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## Chinese property

## Stop speculating, start living

SHENZHEN

The government is trying new ways of skimming housing-market froth

PAN JINGYUAN has little time for traditional family values. The 26-year-old says she has no intention of ever getting married and loves living far from her parents. But Ms Pan is traditional in one way—she sees a home as the best investment for her savings. She plans to buy a small flat in the southern city of Shenzhen, where she works at the headquarters of a restaurant chain. “There is no way the government would ever let prices really fall,” she says.

Such confidence has long been rewarded. Property prices in cities have roughly quadrupled this century, a rate of growth far exceeding that of the American housing bubble of the early 2000s, albeit from a lower base. This has led to a series of concerns: that homes are increasingly unaffordable, that the economy is too reliant on property and that housing prices, having gone up and up, might someday crash.

The government has, until now, tried to reduce the risk by periodically applying brakes on the market. Whenever real estate overheats, the authorities restrict funding to developers and make it difficult for people to buy new homes—for example, by increasing mandatory down-payments. When prices stabilise, they relax the controls. But such measures create volatility. Every three years or so, prices surge again.

So officials have started talking about a “long-term mechanism” to calm the housing market. Several times during the past year China’s leader, Xi Jinping, has said that “homes are for living in, not for speculating on.” The government appears to be

adopting three main approaches. Together these could reshape the architecture of China’s housing market.

The most promising is a push to develop a market for good-quality rental housing. Only about a fifth of urbanites rent homes in China, compared with a third in the rich world. In some countries, such as France and Germany, the proportion of renters is much higher still. China’s rental housing is often shabby because it is aimed at low-income households. Rosealea Yao of Gavekal Dragonomics, a research firm, estimates that only around half of rental units in Beijing, the capital, and Shanghai have their own kitchens and bathrooms.

## No dogs or migrants

A big reason for the slow development of the rental market is that there is not much profit in it. Cities tend to give more benefits to homeowners, such as the right to send children to local schools, so families far prefer to buy homes. It is mainly migrants from the countryside who rent, choosing dingy digs shunned by urbanites. Annual rents are about 1% of house prices, a low yield by global standards. Instead of taking a chance with messy tenants, many investors keep their properties empty, waiting for their values to rise.

One of the government’s new approaches is to offer incentives to developers to build decent rental properties. It is doing this by selling land for rental projects at steep discounts, in effect guaranteeing hefty yields for developers. In some big cit-

ies, plans call for these discounted plots to account for about a quarter of future land supply. The government has promised to give renters the same rights as homeowners, though some doubt that it will actually do this. Many urbanites would resent additional competition for school places.

Shenzhen, which borders on Hong Kong, is among the first cities in China to sell large-scale plots for rental housing. The boomtown hopes that good-quality rental homes will attract the skilled workers it needs for high-tech industries. On the city’s edge, Vanke, China’s biggest developer, recently took over an apartment complex and began converting each unit into four or five tiny flats with living space little bigger than a bed. (One of Vanke’s rental projects in Guangzhou, another southern city, is pictured.) The flats may be cramped, but they are clearly superior to other, mostly squalid, rental flats in Shenzhen. For officials, what matters is that Vanke has nearly quintupled the number of apartments available for rent in the complex.

A second approach will be the introduction of a property tax. Officials have talked for years about raising an annual levy on homeowners based on the value of their housing, as is commonly done in other countries. A possible benefit would be to nudge speculators to sell or at least rent out homes that they would otherwise leave unoccupied. At the same time it would give local governments a new revenue source, reducing their unhealthy dependence on land sales.

Yet apart from two small trials of such a tax in Shanghai and the south-western city of Chongqing, the government has dragged its feet. It has worried that a full property tax, implemented suddenly, ►►

**Correction:** Last week, in “Three men and a vote”, we said Hong Kong’s “Supreme Court” had jailed three activists in 2017. In fact it was the High Court. Hong Kong does not have a body called the Supreme Court. The highest judicial organ is the Court of Final Appeal.

▶ would depress sales, says Eva Lee of UBS, a bank. But with the economy now in good shape, there seems to be less inhibition. The boss of a large developer predicts that a tax will be announced later this year. Still, required legislation could take up to two years to implement.

The third approach to the house-price problem involves striking a better balance between supply and demand. One way of doing this is sensible: expanding the availability of land where demand for housing is strongest. Because China wants to preserve land for farming, cities face strict limits on rezoning agricultural plots. But since last year, the government has let cities swap their land-use quotas—a potential boon to the fastest-growing urban areas.

The other way is more destructive. By imposing population limits on China's largest cities, officials hope to combat what they call "big-city disease": congestion, pollution and excessive pressure on urban resources (including, by implication, housing). Beijing aims to keep its population to 23m by 2020, while Shanghai wants no more than 25m people by 2035. Both are incremental increases over their current sizes and far below where, left unchecked, they would wind up. Population caps may help to calm the property market, but only by stunting the growth of the most productive cities. That would be a heavy economic price to pay for a stable housing market.

There are plenty of moving parts, too. Capital controls have trapped cash inside China, making property all the more alluring for investors. Rising incomes and changing lifestyles add to upward pressure on prices. Families want bigger apartments; more unmarried people also want their own homes. Mr Xi might succeed in skimming some froth from a bubbly market. But speculators are a hardy bunch. China has surely not seen the last of them. ■

#### Military technology

## No longer just catch-up

**China will soon deploy aircraft and missiles that rival the West's best**

THERE is no question which country gets the starring role in "The Military Balance", the latest annual review of the world's armed forces by the International Institute for Strategic Studies (IIS), a London-based think-tank. Amid renewed jostling between the world's great powers, it is the pace of military modernisation in China that stands out.

China's president, Xi Jinping, wants to be able to challenge America's military

might in the western Pacific. He is making big progress. China's once bloated armed forces are becoming leaner and a lot more capable. They are also benefiting from a defence budget that is growing at a steady 6-7% a year, in line with GDP. The IIS declares that China has become an innovator in military technology and is "not merely 'catching up' with the West".

For some of the most advanced science, Mr Xi is tapping the private sector. Non-state firms are helping the armed forces to develop quantum technologies that will boost their ability to make use of artificial intelligence and big data, as well as to develop unhackable communications networks. A potential advantage that China has over the West is that its tech firms have little choice about working on military projects. The Pentagon has to woo sceptical Silicon Valley companies. Firms in China do what the government tells them to do.

Such exotic technologies will take time to be deployed on the battlefield. But China's focus on them may cause the West's already eroding military edge to disappear entirely. "The Military Balance" offers a striking example of the progress China has made: in two years' time, if not before, America is likely to lose its monopoly of radar-beating stealth combat aircraft with the introduction into service of China's Chengdu J-20. This has a much longer range than America's new F-35 fighter and will be a serious threat to American warships in the Pacific.

At least as worrying for American commanders in the region is the dramatic upgrading of China's inventory of air-to-air missiles (AAMs). The short-range PL-10, which was introduced in 2015, is regarded by military analysts as comparable in performance to Western equivalents, such as the Sidewinder II. This year, the PL-15, a radar-guided "beyond visual range" missile (BVRAAM), should enter service. Carried by a J-20, the PL-15 can destroy an aircraft 50km away that is trying to evade it. "The Military Balance" believes that a version of the missile is in the works that will have a cruise speed of Mach 3. It is similar in design to the European Meteor, the best BVRAAM in the West's inventory, which is only just entering service.

Another system, yet to be named, would provide China with an ability to knock out targets as far away as 400km, a far greater range than any other air-to-air weapon in service. It would threaten aircraft that currently operate safely from a considerable distance, such as tankers and planes used for airborne surveillance and control. China's message to its adversaries with these new missiles is clear. As "The Military Balance" puts it, air superiority "will have to be won—and likely only temporarily—with the commitment of a level of 'blood and treasure' not required since the end of the cold war." ■



#### Xi Jinping is no longer any old leader

Except for "Debrett's Peerage", no institution pays as much attention to titles as China's Communist Party. It has already conferred a lot of them on its leader, Xi Jinping. Recently it has topped them off with a description hitherto mainly applied to Mao: *lingxiu*. It means leader, but conveys far more reverence than the usual word, *lingdao*. Last month two of the country's most authoritative newspapers described Mr Xi as *lingxiu*. Now comes the video. On February 9th state media released a five-minute film called "The People's *Lingxiu*" on WeChat, a social-media platform. It shows a portly Mr Xi greeting admirers (some are pictured), eating dumplings and inspecting a toilet. In 2016 Mr Xi was officially anointed as the "core" of the leadership, a moniker never conferred upon his predecessor, Hu Jintao. This was partly intended as a warning to recalcitrant officials that Mr Xi must be obeyed. If the party chief feels the need for further title inflation, perhaps the lower-downs are still not getting the message.