

Changing welfare approaches in mainland China:

The case of housing welfare and residential redevelopment in Beijing

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Introduction

The ongoing reform practices in mainland China have dictated profound socio-economic and political changes that altered the way of living for many urban residents. One of the major issues arising in urban China is the shifting focus on welfare approaches. Before the reform, the mobilisation of mass urban population into the state sector meant that urban residents were largely dependent on in-kind benefits provided by their employers, which supplemented their low wage. The extensive provision of public rental accommodation would be one of the best examples of such practices. However, as the reform measures are implemented and strengthened since the 1980s, the traditional socialist welfare system is going through a transitional period to be re-shaped around the social insurance-based three-tier contributory system, in which the government, enterprises and employees all share responsibilities. This new system is in principle employment-based, favouring those in full-time employment. At the same time, as the on-going changes in employment structure leave an increasing number of urban workers outside the formal employment relationship, the central government is also strengthening a means-tested social security system in order to guarantee the minimum income of urban households. Housing reform constitutes an integral component of welfare reform initiatives. Various measures were taken to introduce market principles in the cycle of housing production and consumption. The promotion of homeownership has been at the core of the changes, hence releasing the state and under-performing state enterprises from the over-stretched burden of welfare housing provision. As is the case with other social insurance schemes, urban residents are

driven by reform policies to be responsible for their own housing security.

One of the major measures to reform the public housing sector has been the sales of public rental units to their sitting tenants, hence transferring public housing stocks to the hands of urban residents. However, this has been only applicable to those rental units which were fairly in good conditions. A large number of dilapidated dwellings largely found in and around the inner city districts in the case of Beijing have been excluded from this privatisation process, and have been subject to demolition and redevelopment. Then, the question is: how likely is it for the residents to find an affordable housing in the market upon their displacement, either renting or buying, that would provide a similar degree of housing security in a location as close to their original place of residence as possible? To what extent does the state protect their housing security? What constraints do they face when finding an alternative residence after displacement, and how do they cope with such constraints? Does the whole process of displacement and relocation due to residential redevelopment shed any light to the on-going changes in welfare approaches?

To address these questions, the author takes the field research findings to discuss those issues arising from residential redevelopment practices in Beijing. The fundamental argument to be made through the discussions herein is that the state is *withdrawing* from the direct provision of welfare means, and that the welfare provision in urban China is rapidly dependent on a more market-oriented approach. This is facilitated through offering financial assets to the residents upon displacement as redevelopment compensation. As there remains lack of opportunities to remain in public rental sector, these displaced residents are driven towards the commercial market in a hope to sustain their housing security. However, they face various constraints, as the market conditions are hostile towards, in particular, those disadvantaged groups (e.g. unemployed, laid-off or retired).

Research contexts

Welfare reform

The welfare system in mainland China has undergone gradual changes, sidelining with the implementation of socio-economic reform policies since the 1980s. Before the reform era, the state provision had been the dominant feature of social welfare. The majority of urban workers were employed in the state sector. Their employers (i.e. state enterprises and government institutions) were acting as care-takers, providing in-kind and cash benefits that included medical treatment, housing, education and retirement pensions. The reform policies since the 1980s brought fundamental changes to such practices (Hussain, 1993; Selden and You, 1997).

The needs to change welfare approaches in the reform period comes from the fact that the on-going social and economic restructuring drives more and more urban residents out of the scope of traditional employer-provided welfare system. For instance, an increasingly large number of urban workers are now finding their work in the private sector. In 1978, 78.3% of urban workers were working in the state sector while 21.5% were employed by urban collectives. However, by 1998, the proportion of urban workers employed by the state sector has decreased substantially down to 43.8% (Bian, 1994: 25-26; NBS China, 1998). Moreover, unemployment is becoming a serious problem. In particular, concerns are raised among domestic and international organisations regarding the increasing number of laid-off workers from state enterprises and government institutions who are not captured by the official unemployment statistics.¹ In 1999, the Asia Development Bank estimated that by the end of 1998, the total number of laid-off workers would reach 7 million workers. The inclusion of these workers in the estimation of unemployment rate would have led to the surge of official unemployment rate from just over 3% to nearly 9% (ADB, 1999: 3). Furthermore, the number of retired urban residents reached 3.1 million in 1978, but by 1995, it had increased by ten fold. 80% of the retired came from the state sector, while the remaining proportion was from the collective sector (Selden and You, 1997: 1661). This had increased the total amount of retirement pensions paid out by their former employers, reaching 21.3% of total wage bills (Selden and You, 1997). The over-stretched burden assumed by state enterprises in terms of providing in-kind welfare means to their employees and retirees were identified as one of the primary causes of their low performance and profitability (World Bank, 1992).

Against such backdrop, the welfare reform in mainland China follows a dualist track. On the one hand, the changes aim to re-shape the existing welfare system around social insurance-based three-tier contributory system, in which the government, enterprises and employees all share responsibilities (Shin, 2005). Unemployment insurance, health insurance and pension reforms take the core positions in the welfare reform, which aims to expand the coverage to include non-state sector employees. Beneficiaries are requested to make contributions. For example, in the case of recent pension reform, an individual account is set up for each employee, into which the employee and the employer both make contributions. By mid-2001, the national contribution rate recorded 5% of payroll for employees on the average, and roughly equal amount by their employers. In addition, the employers make 16% of payroll into local pooling fund (Shin, 2005: 127-129; Zhu, 2002:

¹ The Chinese leadership understood unemployment as the result of the contradictions within capitalist accumulation system, and hence preferred the concept of 'laid-off' instead of 'unemployed.' Laid-off workers maintained their official relationship with their employers even if they didn't go to work, and remained entitled to those employer-provided welfare benefits. Many received certain amount of wages after being laid-off, but the size of their wages depended on the business performance of their work places (Chen, 2004: 142).

41-42). In the case of 1999 health insurance reform, all urban workers were to be covered by the health insurance “on the basis of joint contribution from employers (6% of wages) and employees (2%)” (Wong, 2004: 163). One third of the employers’ contribution goes into the employees’ individual account, while the rest goes to local pooling fund (Song, 2001: 134-135).

On the other hand, in order to guarantee minimum income for the urban poor households, a means-tested social security system called Minimum Living Security System have expanded to cover the whole urban areas by the end of the 1990s. This system targets those urban households whose per capita income falls below the income threshold level set by each municipality (Song, 2001; Tang and Ngan, 2001; Zhu, 2002). In 2002, in the case of Beijing, those eligible households to receive such benefits were to have per capita income less than 290 yuan, which was 28% of per capita disposable income of average Beijing residents in the same year, or 51% of per capita disposable income of bottom 20% of income decile (Beijing Qingnianbao, 26 June 2002; BMBS, 2003: 180).

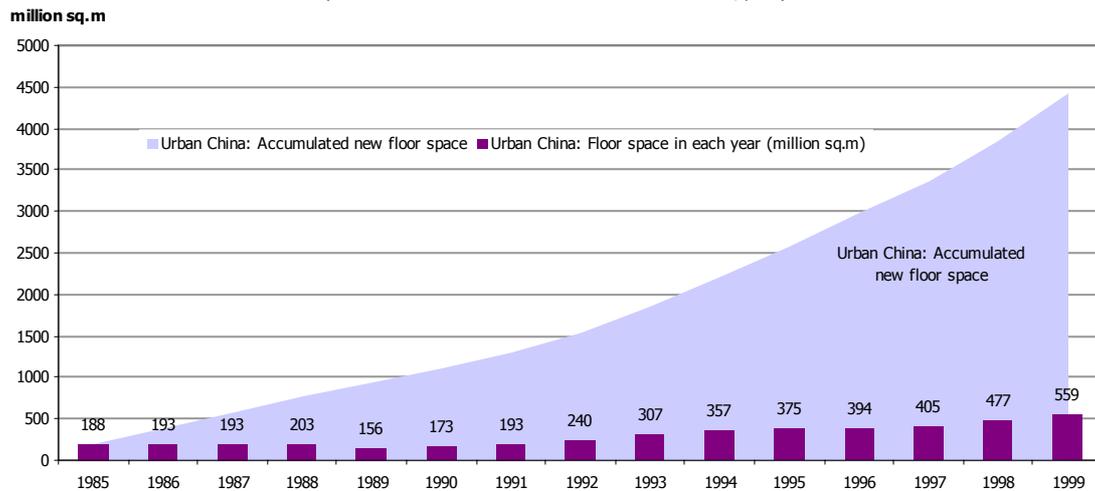
Housing reform: promotion of owner occupation and commodity housing

Since the early 1980s, urban housing was at the core of urban reform policies in order to improve deteriorating living conditions of urban residents as well as the performance of state enterprises. Housing reform was first introduced with an emphasis on a ‘three-pillar system’ that called for diversified sources of housing investment from the local government, enterprises and employees (Hou, 1999: pp.221-22). In the course of its implementation, the nominal rent of public rental units was to be substantially increased from 1~3% of household income to 15% so as to cover the basic maintenance and management costs. An emphasis was placed on the commercialisation of housing production and distribution, thus introducing market components in the public housing sector (Wang and Murie, 1996, 1999b). The reform also aimed at establishing housing finance system in order to assist housing purchase. Furthermore, the urban land reform since the late 1980s² changed the decades-long tradition of administrative land allocation, and allowed the transfer of land use rights for commercial development (Zhang, 1997). Consequently, the urban housing stock has experienced a dramatic increase as shown in Figure 1 below.

² The first change that headed urban land reform in the case of Beijing was the introduction of the *Implementation Guideline for the Land Administration Law* in 1989, officially allowing the market transfer of land-use rights (Zhang and Fang, 2003).

Figure 1: Floor space of new residential units in urban China

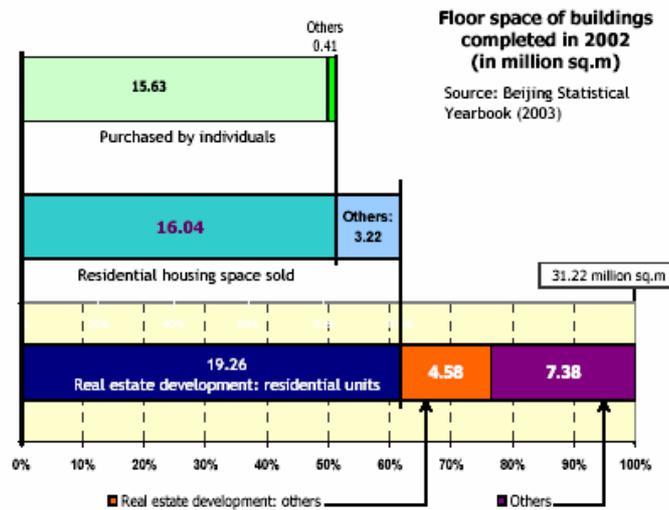
(Source: Yearbook of China Real Estate Market 2000-2001, p.178)



The promotion of individual homeownership was at the centre of these reform policies. The dominance of public rental sector during the pre-reform period has been shifting towards a polarised system of owner occupation and public rental tenure, while private rental sector is yet to be fully developed. The homeownership promotion has followed a two-way track. First, relatively better off households have been directed toward the purchase of commercial (or ‘commodity’) housing and economic housing. In general, those belonging to the top 20% of decile income distribution are expected to buy commercial housing at full market price. Those households above lowest 20% income are considered as potential buyers of both commercial and economic housing, the latter supplied with a lower price range made possible through various governmental subsidies (e.g. tax redemption) to the developers (Lee, 2000; Shi, 2001; State Council of China, 1998).³ Indeed, the sales volume of new residential units to individuals in urban China has increased substantially throughout the years. According to the National Bureau of Statistics, 88% of urban housing sold in 2000 went to individuals instead of institutions, the sales volume reaching RMB 295.4 billion (People's Daily, 19 March 2001). In 2002, Beijing also witnessed high rate of participation by individuals in housing purchase: 97% of 16 million square metres of residential housing space sold in the market in 2002 were bought by individuals (see Figure 2 below).

³ It was often pointed out that one of the drawbacks of the 1990s reform measures was the unleashed purchasing power of the state enterprises, who turned out to be the major buyers of commercial housing on the market, much less constrained under the Enterprise Reform regarding the use of their budgets. Only a fraction of commercial housing was sold directly to individuals. Those houses purchased by the work-units were then rented out at nominal rents or sold out at heavily subsidised price to their employees (Wang and Murie, 1996; Wu, 1996), which came to an end in 1998. Nevertheless, even the subsidised re-sale of commercial housing by the work-units to their employees was a contribution to the rise of homeownership.

Figure 2: Floor space of buildings completed in 2002



Second, homeownership rate has also increased through the privatisation of existing public housing stocks. As early as 1988, the stock transfer of public rental units to sitting tenants was emphasised by the State Council as an essential component of housing reform policies (Song and Hu, 2001). In Beijing, the municipal guidance on the privatisation of public rental housing first appeared in 1992 (BMG, 1992). The earlier years of privatisation didn't witness a significant increase in homeownership rate: by 1993, only about 13.7% of the sitting tenants in public housing sector nationwide had bought their rented dwellings (Lin, 2001). Throughout the 1990s, the volume of public housing stock transfer had risen steadily, and a big push came with the State Council Circular No.1998-23, which called for the termination of all kinds of welfare housing allocation (State Council of China, 1998). Huang (2004) finds in his results of a small-scale sample survey in 1999 that nearly half of the homeowners in his sample achieved their current tenure status in 1998. This was the year when many urban residents rushed into the queues of welfare housing allocation and subsidised sales to 'catch the last train' (Huang, 2004: 62-63). The privatisation of public housing stocks has been heightened since 1998, and in August 2002, then Deputy Minister of the Ministry of Construction was proud to announce in an international conference that "Since the mid-1990s, 80 percent of China's public housing has been sold to local residents" (Xinhua News Agency, 12 August 2002).

In Beijing, as the national capital city, the concentration of governmental institutions may have stymied the rise of homeownership during the early years of housing reform, but the recent trend since 1998 has shown an evident sign of growing homeownership. According to the Beijing Municipal Bureau of Statistics, a series of 1,000 household sample survey indicates that the proportion of owner occupiers was just over 20% in 1998. However, by 2001, Beijing has experienced substantial expansion of homeownership, which reached 54.1% (see Table 1 below). A little less than half of the owner occupiers had partial

property rights (see note in the table for the definition). In 2001, public housing tenants constituted less than half of the sample population, and the downward trend of public rental tenure is evident. Table 1 below also shows that private rental tenure occupies only a marginal position in Beijing. In other words, the expansion of homeownership in Beijing is accompanied by the under-development of private rental tenure. Although the strengthening of reform measures in housing sector has hoped to realise diversity in the existing tenure structure, the much hoped diversity seems to have occurred only within the owner occupation sector due to the complexity of property rights (e.g. homeownership with full and partial property rights).

Table 1: Changes in Tenure Structure 1998-2001 in Beijing

Year	Owner occupiers		Tenants		Others	Total
	Full property rights	Partial property rights	Public housing	Private housing		
2001	31.8%	22.3%	44.5%	1.1%	0.3%	100.0%
2000	21.6%	23.4%	53.2%	1.6%	0.2%	100.0%
1999	12.1%	22.1%	63.9%	1.7%	0.2%	100.0%
1998	12.8%	7.4%	76.6%	2.0%	1.2%	100.0%

Note: Partial property rights refer to the property rights that only grant right to occupy and use, and do not provide residents' right to dispose at one's own discretion.
Source: 1,000 household survey included in Beijing Statistical Yearbook 2002 (Beijing Municipal Bureau of Statistics, 2002)

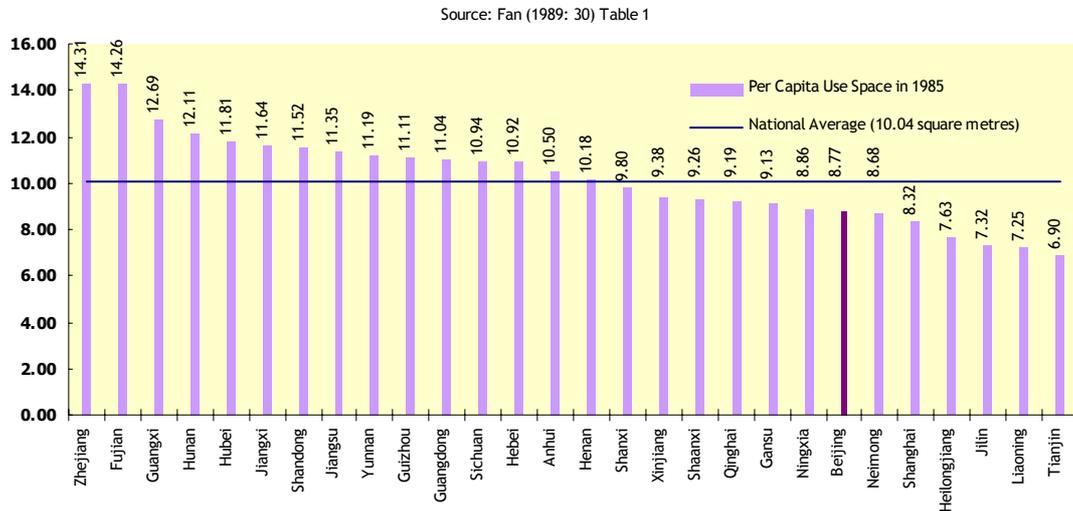
Redevelopment of old and dilapidated neighbourhoods

Since the enforcement of housing reform measures from the late 1980s, the deteriorating living conditions in urban areas raised a great degree of concern to the planners and government officials. In 1985, a nation-wide survey on the conditions of urban housing took place for the first time. In total, 39.77 million households were surveyed nation-wide, and Beijing obtained responses from 1.238 million households (Fan, 1989: 32-33). According to the survey results as reported by Fan (1989), 52.7% of those residents in Beijing had no access to private kitchen, while 62.7% had no private toilet, and only 49% had in-house tap water connection. Throughout the nation, less than one quarter of the surveyed turned out to be living in self-contained dwellings (or in Chinese terms, *cheng-tao*), but the situation was much better in Beijing where 43.9% were housed in self-contained units. The per capita use space in Beijing turned out to be 8.77 m², making the municipality one of the regions with the worst conditions in terms of housing space (see Figure 3 below). 24.39% of Beijing residents could be classified as the housing poor.⁴ In Beijing,

⁴ 'Housing poor' was defined as follows: (1) those families residing in uncomfortable conditions (e.g. three generations living together in one room; parents and a child of 12 years old or older living together in one room; two or more children of different gender, aged 12 years or older, living together in one room; two couples living together in one room); (2) those families living in over-crowded conditions (i.e. households whose per capita living space is less than 2 square metres); and (3) homeless families (e.g. couples without

the incidence of 'housing poverty' was much more severe in inner city districts (25.58% of those surveyed) than in sub-urban districts (9.91%). Among the housing poor, nearly half of them were found to be those inconveniently housed (*bubianbu*), while the other one-third turned out to be in over-crowded conditions (*yongjibu*) (Fan, 1989: 32-33).

Figure 3: Per capita use space across provinces (for urban housing only)



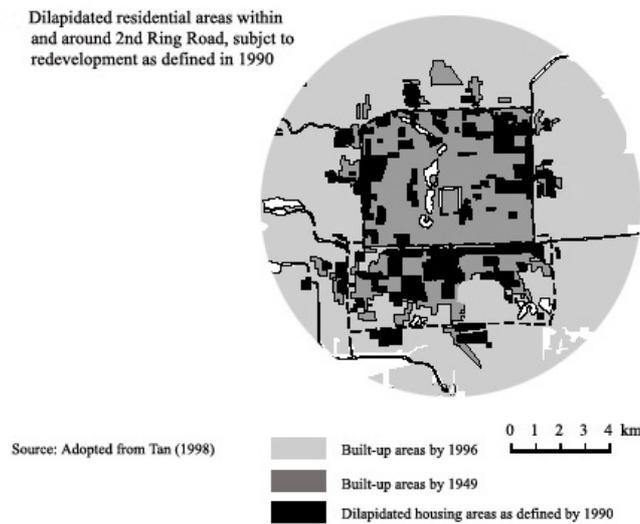
Shortly after the issuance of the 8th Five-Year (1991-1995) Plan for the National Economic and Social Development, Beijing Municipal Government (hereinafter BMG) had issued its municipal equivalence, which included the demolition of 2.5 million m² of old and dilapidated dwellings until 1995 and their redevelopment (BMG, 1991). The specific programme to initiate these works was named as 'Old and Dilapidated Housing Redevelopment' (hereinafter ODHR). Upon its promulgation in April 1990, 37 areas were initially assigned as redevelopment project areas: 22 of them were located in the inner city districts, 11 in near sub-urban districts and 4 in outer sub-urban districts of Beijing (Lu, 1991). By the end of 1994, the total number of ODHR projects increased to 221, targeting about one million residents. By 1999, the number of such projects was increased to 279 (Fang and Zhang, 2003: 151).

The programme gave particular attention to four inner city districts (namely *Dongcheng*, *Xicheng*, *Chongwen* and *Xuanwu*) which experienced high concentration of households living in poor housing conditions. The houses therein were mostly owned by poor work units or by municipal housing bureaux. They were formerly typified by one-storey dwellings that went through extension and internal sub-division to provide more rooms and in-door facilities over the years since the Liberation in 1949 (Leaf, 1995; Wu, 1999). These

their own dwelling after marriage; households residing in non-residential units; households living in make-shift shelters or in relatives' or friends' dwellings) (Hong, 1993).

dilapidated houses are commonly known in Beijing as *'pingfang'* and their locations as identified in 1990 are exhibited in Figure 4 below.⁵

Figure 4: Locations of dilapidated residential areas



Field research and data collection

The discussions in this paper are mainly based on the author's research data collected from a series of field research in Beijing in 2002 and 2003. The field research took place in one of the inner city districts of Beijing called *Dongcheng* District. The total number of households interviewed directly by this researcher in Beijing is 20. The meeting minute taken from the recording of a 2-hour meeting with the residents' committee leaders and local officials from *Dongzhimen* Street Office is also used where applicable.

Attempts were made to recruit two distinct groups of residents for interviews. One group consisted of residents who were still residing in a dilapidated neighbourhood (*Xinzhongjie* neighbourhood) that was soon to undergo residential redevelopment. In total, 9 interviewees were recruited from this neighbourhood. Part of the neighbourhood had been already redeveloped (Phase I of *Xinzhongjie* neighbourhood redevelopment), displacing 343 households in December 1999. Of these, only about 20 household have returned to the neighbourhood upon project completion, and two of them were recruited for this research. Other 11 interviewees were recruited from those households who were relocated to different parts of the city, and their original places of residence before displacement were

⁵ According to the 1985 Housing Survey, these one-storey *pingfang* was found to be the major housing form, accommodating 45% of the surveyed urban residents in Beijing. The next most common built form was medium-rise residential blocks, home to about one third of the residents surveyed (Hong, 1993).

all within the same local administrative district under the leadership of *Dongcheng* District Government, and were geographically very close to *Xinzhongjie* neighbourhood. Table 2 below shows the summary of neighbourhoods from where residents are recruited for interviews.

Table 2: Status of displacement and re-housing in field work sites in Beijing

Name of Neighbourhood	<i>Xinzhongjie (Phase One)</i>	<i>Xinzhongjie (Phase Two)</i>	<i>Xiangheyuan</i>	<i>Haiyuncang</i>	<i>Dongsi-6-tiao</i>
Housing types constructed after redevelopment	Commodity housing (high-rise flats)	n.a.	Commodity housing (high-rise flats)	Low-cost medium-rise flats ¹⁾	Urban infrastructure
Commencement of displacement and demolition	December 1999	n.a.	May 2001	April 2001	Late 2002
Residents displaced	343 (households) 867 (persons)	n.a.	866 2,116	5,319 12,252	n.a. n.a.
Households re-housed upon project completion	c.20 (households)	n.a.	n.a.	3,716	0
Re-housing ratio	c.5.8%	n.a.	n.a.	69.9%	0.0%
Remaining residents subject to future redevelopment (as of early 2002)	n.a. (households) (persons)	1,237 3,403	951 2,853	0 0	0 0
Interviewees	Subject to displacement from		9 households		
	Displaced and temporarily relocated				1 household
	Re-housed on site	2 households		2 households	
	Re-located from	3 households		3 households	

Note: 1) This project was one of the pilot projects implemented in accordance with Municipal Notice 2000-19 issued on 23 March 2000. The original document is from the web site, http://www.bjgtfj.gov.cn/progasp/flfg/detail.asp?ar_id=81&cl_id=6

Sources: Residents' status compiled by the neighbourhood residents' committees, and interviews with neighbourhood *zhuren*.

Due to the restrictive nature of conducting field research in mainland China, especially in Beijing, the interviewees were contacted initially by local neighbourhood committee leaders. The researcher, however, had provided the local district government and neighbourhood committee leaders with the criteria for the selection of interviewees in order to maintain the diversity in terms of their relocation and socio-economic status.

Residential redevelopment: a new opportunity for public tenants to build their assets?

In general, those displacees from redeveloping neighbourhoods have two options in terms of legal compensation. The first option is re-housing upon the completion of redevelopment. In this case, the cash compensation they are entitled to is deducted from the sales price of a completed unit, and the residents are required to pay the difference. During the project period, however, they would have to find a temporary dwelling on their own expenses. However, most residents are driven towards the second option, which is to take their cash compensation and find an off-site relocation accommodation.

Legal compensation: changes towards cash-oriented compensation

Until early 1990s when the urban redevelopment was still in its embryonic stage, it was common for a residential redevelopment project to re-house the majority of existing

residents on site (Dowall, 1994: 1502). The share of original residents re-housed on site after redevelopment varied from a project to another, but it was not uncommon to find a project that re-housed all of its residents (Leaf, 1995), or almost 90% of the residents, receiving a completed re-housing unit at no cost (Dowall, 1994). However, this was at the expense of high project costs and low profitability, thus becoming hindrance to the rapid expansion of the redevelopment programmes (Dowall, 1994; Leaf, 1995).

The regulations on residents' compensation experienced a significant change in 1998. Prior to 1998, the compensation for the displacees from urban redevelopment sites in Beijing had been largely based on 'in-kind allocation of relocation housing.' However, in line with the principle of 1998 housing reform policy that called for the complete termination of in-kind housing allocation by employers, Beijing issued 'Measures for the housing demolition and relocation in Beijing' (BJ-1998-16) that was effective as of 01 December 1998 (BMG, 1998a). The core idea of this regulation was to monetarise compensation by taking two factors into consideration: the number of registered household members and formal housing space. To take the interpretation of an official from the Displacement and Relocation Department of the *Dongzhimen* Street Office in a meeting:

The policies on displacement and relocation have changed a lot. Before 01 December 1998, in particular, the regulations on displacement and relocation that appeared sometime around 1993 were applicable to the whole nation. Beijing also had detailed rules. Before 01 December 1998, it was called in-kind relocation, that is to say, in-kind relocation considers the housing space and the household situation, and then proceed with relocation...On 01 December 1998, Beijing issued Circular No.16 [BJ-1998-16]. The state didn't issue any regulations at that time. The biggest difference was that the relocation was not in-kind relocation. All was monetarised. The idea came from the experiences of Tianjin. It also took the household element into consideration, but it mainly considered housing space...
(Meeting on 7 August 2003)

The 1998 Measures provided displacees with entitlement to a larger amount of cash compensation if the number of household members or the number of households registered in a dwelling unit was bigger. A larger housing space would also increase the total amount of compensation for the residents. On the other hand, informal self-built space was not subject to compensation, and hence, only the formal housing space specified in a rental contract was to be taken into consideration. However, if a dwelling was not equipped with private toilet or kitchen, then space subsidy was provided when estimating the final amount of compensation. For example, the Circular No.BJ-1998-76 supplementing BJ-1998-16 dictates that 25 m² of space subsidy was to be added to the dwelling's formal construction space if a residing household therein was unequipped with such facilities (BMG, 1998b). From June 2000, the amount of space subsidy was reduced to 70% of formal construction space (BMBLRHM, 2000), but the principle of space subsidy persisted until it was scrapped away completely from November 2001 onward with the announcement of the Circular No.BJ-2001-87 (BMG, 2001).

Legal compensation: financial gains in times of financial difficulties

Table 3 below summarises the total amount of compensation enjoyed by the interviewees upon their displacement. Each family had received cash compensation that was 5 to 13 times the average annual disposable household income in Beijing in 2002. The table also shows that apart from the interviewee CBH-INT-02, the housing use space occupied by those interviewee households was very similar to each other, but the amount of compensation received differed considerably. Such divergence resulted from the differences in household size as well as in the amount of space subsidy allowed by different regulations (that is, Circular No.BJ-1998-76 and BJ-2000-60).

Table 3: Summary of cash compensation received by displaced interviewees in Beijing

Household category	Interviewee ID.	Use space of interviewees' pre-relocation dwellings	Reported annual household income ①	Total Compensation received upon displacement		
				②	'Compensation to interviewee household income' ratio ② / ①	'Compensation to Beijing average household income' ratio ¹⁾
Relocated to sub-urban districts	CBK-INT-01	20.1	n.a.	340,000	n.a.	9
	CBK-INT-02	16.0	n.a.	275,000	n.a.	7
	CBK-INT-03	21.6	19,800	300,000	15	8
	CBY-INT-01	18.0	20,400	280,000	14	7
	CBY-INT-02	15.0	5,040	205,000	41	5
	CBY-INT-03	18.0	17,448	490,000	28	13
Rehoused upon project completion	CBH-INT-01	20.1	12,960	n.a.	n.a.	n.a.
	CBH-INT-02	42.0	24,720	n.a.	n.a.	n.a.
	CBX-INT-10	23.0	n.a.	295,000	n.a.	8
	CBX-INT-11	n.a.	n.a.	n.a.	n.a.	n.a.
Temporary residence after displacement	CBD6-INT-01	15.8	29,640	280,000	9	7

Note: 1) RMB 37391.7 is the annual disposable household income by the end of 2002 in Beijing was RMB 37391.7 (Beijing Municipal Bureau of Statistics, 2003: 179). Note that the annual disposable income of bottom 20% of decile income distribution was RMB 19384.0.

Source: Household interviews by the author in 2003; Beijing Municipal Bureau of Statistics (2003)

Compared to the residents' actual disposable household income, the cash compensation turned out to be more than life-time cash savings. For example, the interviewee CBY-INT-02 who was 74 years old and retired at the time of interviewing had been living alone on her retirement pension while her only son was living separately with his family in a house in one of the rural counties of Beijing. She received in total RMB 180,000 as cash compensation for the formal space she occupied as a tenant, and if including cash incentive of RMB 25,000 for her timely moving before the eviction deadline, the total compensation reached RMB 205,000 that was 41 times her annual income. On the other hand, those two households re-housed on site (that is, CBH-INT-01 and -02) didn't receive any cash compensation as they were entitled to substantial amount of discount upon re-housing in accordance with a separate relocation measure as specified in Circular No.BJ-2000-19 (BMG, 2000b). This circular aimed at implementing a pilot programme that gave greater emphasis on existing residents' re-housing upon the completion of neighbourhood redevelopment by constructing economic housing on site.

Reduced compensation for those subject to future displacement

However, the situation would be very different for the interviewees in *Xinzhongjie* neighbourhood who are yet to be displaced upon the implementation of its Phase Two redevelopment. All those previously relocated residents listed in Table 3 had received their cash compensation before the application of the latest regulation, Circular No.BJ-2001-87. This new regulation required the amount of compensation for residents living in a redevelopment district to be based solely on two factors: (1) the construction space of formal dwelling, and (2) the market-appraised value of the land occupied (BMG, 2001).

“The purpose of Circular No (2001-)87 is to follow the principle of market appraisal value. In other words, the housing space of an original house and the market appraisal value determine how much one gets. Basically, there is an evaluation company that completes the appraisal and submits a report to the Displacement and Relocation Department of the Housing Management Bureau. One copy is also given to the displacee...”

(Official from the Displacement and Relocation Department of the Dongzhimen Street Office on 7 August 2003)

The implementation of the Circular No.BJ-2001-87 led to the reduction of total cash compensation. Compared to the large share of relocation and compensation costs endured by developers in the 1990s (Leaf, 1995), the change toward cash-based compensation as defined by the new guideline in 2001 will certainly reduce the development costs. A simple calculation based on BJ-1998-76 shows that for a household occupying a 20 m² (construction space) *pingfang* unit with no private kitchen and toilet, they would have received about RMB 283,500. However, if the regulation BJ-2001-87 is applied, the same household would end up receiving only RMB 166,000, which is 40% less than the previous estimation under BJ-1998-76.⁶ This has caused a great deal of discontents and frustration to the current residents, and has been recognised as problematic by local officials and residents’ committee leader.

“As for the government, there is very little room to make unchecked discretion. Previously, it was possible to consider the number of household members [to adjust the amount of compensation], but now, what the appraisal report says is the final. It is very inflexible.”

(Official from the Displacement and Relocation Department of the Dongzhimen Street Office on 7 August 2003)

“For us, we are soon going to face the demolition of the western part [of Xinzhongjie neighbourhood as part of second phase redevelopment]. The living conditions of those residents there are relatively poor, with relatively low social status. All are with the

⁶ The calculation was done as follows:

- BJ-1998-76: (Construction Space occupied + Subsidised Space) x Compensation Price
= (20 m² + 25 m²) x RMB 6,300 (in 1998) = RMB 283,500
- BJ-2001-87: (Construction Space occupied) x Market-appraisal of land value
= 20 m² x RMB 8,300 m² (market value for *Xinzhongjie*) = RMB 166,000

enterprises, and nowadays, enterprises are not doing well. There are many laid-off workers or those who took early retirement. Public rental units are especially small, and particularly, many people are experiencing severe housing conditions. They are essentially incapable of buying a house. From what used to be more than 200,000 yuan [as compensation], you can only obtain 100,000 odd yuan. With such a big difference in terms of policy, people are definitely going to experience difficulties...For one three-person family who's living in a 11 square metre accommodation, given the average land value of 8,300 yuan in Dongcheng district, the relocation compensation will not exceed 130,000 yuan at all ”

(Xiangheyuan residents' committee leader in a meeting on 7 August 2003)

The actual impact of this new regulation upon the interviewed residents or those residents subject to displacement from other imminent redevelopment projects is yet to be investigated. However, given the existing problems with affordability in Beijing, the reduced amount of compensation as per the new regulation is expected to place a greater degree of constraints upon those residents subject to displacement in future.

Constraints upon obtaining housing security with the compensation

Affordability crisis: commercial and economic housing

The most outstanding pressure upon the residents in dilapidated neighbourhoods subject to displacement would be the affordability crisis in both commercial and economic housing sector. Nowadays, finding an alternative accommodation in cities means renting or purchasing a unit available in the market. This has been especially the case since the enhancement of reform measures since 1998 with the termination of welfare housing allocation. However, the search for an affordable flat has become a difficult task especially in Beijing where the local housing price has topped within the whole nation. Table 4 below is a summary of average commercial housing costs and annual household income to demonstrate the affordability crisis in Beijing.

Table 4: Housing costs and household income in Beijing

Housing cost and income	Residents interviewed	Beijing (in 2002)		Urban China (in 2002)	
	Average (N = 15)	Average	Bottom 20% of income decile	Average	Bottom 20% of income decile
Annual household disposable income (RMB)	20,715.2	37,391.7	19,384.0	23,416.5	12,188.2
Average commercial housing price as of July 2001	4,771 yuan per sq.m			2,137 yuan per sq.m	
Housing price of a 80 sq.m self-contained flat (RMB) ¹⁾	381,680			170,960	
Price-to-Income Ratio (PIR)	18.4 : 1	10.2 : 1	19.7 : 1	7.3 : 1	14.0 : 1
Average commercial housing price in Beijing in 2000 (for a unit of 80 sq.m; RMB)	Within 2nd ring road	620,240			
	PIR	29.9 : 1	16.6 : 1	32.0 : 1	
	Between 2nd and 3rd ring road	561,600			
	PIR	27.1 : 1	15.0 : 1	29.0 : 1	
	Between 3rd and 4th ring road	414,480			
	PIR	20.0 : 1	11.1 : 1	21.4 : 1	
Outside 4th ring road	288,000				
	PIR	13.9 : 1	7.7 : 1	14.9 : 1	

Note: 1) 80 sq.m was the average construction space of those relocated and re-housed households interviewed by the author.

Source: Household interviews by the author in 2003; Beijing Municipal Bureau of Statistics (2003); National Statistical Bureau of China (2003); Xia (2002)

Income-wise, Beijing residents are much better off than those average urban households in the country, and retain an average annual household disposable income of 37,392 yuan in 2002, much higher than 23,417 yuan for urban China as a whole. The average household income of 15 interviewees whose income data were available through interviews turned out to be 20,715 yuan, roughly similar to the annual household disposable income for the bottom 20% of decile income distribution in Beijing.

Given the level of commercial housing price and household income, an average Beijing household would have to pay more than 18 years of their household disposable income to buy a 80 m² self-contained commercial flat. In particular, based on the housing price data from the National Statistical Bureau of China (Xia, 2002), the average housing price appears to be the highest within the 2nd ring road, and falters away toward sub-urban areas. The price-to-income ratio (PIR) outside the 4th ring road for an average Beijing household turns out to be 7.7 to 1, less than half of what it is within the 2nd ring road. The increasing recognition of those four inner city districts of Beijing in the 1990s as the loci of business and financial activities have attracted many developers to focus on the construction of spacious commercial housing and office buildings. Most commercial houses completed were affordable only to the high income groups of urban residents (Wang and Murie, 1996, 1999a, 1999b; Wu, 2002), thus making it difficult for the existing residents to stay within the immediate surrounding area. As for the displacees who have much lower income status, they would have to pay nearly 30 years of their household disposable income if they were to stay close to their original place of residence within the 3rd ring road. Unless a sufficient amount of subsidies are provided, it looks evident that they would have to move out to sub-urban districts if they were to become owner occupiers in the commercial housing sector. One of the interviewee makes a cynical comment regarding such situation that “Nowadays, people say ‘high-level cadres live around the 2nd ring road, while paupers live around the 5th or 6th ring road” (Interviewee, CBX-INT-07).

The affordability problems in commercial housing sector also engulf economic housing sector, which is originally proposed by the central and local governments as an affordable homeownership scheme for low- and middle-income households. By regulation, displaced households from major urban infrastructure and redevelopment projects can also apply for an economic housing unit. The economic housing programme has its root in ‘comfort’ housing projects in the mid-1990s, and began in 1999 with an aim to build 4.5 million m² of economic housing on government-allocated lands. A set of preferential policies such as tax reduction were implemented to set the sales price within the range of between 4,450 and 2,400 yuan per m². In general, the price of an economic housing unit was to be 600 yuan lower than the price of other commercial flats nearby (China Daily, 23 January 2001). The sales price of economic housing is regulated by local governments, and differs from

one district to another. In the case of *Dongcheng* district where the displaced interviewees used to reside originally, according to a local housing official, the price of an economic housing flat in 2003 was 5,000 yuan per m². This price is also applied to the redevelopment of *Haiyuncang* neighbourhood where economic housing has replaced one-storey dwelling units. For a 70 m² economic housing flat, this would require for an average Beijing household to pay nearly 10 years of household disposable income.

It was noted earlier that the commercial housing units are relatively cheaper in sub-urban districts. This is also the case for economic housing, and in fact, major economic housing project sites are mostly located in outer sub-urban districts, while their availability within and around the 2nd ring road is limited (People's Daily, 04 June 2000). For instance, the economic housing site, designated by *Dongcheng* district government as a relocation estate for the displacees from *Haiyuncang* neighbourhood, is located just outside the northern section of the 5th ring road. According to an interview by the author with the *Haiyuncang* residents' committee leader, a unit of economic housing offered to the displacees from *Haiyuncang* was subject to sales at the price of 2,650 yuan per m². As the amount of cash compensation received by the interviewees was in the range of between 200,000 and 490,000 yuan, the price of an economic housing unit in outer sub-urban districts would be within their budget. The problem is, however, the long distance from their original place of residence, and most of all, lack of economic housing stocks available on the market. The total number of economic housing units completed between 1999 and 2002 in Beijing has reached 71,731 units, but this could only benefit little less than 3% of 2,472,000 households registered within inner and near sub-urban districts (BMBS, 2002, 2003). Furthermore, the demand for such economic housing units is expected to be on the rise, as 340,000 households are expected to be displaced due to urban redevelopment projects during the period 10th Five-Year Plan (2001-2005) in Beijing (People's Daily, 01 April 2002).⁷

Moreover, the problem of affordability with regard to the economic housing project is due to the practices of the developers to build more spacious flats. Because the amount of profits a developer could retain from economic housing development is fixed at 3% of total housing costs by the central government regulation (People's Daily, 04 June 2000), developers are lured into supplying more spacious flats, thus increasing the transaction volume itself. For instance, according to the Beijing Municipal Bureau of Statistics, the total

⁷ As of 2001, the limited supply of economic housing stock has spurred severe competition among the Beijing residents. For instance, in order to get a place in *Huilongguan*, one of the major economic housing project sites located outside the 5th ring road in northwest Beijing, 15,000 families have already put their names in the waiting list despite the fact that the second phase plan has not yet finalised and made public (People's Daily, 19 March 2001).

floor space of economic housing completed in 1999 turned out to be 1.23 million m², and the number of flats completed was 12,901 units. This gives an average construction space of 95.3 m². In 2002, the total floor space of economic housing completed has increased up to 2.28 million m², and the total number of units completed was recorded to be 20,593 units, resulting in an average floor space of 110.9 m² for a unit (BMBS, 2002; 2003: 133).

Difficulties in accessing formal financial opportunities

The legal cash compensation enjoyed by the displacees can be considered as a big contribution to their financial strengths in times of their displacement. This is especially so when we consider their difficulties in accessing formal financial opportunities to become homeowners. There are two financing programmes being developed in urban China to help urban residents finance their housing costs: Housing Provident Fund (HPF) and home mortgage industry. Initially introduced in Shanghai in 1991 based on the experiences of Singapore to promote homeownership, HPF is in principle an employer-based savings system with the contributions coming from both employers and employees (World Bank, 1992: 30-32). HPF account holders can withdraw their funds upon their retirement or when they require making a down-payment on a new house, and they are also eligible for home mortgages on preferential terms, giving advantages over other commercial bank loans (Rosen and Ross, 2000: 84-85). However, because of the very reason that the system is employer-based, HPF bears a serious equity issue. As Rosen and Ross (2000: 85) points out, workers working in under-performing firms which do not have the capacity to make employer portion of the contributions would experience denial to their access to this form of savings scheme. In addition, James Lee (2000: 70) states that because HPF is based on a fixed rate of contribution, the growing wage gaps lead to a situation in which a higher income earner enjoys a higher contribution from the employer (Lee, 2000).

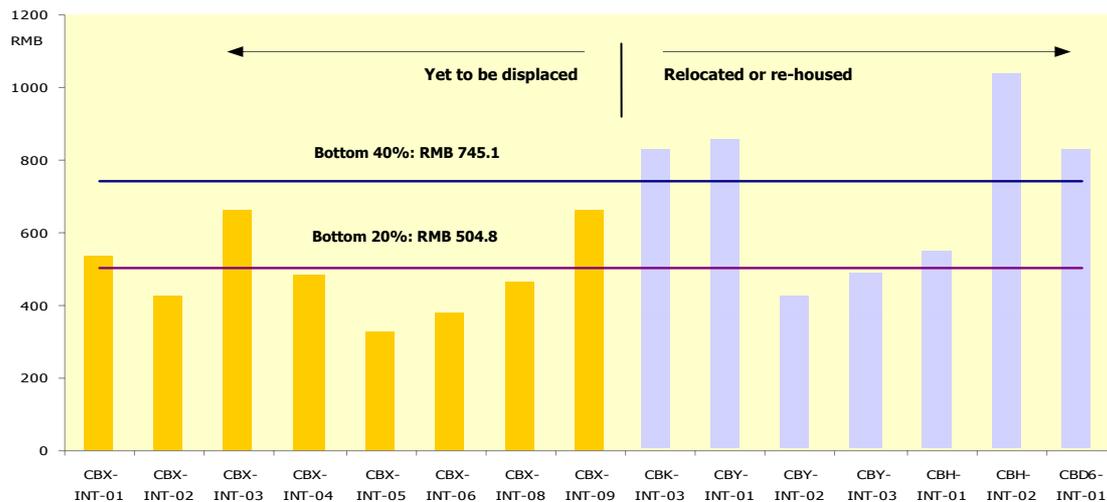
However, a more serious flaw is with regard to those in insecure employment relationship including those temporarily employed, laid-off or unemployed. As shown in Table 5 below, only few of the interviewed household members can be classified as regular employees. Most household members are temporarily employed, retired, laid-off or unemployed, and in informal employment, all of which do not provide access to HPF. With no creditable income-generating activities and no HPF account, it is very unlikely for them to have access to formal loans or housing mortgage from the banks that would favour those with proven credit records.

Table 5: Employment status of all interviewee household members in Beijing

Relocation category	Regular employee	Temporary employee	Informal employment		Laid-off or unemployed	Retired and beyond working age	Working age but no employment		Not working age	Not known	Sub-total	
			Daily worker	Unpaid family worker			Disabled	Schooling				
Subject to Relocation	7	1	5	2	3	6	6	2	4	5	0	36
Relocated or re-housed	3	1	1	0	1	1	10	1	2	1	6	26
Temporary residence after displacement	0	1	1	1	0	1	0	0	0	0	0	3
Sub-total	10 15.4%	3 4.6%	7 10.8%	3	4	8 12.3%	16 24.6%	3 4.6%	6 9.2%	6 9.2%	6 9.2%	65 100.0%

Source: Household interviews by the author in Beijing in 2003

Figure 5: Interviewees' reported monthly per capita income



Note: Income threshold lines refer to the monthly per capita income of bottom 20% and 40% of decile income distribution in Beijing in 2002 from Beijing Statistical Yearbook, (2003).
Source: Reported household incomes are from the interviews by the author in 2003

Such lack of access to HPF and formal housing loan or mortgage becomes much more problematic when we consider the status of household income. The summary of reported per capital household income as presented in Figure 5 above exhibits the low-income status of those interviewed households, which would presumably reflect the conditions of most residents in dilapidated neighbourhoods subject to redevelopment. As shown in the figure, most households are below the income threshold of bottom 20% of income decile distribution in Beijing. At the same time, the figure also shows that the income level of those relocated households is relatively higher than those households who were yet to be displaced.

Under-development of secondary housing market

While the new housing market is experiencing affordability problems, the secondary housing market in Beijing doesn't provide an affordable accommodation for the displaced or low-income residents in Beijing either. The secondary housing market in Beijing had opened officially only on 15 November 1999. It was envisaged that the sales price of a

secondary housing unit would usually be 1,000 yuan per m² than a commercial flat of similar size in the same location, hence being more affordable according to then Vice-Mayor of Beijing (China Daily, 23 January 2001).

With the continuing increases in household income in Beijing and the growing aspiration for homeownership, the expectation was that the secondary housing market would serve those households whose income is inadequate to purchase a new housing unit. For low-income residents, the privatisation of public housing stocks and the growth of economic housing sector would eventually provide them with housing stocks within their reach. However, the current situation is such that the secondary housing market is still under-developed, and people regard the price of secondary housing to be too expensive. Several factors contribute to the under-development of secondary housing market.

First of all, the limited property ownership for those households who purchased subsidised housing prohibit owner occupiers from entering the property market for a limited number of years, and this seems to have affected the downward trend of residential mobility from the mid-1980s in Beijing (Li, 2004). Only those commercial housing units that are purchased at full market price are subject to the trade in the market. Economic housing units or privatised public housing units are not subject to re-sales within 5 years from the date of purchase, and should have a proper ownership certificate (MoC China, 1995, 1999). If the residents have bought their units from their work-units at a heavily subsidised cost cheaper than the cost price, then they are entitled to the rights to use and occupy but not to the rights to free disposal of their property.

Second, even if the owners of economic housing units have the full right to disposal of their properties, their properties can only be sold back to the local district government who will then re-sell the unit to a household in its waiting list. Therefore, these units do not add to the housing stocks in the secondary housing market.

Third, economic housing units are for first time buyers only. In principle, the households who sell their economic housing flat would not be allowed to apply for another economic housing unit. Likewise, the owners of privatised public housing stockers cannot apply for an economic housing unit. Therefore, unless the owner occupiers of these housing units have accumulated enough wealth to buy a commercial housing flat, they are restricted from selling their properties, which in turn restrict the number of available stocks in the secondary housing market.

Fourth, those owners who have purchased their homes through mortgage had been restricted from selling their houses in the secondary housing market before they had completely paid off their loans. Such restriction has been only eased by 2002 in order to

provide incentives to develop the secondary housing market (Beijing Today, 31 August 2002). The effect of this arrangement is still uncertain. The first financial institution starting to handle such transfer services was the Beijing branch of the Industrial and Commercial Bank of China (ICBC), which handled two cases by the end of August 2002. Other banks such as the Agricultural Bank of China and the Bank of China were also to follow by early 2003 (Beijing Today, 31 August 2002).

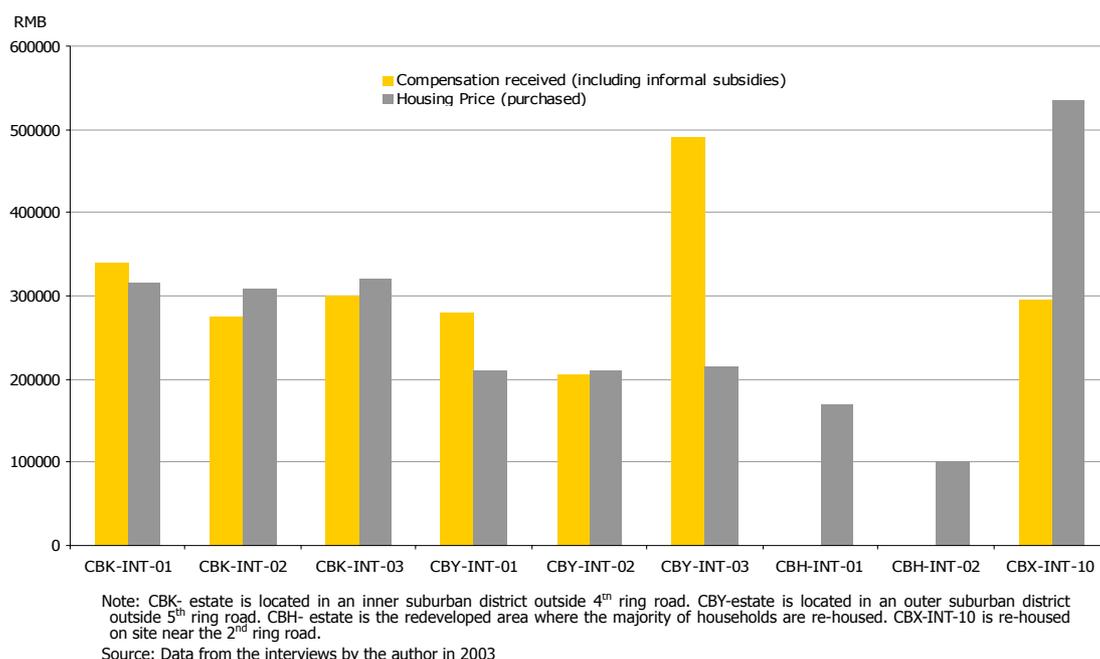
Tenure conversion into owner occupation and housing security

The case of displaced interviewee households

It was discussed earlier that the displaced residents interviewed were subject to a large amount of cash compensation. Further investigation on the use of the compensation indicated that the financial gains were largely spent on purchasing a relocation housing unit, thus converting financial assets into immobile property assets in an attempt to obtain housing security. Figure 6 below shows the comparison between the amount of cash compensation received by the interviewees and the actual housing price paid upon their relocation or re-housing.

From the figure, it is evident that the cash compensation has clearly helped the displaced households finance their relocation accommodations. The rate of contribution made by the cash compensation towards the purchasing price of relocation housing depended on the location of such relocation housing within the municipality. The figure also indicates that there is a big difference in the housing price between those re-housed back in inner city neighbourhood (CBX-INT-10) and those relocated to near- or outer suburban areas (interviewees with CBK- or CBY- prefix). In particular, CBX-INT-10 and CBK-interviewees were residing originally in the same neighbourhood (*Xinzhongjie* Phase One district), but went through a contrasting experience in terms of finding a residence after displacement.

Figure 6: Cash compensation and housing price (relocated and re-housed households only)



When the cash compensation was in shortage of paying for the dwelling, the difference was met by either their household savings or lending from their close relatives. For example, the interviewee CBK-INT-02 used her early retirement payment received from her former employer to pay the difference (RMB 35,000). The interviewee CBK-INT-03 also paid the difference (RMB 20,000) with her own cash savings, while CBY-INT-02 borrowed RMB 5,000 from her son.⁸ In the case of the interviewee CBX-INT-10 who was re-housed on site in a commercial flat, the housing price turned out to be nearly twice her cash compensation. She refused to give the details of how she financed the difference, and simply acknowledged briefly that she borrowed some money from friends and relatives. However, it was evident from her response that the difference was hardly financed by formal loans from financial institutions.

For some households such as CBY-INT-01 and CBY-INT-03, the amount of compensation far exceeded their housing price. In their cases, instead of finding a relocation accommodation closer to their original place of residence where housing price was more expensive, they chose to move to the outer sub-urban district. Some of the remaining balance was spent on furnishing their flats while the rest of the saved money

⁸ The hesitance towards bank loans and tendency to rely on relatives as revealed from the interviewed residents in Beijing also confirm the study by Si-Ming Li (2000) on tenure decision behaviour in Guangzhou, which found out that no families relied upon home mortgage at the time of the study. In the case of homeowners subject to his study, 69% of the purchase was funded by personal savings, while the financial help from their relatives and parents made up the remaining balance (p.230).

was given to the interviewees' children.

“[Regarding the remaining money] I gave each child 20,000 yuan. They initially told me to move to an area nearby [that is, near the original place of residence before displacement], and told me they would each contribute 20,000 yuan. But I told them I wouldn't do that. Instead, I'd come here, and leave them some money...”

(Interviewee CBY-INT-01)

Interviewees CBH-INT-01 and -02 chose re-housing option, and received discount in return for their original dwellings. Yet, they had to finance the large amount of remaining balance on their own. For CBH-INT-01, the re-housing flat, which the interviewee was entitled to purchase, was originally a three-bedroom flat in accordance with her registered household size at the time of displacement. Instead of purchasing this flat, she went for a two-bedroom flat by giving up one bedroom and in return receiving RMB 90,000. In order to acquire the two-bedroom flat, she still had to pay RMB 170,000 and this was possible by the financial help from her youngest son and her nephew. In the case of the interviewee, CBH-INT-02, they paid RMB 100,000 for their re-housing unit from their own savings.

All these practices as described above led most displaced tenants to become owner occupiers. Table 6 below summarises the tenure status of the interviewees in Beijing at the time of interviewing. The majority of those relocated households interviewed used to be tenants in public rental units before their displacement, but have become owner occupiers after relocation by purchasing either commercial housing or economic housing. All the commercial flats are newly constructed units, and no household interviewed has bought a second-hand flat in the secondary housing market.

Table 6: Current tenure status of the interviewees in Beijing

Households (N=11)	Owner occupation		Rent-free (temporary) occupancy	Sub-total
	Commodity housing	Economic housing		
Displaced and relocated				
Pre-relocation tenure: rental in work-unit housing	3			3
Pre-relocation tenure: rental in municipal bureau	5	2	1	8
Households (N=9)	Owner occupation	Municipal bureau housing	Rent-free occupancy	Sub-total
Subject to displacement	1	7	1	9

Source: Data from interviews conducted by the author in 2003

The case of interviewee households subject to imminent displacement: their likelihood to become owner occupiers?

In the case of those residents subject to imminent displacement, homeownership has been the most preferred option as the quotes from some of the interviewees suggest below, while private renting, if at all considered, could be served as a short-term alternative before their permanent resettlement. Given the pre-reform situation that public rental with minimal rents was guaranteed as a life-time secure tenure among the urban residents, the

logical option for the tenants upon displacement from their public rental units seems to be becoming owner occupiers, if their circumstances permit. In fact, most interviewees expressed a strong distaste towards private renting in favour of owner occupation:

“...I don't want to live in a private rental house...Don't live in a private owner's house. It's too troublesome to live there. The house owner makes decision about whether to allow you to live or not. If not allowed, you have to move out the next day.”

(Interviewee CBX-INT-01)

“Renting a house is too expensive. I am not capable of renting a place. Our family makes altogether about 900 yuan a month [and is receiving benefits from minimum living standard security system]... [If to find a place to move in] I can take care of these matters temporarily. We can live with my mom, my son's grandmother, at her place, which is also fine. But, in the end, you should allow us to have a practical place to live in, a house that belongs to myself. It must be not too far away. If it is, I am not interested...”

(Interviewee CBX-INT-05)

“Even if you rent [for the time being], you need to buy a house someday. Renting is very expensive. You need to pay the rent every month, and that's not stable. Because we are already quite old, soon going to be 50, there's no more future. It's no good to rent always. In the end, you place this burden on your children, and it's not realistic either. Still want to have a place of one's own, regardless of the size. Having a place to return to will make the children feel secure when they return home.”

(Interviewee CBX-INT-06)

However, as explained earlier, most low income families without stable regular jobs would experience difficulties in accessing formal housing finance opportunities to supplement their reduced cash compensation. As summarised in Table 7 below, many interviewee households who reside in *Xinzhongjie* neighbourhood, which is subject to imminent redevelopment, do not have regular employees among their co-habiting household members; are dependent on the social safety net (Minimum Livelihood Security System); and do not have HPF account holders within the household.

Table 7: Xinzhongjie household circumstances regarding their opportunities to access formal loans

Household category	Household ID.	Regular employee(s) among co-habiting household members?	Minimum Livelihood Security System applicability	Housing Provident Fund account holder(s) within co-habiting household members?	Expectation for formal housing loan
Subject to relocation	CBX-INT-001	No	Beneficiaries	None	No expectation
	CBX-INT-002	Yes	Beneficiaries	None	No expectation
	CBX-INT-003	Yes	Not applicable	None	No expectation
	CBX-INT-004	No	Beneficiaries	None	n.a.
	CBX-INT-005	No	Beneficiaries	None	No expectation
	CBX-INT-006	Yes	Beneficiaries	Yes	No expectation
	CBX-INT-007	Yes	Not applicable	Yes	No expectation
	CBX-INT-008	No	Beneficiaries	None	No expectation
	CBX-INT-009	No	Not applicable	None	No expectation
		Yes	4	6	2
	No	6	4	8	9
	n.a.	0	0	0	1

Source: Household interviews by the author in Beijing in 2003

When asked whether they had any expectation for formal housing loan, their responses were unanimously negative, regardless of their household circumstances. Some of the responses were:

“Nowadays, where can you borrow money to buy a house? Who would dare lend you some money? They [banks] wouldn't lend us money, not to families like us. I have earlier sought advice, and they wouldn't lend us at all... We don't have housing provident fund account, and haven't considered taking out housing mortgage... People like us, we survive on a daily basis. We'd rely on the government to solve this. If the government doesn't solve, we have no other way to solve this ourselves”
(Interviewee CBX-INT-01)

“Who would provide you with mortgage? No way to take out a loan... My husband doesn't have a job, and I don't have one either. It's for sure that they wouldn't grant us any mortgage. I've never thought of that. Don't you ever say mortgage again!” (Interviewee CBX-INT-02)

Q: “If you don't have enough money to buy a house, then what would you do?”

A: “Then I will borrow money. What else could you do? I don't know what to do.”

Q: “Have you considered borrowing money from the bank?”

A: “No, I haven't. Which one would lend me money? I hear if you have no job, nobody will lend you money at all.”
(Interviewee CBX-INT-05)

“Where would I get a loan from? Once you retire, then nobody gives you loan. If I have to get a loan, the only way is to depend on my elder son [who has a HPF account]. My second son doesn't have a job, and the third son is laid off. They all can't apply for a loan”
(Interviewee, CBX-INT-07)

“We cannot ask for any bank loan. They wouldn't lend money to us. We both don't have a job, and the child still goes to school. No way for a bank loan...I hear from our zhuren [residents' committee leader] that we are not eligible to ask for any bank loan”
(Interviewee CBX-INT-08)

Even if a household were successful with its loan application, problems would persist regarding its repayment as the household income is constrained. Given the normal loan period of 10 years and the low household income, the amount of housing loan that can be taken out from a bank would be very much limited. For example, in an interview with one of the residents' committee leaders at *Haiyuncang* neighbourhood who was herself one of the re-housed residents in the neighbourhood, her family was able to borrow RMB 60,000 from a bank on preferential terms to pay for her re-housing unit that was priced at RMB 130,000 in total. Her family was paying back RMB 600 each month. For a family in Beijing who would belong to the bottom 20% of decile income distribution, this would constitute more than 37% of monthly household disposable income. In this circumstance, those residents in *Xinzhongjie* neighbourhood whose household income mostly falls into the bottom 20% income group express that taking out loans or housing mortgage is 'unrealistic.'

“Bank loan is unrealistic. You don't have enough money for your living. If you take out the loan, then how will you pay back? I feel I don't even qualify to go and ask. I don't want it at all. At present, I just live day by day...If he [the interviewee's husband] is considered as

a regular employee, he must have a Housing Provident Fund account. But, he has been working only for three years and didn't have a job previously. Even if he has an account, it must have only a small amount of money in it" (Interviewee CBX-INT-06)

"If we had a Housing Provident Fund account, then we would be able to borrow some money and buy a house. In our circumstances at present, it's not possible to buy one as we don't have any such account. They [banks] wouldn't give us loans. Basically, the [loan] policies require you to repay each month. So, even if we had a Housing Provident Fund account, we would still have to consider. In this kind of income situation, there's no way for us to apply for a bank loan. We dare not go for loans. We don't have the abilities to pay back. One has to pay back each month. If you don't pay for more than three months, banks will surely place sanction on you" (Interviewee CBD6-INT-01)

Stakes for becoming owner occupiers: increased living costs

While the residents expressed their desire to become homeowners to maintain their housing security, the life as owner occupiers in modern flats requires greater expenditure. Given the low level of household income and rents while residing in dilapidated public rental units, the increased monthly housing costs may turn out to be damaging to their future sustenance of homeownership. Table 8 below shows the summary of monthly housing costs incurred by the interviewees in Beijing.⁹ The table only includes those households whose housing costs and monthly household disposable income are all reported to the author during the interviews. For those interviewees subject to displacement in *Xinzhongjie* neighbourhood, their monthly rents turned out to be in general less than 2% of their monthly household income. This level of rents is far lower than the 15% threshold aimed by the central government, and 6.3% threshold set out by Beijing Municipal Government in 2000.¹⁰ On the average, the total housing costs incurred each month by the interviewees were 11.6% of their household disposable income and 6.9% of average monthly household disposable income in Beijing in 2002.

⁹ Interviewees were requested to inform the interviewer of the actual income of each co-habiting household members. This income mainly refers to the regular income of each household member who pursues income generating activities, and includes monthly salary if employed, social security benefits if any (including unemployment benefits, disability allowances and Minimum Livelihood Security System benefits) and income generated from any informal jobs reported. It's possible that the monthly income might have been under-reported by not being able to capture incomes from other informal economic activities or financial support from their support network (e.g. next of kin). However, the reported income will still serve the purpose of comparing the relative difference in living expenses in different types of flats.

¹⁰ While the reform policies aimed at increasing the level of rent to reach 15% of household income, the rent level in Beijing has been kept at a much lower level than the proclaimed target for many years. According to a news coverage from China Daily, the standard rent in public housing sector at the beginning of reform policies in the late 1980s was 0.11 yuan per m² (c.0.81% of household monthly income). It was increased to 1.3 yuan in 1999, and has been set at 3.05 yuan per m² since 01 April 2000 so that the housing rent constitutes only about 6.3% of household income (BMG, 2000a; China Daily, 22 June 2000, 22 March 2000).

Table 8: Monthly housing costs as reported by interviewees in Beijing

Household category	Interviewee ID.	Monthly household disposable income (1)	Monthly disposable income per capita	Monthly housing costs as reported by interviewees					% of monthly household disposable income (5) / (1)	% of average monthly household disposable income in Beijing (RMB 3,116 per h/h)
				Rent or management fee ¹⁾ (2)	Utility bills (electricity, water and gas) (3)	Heating costs ²⁾ (4)	(5) = (2) + (3) + (4)			
Subject to displacement	CBX-INT-01	1,070	535	0.0	56	23	79	7.3%	2.5%	
	CBX-INT-02	3,430	429	29.9	200	73	303	8.8%	9.7%	
	CBX-INT-03	3,310	662	65.0	350	58	473	14.3%	15.2%	
	CBX-INT-04	970	970	0.0	75	44	119	12.3%	3.8%	
	CBX-INT-05	990	330	23.7	75	15	114	11.5%	3.6%	
	CBX-INT-06	1,900	380	47.8	140	58	246	13.0%	7.9%	
	CBX-INT-08	1,390	463	26.4	150	0	176	12.7%	5.7%	
Average		1,866	466	28	149	39	216	11.6%	6.9%	
Relocated to sub-urban districts	CBK-INT-03	1,650	825	50.9	200	188 ³⁾	251	15.2%	8.1%	
	CBY-INT-01	1,700	850	50.2	300	129	479	28.2%	15.4%	
	CBY-INT-02	420	420	51.6	105	133	290	69.0%	9.3%	
	CBY-INT-03	1,454	485	51.6	110	131 ⁴⁾	162	11.1%	5.2%	
Average		1,306	653	51	178.75	145.25	375	28.7%	12.0%	
Re-housed (Xinzhongjie Phase I)	CBX-INT-10	n.a.	n.a.	374.9	155	277	807	n.a.	25.9%	
	CBX-INT-11	n.a.	n.a.	406.0	155	300	861	n.a.	27.6%	
Temporary residence after displacement	CBD6-INT-01	2,470	823	0	300	225	525	21.3%	16.8%	

Note: (1) Monthly management fee for relocated households. Data are based on management fee rates reported by the interviewees: Kangjiagou (CBK) 0.7 yuan per m², and Yinghuayuan (CBY) 0.53 yuan per m²; (2) Modern walk-up flats are equipped with central heating system, and the residents have reported annual heating costs, which are then divided by 12 months; (3) The heating costs for CBK-INT-02 and -03 are based on the annual rate of charge (31 yuan per m²) as reported by the interviewee, CBK-INT-01 who resides in the same estate; (4) Mid-value of those of the other two households (CBY-INT-01 and -02) in the same estate.

Sources: Data from the interviews by the author in 2003. Average monthly household disposable income in Beijing is from Beijing Statistical Yearbook 2003.

On the other hand, the households relocated to sub-urban districts after displacement from *pingfang* reported that they experienced an increase in housing costs. The total housing costs of those four interviewee households constituted, on the average, 28.7% of their monthly household income, which was more than twice as much as that of those households still residing in *pingfang* residence in *Xinzhongjie* neighbourhood. In particular, their heating costs have experienced a significant increase. *Pingfang* units are not equipped with central heating, and rely on burning briquettes for heating in winter. In contrast, newly constructed modern flats are provided with central heating system, which is costly in terms of heating expenses. In Beijing, the operation of central heating in winter and its annual charge are all regulated by the municipal government. Whereas the *pingfang* residents were able to control their heating costs in winter by adjusting the amount of briquettes they order each winter, the residents in modern walk-up flats were required to pay what is calculated as per the construction space of their flats, and charged by the management office.

In addition to the increased heating costs, those residents relocated to sub-urban walk-up flats were also required to pay management fees to the management office. In general, each estate in Beijing has a different level of management fees, which tends to be cheaper in outer sub-urban districts.¹¹ For those relocated residents who have experienced a tenure

¹¹ For example, the management fee of *Kangjiagou* estate outside 4th ring road is about 0.7 yuan per m², whereas *Yinghuayuan* estate outside 5th ring road demands 0.53 yuan per m². The management fee at *Haiyuncang* neighbourhood within 2nd ring road is only 0.5 yuan per m², as it is an economic housing estate.

shift from public housing tenants to owner occupiers, management fees can be regarded as the replacement of their previously paid monthly rents in terms of monthly regular expenditure. The act of paying management fees had received mixed responses from the interviewees: some found it affordable and some too expensive. However, as the management fee for each relocated household seemed to constitute only around 3 to 4% of household income, it would be reasonable to conclude that it wouldn't place a significant degree of household burden upon the residents.¹²

Another potential increase in living costs for the relocated households would be the increase in transportation costs. Most residents indicated that those housing estates with cheaper sales price were located too far away from the city centre. In Beijing, most housing estates with cheaper sales price are located beyond the 4th or 5th ring road, and at the time of residents' displacement from their original place of residence, these ring roads were still at their early stage of construction. The inadequate provision of mass public transportation system was also problematic for those residents settling down in outer suburban estates.¹³ To serve those urban commuters from outer suburban districts north of 5th ring road, a new project to build a light railway system started in October 2001, due for completion in 2002 (Beijing Today, 12 October 2001). However, this public transport system is less accessible for those poorer sections of the municipal population.¹⁴ In the case of those interviewees relocated to sub-urban estates, the majority of household members had already retired and didn't require regular commuting to the city centre, but the high transportation costs were still of concern to the residents.

“A lot of money is spent on transportation. At the moment, my granddaughter [who commutes to school located near her previous place of residence in Dongcheng district] spends 5 yuan each day on travelling and also 2.5 yuan for breakfast. In a month, this expense becomes quite huge...”
(Interviewee CBY-INT-03)

¹² For one interviewee (CBY-INT-02) who had retired and was living alone, the level of management fee and heating costs appeared to be too high compared to her monthly income whose source was largely her retirement pension. However, she said she was receiving help from her son to sustain her living in the relocation flat: *“Yes, I can support myself [with the retirement pension]. Sometimes my son buys things and gives to me...Management fee is about 700 yuan a year, but actually it's not that expensive. It's affordable, as my son helps me.”*

¹³ The entire section of 65.3-kilometre-long 4th ring road was officially open to public only on 9th June 2001, almost ten years after the implementation of ODHR programme (Beijing Today, 15 June 2001). The first section of the 5th ring road was open on 22 September 2001, and the entire 100-kilometre section is due for completion before the end of 2003 (Beijing Today, 28 September 2001). These ring roads serve mainly car owners commuting to the city centre from the suburban modern estates.

¹⁴ The return journey to the city centre using the light railway system will cost 10 *yuan* per day, or roughly 200 *yuan* per month for one person: considering the monthly disposable income of bottom 40% in Beijing from an 1000 household sample survey in 2002 (625.0 *yuan* per month per household) (Beijing Municipal Bureau of Statistics, 2003: 180), the light railway system is certainly not affordable for the poorer households.

Conclusion

As the housing reform policies were strengthened during the 1990s, the privatisation and commodification of urban housing stocks enabled many public housing tenants to become owner occupiers. However, those residents in dilapidated residential neighbourhoods where public rental dwellings were in physical conditions too poor to be sold to their sitting tenants were largely excluded from this process. When these residents are displaced from their dwellings due to residential redevelopment, they are presented with conditions of housing consumption, which are fundamentally different from the pre-reform era.

At a quick glance, the residents are provided with cash compensation that could be huge gains in their financial assets. This provided those displacees with an opportunity to join the rank of homeowners by utilising such assets upon their relocation. Unlike the pre-reform experiences of which housing was provided as in-kind benefits to every urban household, the displacees are now provided with financial assets that are at their own disposal. In the case of those households interviewed, it appears that the high sales prices of commodity housing in inner city districts have largely driven them towards sub-urban neighbourhoods. Although this may arguably raise concerns for the maintenance of their social network and access to their jobs and social amenities, their relocation at least enables them to sustain their financial assets in the form of property assets, which can be then used at a later stage as a bulwark against any economic difficulties. The under-development of secondary housing market and the pre-mature housing finance system suggest that re-converting their property assets into mobile assets would not be as easy as in other more developed market economies, but at least their homeownership would provide housing security. However, the long-term prospect for them to sustain their housing security is yet to be found out, since their move to modern flats have led to increased monthly living costs.

Those residents who were displaced before the implementation of the latest 2001 regulation could be considered as to be fortunate to some extent. As for the existing tenants who are subject to future displacement, the implementation of the new regulation would certainly decrease the amount of cash compensation by at least 20 ~ 30%. Under such condition, the likelihood for the future displacees to be able to find an affordable relocation unit or become homeowners would be much slimmer. As the employment-based Housing Provident Fund is likely to remain beyond the reach of many poor residents, the reduced compensation would certainly raise concerns and complaints among the future displacees. Since many urban residents have already become owner occupiers by various means under reform policies throughout the 1990s, it is also predictable that these future displacees would remain very much marginalised socially and tenure-wise. Therefore, it is necessary to follow up the future development in order to determine whether such

changed approaches towards housing welfare under reformist socialist government would lead to any social disputes and socio-economic fragmentation.

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