996, 51% of salable public housing units were sold to 659,000 households, representing 20% of total urban households (Zhang 1998).

Summarizing the decade-long experience in housing reform, the national government issued the 1994 policy statement (State Department Policy No. 43—State Department’s Decision on the Deepening of City and Township Housing Reform). Lee (2000) summarized five of the most important aspects of the 1994 policy statement:

1. Sharing of Housing Responsibility among the state, the work unit, and the individual. The socialist model of *danwei*-based housing provision had a direct negative effect on the efficiency and performance of the work units. The new strategy would transfer housing provision and management to non-government specialized property development and management companies in the market. Housing subsidies would form part of the wage package and should not be allocated in kind.
2. Establishment of the Housing Provident Fund, named after the Central Housing Provident Fund in Singapore. The state sought to institutionalize the Housing Provident Fund as a form of involuntary saving to assist home financing. Both the work unit and the individual would contribute to a common account. The exact ratio of contribution and other details of the arrangement would be negotiated at the local level. Designated banks would further supplement the fund with individual housing loans through a mortgage system.
3. Socialization and Professionalization of Housing Management. The state and the work unit would progressively reduce its involvement in the production and

allocation process of housing. The consequence was that the housing stock would be managed through either professional bodies or tenant self-management.

4. Selling Existing Public Rental Housing to Sitting Tenants. As a guiding principle, the state would gradually sell all existing public housing stock to sitting tenants at a discount rate of 50% of a valuated price (calculated on the basis of three times the annual salary of a median-wage worker). Down-payment should not be less than 30% of the purchase price.
5. More housing for Middle-and Low-income Groups. The state would continue to produce economic comfort housing for those groups who could not afford to buy. The annual production of these houses would be less than 20% of total housing production of any city or township.

In 1998, the state introduced “the monetarisation of housing subsidies”. This policy terminated the welfare housing allocation and started to provide direct housing subsidies in cash terms. Generally speaking, new housing has to be obtained from the market, so the low rent of the old public housing would not interfere with the commoditization of the growing housing market. For example, in Guangzhou, new staff joining government departments or agencies after September 1997 would get a monetarised housing subsidy. Those employed before September 1997 could opt to remain in the old welfare housing system. The monthly housing subsidy in 1998 was stipulated at 233 yuan for general grade staff, 467 yuan for a section chief and 933 yuan for a city mayor and equivalent grade. Staff in receipt of a monetarised housing subsidy would no longer be eligible for buying or renting heavily subsidized welfare housing. In

Shandong Province, as another example, housing subsidies would be tied to wage levels and are included as part of the salary package. Government staff employed before 31 December 1997 would be paid a lump sum compensation in lieu of welfare housing. Years of service, rank, and entitled housing space are taken into account when computing the lump sum cash compensation. Those joining the government service from 1 January 1998 would have their housing subsidies included as part of their monthly remuneration, at about 25% of their basic wage. Another 5% would be contributed by the employer to the Housing Provident Fund (Zhu 2000).

At the same time, facilitating institutions were set up for the housing reform. For instance, a secondary market for public flats and market housing has been established to promote active circulation of commoditized housing. Selected banks are allowed to provide individual mortgages to home buyers. Step by step, the state, and the work units to some extent, are withdrawing from the provision and distribution of housing. Individuals become the main force in the housing market.

2.4 Summary

The urban housing system in China went through dramatic changes in the 1980s and 1990s. The reform program has changed the general public's perception of state housing provision and introduced many market economy elements into the housing allocation. Housing is increasingly recognized as a consumable commodity rather than a welfare service. Distribution of housing increasingly goes through market, rather than bureaucratic allocation. Although property rights issues still exist, housing ownership is

encouraged in the reform. Housing is becoming a shared responsibility among the state, local government, work unit, and individual. Table 2.3 summarizes the key reform initiatives since 1979

Table 2-2. Key Housing Reform Initiatives, the People's Republic of China, 1979-

Year	Policy Initiatives	Range of Execution	Results/Evaluations
1979	Commercial housing sold at building cost	Xian, Nanning	Experiments terminated due to demand constraint and low affordability
1982-1985	Commercial housing subsidized by employer and city government	Zhengzhou, Changzhou, Siping and Shashi	Experiments terminated due to high cost to the public sector and limited demand
1986-1988	Raise rents in the public sector; introduce housing subsidy for public-sector employees; and promote sales of public-sector housing	Yantai	A successful plan with a comprehensive approach, later used as a model for other cities
1988-1992	National Housing Reform Plan 1988: contents similar to Yantai reform plan implemented on a national scale	National, with local variations, e.g., Shanghai Housing Reform Plan 1991	Progress in the sales of public-sector housing; housing situation still linked to employer; a housing market was not established
1993-1997	Decision on Deepening the Urban Housing Reform 1993: socialize housing investment, provision and management	National	Preparation for the establishment of a commercial housing market
1998-	Termination of Welfare Housing Allocation and the Monetisation of Housing Subsidies	National	Establishment of a commercial housing market

In the reform process, privileged people in the Socialist period benefited enormously from the opportunities in the housing reform, while the urban mass at the bottom of the work hierarchy suffer from a reduction in housing welfare and the low

level of affordability in the market system. In the next chapter, I discuss the housing inequalities both in Socialist China and in transitional China.

Chapter 3. The Mechanisms of Housing Inequality

3.1 Introduction

There is a burgeoning literature documenting inequality in housing opportunities in socialist countries (Chapman and Murie 1996, Szelenyi 1987, Ciechocinska 1987, Musil 1987, Whyte and Parish 1984). Szelenyi (1983) argues that housing inequalities are created by the distinctively socialist mechanism, which was supposed to replace the capitalist market method of allocation. Individuals of higher socioeconomic and political status have privileged access to housing of good quality and at a low cost. Logan and Bian (1999) summarized the inequality in housing under the socialist regime with three main characteristics. First, the largest and best-equipped apartments have consistently been allocated to persons in positions of authority or with strong informal ties to authorities. Second, the working units function as the organizational basis of stratification. Basically, working units compete within government for housing constructed by state agencies or for the permission and resources needed to build or buy housing themselves. The rank, sector, and size of the working units are markers of their formal authority and informal influence in this competition. Third, the socio-economic differences of the individual have a strong influence on the individual's housing quality. Even under a socialist regime, a bias in housing allocation favors people with higher incomes, education, or occupational skills.

3.2 Housing Inequity in Pre-reform Socialist China

In pre-reform urban China, housing production, distribution, maintenance, and management were conducted at the municipal government and work unit level. Characteristically, China has a larger proportion of work-unit housing stock compared with other former socialist countries (Table 3-1). Housing inequalities in pre-reform socialist China were, to a large extent, work-unit based. The main source of investment for public housing came from the state annual budget for basic construction projects, including building new productive, commercial, and service facilities and expanding existing work places. The second source was the state budget in maintaining and renovating existing facilities. In both budgets, a category for residential housing was created for building public rental apartments for the workers in the work units.

Table 3-1 Tenure Structure of Housing Stock in Socialist Economies

Country	Enterprises	Local governments	Cooperative	Individual Ownership
Bulgaria (urban, 1988)	12.3	10.2	0.2	77.3
China (urban, 1988)	54.3	27.0	n.a.	18.7
Hungary (Budapest, 1987)	10.0	30.0	0.9	48.6
Poland (urban, 1989)	12.1	20.3	21.8	45.8
USSR (urban, 1990)	36.9	35.5	6.3	21.4

Source: Renaud (1991); Wu (1996)

Before the reforms of housing and land use, the state work units were responsible not only for allocating public housing but also for bargaining investment funds from their supervisory government agencies and developing and managing housing. The bargaining power of the work unit depended on its rank in administrative hierarchy. In terms of

housing resources, state-owned work units were the main recipients of both state funds and therefore also of housing development funds. But large-scale collectives might also receive these funds because their projects for plant development and renovation were included in state economic plans (Yang and Wang 1992, 71). All the work units, whether government agencies, nonprofit organizations, or productive and commercial enterprises, were under the jurisdiction of the government bureaucracy that made all the decisions concerning the use of these (and any other) funds received. Only work units under the central ministries were likely to use their housing development funds directly on their own, because of higher administrative ranking and the local nature of housing development (Bian et al. 1997). In the allocation of state housing funds, production work units were preferred over non-production work units under the Socialism ideology.

Before the housing reform, the residents from the same working unit lived in the same housing block, belonging to and allocated by the working unit. The residents were heterogeneous in social class and by no means received the same quality housing at the same geographical location. Social mix in the same residence area, however, did not mean that everyone was equal in housing terms. The differences between cadres and workers, higher status professionals and low-skilled technicians were real and significant.

The housing allocation policies in a university in Xian City illustrated the situation well:

The basic eligibility criteria for housing were formal urban residence and permanent employment by the institution. Then the most important factor influencing housing entitlement was official status as cadre or worker. Workers were given low priority. A long service (over 25 years of work experience) higher grade worker at best could get a two-room apartment. (Wang and Murrie 2000: 402)

In summary, housing was the most heavily subsidized commodity, and it related directly to the social status of the household head in socialist China, whose occupation had a strong influence over the household.

3.3 Housing Inequality in Transitioning China

Bian and Logan (1996) proposed two components of inequality in a transitioning society (1) the extent to which political capital based on the old system, whether through formal position or informal connections, continues to provide advantages; and (2) the extent to which new forms of income inequality are created under the new system because of market mechanisms. Emphasizing the diminution of political privilege, some early studies proposed that market reform would result in an overall decline in inequality (Szelenyi 1978). Szelenyi and Manchin (1987) and Nee (1991) also argued that this initial decline, if it occurs, will likely be followed by increasing inequality derived from the market system. In Hungary, Szelenyi and Manchin (1987) found evidence of a new entrepreneurial elite and “commodification of the redistributive privilege” benefiting the cadre elite, creating enlarging inequality between the rich and the poor.

So, in the market transition from socialism to the market, does the introduction of market forces tend to compensate for the kinds of residential inequalities created by bureaucratic allocation, or does the commodification of housing create new inequalities and increase the overall inequality level? Evidence points to the latter. There seems to be a growing consensus that the market reform has preserved some features of socialism, particularly the advantages of many members of the old political class. Party members and factory managers in the former Soviet Union have discovered that their political

connections and control over scarce resources are profitable (Staniszki 1991; Burawoy and Krotov 1992). Privileged access to housing is one of the key mechanisms of such “commodification of redistributive privileges” in Hungary (Szelenyi and Manchina 1987, 120-121). Researchers have pointed to many ways in which the gradual and partial reforms made by Chinese authorities have been absorbed into the existing institutional framework (Walder 1992; Chen and Gao 1993). In China, the subsidy system and other urban policies were not adjusted to compensate for increased wage inequality. In 1995, housing policy, privatization and subsidies combined, accounted for more than one-third of the overall inequality in urban income distribution in urban China. Nearly 41% of the housing subsidies were received by the richest 10% of the urban population, and just over 60% of the rental value of owned housing accrued to the top 10% of the population (Kahn et al. 1999). I believe that my research of the mechanism of housing inequality in transitioning China offers crucial insight into the changing dynamics of social stratification.

In the following sections of Chapter 3, I discuss major aspects of housing inequality in urban China, starting with the hypothesis that the housing subsidy is regressive in nature in urban China, i.e., the richer you are, the more housing subsidy you receive. After the housing reform, the inequality problems in the housing system in China became institutionalized in the new policies. First and foremost, housing subsidies are linked to income through the Housing Provident Fund (HPF). HPF was the first and is now the most widely used, housing subsidy distribution channel in China. It was modeled and named after the Housing Provident Fund in Singapore. HPF relies on mandated contributions from employers and employee—typically, each contributes 5% of

the employee's salary to an earmarked bank account. Fund participants can withdraw their money to make a down-payment on a new home (Rosen and Ross 2000). As China is moving towards a more market-oriented wage system where some enterprises, state or private, are paying differential wages, a fixed percentage contribution both from the individual and from the employer means that a higher income should generate a greater contribution from the employer, whereas those in the low-income group, or those who are regarded as the "households with great difficulties" would be unlikely to benefit from the reform process (Lee 2000).

The second level of inequality exists on the disparity between enterprises and regions. In relatively poor parts of the country, many struggling firms cannot afford to establish HPFs. Workers in these regions are thus denied access to this form of saving for home purchases, raising issues of equity and fairness. The current system of housing subsidy distribution is still an employer-based system. The welfare of the enterprise and local economy, rather than the actual need of the individual and family, decides the amount of the subsidy individuals receive (Rosen and Ross 2000).

Finally, migrant workers, or the floating population, are still excluded from any housing benefits distribution from the state after the reform. (Zhu 1998) estimated that about 60 to 80 million rural labors were working in cities, approximately 30% of the total urban work force. Migrant workers usually take the hardest manual work, are paid little, and have no job security. The combination of low income and exclusion from housing subsidies and access to subsidized housing makes renting and staying in temporary dorms provided by the employer, e.g., at the construction site, the top housing choices for the migrant workers.

3.3.1 The Income-Regressive Nature of the Housing Provident Fund

After almost two decades of trial and error, the state decided to promote home ownership as the only effective way to delink the state from public-housing provision. The key question is the financial sustainability of the housing reform—how to help people overcome the affordability hurdle. Intended to be an institutional arrangement for home financing, the Housing Provident Fund (HPF) was inherently income regressive and pegged to the work unit.

The HPF is now the most widely used home-financing method managed by local governments in China. The Chinese HPF is modeled after Singapore’s Central Provident Fund, but with concentration only on housing contributions. The broad policy adopted is the so-called “3 for 1” policy, where the state, the work units, and the individuals together share the housing costs (Lee 2000). The HPF is a compulsory savings mechanism with mandated contributions from employers and employees—the actual rate varies from city to city, typically each contributes 5% of the employee’s salary to an earmarked bank account. These funds are usually held in the local branch of the China Construction Bank (CCB), China’s designated housing finance bank. These savings belong to the employee and are exclusively for use of housing purposes. The savings and associated interest could be inherited or withdrawn by the account owner when s/he retires or leaves Shanghai. All the opening of new accounts and withdrawal from existing accounts have to be done through the employers. Wang and Murie (1995) explained that the purpose of this policy was to accumulate housing development funds and gradually increase households’ purchasing power by limiting spending on other consumer goods. HPF was

therefore designed to channel rising incomes into the housing sector and to avoid inflationary pressures.

HPF is used for two main purposes (Wang 2001): (1) short-term loans to work units, housing cooperatives, and developers for developing affordable housing (2) financing individual households for housing, including when

1. Buying a house:
 - a. Single large-sum withdrawal to pay for housing purchase: If approved, account holders are allowed to withdraw as much as required within the limit of their savings.
 - b. Monthly withdrawal to pay for housing purchase installments: This was an older method before the introduction of mortgage lending.
 - c. Mortgage lending
2. Building a house: Urban employees who married rural partners are allowed to withdraw their funds for house building in rural areas. To make such a withdrawal or borrowing, the employee needs to produce evidence of house building. The limit one can borrow for this purpose is 400 yuan per square meter and less than 80 square meters in total.
3. Paying rent: if rent is more than 5% of the total monthly household income, provident funds can be withdrawn to pay rent. This payment is approved once a year in February or March.

HPF was first tested in Yantai, Shandong Province and Bengbu, Anhui Province in the 1980s. Shanghai was the first major city to establish HPF. Shanghai had a major

influence on the reform process, and many other major cities followed suit. The Guangzhou Housing Provident Fund, for example, was set up in 1992. By the end of September 1997, 1.02 million employees from over 6600 work units had joined the Guangzhou Housing Provident Fund. Lee (2000) estimates that 90% of the employees eligible for participation in the Fund have already joined. The fund accumulated per month is over 50 million yuan. The total contribution accumulated by the end of September 1997 was about 1,631 million yuan. Some inefficient state-owned enterprises with losses on their balance sheets were given approval by the government to defer joining the scheme, but from mid-1995 onwards, work units failing to join the Fund without approval were penalized.

In Beijing, HPF was established in 1992. By the end of 1999, most large state-owned organizations and enterprises were participating. The overall contributions from both employer and employee have been increased from a required 5% of the employee's monthly salary to 8% by 1998. This fund is again deposited into a special personal account at the CCB. Each June, a statement is issued through the work unit to the employee. By June 1998, more than 9,600 work units had joined this system, and the total number of individual accounts had reached nearly 1.5 million, and total funds amounted RMB 4.6 billion. In 2000, HPFs were found in more than 100 cities throughout China, and have accumulated more than 40 billion RMB (USD 4.8 billion) in funds. (Rosen and Ross 2004)

HPF was designed as a percentage of the income, i.e., the more salary you receive, the more housing subsidy your work unit will deposit into the fund for you.

Below I analyze how the HPF fails to improve housing affordability for the low-income group.

In China, rapid economic growth in an environment of economic transitioning from a planned economy to a market-oriented economy has been accompanied by rising social inequality. Decades after the 1978 reform, China has changed from one of the most egalitarian among the developing countries to one with the highest inequality in income (Table 3-2). The most significant part of income inequality in China is the dramatic increase of the inequality in the reform years. China ranks the first in the increase of inequality between 1981 and 1995 in the fifteen countries in a study by the World Bank (1997).

Table 3-2 Comparing the Gini Index between China and Other Countries in the World in the 1990s

Country	Gini Index	Year
Japan	25	1993
Sweden	25	1992
Korea	32	1993
France	33	1995
United Kingdom	36	1991
India	38	1997
China	40	1998
United States	41	1997
Russian Federation	49	1998
Mexico	54	1995
Brazil	60	1996

Source: Habitat (2001 P18, quoted in Wu 2004, 405)

The income of the marginal groups in the transitional China continues to deteriorate (Table 3-3). Liberalization and privatization in the transitioning economies often have led to greater income inequality from both the introduction of the market mechanism and the legacy of the old socialist system (Andrusz et al., 1996; Nee, 1996;

Nee and Cao, 1999). Evidence has been accumulating that increasingly income gaps have caused a decline in housing affordability in transitioning countries (Renaud 1995, Rosser et al. 2000).

Table 3-3 The Increase in Social Inequality Measured by Income Groups

	Ratio of the income of the group to the average income of total sample (%)		Ratio of the low-income group (first decile) to the highest income group (tenth decile) (%)
	Lowest 5% Group	Lowest 10% Group	
1985	58.5	64.5	34.8
1990	51.4	56.5	32.1
1995	46.3	50.8	26.5
1997	42.1	47.3	23.8
1998	40.8	45.9	22.7
1999	40.0	44.9	21.8

Source: State Statistical Bureau (2000) Quoted in Wu (2004)

Wu (2004) categorized the urban poor in China into three major groups: (1) Urban poor with urban household registration, including laid-off workers retired early in reform, pensioners, and collective employees, or unemployed urbanites working part time in the informal job markets; (2) Migrant workers without urban household registration, either working in the formal workplace as contract workers, mainly in construction or cleaning and catering sectors or domestic helpers; (3) The traditional urban poor, i.e., the socialist welfare recipients, mainly families with handicapped members.

In the urban areas, the reform of the State Owned Enterprises (SOEs) produced an accelerating number of laid-off workers. The official unemployment rate was 3.1% in 2001, but taking into account laid-off workers, the urban poverty population could be as

high as 14 million, accounting for 3.6% of the urban population (MoSS and SSB 2001 quoted in Wu 2004). Using survey data of working-age individuals in five large Chinese cities, Giles et al. (2003) proved that employment shocks were large and widespread, with unemployment reaching double digits in all sample cities, and labor-force participation declining by 8% over the period. Most job-leaving was involuntary in China's reform. Older workers and women were the most vulnerable. Social security and benefits, which used to be managed by the SOEs, went through a "socialization" process and were intended to be administered society-wide instead of through the working units. In the transitioning period, social benefits also underwent shock. For example, declines in health benefits have affected many individuals. The health insurance coverage rate of employed workers declined by 12.9% over the period. With much poorer coverage among those not working (except the retired), overall health insurance coverage rates for the urban population were surprisingly low—56.1% in the five cities and less than 50% in three of the five surveyed cities. Among the targeted group of older workers, most of the unemployed or out-of-the-labor-force individuals did not receive any subsidies. Most self-described laid-off workers were not registered as such, and one-fourth of the registered received no layoff subsidies. Not surprisingly, most job-leavers reported that they relied primarily upon private assistance, including support from family members and own savings, to support consumption when not working.

Interestingly enough, in China, the dominant factor in new urban poverty is the sector of employment (Table 3-4). The lowest income group is concentrated in the traditional employment sectors. The combined SOEs and COEs (Collectively-owned

enterprises) employees plus the retired accounted for about 60% of the lowest 20% income group. The percentages of state institutions and government and administration continue to decline under the state's policy of promoting the civil service system and raising the salaries of state administrative employees in the late 1990s. Meanwhile, the emerging private sector including the joint ventures, private enterprises, and private businesses account for less than 12% of the lowest income group.

Table 3-4 Composition of the lowest 20% income group of formal urban residents (%) (1996~1998)

Employment status	1996	1997	1998
State-owned enterprises (SOEs)	29.5	28.1	31.1
Collectively-owned enterprises (COEs)	15.1	16.7	15.3
Retired	14.3	12.9	13.0
State institutions	9.0	5.9	4.9
Government and administration	10.2	4.2	1.5
Non-government social organization	3.8	5.7	6.4
<i>Subtotal</i>	<i>81.9</i>	<i>73.5</i>	<i>72.2</i>
Joint ventures	4.2	1.3	0.7
Private enterprises	5.5	4.7	3.7
Joint private businesses	1.2	3.3	4.0
Private businesses	1.1	1.7	0.7
<i>Subtotal</i>	<i>12.0</i>	<i>11.0</i>	<i>9.1</i>
No stable work	2.6	6.8	8.1
Unclassified	2.6	8.7	10.5
Army	0.8	0.0	0.0
<i>Total sample size (persons)</i>	<i>266</i>	<i>424</i>	<i>406</i>

Source: Survey by the China Social Science Academy, in Xu (1999:71)

In Socialist China, despite the inequality in the bureaucratic allocation, by and large, people of all positions were given welfare housing. In the HPF fund system, people working in low-wage sectors are generally disadvantaged by a consistently low

level of housing subsidy from the work units. In most countries, homes priced at three to five times annual household income are considered affordable, while housing prices in China are often 10-20 times family income (Table 3-5). In China, according to more recent statistics, the per capita annual income of the urban poverty group (lowest 5%) was RMB 2356.6 per year with average household size of 3.51 (State Statistical Bureau 2000, 8.2 RMB = 1 USD). The average price of housing was about RMB 2,250 per square meter (sqm) in 2002 (China Real Estate Statistics Annual 2004). It will take more than 16 years of their annual income to buy a 60 square metre apartment (calculated by author).

Table 3-5 An International Comparison of the Ratio of Housing Prices to Household Annual Income

Country	Year	Price/Income	Per Capita GNP
India	1985	6.2	270
Philippines	1985	4.5	580
Egypt	1985	7.2	610
Thailand	1985	2.5	800
Malaysia	1985	6.0	2,000
South Korea	1986	5.5	2,150
Great Britain	1985	2.4	8,460
France	1982	2.8	9,540
Japan	1983	6.7	11,300
USA	1988	2.8	16,690
China			
A	1990	4.2	304
B	1990	8.0	304
C	1990	20.0	304

Notes: Housing cost under Category A only includes the structure construction costs. Housing cost under Category B is the gross cost, including on-site infrastructure costs and pre-construction costs, such as the acquisition of the land. Category C designates housing with a market price of RMB 1500/sqm, still lower than the average market price of fully commercialized houses.

The annual household income in China is assumed to be RMB 4500. The average size of a dwelling is assumed to be 60 sqm.

Sources: Yang and Wang (1992, pp. 235-230 quoted in Chen 1996)

3.3.2 Exclusion of Rural Migrants from Urban Housing Welfare

Socialist China had a rigid urban-rural division. The government was the major force in housing provision and distribution in the urban areas after 1949. The majority of urban residents worked in state-owned or collective enterprises and were housed in publicly owned shelters. In contrast, in the rural areas, traditional family houses and private ownership were not changed fundamentally. Urban-rural migration was strictly controlled and the urban-rural division existed in almost every other aspect of the social and economic life of the Chinese people before the reform in 1978; after the reform, the peasants migrated into the cities in large numbers, supplying the labor force for industrial development.

Labor migration from rural to urban areas has emerged as a prominent phenomenon in China since the mid-1980s after decades of stagnation. Although there is no accurate estimation of the scale of migration, it is commonly believed that tens of millions of rural migrants are residing in cities without the permanent legal status required to be there, and a large proportion of these people are circular migrants, i.e., they move back and forth between the cities and their rural homes frequently. China's Fifth Population Census reported 121.07 million internal migrants as of the year 2000 (Population and Social Sciences Department, National Statistics Bureau of China, 2001). Among them, more than 70% were rural-urban migrants, equivalent to 85 million, though a more commonly cited figure in official speeches and public media is 100 million.

These migrants are at their most economically active ages – almost 70% are between the ages of 15-49 and 20% between 25-29. (Xiang 2004)

Later in the reform process, government and media in China took another major turn and started to promote urbanization in recognition of the labor surplus in rural China.

An example is an article in the commentary column of the official newspaper *China*

Daily in 2004:

The central government last Monday released its No 1 Document for this year, which recommended increased government spending in grain production, enhanced industrial restructuring, programs to train and protect migrant workers in cities, and reductions in various agricultural taxes. ... For example, it is crucial that an ever-growing number of farmers, as soon as possible, become permanent urban residents. (China Daily February 26, 2004)

Unlike elsewhere in the world where a shortage of affordable housing is the main constraint limiting the options of migrants, exclusionary policies decreed by the Chinese state make urban public housing completely off-limits to peasants. In contrast to the legitimate urban residents who are sheltered by the heavily subsidized state housing system, rural migrants must seek ways to bypass their financial constraints as well as the institutional restraints set on urban housing provision.

The housing question of the migrant workers is unique in China because it is closely related to the rural-urban dichotomy in land policy and housing provision. For China's migrant workers, urban housing was inaccessible in the pre-reform era, and unaffordable after the market reform. The urban housing market, limited only to registered urban residents, was characterized by a very high degree of public provision and management of housing until the end of the 1990s. Whatever the property rights were in practice, all new urban housing was without exception constructed with

government investment and then bureaucratically leased through employment.

Residential leases were both locale-based and enterprise-based and decided by an official urban *hukou*² and by being a permanent employee of a state enterprise. The private rental sector was almost nonexistent. Moreover, the rents for urban housing were heavily subsidized by the state to match its low-wage policy for urban workers. Ideologically, urban housing was not perceived as a simple commodity but as a welfare benefit by the socialist ideology. The state closed the urban housing market to the rural migrants because of the ideological responsibility to support the urban working class and limitation of financial resources. (Zhang & Zhao & Tian 2003)

The urban housing market reform was significantly accelerated since the late 1980s as the focus of the market reform shifted to the urban areas. The restructuring of the housing market is orientated towards the retreat of the state and commodification and marketization of housing provision as the state tries to separate production and welfare provision at the work-unit level. Development of commercial housing with marketized construction and transactions is encouraged. Private or joint-venture developers are allowed to build and sell or lease residential properties for a profit on the open market at market price. The urban affordable housing program has been sponsored by the state only for urban low-income groups with local *hukou*. The current commercialization of urban housing is not accessible for the vast majority of rural migrants who are employed in low-paid positions and without local *hukou*. Their major means of housing is therefore

² *Hukou* refers to the formal urban household registration. Before the reform, rural people without *hukou* were not allowed to move and live in the cities. Basic life necessities, such as food and housing, were allocated to the place of official urban registration.

mainly limited to employer-provided housing or renting on the peripheral of the city (Wu 2002).

The employment of rural migrants, especially in jobs that are particularly strenuous, dirty, or monotonous, has been increasingly allowed and even encouraged by the state. Migrants typically take up the undesirable and low-paid jobs in the city, and there are significant earning gaps between the migrants and the urban residents. Chinese migrant workers are largely excluded from the mainstream housing market in China. First, they cannot afford the expensive private housing market; and the household registration system excludes them from work-unit related HPF system and urban affordable housing programs. According to Wu's surveys (2002), under such circumstances, more than half of the migrant workers choose to rent private and public housing in the suburbs of the cities. For example, around 60% of the migrants lived in inner suburbs between 1993 and 1997 in Shanghai, and another 30% to 40% of the migrant workers stay in employer-provided dorms or on construction fields.

Overcrowding seems to be a common feature of migrant housing, with each person using only about one-third of the space occupied by a typical urban resident. A family of three would share a single rental room with no facilities and use a corner to set up a small cooking area with either a kerosene burner or propane stove. In the dorms on the construction sites, it is common for six to eight workers to sleep in bunk beds in a temporary shelter of less than ten square meters. These emigrants also tend to live in dwellings that are poorly equipped with kitchen/bathroom facilities, are used for working or other purposes in addition to serving as residences, and have non-stable structural features (such as temporary dorms on construction sites). About 3%-4% of temporary

migrants without formal employment encounter the worst housing conditions. They cannot afford to rent any housing and have to sleep in public spaces, for example, on the benches of the public hospitals. (Wu 2002)

Table 3-6 Housing Conditions of Temporary Migrants Versus Local Residents 1995

	<i>Per Capita Usable Area (m²)</i>	<i>No Water (%)</i>	<i>No Gas/Propane (%)</i>	<i>No Kitchen (%)</i>	<i>No Bathroom (%)</i>
Shanghai					
Migrant Workers	9.0	4.4	63.8	68.4	66.5
Local residents	18.7	1.1	8.7	34.1	48.8
Beijing					
Migrant Workers	7.5	18.5	63.5	74.1	89.1
Local residents	18.4	1.9	19.7	13.0	34.6

Source: Housing conditions of local residents based on results of the 1995 1% Population Survey in Beijing and Shanghai (Wu 2002)

The migrant workers actually work and live in the city. Spatially they live next to the formal urban residents with household registration, but in terms of access to and affordability of housing, migrants seem to live in a totally different space.

3.3.3 Strengthened Work-unit-based Inequality in Reform Years

China's housing reform was initiated by Deng Xiaoping in April 1980. The basic idea was to commodify (but not necessarily privatize) public housing, so as to release the work units from their responsibility to provide housing as a welfare good and transform them into profit-seeking entities. Many researchers argued that the reform would divorce housing from work units (Yang and Wang 1992; Tolley 1991; Barlow 1988). Work units

in a fully commodified system, would play no direct role in housing, but would simply provide the income stream through which employees finance home purchases or rentals in the open market.

In the experimentation period of the reform, the work unit's fundamental role of social redistribution was not lessened but strengthened. The proportion of work-unit investment in total housing investment increased. Housing investments have been decentralized since economic reforms. The state began to withdraw from the housing investment. According to the World Bank (1992), in 1979 over 90% of all investments were financed by the unified state-local budget. By 1988, the share of the central government was reduced to only 16%, while local governments financed an additional 6%. Work units became the major source of housing investments through retained earnings.

Enterprises with profits were able to build or purchase housing for their employees. Some enterprises prospered in the early reform period with their political positioning to buy low (State-controlled price) and sell high (market price). They also made profits by obtaining tax benefits and gained support from government jurisdictions to take loans from state banks for both industrial and housing projects. Some other enterprises, however, were required by the government to sell their products at a state-controlled price (low), implying low or no profits for them. These enterprises had to depend on an implicit contract with the government agencies to receive housing funds.

Government agencies continued to have clear advantages. Officials in high-level government agencies tended to have high civil-service ranks and therefore were entitled to more housing space with better facilities. Second, high-level government agencies had

direct control over the allocation of public housing and can channel apartments even to ordinary employees in their units. In the 1990s, the intended non-governmental real estate development firms were likely to be managed by or do business through municipal or district government agencies. For example, the three largest such firms in Tianjin were directed by a senior adviser of the municipal government (a former vice mayor), the construction commission of the municipal government (which is the highest authority for all housing development projects in the city), and the municipal government's real estate bureau, respectively. These firms make high profits that, in part, become housing funds for these high-ranking government agencies (Bian 1997). Many government agencies are also the headquarters of bureaus and companies managing profit-making enterprises or nonprofit institutions. These government agencies often take over a percentage of the housing from their subordinating organization by charging housing-processing fees or retaining part of their housing (Bian 1997).

The emerging private enterprises usually do not provide housing to their employees, but compensate for this with higher cash wages. Either their employees rely on housing from their previous state employers, or their spouses still work in state firms. Some particularly well-financed international joint ventures buy commodified housing for their employees in China. This category comprises a major share of the high market-priced housing in the reform period.

Evidence suggests that housing inequalities have been enlarged since economic reforms (Wu 1996). Even though national-scale investigations are not available within the author's knowledge, there are local level evidences. A survey of housing conditions of 273 enterprises in Beijing in 1991 shows that state enterprises and large enterprises

had better housing conditions than collective and small ones (Table 3-7) Work units belonging to the central government had better housing conditions than local units. Among work units belonging to the same level of government, institutes and government agencies generally had better conditions than enterprises because the former occupied a strategic position in resource allocation.

Table 3-7. A Survey of Housing Conditions among 273 Enterprises in Beijing 1991

Enterprises types	Number of enterprises with housing provision by the enterprise	Number of enterprises without housing provision by the enterprise	Total
Ownership			
State-owned	127	62	189
Collectively owned	21	61	82
Cooperative	2	0	2
Size			
Large enterprise	17	0	17
Medium enterprise	78	16	94
Small enterprise	55	107	162

Source: Zhang et al. (1992) Quoted in Wu (1996)

3.4 Summary

In this section, I discussed the mechanisms of housing inequality both in Socialist China and in transitioning China. Before the reform, housing production, distribution, maintenance and management were all conducted at the municipal government and work-unit level. The allocation through bureaucratic channels emphasizes the types of work units, occupation, work position, but not income or ethnicity. The central theme of housing reform is to shift the responsibility of housing more towards the individuals. The

institutional arrangements in the reforms years reinforced the old inequalities and introduced the new inequalities. The Housing Provident Fund was set up exclusively for the people with urban household registration, and it is income-regressive, i.e., the higher income a person has, the more subsidies he or she will receive. The rural-to-urban migrants are excluded from the urban welfare system, including access to the Fund. Their low income also makes buying commercial housing not an option for them. In the reform process, people who are the sitting tenants of good public housing and/or employed by profit-generating enterprises also benefit from the reform by the selling-off of old public housing at deeply-discounted prices and other policy changes.

These are important inner mechanisms of housing inequalities in contemporary China. They do not, by any means, cover all the inequality issues. Through my observation of urban life in contemporary China, I identified that there are many more inequality issues in the housing relocation process in urban redevelopment. In the next Chapter, I present a case of Xiantiandi redevelopment project in Shanghai.

Chapter 4. Case Study: Inequalities in Housing Relocation of Urban Redevelopment Project, Xintiandi Shanghai 2003

4.1 Introduction

In the last chapter, I discussed the general mechanisms of housing inequalities both in pre-reform and transitioning China. In a sense, this chapter is more like a snapshot, capturing the inequalities in the relocation process of the urban redevelopment projects. I first introduce a brief history of urban redevelopment and move on to discuss the case of relocation in the Xintiandi redevelopment project in Shanghai in more details. Recognizing the small size of the interviewee sample (nine relocating families and a street government officer), I intend to use this study as a pilot project for more extensive research rather than to present conclusive results.

4.2 A brief history of Urban Redevelopment in Shanghai

Before the economic reform in 1979, redevelopment projects remain sporadic in urban China due to the constraints of funding. The Chinese cities generally suffered from dilapidated and overcrowded housing and “the urban landscape was extremely rundown” before the reform (Wu 2005: 3). Urban redevelopment was top on the government’s agenda in the early phase of the reform. During the 1970s and early 1980s, urban redevelopment efforts were concentrated on the housing reconstruction by the local governments. The projects were severely constrained by the limit of the government financial resources before the private sector was invited into the domain of urban redevelopment in the early 1990s.

In the 1980s, redevelopment regulations required the on-site replacement of demolished housing and additional community facilities. Redevelopment projects usually began with lengthy negotiations between current tenants and the real-estate development company over property compensation, with the principles dictated by municipal and provincial governments. In most cases, compensation provided to households located in these areas was made on an in-kind basis and rarely reflected the economic value of either the demolished or newly provided units. It was quite common that the value of replacement units far exceeded those of demolished units (Table 4-1). District and municipal governments also required redevelopers to construct numerous public facilities. These facilities were turned over free-of-charge to local governments. Of the six projects surveyed by the World Bank in Shanghai, four of them were required to build a substantial area of public facilities (Table 4-2).

Table 4-1. Comparison of the Economic Value of Old Dwelling Units and New In-kind Replacement Units in Shanghai

Project	Housing units	Original unit (sqm)	New unit (sqm)	Value of original unit (Yuan)	Cost of replaced unit (Yuan)	Ratio of new/old
Jiang Guo	1394	15	60	3000	18360	6.12
Hu Lang	553	14	48	2800	14688	5.25
Ying Xiang	1400	22	71	4400	21726	4.94
Ordinary Citizen	3620	28	55	5600	16830	3.01
Hui Yi	264	30	49	6000	14994	2.50
Tian He	204	60	83	12000	25398	2.12

Source: Redevelopment project surveys, 1991, 1992 Dowall (1994)

Table 4-2. Net increase in constructed space and provision of public facilities

Project	Net increase in constructed area	Area of additional public facilities (sqm)	Public facilities as percentage of net increase
Ordinary Citizen	208960	36000	17.2
Ying Xiang	157000	17000	10.8
Hu Lang	71411	7500	10.5
Jiang Guo	62179	4300	6.9
Tian He	3320	0	0
Hui Yi	-380	0	0

Source: Redevelopment project surveys, 1991, 1992 Dowall (1994)

Based on these observations, Dowall (1992) proposed a more market-driven approach to urban redevelopment with private investment and cash compensation for relocated households so as to accelerate urban residential redevelopment in China. The policies did move in the direction Dowall suggested. Before 1988, urban land in China was strictly publicly owned and could not be leased for private uses. Cities started to experiment with land leasing at the turn of the decade and formal policy recognition of the practice came in 1992. As the land reform and housing privatization proceeded, the reemergence of property value invited the private investors to join the urban redevelopment projects. Promoting urban development and local economy growth replace the reconstruction of residential area as the primary objective of urban redevelopment on government's agenda. At the end of the 1990s, a prosperous property market was developed. For instance in Shanghai, the real estate industry was identified as a "pillar industry" for the urban economy. In terms of value added, real estate was ranked the fourth after finance, trading, and information industry in Shanghai in 2000 (Shanghai Statistical Bureau 2003). In 1998, the central government tightened regulations over land leasing, stressing the policy goal of preserving cultivated land. Since then, more land leasing has taken place within the built-up area where the land

supply is limited. This new land policy has brought higher pressure on the reuse of the existing built area, the implication being that more urban residents have to be displaced or relocated to give room to redevelopment projects.

In November 2001, the formal adoption of a monetary relocation compensation system suggested the further marketization of urban redevelopment. Urban redevelopment has changed from government-led to property development-driven as the real estate industry becomes increasingly lucrative and important to the Chinese economy.

With the economic reform, private investment and foreign investment gained increasing importance in the economic competition between cities. Improvements of infrastructure, housing, and slum clearance are viewed as critical not only to city residents but also to potential investors. Attracting foreign investment through urban land provision became a common strategy of economic development. Many aggressive pro-growth policies, including tax incentives to investors, deregulation on land-use control, and provision of infrastructure funded by public financing, have been formulated and implemented (Zhang 2002).

Another force promoting urban redevelopment came from the land-leasing income incentive for the local governments. As a new tax category, land-leasing income is often considered a local income that does not have to be shared with the central government (although it remains a controversial topic between the central and local governments). Land-leasing income has played an important role in local revenue. For instance, from 1988 to 1997, the Shanghai municipal government leased 138.63 square kilometers of land for a total land-leasing income of 24 billion yuan (USD 3 billion). On

average, land-leasing income was 11.2% of local revenue every year from 1988 to 1997 in Shanghai (calculated by Zhang 2002). As a result, or as a cost, 1.5 million residents in Shanghai were displaced from 1991-1997 (Table 4-3).

Table 4-3. Displacement in Shanghai, 1991-1997

Residents Year	Households	Building Areas Demolished	
	Displaced	(million square metres)	Displaced
August to December 1991	8,000	0.30	24,000
1992	38,200	1.42	114,600
1993	86,600	3.65	259,800
1994	92,800	3.82	259,840
1995	73,700	2.54	206,360
1996	86,500	2.59	242,200
1997	77,400	3.63	216,720
1998	78,200	4.52	218,960
Total	541,400	22.46	1,542,480

Source: Shanghai Statistics (1995, 1996, 1997, 1998a, 1998b, 1999); Shanghai Social Science Institute (1997). From Zhang (2002)

4.3 Case Study Background: The Taipingqiao Area and the Xintiandi Redevelopment Project

Taipingqiao (peace bridge) is a densely populated residential area of the Luwan District in Shanghai. The 52-hectare area comprises 23 residential blocks with a population of 70,000 (He and Wu 2005). During the colonial period from the middle nineteenth century to the early twentieth century, the area was part of the French Concession. French developers built the Shikumen style housing (traditional Chinese Courthouse with a European twist) in the area in the 1920s. The area is next to the prosperous commercial street, Huaihai Road with great potential for property

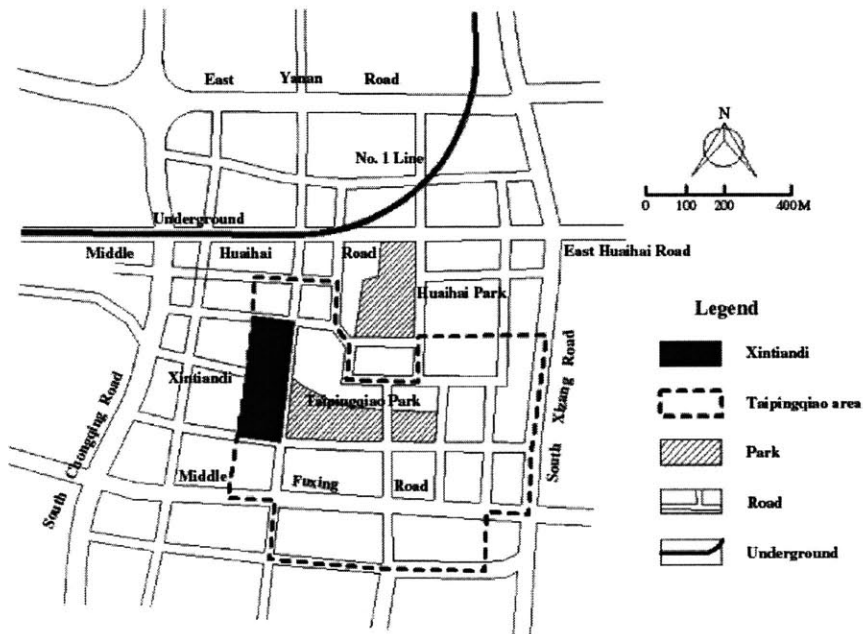
development. The Xintiandi project is a part of the overall Taipingqiao redevelopment project, which also includes Taipingqiao Park, luxury apartment buildings, etc. (Figure 4-1, 4-2)

Figure 4-1 Xintiandi is Centrally Located in Shanghai



Source: <http://home.wangjianshuo.com>

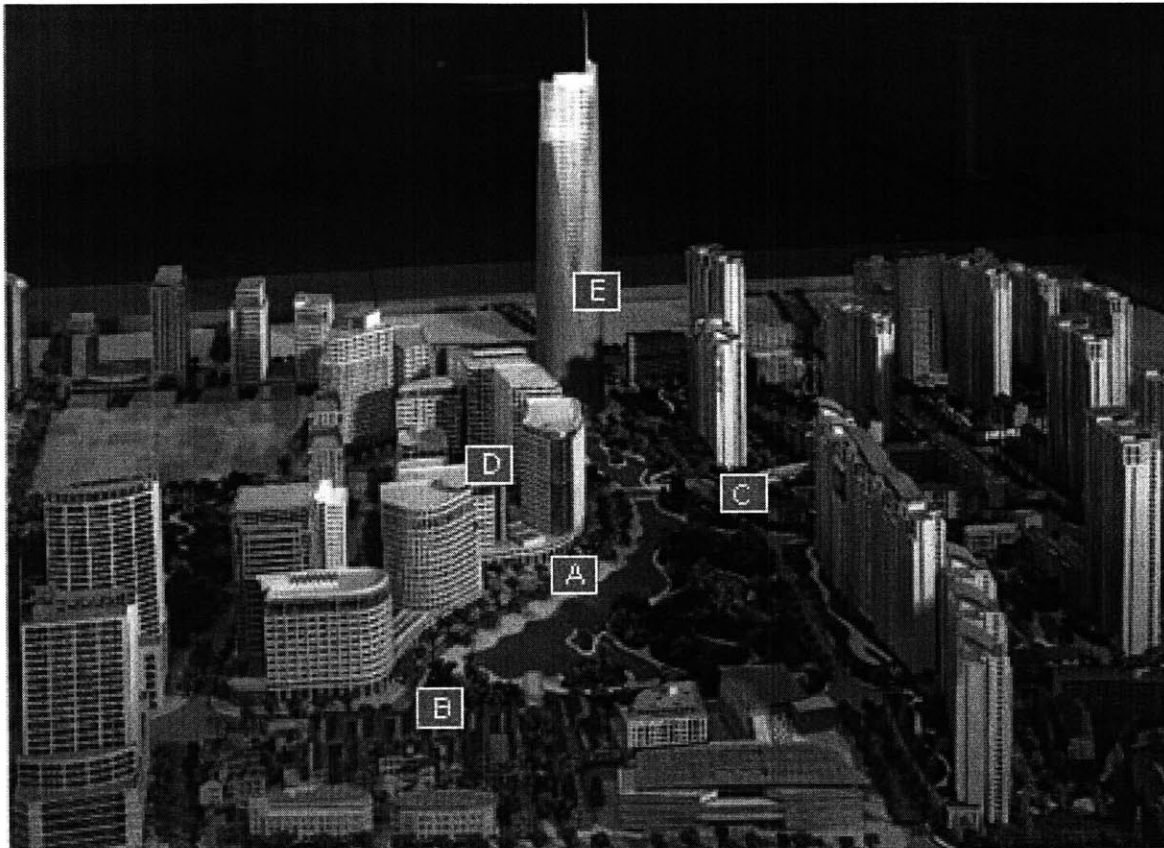
Figure 4-2. The Xintiandi and Taipingqiao Area (He and Wu 2005 :7)



The Luwan district is one of the oldest and most densely populated districts of Shanghai. The Luwan district government has been actively seeking non-governmental partners in improving the housing quality in the district. In May 1996, the Luwan district government and the Hong Kong Shui On Group signed a cooperative agreement on Taipingqiao redevelopment projects. Every year, two to three blocks will be leased out and redeveloped based on the negotiated land prices. The leasehold is 50 years, commencing from the date when each individual leasing contract is signed. The whole project investment was estimated at around USD 3 billion, almost solely from the Shui On Group, and the length of the project is about 15 years (He and Wu 2005).

The real estate market in Shanghai took a downturn right after the contract was signed, which forced the Shui On Group to rethink its plan of building large-scale luxury housing and office buildings. In 1997, the Xintiandi project was proposed as a present for the eightieth anniversary of the Chinese Communist Party (CCP) (July 1, 2001) by the president of Shui On Group, Vincent H. S. Lo (He and Wu 2005). Mr. Lo had a bold idea of preserving the old “Shikumen” style architecture of the area, developing it into a flagship commercial and entertainment area, hence increasing the property value of the entire Taipingqiao area (Figure 4-3). This scheme also accommodates the preservation of the first CCP Congress Hall located in the Xintiandi project area, abiding by the stipulation of the Shanghai municipal government. Shui On Group did not start construction until 1999 due to the Asian Financial Crisis, and the first part of Xintiandi opened in 2001 (Interview with Street Government Officer, January 2005).

Figure 4-3. Layout of Xintiandi Project



Note:

- A: Taipinghu Public Park
 - B: Xintiandi Bar and Restaurant Area
 - C: Caihutiandi High-end Residential Apartments
 - D: Qiyetiandi Office Buildings
 - E: Shui-On Headquarter in China
- Source: www.xintiandi.com

Xintiandi introduced a modern urban lifestyle into the preserved traditional architectures and became a unique and popular commercial and recreational cite. This area quickly becomes a place well known among local elites and international community, reminding people of Old Shanghai's consumer culture in the 1940s with the traditional architecture. The price of a drink there was on par with prices in London or New York City. The price of a soda is USD 4.5, and a beer USD 8 (field visit January

2005). Although the buildings and alleys are elaborately preserved, the original residents have been totally excluded. The return rate of original residents was zero in the new residential buildings in the Taipingqiao area. These preserved shikumen houses are no longer homes for middle- to low-income residents, but instead are used for the entertainment by local elites, expatriates, and tourists (Figure 4-4, 4-5, 4-6).

Figure 4-4. Shikumen Alleys in the Taiping Qiao Area before the redevelopment



Source: www.xintiandi.com

Figure 4-5. The Bar and Restraunt Area of Redeveloped Xintiandi



Source: www.xintiandi.com

Figure 4-6. The Preserved Street Patterns and the Exterior of the Shikumen Buildings



Source: www.xintiandi.com

4.4 Urban Pro-growth Coalition and Property-led Development

In the urban redevelopment process in the late 1990s in China, municipal government, district government, street government and the developer form an urban pro-growth coalition, while the urban communities are often excluded from the negotiation process. Zhang (2002) argued that the system of paid transfer of land-use rights and common development interests have become the basis of partnership between the government and the private sector in China. The public ownership of urban land endows the local government with monopolized land resources and strong decision-making powers in the urban-redevelopment process. After administrative decentralization, the local government's role in delivering policies and strategies, and formulating rules and regulations, is significantly enhanced. The three levels of local governments have very different perspectives on the redevelopment process. The municipal government is most interested in maintaining social stability, and promoting economic development and sustainable growth. Typical policy interventions include controlling Floor Area Ratio (FAR) and preventing violence in the relocation process. In the case of Xintiandi Redevelopment, they made sure that the site of the Chinese Communist Party First Congress Hall was preserved. In November 2003, the Shanghai municipal government proposed regulation to decrease construction volume and FAR. The total construction amount of Taipingqiao projects has been reduced from 1.6 million to 1.3 million square meters, and the FAR has also correspondingly decreased after negotiation with municipal government.

On one hand, the district government has mutual interest with the developer as the government body who signs the lease contract; on the other hand, the district government is also responsible for delivering the policy made by the municipal government. Therefore, the district government both regulates the development on behalf of the municipal government and helps the developer to negotiate with the municipal government. In the Xintiandi project, Fuxing Construction Development Ltd, a subordinate real estate development company of Luwan district government, is a nominal partner of Shui On, contributing only 2-5% of the investment in the project. Fuxing Construction and Development Ltd. was included because the central government banned the local government from direct involvement in business and, at the same time, required a local participator in the foreign-investment project as a gesture of cooperation between the government and private enterprise. To facilitate the construction of Taipingqiao Park, the Luwan district government also fought to obtain a favorable policy for the construction of large-scale public green areas from the municipal government. Therefore, Shui On actually only had the burden of half of the investment as the municipality and Luwan district provided the other half. Both Xintiandi and Taipingqiao Park were proposed as part of the celebration of the CCP eightieth anniversary, obtained extra priority from the local government.

Working closely with the households, the street government plays an important role in the execution of relocation and demolition process. When there is a major conflict in the negotiation between the relocation work team (employed by the district government) and the households, the street government officers are responsible for mediating the negotiation and proposing alternative plans. The ultimate goal for the

district government, however, is a fast and smooth relocation process, not protection of the community's interests. The street government also keeps the personal dossiers of the residents containing political party affiliation, military service, social-security information and household registration during the transition period (Interview with the Street Officer, January 2005).

Throughout the process, Shui On Properties and its partners took charge of the main redevelopment process from investment and design to construction and management (He and Wu 2005). Invited by Shui On, an American architectural and urban design firm, Skidmore, Owings, and Merrill (SOM) drafted the master plan of Xintiandi. Wood and Zapata Inc., a Boston-based architectural firm specializing in the adaptive reuse of old buildings, and the Singapore office of Nikken Sekkei International Ltd. were also invited by Shui On to preserve and redevelop the Shikumen houses in Xintiandi. The Urban Planning, Design and Research Institute of Shanghai Tongji University served as architectural consultant.

Local communities have been excluded throughout the redevelopment process. In most cases, urban residents were unaware of the urban-redevelopment plan until it was announced by the street office to them as a decision made by the district and municipal government. People normally are not informed about the demolition and relocation timeline; they may only collect bits and pieces of information through personal and unofficial information sources. Residents suffering from unjust treatment can only adopt individual resistance as collective protests are banned by the government. The communities are not active participants in this property-led redevelopment. Rather, they are deemed mainly as part of the redevelopment cost.

4.5 Relocation Negotiation Process

The redevelopment project was co-signed by the Luwan district government and the developer. As part of the contract, the Yongye Group, a property management company affiliated with the district government, was in charge of the relocation negotiation with the households. The Yongye Group recruited the relocation work team, many of whom were the laid-off workers of the Housing Property Management Bureau in the Socialist system. The work team was employed officially as government employees (civil servants) (Interview with Street Government Officer, January 2005). In the first six months, 1950 households were relocated. In the site clearance of the Taipingqiao Park (44,054 square meters), more than 3,800 households and 156 work units were relocated in just 43 days, a record speed (He and Wu 2005).

After the initial announcement of relocation by the Street Government, all the details were negotiated on a one-on-one basis with the households. The relocating work team usually sent a male and a female to a household in the evening to negotiate terms of relocation and to push for early move-out. Each visit lasted around an hour. On average, at least 20 visits were made before a household signed the agreement (Interview with the residents, January 2005).

During Phase 3 of the Taipingqiao redevelopment project, both housing and cash compensation were offered to the residents in the negotiation. Among those households who chose the housing compensation, most of them never moved into the new housing, which are usually 2-4 hours away from downtown areas by public transportation). They

sold the new housing right away and purchased second-hand housing in more downtown areas for convenience to work or school.

4.6 Inequalities in the Relocation Process

The nine families I interviewed in January 2005 used to live on Madang Road, located in the Phase 3 development zone of the Taipingqiao redevelopment project. All of the families were relocated from June 2003 to June 2004. As mentioned in the methodology section in the first chapter, I know one of the interviewees personally, and asked her to introduce me to the other eight families who used to be her neighbors. Requested by me, she intentionally chose the families with different backgrounds. The sample is very small and may not be an accurate representative of the entire neighborhood. Nonetheless, it is adequate to provide initial evidence supporting my hypothesis of inequalities in compensation in the urban redevelopment process. Below I summarize the socio-economic characteristics of the families in Table 4-4.

Table 4-4. Information Summary of the Households Interviewed

Case #	Original Unit (sqm)	Quality of Original Unit	# of People Registered	Compensation (yuan)	Household Income	Average Compensation Per Person Per Sqm (yuan)
1	10	Low	2	550,000	Low	27,500
2	8	Low	2	290,000	Low	18,125
3	13	Low	2	200,000	Medium-Low	7,692
4	14	Medium	3	300,000	Medium-Low	7,143
5	23	Medium	2	230,000	Medium-Low	5,000
6	31	High	2	270,000	Medium-High	4,355
7	24	Low	3	230,000	Medium-High	3,194
8	27	High	6	300,000	Medium	1,852
9	48	Low	7	500,000	Medium-Low	1,488

Notes:

1. Profiles of residents registered with the housing:

#1. Laid off SOE worker and his mom in her 80s, sick in bed (Rural Wife without urban registration, son without urban registration);

#2. Couple, both are laid off SOE workers;

#3. Retired woman with her son (clerk).

#4. Retired woman, daughter and niece;

#5. Divorced woman (phone operator) with a daughter in school;

#6. Man, manager of an electronics appliances store; daughter and nephew;

#7. Man (small business), Woman (housewife), son working as a technician in a Joint Venture;

#8. Man (Company Clerk), Woman (hospital administration staff), twin daughters; Woman's niece and her daughter;

#9. Man (Clerk), Woman (Nurse), Son and Daughter (in school); Man's sister, nephew and mother;

2. Housing quality index estimated by the author mainly based on the story of the apartment and direction (facing south or north). None of the apartments have private bathroom or kitchen.

3. Household income level was also estimated by the author.

4. #5 and #8 family chose to the new housing allocation option; and both of them sold the new housing on the market without living there. The quoted numbers are the selling price of the new housing.

Most families improved their housing condition after the relocation in terms of increasing living area and ownership of private bathroom and kitchen, while sacrificing the convenience and life style they enjoyed in the original premium downtown location. During the interview, they pointed to two common issues of inequality during the relocation process.

The public pronounced policy states that compensation is based on two criteria: the size of original housing and the headcounts with household registration at the original housing. In practice, when the Street Government carries out the policy, they make sure families with difficulties receive preferential treatment. This point was confirmed both by the officer at the Street Government and the relocating families. Among the nine

relocated families, two families that received the most compensation per square meter per head were the lowest income families with laid-off workers and sick elderly. The Street Government prefers that the low-income families would accept the housing method rather than the cash method to make sure that they are settled. In practice, the poorest families usually chose the cash method, as the replacement housing is often located 2-4 hours by public transportation from downtown area and more difficult for the low-income families with sick family members. Also they usually do not know how to make transactions in the emerging housing market. The Officer commented, “It was impossible to negotiate hard with a family with no income and sick elderly. They may commit suicide or the elderly may die in the negotiation process.”(Interview with the street government officer, January 2005) Justified by moral sense and conformed to the socialist tradition, the preferential treatment of the “families in difficulties” is considered unequal but equitable, and accepted among most of the relocating families.

On the contrary, the preferential treatment of the families with strong negotiation power was regarded as a hot inequality issue raised by most of the families I interviewed. During the relocation process, it is not uncommon for the relocation team to use some tactics to force the families to move out as early as possible. Many families used the word “harassment” to describe the frequent visits and phone calls the relocation team made. Families with schooling children often signed the contract the earliest to give their children a peaceful environment to study. Many families mentioned, “You need some one who can talk and fight in the family to really negotiate with them.”

In later stages of the negotiation, the relocation team would even dump construction rubbish and human excrement in front of the apartments whose tenants

refused to sign the moving contract. Evidenced by the interviews, it turned out that those families with unemployed/self-employed young males are the most powerful in the lengthy negotiations, while relatively well-off families or families with Party members often avoided the trouble and accepted the unfavorable terms earlier. Interviewees confirmed that it was common among the last batch of remaining families to receive cash compensation ranging from RMB 700,000 to 800,000 for a household of three registered family members and housing size of around 12 square meters. This is about three times what the average relocated families received. Most of the families I interviewed were very angry at this type of inequality. One interviewee said, "I cannot sleep well after I found out how much compensation the last batch received. It is unfair, but I do not know what I can do about it now." Another interviewee said, "If you can help me to figure out a way to sue them, let me know. I would not hesitate to sign my name on the legal files."

4.7 Summary

Inequality in the urban redevelopment and negotiation process manifests itself in two ways. First, the medium-low income community in the redevelopment area was excluded from the negotiation process of the redevelopment plan. The government and the developer made the plan together and announced the decision to the community. In terms of compensation, the average housing price in Shanghai is 4989 yuan per square meter in 2003 (China Statistical Annual Book 2004), so that the medium compensation of 5000 yuan per square meter per person in the interview sample is almost exactly the replacement price. The relocating families lost the premium value of their central location and were not compensated for the relocation cost. The urban community has

little leverage in the whole process; they do not have clearly defined property rights of their long-term rental housing, and the authoritarian government in China has banned any form of collective movement or protest.

Second, the absence of formal compensation standards in the relocation process gave rise to two distinctively different types of inequalities in the relocation process—the preferential treatment of the families in difficulties; and of the families with strong negotiation power, not in terms of social prestige and income but in terms of time and energy—to a certain extent some characteristics of “rascals and hooligans.” I argue that there is some socialist social welfare legacy in helping out the families in difficulties; however, the outstanding objective is clearly to accomplish the relocation process as soon as possible to serve the business interests. The pro-growth coalition between the business and the government is a norm in market economies, but it is a new phenomenon in the authoritarian China. As the power of the private sector grows in the reform, the politically powerful CCP with its monopolistic power over land is starting to partner with the private sector. The new rich and powerful now live in walled, guarded villas and modern apartment complexes; while the low-income communities in the city center are removed for more lucrative businesses. Without election power, the relative weakness of the civil society makes it almost impossible for the community to participate fully in the decision-making process.

Chapter 5. Conclusion

In the background of rising intra-urban inequalities in the late 1990s, I explore how the urban housing policies contribute to the overall inequalities. My major research question is how mechanisms of housing inequality change with the transition from a socialist economy to an authoritarian mixed economy in China. In this study, I review the housing patterns and inequalities in Socialist China, discuss the major aspects of the housing reform, analyze the mechanisms of the housing inequality in transitioning China and conduct a case study of the housing relocation process in a major urban redevelopment project in Shanghai. So far, I have successfully made an initial confirmation of my hypothesis that both the market system and the remaining socialist influence are working together to reinforce and worsen the existing inequalities.

The people most affected by housing reform were employers and employees in the public sector, which was very large due to China's socialist history. Housing reform is in essence part of a more fundamental adjustment of social and economic distribution in a transitioning economy. Before the reform, housing inequalities mainly originated from socio-economic status and the type of the work unit. In the reform, the policy was to share housing provision and maintenance costs among the state, work units and individuals. The cost is increasingly borne by individuals with rising wages. However, the inequalities among people of different socio-economic status became more significant from both the market mechanism and the remaining Socialist influence. It is crucial what kind of housing a person occupies at the time, which is a continuation from the Socialist period. People in good quality apartments would gradually secure their position in those

apartments. They would obtain the use rights to their house through subsidized purchase and become homeowners. The young people seeking housing would more likely need to turn to the market with a monetarized payment method. On the contrary, people suffered in the old system are not likely to improve their circumstances in the new one. The housing subsidy system, the Housing Provident Fund, is regressive in nature—both the employee and employer contribute a proportion of the employee's salary to the Fund.

People officially employed in the emerging and growing private sector share the housing burden between their employers and themselves. The state retreated and no longer plays a significant role in the provision of housing for this increasing population group. However, they are still registered with the official Housing Provident Fund, an institutional arrangement supported by the state, while the rural-to-urban migrants are totally excluded from urban housing welfare. Most of them crowd into one small rented room in the suburban areas of large cities, live in the employer-provided dorms, or squat on the construction field.

I summarize the mechanisms of housing inequalities into three categories: (1) the income regressive nature of the Housing Provident Fund, (2) the exclusion of rural migrants from urban housing welfare, and (3) the strengthened work-unit-based inequalities in the reform years. Beyond these most deeply entrenched inequality mechanisms, housing inequalities do exist in many subtler forms in contemporary Chinese urban life. I try to capture those inequalities with a case study of Xintiandi urban redevelopment in Shanghai. The exclusion of the local residents in the negotiation process and the failure to adhere to the announced relocation policy clearly illustrate how the low-to-middle income residents lose out in the negotiation process.

From the analysis, I find that both the market mechanism and remaining Socialist organizational inequalities contribute to the changing patterns of inequalities in the transitioning China. On one hand, the central-planning system has significant influence through institutional arrangements, such as the urban-rural divide and the work unit arrangements. On the other hand, income becomes increasingly important as the housing market becomes commercialized. The state and private business form pro-growth league and relocate the middle-low income households to the suburbs.

Finally, I put housing in a broader socio-economic framework. It is a logical question to ask what are the implications of enlarging housing inequalities in China—is it abnormal and causing social unrest and political instability? Or is it building political solidarity within the favored social groups, which grants legitimacy to the central government? The experience of other Asian countries and regions during their economic development era can help us answer the questions. Castells et al. (1990) argued that the provision of public housing in Singapore helped to make the nation a choice location for foreign investments in the 1970s. In addition to control over wages and labor relation, the costs of operation for investors were kept low indirectly because of the lowered housing cost ensured by the public housing program. The mixed housing scheme also relieved the ethnical tension and segregation, and helped build the political legitimacy of the PAP leadership. In Hong Kong, the public housing program was promoted in the 1970s to achieve social stability in the aftermath of the 1960s riots. The policy as inspired by the Shek Kip Mei fire was an expression of the social paternalism of the administrative class: to take care of the needy within the limits of the budgetary priorities geared toward law and order. The housing programs in both countries stimulated

demand, fostered community organizations, and politically enfranchised the residents at the local level to achieve economic development, social stability, and political hegemony. (Castells, Goh and Kwok 1990) In contrast, China is privatizing its public housing stock as part of the overall package of market reform with increasing wage levels. Almost opposite to the Singapore and Hong Kong experience, the vast majorities suffer from deteriorating public welfare in China. Illegal land sale and evictions have elicited several cases of suicide. It seems to me that in China today the masses can only find the legitimacy of the CCP rule in economic growth, not in social welfare and probably not in ideology. Studying the dramatic housing inequalities in urban China today, I cannot help asking myself the question of what will happen if the growth of the economy slows down. Unemployed and unsheltered, without a social safety net to catch them, to what can the urban masses resort? With optimism, I view the housing reform as an on-going process, and the enlarging gap of housing inequalities may be a temporary phenomenon. As long as economic growth can be sustained for another several decades, the social welfare system will be able to catch up, and housing will be more equal and inclusive for the entire urban population.

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