Independent Chinese Cinema: Filming in the “Space of the People”

China Analysis

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Containing the property bubble: A tall order

Analysis by Thomas Vendryes based on:


• Tian Shan, (2) “Irrational rise in real estate prices harms economy as a whole,” Renmin Ribao, 16 December 2009.

• Lei Zhihua, (3) “What administrative tool to use to determine real estate pricing?”, Shandong Shangbao, 16 December 2009.


• Tang Hongxu, (5) “Increasing ordinary housing supply is rather a delicate matter,” 21 Shiji Jingji Baodao, 17 December 2009.

In the second half of 2008, the slowing of economic growth and the negative effects on China’s financial markets brought about by the global economic crisis led to fears of a property market crash. By December 2009, however, it was the steep rise in the cost of housing that had become the source of worry. Difficulty in finding housing became a hot topic on television, on the Internet, and in private conversations. Professor Lei Zhihua notes ironically that even He Keng, vice-president of the finance commission under the National People’s Congress, complained that he lacked the means to acquire property.

It is thus difficult to deny that a veritable bubble built up during 2009. While the National Bureau of Statistics announced in November that on average, housing prices had risen by 15 percent over the year nationally, Yin Zhongli said that in some parts of Beijing, prices more than doubled. This price imbalance comes alongside a highly distorted supply structure. In recent years, the proportion of ordinary dwellings has fallen, thanks to the development of villas and luxury apartments. As per figures cited by Tang Hongxu, ordinary housing accounted for 82.6 percent in surface area of new constructions in the first ten months of 2009, against 88 percent in 2007. In Shanghai, the figure was a mere 55 percent for the same period of 2009, against 70 percent in 2005.

Rising prices and supply distortion are impeding access to the property market for many Chinese householders, especially first-time buyers and families of modest means. These difficulties fuel a veritable malaise in civil society. The social tension accompanies a real macroeconomic risk. Tian Shan notes that property price increases can cut both ways: on the one side it certainly boosts the real estate and housing sectors, which account for about 10 percent of China’s gross domestic product, but on the other hand the possible bursting of the bubble could be even more disastrous. And mirroring the situation in Dubai, Yin Zhongli observes that local authorities have a direct interest in seeing land and construction prices rise, as that is a key revenue source. They also have the means to manipulate the market through their relations, however testy, with real estate developers and banks. Incidences of property bubbles thus transcend the social and economic spheres and touch on politics.

It came as no surprise, therefore, that in December central authorities, including Premier Wen Jiabao himself, expressed disquiet and a desire to cool down the property market. A two-pronged policy was adopted: support for construction of “low-cost and moderately priced housing,” and reinstatement of a tax on the sale of housing within five years of acquisition. The first policy, aimed at steadying supply, is still being debated, but the second, targeting speculation, is already in force.

It is feared that in the medium term, the situation could worsen. In fact, the second policy has already been tried out. It targets a false problem and risks aggravating market tensions, as a resale tax would dry up the secondary housing market, especially given that the absence of a French-type ad valorem tax makes it less of a burden to keep apartments vacant. This forces potential buyers

1. Yin Zhongli is deputy director of the financial research unit of the Chinese Academy of Social Sciences (CASS).
2. Tian Shan is a journalist with Renmin Ribao.
3. Lei Zhihua is a teacher in Weihai, Shandong Province.
4. Ma Guangyuan is a researcher with CASS, specialising in capital risk.
5. Tang Hongxu is director of E-House China R&D institute, Shanghai.
to look for newly built units, thus boosting the construction bubble. It would be much more effective to use what Yin Zhongli calls the “two sluice gates” (liang ge zhamen) of the real estate market: land supply and bank credit. But restricting land supply would boost prices, and price control by local authorities could be both difficult to implement and potentially damaging to local finances. As for credit, its considerable loosening is a highlight of the government’s plan to deal with the crisis. The ideal would be to regulate its use to ensure that it doesn’t go mainly towards fuelling property purchases, but here again means of control are limited. Thus all the inflationary conditions are present, from both the supply and demand sides, and the reintroduction of a resale tax on property can only form part of the problem, not its solution.

Under these conditions, regulating the supply structure, as is now being discussed, could probably be more effective in the short term. As Tang Hongxu has noted, it would mean a return to the so-called 70/90 policy unveiled in 2006, by which 70 percent of the area under construction should be earmarked for housing of 90 m² or more. This policy was aborted to relaunch the property sector, and although it has yet to be invoked by the authorities, it could still make a comeback in one form or another, and prove effective in rebalancing the supply structure as well as helping to hold down prices. However, its implementation confronts the same types of limitations as attempts to control credit or land supply: the central authorities’ regulatory capacity is too weak to effectively impose the policy on local authorities, whose finances, based partly on high property prices, would be ill adapted to restructuring the property regime in favour of moderately priced housing, according to Ma Guangyuan.

In the end, the Chinese government’s stand on the property bubble is quite illustrative of its economic policies in general. In terms of means, national level regulating organs lack effective clout — political as well as economic (which often go together) — over local interests. As for ends, in abnormal situations such as a bubble or overheating, there is the fear of excessively ham-handed restraint on growth. This creates a marked bias in favour of expansionist policies. In the real estate market, control over credit, either in terms or quantity or usage, would be a highly effective instrument to limit the bubble. But regulating usage is impossible to implement in real terms, and any tightening of credit conditions leads to fears of too crude an adjustment. As is often the case, things are out of control, but there is no way of ensuring a gradual slowdown, and applying brakes would be too dangerous. It is therefore highly likely that the runaway growth of the property bubble can only end with a bang, but that might take some time yet.

Regulating demolitions and resettlement

Analysis by Candice Tran Dai based on:

• "Why are new rules on demolitions and rehousing difficult to implement?”, Zhongguo qingnianbao (China Youth Daily), 17 December 2009.


In China, building demolition and the ensuing resettlement, not to mention forced evictions, can take truly dramatic proportions. This was seen in the cases of Tang Fuzhen, a Chengdu resident who succumbed to her injuries after setting herself on fire in protest over the order to demolish her house, and of Xi Xinzhui, who suffered serious burns after he ignited himself in Beijing while refusing to give up his house set for demolition. Protest actions against demolitions and resettlement do not always take such tragic turns, but there has been a rising trend towards violent consequences from property disputes, and complaints have proliferated. According to the State Bureau for Letters and Visits, responsible for dealing with complaints, nearly 40 percent of complaints received between 2003 and 2006 concerned demolitions and relocations. In the Ministry of Construction, the figure was between 70 percent and 80 percent.


In this context, five law professors from Peking University(9) sent an open letter on 7 December 2009 to the National People’s Congress Standing Committee, challenging the “Regulation Governing House Demolition and Resettlement in Urban Areas,” in force since 2001. They said it violated not only the Chinese Constitution but also the Property Law of 2007. They suggested the abolition of, or at least changes to, the regulations so that they are in greater conformity with the Constitution, the Property Law, and the Law on the Administration of Urban Real Estate. In the case of evictions, they called for respecting all citizens’ rights to housing. Four of the five professors became members of an expert panel convened on 16 December 2009 by the State Council’s legislative affairs bureau for a closed-door discussion on demolitions and resettlement. It is now clear that the central authorities have decided to take charge of the situation, and that the regulations will be amended to better protect citizen’s rights, especially on the issue of monetary compensation. Thus the amendment process is underway, but it is far from complete. Many issues need to be tackled, in particular the definition of the notion of public interest, delimitation of local authorities’ role in demolitions and resettlement, reconciling public and private commercial interest, and fixing compensation norms.

The five Peking University professors and other experts working on the issue agree that a major difficulty lies in clearly and precisely defining the notion of public interest. In fact, Article 42 of the 2007 Property Law provides for expropriations “for the purpose of public interest.”(10) Shen Kui, one of the five authors of the open letter to the NPC Standing Committee, has said that the public interest clause should be a precondition for any requisition or expropriation process. His colleague Wang Xixin has added that to do this, the scope of the notion of public interest should be set out and that it should not be too large. Wang Limin, also of the Peking University law faculty, has said that the public interest notion implies some degree of uncertainty and subjectivity, and that for this reason, the Property Law fails to offer a concrete definition. A priori, the new regulation would seek to circumscribe to a greater extent the notion of public interest by specifying the limits to its implementation, especially in the case of urban infrastructure projects, health or education projects, and more generally, social utility construction projects.

All things considered, the major difficulty is that there is no clear demarcation between public interest and commercial interest. Yang Zaiming, an expert in property law, has noted that in his professional experience, 80 percent of demolitions and rehousing stemmed from commercial interests against a mere 20 percent for public use. He pointed out further that although demolitions and resettlement are expected to abide strictly by the public utility principle, this is hardly palatable to local authorities. It should be borne in mind that in the matter of demolitions and resettlement, the role of local governments is far from neutral. Local authorities authorise demolitions, but they also act as arbiters in disputes between real estate promoters and owners. Besides, in line with legislative provisions, local authorities are expected to obtain the right to use a given piece of land and to transfer it to the builder. In reality, however, they often fail to obtain the land use right but proceed with transferring land directly to property developers by giving them a building permit. The result is that real estate promoters’ quest for profit wins out over respect for compensation norms, and the ensuing financial burden is reflected in the final price. This has led to a cumulative inflation in the relative prices of land and real estate. In the end, the role of local governments in demolitions and resettlements has gradually become a source of conflicts linked to expropriations. People who refuse to leave their homes become subject to forced evictions, whereas in legal terms, only courts of justice can decide on the matter. The Chinese public feels it is all a “conspiracy” between local authorities and real estate promoters. Of course, in 1994 the government undertook a reform of the urban housing system and passed a law on the “Administration of Urban Real Estate” that has become part of the market dynamic. Real estate promoters went on to become the main force for urban and rural construction in China. Meanwhile, China began to reform the tax distribution system, and local governments have become increasingly dependent on fiscal sources linked to land. Given this situation, jurist Wang Cailiang has said that in the matter of demolitions and resettlement not inspired by public interest, it would be opportune for local authorities to eschew interference. Li Xiangdong, professor at the China University of Political Science and Law, has said for his part that the property tax law needs a thorough overhaul.

Translated by N. Jayaram

8. The professors are Shen Kui, Jiang Ming’an, Wang Xixin, Qian Mingxing, and Chen Duanhong.
10. The English version of the 2004 amendments can be seen here: http://www.npc.gov.cn/englishnpc/Constitution/node_2826.htm