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Housing and Economic Development in Suzhou, China: A New Approach to Deal with the Inseparable Issues

Zhu Xiao Di, Huang Lei, and Zhang Xinsheng

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Zhu Xiao Di is a research analyst at the Joint Center for Housing Studies; Huang Lei is a doctor of design candidate at the Harvard Design School; and Zhang Xinsheng is a visiting research fellow at the Harvard Business School.

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Abstract

This is a case study of Suzhou, China, an ancient city of over two thousand years that upgraded itself during the 1990s from a medium-sized city to fifth in China, ranked according to GDP. At the beginning of the decade, the city faced a macroeconomic contraction in the nation, a questionable or unsustainable local economic development model, an enormous task of preserving historical sites, and the pressure of improving the living standards of its residents, which included changing their meager housing conditions. This paper provides insight into the municipal strategy of integration with the global economy through strategic city planning that in the end promoted rapid economic development, preserved most of the “old” city while building two new industrial districts, and substantially improved housing conditions for residents.

Housing and Economic Development in Suzhou, China: A New Approach to Deal with the Inseparable Issues¹

by

Zhu Xiao Di, Huang Lei, and Zhang Xinsheng

Introduction

Housing and economic development are often inseparable issues. While housing growth contributes to the economy, housing development often depends on a strong economy. Therefore, these two issues can and perhaps should be dealt with together. The case in Suzhou, China, illustrates this point well and demonstrates that a new approach is both possible and desirable.

With remarkable and unexpected speed, Suzhou emerged during the 1990s from a medium-sized city in China into a metropolitan area that ranks fifth among all Chinese cities in terms of its GDP.² The average income of Suzhou residents more than tripled between 1990 and 1996.³ Even after adjusting for inflation, the income growth rate for the period was still over 33 percent. Meanwhile, each year on average over two million square meters of new housing were added to the housing stock.⁴ Indeed, three years in a row between 1994 and 1996, nearly three million square meters were added each year. As a result, both the housing conditions and the overall standard of living have improved greatly (Fig. 1).

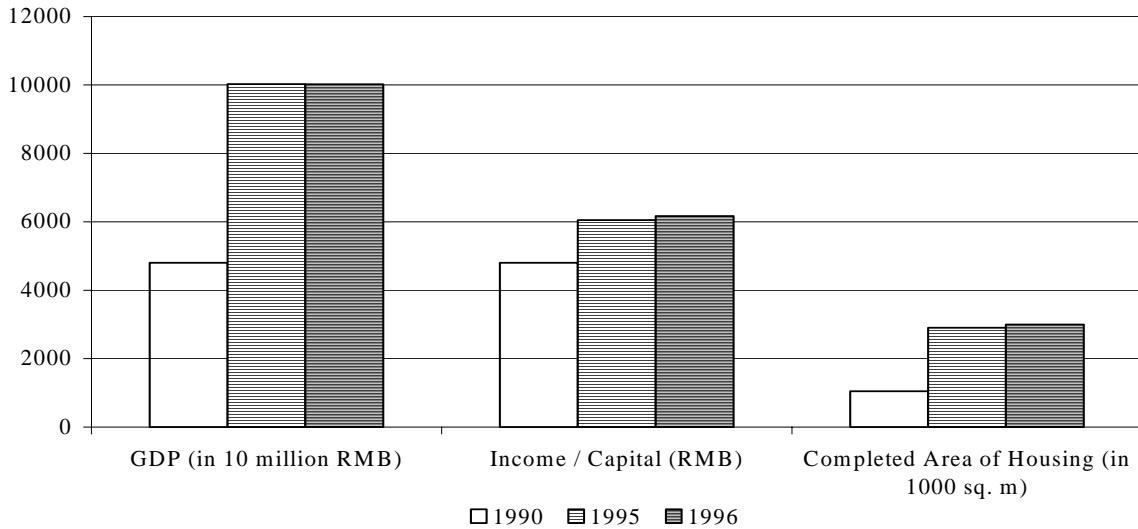
¹ This paper was initially based on a Brown Bag Housing Seminar presentation by Zhang Xinsheng, former mayor of Suzhou, China, that was delivered to the Joint Center for Housing Studies. Additional details, comments and analysis have been added. The paper has benefitted from the insights and knowledge of practitioners, as well as the analytical skills of researchers.

² <http://www.sz.js.cn/zhuye.htm>, as of 1999.

³ *Suzhou Statistical Yearbook*, Municipal Statistical Bureau of Suzhou, 1997, pp. 24-25.

⁴ *Suzhou Statistical Yearbook*, Municipal Statistical Bureau of Suzhou, 1996, p. 210; *Suzhou Statistical Yearbook*, Municipal Statistical Bureau of Suzhou, 1997, p. 303.

Figure 1
GDP, per Capita Income, and New Housing Construction in Suzhou
(1996 Currency)



Source: *Suzhou Statistical Yearbook, 1997*

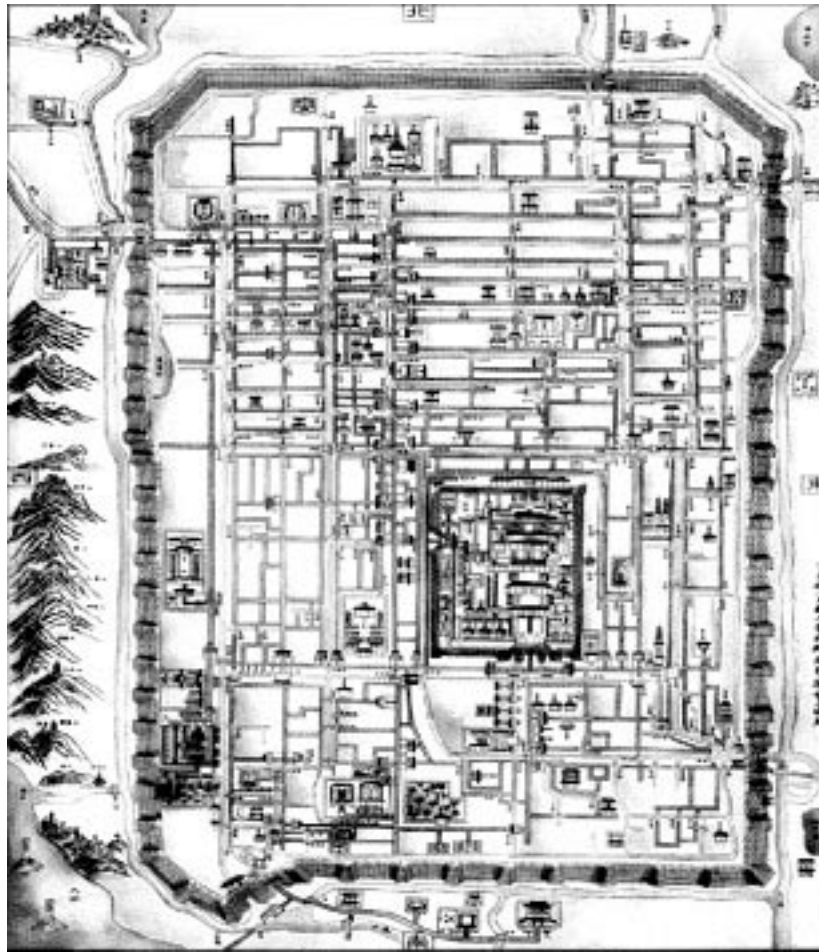
The municipal government has helped transform Suzhou remarkably within less than a decade. It restructured its industry, as well as the urban and rural layout, while preserving and revitalizing the old town. This was achieved through a winning economic development strategy of integrating the global economy with a visionary master plan for city planning. Overall economic development was driven mainly by foreign direct investment (FDI) in the 1990s. The municipal government also linked housing improvement to this new development. It proved to be quite a new and successful approach to deal with these two inseparable issues.

Prior to the 1980s, the lack of economic development compounded by rapid population growth had led the city into a housing crisis. The municipal government developed some new housing in the 1980s to ease the crisis, but not until the 1990s did it find a new and successful strategy that truly and dramatically boosted its economy and improved its housing. The purpose of this paper is to document the success story of Suzhou, and to discuss some important lessons learned in the process.

Brief Background of Suzhou, China

Suzhou is an ancient Chinese city. Situated in the hub of the Yangze River Delta and built as early as 514 B.C.⁵, the city of Suzhou is famous for its history and rich cultural heritage. The tradition of city planning in Suzhou goes back at least 770 years to the Southern Song Dynasty. Figure 2 shows a city map of Suzhou made in 1229, probably the earliest city map in the world with such a scale of detail.

Figure 2: Map of Suzhou, From a Stone Engraving Dated 1229 A.D.



Source: *Suzhou, Shaping an Ancient City for the New China*⁶

⁵ http://www.eastravel.com/infor/sight/sight_sz.htm, as of June 15, 2000.

⁶ *Suzhou, Shaping an Ancient City for the New China* (Washington, D.C.: Spacemaker Press, 1998), p.9.

Historically, Suzhou enjoys the reputation of being a land of fish and rice, the home of silk, a city of gardens, and the Venice of the East. It has long been one of the two most sought after places to live in China. There is even an ancient Chinese saying comparing Suzhou to heaven.

Today the municipality of Suzhou has a population of 5.7 million and covers a metropolitan area of 8,488 square kilometers.⁷ Under the jurisdiction of the municipality of Suzhou there are six districts and six county-level cities. The central city occupies merely an area of 392 square kilometers with a population of 1.1 million.⁸ Only about 80 kilometers away from Shanghai in the east,⁹ Suzhou is easily accessible to various forms of transportation. (Fig. 3)

Figure 3
Map of Suzhou and the Surrounding Areas



Like all other Chinese cities, Suzhou has experienced dramatic social, political and economic changes during the past half century. The founding of the People's Republic of China in 1949 stabilized the economy and the society, but only for a short period of time. Gradually, however, some major policy errors ushered in a social upheaval in the mid- 1960s and 1970s.

⁷ <http://www.cs-sip.com/location.htm>, June 15, 2000.

⁸ <http://itc.sipac.gov.cn/fact.htm>, 1999

⁹ *Famous Suzhou*, CD-ROM & VCD, People's Government of Suzhou.

Toward the end of the 1970s, the country set on a course of economic and social reform that has continued on-and-off for twenty years, producing far-reaching results that have substantially improved the quality of life of over a billion people.

Since 1978, Suzhou has undergone tremendous changes. During the 1990s, it was fundamentally transformed into a modern metropolitan city. During this period, the municipal government regarded housing more as an integral part of the overall development of the city than an isolated issue. Therefore, housing development was closely tied to economic growth through the master planning of the city and a set of effective and consistent policies. Today we see this strategy has brought remarkable achievements in terms of both housing improvement and raising the overall living standards of the residents of Suzhou.

Historical Review of Three Stages of Housing Development in China

On the housing front, Suzhou, as well as all other Chinese cities, underwent a three-stage development during the past half-century. Essentially, up until 1978, housing was treated as part of social welfare in China, and the government assumed full responsibility for the provision and administration of urban housing. The low rent system, which required only minimal financial contributions by dwellers, did not provide adequate funds for ongoing maintenance, nor incentives for infrastructure improvement and development of new housing. As a result, much of the housing stock deteriorated from long time use without adequate repair. Few improvements were made during the period to provide residents with adequate and diverse housing.

In addition, the population-stimulating policy in the 1950s led to a significant increase in population. China's population now is over 1.2 billion.¹⁰ In 1950 it was merely 574.8 million. By 1970, it was 829.9 million, and in 1980 it was 987.5 million.¹¹ The rapid population growth coupled with the stagnant housing stock eventually created a housing crisis. For example, the average living area per capita in China in 1975 was only 3.6 square meters. By 1980, it had only reached 3.9 square meters.¹²

The population of Suzhou also grew rapidly from 3.5 million in 1952 to 5.06 million in 1978¹³—nearly twice the national growth rate (Fig. 4).

¹⁰ *China Statistical Yearbook*, State Statistical Bureau of the People's Republic of China, 1998, p. 105.

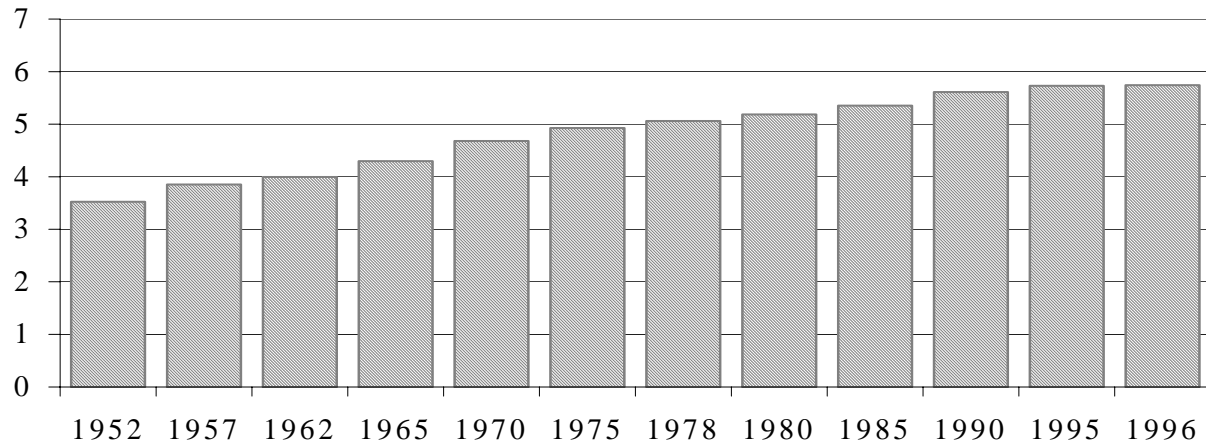
¹¹ *China Statistical Yearbook*, State Statistical Bureau of the People's Republic of China, 1995, p. 25.

¹² *Ibid.* p. 298.

¹³ *Suzhou Statistical Yearbook*, Municipal Statistical Bureau of Suzhou, 1997, pp. 20-21.

Figure 4
Population of Suzhou
(1952 - 1996)

Population
(in million)



Source: *Suzhou Statistical Yearbook*, 1997

Pressured by the population growth, courtyard houses in the old town of Suzhou were subdivided to accommodate multiple families, which further exhausted the already worn-out housing stock and the overall infrastructure of the city. With a high percentage of families living in courtyard houses and other structures where they had to share kitchen, bath, and even water with other families, the actual living conditions of most of the residents were even worse than what the meager figure of floor area or living area per capita could illustrate.

Since the beginning of the reform in the late 1970s, the central government lifted the tight control over interregional migration, which led to rapid urbanization, especially in the relatively more developed southern and eastern cities. This further aggravated the already heavy burden on the housing sector in those cities. Under pressure, many municipalities started to engineer large scale housing projects.

In Suzhou, for example, one million square meters of better designed apartments with plumbing facilities were built in the new residential district on the west side of the city moat. By 1990, the average living area per capita in Suzhou reached 7.79 square meters, and the entire

floor area per capita (including not only bedrooms but kitchen, bath, and hall way etc.) was 12.4 square meters.¹⁴ The housing crisis of the 1970s was temporarily dealt with.

However, one problem with this new development was that it was purely residential, without the creation of many job opportunities in the area. Jobs were concentrated in the old town. Also, the amenities in new residential areas were not yet comparable to that in the old town. As a result, people in the old town were reluctant to relocate to the new district. Those who did relocate became new commuters using the inadequate transportation facilities and worsening the traffic situation of the city.

The housing system was still of a welfare nature, and there was little incentive to obtain funds from outside the government to invest in housing. It soon became clear that this type of housing development was not economically feasible or environmentally efficient. A smaller neighboring city of Suzhou that was remarkably advanced in this type of housing development soon found itself running out of gas for its economic engine.

Beginning in the late 1980s, and particularly during the early and mid 1990s, large cities, especially those along the east and south coasts, witnessed a strong wave of real estate development driven by speculative developers, mainly from outside mainland China, who aimed at high-end markets. Typical housing projects were fancy apartment buildings and seasonal homes for foreign expatriates and the *nouveau riche*. These projects were often undertaken as joint ventures with local or other government agencies contributing land at very low or even no cost obtained through public domain.

Such a rush in real estate development was influenced by the Hong Kong and Tokyo experience, which relied on commercial real estate and luxury housing construction. Due to geographic reasons, this development strategy became fashionable in some Chinese areas. However, the high real estate value was maintained in Hong Kong and Tokyo due to limited supply of land. This was not true for mainland China.

¹⁴ *Suzhou Statistical Yearbook*, Municipal Statistical Bureau of Suzhou, 1996, p. 358

Without cautious investigation of market demand and credible feasibility studies of projects, the new wave of real estate development swept many major Chinese cities and coastal areas. With many agencies in public sectors ready and eager to supply accessible land and sometimes even help to secure financing from Chinese banking institutions, the market was soon flooded with supply. Quite a few projects were suspended and many buildings are vacant today. Fortunately, Suzhou did not suffer from such failed projects seriously because the policy makers here took quite a different path.

The Four Dilemmas Facing Suzhou in 1990

What Suzhou did at the beginning of the 1990s was quite different from many other cities. It all started with an accurate assessment by policy makers of the difficult situation the city was facing as it entered the '90s. Despite the tempting lucrative deals, the municipal leaders believed that the driving force for healthy real estate development comes from a growing domestic market. They were confident that this would result from sustainable economic development with an ever growing industrial base accompanied by a service sector. Yet in Suzhou the overall economic growth was seriously challenged on many fronts.

Figure 5

Four Dilemmas Facing Suzhou in the 1990s

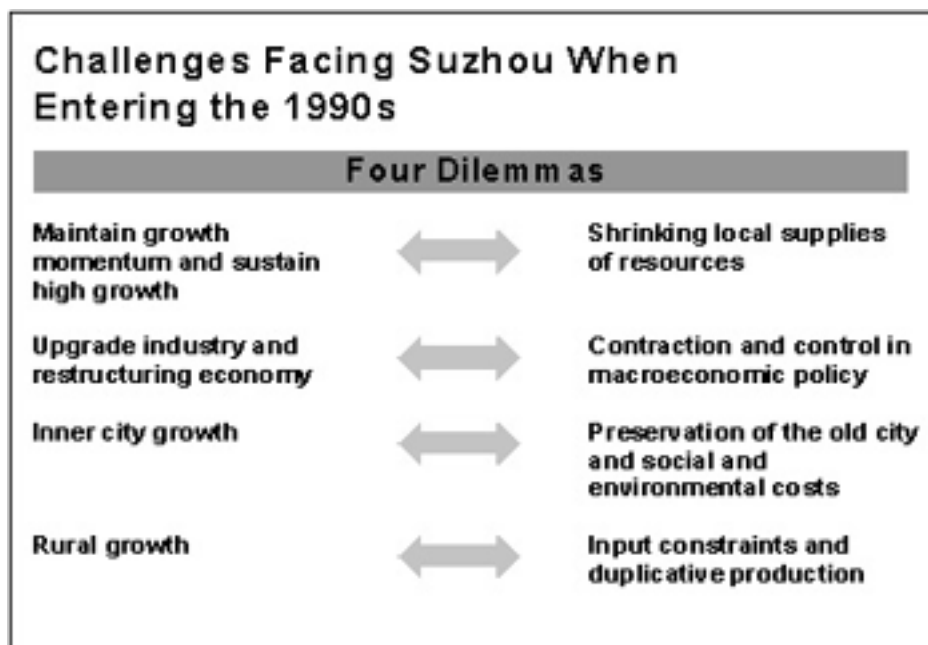


Figure 5 illustrates the four major dilemmas. The first was the demand for growth versus shrinking resources. At the time about 93 percent of the city's taxation was turned over to higher levels of the government, which left insufficient revenue for housing construction and city development. Furthermore, the tax system was such that if a manufacturer was relocated to the surrounding rural area from the crowded old town, the city lost it as a source of tax revenue. Therefore, although it might make sense in city planning to relocate manufacturers in order to lower the density in the old town and improve the environment, it was problematic and infeasible.

The second challenge was the need to upgrade industry versus contraction and control in macroeconomic policy. Because of what had happened in mid-1989 the central government set social stability, and not economic development, as its first priority. Yet, the city was traditionally involved with sunset industries such as silk and textile industry that had to be upgraded and restructured immediately.

The third challenge was inner city growth versus old town preservation and environmental protection. Suzhou is a historical city of over 2500 years. The site of the old city has never been moved and still continues to be used for residential and retail purposes. This is unique in China and rare in the world. The nodes and transportation net are essentially intact. It has a canal system that is comparable to that of Venice and St. Antonio. In the old town there were over two hundred traditional houses dating back to the Ming and Qing dynasties. Suzhou offered a number of world famous tourist attractions that had been private gardens for hundreds of years, over a hundred historical monuments, and several sites preliminarily approved by UNESCO as registered "world historical sites." The central government highly values the significance of the cultural heritage in Suzhou and requires preservation of the old town.

However, having suffered the vicissitudes of history, including the wars in the last and first half of this century, the old town was really a wounded city in great need of improvement and renovation. Piped infrastructure, such as sewage and fresh water, were urgently needed. The cost of installment was extremely high. About 40 percent of the existing housing stock accommodating more than 40 percent of the city's residents was built before 1949, with inadequate plumbing, sometimes even without a toilet or a water tap. Some of the houses

dated back to the late 19th and early 20th centuries, and required urgent upgrading to adapt to modern lifestyles.

What made the situation even worse was that the total floor area of endangered housing in the old town had accrued to 500,000 square meters by the early '90s, and kept on increasing at a rate of twenty percent per year. To meet the demand for modernization of the old town while preserving the cultural heritage posed quite a formidable challenge.

The final challenge was the input constraints on rural growth. During the 1980s, most of the growth came from excess labor released from farming. This either entered the city or was absorbed locally by small startup town and village enterprises (TVE). In the early 1990s it gradually became clear that the growth through duplicative production had its limitations and could not continue forever. The city had already absorbed one million excess labor from rural areas. How many more could the city take and how many more would be yielded from the countryside?

Besides, the past growth had focused on labor intensive industries without local differentiation or specialization. The growth of supply would drive the price down and profit would be very marginal. This growth driven by TVE certainly had its limitations and could hardly be sustainable.

Finally, although China has an area of 9,600,000 square kilometers for 1.2 billion people, one fifth of the world population, it only has one seventh of the world's arable land.¹ Maintaining agricultural production and pursuing environmental conservation are of special importance to national interest as well as economic development. There were legitimate concerns about housing development because it took up a lot of farmland. That doesn't mean housing construction should have been slowed down, but it does demonstrate how complex the issue of housing is and how intimately it is related to overall economic development.

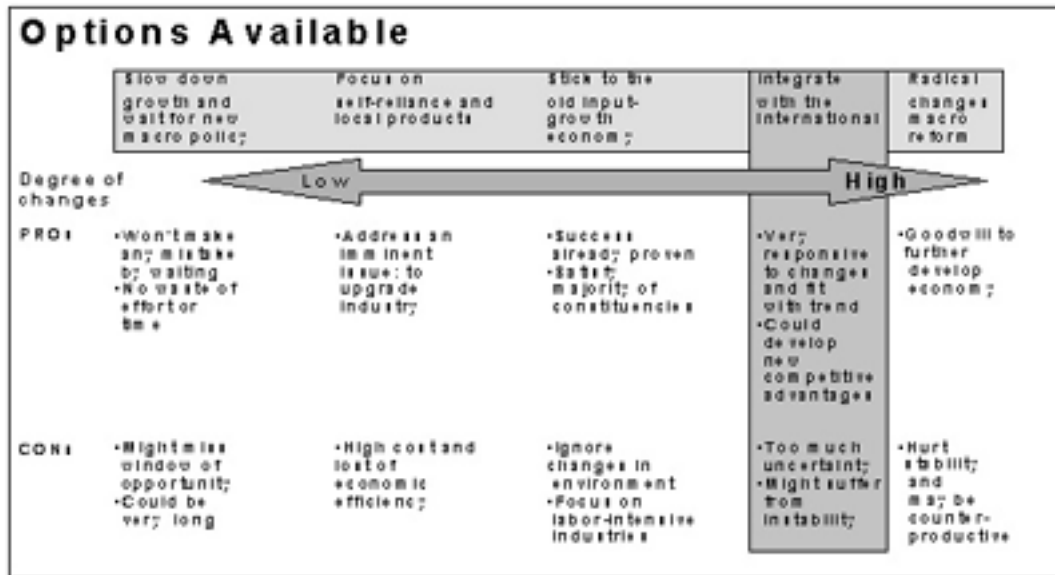
Five Strategy Options for Municipal Leaders at Suzhou

In order to deal with the above problems, the city had a spectrum of economic development strategies, with pros and cons for each alternative described in Figure 6. The

¹ He Qianliang, *Pitfalls of Modernization* (Beijing: Today's China Press, 1998), p. 246.

distinctions weren't so clear to policy makers in the municipality at that time as they are today in this analysis.

Figure 6
Options and Pros and Cons



The first option was to do nothing. In late 1989 the central government's first priority was to achieve social stability. Past experiences suggested that a new favorable macro policy towards economic development would eventually come into existence and therefore advocated doing nothing but waiting. This would have slowed down growth, but policy makers in the municipal government were proactive enough to reject such a passive strategy. Although there was some political wisdom in doing nothing but waiting, the policy makers were afraid of missing new opportunities for development. Sometimes missed opportunities could be lost forever or result in an even longer wait.

The second option also had to do with the political and international environment at the time. Under the existing circumstances, it seemed that China had to rely more on itself for economic development. It was believed that China had to produce whatever it could and reduce reliance on imports. To some extent, this could force China to upgrade its industry. The cost of this could also be very high, because it could result in a loss of economic efficiency.

Upgrading and restructuring industry was a big challenge at the local level. The long-term need to upgrade and restructure the city's industry had never been more apparent or urgent. Considering the high economic costs and lack of local enthusiasm, the municipal leaders did not select this option.

From the other end of the spectrum, the fifth strategy of radical changes in macro reform was so radical and politically infeasible that few felt it was the right time to actually select such an option. Although with faith and goodwill it may have helped further develop the economy, it could also be counter-productive and hurt stability. Therefore, the real debate was mainly focused on the choice between the third and fourth options.

Under the circumstances, the easy pick would be the third strategy of sticking to the old input-growth model, which was probably what some other cities in China had chosen. Since the success of this option had already been proven, most leaders would select this safe option to continue what had been done so well. It would also be easier to satisfy the majority of political constituencies. One apparent pitfall embedded in this strategy was its focus on the labor-intensive industries which ignored future costly ill-effects on the environment. Of course, there is always a problem with the status quo because future change is inevitable.

Luckily, policy makers at Suzhou had some insights about the future. They somehow saw the signs of the globalization of the world economy and the starting of the information era. They wanted to grasp this opportunity for the city. Despite the uncertainty they might face, they decided to take the path of integrating with the international economy. This strategy fit well with the trend. They believed it was very responsive to changes and could help develop new competitive advantages.

Looking back, it was a bold move, and good timing strategy. If they hadn't selected it then, they would have not been able to do it at a later time. The results were startling and comforting. By 1998, sixty-one of the Fortune 500 companies had registered in Suzhou.² These included big multinational corporations such as Hitachi, Samsung, Nokia, L'Oreal, Emerson, Baxter, Black & Decker, AMD and Dupont.³ The city not only achieved its goal of economic development, but also that of restructuring towards a technology-intensive economy.

² *Famous Suzhou*, CD-ROM & VCD, People's Government of Suzhou

³ <http://www.cssd.com.sg/economy.htm>, June 15, 2000.

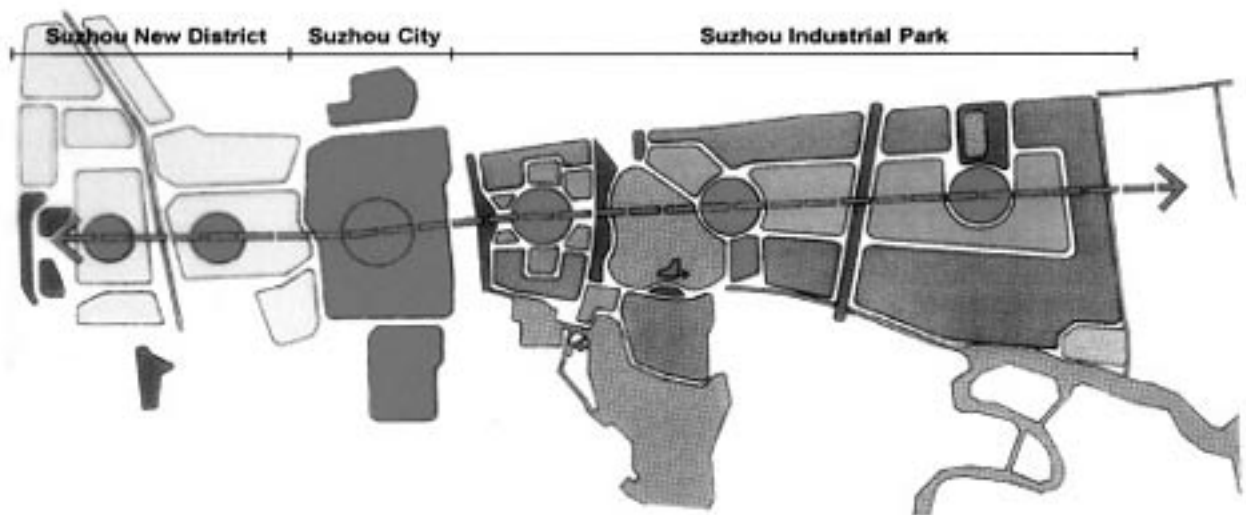
A Visionary Master Plan of City Planning

Along with the winning economic strategy, the city paid much attention to its city planning. The basic concept in the master plan is literally described as “one body, two wings.” The *body* refers to the old town and *two wings* are two new satellite towns to the east and the west of the old town.

One of the two new towns is Suzhou New District (SND), a district developed solely by the municipal government beginning in October 1990. The second is Suzhou Industrial Park, which was formed and jointly developed in 1994 by a Chinese Consortium and a Singapore Consortium which included American, Japanese, Korean and European corporations. This time the city really seized the opportunity of a new development wave in China that the central government had recently initiated.

According to the master plan of Suzhou for 1996 to 2010, the two new communities would relieve pressures for modernization and expansion on the traditional city and reduce the density in the old town. They would rapidly improve existing infrastructure and supply modern infrastructure, as well as provide more rational land use for industries, which are the centerpieces of Suzhou’s strong economic base. The three parts, “one body, two wings,” are linked with a revitalized infrastructure of roads, drainage, power and sewer improvements. Figure 7 presents the basic idea of this master plan.

Figure 7: Master Plan of Suzhou, 1996-2000



Source: Urban Reconstruction Authority (URA), Singapore and Suzhou Planning Bureau

The development of Suzhou New District is now well underway. The first phase of development covers 25 square kilometers and the planned total development area amounts to 52 square kilometers.⁴ Up to now, more than 300 enterprises have entered the district with a total investment of \$3.8 billion. Currently, 180 enterprises are already in business.⁵ The New District was set up on inexpensive land. Although most of the land use is industrial, the portions adjacent to the periphery of the old town are mostly commercial and residential. One of the targets of this plan was to move one third of the old town residents to the new district providing them with better living conditions and work opportunities.

The second new district was formally set up by the Chinese and Singapore governments in 1994. It is a 70 square kilometer integrated industrial township of international standards to the east of Suzhou city. It has its own commercial, residential, social and recreational facilities to complement industrial development. The vision is to build a modern Chinese township based on the development experience of Singapore. When fully developed in 20 years, it will accommodate a population of 600,000 and provide 360,000 jobs. As of October 1998, it has set a remarkable track record of an average investment commitment of \$2.2 million per day and an average investment per project of over \$30 million. Over 20 percent of the investors are Fortune 500 companies.⁶

With the two new districts as two wings, the old body of the city had many more opportunities to survive and become transformed. The philosophy behind such a visionary master plan could be best described by the following analogy. Suppose you have an old structure supported by an outdated center pillar that needs to be renovated. Since the pillar at the center still carries most of the weight of the roof, you have to build other pillars to support the roof before you can remodel the original pillar. The two new districts at Suzhou were meant to be these new pillars that would help renovate the old town.

High level expertise in urban design from abroad was employed in the latter stage of the planning process. In 1994 the Mayor of Suzhou went to New York to seek advice from I. M. Pei, world renowned architect and planner whose home town was Suzhou. Mr. Pei sent

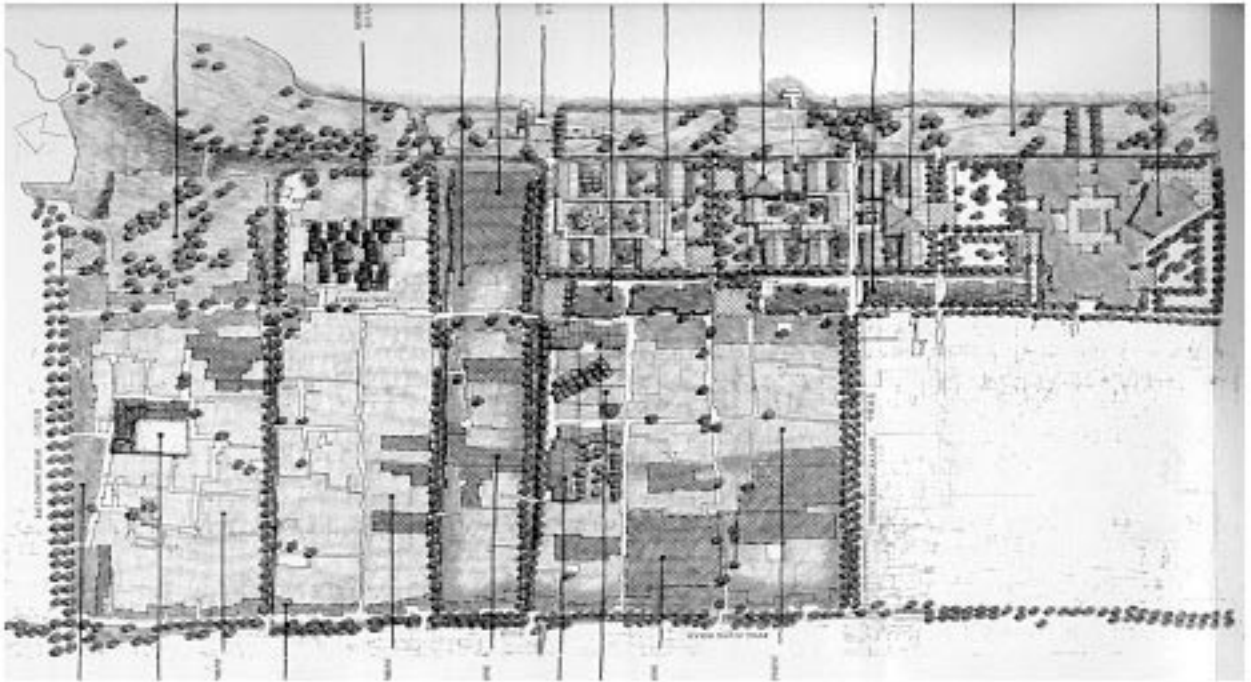
⁴ <http://www.cs-snd.com.cn/eng/summary.htm#land>, 1999

⁵ <http://www.sz.js.cn/zhuye.htm>, 1999

⁶ <http://www.cssd.com.sg/devel.htm>, June 15, 2000

his son and an experienced international planning firm, EDAW, to Suzhou. They ran an EDAW/Pei Workshop in Suzhou that resulted in many fine and sophisticated planning maps advocating not only preserving but revitalizing the old town (Fig. 8).

Figure 8
A Drawing Plan for Suzhou's Future



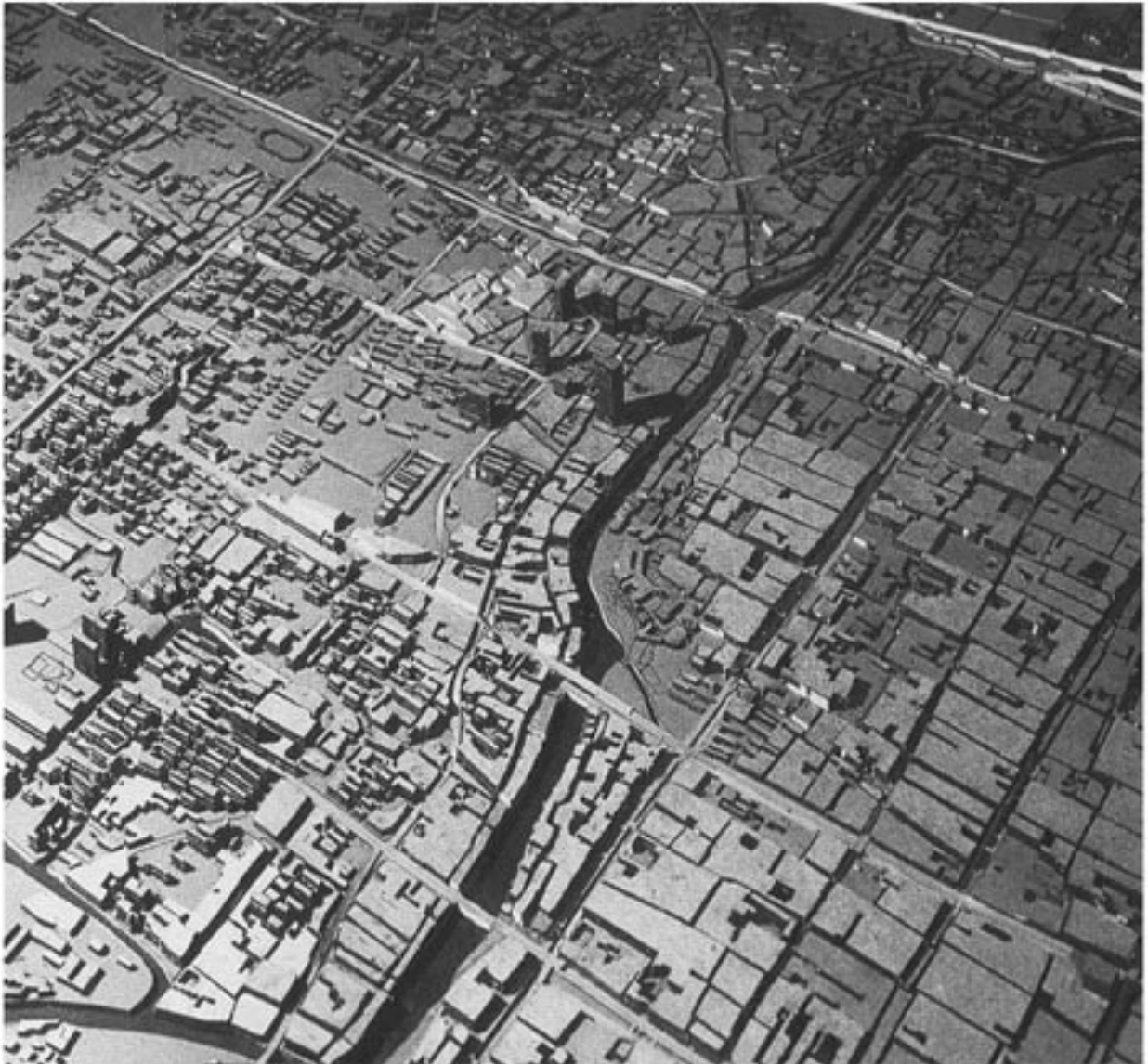
Source: *Suzhou, Shaping an Ancient City for the New China*⁷

Also, Peter Rowe, Dean of Harvard University Graduate School of Design, brought in students from his class for a design workshop, and had them complete their fieldwork in Suzhou. The result of their work is a book filled with practical suggestions to improve Suzhou's urban design (Fig. 9). The municipality of Suzhou greatly benefited from such academic work from a well-established institution

⁷ *Suzhou, Shaping an Ancient City for the New China* (Washington, D.C.: Spacemaker Press, 1998).

Figure 9

A Student Plan From Peter Rowe's Workshop



Source: *Redevelopment in Suzhou, China*⁸

⁸ Peter G Rowe and Hashim Sarkis, *Redevelopment in Suzhou, China*, copyright by GSD, Harvard University; printed by Bolger Publications/Creative Printing, 1997.

Implementing the Development Strategy and Master Plan

In the implementation of the development strategy, along with a visionary master plan of city planning, important steps were taken and creative ideas were applied. In the old town, most of the attention was paid to revitalization of historic areas and rational land use. Gardens, old houses and monuments in Suzhou are extraordinary achievements and have been conserved with great attention. However, preservation itself can't guarantee the vitality of these treasures. Also, museum or tourism functions alone could not generate enough revenues for maintenance.

Creative ideas were to exploit the socioeconomic potential of these old buildings to accommodate modern functions. As one of these ideas, street-level retail was encouraged to support new residential construction in the old town. New usage of old homes as teahouses and clubs revitalized old city blocks, and generated more revenues for the city.

In principle, the municipal government set up four objectives for historic preservation in the old town. These were: repair, maintenance, renovation, and modernization. In practice, it applied different preservation policies to houses depending on their conditions. It was described as a "point-line-area" policy which means to differentiate the objects of historic preservation into individual houses, houses along streets, and entire city blocks. By prioritizing in this manner, the municipal government could utilize the limited revenues to their greatest and most efficient extent, and achieve the highest possible improvement in housing and other construction in the old town.

In developing new districts, the first priority was given to location. The selection of the two areas was well planned after consultation with experts. The municipal leaders understood the importance of city planning and respected it. They had a vision of economic growth led by manufacturing industry and accompanied by a service sector. They also knew they had to have the transportation infrastructure in place in order to attract that kind of growth.

In addition, a policy relating to localization of job creation was also important. By encouraging more job creation for local residents and local housing at each job creation center, the pressure for cross city commuting was relieved. Another important policy was to give financial incentives to local administrations of the new districts. This offered incredible

motivation for local development. According to an ancient school of Chinese thought, in order to take, one must first give.

Finally, the leaders at Suzhou made some administrative changes by restructuring the bureaucracy. By putting new district authorities directly under the municipal leadership and objecting to any intervention from various agencies or departments of the municipal government, the municipality allowed the new district authorities a greater degree of autonomy. With all these steps and policies in place, the selected development strategy was successfully implemented within the framework of a visionary master plan. From the practitioners' perspective, these steps and policies were as important as the strategy and master plan.

Ongoing Development Towards Privatizing Housing

After rapid economic growth during the 1990s, housing once again became a vital issue in overall development towards the end of the decade. Recently, a new wave of housing reform has begun in Suzhou. The centerpiece is to promote the privatization of housing, officially called "commercialization of housing." The city tries to differentiate the housing policy in the old town from that of the new districts. The goal is to provide each resident with a dwelling she or he likes.

In the new districts, a central provident fund is set up, with the expectation to increase residents' incentive and capability for private housing. The central provident fund is a form of compulsory individual saving matched by employer and government contributions. It is crucial, not just for housing but also for social security provision, because households are able to use this fund to finance substantial maintenance and improvement of properties and individuals can also withdraw their contribution to this fund on retirement.

In the old town, however, with more elderly and low-income families, it is difficult to promote such a compulsory-savings fund that not only covers expenses on housing but also on pensions. This is because the low-income people can't afford such a heavy savings rate and the retirees don't have employers to contribute and the government can't bear the burden. Therefore, a simple housing fund without a pension element is implemented to promote housing privatization. The need to implement two tiers of housing policy further demonstrates

how much housing development and reform is an integral part of a wider range of social and economic policies and never an isolated issue.

In addition, special efforts are being made to build some affordable housing for lower income salary-earners to own. The house prices are reduced mainly because these houses are built on inexpensive land located further away from the city center. Some onsite facilities such as grocery stores are built to ease the inconvenience. The official term for this kind of housing could be translated as “peaceful living project.” The purpose of this form of housing is to help achieve social stability and justice.

Housing Benefits of Rapid Economic Development

While the housing reform and the overall economic development in Suzhou are healthy and continuing, one can see already how the municipality has successfully implemented a strategy that ties housing to overall economic development. We also see how that strategy has worked and achieved sustainable housing and economic development in the 1990s. Some of these achievements are very impressive.

Between 1990 and 1996, the GDP of Suzhou jumped from 20.2 billion (RMB) to \$100.2 billion (RMB),⁹ ranked fifth in all Chinese cities after Shanghai, Beijing, Guangzhou, and Tianjin. This was clearly driven by foreign investment which jumped from \$86 million to \$2.4 billion between 1992 and 1997.¹⁰ A more accurate account is perhaps foreign direct investment (FDI) that has already been paid up instead of investment money only committed on paper. Some promised investment money was never transacted. By 1990, the accumulated FDI was only \$3.5 million, and by 1997 it grew to \$10.6 billion.^{11, 12}

In a growing economy such as this, a new construction boom was almost inevitable. New residential construction was merely one million square meters in 1990. In 1994, 1995 and 1996, that figure rose to nearly three million in each of these years.¹³ As a result, by 1996, 60% households lived in flats complete with kitchens and bathrooms, compared to only 46%

⁹ *Suzhou Statistical Yearbook*, Municipal Statistical Bureau of Suzhou, 1997, p. 21 (One US dollar equals to about 8.3 dollars in RMB.)

¹⁰ *Famous Suzhou*, CD-ROM & VCD, People’s Government of Suzhou

¹¹ Municipal Bureau of Statistics, Suzhou.

¹² Readers are advised to bear in mind that the numbers are in current, not constant, Chinese dollars, and that the price index of 1996 was 237.5% that of 1990.

¹³ *Suzhou Statistic Yearbook*, 1996, p. 210; *Suzhou Statistic Yearbook*, 1997, p. 303.

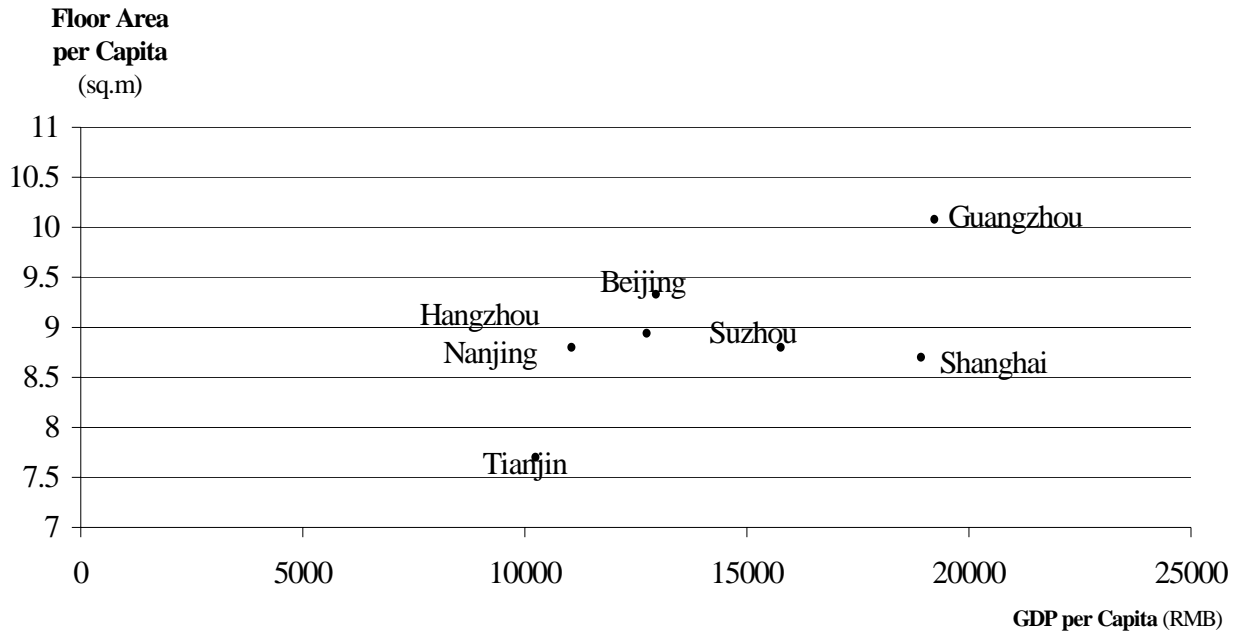
in 1990.¹⁴ By 1997, the average housing area per capita of the urban population in Suzhou reached 13.9 square meters and most of the rural families had moved into multi-story houses.¹⁵

These housing benefits were achieved in conjunction with a strong and growing economy. Yet, a strong economy alone does not guarantee housing benefits. Suzhou's achievements were made because of its policy choices. Figure 10 shows how a few major Chinese cities fared on both economic development and residential housing conditions. Five of them were the largest cities in terms of GDP. Hangzhou and Nanjing were added to the group for they both are in the neighboring area of Suzhou and have comparable populations and central cities. We can see that, although Suzhou ranked fifth in GDP, it fared far better (third) in terms of GDP per capita. On the other hand, it also maintains a healthy balance between economic power/productivity and residential housing conditions. Because each city's position on this chart reflects both historical heritage and more recent policy choices, there is not much to criticize. Suzhou should be glad and even proud of its current standing. (Fig. 10)

¹⁴ Municipal Bureau of Statistics, Suzhou.

¹⁵ <http://www.sz.js.cn/www2/tzhj/jcss/shenghuo.htm>, 1999

Figure 10
Economic Development and Housing Conditions in Some Major Chinese Cities



Source: China Statistical Yearbook.

Concluding Comments

The Suzhou experience effectively demonstrates the benefits of linking housing policy and economic development. Although in many ways the Suzhou case is unique and may not be reproducible, it can serve as an example for future development. The opportunity to attract such a large amount of FDI and international attention was rather unique. Not everyone could have foreseen and seized such an opportunity. Indeed, such an opportunity might have been easily missed or misused.

There are important lessons to be learned from the Suzhou experience. First, the municipality of Suzhou made an accurate assessment of the city’s situation in the early 1990s and selected a winning economic development strategy. Second, the municipal leaders succeeded in persuading their political constituents and swiftly reached a consensus to take a path that proved to be successful. Third, the city had enough respect for city planning to use visionary planning to attract FDI rather than allow the inflow of capital to destroy what remains and should be preserved in an ancient city of over two thousand years.

Finally, the municipal government recognized the importance of housing and linking it with economic development. It didn't wait to let the economy take off on its own which could have eventually created a housing affordability crisis. Instead, the city ensured that the majority of its residents achieved rapid housing improvement along with economic development. This alone should be deemed a good lesson for the rest of China and other developing countries. It could also benefit developing cities and underdeveloped areas such as empowerment zones in developed countries.

Making housing and economic development complement rather than conflict with each other remains a universal challenge. The Suzhou experience reveals an admirable effort to address this challenge.

Author Biographies

Zhu Xiao Di, MCP, MA, is a research analyst at the Joint Center for Housing Studies, Harvard University, and is author of *Thirty Years in a Red House, A Memoir of Childhood and Youth in Communist China*, a *Choice* Outstanding Academic Book in 1998.

Huang Lei received a Ddes (Doctor of Design) at the Harvard Design School.

Zhang Xinsheng, a former mayor of Suzhou, China, is a visiting research fellow at the Harvard Business School.