A Tale of Two Cities: National Mandates and Local Political Economies of Public Housing Provision in Shenzhen and Chongqing

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Introduction

Since the 1980s, China has undertaken graduate but significant reforms to move from social housing to a dynamic housing market. Existing housing stock that once belonged to the state was privatized while new housing was constructed by the market. The homeownership rate increased from 20% in the 1980s to 90% in 2014, and house prices skyrocketed. For example, in 2021, the ratio of house prices to annual household disposable incomes was 27.8 in Shenzhen. This means that an average household in Shenzhen would have to save their income for 27.8 years to buy an average housing unit in that city. By comparison, Beijing had a price-to-income ratio of 24.6, Shanghai of 20.3, and San Francisco of 5.1.

Despite national aspirations to stimulate the economy through privatizing housing, Chinese cities have always been struggling to balance economic growth and social equity. Exorbitant housing prices and increasing inequality posed threats to socio-political stability. A large source of this instability stemmed from insufficient affordable housing, motivating the central government to stimulate public housing provision along with shanty town redevelopment to resist economic shocks and remedy inequalities. The government promised to build 36 million public housing units in the Twelfth Five-Year Plan 2011-2015 (TFYP) and imposed strict provision targets on local governments, with a heavy emphasis on Public Rental Housing (PRH). Providing public housing became an important factor for local officials’ promotions and public housing became a top priority in central government political agendas.

In the face of these top-down incentives, local governments remained reluctant to provide public housing. This reluctance stems from the direct fiscal costs of developing public housing and the opportunity cost of allocating land to public housing instead of housing that would generate higher revenues from land sales and property taxes. Because local governments received little financial support from the central government, they publicly complied with the central government’s mandates but privately resisted. Zhang Siping, Shenzhen’s former deputy mayor, illuminated the challenge that all local governments experienced in responding to national mandates for affordable housing units. “For public institutions without their independent investment sources, or production income and profits, how can they become the main suppliers of independent affordable housing?” This statement highlights the disconnect between central government blanket mandates to “build more affordable housing units” and the unsubsidized financial burden that these mandates place on cities.

Looking inside the public housing policy and its implementation provides insight into China’s political dynamics between central and local governments and fierce competition between cities. Power, responsibility, and revenues are unevenly divided across cities and between central and local governments. Such imbalances have fueled conflicts between central and local policy agendas. When the central government assigns public housing provision targets to local levels without providing subsidies, city leaders are obliged to comply with the central mandates despite the centrally imposed heavy fiscal burdens. While local provision plans are subject to land quota and financial constraints, municipal governments have almost full autonomy to devise provision plans. They responded to central mandates by allocating free or low-cost land to certain public housing projects they prefer, to maximize their gain and minimize their economic loss. As a result of the central-local dynamics, public housing has become a tool to further
municipal governments’ own economic and political agendas, which has led to variegated public housing policy design across Chinese cities.

How do public housing policies vary across cities, and what do these differences show about the priorities of different local governments? What dynamics between different levels of government shape real estate and development in China? By examining and comparing public housing provision strategies in nuanced local contexts, we reveal the different priorities in different types of cities, which reflect the variegated political economies that determine how cities interpret national objectives for public housing to meet their local needs. In our case, we focus on Shenzhen and Chongqing, which represent industrializing and de-industrializing Chinese cities, respectively.

The Transition of China’s Housing Sector

China’s urban housing sector looks very different today from it in the late 1980s. The once-socialist, state-dominated housing system has been replaced by a market-led approach.\textsuperscript{iv} Housing shifted from being a welfare good to a commodity. Homeownership grew sharply from 20 percent in the 1980s to more than 90 percent in 2021.\textsuperscript{v}

Such a transition accelerated the housing market in Chinese cities and also pushed up housing prices, which had profound implications for urban dwellers who could not afford high housing prices and rent. The urban poor, especially migrant workers, were living in crowded conditions and informal housing.\textsuperscript{vi} Such housing affordability problems had become a major threat to social stability. Ensuring a certain level of housing affordability for the majority of urban residents became a top political priority. In 2006, then President Hu Jintao announced a core objective to create a “harmonious society,” in part by establishing housing as a basic human right. In an August 2021 speech, President Xi Jinping described the motivation in the 14th Five-Year Plan [2021-2025] as achieving “common prosperity for the entire population.” Part of this goal includes improving housing supply and support systems, supporting renting and buying, and addressing challenges for new migrants into cities.\textsuperscript{vii}

Since the mid-2000s, in response to the growing inequalities and deteriorating housing affordability resulting from the commodification of housing, the Chinese central government created several public housing programs, including the relatively recent Public Rental Housing (PRH) program. Through the PRH program, the central government has significantly increased state intervention in its public housing policies. The PRH is established in three main ways: 1) local governments initiate and finance PRH projects; 2) state-owned or private enterprises finance and construct dorms for their employees; 3) developers fill the quotas of PRH units in market housing projects.

However, the execution of these policies varies by locality. Some cities extend their PRH programs to migrants without hukou (a local household registration system in China), while others require hukou within their municipal boundaries.\textsuperscript{viii} The design of each city’s PRH program depends on local economic and political agendas and incentives from upper-level governments. To understand the political and
economic factors that determine city policies, we observe how different cities have executed central government mandates to increase public housing.

**Shenzhen and Chongqing: Public Housing Policies with Distinctive Characteristics**

China’s housing system features "fragmented authoritarianism." On the one hand, the central government instructs local governments to allocate free or affordable land to public housing projects. But it provides limited to no subsidies, placing a heavy fiscal burden on municipalities. On the other hand, local governments face severe administrative punishments if they do not fulfill provision tasks. Local governments have full autonomy to direct public housing priorities based on their own fiscal objectives and political responsibilities, which gives them enormous discretion that results in public housing policies that vary largely between cities.

The “fragmentation” of China’s authoritarianism has shown that while national mandates drive provision requirements for affordable housing, city leaders embrace the flexibility to design policies to fit with their political needs. Public housing priorities have been shaped by economic, demographic, political, and sociocultural factors. Following a market logic, a city’s development stage, therefore, strongly determines public housing outcomes such as what labor type the city attracts, whom the city prioritizes to house, and where to locate the housing to increase and retain labor supply. Meanwhile, China features a mixed economy of welfare where state and market forces are both at play. Countering market failures of worsening unevenness of development, the central government allocates more land quotas to municipalities in Central China than those to coastal cities. This limits what land resources a city can tap into according to its economic-geographic position within the country and, hence, further, influences where and how to construct public housing.

Below we observe how two distinctive cities apply their own priorities to meet housing needs that target their unique populations.

**The tech-focused, deindustrializing city of Shenzhen**

**1980s-1990s: Industrialization and Informal Housing**

Shenzhen is an established top-tier city and one of China’s earliest special economic zones (see Figure 1A for its geographic location). Shenzhen first auctioned land in 1987 – five months before it was legal nationally – in a historical event that foreshadowed transformations from a former fishing village. Over the next 30 years, Shenzhen grew to eventually produce a similar gross domestic product to Hong Kong’s – in the process, it created the most unaffordable housing market in China.

Shenzhen’s policies of the late-1980s and 90s tolerated or even encouraged the massive growth of informal housing settlements. Shenzhen’s land reserve was the smallest of major Chinese cities, with less
than 2,000 square kilometers (compared to Shanghai’s 6,000 square kilometers). The shortage of land in Shenzhen perpetuated challenges of sustaining rapid population growth. Crowds of migrant workers from rural areas came to Shenzhen for job opportunities and higher income. Discriminatory practices across Chinese cities prevented rural migrants from accessing low-cost public housing or obtaining mortgages without local hukou (household registration). Combined with declining housing affordability in the formal housing market, migrants turned to the informal housing market.

At that time, the city government did not prepare formal affordable housing units for its migrants, and many settled into informal housing units. Attracted by the sudden abundance of low-skilled job opportunities, people flocked to Shenzhen and settled down wherever they could fit. Former rural villages were swallowed up by the rapidly expanding city, transforming a sixth of the city’s land into dense urban villages (Figure 1B) – rural settlements that have been transformed into poor living spaces for migrant workers. High crime rates, inadequate infrastructure and services, and poor living conditions were just some of the problems in urban villages that threatened public security and management. Temporary dormitories popped up to house construction workers. Informal residents inhabited underground basements below apartments. As one can imagine, informal houses were small and in crowded areas. But they also lacked urban public services such as police, utilities, and sewage. These factors all contributed to making informal housing significantly more affordable, with formal housing costing two or three times as much as informal housing in Shenzhen.

Shenzhen’s city officials were faced with a dilemma. On the one hand, informal housing came with concerns about safety and crime, which also had negative reputational effects. On the other hand, the city needed low-skilled workers with low labor costs to fuel economic growth, and the only way to achieve this was through migrants. In Shenzhen, an abundant supply of informal housing through extralegal construction in urban villages emerged with growing migration, which provided the city with cheap low-skilled labor. In general, cities with greater housing supply elasticity – both formal and informal housing – saw greater migration inflows. In other words, cities received more migrants when house prices were not as sensitive to demand. Cities with a more elastic housing supply also experienced smaller wage increases but faster economic growth. The elastic informal housing market in the Pearl River Delta Region, especially Shenzhen, promoted rapid growth in low-cost manufacturing by providing shelters for a large number of low-skilled, low-wage workers.
1990s-Present: Using Affordable Housing Mandates to Support High-Tech

Shenzhen completed its industrialization in the mid-1990s and is transitioning to high-tech industries.\textsuperscript{viii} Now, Shenzhen’s PRH programs aspire to support the highly-skilled and educated talent for its growing high-tech industries.

As high-tech industries replaced the low-skilled manufacturing of Shenzhen, the demand for low-skilled migrants decreased, which triggered the change of priority of its public housing policy. Informal settlements that were once tolerated during a period of industrial manufacturing and other low-skilled jobs began to be torn down in the 1990s through costly redevelopment projects.\textsuperscript{ix} Migrants were pushed out of many urban villages and replaced by formal housing and commercial development projects.

The city pushed out low-skilled workers by tearing down informal urban settlements – a strategy that was framed as “emptying the cage, changing the birds” (teng long huan niao).\textsuperscript{x} 75% of Shenzhen’s residents at the time were migrants, but many of them were low-skilled and crowded the city with informal housing. Critically, the heavily-populated city faced the constraints of limited developable land for new builds and high concentrations of urban poor.

One example of these redevelopments was Baishizhou, one of the largest urban villages in Shenzhen. Within four months of being revamped, half of the original population had left, many moving from one village to another. The original urban village became a mix of modern shopping malls and high-rise apartments, reflecting the wealthy, educated clientele that “China’s Silicon Valley” hoped to attract.

In the meantime, Shenzhen also faced the challenge of providing sufficient housing to attract the workers it desires. An overheated real estate market and limited quota for developable land led to housing prices that were unaffordable for even middle-income professionals. When the national government expressed concerns over housing affordability and asked city leaders to provide public housing, Shenzhen officials tailored this mandate to achieve their own goals of attracting high-skilled professionals (Figure 2 shows the public housing projects during 2006-2009).

Local dynamics of cost-benefit trade-offs were determined in part by a city’s state of industrialization. At this development stage, Shenzhen’s emphasis on allocating these affordable housing
units to educated, wealthy, and high-skilled professionals reflected its priorities to attract employees who would raise the city’s budding high-tech economy. In 2019, Shenzhen announced an ambition to build at least one million public housing units by 2035. They planned to make 60 percent of the total housing supply affordable, but with a third reserved for high-skilled professionals, another third for people above certain income brackets, and only the remaining third to be allocated to low-income residents. Importantly, these affordable housing units required hukou, which excluded more than 8 million migrant workers.\textsuperscript{xi}

![Image](image_url)

Figure 2: The distribution of urban renewal and public housing in Shenzhen (2018).

Red: sub-centers and industrial parks; Orange: transportation hubs and surroundings; Yellow: others

\textbf{The rising, industrializing city of Chongqing}

In some ways, Chongqing’s economic development is following the same path as Shenzhen’s, but far behind Shenzhen. As a rising top-tier city and major industrial area (see Figure 3A for the geographic location of Chongqing), Chongqing is now a high-density manufacturing hub. In 2020, 26\% of the Chongqing labor force worked in knowledge-intensive industries compared to 37\% in Shenzhen. Over 60\% of Chongqing’s employees worked in labor-intensive industries, with average salaries around 70\% of those working in similar occupations in the more developed coastal provinces.\textsuperscript{xii}

However, Chongqing has very different geographical constraints than Shenzhen. The “mountain city” is a sprawling metropolis, built on mountains and surrounded by the Yangtze and Jialing rivers. It has vast swaths of land that can be developed, and the city is eager to invite rural and non-hukou migrants to nurture its low- and semi-skilled market of labor-intensive jobs such as automobile manufacturing.
Chongqing is an inland hub for trade between China, Africa, and Europe. Manufacturing and agriculture make up the majority of its economic output, though the budding digital economy is also contributing to a small portion of Chongqing’s growth.

Unlike Shenzhen’s history of tolerating the growth of informal settlements back in the 1980s and 1990s, Chongqing now faces central government mandates to build formal rental public housing units. Therefore, it has chosen to fulfill this task by building clusters of very dense public housing projects in industrial pockets around the city outskirt. Since Chongqing has a vast amount of available land and a strong demand for migrant workers, for the 13th five years (2016-2020), the city expanded its rental programs to include more social groups without imposing the local hukou requirement. Chongqing constructed 692,000 PRH units, 62.5 percent of which housed over 400,000 migrants (Figure 3B shows a typical public housing project). As indicated by former mayor Huang Qifan, the subsidized housing projects were “designed to free up more money for people to consume and drive the economy,” with short-term deeply-subsidized rental leases of three years. These centrally-coordinated public housing projects were developed through state-owned enterprises.

Chongqing has invested heavily in large PRH developments to house the influx of rural migrants. These new PRH projects form a critical part of the city’s planned urban expansion. The public housing programs aim to cover 30% of the entire labor force, with an emphasis on reducing housing and transportation costs for low-end workers. In 2022, Chongqing planned to build 400,000 more units of PRH to further attract migrants from nearby rural and urban areas. In other words, the city’s public housing policies are shaped by cheap, abundant land and a rapid need for low-skilled labor. The ensuing availability of formal affordable housing has effectively lowered labor costs and stimulated Chongqing’s economic growth.

Another direct benefit that the city government can enjoy from this ambitious public housing program is the GDP growth triggered by the massive construction of public housing projects. In the early 2010s, the GDP growth of Chongqing was much higher (around 13%) compared to the nationwide GDP growth of around 8%, with a big contribution from the massive investment in affordable housing and related infrastructure.
It is important to note that Chongqing’s current strategy of drawing low-skilled migrant workers into the city is likely a short- to medium-run strategy. It reflects a China-wide trend of development that factors geography, land prices, and stage of industrialization in determining which types of labor are attractive. Cities are willing to invest in public amenities and infrastructure that enhance their competitiveness. The hukou system had been relaxed in the 1980s – it no longer restricts labor mobility so workers without hukou in a city can work there, although they will still find it difficult to access local public services such as public schools and healthcare. Rather than investing in local human capital, cities pull available labor from elsewhere, treating low-income migrants as a factor input for development, but do not want to spend resources to provide public services to them. Industrial cities like Chongqing are consistent in inviting low-skilled and migrant laborers during the period of rapid industrialization. After a city has advanced in development, this source of non-hukou, low-skilled labor becomes obsolete and they are pushed out of the city by way of industrial and real estate upgrades that gentrify urban areas and support economic transitions. This raises ethical questions of social equity, especially in the context of China’s exclusive hukou system. Chongqing currently welcomes migrants and provides them with affordable rental housing – but when the local economy grows to the point of making migrants redundant (like today’s Shenzhen), these policies give cities the flexibility to clear out the migrant workers to make way for higher-skilled workers.

**Similarities between the two cities**

We can observe that Shenzhen and Chongqing display different drivers in who, where, and what kind of public housing they choose to prioritize. But in fact, a common rationale in local political economy can explain such differences. The central government incentivizes city leaders to compete for recognition of their city’s contribution to China’s economy. Local officials’ promotion depends on the growth of their cities. Both cities have utilized planned public housing as an instrument to attract desirable labor and stimulate economic growth. For Chongqing, desirable labor includes low-skilled and non-hukou migrant workers to advance a city of manufacturing. The very people who would be attractive to Chongqing are being replaced in Shenzhen as its economy has advanced towards a high-tech industry.

Shenzhen and Chongqing demonstrate the use of public housing as a tool to target populations that will best contribute to the economic growth of that city at that specific stage. The similarities between Shenzhen and Chongqing provide insights into how political incentives and development constraints shape local government responses to central mandates. Both cities used public housing to select certain types of workers and stimulate certain industries, although the exact types of industries differ between Shenzhen and Chongqing.
A Final Thought: Misalignment in the Incentives of Central and Local Governments

A deeper investigation into the public housing provision of Chinese cities provides a glance into the political economy dynamics between the central government and local governments, and inter-city competition and disparity. On the one hand, the central government has mandated cities to build and provide massive public housing units to ease housing affordability pressure; on the other hand, city leaders are incentivized to grow GDP to advance their political careers, so they are keen to recruit the types of firms and labor that meet the city’s needs at its specific stage of development. City leaders, therefore, leverage their autonomy to shape public housing in ways that fit the implicit political view of their own success. Shenzhen and Chongqing both catered to the needs of their labor force – for one, industrialization called for low-skilled workers and cheap housing; for the other, attracting high-skilled talent required replacing informal urban villages with quality housing for professionals. Both cities are using public housing as a tool to provide homes for their target labor audience, which looks different based on the predominant industry. The central government’s priorities differ from those of the local government by viewing cities as spaces to nurture and upskill citizens. Affordable housing and communities with necessary access to public services and training are critical components of China’s welfare system for the citizens.

Increasing the inclusivity and stability of public housing programs can generate several long-term social benefits. First, public housing development is often coupled with the improvement of nearby infrastructure systems, contributing to upgraded quality of infrastructural services and the urban environment. Second, public housing projects can attract a great number of workers who provide a strong labor pool, knowledge spillovers, and thus productivity increase. Third, public housing for the poor greatly improves the low-income population’s quality of life by enabling them to participate in the urban societies, access public services, and accumulate human capital. However, those benefits are often observed years after the implementation of affordable housing programs; furthermore, due to the rising mobility of the labor force (workers can more easily migrate from one city to another), it is difficult for a city to internalize all the benefits within its jurisdiction.

There is a clear misalignment in the cost-benefit trade-offs to meet short- versus long-term needs for public housing. Local stigmas against public housing arise because of the immediate financial burden on cities. The longer-term social and economic benefits of improving infrastructure and strengthening the labor force sometimes do not receive commensurate attention due to short political terms of local officials (3-5 years) and the spillovers of such benefits from some cities to other cities. Thus, it is understandable that local leaders may focus on conceding to immediate concerns of fiscal expenditure and neglect investing in long-term growth that could not be realized in their terms and own jurisdiction. The significant “negative” costs in the early years of investment coincide with the short term of office for political leaders, highlighting the difficulty of incentivizing local governments to prioritize the long-term benefits of investing in local human capital. Since the social benefits of such public housing programs are always long-run and at the national level, should the central government take on a larger responsibility in providing cities
resources (rather than only mandates) to produce and maintain public housing? If so, how to design a better public housing policy, and how to implement it?

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xiii Leng, Sidney. “Shenzhen faced with affordable public housing dilemma after tech capital ditched Hong Kong property model.” South China Morning Post, November 2019.

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