

The Political Economy of Urban Housing Regime in Transition: PRChina, 1949-2000

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The socialist Chinese housing is not just institutionally different from the Western one when measured against the policy objective and output, but also, for half a century, its housing regime has been undergoing changes as shaped by politico-economic forces. To highlight the idiosyncrasy of housing (particularly in welfare terms) regime in China, this paper addresses the changes in housing policy and the reform governance structure, in the period 1949-1999, with specifically reference to the housing question, contradictions and policy initiatives. Against the context of Asian Financial Crisis, it further explores on the emerging issues on housing reform towards the 21st century. More specifically, it reviews the housing (welfare) regime change of the SOEs' housing provision, focussing on the shift to a pro-market approach which has led to the commodification of housing, dual land and housing market.

Key Words : China, Housing, Socialist Planning, Transitional Economy, Housing Market, Social Development

1. THE STEERING OF URBAN GOVERNANCE: POLITICAL IDEOLOGY AND PRAXIS

The recent housing regime change can be seen in the substantial reduction of the state's housing provision since 1978, which is closely linked to (or more specifically, has been a derivative of) various reforms that have been taken place in the socialist Chinese governance: the 'Open Door Policy' and the reintroduction of free market mechanism, as well as the reinvention of the spirit of capitalism (individualism and free-to-choose in particular) in a socialist country. The most important impetus, as well as challenge, for housing regime change is the demise of State-Owned-Enterprises (SOEs). The key ingredients at this conjuncture have been the recognition of private property rights, the dual market structure, and the promotion for capital markets in the real estate/housing financing, which facilitate the transformation of Chinese socialist planned economy towards the market capitalism (Walder 1999).

Regional and spatial development, as well as the mode of planned urbanization, is the representation of

political struggles over socialist ideologies of development (Lai 1995). During the period between 1949 and 1999, China's urban policy has undergone a number of profound changes and could be broadly categorized into four major distinct stages: Stage I, from the founding of the People's Republic of China to the end of the First Five Year Plan period (1949-1957); Stage II, from the Great Leap Forward to the end of Cultural Revolution (1958-1977); Stage III, from 1978 to 1989; and Stage IV, from 1990 to the present.

The development of urban governance has been shaped by two major sets of factors, namely, the influence of political ideologies on development and their struggles within Chinese Communist Party, and perhaps more importantly, the national economic problems encountered and the pragmatic policy responses in different periods (Tang 1994, Tian 1997, Xu 1995, Yao & Liu 1995, Yan 1995).

Stage I (1949-1957): A pragmatic phase of development, characterized by an urban-biased Stalinist development for urbanization with industrial capital accumulation, and hence vigorous growth of the urban population. Through land reform and the

attempt to abolish large private property ownership, housing stocks were partially nationalized and they were to be managed by public, collective or state-own enterprises (SOEs), or *danwei*, at the local level. Yet, quite a substantial number of small homeowners managed their own property.

Stage II (1958-1977): An ideologically driven phase, that was characterized by a Maoist rural-based development strategy and controlled urbanization policy aimed at containing the urban population. Anti-urban measures were enforced, such as the *hukou* (household registration) system to control population mobility, as well as the mobilization of intellectuals to rural areas (Zhou & Li 1995). The attempt to completely abolish private ownership (including home ownership) was mostly completed. Over 80% of urban housing stock came into the hands of collective or state agencies and they became the sole suppliers and managers of urban housing.

Stage III (1978-1989): This period experienced more than a return of Phase I pragmatic and urban-based development. Coastal cities and special economic zones were set up to foster the modernization programs. Leftist ideological influences on development were diminished and were replaced by a pro-market approach. Yet, the policy initiatives were contradictory at various levels of governance, which eventually led to the political crisis of Tiananmen Square in 1989, though the urbanization process regained its momentum in the early 1990s. Housing reform was subsumed under the attempt to regenerate and liberalize the urban economy, paralleling the SOEs reform. Investments from overseas Chinese were encouraged. Yet, the reform process was an erratic one and the related contradictions were more often than not manifested in the so-called urban governance crisis: inflationary pressure over the price-cost structure and the development of a dual and divided urban social structure.

Stage IV (1990-2000): This phase marked the consolidation of a dual economic structure with an attempt to integrate both the state and private sectors, particularly the formation of a new regime of free market governance under the macro-level indicative socialist planning measures. All of these changes reinforce the urbanization process, with increasing rural-to-urban migration, and the economic restructuring, towards a free-market economy. Urbanization and the commodification of housing made a significant progress (Asian Development Bank 1996, 1998; World Bank 1996). The further socio-economic restructuring and urban and housing policies are characterized by their contradictory manifestations and conflicts embedded with socialist objectives of equity, equality and justice

on the one hand, and the economic rationality for rapid development driven by global market capitalism on the other (Chen 1996, Lai 1998).

2. THE DANWEI URBAN HOUSING SYSTEM

Historically and spatially, China has two different systems of housing provision: in urban areas housing is financed mostly by the public-sector and is managed by the work unit (*danwei*), while in rural areas domestic households (and to a limited degree, rural organizations) finance most housing. Our discussions here focus on the urban housing regime.

Prior to the reform in 1978, no less than 65% of housing stock in urban China was owned and managed by *danwei*. Obviously, housing reform in the last two decades has mostly targeted the urban sector and can be seen as one of the post-1978 quasi-market regional development initiatives that have been largely focused upon coastal cities. In other words, the national development strategy, which over-emphasized the inland and rural sector development from 1949 to 1978, did have a strong impact upon the urban housing question. The socialist policy bias towards production-emphasizing the (heavy) industries in general and strategic/heavy industries in particular in the urban development- has been instrumental in shaping the production biased welfare and housing regime in the urban sector.

Obviously, the structural problems of socialist urban welfare and housing have been anchoring the production units, or more specifically, a production biased one. Under socialist governance, housing was historically considered as one of the major welfare entitlements of urban dwellers. For this, housing in urban areas was mostly financed and managed by the work unit (*danwei*). *Danwei* has been a major unit of socialist governance. As *danwei* was organized for production purpose, housing was thus provided to ensure labour productivity. It is obvious that a household's accessibility to quantity and quality of housing was much shaped by one's position, administrative rank, job performance and political connections in the *danwei*. At a macro level, since work units were institutionally ranked in an established socialist ministerial hierarchy, it was not uncommon that workers in the highly ranked work units could have more housing space allocated than their counterparts in the lowly ranked work units (Logan, Bian & Bian 1999). As a result, SOEs had more preferential housing resources than their counterparts in collective enterprises. In other words, a household's accessibility

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to housing, the type and quality of housing mostly depended, internally, on the status of the worker in, and the organizational assets of, the *danwei*, and externally, the ranking of his/her work unit in the established hierarchy (Chu & Kwok 1990, Wang 1991, Zhou & Logan 1996).

In spite of the socialist advocacy that housing is a basic welfare right, overall investment in housing sector was low in China and only accounted for around 1.5% of GNP from 1949 to 1978 (World Bank 1992). More problematic is the biased housing investment which mainly targeted towards those highly ranked (industrial) work units or those high ranking municipalities, like Beijing, Tianjin and Shanghai and regional capitals, like Guangzhou. Furthermore, the *danwei* based housing provision has drawn various criticisms, ranging from its inefficiency in supporting those in need to the bias towards those having positional power to determine which groups were to be allocated for housing. In short, housing inequalities is linked to the hierarchy of work units (Logan et al 1999, Walder 1992).

The structural urban housing problems in China in the period 1949-1978 are intertwined with socialist bureaucracy and the production-biased urban governance (Yeh & Wu 1995). The work units and housing bureaux together provide the main bulk of housing stock (Lau 1993). It is estimated that, in the period between 1949 and 1990, 87% (1.73 million) of the total 1.98 million square metres of new housing in Chinese cities and towns was built by the public and collective sectors (Wang & Murie 1999). Two types of dynamics need to be emphasized here. First, the socialist government's provision of subsidized housing to workers in the work-units, coupled with its low rental policy, has reduced the incentive for the suppliers to be sensitive to the affordability of tenants on the one hand, and real housing needs on the other. The obvious outcomes were the construction of larger housing units and the government's insensitivity to housing needs and costing. Second, as the dominant provider of housing stock and the limitation by the state's regulation on cash income for workers, the only benefits in kind was the provision of extra-large quarters by work units for workers; which in turn, reduced the total number of housing units the work units could supply, and lengthened the waiting list (housing shortage), let alone the temptation for corruption and malpractice in the housing administration at the work units level.

Because of the occupational welfare consideration, rent was deliberately kept low. The low rent policy hence exacerbated the financing problem of housing, both for maintenance and re-investment purposes. The

low rent posed problem for the recovery of cost for maintenance and re-investment on housing, and served as a deterrent for urban residents to become home owner as the housing price-rent ratio was extremely high. The predominantly low rent structure further hindered any property investment on rental property as it was not profitable for property developers to invest in housing stocks due to low yielding (Chen 1996). Accordingly, revenue derived from rent was only a third of the maintenance cost and 4% of the housing provision cost (World Bank 1992). The minimal revenue generation potential of public housing sector also mirrored the quantitative and qualitative problems of housing production. For the first three decades of socialist governance, the actual production of housing was well behind the population growth in urban areas. This was coupled with the poor quality housing stocks which were not well maintained throughout the period (Lee 1990, Zhang 1998). In short, the lack of housing fund, small revenue derived from rental sector, and the minimal consideration of housing issues, all contributed to the under investment, and hence worsened the problems, in the housing sector.

To recapitulate, the public sector dominated, production biased, housing system has its structural problems, such as poor quality of housing produced and managed, shortage in overall housing supply, low rent (accounted for 2-3% of household income) to support maintenance and re-investment in quality improvement, heavy subsidies from public funding, long waiting list, unfair distribution and the consequence of social inequality.

3. URBAN REFORM CONTRADICTIONS

Housing reform since 1978 is closely linked to the reform that has occurred in the socialist Chinese governance on the market: the 'Open Door Policy' and the reintroduction of market economies. This is a combined results of the struggles in political leadership and ideological line, and the economic problems (falling production productivity) in the mid-1970s, which enabled the emergence of the pro- free market ideas and experimentation firstly in rural areas, and subsequently in the urban sector.

Public funding of and subsidies for housing are problematic. Before 1979, funds for housing construction came mostly from capital construction investment by the state but housing for solely residential purpose was considered as nonproductive, therefore minimally funded by the socialist state (Zhong et al 1996). Since 1978, aiming for state's withdrawal from public provision of housing, the

housing reform has put work-units and SOEs to take a price sensitive approach towards housing provision. Yet, without a corresponding reform in rental sector - which still was insensitive to production cost and market price, the subsidies on housing have not been reduced, rather they grew as a result of shift of work units' budget from productive arena to housing production; which in turn increased the 'hidden' public housing subsidies (Wang 1991, Wu 1996). For instance, the annual subsidies on new building have been increased from 9.5% of the full costing in 1979 to 65.8% in 1992 of the total subsidies on newly built housing.

The shifting towards a pro-market approach for reform has led to the commodification of housing. Undoubtedly, the key ingredients in this development have been the partial recognition of private property rights and the promotion of financial capital markets in the real estate/housing sector, which mirror much of the reform of the SOEs.

Politically, the death of Mao Tse-dong in 1976 and the return of pragmatic socialism - under the political personality influence of Deng Xiao-ping, fostered a new set of reform initiatives in China. More specifically, three major developments account for the changing socio-economic context, reinforcing the contradictory urban governance: (1) the paralysis of the *Hukou* (household registration) system which previously served as a major institution for the rationing of collective consumption; (2) rural-to-urban migration driven by the liberalizing economy; and (3) the crisis of urban governance as a consequence of ever-increasing population juxtaposed by the incapability and inefficiency of housing supply system.

Relaxed Migration Control

Alongside the political mobilization across the country, *Hukou* system has been used as a major instrument of population mobility control for the selective urbanization in rural and interior sector of China from the late 1950s to the late 1970s. Under the influence of Chinese socialism, the containment of urbanization process in major coastal cities, a socialist land use system, and the geographical equitable and balanced socio-economic regional development were the main considerations (in period of the early 1960s to mid-1970s) of socialist urbanization project in China (Lai 1995, Xu et al 1995, Yao & Liu 1995, Zhang 1997).

Housing development and population mobility, particularly the dynamics of the housing demand in the late 1970s were quite different, if compared with the conditions in the previous period. The post-Mao

era of economic development has contributed to the reverse pattern of both inter- and intra- regional migrations, which challenged the very foundation of the *hukou* system (Ma et al 1997, Siu & Li 1993). Since 1978, internal migration is predominantly a rural-to-urban one (Chan & Gu 1999, Shen 1996). The increase of urban population and the mobility dynamics - resulted from the large scale rural-to-urban migration and the floating population since 1978, and the relax of the *hukou* (household registration) control - have been contributing to the housing shortage in cities, juxtaposing the rapid urbanization in the early 1980s (Chan 1996).

Rapid urbanization mirrors the liberalization of the economy since 1978. The relax of the *hukou* system was a direct result of rationalization of labour force in rural areas' modernization which produced increasing number of redundant peasants - push factor of rural-to-urban migration; coupled with the incapability of the rural economy to provide incentive for people to staying in the rural areas (Kojima 1996). The increase of redundant rural workers is in fact a direct consequence of the rural reform since 1978 which aimed to improve the efficiency of agricultural sector through a new household based contractual responsibility system - the over-collectivized or communized rural sector was mostly privatized. Generally, labour was in surplus and redundant in rural areas. More specifically, the previously collectivized rural sector had been downsized and resulted in the problem of under-employment in agricultural activities. The un(or under)-employment problem in rural areas, in the 1980s, can be seen in the central government's reactionary attempt to rejuvenate various village and township based non-agricultural enterprises for labour absorption and out-migration containment in rural sector (Chang 1996, Johnson & Woon 1997, Oi 1999). Rural-to-urban migration, manifested in terms of floating population towards, and permanent resettlement into, urban areas, has become an integral part of urban dynamics since the mid-1980s.

Rural-to-Urban Migration Driven by the Free Market

The liberalization of urban economy did serve as a pull factor for the migration (Chang 1996). More specifically, it is the polarization of the quality of life and the life chance, expressed in both monetary and materials terms, between urban and rural sectors. Obviously, the widening of the regional disparity of per capita income between inland and coastal regions, and the demand for labour in the coastal regions and Special Economic Zones (SEZs) in particular, have

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been instrumental in attracting both skilled and unskilled labour from former areas. Similarly, the rate of urbanization and its transformation in the interior China are different from the coastal one (Hsu 1996). Actually, the establishment of five SEZs, the opening of 14 coastal cities and the regeneration of urban growth for economic and technological development in the 1980s. Foreign investment in various forms of joint venture and ownership also pulled substantial amount of population from the inland regions. In short, economic liberalization, coastal cities-led-development strategies and the internationalization of certain key SEZs, all contribute to the migration towards urban areas (Fan 1996, Oi 1999).

The selectivity of rural-to-urban migration also constitutes differential housing demands in the receiving, mostly urban developing, areas. According to Shen's research: the age groups 15-19, 20-24 and 25-29 had much higher proportions in the in-migration population than in the total (receiving areas') population. The age group 20-24 accounted for over 30% of in-migrations of city and town populations respectively (Shen 1996: 140-141). In addition, in-migration in urban areas was partly due to marriage, coupled with the fact that a significant proportion of in-migrants in urban areas had a generally higher educational level than the total population - which implies that the spatial mobility of individuals was associated with educational levels and skills. With the demographic profile of the in-migrants who were predominantly young, at the marital age group, or/and with higher education level and skills, their demand for decent (rental) housing is hence different from the work-units' type of housing provision.

The Economic Reform Fueled Urban Crisis

Historically, the housing question in China is coupled with the welfare commitment of the socialist governance in the period 1949-1978, in which the state assumed major responsibility for the production of housing. Private housing and property development were considered by the Chinese Communist Party as the symbolism of the capitalist and petty bourgeoisie (Kirby 1985, Lai 1995). Obviously under the influence of Maoist ideology, private properties, ownership and housing had been mostly abolished in the first two decades under the revolutionary communist rule in China. This is in line with the Eastern European communist governance on housing and the control over production (work) units (Chapman & Murie 1996). More specifically, the dominant thinking was that the appropriation of productive force should be in the hand of socialist state and communist party, which in return,

should provide most aspects of the proletarian living. Hence, housing should be an integral part of communal living under socialist governance. Therefore, work units usually managed most of the housing stock (Wang 1992). As a consequence of this socialist commitment, the urban crisis in the transitional period since 1978 was in fact a direct consequence of the accumulation of urban problems in the early period (1960-1978) of socialist development in China.

The post-1978 rapid economic development induced population migration towards the coastal urban areas, notably in Jiangsu, Zhejiang and the Pearl River Delta, triggered off urban crisis. In other words, the suppressed rural-urban migration under the *hukou* system from the 1950s to 1970s was no longer held in the 1980s - particularly when urban economy became attractive for labour, which further facilitated the migration into urban areas (Kojima 1996). The obvious phenomenon was the sudden increase of the demand for non-*danwei* based low-cost shelters (or else, more homeless) in urban areas. Also in strong demand was the new and better quality housing, as derived from the overseas investors and expatriate managers influx in the coastal cities and SEZs resulting from various investment programs. The differentiation and the segmentation effects of housing market kicked in (Sit & Yang 1997).

Consequently, the surge of housing demand from those rural-to-urban migrants became a major problem for urban municipalities and local governments which had almost no funding to cope with this sort of differentiated demand, as most of the housing stocks were within the control of production sectors: work-units (*danwei*). Under these constraints, paralleling to the commodification (commercialization) of public housing by work-units (*danwei*), it is not surprising that urban municipalities had difficulties to assume a significant role in the housing reform through the initiatives for alternative (commodity) housing (Wang & Murie 1996). Furthermore, the urban crisis was also exacerbated by the underdevelopment of infrastructure in urban areas, or bottleneck problem. This was coupled with the inertia against the SOEs reform and the monopolistic power of local authorities in (under) pricing the land and property market (Li 1997, Zhang 1998).

4. DE-COUPLING SOE FROM HOUSING QUESTION?

Undoubtedly, SOE reform constitutes an integral part of the Chinese reform initiatives of a gradual approach to transition from a command economy to

market economy. Like housing reform, the major structural transformation is the radical diversification of ownership structure and the re-introduction of private ownership and private property rights (Fan et al 1998, Woo 1999). The SOE reform has been truly incremental, experimental and decentralized, taking the form of new (ownership, control and management) practices being allowed for small-and-medium sized SOEs, and then being more widely adopted overtime. Yet, none of the SOE reforms fundamentally altered the ownership structure of the enterprises, though they did significantly affect the control structure. Under the new managerial regime of governance in the SOE reform, land and housing assets – previously used for work units' welfare housing purpose– are now in the 'private' hands of state managers and officials (Ding 2000). These assets and properties are vulnerable to the re-appropriation of their market value (by commodification), capturing either by the corporatization of SOEs or the 'illicit' asset stripping for official's private gains.

In the latter one, the State Administration of State Property reported that asset stripping in SOE sector has been about 50 billion yuan (annually) since the early 1980s (see *China Daily*, report on asset tripping: 2.June 1995, 7.June 1995, 13 December 1995). Undoubtedly, a large proportion of the asset stripping is related to the re-appropriation, transfer and marketization of the property value of the SOE housing stock. During this process, political resources (e.g., administrative networking and discretionary power) must be combined with market resources (e.g., private financing and pricing in the market) in order for work units or their controllers to invest in, as well as the re-appropriation of the value of, new housing (Logan et al 1999). In short, the SOEs' housing and land assets have been considered for either public goal for the corporate re-financing for its survival or the private interests of those controlling agents. In both cases, the housing stock and land assets have become real estate property and are ready to be commodified and privatized in the market realm.

In communist China, the housing allocation system favours people with political positions and networks, those of higher socio-political background, and those whose work units have greater organizational authority. Hence, the danwei housing was, and is still, a luxury good. Despite the fact that subsidized housing was not evenly distributed and the quality of housing is highly differentiated in the state sector, one of the major benefits SOE workers traditional received from their danwei was housing. But since 1980, the cutting of central government investment and subsidies to SOEs, housing benefits became a heavy financial burden.

There are various methods for the SOEs to dispose their housing stock in such a way to be self-financing: selling of the housing stock to employees and urban dwellers, monetarization of housing subsidies (from kind to cash), housing provident fund. The basic idea is to get employees to buy either their old apartments or new commercially built ones, with different incentive and financing packages available.

Yet, it should be pointed out that the work units, not individuals, have become the principal agency in the developing housing market. The speed and direction of the market transition in general, housing reform in particular, are much shaped by the continued important role of the work units, through their political capital, capacity, steering and organizational authority. On the other hand, the complicated legal issues on property rights and ownership, the threat of labour redundancy, the affordability-property price mismatch, the under-developed mortgage financing and the strict condition for resale have limited the actual demand in the emerging, differentiated and segmented housing market (Lee 2000, Zhu 1999). The major consequence of the housing reform so far is the strengthening of the inequalities rooted in socialism. More problematic is the likelihood of the continuation of the urban inequalities, despite the fact that the production biased housing and welfare regime will be mostly, if not totally, wiped out in the SOE reform.

Initial Assessment of Housing Reform

From various analyses, it is obvious that the extent and impact of the two decades of housing reform in China are unprecedented in its socialist governance history. This is particularly the case for the transformation of urban landscape, human settlement and housing in key experiment cities, like Shanghai and Guangzhou (Chen 1996, Chiu 1995, Wu 1998, Wu & Yeh 1997). A critical assessment of the reform is attempted here.

In recent National Conference on Housing Reform, held in January 1997, the State Council confirmed that the priority of national economic development will be on housing reform aiming towards a market economy. This emphasis is particularly important as housing problems were characterized as the mismatch between the affordability and high prices of housing, and the demographic driven, ever-increasing demand for housing. According to the estimates: over 2 million married couples are added on the demand side per year, while over 3.2 million households are still living in over-crowded housing units with floor areas of less than 4m² per person. On the other hand, there were 66 million units of unoccupied commodity housing in

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1997. Accordingly, the direction of reform will be re-focused on the affordability of housing, as well as a better coordination of the quasi-mandatory 'saving for home purchase' (housing provident fund) system (*Xin Wen Pao*, 28. January 1997, p.3). But the reform is a partial success. In 1998/9, the situation of the mismatch – between over-supply of high quality and expensive private property and increasing demand for affordable housing – is worsening, partly as a result of the overproduction in the 1990s and the downward mobility of the urban working population.

In contrast to the Eastern European reform initiatives, the Chinese housing reform is also characterized by *gradualism*, *experimental*, with a *zig-zag* trajectory (Zhu 1999). Though the progress is significant and impressive over the last two decades, it is in some instances hampered by the socialist administrative and institutional arrangements and the Chinese network-based (*guanxi*) traditionalism (Logan et al 1999). A substantial portion of housing is still under the ownership and management of work units, with state subsidies in this sector. More problematic, housing reform has created unfair conditions of living among urban residents and hence inequalities in cities.

Given the momentum of reform and the consolidation of a market economy within a socialist system in the last two decades, the Chinese government's target of minimum living space of 8m² per capita is likely to be achieved in late 2000. Yet, it should be pointed out that the per capita figures are in no way a true representation of the equity and redistributive justice issues in the housing sector. In short, more living and floor space produced under a property market-led regime of housing governance is less likely to achieve the social goal of decent and affordable housing for the whole nation (Rosen & Ross 2000). The expansion of the commodity housing sector in this regards is less likely to solve the critical issue of affordable housing for a population of 1.3 billion, nor will this help for those who hold vulnerable employment in the SOEs which are undergoing downsizing and rationalization.

Despite increasing problem in the reform process, the housing reform initiatives over the years have achieved certain significant results, particularly a substantial increase, and upgrading of, the housing stock, with the transition of the housing market towards the so-called Chinese socialist market economy. In addition, the emergence of a property market and the related financial networks (mortgage and insurance industries in particular) within a socialist market has been instrumental in liberalizing the economy in general and enabling the market-driven reform in land management, development control and housing

construction industries (Chen & Wills 1999; Ng & Tang 1999). Yet, there are still many contradictions in the present mixed, dualistic and sometimes chaotic, mode of urban housing governance.

On the emerging contradictions of the housing question in China, five observations, as an initial assessment, on housing development in China can be highlighted.

First, it is the political meaning of the reform, coupled with the new identity of the socialist state in the post-Deng era. Obviously, the changing nature of housing from a basic socialist welfare right (in the Maoist sense) to a commodity, property investment (based on the Deng's pricing mechanism, despite the various interpretations given to it by local officials) is self evident in the last decade of reform. This mirrors a wider set of the socialist state's initiatives towards commodification, privatization and marketization within the transitional Chinese economy (Woo 1999, Walder 1996). The change of welfare entitlement of urban residents is also a path toward a quasi-capitalist economy. This is illustrated best in the reform of the urban-based SOE sector, in which the wage and cost structure is also being differentiated from the socialist mode of production towards a capital, free market one. More importantly, reform in the housing sector has, in fact, been used as a leverage towards the reform in other sectors. The increase of rent is only political acceptable and financially feasible when accompanied by wage increases – this is particularly the case for large cities. In 1997, the nationwide average rent for public and collective sector was 1.29 yuan, which accounted for 20% of the total housing cost (*Renminibao*: 5. August 1998, Lin 1999). For example, rents in Beijing were increased to 1.80 yuan per square metre in 1998 with aim of achieving an increase to 3.86 yuan through a series of administrative adjustments, including wage increases. This level of rent, representing 15% of household's income, is considered as the optimum one (Lee 2000: 72).

On the other hand, the housing reform has its own political meaning as well as its own driving force, namely, the cultivation of home-ownership which is considered to be basic to the re-building of the individuals' identity and his/her status in a new political era. The search for a more liberalized regime of governance is only partly a response to the economic (e.g. non-political) reform initiatives, like those in SOEs and in the housing sector. A critical question emerges from this development: *Is the overwhelming reaction for/against the housing reform a response to the demands for a more liberal regime of both political and economic governance, or the cause-effect relationship in the other direction?* Contradictions in

the present dual, chaotic system of governance (namely, a socialist government in the political arena and quasi-capitalist system operating in the emerging urban economy) will likely result in more social conflicts in the future.

Second, it concerns the partially liberalized, financial institutional setup which is obviously one of the major catalysts providing fuels for the housing reform. A full-scale financial market for mortgages and insurance has been under-developed which is comparable to those in other transitional economies. The supply side of the housing market is not just one derivative of the financial market. The state has much less control over this market than in previous decades. But local officials and SOE managers tend to have a better position in shaping urban spatial and housing orders (Wang & Murie 1999). The objective of housing reform is to provide quality and affordable housing for those in need. But this profit-driven financial market might pose a constraint, given the economic cycles and the time lag between the financing (which takes place in the financial capital market) and the construction of housing (Chen & Wills).

On the other hand, as rapid urban economic growth reveals the need for more state-provided infrastructure, housing construction projects will have to compete for the limited national financial capital. Publicly funded housing programs, when compared with, say, transport network development and energy program (the Three George Dam at Yangtze River), will no longer be considered as having the priority within a tight public finance regime. In short, the political appeal of public housing as a sort of welfare provision is losing its relevance and urgency within an emerging regime of housing that is anchored upon private financing, bureaucratic managerialism and the legally endorsed private property rights. The future development of housing will be shaped by the outcome of competition for limited financial capital in the public budget, as well as in the liberalized national financial markets. Hence, housing provision will be contingent upon the business cycles of the real estate property market driven by financial capital, as well as the discretionary power of local bureaucracy.

Third and derived from the first two: financial and property markets in China are being internationalized. Since 1980s, driven by the internationalization and regionalization of financial capital, the Chinese property market has increasingly been on the receiving end of major investments of financial capital by Asia's Newly Industrializing Economies, especially South Korea, Taiwan, Hong Kong and Singapore (Sit & Yang 1997). For instance, South Korea has heavily invested in China's Yellow Sea Economic Zone. A consortium

of firms from Singapore and SOEs from Suzhou city and Jiangsu province, along with 17 Asian corporations, have invested about Singapore \$30 billion in the Singapore-Suzhou Township Project. This project will provide housing for 600,000 people and employment for 360,000 – all these shape the substantial development of commodity housing and property development (Lai & So 1997) The internationalization of the property market in China will likely result in more upper-class housing development in China, which will partially cater to overseas investment portfolios (Wu 2001). They will also bring in new construction technology and know-how to the Chinese transitional economy. The most obvious case is the new property development in the Pearl River Delta and Pudong city in Shanghai (Olds 1997, Wu 2000). Obviously, this will also foster high quality, high price housing for domestic and commercial purposes. Yet, the over-internationalization of housing (particularly real estate property) development could, in some instances, affect livelihoods of local residents as well as their cultural heritage. To avoid this, a more balanced, culturally sensitive and technologically appropriate approach to housing development strategy is needed.

Fourth, obviously, the housing system in the present reform era is very difficult to govern since at the same time the socialist state is loosening its ability to control every aspect of the system and is being replaced by financial capital-driven market forces and local interests (Walder 1995). Under the dual urban governance shaped by administrative and market forces, segmentation of housing market is more prevalent. Housing market are classified into different sectors with reference to their degree of profit-making: welfare-commodity housing, low-profit commodity housing, market (high profit) commodity housing. The segmentation of housing market can be delineated in terms of the cost-recovery potential and the targeted buyers/users of the housing as well (Lee 2000, Rosen & Ross 2000). In addition, the critical challenge for the reform is perhaps to accommodate the differential housing needs of the increasingly mobile urban residents, ranging from professional expatriates to homeless floating population. Yet attempts at achieving diversification in housing provision through different kinds of public-private models have resulted in further segmentation of housing market with biased, uneven or polarized, urban social structure. For instance, there is over-provision of commodity housing and under-provision for the under-privileged (low income, immigrants) families in urban areas. In 1999, not less than 70 million commodity housing units are still unoccupied nationwide. Other factors associated with the transitional economy have led to further

differentiation and segmentation, if not the instability, of the housing system. These include inflationary pressure on prices and costs, speculation-driven property development, and the spontaneous settlements and the illegal land use.

There has also been a regional effect upon the housing market. The ever-increasing pressure on the urban housing system is partly due to rural-urban migration. Reinforced by the efforts to rejuvenate, liberalize and internationalize the industrial base in urban centres and in the coastal regions, the number of migrants estimated at 160 million in 1998. Spontaneous new settlements, resembling squatter areas in other third-world cities, are developing at the urban-rural fringe of large and medium cities: migrant workers, floating and unemployed population reside in housing newly, poorly or illegally constructed by the former peasants and local village committees. One such case is the Bijia Hill in the Futian District in the Shenzhen Economic Zone (Ng & Tang 1999: 23, Chan & Gu 1999, Kynge & Harding 1998). On the other hand, there is an emerging rental housing market (ranging from temporary to permanent, serviced to self-service) for professionals and skilled labour who have migrated to or between, urban areas. There is significant regional variation in China (Zhao 1996). One result is the emergence of a dual and divided urban social structure at local level, with the co-existence of both formal and informal economies and their socio-residential structure (Chan 1996, Olds 1997, Tian 1997). Similar division can also be found in rural areas as well (Lui et al 1998, Johnson & Woon 1997, Oi 1999).

With respect to housing affordability, the ever-increasing demand for housing in the urban sector at the present stage is rarely met by the market-led and profit-driven housing program (Ross & Rosen 2000). The present housing reform package has virtually no provision to accommodate the housing needs of new in-migrants – because it assumes those who are employed or living in urban areas will be accommodated in some way. Nor is there any plan to meet those needs over the foreseeable future. In short, the present housing reform is only liberalizing the property housing market. There is no public social housing program to provide for those in need. This omission might one day trigger off social instability in cities.

In the reform era, urban development in China resembles the urbanization process in non-socialist developing economies. This is the case for the land-use pattern where old city centres are being replaced by profitable commercial property housing through the so-called public-private partnership for urban redevelopment. Projects providing affordable housing are being pushed outside the urban centre where land

is cheaper. Both are being guided by a new set of planning guidelines and land development mechanisms. For instance, the Shenzhen Special Economic Zone land-use model and the urban renewal in Shanghai City have become the prototypes of financial capital-driven real estate and property development in China (Chiu 1993, Yeh & Wu 1996). To conclude, the contradictions embedded in the present economic reform in China are not to be ignored (Yang & Wei 1996, cf. Evans 1995). The synergetic impact of the urban transformation in China, particularly since 1978, has been significant. It is rightly pointed out by Chan Kam-Wing and others that the transformation will result in polarization of urban life, social and housing inequalities and the making of a dual society (Ning & Yan 1995, Yeh et al. 1995).

Finally, perhaps the most important aspect of housing reform in China is the withering away of the socialist state's capability to direct it. Although the state, through the SOEs, maintains a strong hold over the aging housing stock, it must do much more in supplying affordable new housing. SOE reform has resulted in better quality housing for some people.

In the early 1990s, China's economy experienced its double-digit growth rate, despite of the lagged effects of the tight politics that have been in force since mid-1993. Yet, China's economic growth has been slowing down in the second half of the 1990s. This is particularly the case when China is still under shadow of the Asian financial crisis since the second half of 1997. Obviously, the impact of the regional crisis will further sharpen the urgency for SOE reform, so as to catch up the widening gap between its competitiveness with the devaluation-driven-competitiveness raise in other Asian economies.

The further liberalization of socialist governance on the market is likely to be a dominant force for the transformation of national economy. Obviously, one of the major obstacles for the economic liberalization is the slow progress of the reform of the SOE sector. Therefore, the reform will have to continue to target the SOEs in the coming decade. Given the rationalization and the down sizing of the SOEs, which will result in large numbers of redundant former SOE workers, and taking into account the fact that SOEs have been one of the major providers for urban housing, this reform will have a profound impact and substantial ramification on the supply side of cheap and affordable housing for the employed labour force

More problematic will be the increasing demand for affordable housing in the urban sector to meet the needs of the increasing number of redundant workers in the state sector, estimated 25 million workers in 300,000 SOEs in 1999, and migrant workers from rural

area partially engaged in the informal sector, estimated 20 million in 1999. In the reform process, the state and quasi-state sectors have been reducing their role in housing provision which has resulted in significant increase in housing costs. At the same time, paradoxically, as a result of SOE reform and a more liberal acceptance of migration, coupled with the increasing differentiation and fragmentation of regional-spatial development, there is increasing demand for more affordable urban housing. The key housing question that will have to be answered is: *Who can afford the higher price of housing given the likely double-digit per annum increases in urban rents in private and quasi-state sector housing, when most SOE workers are at risk of redundant and salary cut?*

To recapitulate, the reform process was not a smooth one and was confronted by two sets of resistance. First, work-units structurally had never exposed to the operation of market mechanism and hence, the pricing of housing for sale and renting (making the employees to pay more) tended to be arbitrary determined. Second, perhaps the most crucial one, the sense of uncertainty for those previously housed in the subsidized housing, their reluctance to be charged for higher rent and their unaffordability in the housing market posed political question for the governing authorities. In retrospect, the housing reform regained its momentum after urban economic reform had taken certain success, particularly the acceptance of the dual pricing in other commodities market and the actual increase of real purchasing power hence the increase of saving, in a stable political context.

SOE Reform: Further Worsening of Housing and Welfare Problems

Since 1978, the profitability of SOEs has been falling, which reinforces their existential crisis. There are four factors attribute to the crisis of SOEs: wage increases as a result of the SOE autonomy, vis-a-vis the central state control (the wage drift thesis); more competition from local and foreign producers in a liberalized market condition; the inevitable increase of social burdens of SOEs – particularly on the increasing costs for housing stock maintenance and welfare services; and the depreciation of 'old' technology which has higher maintenance cost yet lower productivity. From a different perspective, it should be pointed out that, despite the lowering of fixed investment in, and gross industrial output from, SOEs, they employed over 65% of the industrial labour force in 1996 (Fan et al. 1998: 24). Any large scale of SOE reform hence will have a strong impact on the

affordability of the SOE workers to cope with the new housing market.

Geographically speaking, the 1996 figures indicate that there are several provinces with a high percentage of state employees among urban workers: Xizang, 93%; Xinjiang, 90%, Qinghai, 87%; Guizhou, Ningxia and Yunnan - 85% each; and Guangxi, 83% (Fan et al. 1998: 25). Though these region are far from the densely populated coastal regions, any structural reform on SOEs and their housing provision will have a strong impact on these regions' urban areas. The impact of SOE reform will also strongly affect those areas with large SOEs, like Liaoning, Shanghai and Tianjin where SOEs accommodate over two-third of the urban employment (Fan et al. 1998: 23).

Since the early 1980s, to lay off surplus workers becomes an usual practice for SOEs to deal with the redundancy problem and re-engineer a more efficient production unit (Fan et al. 1998: 39). Yet, the management of surplus labour has been controversial. This is particularly the case when the housing and other social benefits are normally bound the employment terms in SOEs, workers not just being laid off, but the losing of their housing rights and other benefits as well. Hence, this is a highly political (from the system perspective) and livelihood (from the affected individual's viewpoint) issue. Temporary measures to house the redundant / sacked labours are deployed to contain the crisis. More specifically, the extent of the problem of surplus labour in SOEs shapes the differential package for the lay-offs and the housing rights reallocation.

The danwei housing is perhaps the last burden for SOEs, due to the historical cutting of central government investment and subsidies to SOEs since 1980, and more recently, the increasing number of the sacked workers in bulk are still tied to, and residing in housing of, their former employing work units. In short, it seems to be easier to keep the redundant workers out of the pay roll but not their physical residency in SOE housing sector. The question of how long can the temporary measures of housing the unemployed workers by their previous working units be tolerated? is a very critical one which urgently calls for new policy initiatives. In other words, the provision of alternative housing by non-production units, like local governments, for the unemployed and the under-employed is a real challenge for future housing and SOE reform.

Despite various methods for the SOEs to dispose their housing stock in such a way to be self-financing, the prospect is not good. For instance, in 1994, the State Council issued a regulation to guide housing reform nation-wide, with flexibility for SOEs to make adjustment for putting the SOE housing stock on, on

par, market value. But the initiatives received mixed, if not totally negative, responses. Responding to the financing problem for home ownership, there are major plans for strengthening the financing of housing market, like setting up housing provident fund by the stake holders (local government, work units and workers) to help employees to own their home. Housing provident funds have been set up, and lately modified to suit the market situation, in Guangzhou (1992) and Shanghai (1991). The basic idea is to get employees to buy either their old apartments or the new commercially built flats (Lee 2000, Fan et al. 1998, Montagnon 1998). Yet, in the reform era, most workers employing in SOE sector are still worried about their job security, the fulfilment of the wishes for home-ownership is thus secondary.

5. THE FURTHER DEMISE OF WELFARE-HOUSING REGIME

Against the context of Asian Financial Crisis, this section explores the prospect of housing reform in China. Began in Thailand in July 1997 when the value of the Thai currency plummeted following the country's abandonment of its pegged exchange system, the financial crisis quickly spilled over and engulfed Indonesia, South Korea, Malaysia, Indonesia and the Philippine in less than six months (Asian Development Bank 1999). The impact and ramifications of the financial crisis are significantly felt globally. China is no exception though it has maintained the socialist control of the currency Renminbi and has been stucked to the 'non-devaluation' currency policy.

Comparatively speaking, though the impact of the Asian financial crisis upon Chinese economy is less affected, vis-a-vis other Asian economies, the Chinese export sector has been seriously challenged by the devalued cost-price structure of its competitors in the region. Though it is still too early to assess the real, substantive, impact of the Crisis on the reform program in Chinese transitional economy, there are four areas of change which deserve our attention.

First, there is a substantial reduction of foreign investment in China after the onset of the financial crisis, ranging from long term direct investment to short term hot money for property speculation. The most obvious case is the withdrawal of financial capital from Southeast Asia, particularly from overseas Chinese. Investors (on real estate property in particular) tend to be more conservative and in short, they prefer 'cash in hand' rather than committing substantial infrastructure and property development projects. The banking sector is more stringent to offer loan or mortgages. Hence,

this will slow down the momentum for housing reform.

Second, the demand for urban economic reform is no less either. There is more urgency for the redundant, inefficient SOEs to reform, in order to cope with the competitions in the regional and global markets. Because other Asian countries benefited from their currency devaluation are becoming more competitive in terms of: better terms of trade, better cost-price-productivity. Yet, the foreign funds available are less easy to get as a direct consequence of the contraction of global credits. Obviously, this will slow down the reform momentum for those sectors (the property market in particular) relying on foreign capital (cf. Wu 2001).

Third, following from the above analysis, the critical period for the success of SOE reform will be in the coming five years. One of the most likely funding channels for the reform is the further commodification of (cashing-in) the existing land and housing stock of SOEs. Therefore it is not surprising that premier Zhu Rongji announced in March 1998 (later re-confirmed by the State Council's Directive on the 'Deepening' of Housing Reform, July 1998) that the subsidised housing traditionally made available by SOEs would be phased out quickly. With effective from January 1999, the state no longer allocates social housing to SOEs, nor SOEs allocate housing to their employees. Workers would be encouraged to buy their own homes from the state or at least pay a higher, market-compatible, rent. This implies a very strong political will to deepen the housing reform so as to rationalize the SOEs, and to enhance their ability to compete locally and regionally. This deepening and wholesale reform will take place, and should be completed, in less than five years. But will this create more social and housing needy?

Last but not least is the issue on affordable housing. As more SOEs are drawn into the reform (rationalization, downsizing, merger and even gone liquidation), there will be more redundancy-driven demand for affordable/cheap housing for the needy (redundant workers, aged and early retirement or retirement workers and their families). How the SOEs and the local authority managing this new demand will shape the social stability of the cities. In addition, the slowing down of economic growth in the coming years will likely reduce the rate and volume of commodity housing production and the purchasing power of urban dwellers. Hence, the goal for a leverage and optimal balance between housing rent and household income towards a market-compatible one will take longer time to achieve.

To make a final note normatively: judging from the reform experience, there is strong case to strive for a balance and humane approach of housing reform.

Juxtaposing the commercialization and capitalization of housing stock in urban areas which mostly benefit the national economic development – under the influential forces of globalization, there is even a stronger case for providing social housing for the needy in the next stage of SOE and housing reforms – which are likely to be shaped by global competition resulting from China's accession to World Trade Organization when policy should be re-targeted towards social inclusion and integration rather than economic growth per se.

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