The State’s Role in Popular Housing Programmes in Shanghai: From Provider to Enabler to Facilitator?

Urmi Sengupta*  
Shivguru Ganesan**

* Postgraduate researcher  
University of Newcastle Upon Tyne - UK  
** Professor  
University of Hong Kong - China

Keywords: Housing Strategies, Enabler and provider approaches, Role of the state, Shanghai

Abstract

This paper deals with the shifting emphasis in housing policies of developing countries since the 1970s and subsequent changes in the role of the state to address complicated issues of housing choice, numbers, affordability and finance in the context of increasingly liberalized economic environment. It is argued that the debate on whether the government should act as an ‘enabler’ or ‘provider’ is not of much significance given the enormous need to scale up and diversify housing production in developing countries. Successful housing programmes in Shanghai reflect a unique collaboration of enabler and provider roles of the state generating a ‘hybrid strategy’ involving active but different roles for the public and private sectors. The lesson to be learned is that the enabler and provider oriented policies may signify two separate ways of housing provision but are intrinsically linked and mutually reinforcing. Since the outcome of the new strategy remains uncertain, countries will need to continue to exploit new opportunities and multiple possibilities.

Introduction

The last few decades are marked with strategic shifts in the public sector urban housing policies in developing countries. The earlier approach of housing delivery where government is the producer and provider of urban housing in the form of public housing; sites and services and; in-situ slum upgrading projects mainly targeting to enhance the living condition of the poor, has its own value in revealing the problems of low income housing. However, those strategies were deemed ineffective due to the level of subsidy involved using the limited state funds, inadequate supplies in the face of burgeoning population. The enabling approach adopted since the 1980s as a substitute for prevalent provider approach has also been criticized for not creating a well functioning market-led housing delivery system as originally intended. The enabling oriented approaches have failed to meet the housing need of some 50% of the urban population who are unable to obtain land tenure through the formal or informal market, and cannot therefore begin the process of progressively improving their housing conditions, either through self-help or mutual help (Choguill, 1994; Jones and Ward, 1994).

The answer to the popular question whether the state should be a provider or enabler has been elusive. This debate however stems largely from the less than expected outcomes of these different approaches adopted over the last two decades. Housing policies in developing countries have generally been seen failing to generate a sustainable housing production, distribution and acquiring processes to meet the demand for housing, particularly for the urban poor and the underprivileged. This paper examines motivations for recent changes in housing policies and subsequent roles of the state. The paper aims at:

A retrospective evaluation of ‘Enabler’ and ‘Provider’ approaches to understand the underlying forces instrumental in the shift in approach in housing policies in developing countries.

An appraisal of Shanghai’s housing strategy to demonstrate how by adopting combination of policies, involving varying measures, resources from both public and private sectors, it has struck a balance in housing the urban population and at the same time emerged as the pioneer real estate industry in the Far East.

Recent Changes in Urban Sector Public Housing Policies: A Retrospective Evaluation

Public housing policies have gone through a gradual evolution process since its inception after World War II. Regardless of the merits of different strategies, new rhetoric and definition are given to different strategies with the changing political realities. But throughout the past decades the core ideology of ‘shelter for all’ has remained the same.
Past prophecies that enabler approach would give higher wages to low income groups, increase productivity and investments, accelerating total speed of development and eliminating particularly incompetent or thieves government agents such that the enhanced capacity of the poor would enable them to compete in the market in acquiring adequate housing, have not been realized. When the performance of housing market is evaluated in terms of numbers, their nature and the extent of diversification as per the differential housing needs, it does not look very optimistic, especially when assessed in terms of housing to lower half of the urban population. Existing literatures have raved broadly about two areas of constraints affecting outcomes of enabling approach. One, those related to the ability of the state responsible for creating a favourable institutional framework for housing markets to balance the profit-driven pursuits of the market forces (Burgess et. al, 1997; Islam, 2001; Jones and Ward, 1995) and the other, those corresponding to the ability of the user to make use of new finance arrangements (Datta and Jones, 1999). The degree at which land and housing markets is deregulated has caused increase in land prices both from inflationary effect as well as land speculation (Strassman, 1996; Keivani and Werna, 2001; Islam, 2001) beside generating a mortgage finance system that disqualifies even the relatively better income families (Datta and Jones, 1999, p.5). Another implication of government (de)regulated free market in diversifying housing provision, has been the mismatch in the units supplied and the type of units required, leading to higher vacancy rates of luxury apartments (Lai, 1998).

Enabler approach in housing cannot be assessed without putting it in the context. As such opportunity that enabler approach offered were significant, particularly to the governments in developing countries that lacked resources, were heavily indebted and suffered from large subsidy and financial outlay constraints (Datta and Jones, 1999). With the debt crisis in 1982 came a recognition of improving domestic resource mobilization capabilities: a new strategy in housing finance as a part of new economic liberalism and market dynamism and efficiency of various sectors of national economy thereby basing this on World Bank's principle of raising income to help acquire housing (Pugh, 1997). The main emphasis was on the housing finance sector so that investments are efficient, effective (both in terms of cost and target group) and have a high rate of return, in line with broader financial sector objectives in sharp contrast to the incremental ‘project-based’ type of approach. The new shift in onus of the government from directly constructing shelter to reforming the legislative and regulatory framework, and providing institutional support emphasized on creating a positive ambiance for tapping the private sector resources.

The earlier provider approach of housing delivery was criticized in the legal and economic sphere due to the level of subsidy involved using the dwindling state-funds in the developing countries. Two distinct strands of criticism can be found in the literature. The first is that the outcome of provider strategies in terms of scale of production may not be as significant in the context where a large proportion of housing is produced through private initiatives (Keivani & Werna, 2000). It is argued that apart from the self-help housing these strategies are essentially public provider policies and made at best only a little impact on housing problem (Ogu and Ogbuozoboe, 2001; Tipple, 1994). It was estimated that in the 10 year period of 1972-1981, the combined output of project based programmes was only 10% of the actual requirement in developing countries (Burgess, 1992 in Keivani & Werna, 2000). Understandably, the outcome of provider strategies in terms of numbers of permanent construction units or housing units is far too small, but it is also an undeniable fact that of all the housing strategies, public housing schemes have been the most elaborately pursued public policy for low income group. The second criticism is that weak, inefficient, inflexible and unaccountable government led to budget deficit, short-termism (Burgess et. al, 1997). Often excessive regulation restricts individual to get into free competition, creating a monopolistic environment controlled by few, thus increasing the cost and holding back growth.

It appears both enabler and provider approaches have failed to stop further deterioration of housing condition in developing countries and this is likely to continue, unless countries restructure policies in a direction, first, to scale up housing production and second, to increase the affordability and accessibility of the low income families. This calls for a stronger role of the state with an innovative approach as a requisite, to strike a balance for an effective housing supply and delivery system embracing hybrid kind of strategies, in between, that are possible and desirable. The following section explains how public-private collaboration and a more proactive role of the state have resulted in increased supply of housing in Shanghai. Changes in policies related to finance, land, building materials and technology and mechanisms for channeling both private and public sector resources to enhance housing accessibility are discussed. The focus of the analysis is however, on the strategy than institutional framework or role of involved stakeholders.

**Case Studies: Shanghai**

Shanghai, with the population of approximately 13.2 million and an attractive per capita GDP of US$ 4169, highest in the country, is a pioneer in orchestrating different housing reforms (Hong Kong Trade Development Council, 2001, p.4). Dramatic changes in housing sector were achieved through huge investments from both public and the private sector and an extensive restructuring of policies related to land and finance principally. Central to housing reform in Shanghai is the finance sector deregulation, in terms of accumulating capital for both investment and consumption.

Until 1979, the city has seen the Chinese socialist model dominating housing policies, when state was the sole agent...
for housing production and distribution, administered through work units, while private home purchase was not allowed. Housing investment was seen as a drain in government resources as it was almost impossible to recoup the investment from the nominal rent alone (Wu, 1996). In the post reform period, however, as it appears, there would be series of reforms and massive investments in the housing sector in Shanghai.

**Diverse Housing initiatives by Public-private Collaboration**

Shanghai has been initiating a hierarchical type of housing policy tapping resources from both the public and private sectors. Since the beginning of the reform in 1978, the scale of housing investment in Shanghai has been huge and rapid. The City’s investment in the real estate sector had reached a 63 billion Yuan from 1 billion Yuan in 1990, according to official statistics. Over the next few years, investment is expected to stay at an annual 65 billion to 75 billion Yuan, with 17-18 million square metres of housing to be sold (China Business Monitor, 2003). The government has been continuously revising guidelines that would enhance private sector participation, boost housing production and consumption. The three-level system of housing adopted apparently let affluent buyers buy large apartments or villas; low and middle-income families a more modest apartment; and impoverished urban residents rent houses with government subsidies. Private sector housing constituted 62.8% of the total housing by 1995 in Shanghai while state owned and collective-owned housing accounted for meagre 4.3% and 32.9% respectively (Wong et al, 1998, p.35) signifying a drastic reversal of allocation of housing in terms of choice and numbers. Understandably, commercial housing for sale dominated housing construction given more than two-third space equivalent to 58.74 million sq. m. under construction in the year 1996 was in this category (Ganesan, 2000). Nonetheless, it can be safely inferred that a third of the total housing produced was for low to middle income group. Despite the lower state-owned housing production, the overall housing output increased per capita space from 6.6 sq. metre to 10 sq. metre by the end of 2000 (China Daily, 2001) contributing to both quantity and quality of living space. ‘The average size of a commercial housing flat in Shanghai increased from 54 square metres in 1990 to 90 square metres in 1999’ (Zhang, 2002, p. 11). Interestingly, to check the commercial housing price and to ensure that private sector does not monopolize the housing market; “affordable housing” concept was introduced which was to be built with government support, and made accessible to most low to middle income groups thereby creating a diversified housing supply system for the diversified needs.

A major policy initiative towards diversification of housing market is the sale of public housing to sitting tenants. Shanghai had sold 826,800 public housing units by the end of 1999 since the early 1990s, accounting for 50% of all public housing (China Daily, 2000). Allowing the purchase of old public housing serves an alternative to those who cannot buy house directly from the market. Subsequently, the re-sale of privatized pubic housing was first experimented in 1996. Within the next 2 years, over 30,000 units had been resold (Shanghai Statistical Yearbook, 1998, 1999; and China News Agency, 2000 as quoted in Zhang, 2001, p. 170). Likewise, in order to target resources to the most needy, another ingenious move has been, touted as bridging the gap, government buying into the accumulated unsold housing stock from developers using an open bid system and selling them in subsidized rates to the slum dwellers. Thus the government would acquire the valuable slum areas to put them for future redevelopment (Han, 2000, p.2108). In the 1980s urban inner city redevelopment programmes were other initiatives by the state enterprises towards diversification of housing in Shanghai. During the period of 1991-1995, a total of 300200 households were successfully relocated to new apartments (Han, 2000, p.2106) despite the problems of assembly and compensation among other things. Slum housing in Shanghai saw the largest contraction- a 700 percent drop in terms of built up area by 1996 (Li,1999, p.133). It appears, despite gearing towards deregulation of housing market, the Chinese government has not completely abandoned its role in steering and arranging housing services to low income and disadvantaged groups that are not necessarily always provided by the market.

The recent major programmes such as Jingji shiyong feng (Economic Liveable Housing Programmes) and weili feng (Low-profit Housing Programme) have led government’s new drive for public-private partnership. Zhang (2002) confirms that in aiju programme, the state provides seed money up to 40 percent of the total cost of the project in the form of loans other than land and tax relief. Apart from that a massive injection of foreign direct investment (FDI) in the real estate sector has obviated local enterprises from relying too much on state funds. Government nonetheless is constantly looking into the option of extending fiscal concessions to developers, in order to entice commercial housing builders towards building more homes for middle and low income families. In the construction sector, to encourage traditional home-builders who are increasingly dissociating from different housing programmes due to low profit cap (3-15%) (Rosen and Ross, 2000; Wang, 2001) and higher administrative and ancillary charges, government accordingly lowered transaction taxes, simplified housing approval system and stepped up its supervision of real estate developers. These state supported low-cost commercial housing schemes have, not only enhanced government’s credibility especially in this transitional phase but also helped ward off externalities and monopoly pricing. Shanghai has been successful in capturing private sector resources in increasing its productive efficiency, but at the same time monitoring the allocating efficiency to hold off increasing inequality in society which is often the offshoot of rapid privatization.
Housing Finance and Affordability

Shanghai is the first major Chinese city to establish Housing Reserve Funds (HRF) in 1991. The Shanghai Provident Fund is not only China's oldest, but also its largest and most successful HRF. By 1998, the Shanghai Fund topped 18 billion Yuan and had more than 4 million participants accounting for almost half the HRF Funds in the nation (Rosen et al., 2000, p.85). This compulsory provident fund for housing aimed to accumulate capital for housing production such that loans made available to the private developers would enable more housing units to be built. There are however, criticisms that many struggling firms have had difficulties in establishing HRF. But we cannot also undermine government’s bid to create an institutional lending system which is a prerequisite for many working population to enhance their credibility and to use the new finance arrangements. As a result Banks are increasingly insisting on having individual mortgage some connection (a form of guarantee) with their employer. Arguably, with increased privatization drive the onus of HRF has already begun to shift to the private sector.

As such housing reform in Shanghai accelerated with the Shanghai Plan, officially titled "Implementation Plan for Housing System Reform in Shanghai" in 1991, under which provident fund for housing was made mandatory, public housing rent increased and pay rise replaced coupons with some 4.54 million staff from over 30,000 work units participating in the scheme, which constituted 98% of the total staff by 1996 (Wong et al., 1998). This plan instituted large deposit requirement by new tenants of public housing but introduced provision of discount for prospective home buyers. As a result by 1993 Shanghai government commenced a programme to sell public housing under which over 31 million public housing space was sold and 0.62 million households purchased. While the investment of the state owned work units decreased from 17.9 billion Yuan in 1994 to 12.3 billion Yuan 1995, the floor space actually increased from 5.3 million sq. m. to 7.02 sq. m. (Wong, et. al, 1998, p. 34). This was due to the loans made available during the period that enabled more housing units to be built.

To help residents buy homes, Shanghai increased public housing fund loans ever since. The city had issued some 16.5 billion Yuan in public housing fund loans by the end of November 1999 enabling some 223,700 families to buy 17.12 million sq. m. of housing space while commercial banks had issued 18.3 billion Yuan commercial housing loans (China Daily, 2000). As home mortgage arrangements inherently require large down payments and high monthly instalments that few workers could afford, recently the government has started helping the consumers in the lower bracket of income by offering mortgage loans so that they can afford to buy in housing in the market. As noted by Zhang (2002), up to 70 percent of the housing prices are provided to low-income households in Jiangji Shiyong feng (Economic Liveable Housing Programme). The commercial banks have extended mortgage loan terms from 20 years to 30 years and dropped down payments from 30% to 20% of the housing cost (China Daily, 2000). The government is further looking into ways of improving the mortgage market to make housing more affordable to its urban residents.

Land, Building Materials and Technology

Land-use systems in Shanghai have gradually evolved over the last two decades. After the open door policy of China in 1979, a massive change emanated in land administration and regulation with the land leasehold system, land-use rights, taxation and user fees issues. Shanghai floated global tender to lease out its first piece of land, in the Hongqiao Economic Development Zone in 1988 which marked the beginning of the modern real estate industry in the city.

Land development, the condition of use, amount and location of land release and the principles adopted for valuing land etc. are methodically designed such as to strike a balance between interests of the private investor and to minimize the adverse effects of increasingly liberating land market on the low income family. The state administrated land release has basically two parallel approaches. First, few plots were being sold through open bidding under a strictly monitored land disposal system and secondly, releasing some prime lands for subsidized housing. A requirement to have 25% of total investment on development prior to any transfer of land use rights to the private developers has resulted in absence of a secondary real estate market (Li, 1997, p. 333). Market land prices are more or less under the control of the conveyance mechanism such that a developer has to bear the costs of resettling the original residents and the provision of basic infrastructure for the land to be developed besides the conveyance fee, which is often far smaller thereby linking land use rights to infrastructure investment in Shanghai. Besides, as observed by Zhang (2002) the government provides incentives such as land supply for commercial housing developers when a certain amount (say around 20%) of the housing they have developed is low-profit housing.

Urban Land, as it appears has been principal tool for State’s aggressive policy to maximize foreign investments and a way to encourage state enterprises so that they also don’t take back seat in housing and infrastructure development due to budget constraints. Overall, the government has benefited substantially from these (de)regulated operation of the land market. Sales of land-use rights generated billions annually, enabling the local government to develop and supply land for housing and infrastructure construction. Li (1997, p.329) views the mixed 'planned -privatization' operation of the land market, as is happening in China, may not be absolutely undesirable. At the beginning of economic reform, control may be necessary in the pricing and transfer of a unique resource like land.
Shanghai has come a long way in building materials and construction technology know how and benefited a lot from different collaboration. Prices of building materials depend primarily on demand and, in the case of individual clients, on supplies from state quotas. Shortages of raw materials are a potential problem for local production units. Materials commonly used for subsidized housing and construction are manufactured in Shanghai, or in the adjoining regions, the only exception being timber (Ganesan, 2000). To overcome shortages of building materials and improve the quality of construction, Shanghai adopted two strategies: large scale imports, and the use of FDI to upgrade the domestic building materials and equipment production sectors. Because of cheap labour, the JVs are able to manufacture and market products comparable to imported items at lower prices. With the massive inflow of FDI, the local building materials industries are now forced to compete globally, both in terms of quality, technologies and also in management and marketing level. Building materials like ceramic tiles, door/window frames, plumbing, sanitary and lighting fixtures, glass panels etc. from JVs are used extensively in Shanghai today, which have maximized choice; assured quality; and minimized costs through market competition, demonstrating the importance of favourable market conditions and state’s support for successful breakthroughs in construction industry.

Conclusion
Successful housing programmes in Shanghai reflect a unique collaboration of enabler and provider roles of the state. This paper has reviewed recent changes in housing strategies in Shanghai adopted to scale up production; increase choice, quality and innovation; widen ownership and a reduction in state responsibility as direct provider of housing as a significant component of new housing policies. Since a consensus for privatization of the housing market has been reached, the government, in order to fend off possible negative externalities of the market on the low income households, especially during the transition phase, would have to continue to provide safety nets by initiating policies to enhance affordability. This stems from the argument that the gains from hasty privatization are often offset by the social costs of speed of privatization.

The housing renaissance in Shanghai demonstrates a need for deregulating the finance sector as a way to extend its coverage and regulating land and housing prices for curbing inflationary effects and to tackle mismatch in supply in the housing market. Expansion of building materials manufacturing, infrastructure development, design and construction services, mostly through joint ventures between local and foreign parties has also benefited directly and indirectly, the mass housing construction both in terms of volume and quality. In all cases, the state is involved to varying degrees in organization of subsidy for land, infrastructure and finance, or in simply promulgating necessary regulations to realize these advances. Summing up, the enabler and provider policies regarded as two separate ways of housing provision are intrinsically linked and mutually reinforced processes. The new process could best be described as a hybrid strategy involving active but different roles for the public and private sectors. Since the outcome of the new strategy remains uncertain, countries will need to hedge their best. They should continue to exploit new opportunities but should also take prudent steps to tailor already existing options to suit the changing context whether or not the new possibilities are more successful.

References

Hong Kong Trade Development Council (2001) ‘The Two Cities: Shanghai and Hong Kong’, Research Department: HKTDC.


