

China's Housing Provident Fund: Its Success and Limitations

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In recent years, home ownership has become a key item on the agenda of China's housing reforms. As a consequence of this policy direction, outlined in State Council decisions in 1994 and 1998, the issue of housing finance has gained prominence in the minds of prospective home-owners. Although the Chinese government urged state-owned banks in 1998 to expand mortgage lending, the main policy tool to enhance housing affordability for urban residents has been the Housing Provident Fund (HPF). This system was first introduced in Shanghai in 1991, soon followed by other cities, and was then propagated as national policy from 1994. Since the Housing Provident Fund¹ system has been in force over ten years in Chinese cities, it seems appropriate to evaluate the progress and limitations of this policy. In addition, there have been few detailed studies on the functioning of the Housing Provident Fund. This article aims to remedy that shortcoming².

The article begins with a study of income levels in urban China and it compares people's earnings with prices on the housing market. While Chinese statistics are problematic with regard to their accuracy

and reliability, we can safely conclude that there is a gap between people's earnings and the money needed to buy an apartment. The second section traces the beginning and evolution of the Housing Provident Fund policy, and it explains its basic principles. As shown in this section, the policy aims of the HPF have shifted over time. While the initial focus lay on financing housing construction, in 1998 these policy loans were scaled down and were replaced by an emphasis on loans for households. The third section evaluates to what extent city-level HPFs have attained the goal to secure monetary contributions from enterprises and workers. It is shown that fund collection efforts have been relatively successful, but that implementation is uneven across regions and vis-à-vis different enterprises. Problems of fund collection are linked to legacies of the planned economy but are also due to obstacles arising from an economy in transition. The fourth section examines the usage of HPF funds with a special focus on individual housing loans. It shows that fund usage has been limited and that only a small share of the contributors has benefited from the HPF system. The final section examines the social equity aspects of the Housing

Provident Fund. It is argued that this employment- and income-based system of housing finance may have discriminatory effects on low-income earners, temporary staff, employees in non-state enterprises and in the informal economy, and laid-off workers.

Earnings and household purchasing power

The importance of wage levels for people's well-being is a new phenomenon in China. During the planned economy – 1949 to 1978 – money and wages had a less prominent position in people's minds and in their daily lives. To begin with, it was an economy of constant shortages, and available goods and services were mainly allocated through administrative methods rather than money transactions (Naughton 1996: 26-31). Thus, the wages of urban workers and staff were kept low, and occasional wage adjustments were the result of bureaucratic decisions. However, for workers in state-owned and collective enterprises, and for staff in government agencies, their work units (*danwei*) were major providers of welfare benefits, goods and services³. These welfare benefits – combined with job

¹ Two notable exceptions are Lee (2000), and Wang (2001).

² This study is based on data collection during three field trips in China – winter 2003, summer 2004, and autumn 2004. Interviews were conducted with government officials at the Ministry of Construction, and with officials at Housing Reform Offices and HPF Management Centers in Tianjin, Beijing, Jiangxi and Guangdong provinces. Other sources of information consist of published and unpublished (internal) materials provided to me during the interviews, Chinese newspaper items, and secondary sources.

³ Workers in state-owned enterprises (SOEs) could be expected to be taken care of from cradle to grave. Large factories – with maybe 50.000 – 60.000 workers – would have their own day-care centers for children, schools, hospitals, banks, post offices, transportation services, and subsidized food supplies.

security – compensated for the low wage levels, and lessened the importance of money. Chinese enterprises were not simply production units but also welfare providers and institutions of social control (Walder 1986: 28-29).

As part of the urban welfare package in the planned economy, public sector housing was provided virtually free of charge to the employees. Rents were kept artificially low and represented less than 1-2% of a worker's monthly wage (Interviews BJ 2003, BJ 2004a). As a consequence, China's public housing system became seriously under-financed, and this was a key factor behind the housing reforms which started in 1980. The main orientation of China's housing policy over the last twenty years has been to move away from the traditional system of welfare allocation (*fuli fenpei*), or material allocation, toward a system of monetized allocation (*huobi fenpei*) of housing benefits. The basic aim of this policy – articulated already in the 1980s and stressed with even more emphasis during the 1990s – is that urban residents should spend a larger share of their incomes on housing consumption. This policy goal would either be attained by mandatory rent increases or by encouraging people to buy apartments and become home owners (Interviews BJ 2003, BJ 2004c)

By the end of the 1990s, the housing system in China had dramatically changed. Due to a massive construction boom in the 1980s, the previous problems of inadequate living space had been resolved for many urban residents (Wang and Murie 1999: 103-113). In addition, a large share of public housing had been sold off to sitting tenants. Many of them had bought their rental apartments at discounted prices from their work units, sometimes at very low prices such as 100-200 *yuan* per square meter. In Beijing, 75 per cent of public housing had been privatized by the end of 2004 and the situation was similar in other cities (Interview MoC 2004b, BJ 2005a, Wang 2003). In addition, a significant share of newly constructed housing had been purchased by work units and re-sold at discounted prices to their employees until this practice was banned in 1998 (Zhang 2000: 347, Interview MoC 2004b).⁴

These changes in housing policy – privatization of public housing, a shrinking rented sector, and the monetization of housing benefits – placed *new entrants* on the housing market in a vulnerable position. They mainly had to rely on their own earnings and try to save enough money to purchase a home. Although salary levels in Chinese industry increased rapidly in the 1990s and tangibly improved living

conditions (Burell 2001: 210), the inflation rate remained high and limited people's purchasing power. The sale prices of new housing also kept rising in this period, due to higher construction costs. The price for commercial housing in urban China was set between 500 and 2,000 *yuan* per square meter in 1992 (Wu 1996: 1614), but in the late 1990s most large cities had reached the level of 3,000 *yuan* per square meter. Naturally, house prices in very large cities and economic centers as such Beijing, Shanghai or Guangzhou tend to be higher and rise more rapidly than in other cities.

Since economic development, price levels and people's incomes vary across China, the Ministry of Construction (MoC) suggested a set of regional guidelines for the sale of commercial housing in different parts of the country (Table 1). As shown in the table, house prices vary considerably in line with regional characteristics and housing standards. As a basic rule, however, medium-standard housing in most regions was sold at 2,500 to 4,000 *yuan* per square meter in 1998.

Table 1. Regional housing prices suggested by the Ministry of Construction (1998)

| Category of city | Low housing Prices | Medium housing Prices | High housing Prices |
|--|--|--|---|
| 1. The first group consists of Beijing, Shanghai, Guangzhou and Shenzhen: the four main economic centers. | 1,500-2,000 <i>yuan</i> per m ² | above 4,000 <i>yuan</i> per m ² | 8,000-10,000 <i>yuan</i> per m ² |
| 2. The second group is composed of regional economic centers, i.e. Tianjin, Hangzhou, Chongqing, Dalian, Wuhan | from 1,200 <i>yuan</i> per m ² | to | 8,000 <i>yuan</i> per m ² |
| 3. The third group are other provincial capitals such as Chengdu, Changsha and Lanzhou. | from 800 <i>yuan</i> per m ² | to | 4,000 <i>yuan</i> per m ² |
| 4. The fourth group is composed of medium-size and small cities at the prefectural level and below. | from 800 <i>yuan</i> per m ² | to | 1,200 <i>yuan</i> per m ² |

Sources: FBIS-CHI-98-147 (Xinhua News Agency, 27 May 1998), FBIS-CHI-98-348 (Xinhua News Agency, 14 December 1998), and CNA (1998: 6).

Note: According to the MoC announcement in 1998, China's cities are divided in four categories according to their levels of economic development and the income of local residents.

⁴ In March 1998, the State Council announced that all welfare allocation of housing from work units to their employees would be prohibited from mid-1998 and then quickly phased out (Beijing Review 1998).

In China, a distinction is made between the construction space (*jianzhu mianji*) and the living space (*shenghuo mianji*) of an apartment. When buying an apartment you have to pay for the construction space, but the actual living area is about 20 per cent smaller (Interview GZ 2003). For a couple to have a decent living space, they need to buy an apartment of about 90-100 square meters. That will give them a living space of

70-80 square meters. Assuming that the sale price is 3000 *yuan* per square meter, the Chinese couple has to deliver a down payment of 60,000 *yuan* (20% of the total) and pay 300,000 *yuan* in total for this apartment. In view of current wage levels in China, is this price level affordable for most urban residents? This question is not so easy to answer due to the mediocre quality of Chinese official statistics. These statistics

suffer from problems of inaccuracy and under-reporting (Banister 2005), inadequate attention to people working in the informal economic sector, and the fact that people may have additional sources of income. Taking these statistical problems into account, we can still make a few general conclusions about China's housing affordability by taking a look at the annual earnings of urban employees (see Table 2).

Table 2. Urban manufacturing earnings (2002) – by province. Average annual per capita and household earnings and their housing purchasing power.

| Provinces | Individual average annual earnings (<i>yuan</i>) | Couple average annual household earnings (<i>yuan</i>) | Time needed for a 60,000 <i>yuan</i> down payment. Entire HH earnings (years) | Time needed for a 60,000 <i>yuan</i> down payment. 30% of HH earnings (years) | Time needed to purchase a 300,000 <i>yuan</i> apt. Entire HH earnings (years) | Time needed to purchase a 300,000 <i>yuan</i> apt. 30% of HH earnings (years) |
|--------------|--|--|---|---|---|---|
| Henan | 7,795 | 15,590 | 3.8 | 12.6 | 19.2 | 64.0 |
| Shanxi | 7,892 | 15,784 | 3.8 | 12.6 | 19.0 | 63.3 |
| I. Mongolia | 8,135 | 16,270 | 3.6 | 12.0 | 18.4 | 61.3 |
| Jiangxi | 8,261 | 16,522 | 3.6 | 12.0 | 18.1 | 60.3 |
| Anhui | 8,326 | 16,652 | 3.6 | 12.0 | 18.0 | 60.0 |
| Heilongjiang | 8,755 | 17,510 | 3.4 | 11.3 | 17.1 | 57.0 |
| Hebei | 8,810 | 17,620 | 3.4 | 11.3 | 17.0 | 56.7 |
| Hubei | 8,876 | 17,752 | 3.4 | 11.3 | 16.8 | 56.0 |
| Shandong | 8,898 | 17,796 | 3.4 | 11.3 | 16.8 | 56.0 |
| Guizhou | 9,279 | 18,558 | 3.2 | 10.7 | 16.2 | 54.0 |
| Shaanxi | 9,340 | 18,680 | 3.2 | 10.7 | 16.0 | 53.3 |
| Ningxia | 9,503 | 19,006 | 3.1 | 10.3 | 15.8 | 52.7 |
| Hainan | 9,672 | 19,344 | 3.1 | 10.3 | 15.5 | 51.7 |
| Sichuan | 9,816 | 19,632 | 3.0 | 10.0 | 15.3 | 51.0 |
| Hunan | 9,825 | 19,650 | 3.0 | 10.0 | 15.3 | 51.0 |
| Guangxi | 9,860 | 19,720 | 3.0 | 10.0 | 15.2 | 50.7 |
| Gansu | 10,047 | 20,094 | 3.0 | 10.0 | 14.9 | 49.7 |
| Chongqing | 10,202 | 20,404 | 2.9 | 9.7 | 14.7 | 49.0 |
| Xinjiang | 10,231 | 20,462 | 2.9 | 9.7 | 14.7 | 49.0 |
| Jilin | 10,231 | 20,462 | 2.9 | 9.7 | 14.7 | 49.0 |
| Tibet | 10,258 | 20,516 | 2.9 | 9.7 | 14.6 | 48.7 |
| Liaoning | 10,553 | 21,106 | 2.8 | 9.3 | 14.2 | 47.3 |
| Qinghai | 10,717 | 21,434 | 2.8 | 9.3 | 14.0 | 46.7 |
| Fujian | 11,627 | 23,254 | 2.6 | 8.7 | 12.9 | 43.0 |
| Jiangsu | 11,731 | 23,462 | 2.5 | 8.3 | 12.9 | 42.7 |
| Yunnan | 11,752 | 23,504 | 2.5 | 8.3 | 12.7 | 42.3 |
| Zhejiang | 13,435 | 26,870 | 2.2 | 7.3 | 11.1 | 37.0 |
| Tianjin | 14,781 | 29,562 | 2.0 | 6.7 | 10.1 | 33.7 |
| Guangdong | 14,958 | 29,916 | 2.0 | 6.7 | 10.0 | 33.3 |
| Beijing | 18,157 | 36,314 | 1.6 | 5.3 | 8.3 | 27.7 |
| Shanghai | 21,957 | 43,914 | 1.4 | 4.7 | 6.8 | 22.7 |
| National | 11,152 | 22,304 | 2.7 | 9.0 | 13.4 | 44.7 |

Data source: SSB 2003: 171-179. Author's calculations. Note: The down payment of 60,000 *yuan* equals 20% of the full price of the apartment, i.e. 300,000 *yuan*. 1 *yuan* equals 0.125 USD. We make the assumption that a couple can set aside a maximum of 30% of their earnings to save for the down payment and house purchase. In fact, savings ratios will be lower for low-income couples, and higher for high-income couples.

As shown in Table 2, there are large regional variations in annual per capita earnings. A working couple in Shanghai earn almost three times as much as a couple in Henan province. These wage differences have repercussions for their ability to save enough money for a down payment or pay the full price of an apartment. A working couple in Shanghai, where wages are high, will reach the down payment target of 60,000 *yuan* in 1.4 years if they devote all their earnings on this. But people cannot spend all their incomes on housing, so with a savings ratio of 30% it takes them almost five years to reach that sum. For a full payment of the apartment, the Shanghai couple needs to set aside 30% of their earnings for a period of nearly 23 years. It should immediately be clarified that although wage levels in Shanghai are

reasonably high, housing costs are higher than in other provinces, and 300,000 *yuan* does not allow you to buy a large apartment.

At the other extreme, we see that a working couple in Henan province needs almost four years of their full earnings to reach the down payment target of 60,000 *yuan*, and it will take them over twelve years with a savings ratio of 30%. If they set aside one-third of their combined earnings for a period of 64 years, they will be able to pay off the 300,000 *yuan* apartment. To be sure, housing prices are lower in Henan province, but in provincial capitals and all major cities they are not lower than 3,000 *yuan* per square meter. The calculation is thus indicative of the relationship between people's incomes and the cost of becoming

a home owner. It is demonstrated in Table 2 that there the cost of new housing – without subsidies or mortgage finance – represents a heavy burden on the household budget for employees in the manufacturing industry. However, a few cities and provinces form a special group, due to their higher wages. Manufacturing workers in Beijing, Shanghai and Tianjin, and in Guangdong province, have annual earnings between 15,000 and 22,000 *yuan*. This wage level seems to give slightly better conditions to save for a down payment and buy an apartment. We may ask ourselves if manufacturing workers in China are unusually badly paid compared to other occupational groups, but that is not the case. Factory workers are in a medium position of the wage hierarchy (see Table 3).

Table 3. Annual average per capita earnings (2002) – by occupational sector – in Beijing, Tianjin, and Jiangxi province

| Occupation | Beijing | Tianjin | Jiangxi |
|--|-----------|-----------|-----------|
| 1. Retail trade | 15,620 | ** 10,202 | ** 5,495 |
| 2. Highway transport | 15,333 | 10,934 | 8,742 |
| 3. Hotels | 18,524 | 11,172 | 7,811 |
| 4. Catering services | ** 12,611 | 11,512 | 5,747 |
| 5. Civil engineering | 14,215 | 14,561 | 7,697 |
| 6. Manufacturing | 18,157 | 14,781 | 8,261 |
| 7. Construction | 14,497 | 15,190 | 8,153 |
| 8. Wholesale trade (food, beverages, etc.) | 18,963 | 15,219 | 6,419 |
| 9. Education | 24,447 | 16,799 | 9,752 |
| 10. Public institutions | 25,761 | 16,928 | 9,870 |
| 11. Storage services | 16,440 | 17,479 | 7,795 |
| 12. Railway transport | 18,378 | 18,206 | 16,564 |
| 13. Government and Party agencies | 26,291 | 18,209 | 10,493 |
| 14. Healthcare institutions | * 30,923 | 18,668 | 11,205 |
| 15. Post and telecommunications | 26,341 | 21,892 | ** 12,760 |
| 16. Supply of gas, electricity and water | 28,007 | * 22,093 | 10,724 |
| Average annual wage | 21,861 | 16,223 | 9,151 |
| ** Lowest annual wage | 12,611 | 10,202 | 5,495 |
| * Highest annual wage | 30,923 | 22,093 | 12,760 |

Sources: SSB 2003: 173-225. Author's calculations and rank-ordering of occupational wage levels. Note: 1 *yuan* equals 0.125 USD. Employee "earnings" (*baochou*) include basic wages, overtime and supplemental salary, bonuses, allowances, benefits, and social insurance payments. (Cf. Banister 2005: 24-27 for a review of the concept of earnings in Chinese official statistics).

Table 3 shows that wage levels in Beijing are higher than in Tianjin and in Jiangxi province for nearly all occupational groups. This is a reflection of the relative degree of economic development and the living costs in these locations. It also signals their levels of political importance. Jiangxi is at the lowest rank of the ladder and quite a distance from both Beijing and Tianjin. But *within* each locality, the wage hierarchy is similar, with the highest earnings directed towards employees in government agencies, public institutions, healthcare, and state companies maintaining a monopoly position. By contrast, people working in retail trade, hotels, catering services, transportation and manufacturing have low or medium-level earnings. Such occupations tend to be closer to the private sector and more exposed to market forces. In view of their lower wages, these workers will find it more difficult to make the savings needed for home ownership.

Several scholars have noted the problem of housing affordability in China. This issue became more salient after the restructuring of state industry, in the 1990s, which left many lay-offs and widespread job insecurity in its wake. In other words, it is not only people's propensity to save for home ownership, but also their ability to find stable employment – and income security – in a changing economy which pose a challenge to housing reforms. The key problem, however, is the discrepancy between people's incomes and housing prices.

The biggest hurdle to increasing home ownership among urban workers is affordability [...] In most countries, homes priced at three to five times annual household income are considered affordable, while housing prices in China are often 10-20 times family income. Chinese reformers hope to achieve a 4:1 ratio between housing prices and family income, but reaching this goal appears to be a long way off (Rosen and Ross 2000: 79).

Development of Housing Provident Funds

To bridge the gap between people's incomes and the price for housing, the Chinese government has introduced a series of policies aimed at both the supply side and the demand side of housing provision. On the supply side, there have been attempts to bring down housing construction costs. Low-cost housing projects were planned and implemented during the 1990s under the "comfortable housing" (*anju*) project. This project involved policy loans by the central government, matched by tax exemptions and subsidized allocation of land by local authorities and profit caps imposed on real estate developers. This policy was slightly adjusted in 1998 and continued under the label "economic housing" (*jingji shiyong fang*). The key idea was to produce low-cost housing for sale to medium-income households. Sale prices of these apartments were set lower than open market prices to make them affordable to households with limited earnings (Interview MoC 2004b, Wang and Murie 2000, Wang 2001: 631-32, CNA 1994, CNA 1996: 7, Rosen and Ross 2000: 80-81).

The Housing Provident Fund (HPF) system has been an important supplement to low-cost housing, and it is targeted to improve the demand side of housing consumption. It aims to enhance people's housing purchasing power through a system of joint savings – with mandatory contributions from employees and work units – and placement of the funds into individual accounts. The savings in these HPF accounts allow workers to apply for low-interest housing loans (Interviews BJ 2004c, TJ 2004).

Shanghai was the first city to introduce a Housing Provident Fund on a large scale. It was part of a larger housing reform package adopted by Shanghai's government, and it was endorsed by the State Council in May 1991. This policy innovation was quickly announced in news media and many provincial and city governments sent delegations to Shanghai for inspection visits. Similar HPF schemes were

established in Beijing, Guangzhou and Tianjin in 1992, and soon other cities across China followed suit. In 1993, the third national conference on housing reform was held in Beijing. In its wake, the State Council's Leadership Group on Housing Reform issued the *Decision on Deepening the Urban Housing Reform*, and this policy document urged major cities to set up Housing Provident Funds. This was the national government's effort to institutionalize the HPF system across China (Interviews BJ 2004a, MoC 2004b, TJ 2004, GZ 2004a, Lee 2000: 65, Wang 2004: 90). As a consequence, nearly 200 cities introduced HPF schemes in the 1990s, and in 2004 almost all medium-sized cities had adopted this policy (Wang and Murie 1999: 160, Interview MoC 2004b).

Eventually, after the State Council's housing reform decision in 1998, it was decided the HPF system needed a solid legal basis. This policy was now reaching the end of its experimentation phase and needed to be consolidated. Hence, in March 1999, the State Council issued the *Housing Provident Fund Management Provisions*, as a legal tool to standardize HPF decision-making procedures and fund management. From this point onward, all cities (above county level) were required to set up HPF schemes and it was stipulated that all enterprises (including private firms, joint ventures and private enterprises), government agencies, public institutions and social organizations with employees on their payrolls had to take part in the HPF system (State Council 1999). Subsequently, in March 2002, the *Amended Housing Provident Fund Management Provisions* were issued by the State Council. The amended text extended the policy scope to include township enterprises, and it clarified the legal clauses on fund usage, financial auditing and supervision, and penalties that would be imposed on enterprises, agencies or individuals who violated these regulations (SC 2002).

Apart from this effort of legal standardization, the State Council made another major policy shift in 1998-99. From that point onward, HPF funds could no longer be used as policy loans for house construction, but should be exclusively

used to finance individual loans for home ownership (Lee 2000, Interview BJ 2004a, MoC 2004b). It can therefore be said that although the HPF system was first established in 1991-92, it is only in recent years (1998-2005) that it has been re-oriented to grant house loans to Chinese households. In the following sections, I examine how HPF schemes have operated – with respect to fund collection and loan allocation – in a few cities.

Fund collection

The collection of HPF contributions is supervised by local HPF management centers which operate under the authority of Housing Committees appointed by the city government. The Housing Committees set HPF contribution ratios – in light of local economic conditions – and approve the annual plans for collection and usage of HPF funds. They also perform year-end

reviews of the execution of these plans, along with financial auditing by Finance Bureaus. The HPF management center is responsible for all routine operations and is directly involved in collection, financial supervision, and loan management of HPF funds (SC 2002, Wang 2001: 635, Interview TJ 2004).

Table 4. Beijing City Housing Provident Fund (2004)

| Year | Contributing work units | Workers and staff covered | Accumulated collection of HPF funds (million <i>yuan</i>) | Households granted HPF loans | Annual grants of individual HPF loans (million <i>yuan</i>) |
|------|-------------------------|---------------------------|--|------------------------------|--|
| 1998 | 9,602 | 1,928,000 | 6,780 | 7,710 | 631 |
| 1999 | n.d. | 2,224,000 | 10,590 | 8,077 | 1,150 |
| 2000 | n.d. | 2,316,000 | 15,330 | 20,657 | 3,900 |
| 2001 | n.d. | 2,324,000 | 21,350 | 39,520 | 7,460 |
| 2002 | n.d. | 2,344,000 | 28,650 | 29,517 | 5,560 |
| 2003 | n.d. | 2,344,000 | 37,420 | 25,726 | 5,210 |
| 2004 | n.d. | 2,589,000 | 45,400 | 32,420 | 7,230 |
| | | | Total: | 164,999 | 31,300 |

Sources: Interviews in China (BJ 2004c, BJ 2005b) and written materials provided during the interviews. Wang (2001: 637). Note: Author's calculations. N.d. = no data.

Table 5. Nanchang City Housing Provident Fund (2004)

| Year | Contributing work units | Workers and staff covered | Accumulated collection of HPF funds (million <i>yuan</i>) | Households granted HPF loans | Annual grants of individual HPF loans (million <i>yuan</i>) |
|------|-------------------------|---------------------------|--|------------------------------|--|
| 1998 | n.d. | 110,000 | 90 | 388 | 3 |
| 1999 | n.d. | n.d. | 235 | 1,144 | 27 |
| 2000 | n.d. | n.d. | 431 | 1,300 | 45 |
| 2001 | n.d. | n.d. | 661 | 1,496 | 90 |
| 2002 | n.d. | n.d. | 930 | 1,989 | 154 |
| 2003 | 3,100 | 300,000 | 1,289 | 3,515 | 459 |
| 2004 | 3,100 | 330,000 | 1,689 | 3,953 | 530 |
| | | | Total: | 13,785 | 1,308 |

Sources: Interview in China (NC 2004) and written materials provided during this interview. NSB 2004: 31. Note: Author's calculations. Figures have been rounded to the nearest million *yuan*. These statistics exclude households and HPF loans for staff in province-level units and the railway industry, which are handled separately. N.d. = no data.

How successful have HPF management centers been in building up HPF funds based on regular monetary contributions from enterprises and individuals? The answer to this question depends on our standards of evaluation. Collection of HPF funds – and their rate of increase – depend on stipulated contribution rates, the number and size of enterprises and other work units in the locality, the wage levels and financial strength of these work units, their willingness to comply with HPF policy, and the diligence of the local HPF centers in making sure that their regulations are universally enforced.

Tables 4 and 5 demonstrate two extreme cases of HPF fund collection in two localities. On the one hand, there is Beijing, which started in 1992 with a contribution rate of 5% of the employee's monthly salary and matched by another 5% by his/her employer. The contribution rate was gradually raised to 8% in 1998 and further to 10% in 2003. By 2004, about 50-60% of Beijing's 4.8 million employees were covered by the HPF policy (Interview BJ 2004c, MoC 2004b, SSB 2003: 173). In combination with fairly high wage levels in Beijing, this generated 5-8 billion *yuan* of funds per year, and an accumulated 45 billion *yuan* of HPF funds in 2004 (see Table 4). In this respect, we can say that Beijing's HPF management center successfully carried out its mandate.

By contrast, Nanchang is the capital of Jiangxi province, a region which has lingered in the backwaters of economic reforms and suffers from a lack of foreign investment. Wage levels in both the public and private sectors are among the lowest in China (cf. Tables 2 and 3). According to interviews with local officials, there are some 500,000 workers and staff in Nanchang city, but only 330,000 of these employees are covered by the HPF scheme (66%). In 2004, there were 3,100 work units which had signed up for the HPF scheme, but only 2,200 of these enterprises and agencies made regular payments. Trustworthy contributors were mostly government agencies and public institutions. In fact, there is an estimated total of 6,000 work units in Nanchang, if all

unregistered small non-state enterprises are taken into account, and the majority of these firms did not even bother to sign up for the HPF scheme. In the experience of Nanchang HPF officials, it was very troublesome, and hardly worthwhile, to go after private enterprises, foreign enterprises or joint-ventures and ask them to comply with HPF regulations (Interview NC 2004). As a result of these adverse factors, the annual collection of HPF funds was modest, ranging between 200 and 400 million *yuan*, and in 2004, the total HPF collection in Nanchang had reached about 1.7 billion *yuan*.

While both Beijing and Nanchang are extreme cases, at opposing poles of a spectrum, the general situation in other parts of China gives a mixed picture. The contribution rates to HPF funds varied greatly throughout the 1990s, and in some places it was as low as 1-2% of local employees' monthly salaries. Eventually, this was standardized to a minimum ratio of 5% of the enterprise wage sum, thanks to the State Council's *Provisions on HPF Management* in 1999 (Interview MoC 2004b, SC 1999). Another problem has been the slow inclusion of all enterprise forms into the HPF scheme, both in a regulatory sense and in actual practice. In cities where there is a strong presence of joint-ventures and foreign firms that employ temporary workers – HPF centers are reluctant to enforce policy in these enterprises, and content themselves to impose it on public institutions, state enterprises, and government agencies (Interviews GZ 2004a, 2004b, 2004c, YN 2005). In this situation, the HPF policy coverage becomes very limited as compared to the number of enterprises and workers that de facto are located in the city.

HPF participation rates seem to be highest in large cities, such as Beijing, Tianjin and Shanghai (98%), and in some cities located in wealthy provinces such as Jiangsu and Zhejiang (90%), but in most cities the policy coverage is less than 50% (Zhang 2000: 343). According to the Ministry of Construction, which supervises the HPF system at the national level, there were 80 million workers and staff registered in 2004

but, due to the financial difficulties of many firms, only about 60 million workers made regular contributions to the HPF funds. The remaining 20 million employees were labelled as "intermittent" or "erratic" contributors. And, of course, laid-off staff simply drop out of the system (Interview MoC 2004b). It should also be mentioned that temporary or migrant laborers – numbering about 150 to 200 million persons in urban China – are not included in the system. According to current regulations, only those workers who sign an employment contract for one year or longer are required (entitled) to take part in the HPF scheme. If the narrow definition is used – ie on-post urban workers and staff – this amounts to a total of about 100 million people. So the overall participation rate in the HPF scheme in urban China is either 60% or 80%, depending on how you count (Interview MoC 2004b). A less narrow definition of "urban employees" would probably generate a figure of 30-40%, which is much less impressive.

Keeping these shortcomings in mind, the collection of HPF funds in recent years has been fairly impressive. The four cities examined here – Beijing, Guangzhou, Tianjin and Nanchang – managed to steadily increase HPF fund collection over the years. By 2004, Beijing had accumulated 45 billion *yuan*, followed by Guangzhou and Tianjin with 29 and 24 billion *yuan*, respectively. Nanchang, with its less developed economy smaller population, and seemingly weak enforcement, trailed far behind with only 1.7 billion *yuan* (Table 6).

This mixed picture is supported by other sources of information. According to the Ministry of Construction, collection of HPF funds varies considerably between cities. Large economic centers such as Shanghai and Beijing are able to raise 10-30 billion *yuan* in HPF funds per year, whereas medium-sized cities can collect 3-4 billion *yuan*, and small cities only can raise 20-40 million *yuan* (Interview BJ 2004b). This may be seen as a reflection of the uneven economic development in China today. While there is no national-level Housing Provident Fund, the Ministry of Construction is in charge of aggregate HPF statistics. For

Table 6. City comparison of accumulated HPF funds (million *yuan*)

| Year | Beijing | Guangzhou | Tianjin | Nanchang | National |
|------|---------|-----------|---------|----------|----------|
| 1992 | - | 88 | 270 | - | - |
| 1993 | - | 215 | 520 | - | - |
| 1994 | - | 380 | 770 | - | 11,000 |
| 1995 | - | 714 | 1,230 | - | 11,000 |
| 1996 | - | 1,276 | 2,090 | - | 39,300 |
| 1997 | - | 2,059 | 3,390 | - | 79,900 |
| 1998 | 6,780 | 3,362 | 5,110 | 90 | 123,100 |
| 1999 | 10,590 | 4,889 | 7,090 | 235 | 140,900 |
| 2000 | 15,330 | 6,086 | 9,570 | 431 | 140,900 |
| 2001 | 21,350 | - | 12,640 | 661 | 332,600 |
| 2002 | 28,650 | - | 16,560 | 930 | 413,100 |
| 2003 | 37,420 | 22,297 | - | 1,289 | 556,300 |
| 2004 | 45,400 | 28,800 | 24,000 | 1,689 | 630,000 |

Sources: Interviews in China (MoC 2004b, BJ 2004c, BJ 2005b, GZ 2004a, NC 2004, TJ 2004) and written materials provided during these interviews. Other sources: Gateway (2006), FBIS-CHI-1999-0823, FBIS-CHI-2000-0223, CNA (1996: 8), THR (2002). Note: Author's calculations.

China as a whole, the accumulated HPF amount rose from 11 billion *yuan* in 1994 to 630 billion *yuan* in 2004. A crucial question, however, is how these funds have been used.

Fund usage and extension of housing loans

At its inception in 1991-92, the Housing Provident Fund was mainly seen as a vehicle to raise funds for housing

construction, and for several years large amounts of local HPF funds were used as policy loans for work units and real estate developers. From 1994 to 1998, the HPF scheme was used as a financial tool in producing affordable housing under the state-sanctioned *anju*-project (Interview MoC 2004b). During the 1990s, there were also conflicts over the use and authority over HPF funds. Several bureaucratic actors – including Construction Bureaux, Finance Bureaux, and banks – claimed that they

were most suitable institutions to handle HPF funds. Naturally, they were all acting in self-interest but tried to couch their arguments in terms of economic efficiency and the common good (Interview BJ 2004b). Finally, these bureaucratic conflicts were resolved by the State Council and, starting in 1998, HPF funds were to be exclusively used as housing loans to individual households (SC 1999).

Table 7. Annual HPF housing loans (million *yuan*) to individual households

| Year | Beijing | Guangzhou | Tianjin (a) | Nanchang |
|------------------------------|---------|-----------|-------------|----------|
| 1992 | - | - | > 1 | - |
| 1993 | - | - | 2 | - |
| 1994 | - | - | 6 | - |
| 1995 | - | - | 19 | - |
| 1996 | - | - | 101 | - |
| 1997 | - | - | 497 | - |
| 1998 | 631 | - | 1,330 | - |
| 1999 | 1,150 | 414 | 1,220 | 3 |
| 2000 | 3,900 | 636 | 2,240 | 27 |
| 2001 | 7,460 | 1,160 | 2,000 | 45 |
| 2002 | 5,560 | 1,524 | 2,420 | 90 |
| 2003 | 5,210 | 2,422 | n.d. | 154 |
| 2004 | 7,230 | 2,556 | n.d. | 459 |
| Total (million <i>yuan</i>) | 31,300 | 8,712 | 17,000 | 530 |
| Total households | 164,999 | 58,714 | 150,000 | 13,785 |

Sources: Interviews in China (BJ 2004c, BJ 2005b, GZ 2004a, NC 2004, TJ 2004) and written materials provided during these interviews. Note: Author's calculations. Figures have been rounded to the nearest million *yuan*. (a) The total loan amount for households in Tianjin was provided during the interview (TJ 2004). N.d. = no data.

According to the *State Council's Provisions on HPF Management* in 1999 (amended 2002), the HPF funds should be kept in individual accounts – one for each employee – in a designated local bank, and can only be withdrawn for certain purposes⁵, subject to approval by the HPF management center. Since 1998, HPF management centers have focused on the task of granting loans to individual households. The maximum size of the loan depends on the sum deposited in an individual's HPF account. In Beijing, it is possible to borrow a sum that is ten times the deposited amount. Hence, if a person holds 10,000 *yuan* in her account, she can borrow 100,000 *yuan*. For individuals with

large deposits in their accounts, however, the maximum limit was set at 300,000 *yuan*. Similar limits on HPF loans were set in the other localities: 200,000 *yuan* in Tianjin, 200,000 *yuan* in Nanchang, and 250,000 *yuan* in Guangzhou (Interview BJ 2004c, TJ 2004, GZ 2004a, NC 2004).

Table 7 illustrates the progress of individual housing loans in these four cities. Tianjin started to grant individual loans already in 1992, but on a modest scale. The real shift, however, took place in 1998, and since then HPF loans have risen quickly. By the end of 2004, Beijing had granted over 31 billion *yuan* in HPF loans to almost 165,000 households. Guangzhou and Tianjin had

granted 9 and 17 billion *yuan* respectively, and Nanchang had granted 530 million *yuan*. It should be noted, however, that these amounts were small in relation to the total assets kept in the HPF system. In both Nanchang and Guangzhou, HPF loans represented only 30% of their local HPF assets. In 2001, vice-minister of construction, Liu Zhifeng, analyzed the problem of *idle* HPF funds. He noted that the national HPF loan ratio was 30% of the planned figure and this was deeply unsatisfactory. Some provinces had not even begun to grant HPF loans. Other provinces had only attained 5-10% of the planned figures (Liu 2001).

Table 8. Average level of HPF housing loans (*yuan*)

| Year | Beijing | Guangzhou | Tianjin | Nanchang | National |
|------|---------|-----------|---------|----------|----------|
| 1998 | - | - | - | - | - |
| 1999 | - | - | - | - | - |
| 2000 | 188,797 | 86,000 | - | 34,615 | - |
| 2001 | 188,765 | 122,000 | 82,304 | 67,160 | - |
| 2002 | 188,366 | 137,000 | 93,245 | 77,425 | 65,838 |
| 2003 | 202,518 | 174,000 | - | 130,583 | 71,688 |
| 2004 | 223,010 | 191,000 | - | 134,075 | - |

Sources: Interviews in China (MoC 2004b, BJ 2004c, BJ 2005b, GZ 2004a, NC 2004, TJ 2004) and written materials provided during these interviews. Note: Author's calculations, with aggregate loan amounts divided by the number of loan beneficiaries.

We may also wonder if the HPF loans are really sufficient to bridge the gap between individual incomes and housing prices. If we take 300,000 *yuan* as the standard price for a medium-sized apartment in large cities, it seems as though HPF loans are at least *partly* helpful in facilitating home ownership (see Table 8). The average size of HPF loans in Beijing has hovered around 200,000 *yuan*, and in Guangzhou they have risen from less than 100,000 *yuan* to almost 200,000 *yuan* in recent years. In Tianjin and Nanchang the size of HPF loans is lower, but this may be counterbalanced by slightly lower housing prices in these two cities. Nevertheless, it is obvious that prospective home buyers have to bring up additional funds – from 100,000 to 150,000 *yuan* – in order to purchase an apartment. That sum must be based either

on individual savings, informal loans from friends and relatives, or commercial bank loans. It goes without saying that this will be a significant stumbling-block for low- or even medium-income households in China.

Social equity dilemmas

Scholars have noted certain biases incorporated into China's housing policies, and the HPF scheme is no exception. Zhou (2004: 8) argues that urban housing policies only are targeted at certain social groups, and that they have tangible discriminatory effects on other groups. The intended beneficiaries of the HPF scheme, for example, are only persons with stable and full-time employment – mainly those working in public sector work units and in

financially strong enterprises. Other groups are clearly excluded, ie, laid-off workers, people with temporary employment, the self-employed, and migrant workers who live and work in a semi-legal status in Chinese cities.

Another equity issue concerns persons who actually are *included* into the HPF system, and who contribute to its maintenance and growth, but for whom the benefits are low or uncertain. These are mainly workers and staff with low incomes – usually below 15,000 to 20,000 *yuan* per year – and for whom HPF individual savings accumulate very slowly. For them, it will take a very long time to qualify for a down payment and become eligible for a sufficiently large HPF loan to finance a home purchase. In fact,

⁵ The State Council (2002) revised Provisions on HPF Management, Art 24, state that legitimate withdrawals from HPF accounts are those used for (1) Purchasing, building, renovating, or repairing residences; (2) Leaving work posts due to old age or retiring from work; (3) Physically unsuitable for work with employer-employee relations terminated; (4) Resettling abroad; (5) Repaying the principal or interest of housing loans; (6) Rent exceeding the prescribed proportion of wages.

some scholars argue that the HPF loans mainly benefit high-income households, thus accentuating rather than reducing housing inequalities in China (Mostafa et al. 2003, Wang and Murie 2000: 406-09). In

Wang's (2000: 857) analysis of Beijing, over 80 percent of the HPF lending went to high-income families. Based on survey research in Chongqing and Shenyang, Wang (2003: 182, 2004: 100-17) explains that a very low

percentage of poor households had participated in, or were aware of the existence of, Housing Provident Funds.

Table 9. Share of the HPF contributors who obtain HPF loans (%)

| Year | Beijing | Guangzhou | Tianjin | Nanchang | National |
|------|---------|-----------|---------|----------|----------|
| 1998 | 0.4 % | - | - | 0.4 % | 0.7 % |
| 1999 | 0.7 % | 3.2 % | - | 1.0 % | - |
| 2000 | 1.6 % | 0.9 % | - | 1.9 % | - |
| 2001 | 3.3 % | 1.7 % | 6.2 % | 2.2 % | - |
| 2002 | 4.5 % | 2.6 % | - | 3.1 % | - |
| 2003 | 5.6 % | 3.5 % | - | 3.3 % | 5.4 % |
| 2004 | 6.4 % | 4.4 % | - | 4.2 % | - |

Sources: Interviews in China (MoC 2004b, BJ 2004c, BJ 2005b, GZ 2004a, NC 2004, TJ 2004) and written materials provided during these interviews. Note: Author's calculations. The national percentages are based on the estimate of 60 million (active) HPF contributors – i.e. workers and staff – in all cities of China, in 2004 (Interview MoC 2004b).

When we examine how many of HPF contributors who actually benefit – in the sense that they are granted HPF loans – the results are striking and disappointing. In the four cities in our sample, less than 7% of the contributors became beneficiaries of this scheme. Admittedly, the share of people who can benefit has increased slowly, from 0.4% to 6.4% in Beijing between 1998 and 2004, but the figure is still disappointingly low. Similar patterns can be seen in Guangzhou, Tianjin and Nanchang (Table 9). For China as a whole, the average figure is 5.4%.

If so many people contribute to the Housing Provident Fund, why are the beneficiaries so few and who are they? According to Wang (2001: 642), a large number of low-income employees make small contributions to the HPF system but their individual deposits are too low to make them eligible for loans. By contrast, a small percentage of high-income earners make larger deposits and can then draw on the vast resources of the HPF system to apply for – and obtain – low-interest housing loans. If this analysis is correct it entails a re-distribution of resources, but in the *wrong direction*, ie, from low- to high-income households. This, however, can only be a preliminary conclusion and must be analyzed on the basis of more detailed data on HPF lending practices and the economic characteristics of HPF loan beneficiaries.

Conclusions

The affordability gap between people's incomes and housing prices is clearly seen in China. Wage increases for the majority of urban households have not kept up with the rise in housing costs. Even though the rate of home ownership has reached 70-80% in most cities, this is not the result of people's purchasing power, because it is mainly a legacy of the privatization of former public housing during the 1990s. Due to a rapid shrinkage of the rental sector, new entrants on the housing market have few options but to make savings for home ownership in the newly constructed housing sector. If they are lucky, they may be eligible to buy "economic housing" which is sold at slightly lower rates. Most people, however, must expect to pay 3,000 *yuan* per square meter. For people with low- and medium-level incomes these housing prices are too expensive. In order to alleviate these problems, the Chinese government introduced the HPF system in 1991, and in 1998 it had been established in practically all cities. In addition, State Council decisions in 1999 and 2002 ensured that HPF funds would exclusively be used to promote home ownership among individual households.

While local Housing Provident Funds have been successful in accumulating funds, the

policy coverage among enterprises and employees remains a problematic issue. Many private and foreign enterprises evade the HPF contributions – and financially weak enterprises are unable to make regular payments. The victims of such shortcomings are the employees in these firms. Depending on how we view official statistics, and our definition of who should be counted into the urban workforce, the policy coverage can be as high as 60% or as low as 30%.

Moreover, HPF management centers are only partially successful in promoting home ownership via HPF loans. Although the number of individual HPF loans has increased over the years, and the average size of HPF loan has risen, a large share of HPF assets remain idle in the banks. This is a waste of resources in view of the fact that so many households are in need of housing loans. In addition, the percentage of contributors who actually obtain a HPF loan is ridiculously low, on average less than 6%. Finally, it can be argued that the HPF policy is exclusionary vis-à-vis low-income families, laid-off workers, temporary workers and migrants. It is even possible that the HPF scheme entails an economic re-distribution from low- to high-income households and thereby accentuates housing inequalities. In future studies, a closer analysis of HPF lending practices can shed light on this issue.

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