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Housing Policy Systems in South and East Asia

Edited by
Mohammed Razali Agus, John Doling
and Dong-Sung Lee



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Foreword

This book brings together information about the development of housing policy in a number of countries of south and east Asia. The countries selected are the more industrialised and economically advanced: Japan as the first and pre-eminent industrialised economy in the region; the four little tigers of Hong Kong, Singapore, South Korea and Taiwan; and three of the next wave – Indonesia, Malaysia and Thailand. The rationale for bringing them together in a single book has two main dimensions: the gap in the existing literature, and lesson learning.

Going back at least to the start of the 1980s, the interest from all parts of the world in housing systems and housing policy has increased greatly. Indeed, measured in terms of the numbers of journal articles and books published, and in the number of journals dedicated to housing issues, the rate of increase has accelerated. There is now a considerable body of knowledge on the way housing issues and problems differ among various countries, and how they have been addressed by national policy makers.

Whatever the growth of this corpus of knowledge, its geographical spread has been distinctly patchy. Here, we refer to knowledge that is not limited to researchers, policy makers and others working and living within the country to which it relates, but to knowledge that has been shared – through publication in internationally available journals and books, and of course the internet – with interested groups in other countries. It is in the industrialised countries of the west – the OECD's old industrialised countries, with the partial exception of Japan – where information is most widely spread beyond individual borders. This has been supplemented in the 1990s, following the demise of the Soviet Union, by widening access to information about housing in Russia and the former satellite countries of Eastern Europe. Thus, a number of excellent publications have provided an understanding of the steps that their housing systems have taken as part of their general transition to market economies. Not only are there numerous papers and reports, as well as books about some of the individual countries, there are also publications that consider the countries comparatively. Information about

two or more countries is considered together so that, implicitly or explicitly, differences and similarities between countries can be explored, interpreted and analytically developed.

This comparative stage has not yet been greatly developed in relation to the industrialised and industrialising countries of south and east Asia. Certainly, there are numerous papers and a steady trickle of books about housing in the individual countries, some of which are accessible to a wider audience than the national one, if only by virtue of publication in English. Hong Kong, Singapore, South Korea and possibly to a lesser extent Japan and Taiwan, are most notable in this respect. But publications that bring housing policy in all these countries, as well as others, together in one volume – thus allowing some explicit comparison – are not a significant feature of the publishing landscape. One notable exception is the collection of chapters about individual Asian countries brought together by Seong-Kyu Ha (Ha 1987). However, much has happened in the intervening years, not least because the countries included have themselves moved on. Economic growth rates at levels common throughout the more advanced countries of the region have been in general (with the major exception of the Asian financial crisis post-1997 period) quite spectacular by western standards. In some cases, real GDP doubled over the period. In such circumstances, cities, buildings, infrastructure and people's aspirations and spending power do not remain constant. Both the context of housing policy and the policies themselves have therefore changed considerably.

One aspect of the challenge that we as a group of editors have chosen to take up is to contribute to the development of the comparative study of housing policy in Asia. This volume examines housing policy in a number of countries through the latter half of the twentieth century, encompassing not only periods of dynamic growth but also the Asian financial crisis. The challenge has been to fill a widening hole in the literature, and to add something better to it. We also hope that our colleagues in both the west and east will find this book interesting and stimulating.

We anticipate that for western readers interest will be both theoretical and practical, located in an Asian model of economic, political and social organisation that in some ways differs distinctly from models in the west. The interest centres on questions of whether the extent to which the Asian model differs from western models can tell us anything about the relationship between the economic and the social. The

argument has been outlined by Midgley in his study of the little tiger economies, but may be extended to our eight countries:

The case of the four little tigers provides social scientists with a unique opportunity to observe the processes of industrial transformation at first hand and to test established propositions about the dynamics of industrial society. Since theoretical speculation of this kind is usually based on historical abstractions of the west's industrial development, the rapid and tangible industrialisation of these Asian countries has considerable empirical significance for social science enquiry. (1986: 225)

One question implicit in the following chapters is: what can the presentations in this book tell us about theories portraying housing policy and other social institutions as consequent upon stages of economic development, so that as economies move along common paths of development their housing policies will come to converge? Is housing policy simply a product of economic development and to what extent have the political and social been important?

There are also potential policy lessons here for the west. The academic study of policy transfer has re-emerged as an important sub-field in the last few years (see Dolowitz 2000). This could be seen to reflect a world in which there has been increased dialogue and collaboration between governments, for example through the meetings of the G7 countries and the European Union. From the perspective of Britain, it can be seen that there has been quite explicit interest over the last two decades in the possibility of adopting Asian policies, for example Prime Minister Thatcher's interest in Hong Kong's dynamic, flexible labour market, and Prime Minister Blair's interest in Singapore's Central Provident Fund (Doling and Jones Finer 2001). Potentially, housing policies in the countries represented in this volume are also sources of policy lessons for the west. This may not lie in the abilities they have demonstrated to respond quickly and on a large scale to rapid population growth, rapid urbanisation and rapidly growing affluence, since these are not likely to be challenges facing the west. Rather, they may provide answers to the more general issue that, given that the countries represented here have all been successful in delivering rapid economic growth in recent decades (the 1997 crisis notwithstanding), what can they teach the west about which housing policies might be most functional to growth? In short, are there useful policy lessons from the west to be located in the successes of the east? There are also

potential policy lessons with respect to the financial crisis: to what extent can this be attributed to processes within housing systems, for example?

The interest from the east (as well as from the west) may lie more in the variations within the Asian model. Whatever the analytical strengths of the classificatory scheme that identifies a group and its membership, making it and them different in important respects from other groups, it is also frequently the case in, social research at least, that there is within-group variation. It may be discovered that the development of housing policies in Malaysia and Singapore, for example, have similarities that locate them within an Asian model, but in at least one respect – the public provision of housing – they differ greatly. So in some respects they have responded to challenges similarly and in others differently. Identifying these and other differences is a step to understanding more about the nature of housing policy options and evaluating which options are best.

As a group of editors we have in common not only an interest in housing policy but also a link with the University of Birmingham in the UK where we have all studied. Some of our work together has been carried out at the University of Malaya in Kuala Lumpur. However, just as with the subject matter of the book, there are group differences as well as similarities. Amongst other things, the differences have meant that we have brought a range of perspectives to bear upon our task. These have contributed to the writing of the first chapter which reflects our views about the nature of the task we set ourselves and the important issues and questions – about the nature of the Asian model and its variations, for example. Our different views also contributed towards the drawing up of a broad template to ensure that each country addresses some common issues. Our book contains accounts of each country that largely stand alone, as well as contributing toward a more explicitly comparative study.

In addition to the work of the editors we have been assisted by others who each contributed a chapter. We thank them for their endeavours.

We also acknowledge our respective institutions for the support they have afforded us.

MOHAMMED RAZALI AGUS
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1

Asian Housing Policy: Similarities and Differences

Mohammed Razali Agus, John Doling and Dong-Sung Lee

Introduction

The eight countries included in the following chapters make up those which of all the Asian economies have proceeded furthest along trajectories of industrialisation and economic growth. The aim of this chapter is to provide a general context in which they can be individually and collectively located. In operational terms this sets the task as identifying some of the characteristics that provide the eight countries with common ground, that is, establishing them as members of a group. It is also to suggest not only that there is a group identity, but also that this group differs from one or more other groups that include in their membership the old, industrialised countries of the west – in North America, Australasia and western Europe.

If the first task is to establish within-group similarities and between-group differences, the second is to identify the extent of within-group differences with respect to the Asian countries included here. The intention is to avoid a common feature of comparative studies that include a distinct Asian model, namely the tendency to homogenise them, by recognising that each country's policy system has its own distinct trajectory (Goodman *et al.* 1998). The central argument in the first chapter, then, is that the eight Asian countries have similarities that both allow us to think of them as a group and distinguish them from western countries. But, the similarities in the characteristics of the eight countries are not so great that they could be considered identical; there is, in short, considerable within group variation.

Before starting to develop this argument it is appropriate to note some features of the empirical information available to us as editors as well as to the authors of the country chapters. Governments of all

economically advanced countries undertake surveys that measure aspects of their economic, demographic and social characteristics including housing. These are invaluable to the understanding of the main characteristics of each individual country and of the main similarities and differences between them. However, there are considerable difficulties in the interpretation of the data. Whereas there has developed a consensus about the definition of many economic variables – such as GDP and unemployment – that allows a fairly solid empirical foundation to comparisons of national economies, this is not the case with respect to measures of housing stocks and housing policy. National governments carry out censuses of housing in different years, they collect different variables from one another, which they define in ways that differ from those of other governments and, occasionally, differ from their own practices in earlier years. Thus, for statistical purposes what is counted as a room may depend on its size (rooms below specified floor areas may be excluded) and function (kitchens and bathrooms may be excluded) (see van Vliet 1990; Doling 1997). The differences in national practices mean that the data presented in this chapter, though mainly taken from just two sources – the World Bank and *Encyclopaedia Britannica* – because they both reproduce nationally derived data, are not always strictly comparable. There is a further limitation affecting Taiwan arising because the World Bank omits it from its statistical series. Consequently, even where an alternative source is available the figures for Taiwan are not necessarily directly comparable with those of other countries. Further, the data presented in this chapter are not in every case identical to the data in the country chapters (often those provided in the country chapters are more recent), nor are they always consistent in definition across countries.

The combination of the data limitations does not however mean that they do not provide an adequate basis for identifying contrasts and comparisons, but rather that any identification is pursued with some caution. Indeed, the data are used in this chapter to assist the mapping out of a context for the individual country chapters. This is undertaken in the next three sections of the chapter, in each of which both the distinctiveness of an Asian model and the differences within the model are identified. In the first of the sections the reasons for the particular selection of eight countries are considered. The second presents some of the developments over the last decades that have resulted in challenges to those responsible for making housing policy in each country. The third examines some of the main influences, including relationships with economic and social policies, shaping

housing policy. Whereas each section has a focus on aspects of the housing systems and housing policies within our eight countries, they are not confined to matters of housing alone. Indeed, a starting point of the study of the development of housing policy is that it cannot be divorced from economic, political and social processes.

Which countries?

The eight countries included here are the big tiger, Japan; the four little tigers, Hong Kong, Singapore, South Korea and Taiwan; and three from the next wave, Indonesia, Malaysia and Thailand. The rationale for the selection of eight (from the many) Asian countries has been based on two main criteria: the extent of industrialisation and economic growth, and the length of the post-war period of political stability.

The first criterion was based on a requirement that the individual country chapters should be able to stand alongside studies of housing policy in western industrialised countries. In other words, there is a west-east dimension to the present book – inherent at least in the nationalities of the three editors – that imposes a requirement that there is at least some similarity in the levels and natures of industrial development. Of course, because of real differences between the countries of North America, Australasia and western Europe, on the one hand, and the countries of Asia, on the other, this is only partially possible. But it is not entirely unachievable at least in the sense of specifying a set of Asian countries whose level of economic development overlaps with those of the west.

The idea of overlap here is based on a particular notion of industrialisation. According to Choudhury and Islam (1993) there have been two broad views. One, is that 'pre-industrial' and 'industrial' describe distinct sets of specific conditions and that countries may transform themselves from the first into the second. This comparative-static view contrasts with a more dynamic view that recognises continuing shifts in the structure of world production and the international division of labour. This can be characterised by a chain whereby the most advanced countries vacate one link or sector, such as intermediate industrial, in which other less advanced countries are more productive and the latter, in turn, vacate other sectors to even less advanced countries and so on. Thus some Asian countries, for example Thailand and Malaysia, have benefited from the shift of the little tigers to higher-value manufacturing, leaving them with the more labour-intensive manufacturing from which, with their relatively cheap pools of labour,

they can benefit (Dixon and Drakakis-Smith 1993). On this second view, the old industrial countries of the west and the newer ones of the east do not occupy entirely separate categories, but are symbiotically linked. Moreover, in certain cases they will, at any one point in time, share spaces in the industrialisation chain.

Choudhury and Islam (1993) have also noted that operational definitions of newly industrialising economies have been commonly based on economic growth measured in terms such as GDP per capita and proportion of GDP derived from manufacturing. On such grounds, from our eight countries Japan may be considered an old industrial country, with the four little tigers certainly selected, and in some definitions also some or all of the others in our group. Also included in some lists of industrialising countries are Portugal, Spain and Greece, testament to the overlap between the west and east. Evidence of such overlap can also be derived from Table 1.1, which shows that Japan and Singapore are close to the very top of the global league table of

Table 1.1 GNP per capita, 1997

(a) Asian countries

	<i>GNP per capita (US\$)</i>	<i>Rank of GNP per capita</i>
Hong Kong	25 280	13
Indonesia	1 110	75
Japan	37 850	2
Korea	10 550	25
Malaysia	4 680	35
Singapore	32 940	4
Taiwan	13 819 ^a	—
Thailand	2 804	50

(b) Western countries

	<i>GNP per capita (US\$)</i>	<i>Rank of GNP per capita</i>
Australia	20 540	16
France	26 080	11
Germany	28 260	7
Portugal	10 450	26
Sweden	26 220	10
Switzerland	44 300	1
Turkey	3 130	45
UK	20 719	15
USA	28 740	6

Source: World Bank (1999); ^a *Encyclopaedia Britannica* (1998).

GNP per capita. Also present in the top 25 which (with the exception of one or two resource-rich countries such as Kuwait) is mainly populated by the old, industrialised western countries, are Hong Kong, Korea and Taiwan.¹ Whereas Malaysia lies only a little outside the economically leading countries, Thailand and Indonesia are rather further adrift. In GDP or GNP per capita terms, therefore, our eight countries vary considerably, although five have places in the top 25 of the world league table alongside the old, industrialised countries.

Of the full list of countries in south and east Asia, we have omitted some that on GDP or GNP per capita grounds alone might have been included. Thus, Brunei has been omitted because its relatively high GDP is attributable not to a high level of industrialisation, but to its rich natural resources, principally oil. The Philippines however, is omitted according to our second criterion that requires the period during which economic development has accelerated to be sufficiently long to have allowed the development of extensive systems of housing policy. The point here is that most of those Asian countries with the highest levels of economic development have, at stages during the twentieth century, been colonies of western powers or the Japanese, or have experienced civil war. For many, at the end of the Second World War they 'could not immediately obtain the status of political independence' (Ichimura 1998: 10). Indeed, it was not until political struggles to achieve nation building were successful, that there could be a switch to economic development. This happened at various dates and following a number of different events and episodes (see Table 1.2). Once the switch to economic development had taken place however, there followed extended (several decades) periods of economic growth at rates that have considerably exceeded the norm in the older industrialised countries. It was only during these periods that they underwent significant transformation involving, *inter alia*, urbanisation and higher housing standards and developed housing and social welfare systems. In contrast to our eight countries, all of which entered the economic development stage by the start of the 1970s, thereby having sustained periods of economic development for 30 years or more, the Philippines did not enter this stage until 1986.

Economic development: the challenge for housing policy

The processes of economic development have been accompanied in all our eight countries with spatial restructuring both within and between their settlements that has had consequences for the distribution of

Table 1.2 The date of the switch to, and speed of, economic development

Country	Date of independence (1)	Date of switch to economic development (2)	Explanation for switch (3)	Annual % increase in GNP per capita	
				1965–87 (4)	1980–92 (5)
Hong Kong	1945	1949	Inflow of Chinese businesses	6.2	5.5
Indonesia	1945	1965	Suharto's new order	4.5	4.0
Japan	1952	1960	Income doubling plan	4.2	3.6
Korea	1948	1948	Park reform	6.4	8.5
Malaysia	1957	1966	End of Malaysian conflicts	4.1	3.2
Singapore	1965	1965	Lee Kuan Yeu government	7.2	5.3
Taiwan	1949	1954	Establishment of JCRR	6.4 ^{ab}	6.8 ^{ac}
Thailand	1945	1960	Industrialisation programmes	3.9	6.0

Notes: ^b = 1980–82; ^c = 1985–95.

Sources: (1)(2)(3) Ichimura (1998); (4)(5) World Bank (1989, 1994); ^a *Encyclopaedia Britannica* (1991, 1998).

population and the demand for housing. The generalised case has been expressed succinctly in the statement that '[t]he history of capitalism is a history of urban development including urban housing' (Yamada 1999: 101). In the cases of the Asian economies this followed in part from the changing industrial structures, characterised by a decline – both in the contribution to GDP and employment opportunities – in agricultural industries, and a growth in manufacturing and service ones (see Table 1.3). By 1965, Japan's economy had already undergone the main switch from agriculture to manufacturing, while the island states of Hong Kong and Singapore had only minimal agricultural sectors anyway. Whereas all eight countries have developed large service sectors characteristic of advanced market economies, this has been particularly so in Hong Kong, Japan, Singapore and Taiwan. But in general, the decline of agriculture was accompanied by the movement of labour from rural to urban areas. Again, there were differences, with Singapore and Hong Kong having only small rural hinterlands within their own borders from which rural labourers have migrated. Densely populated and mountainous Korea and Japan have been in different positions to low-density Malaysia and Thailand. But even in Korea, as

Table 1.3 Contribution to GDP

	<i>Agriculture as % GDP</i>		<i>Industry as % GDP</i>	
	1965	1997	1965	1997
Hong Kong	2	0	24	15
Indonesia	56	16	13	42
Japan	9	2	43	38
Korea	38	6	25	43
Malaysia	28	13	25	46
Singapore	3	0	24	36
Taiwan	—	3 ^a	—	33 ^a
Thailand	32	11	23	40

Source: World Bank (1989, 1999), ^a *Encyclopaedia Britannica* (1998).

McGee and Lin (1993) report, during the five years following 1955, rural to urban migration involved some half a million people.

At the same time as internal migration was taking place, the total populations of our eight countries were also increasing. The high annual growth rates (see Table 1.4) are attributable to a number of processes. Economic growth has for many of the people of the countries meant better diets and improved health care, both of which have contributed to increases in life expectancy. In addition, in many of these countries growing prosperity resulted in economies in which labour has been in short supply, encouraging the inflow of foreign migrants. Many of these have been attracted to those urban areas where job opportunities were greatest. In most countries there have been reductions in birth rates (though not in Malaysia where Islamic

Table 1.4 Population

	<i>Population (millions)</i> 1997	<i>Land area 000 sq km</i> 1995	<i>% average annual growth</i>		
			70–80	80–90	90–97
Hong Kong	7	3	2.5	1.2	1.9
Indonesia	200	1 812	2.3	1.8	1.7
Japan	126	377	1.1	0.6	0.3
Korea	46	99	1.8	1.2	1.0
Malaysia	23	329	2.4	3.3	2.7
Singapore	3	1	2.0	1.7	1.9
Taiwan	22 ^a	36 ^a	—	1.1 ^{ab}	0.9 ^{ac}
Thailand	61	511	2.7	1.7	1.2

Notes: ^b = 85–90; ^c = 92–97.

Source: World Bank (1991, 1999); ^a *Encyclopaedia Britannica* (1998).

Table 1.5 Urbanisation

	Urban population as % of total		Population in Capital as % of total
	1970	1997	1990
Hong Kong	90	95	95
Indonesia	17	37	5
Japan	71	78	15
Korea	41	83	23
Malaysia	27	55	10
Singapore	100	100	100
Taiwan	—	78 ^a	12 ^a
Thailand	13	21	13

Source: World Bank (1994, 1999); ^a *Encyclopaedia Britannica* (1998).

revivalism in the 1980s supported a national strategy of population growth), but not to the extent of offsetting the trends in migration and longevity.

The overall growth of population combined with migration to the urban areas has meant that in all these countries there has been, over the last three or four decades, an increase in their levels of urbanisation (Table 1.5). At the end of the twentieth century they had achieved levels of urbanisation ranging from those in the city states of Hong Kong and Singapore, through those in Korea, Taiwan and Japan typical of levels in some western European countries, to lower levels in Indonesia and Thailand.

They have all experienced, however, the dynamic growth of at least one major urban centre, in all cases including their capital cities, to the extent that the conurbation enclosing the capital, numerically as well as functionally, has come to dominate the country. Clearly so in the case of Hong Kong and Singapore, this has also been particularly true of Taiwan, Korea and Malaysia. Such geographical concentrations of people, growing rapidly, have presented enormous challenges to national and local governments. These have been the challenges of ensuring an adequate supply of housing as well as coping with the problems of urban congestion such that high levels of investment in the urban environment have been called for.

These have not simply been challenges of numbers – the number of houses, the numbers of kilometres of roads, the number of hospitals and schools. They have also been challenges of quality. At least in the earlier stages of development, the numerous incoming workers – many with limited skills relevant to the newly developing industrial sectors

Table 1.6 Incidence of slum and squatter areas

	<i>% of city population living in slum and squatter areas</i>	<i>Year</i>
Hong Kong	16	1960
Indonesia: Jakarta	26	1972
Bandung	27	1972
Makassar	33	1972
Korea: Seoul	30	1970
Busan	31	1970
Malaysia: Kuala Lumpur	37	1971
Singapore	15	1970

Source: Linn (1983).

of the city, other than the ability to work hard – took low paid jobs and were forced to look for low cost housing. Table 1.6 indicates, for some of the eight countries, one dimension of the problem in their major cities. Only three decades ago in the major cities of Korea, Indonesia and Malaysia there were severe quality deficiencies in around one-third of the housing stock. With the exception of Japan, in all the countries represented in this volume, clearing squatter settlements and some residential areas that pre-dated rapid economic development has been one of the challenges of national and local policy makers. Though in Indonesia, Malaysia and Thailand there are still large numbers of people living in squatter settlements, the outcome everywhere has been part of the changing urban landscape of high rise apartments, office complexes and shopping malls.

Making housing policy

The recognition of both similarity and difference in housing circumstances in our eight countries as they developed in the last decades of the twentieth century, brings us to the main terrain of the present book. One focus of the study of housing policy development concerns the ways in which governments see and evaluate challenges, as well as the strategies and mechanisms they adopt and the nature of the outcomes. Whereas this may concern straightforward technical issues that involve policy makers coming to decisions about the most effective or efficient ways to solve problems, policy making is also intensely political. The relationship between social and economic developments and policy making is not mechanistic; the definition of a situation or process as a housing problem to be solved by government may be

influenced by cultural norms, ideology and power structures; they will be formative influences also on the policy solutions sought (see, for example, Midgley 1986; Rose and Shiratori 1986). A key to understanding housing policy formation and content in the more economically advanced Asian countries, therefore, lies only partially with matters internal to the housing system, such as housing quality and quantity indicators. Indeed, one of the factors is the role of Asian states in steering the processes of economic development, and in this section of the chapter some links are established between political, economic, social and housing developments

The foundations of economic development

Much of the interest and therefore literature about the role of the state in economic development has been directed at those countries whose progress has been most rapid and reached the highest levels. Japan and the little tiger states have been extensively researched, considerably more so than the other three of our eight. It is important to be cautious, however, in extending any common ground, identified in the experiences of a group of five countries, to the cases of the remaining three, and to have awareness of the differences between the two sub-groups.

Some of these differences have been noted earlier in the present chapter, but there are others. Indonesia, Malaysia and Thailand have been less successful in GDP terms, trailing the tiger states and taking on many of the labour intensive activities they have vacated. Among other things this has meant that not only has urbanisation proceeded less far in these three countries, but also their governments have had less national wealth to call on. This has not meant that their levels of GDP have necessarily resulted in different housing policy systems, but simply that their governments have had less tax money and their populations less spending power. Notwithstanding any differences in policy regimes, therefore, differences in GDP may largely explain why poorer countries – Malaysia, Thailand and Indonesia – all have housing stocks on average inferior in quantity and quality to that of the other, richer countries represented in this book.

There are other important differences between the richer and the poorer countries of our eight. Along with Korea, Malaysia, Thailand and Indonesia have been the main victims (self-inflicted or not) of the Asian financial crisis so that their ability in recent years to tackle housing problems has been reduced. The tiger economies have developed despite their relative lack of resources. Indeed, it might be said of

Hong Kong and Singapore, and to an extent Korea, that if they wanted to develop they had no other option but to develop their manufacturing sectors. Indonesia and Malaysia, by contrast, are rich in petrol and natural gas, with Malaysia also able to export rubber and tin. Thailand for its part has had a large agricultural surplus that has brought in export dollars. Culturally, the tiger states have Confucianism in common. Whereas this is an element too in the other three, Islam is more important in Malaysia where the Moslem population constitutes about 60 per cent of the total, and in Indonesia with 90 per cent, whereas Thailand has large Hindu influences.

Notwithstanding these and other differences, the eight countries have much in common. Variations in their philosophical and religious foundations there may be, but they share traditional beliefs in the importance of the family, respect for elders and authority, self-reliance and hope for their future. Equally, they have shared with the tiger states a commitment to economic development along with sets of institutional arrangements. The following, written about the ASEAN countries, resonates with many observations on the tiger states:

The successful economic growth of the ASEAN countries can be attributed to their unique growth-inducing institutional framework. The political and social institutions have fostered a long period of peace and social stability, which is indispensable for business expansion and foreign investment. ASEAN's ethnic and cultural heterogeneity has not produced such social strife as to destabilise the process of economic growth ... Indeed, the governments of the ASEAN countries have been conspicuously successful in minimising political confrontation and social contention by channelling nationalism and social purposes into the political system, with the political leadership strongly committed to economic growth, which in turn generates the material foundation for continuing social stability. (Wong 1993: 119)

Given that the governments in all our eight countries have been successful over the long run in achieving social and political stability – an achievement that has clearly faltered in Indonesia in the wake of the 1997 financial crisis – and that they have been committed to growth, what else can be said about the role of the state in achieving growth? For economists of a neo-classical persuasion the answer has been quite straightforward: the state succeeded in achieving economic growth

because the state kept out of it, allowing free rein to markets and the private sector. The secret of success, therefore, lay in minimalist government and the disciplines of competition. As Henderson described the analysis: 'unlike many other developing – and developed – economies, their respective states either had not intervened to distort markets, or if they had, had done so to correct pre-existing market distortions' (1993a: 201).

A growing literature of the 1980s and beyond has developed an alternative view, that 'at the core of East Asian success lies enlightened policy activism of national governments' (Choudhury and Islam 1993: 47). In relation to Japan as well as Hong Kong, Singapore, South Korea and Taiwan, a succession of studies has introduced notions such as the 'developmental state' and the 'governed market' (Johnson 1982; Morishima 1982; Amsden 1989; Wade 1990). On this view, the market has not been free but rather controlled and steered in directions deemed appropriate by the state in its overriding objective of achieving economic growth.

Henderson and Appelbaum (1992) describe them as being 'plan rational' states by which they convey two important features. Firstly, these states have carefully lain down, in the form of five-year plans, targets and resource allocations deemed appropriate to achieving growth. The requirements for achieving growth have therefore been carefully thought out, and set down as clear targets, backed up with sufficient control over resource allocation so that generally they have been achieved. Secondly, these plans are based on pragmatic considerations rather than ideology about markets and states; they have been formulated on the basis of what works. Both these features have been brought together by states that have had the capacity not only to plan, but also to see their plans through, influencing and coercing economic actors to their bidding. In presenting their key features in this way, Henderson and Appelbaum (1992) also explicitly contrast the Asian economies with other ideal types. The 'plan ideological' type – the former and present communist states – utilises state planning techniques but does so with the presumption of the superiority of the state as decision maker and economic actor. In the 'market ideological' countries, such as the US, the presumption is in favour of the market and free competition. The 'market rational' type – typically the Netherlands – encourages the market but, at the same time, structures the market in order to achieve social goals. In its pure form, then, the Asian model can be seen as distinctive.

Social policy

Just as the primacy of the goal of national economic development combined with the relative autonomy of the state has set the seal on the approach of the industrialised and industrialising countries of Asia to economic policy – as well as making that approach quite distinctive from western ones – so it has also influenced the approach to social policy. Here, the Asian countries have established social policy systems that have been largely subordinate to the needs of economic growth. The acceptance by their populations of the need to prioritise the economy, allied to cultures of self-reliance and the responsibility of the family and the group, have meant that political pressures to establish free standing and large-scale social programmes have been muted (Deyo 1992). Consequently they have welfare systems – particularly social services and social security – that are based on low government spending. A number of authors have commented on this characteristic approach. Thus, specifically on the little tigers – what she refers to as the Confucian welfare states – Catherine Jones noted that they shared certain features:

Government corporatism without (Western-style) work participation, subsidiarity without the Church, solidarity without equality, *laissez-faire* without libertarianism: an alternative expression for this might be ‘household economy’ welfare states – run in the tradition of a would-be traditional Confucian, extended family. (Jones 1993: 214)

For Esping Andersen the key features of the East Asian model is that:

It shares with the continental European model an emphasis on familialism and an aversion to public social services. Its embryonic social insurance schemes tends to follow the European tradition for occupational segmented plans, favouring in particular privileged groups such as the civil service, teachers, or the military. In these countries, social security is far from comprehensive, nor does it aim to furnish income maintenance. (Esping Andersen 1996: 21)

One way in which these characterisations, or caricatures, can be seen is in terms of social security spending. In contrast to European countries, with the significant role taken by the family and the employer Asian governments themselves are typically low spenders (Table 1.7).

Table 1.7 Expenditure on education and health

	Public expenditure on education as % GNP		Public expenditure on health as % of GDP 1990-95
	1980	1995	
Hong Kong	—	2.8	1.9
Indonesia	1.7	—	0.5
Japan	5.8	3.8	5.7
Korea	3.7	3.7	1.8
Malaysia	6.0	5.3	1.4
Singapore	2.8	3.0	1.3
Taiwan	—	5.2 ^{ab}	2.3 ^{ac}
Thailand	3.4	4.2	1.4

Notes: ^b = 1996; ^c = 1990.

Source: World Bank (1999); ^a *Encyclopaedia Britannica* (1998).

On the other hand, reflecting the importance of education and human capital in their economic development project, in terms of the level of resources devoted to education, the general pattern is for Asian countries to be high spenders. Although there are dangers in making contrasts between welfare systems solely on the basis of government expenditures (see Kwon 1997), to some observers there appears to be something that the more economically advanced Asian countries have in common.

Housing policy

Since in housing sectors there are aspects that have both economic and social dimensions, it would be surprising if housing policy were not formulated and implemented with approaches similar to economic policy and social policy. In fact, an Asian housing policy type, also different to western types, has been proposed in relation to the little tiger states (Doling 1999). Its characteristic features are twofold. First, the state is dominant in production, through national five-year plans setting targets for housing production of different types in different localities, and through its control of the factors of production, particularly loan finance, but also labour and land. Second, the allocation of housing is not based on bureaucratic procedures reflecting principles such as equity or fairness (more common in the west), but on the ability of households to pay. Housing consumption in these countries thus largely reflects each individual household's labour market position.

Some of these characteristics appear to apply beyond the little tigers to the other countries represented in this volume. The following chap-

ters show that all their governments conduct some aspects of their decision making through national development plans in which they set out, generally for consecutive five-year periods, their objectives and their commitments to mobilise the nation's resources to meeting them. Not only do they commonly contain targets for housing production in terms of numbers, types and locations, but they also identify at least some of the resources that will be necessary; this generally includes loan finance. Also, commonly, state regulation is at least as important as state provision. As Yeung has argued, common threads at least since the 1970s have included the establishment of national, unified housing authorities as agencies to plan and co-ordinate housing provision. In addition, a general recognition has arisen of housing 'not as social overheads in national development but rather as a productive sector in its own right' and a means to achieve social and economic objectives' (Yeung 1983: 12).

There are also similarities in housing outcomes. Table 1.8 shows that in the sense of constituting a significant majority of their total stock, most countries are home owning societies. Even in the case of those countries where renting is more important, the processes governing the access to housing result in a marked correlation between household resources and housing standards of size and quality. In the main, their housing sectors are not sites that disturb status differentials established through the workplace and elsewhere.

Whatever the similarities in our eight countries, there are also differences. These are apparent in the outcomes of housing policy; with respect to quality for example, there are differences in the percentage of homes with piped water (low in Indonesia and Thailand) and in persons per room (low in Japan). Comparing these measures with the figures for GDP per capita, contained in Table 1.1, there seems the (unsurprising) relation that indicates that the populations of richer countries enjoy higher average material standards of living than those in less rich countries. But these are also differences in policy itself. State provision of housing for example, is particularly significant in Singapore and Hong Kong, yet largely absent from Thailand and Indonesia.

Organisation and content of the book

Each of the following eight chapters of this book provides an introduction to housing policies and housing systems in one of our chosen countries. Whereas each can be read on its own, telling its own unique story, the context set out in the present chapter – the descriptions, typologies

Table 1.8 Characteristics of housing stocks

	<i>Year of survey</i>	<i>Owned (%)</i>	<i>Rented (%)</i>	<i>Other tenure (%)</i>	<i>Piped water (%)</i>	<i>Elect (%)</i>	<i>Inside WC (%)</i>	<i>Closed sewer (%)</i>	<i>Persons per room</i>
Hong Kong	1994	45.1	50.1	4.8	86	—	69	65	2.8
Indonesia	1990	87.0	5.0	8.0	15	55	52	25	1.7
Japan	1993	59.8	38.5	1.7	81	—	93	98	0.5
Korea	1995	74.9	22.5	2.6	83	50	75	—	1.1
Malaysia	1991	63.4	25.0	11.3	65	65	—	56	2.6
Singapore	1990	87.5	—12.5—		91	98	64	64	2.5
Taiwan	1990	78.5	12.8	8.7	79	100	94	69	1.2
Thailand	1990	86.0	11.2	2.3	30	90	41	31	2.7

Source: *Encyclopaedia Britannica* (1998).

and speculations – are intended to provide an enriching of that reading. They are thus intended as both individual stories as well as parts of a collective story. This collective story concerns both the similarities in the housing policies and outcomes that indicate some common strands in the eight countries, and the significant differences between them.

To aid the reader in making links across the chapters, each author has written their contribution to fit a loose template. As a result, each chapter contains information about the post-war development of housing policy, with particular emphasis on the post-independence period. They each outline the legislative milestones and the institutional and financial arrangements that contribute the main elements of the system. Further, they contain information about the size and nature of the housing stock and the population that needs to be housed. In all of this, the authors have been able to draw upon data produced by the statistical offices of their own governments, presenting the latest available sources and so, in comparison with some of the data in the present chapter, presenting fuller and more recent pictures of housing. Finally, each chapter identifies some current issues in housing policy, as perceived from each author's vantage point within their own country, but including some reference to the consequences for housing systems of the Asian financial crisis of the last few years of the twentieth century.

The order that the chapters appear in the book has been determined by the level of economic development of each country, as measured by GDP per capita. If nothing else this ordering may provide some assistance in reaching conclusions about the relationship between housing policy systems and national prosperity.

Finally, Chapter 10 attempts to bring the information presented in the country chapters together. At a fairly high level of generality, the collective story – the distinctiveness of the Asian model combined with the internal differences – is re-appraised.

Note

1. In this table, as with many of the others in this chapter, data for Taiwan, not being included in the World Development Reports, are taken from other sources. This accounts for some of the empty cells. With respect to GNP per capita the figure for Taiwan is based on a slightly different scale to that for the other countries. Although the difference is slight it cannot be accurately inserted into the ranking.

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2

Japan

Kazuo Hayakawa

Introduction

Japan is an archipelago located in monsoon East Asia. Of its total land area of 378 000 square miles, 66.6 per cent is forest and 13.7 per cent agricultural land. Developed land, which includes residential, industrial and other land, accounts for only 4.5 per cent; it is here that most of its cities and the great majority of its population of 123 million people live (HUDC 1998). Notwithstanding its rapid economic growth in the post-war period, resulting in Japan becoming one of the leading industrial nations, the living conditions of the great majority of the population are relatively poor and small houses occupy a large part of the built up areas.

Immediately after the ending of the Second World War the housing shortage reached 4.2 million units. Wartime air raids had destroyed the houses of the rich and poor alike so that Japan's homeless citizens were, in a sense, all in the same plight. In due course, and in varying degrees, there was progress in housing reconstruction. In the pre-war years renting had been the major form of housing provision; rented homes had made up 70 per cent of the total number of houses in Tokyo and 90 per cent in Osaka, for example. However, the Land and House Rent Control Ordinance, on the one hand, and the high rate of inflation in the immediate post-war years, on the other, fundamentally changed the market for rented housing. No longer such a profitable avenue for investment, landlords played a minor role in the reconstruction. Some people were able to purchase the houses they had previously rented, and some black-market profiteers built sumptuous estates. In general however, houses came to be built by those who wanted them and who could afford them. In terms of sheer numbers,

there was considerable success; overall, 500 000 units were built in 1947 and 720 000 units in 1948. The government made some contribution implementing such stop gap measures as the construction of simple frame houses. However, most of them were built privately reflecting the fact that the responsibility for post-war housing development was ultimately placed on the people.

This established a principle that has underlain the Japanese approach to meeting housing need throughout the last half century. The government has adopted a system of support for home owners that relies on self-help and individual effort. In order to escape the high density of urban centres, people have been forced to travel long distances from suburban houses (often built to low standards) to city jobs, whilst also bearing the burden of heavy loan repayments. The government felt, and still does, that if everyone owns their own house they would be happy, and in that sense, housing policy would be successful.

The shortcomings of the Japanese approach have been particularly highlighted during the present economic depression. The number of homeless people has been rapidly increasing to the extent of becoming a serious social problem. In general, the government's decision not to take a major role in housing provision has had a deep impact on contemporary Japanese society, not only on the physical and mental health and development of its people but also on the growth of culture and human morale. Housing poverty in a land of plenty has resulted in a range of buildings of all types, a range that befits its consumer culture and reflects modern Japanese urban civilisation. Yet, behind the façade is housing poverty, which, arguably, has resulted in a culture that is poor in spirit.

Main developments and characteristics of the housing system

The development of housing policy in Japan has been documented elsewhere (see Hayakawa 1987; Hayakawa 1990; Hayakawa 1997; Hayakawa and Hirayama 1991). Historically, it can be seen to have shifted from an emphasis on social objectives to an emphasis on construction objectives. Until 1945, housing policy had come under the jurisdiction of the Ministry of Health and Welfare. Housing matters were dealt with by public health officials, administrators and welfare-related professionals. However, after 1945, housing shortages became the over-riding issue and were handled by the Ministry of Construction. As a result, housing policy became a matter, not so

much of the well being of the population, but of the building of housing. Following the ending of the Second World War, the government established a number of organisations and agencies and enacted legislation that was consistent with this shift. However, the intention and outcome of these interventions was not to replace the market in housing, but rather to support and encourage it. There was to be very limited direct provision of housing, mainly for those whose needs were not met by the market, with the main encouragement being for the extension of home ownership and private renting.

The Housing Loan Corporation (HLC)

In 1950, five years after of the end of the war, the Housing Loan Corporation Act was enacted. Its provisions ensured that in cases where banks and other financial institutions experienced difficulties in providing long term and low interest funds to those who were going to construct or purchase private houses, the government would provide support. The founding of the HLC in effect extended the possibility of house construction. With the support of central government, in the form of financial subsidies, the HLC became able to provide loans at rates of interest that had been set lower than those of Treasury investments and loans. They were able to provide loans to meet the needs of a number of agents and circumstances. These included loans to individuals who were intending to acquire owner occupied houses or were intending to construct housing for rent. Local Housing Supply Corporations could also get loans to construct housing for rent and, in common with private sector companies, to build housing for sale. Finally, there were loans available for enterprises that intended to undertake urban renewal projects.

Public housing

In 1951, under the provisions of the Public Housing Act, central and local governments began to cooperate in supplying low rent dwellings directly to those low income earners who had difficulty in gaining access to housing. Houses built by local authorities could have between one-half and two-thirds of the costs subsidised by central government. This included an interest subsidy on the cost of land acquisition. The subsidies meant that the housing could be let at rents below market levels to reflect a number of matters such as the annual income of inhabitants, location, size and age of the housing, and other factors.

Access to this housing has been strictly regulated by eligibility criteria. Applicants must have incomes below a prescribed amount and

where they have relatives who live with them the combined income is taken into account. Generally, they must be married and living with their spouse although older people and those with disabilities or who otherwise have urgent need of housing can qualify even if they are single. Of those who are deemed eligible, tenants are selected through a public lottery. Certain groups of people may qualify for preferential treatment; they include older people, single-parent families and people with mental or physical disabilities.

The Japan Housing Corporation (JHC)

In 1955, the Japan Housing Corporation was established to cope with the growing seriousness of the housing shortage that had been caused by the continuing concentration of industries and people in the larger cities. The corporation was to raise private as well as public funds to develop large scale housing sites to construct dwellings for middle-class workers in Tokyo, Osaka and other major urban areas. In 1965, the Local Housing Supply Corporation Act (LHSC) was enacted. It prescribed that prefectures as well as metropolitan regions suffering from housing shortage should supply housing and housing lots to workers. In 1981, the Housing and Urban Development Corporation (HUDC) was founded by combining the existing Japan Housing Corporation and the Land Development Corporation (founded in 1975). Its task was to supply housing and housing sites as well as to promote urban renewal.

The HUDC was capitalised by central and local governments. As of the end of March 1996, its capital amounted to about ¥218.8 billion¹ and its staff numbered about 5000. Its operations continue to depend mainly on loans from Treasury funds, as well as on private funds borrowed from life insurance companies. Subsidies from the general account of central government are given to companies to cover the interest gap between the loan and operational funds. This is for the purpose of reducing the rent to be paid by tenants. Rent is calculated on the basis of an amortising period of 70 years, while for those purchasing a home the repayment term is set to a maximum of 35 years with interest reductions being offered for the first ten years.

The HUDC was reorganised again into the Urban Development Corporation (UDC) in October 1999. Housing built by the UDC is classified into three categories: rental housing; housing for sale; and special housing sold to be rented. The latter refers to collective housing built by the UDC on land prepared by land owners and sold to them on instalments and rented out by them. In addition, the UDC con-

structs, in conjunction with its housing projects, assembly halls, shops, clinics and schools. Rented housing by JHC, HUDC, UDC and LHSC amounts to 860 600 units, which represents about 2 per cent of the total national stock of housing.

Rental housing leased from private owners

This system was created with the objective of promoting the supply of rental housing for the middle income class. The problem, as it was perceived, was that the standard of rental housing had shown little sign of improvement, with the result that there was a serious shortage of good rental housing for middle income people. In 1993 the government established a system of subsidies, to be given to private land owners building housing for rent, that contributed to the cost of construction. In return, it was necessary to meet fixed standards with respect to size, structure, facilities and so on, as well as to provide a fair rent and proper rental conditions. By the end of the 1995 financial year, approximately 88 000 units had been constructed under this system.

Housing industries and real estate companies

The assessed value of all buildings and land as of the end of the 1996 financial year was 2309 trillion yen, accounting for 31 per cent of gross national assets. The real estate industry covers a wide range of businesses that are broadly classified into development and sales, distribution, renting and management. Dealers engaged in real estate development and sales, and distribution businesses are regulated by the Building Lots and Buildings Transaction Business Act. As of the end of March 1998, the number of authorised real estate dealers was 141 547, of which 2213 were authorised by the Ministry of Construction and 139 334 by prefectural governors (Ministry of Construction 1998). As elsewhere in Asia, the housing system is of major significance as a source of employment.

The government's five-year housing construction plans

The five-year plans

The Housing Construction Planning Act, enacted in 1966, had the objective of establishing a system of government planning and co-ordination in the housing sphere. Under the act, in each five-year housing construction programme, the government has to show the level of housing standards to be achieved and the targeted number of

housing units to be built by both the public and private sectors. The targeted amount of construction is set for housing built with public funds such as: public housing, HLC financed housing, and HUDC housing. After dividing the country into ten regions, the Ministry of Construction makes a local housing construction five-year programme for each region. Then each prefecture makes a prefectural housing construction five-year programme on the basis of its regional programmes. The act thus provided a basis for co-ordination and consistency both geographically and between levels of government. In addition, the plans cover both subsidised and non-subsidised housing so that it has regard to the entirety of the housing system.

The 7th housing construction five-year plan

In March 1996, the 7th housing construction five-year plan for the fiscal years 1996 to 2000 was established. The plan made it clear that the government saw the intention of the plan as going beyond housing to matters of welfare and economy. Moreover, the plan was concerned not only with publicly provided and publicly subsidised housing but also private housing. The government stated its objective as being to develop the overall housing market, including both private and public housing, with the overall expressed aim of enabling each person to raise the quality of their life by being able to select the kind

Table 2.1 7th and 6th five-year housing construction plans (000s units)

	<i>6th plan 1991–95 scheduled</i>	<i>6th plan 1991–95 constructed</i>	<i>7th plan 1996–2000 scheduled</i>
Grand total	7300	7623	7300
Total (public financed)	3700	4017	3525
Housing financed by HLC	2440	3139	2325
Public housing ¹	265	234	202
Housing built by HUDC	140	108	105
Rental housing leased from owners ²	(50)	99	205
Publicly financed private housing ³	150	87	120
Quality rental housing for seniors	—	—	18
Others	455	350	350
Adjustments	200	—	200

Notes: ¹ including renewal housing and houses built through the Bright Residential Area Project; ² 50 000 units of rental housing leased from owners in the 6th Five-year programme is included in 315 000 units of Public Housing; ³ private rented housing with some subsidies.

Source: HUDC (1998); Ministry of Construction (1998).

of housing suitable for his/her long life, well into the twenty-first century. Nested within this general objective, the plan indicated a number of other objectives. These included:

- a) The construction of housing of good quality in order to meet people's needs. The plan recognised that in order to build good quality housing, it would be necessary to make use of the finances of Japan's housing loan organisations and the housing tax system. In addition, it would support housing acquisition, increase the supply of public and public corporation-built housing, and encourage regeneration, housing sales and reconstruction.
- b) The construction of safe and comfortable housing and its environment. In order to improve the quality of life of people, it would be necessary to create a supply of city-centre dwellings. This would require the creation of good environments for urban housing as well as the regeneration of areas of old high density housing in cities, as part of natural hazard prevention policies.
- c) The creation of a good environment for Japan's ageing society. The aim here was to respond to the needs of a society in which the average life span is more than 80 years. This would require a supply of barrier-free² public rental housing for the elderly. There would be a further need to improve the relationship between housing and welfare policy.
- d) The creation of housing and a housing environment that contributes to the regional economy. The plan recognised that in order to meet each region's unique housing needs and to revitalise regional economies, enabling an increasing population in both cities and the countryside, it would be necessary to create a housing master plan. This would need to cover local public housing and to develop housing land and publicly financed housing in such a way as to stimulate the regional economy.

The plan also specified a number of targets for new construction and the housing stock as a whole. Many of these were expressed in quantitative terms. Thus, one target was to ensure that by the year 2000, half of all families would be able to live in larger and better quality housing (specifically, 91 square metres of floor space for a family of four in multi-family dwelling units and 123 square metres for the same size family in single detached housing). Beyond the year 2000, the government would work to see that half the families in all urban districts were able to have such housing as soon as possible. To do this, the

government would, firstly, work to create by 2000 a stock of good quality housing with an average floor area of about 100 square metres. Secondly, it would work to eliminate any rental housing in the large urban areas that did not meet a minimum standard of 50 square metres of floor area for a family of four. Thirdly, it would work to eliminate the gap in housing quality for the ageing society of the twenty-first century. Finally, it would attempt to expand barrier-free, sound-proofed, insulated, strong well-built qualities in all housing.

The plan stated that over the five years the total number of housing units to be built, including private housing, would be 7.3 million (see Table 2.1). Of these, the number to be built with public finances was anticipated to be about 3.5 million units, which was just under half the total. Groups to be given particular support would include those with middle income needing housing loan finance, low income earners who have difficulty paying rent for private rental housing, and middle income workers raising children and receiving public financial assistance. Table 2.1 also shows the predominate role of the HLC that was designated to support the construction of about a third of all the houses to be publicly financed. If the basic assumptions and conditions underlying the plan change and financial structural reform occurs, it will be necessary to reflect these changes in future housing policies that may, in turn, require revision of the plan.

The existing stock of housing

The existing housing stock reflects the nature of housing policy and housing supply over the last fifty years. The general picture is that over the period the supply of houses has exceeded the increases in the numbers of households so that overall there developed an excess of supply over demand (Table 2.2). But the developments have been far from regular, mainly reflecting national economic conditions. After the end of the Second World War, supported by the economic revival and a business boom, housing construction steadily increased year by year,

Table 2.2 Millions of households and houses, and vacancy rate

	1948	1953	1958	1963	1968	1973	1978	1983	1988	1993	1990
Households	16.1	17.4	18.6	21.8	25.3	29.7	32.8	35.7	37.8	41.2	44.3
Houses	13.9	15.9	17.9	21.1	25.6	21.1	35.5	38.6	42.0	45.9	50.2
Vacancy rate	0.4	1.2	2.0	2.5	4.0	5.5	7.6	8.6	9.4	9.8	11.3

Source: Statistics Bureau (2000).

but it sharply declined in 1974 due to the energy crisis. In following years the low interest rates favoured the production of housing for owner occupation. In 1993, as part of the economic policy and against a background of low interest rates, housing starts went from 1.51 million units to 1.56 million units in the following year. In 1996, the impact of low interest rates and of recovery after the Great Hanshin earthquake resulted in an increase in housing starts to 1.63 million units. Of these, 636 000 units were owner occupied housing units, an increase of 15.6 per cent over the previous year, and 616 000 were rental units, an increase of 9.3 per cent over the previous year. Due to the sluggish economy, lower than expected salary increases, fear of job loss, continued low interest rates and a plunge in consumer demand following the rise in the consumption tax (to 5 per cent), housing starts in 1997 decreased significantly from the previous year to 1.34 million units.

According to the statistical survey of housing carried out in October 1998, the number of housing units was 50.22 million, and the number of households 44.33 million, meaning that there appears to be considerably more housing units than families. The vacancy rate, which is at an historically high level, reinforces this view. The evidence of a statistical surplus has led to a sense among policy makers that there are sufficient houses to meet the needs of the population.

Nevertheless, the amount of new construction remains high, a reflection mainly of a combination of a continuing strong desire to own with a short average life span of individual buildings. Thus, according to estimates produced by the Ministry of Construction the average life expectancy of a house in the UK is 75 years, in the USA 44 years but in Japan only 25 years (HUDC 1998). The result can be seen in figures for the period 1988 to 1993. At the beginning of the period there were a total of 42.01 million housing units, with the stock growing by 1993 to 45.88 million units, an increase of some 3.87 million units. However, Ministry of Construction statistics also show that during that same period, 7.60 million new houses were built. So, approximately, for every two units built, one unit was lost. The losses were attributed to: 3.1 per cent lost as a result of fires, earthquakes and floods; 34.2 per cent were dangerous old houses that were torn down; and 62.7 per cent were destroyed to make room for roads and urban redevelopment. Redevelopment, which accounts for the greatest source of housing demolitions, destroys cities, housing and communities without in itself contributing to the improvement of housing conditions. Also large scale new housing construction con-

Table 2.3 Year of construction (million dwellings)

	Total ¹	<1945	1945-50	1951-60	1961-70	1971-80	1981-90	1991-98
Number	43.89	1.65	0.67	1.93	5.47	11.48	11.96	9.64
%	100	3.7	1.5	4.4	12.5	26.2	27.3	22.0

Note: ¹ Includes year of construction not reported.

Source: Statistics Bureau (2000).

sumes materials and energy, while large amounts of wood, concrete, glass, steel and plastic and so on, are discarded when old houses are torn down. Problems of industrial waste and the global environment, then, are intimately related to Japan's urban and housing policies.

The effect of the high rates of redevelopment and new construction on the age profile of the housing stock in 1998 can be seen in Table 2.3. Dwelling units built prior to 1945 account for only 3.7 per cent of the present stock, while nearly half was constructed in the last 20 years.

In 1998, the majority of households, 60.3 per cent, owned their own homes. The proportion doing so had varied slightly over the course of the last four decades of the twentieth century (see Table 2.4). The sustained and buoyant demand that supported this level of home ownership can, as Yamada (1999: 107) suggests, be largely attributed to a combination, in much of the post-war years, of favourable economic circumstances and government subsidies:

Rapid economic growth created a huge body of new workers which consisted not only of blue collar workers, but also white collar workers. It was important that both white collar and blue collar workers had access to the owner occupied housing market. This is because most working-class people were salaried monthly and Japan's employment system assured a worker's lifetime employment, which contributed to stabilising domestic (individual) income. In addition, due to the high economic growth, GNP per capita was increased and workers' purchasing power improved. Furthermore, the establishment of the Housing Loan Corporation provided easy access to funds for both middle-class and upper-working-class people.

Table 2.4 also indicates that the proportion of the total housing units that have been provided by companies and organisations for their employees has declined considerably.

Table 2.4 Tenure (%)

	<i>Owner occupied</i>	<i>Public rented</i>	<i>Private rented</i>	<i>Issued housing¹</i>
1963	64.3	4.6	24.1	7.0
1968	66.0	5.8	27.0	6.9
1973	59.2	6.9	27.4	6.4
1978	60.4	7.6	26.1	5.7
1983	62.4	7.5	25.8	4.1
1988	61.3	7.5	25.8	5.0
1993	59.8	7.1	26.4	5.0
1998	60.3	6.8	27.3	3.9

Note: ¹ Housing owned or administered by private companies or public bodies and rented to their employees.

Source: Statistics Bureau (2000).

According to the 1998 housing census, the average number of rooms per unit was 5.2 and the average floor area was 90.6 square metres. However, there were big differences according to tenure with owner occupiers on average enjoying more space – roughly twice – than did renters (Table 2.5). Private tenants, particularly those in metropolitan areas tended to have the least space. On average, space standards have been growing over time, although the gains for those renting have tended to be proportionately less than for owners (Table 2.6).

Against the background of these improvements, it is important to recognise that in Japan there are no legal minimum standards for housing facilities and room sizes. There is no requirement, for example, that a house must have a separate toilet, kitchen or bathroom, and five square metres in area are considered a ‘room’; even units with communal facilities are recognised as ‘housing’. This contrasts with the situation in many other industrialised countries where there are strict conditions on the definition of a house. Yet, the aware-

Table 2.5 Rooms and floor space by tenure, Japan and Metropolitan area

	<i>Rooms</i>		<i>Floor space (sq m)</i>	
	<i>Japan</i>	<i>Metropolitan area</i>	<i>Japan</i>	<i>Metropolitan area</i>
Owner occupied	6.00	5.24	121.1	101.8
Public rent	3.32	3.20	50.0	47.7
Private rent	2.66	2.40	41.8	37.1
Issued housing	3.21	3.00	52.8	49.3
Total	4.75	3.99	90.6	72.7

Source: Statistics Bureau (2000).

Table 2.6 Average floor area per unit (sq m)

	1968	1973	1978	1983	1988	1993	1998
Owner occupied	85.4	95.6	101.3	107.3	112.1	118.5	121.1
Rented	35.5	37.7	39.4	41.7	43.1	44.3	44.4
Total	62.5	70.2	75.5	81.6	85/0	88.4	90.6

Source : Statistics Bureau (2000).

ness of Japan's housing problems varies greatly between central and local government as well as between government officials and average citizens. The lack of knowledge of standards elsewhere may be a major factor contributing to the inability to solve the nation's housing problems.

The nominal value of investment in housing in the 1995 financial year amounted to Yen25.7 trillion or 5.3 per cent of GDP. The percentage of GDP invested in housing has continued to decline from the 1970s but recovered to 6.4 per cent in 1987, falling back to 5 per cent more recently. The major part of the investment is funded privately (Table 2.7). The allocation in the budget for the 1995 financial year to the general account amounted to Yen71 trillion, of which Yen10 trillion was marked for public works and Yen1.2 trillion (or approximately 1.5 per cent) for housing and urban residential areas projects. These were mostly subsidies for local governments that were to be invested for the building of housing in urban areas.

Due to the high cost of land in the 1980s, the price of housing in the larger urban regions increased dramatically. For example, if the average price of new private condominiums in the Tokyo Capital District in 1983 is taken as 100, the average price rose to 239.5 in 1990. As the land price bubble burst, however, prices declined in 1996 to 165.7. This was accompanied by 'an increase in bad debts' (Yamada 1999: 108). In

Table 2.7 Financing for newly built units by tenure and funding, 1995 (%)

	<i>Privately financed</i>	<i>Financed by HLC</i>	<i>Public housing</i>	<i>HUDC housing</i>	<i>Others</i>	<i>Total</i>
Owner occupied	15.7	20.5	—	—	0.9	37.1
Housing for sale	13.0	9.8	—	0.2	0.2	23.2
Rented housing	28.2	4.8	3.0	0.8	1.2	39.0
Issued housing	0.9	—	—	—	0.8	1.7
Total	57.8	35.2	3.0	1.0	3.1	100

Source: Ministry of Construction (1998).

relation to average incomes, house prices in 1980 were 4 to 5 times the income of the average working family but reached 8 times by 1990, declining to 5 times income in 1996. The rents of private rental housing similarly increased for new residents peaking in 1991 and subsequently tending to decline. Sales of newly built apartments, which had been supported by low interest rates, started to decrease in the autumn of 1996. Although the office vacancy rate is falling, the market is polarising, as demand is concentrated on new and spacious offices located in city centres. Housing supply is centred on new housing construction. Because of shortages in the supply of good quality, new housing and the small flow of existing houses onto the market for sale, the turnover of housing units tends to be small. It is possible that only 100 000–150 000 units of existing housing turn over annually, and the government recognises the need to expand this figure.

Recent changes in housing policy

In June 1995, the Housing and Building Council, which is a consulting body to the Ministry of Construction, proposed a new housing policy system. This was to differ from the old system, which was centred on direct public assistance and direct supply by central and local government bodies, by further emphasising market principles and deregulation. There were several specific elements of the new system, which have been subsequently implemented.

In June 1996, the Public Housing Law was amended mainly with respect to the restrictions placed on those qualified to occupy public housing. When the public housing qualification system had been introduced in 1951, it included 80 per cent of all wage earners, but under the amendments this has been reduced. Starting in April 1998 it will cover only 25 per cent (of which 40 per cent are the elderly). Of those already residing in public housing, even if the total resident family income is only slightly above the average income of a worker's family, the resident family is classed as a 'High Income Earner' and told either to vacate or else to pay twice the rent of people living in neighbouring private rental housing. The result is that public housing in Japan is becoming housing only of the poorer, low income earners and the elderly. As a result, the number of units needed declines, and the problems facing low income earners in obtaining housing is becoming more severe.

In February 1997, the Building Code and City Planning Law were amended so that 'High Rise Housing Promotion Zones' were to be designated in the centre of large cities, and the housing capacity, as mea-

sured by the floor area ratio, raised from the present 400 per cent to 600 per cent. As a result, those owning land in the city centre – such as developers, real estate agencies, builders, companies and intermediary financial institutions – stand to make big profits. ‘Land shark’ activities are expected to re-emerge. In addition, in Japan there has long been a legal requirement that each building should enjoy a minimum access to sunlight for 3 to 4 hours; this will no longer be required in the new Promotion Zones. As a result, medium and high rise housing construction no longer needs to take the surrounding environment into consideration, and conflicts with surrounding citizens can be expected to increase. Furthermore, with the increase to this capacity, densities in the cities will increase with the possibility of increasing land prices.

The government has also effected some restructuring of the Housing and Urban Development Corporation, the body in charge of public housing. As a consequence, it will stop selling housing, reduce the supply of rental housing and promote basic urban development. For the existing public housing, the HUDC wants to increase rents, which were already over Yen120,000 for 60 square metres of floor area, and to increase the sale prices of its many unsold units to above those of private condominiums. Currently, its intentions are to begin to evict unemployed and retired residents, or even those who simply cannot pay the higher rents of rebuilt units.

Finally, in December 1999 a fixed term Rental Rights System was enacted. This limits the security of tenure of tenants by subjecting tenancies to a fixed term. There were several stated objectives. Firstly, the new system would make it easier to force tenants to give up their tenancy thus enabling landlords to increase rents, rebuild, and change tenants. Overall, it would encourage the promotion of rental housing construction according to market principles, so reducing the burden of public housing financing, and move away from local government housing administration. Secondly, it would promote housing land sales, more intensive use and increased redevelopment. Finally, it was seen that the act would help to stimulate the economy. Bodies such as the Japan Federation of Bar Associations have voiced opposition to the law on the grounds that it threatens the housing and survival rights of tenant – often the weaker members in society.

Current issues

In order to meet their housing needs, Japanese people depend primarily on personal effort and market principles. In Japan, housing is

considered personal property and not a government responsibility. Nevertheless, the government has supported the market by assisting the acquisition of owner occupied housing by the provision of low interest loans. This facilitated the consumption of increasingly higher quality housing by those with middle and higher incomes. For their part, lower income groups, unable to compete effectively in the market, have been able to acquire public housing. But the supply of public housing has decreased, and the size and quality of individual units limited. Moreover, the tightening of eligibility criteria has ensured that it has acquired the stigma of being considered welfare housing aimed at the very poorest members of Japanese society. One result has been that the gap in housing consumption between the richest and poorest in society has widened. Japanese housing policy has resulted in a new administratively caused type of discrimination and segregation. The residents of urban areas are divided according to their income, and given the small number of public housing facilities, those with low income have no choice but to move to the public housing estates.

The discriminating effects of housing policy are illustrated vividly by the Great Hanshin Earthquake that occurred on 17 January 1995 (Hirayama 2000). Some 88 per cent of the 5 502 people who died did so as a direct result of the earthquake, with another 10 per cent killed by the fire that followed and destroyed a large section of the old quarter in Kobe. There were a further 41 502 people seriously injured by the earthquake and more than 338 000 housing units collapsed so that about 410 000 households were made homeless. A large proportion of those directly affected, particularly in the coastal areas, were low income workers, pensioners, the elderly, families on social assistance and non-Japanese citizens. For example, some 33 per cent of victims were over 70 years old and 53 per cent over 60 and many of them were living on low pensions and paying Yen 10 000 to 20 000 per month for old rental housing. Overall, whereas about 0.26 per cent of the residents of Kobe died as a result of the earthquake, the death rate for low income households receiving social assistance was 1.24 per cent, that is about five times higher. The cause of this differential effect was of course the lower safety standards to which their housing has been built in comparison with that of middle and higher income groups, so that it can be said that the Great Hanshin Earthquake hazard was mainly a 'housing hazard'.

In fact, this can be seen to be a symptom of a wider failure in Japanese housing policy to adopt some important, internationally

accepted norms and standards. The International Covenant on Economic, Social and Cultural Rights³ contains the most significant international legal source of the right to adequate housing. The Istanbul Declaration on Human Settlements (1996) and others are comprehensive listings of all sources of international law recognising the right to housing (Habitat International Coalition 1996). Housing, associated freedoms and the right to safe and good quality housing are thus widely accepted as fundamental. Yet, in Japan there is a rejection of the citizens' participation in all stages of the housing process, and disregard for the international declarations or conventions concerning the right to housing. Citizens have not been afforded opportunities to participate in the housing process or in the development of housing plans. Indeed, generally housing policies, in recent years in particular, have been forced through the legislative process without reference to proper democratic procedures or popular consultation. People who previously relied on their communities, family ties, friends, medical doctors, shops, employment, social and emotional support services and schools have often been forced to leave their living place.

There is some evidence that such dislocation may lead to feelings of isolation, depression or despair and even to increases in alcohol consumption and suicide. More generally, Japan's housing policy may result in a poor social and housing environment that, in turn, makes great demands on the medical and welfare sectors. Yet, preventing rising medical and welfare costs is an important issue for Japanese society, and the foundation of the solution to this problem is safe comfortable housing. The experience of the Great Hanshin Earthquake showed that housing and urban planning not only support people's healthy development and prosperity, but may also help prevent rising social costs, that is, they function like a 'social preventive medicine' or 'preventive welfare' (Hayakawa 1997).

Actually, there is little new in this recognition. As long ago as 1962, the government's Social Assistance System Council pointed out the nature of the relationship between the housing and social sectors:

The Government's housing policy tends to be biased toward relatively high-income earners. Low-income earners who cannot afford to buy a house/dwelling unit do not benefit. The result is that social assistance cannot be achieved. Housing construction is centred on Government-built housing. There is a great need for the Government to revise its housing policy toward emphasising low-priced, good quality public housing for low-income families.

However, those in charge of housing policy pay no attention to this need, and go ahead with their present flawed policy despite what is said about it. (Management and Co-ordination Agency of Japan 1962)

Over thirty years later, in July 1995, the same Social Assistance System Council made even stronger criticisms:

Housing in Japan is of such a low quality that it cannot contribute to an affluent life for the nation's people. The burden of medical expenses and social welfare weighs heavily on the elderly and handicapped. Housing and town planning should be directly related to the Social Assistance System, but they have not been in Japan. From the viewpoint of ease of living for the elderly, these are far behind most other countries. These things must be attended to vigorously hereafter. (Management and Co-ordination Agency of Japan 1995)

The results of ignoring the council's advice have been housing poverty that has greatly increased social costs. For example, in 1993 about 900 000 older people were bed-ridden. It is estimated that this will increase to 1.2 million by the year 2000, and to 1.7 million by 2010. In these circumstances, increases in the cost of tending to the needs of the bed-ridden are unavoidable. But, declining to a position of becoming bed-ridden with its consequent personal and social costs is closely related to poor housing conditions. Medical costs have been rising rapidly every year. In 1975, they were about Yen6.5 trillion, increasing to Yen16 trillion in 1985 and to Yen27.2 trillion in 1995. Of this amount, the amount spent on older people was Yen900 billion in 1975 (13.8 per cent), Yen4.1 trillion in 1985 (25.6 per cent) and Yen8.9 trillion in 1995 (32.7 per cent). The burden of such rapidly rising costs must be borne by society as a whole. However, the poor housing conditions of many Japanese people, particularly the elderly, causes increasing numbers of accidents, an increasing incidence of being confined to bed and rising medical costs.

If large-scale improvements in the housing environment were to be undertaken, the financial burden on the bed-ridden and senile elderly would doubtlessly be reduced. Given that currently they place such a heavy burden on national and local government finances, social assistance administrations declines, people's health and welfare cannot be protected, and life becomes more miserable. Notwithstanding the seriousness of these developments and the obviousness of the causal chain

that has give rise to them, the need to improve housing conditions for these people has seemingly not entered into government thinking.

Notes

1. US\$1 = approximately Yen118.
2. That is having no obstacles that restrict the movement of wheelchairs.
3. CESCRA was adopted by the United Nations in 1966 and came into force as law in 1976.

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3

Singapore

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Introduction

The most distinctive feature of the Singaporean housing system has been the implementation of its large scale public housing programme. (Yeung 1983; Castells *et al.* 1988). In less than thirty years, the government has produced a housing stock of more than 750 000 dwelling units providing accommodation for some 86 per cent of its population. Moreover, in contrast to Hong Kong, which has also had a major programme of public housing provision, the majority (81 per cent) of the public flats in Singapore is owner occupied. No other industrialised country, in Asia or elsewhere, has combined so much public provision with so much private and individual ownership.

The main challenge addressed in this chapter is the unpacking of the formulation and working of a housing policy system in Singapore that has been designed in such a way as to be based in all respects on the involvement of the public sector. It examines the extensive public housing programme and articulates the delivery system of public housing as it has evolved in post-independence Singapore. It will also discuss the emerging issues and challenges of meeting changing housing needs.

Government involvement in the housing sector

The city state of Singapore is located at the southern tip of Peninsular Malaysia. It is the smallest country in Southeast Asia with a land area of 648 sq km and a population of 3.86 million. Within its limited land area, the spatial needs of the city, the nation and its population have to be accommodated. Unlike many of its Asian neighbours, Singapore

does not have a hinterland and the usual rural–urban dualism. In their absence, a planning philosophy has grown up that regards the whole island as an urban area, precipitating the development of an archetypal planned city, what has been called ‘deliberate urbanization’ (McGee 1976). Every aspect of the city from open space to housing, from roads to mass rapid transit, from industry to retail location is a product of government planning and deliberate intervention.¹

Since internal self rule in 1959 and independence in 1965, the government has abandoned the largely *laissez-faire* approach towards housing provision of the colonial British government to pursue an active policy of public housing provision.² Post-war rapid urbanisation and population growth had combined to produce overcrowding in the city area and, even more problematically, the growth of slums and squatter colonies on the city fringe as housing stock in the city became overcrowded and completely exhausted. Living conditions such as those described by Kaye (1960: 2) were not uncommon:

shophouses, originally intended to house one or two families, have been subdivided by a maze of interior partitions into cubicles, the majority of which are without windows and in permanent darkness. Most of the cubicles are about the size of two double beds, placed side by side. In one such cubicle – dark, confined, insanitary and without comfort – may live a family of seven or more persons. Many of them sleep on the floor, often under the bed. Their possessions are in boxes, placed on shelves to leave the floor free for sleeping. Their food, including the remains of their last meal is kept in tiny cupboards, which hang from the rafters. Their clothes hang on the walls or from racks. Those who cannot even afford to rent a cubicle may live in a narrow bunk, often under the stairs.

By 1959, it was estimated that about 250 000 people were living in slums and another 300 000 in squatter areas, in huts made of attap,³ old wooden boxes, rusty corrugated iron sheets and other salvage material (Yeung 1973). As with many other cities in the developing world, the housing problem in Singapore had two basic dimensions. First, there was insufficient decent housing to meet the needs of the growing urban population. Second, housing provided by the private sector was beyond the financial means of low income families. The poor, not being able to afford decent private housing, had to continue living in overcrowded conditions, often with no sanitation, water supply or any basic health requirements. It became increasingly clear

that the government must intervene to provide decent housing within the financial means of low income people.

High political priority and commitment was accorded to housing. A statutory board,⁴ the Housing and Development Board (HDB), was established in 1960 to implement a large scale public housing programme. The aim, to provide decent housing for all citizens and to promote home ownership, has been successfully met. By March 1999, the public housing programme had completed over 750 000 dwelling units, providing housing to 86 per cent of the population, of whom 81 per cent owned their flats and the remaining 5 per cent rented. The programme has also radically changed the Singaporean landscape and residential living with the spread of high rise public housing across the island. Given its limited land area, to accommodate its growing population Singapore has chosen a policy of high density development.

Housing supply

At the outset of self government, the newly elected government had in its election campaign promised a home for every citizen. To this end, it reorganised the housing industry to deliver its political promise. In 1960, the HDB was established to take over the housing function of the colonial, *de facto* housing authority, the Singapore Improvement Trust (SIT). In its 32 years of existence (1927–59) the SIT was limited by funds and by a low priority on housing with the result that it constructed only about 20 per cent of the nation's total housing requirements. In contrast, the HDB was established as the single government agency in charge of public housing with its own five-year building plans and strong political support.

The HDB has been entrusted with extensive powers in land acquisition, resettlement, town planning, architectural design, engineering work and building material production, that is, in all aspects of development work except the actual construction of the buildings, which is undertaken by private contractors under the supervision of HDB staff. The HDB is also responsible for the allocation of public housing, both for rental and sale, and until 1988, the management of all aspects of the public housing estates and new towns.⁵ In short, the HDB is responsible for the total planning, development and until recently, the management of the public housing sector. By centralising its public housing effort under one authority, Singapore has circumvented the problems of duplication and fragmentation of duties and bureaucratic rivalries often associated with multi-agency implementation.

Since its inception, the HDB has had eight successive five-year building plans with production targets that were either met or surpassed. It has built 22 new towns.⁶ In addition to residential housing, it has constructed more than 15 000 shops, 150 markets and food centres, 12 000 industrial units, 18 swimming pools, 12 sports complexes and 45 town gardens and parks for the people who live in its housing estates and new towns. As stated in its mission statement, the HDB is the public housing authority, the provider of affordable housing of high quality, and helps in building communities. Its role in the housing sector has been greatly aided by several factors. Apart from an efficient administrative structure and the strong political commitment to provide a home for every citizen, two other aspects of housing supply bear detailed examination, land acquisition and housing finance.

Land acquisition

Many countries in focusing on the delivery, financial and administrative aspects of the shelter problem have either neglected or underestimated the importance of land issues. In many developing countries, the implementation of public housing programmes is often hampered by the shortage of land due mainly to a lack of power of their governments to acquire land on a large scale. In Singapore, when the scale of public housing development is considered, the importance of an effective land policy cannot be overemphasised.

In 1960, only 44 per cent of the land in Singapore was state land, that is owned by the government, while over 35 per cent of the population lived in squatter settlements, thus making the task of land assembly and clearance a formidable one. From the outset it was appreciated that effective legislation was needed to ensure the availability of encumbrance free land for housing. Under its enabling legislation, the Housing and Development Act,⁷ the HDB was given power to compulsorily acquire any land deemed necessary for housing development through the Land Acquisition Act.⁸

Under the legislation, the rate of compensation is determined by the state; only the existing use or zoned use is considered, whichever is lower, and no account is taken of any potential value for other intensive uses (Khublall 1984; Chua 1991). The prices paid by the HDB for the acquired lands are therefore usually much lower than the market price. Until as recently as 1987, the compensation payable was the market value of the land pegged as at 30 November 1973 or at the date of the notification in the Gazette, whichever was the lower

(Section 33 (1), Land Acquisition Act).⁹ The justification is, as explained by Wong and Yeh (1985: 41):

The majority of the acquired private lands comprised dilapidated properties or neglected land where squatters had mushroomed. The government saw no reason why these owners should enjoy the greatly enhanced land values over the years without any effort put in by them.

Compulsory land acquisition for public housing has allowed the government to reduce the costs of housing provision. Despite seeming inequities, guided by the principle that everyone in the squatter areas throughout Singapore is affected 'equally' and that land is needed for the housing of the nation, the attitude of those affected by resettlement has changed from resentment and resistance in the initial years of the public housing programme to resignation and even acceptance (Tai 1989; Chua 1997). Popular acceptance aside, land acquisition has also contributed to the creation of a captive demand as public housing is offered as a resettlement benefit to people whose land is acquired for development.

Housing finance

The second factor contributing to the supply of public housing is finance. During the period 1965–86, Singapore achieved the highest average rate of growth of gross domestic product in the world: between 8 and 10 per cent per annum in real terms for the entire period though there was some variation between sub-periods.¹⁰ By the 1980s, Singapore had joined the ranks of Hong Kong, South Korea and Taiwan to become one of four newly industrialising countries in Asia. Subsequently, its per capita income has increased to become the second highest in Asia after that of Japan. The background of economic progress and rising affluence is an important factor in predisposing the successful development of public housing in Singapore. It has provided residents with the means for translating housing need into demand and created an economic position that is sufficiently strong for the government to undertake and finance its various development projects.

As a statutory board, the HDB is financially autonomous. It finances its extensive public housing programme mainly through rents, conservancy and service charges, the sale of flats, land and other premises, interest receivable from mortgage loans and investments (such as its

brick factory, pile plant and metal workshop).¹¹ In addition, the HDB receives financial assistance from the government in the form of government loans and grants. Loans are given for housing development (to finance development programmes and operations), mortgage financing (to finance mortgage loans given by HDB to purchasers of HDB flats) and, more recently, upgrading financing (to finance upgrading and renewal of HDB flats and estates).¹² These are term loans with interest rates and repayment periods as shown in Table 3.1.

To ensure that public housing is within the affordability of the majority of the population, the government through the HDB fixes its rents and selling prices at below market levels, so that its expenditure, encompassing land costs, construction and upgrading of properties, has in most years exceeded income. Government grants are given to cover the annual deficit. From its inception, there has never been a single instance where a request by the HDB for funds for its public housing programme has not been approved by the government (Yeh 1975; Wong and Yeh 1985). The amount of government grant has varied from S\$2 million to as much as S\$120 million¹³ a year. To date, a total sum of more than S\$5500 million has been given.

The bulk of government finance for loans and subsidies is drawn from loans through the country's savings-investment process. A key component in this process is the Central Provident Fund (CPF). Much of the CPF savings are invested in government securities (government stocks and bonds), thus providing a cheap and ready source of finance to the government for public housing construction and national capital formation. The CPF is a tax exempt compulsory savings fund. Under the scheme, first instituted in 1955, employees are required by statute to save a certain proportion of their monthly income in a CPF account. Employers also make monthly contributions to employees' CPF accounts.¹⁴

Table 3.1 Government loans to HDB, 1997/98

<i>Government loans</i>	<i>Interest rate (%)</i>	<i>Repayment term (years)</i>	<i>Amount (S\$000)</i>
Housing development loans	5.48	20	15 161 814
Mortgage financing loans	3.48–5.65	up to 30	38 758 260
Upgrading financing loans	3.48	10	14 421

Note: Bank loans have varying interest rates of up to 7.5 per cent and up to 10 years repayment term.

Source: HDB Annual Report 1997/98.

Membership of CPF has grown from 180 000 in 1959 to 2.8 million in 1998. The contribution received by the Fund has increased from S\$9 million in 1955 to more than S\$85 277 million in 1998. The CPF savings have yielded a huge sum of capital to finance development including public housing. The significant point is that the availability of CPF has made possible the funding of housing. It allows the government to draw directly from the savings of the people rather than have to compete for expensive loans from commercial financial agencies or funding instruments. The capital budget of the HDB funded by low interest loans from the government through the CPF mechanism represents over a third of the government's development estimates in the state budget. Consequently, public housing in Singapore has been financed and implemented within the limits of national resources without recourse to foreign funds.

In addition to development finance, the CPF public housing financing scheme also provides the government with a means of control over the circulation and supply of money in the economy. This is achieved at two levels. First, by controlling the withdrawal of CPF savings for specified uses such as for public housing, the government can effectively control a large proportion of the demand and supply of money in the economy. Second, by increasing the CPF contribution rates and HDB flat prices to match the rates of wage increases, inflationary tendencies can be controlled, for by increasing forced savings with wage increases, the net increase in wages is effectively reduced, thereby limiting the increase in spending power. The CPF is thus a powerful economic tool. CPF savings have also been used to provide a source of mortgage financing to help home buyers meet their mortgage payments. This has greatly affected housing consumption in Singapore.

Housing consumption

A distinguishing feature of public housing development in Singapore is its high degree of home ownership: 81 per cent of public flats are owner occupied, this taking the particular form of a 99 year lease.¹⁵ There are several factors supporting the high rate of ownership. Singapore's national housing policy is directed not only at solving the housing crisis inherited at the time of self government but also at promoting home ownership. As early as 1964, a Home Ownership for the People Scheme was introduced 'to encourage a property owning democracy in Singapore, and to enable Singapore citizens in the lower

middle income group to own their own homes,' (HDB Annual Report 1964: 9). The government through the HDB is committed to equality of opportunity, through the home ownership programme, for all citizens to buy homes up to their capability as consumers. Home ownership is seen as an efficient process for incorporating the population, especially the lower income groups, into a commitment to the nation. It is an effective way of eliminating potential dissension and social fissures. The encouragement of home ownership is therefore an important step for nation building, for the country's domestic, political and social stability, which is seen to be a necessary foundation for strong economic growth (Wong and Yeh 1985; Chua 1991). Three particular aspects of home ownership bear further examination: eligibility conditions, mortgage financing, and quality.

Eligibility conditions

Under the Home Ownership Scheme, Singaporean citizens who do not already own homes and whose combined monthly household income falls below a specified ceiling are eligible to buy HDB flats. Although relatively simple and straightforward, the application of the eligibility ceiling is somewhat more complicated. First, its effectiveness depends on setting the income ceiling at an appropriate level such that it would include the intended target group without an unmanageable influx to the applications register, resulting in a very long waiting list. Second, the setting of an income ceiling is not a 'one time' thing; it has to be constantly reviewed in the context of changing income levels, prices of private housing and the HDB's ability to extend its programmes. The income eligibility ceiling has therefore been periodically revised. The present ceiling is S\$8000 for 3, 4 and 5 room and executive flats. By this criterion, some 90 per cent of resident households in Singapore qualify to own public housing.

In addition to income, there are other eligibility criteria. Thus, applicants must be a citizen of Singapore, have a family nucleus,¹⁶ either through marital or blood ties, and be at least 21 years old. The eligibility conditions play an important role in the promotion of government policies. An example is the eligibility condition on a family nucleus that is intended to promote family values and ties. In this way, various priority considerations have been worked into the eligibility condition as incentives to support prevailing government population and family planning policies. One example is the Third Child Priority Scheme that grants priority in allocation to applicants with three children. This scheme was introduced following the change in family planning policy

intended to encourage larger families. Another example, is the Multi-tier Family Scheme that gives priority to applicants with family members drawn from three generations. This was introduced to encourage the tradition of multi-generation family living as a means of caring for the elderly that avoids elderly parents being cared for in state financed senior citizen welfare homes.¹⁷ In the early 1990s, the scheme was extended to include the offer of cash grants when buyers buy flats near their parents. In contrast, the pro-family housing policy rules against single mothers buying new public housing flats. Given the objective of encouraging the family as an institution and of maintaining family values, these aspects of the eligibility criteria clearly affect the private lives of HDB flat buyers.

Just as priority is given in order to encourage certain behaviours and norms, debarment and eviction is applied when an applicant has been found to have used the HDB flat in a manner that has infringed national or public housing policies. Examples include the use of a flat as a common gaming house, for harbouring illegal immigrants, for illegal subletting¹⁸ or when a person has been found guilty of the 'killer litter' offence: the throwing of any articles from the flat. The withdrawal of HDB housing eligibility applies not only to the offender but also to members of their family. The penalty provides an effective means of persuading people to conform to the desired social norms (Tai 1989; Tan 1998). By writing the desired norms into its conditions of sale and rent, the HDB has thus extended its jurisdiction into the non-housing realm, supporting social policies that are deemed significant or 'necessary' for maintaining social order, which is itself seen as a *sine qua non* of political stability and economic growth.

Mortgage financing

Initial response to the Home Ownership Scheme was not enthusiastic; between 1964 and 1967 less than 6000 flats were sold. In 1968, the Scheme was augmented with an innovative mortgage financing scheme involving CPF savings under which they could be used for the purchase of HDB flats, to pay the 20 per cent down payment on the sale price as well as the mortgage instalments on the remaining 80 per cent. According to the latest figures released by the HDB, 87 per cent of HDB flat owners finance the purchase of their units from CPF funds (Cost Review Committee 1996). Further to facilitate home ownership, the HDB offers housing loans to all buyers of HDB flats with interest well below the market rate.¹⁹ With these arrangements, it became possible to purchase a flat without suffering a reduction in monthly dis-

posable income. For the average worker, the monthly repayment for the flat is less than half of the CPF deposit, leaving more than sufficient funds for retirement. The outcome has been a rapid expansion of home ownership. In 1968, 44 per cent of public housing applicants applied to buy their flats, the proportion increased further to 63 per cent in 1970 and 90 per cent by 1986.

One of the administrative consequences has been that the HDB became the largest mortgagee in Singapore. Another consequence is that, as residents become home owners, they generally acquire a greater sense of stakeholding and of interest in the maintenance and upkeep of surrounding common facilities as well as in the architectural design of their homes. Quality, design and comfort gained a higher consideration as incomes grew and people began to assert their preferences and demands. A third consequence is that home ownership has helped to promote the political credibility and legitimacy of the government as it has promised to 'ultimately promote home ownership to virtually every citizen' (Teh 1984: 89). By promoting home ownership, the government has also circumvented the political difficulties experienced elsewhere such as with the conversion of council housing to owner occupation in Britain, and the drain of universal public housing provision on national economies as has happened in some European countries (Forrest and Murie 1983; Szelenyi 1983).

Significantly, the Home Ownership Scheme and its mortgage financing system has greatly promoted housing consumption and helped Singapore to progress towards a home owning society. At the same time, income derived from the sale of flats²⁰ along with rentals collected combine to ensure an important return from the housing investment that can be ploughed back into the next cycle of housing production. Since 1975, only about 2 per cent of the annual national development budget estimates is reportedly needed for subsidy on public housing (Wong and Yeh 1985).

Economic effects of housing consumption

The Singaporean system of housing provision also contributes to economic growth. Although public housing programmes may impose a burden on national economies and a drain on public resources, Singapore's experience has shown that HDB construction expenditure by contrast has a multiplier effect that stimulates the economy and contributes employment growth in the building and construction industry. Though not the primary objective, Singapore's public housing development has generated external economies as a result of

its massive scale of construction. The ratio of construction to the country's gross domestic product has increased both absolutely and relatively over the last three decades, currently standing at 40 per cent of GDP.

The construction industry has also helped to regulate part of the labour supply in the economy. As the construction industry is highly labour intensive with a labour absorption capacity both for skilled as well as unskilled workers, the HDB building programme has generated a substantial amount of employment. It was estimated at the time of the HDB First Building Programme (1960–65) that the construction of one unit of public housing would generate employment for a person for nine months directly at the construction site and that a HDB building programme of 10 000 units per year would create 15 000 jobs (Yeh 1975). In addition, with the policy of reserving 10 to 15 per cent of new town land for industrial development, public housing investment has generated a significant number of new jobs near the homes of new town residents especially for women who otherwise might not have entered the labour force. Over the 10 year period from 1970 to 1980, female participation rates increased from 29.5 per cent to 44.3 per cent (Yuen 1991). Thus, housing should not simply be perceived as providing solutions to the shelter problem, but also as a potentially leading sector of growth in national economy.

The demand for quality

Over the years, there has been a shift in emphasis from meeting basic housing needs to providing better standards and amenities. To satisfy the varying needs of families, the HDB has developed a range of flat designs and improved the quality of housing and living conditions with each new building programme. At present, there are six main prototypes of flats: 1, 2, 3, 4 and 5 room flats, and executive apartments. Floor areas range from 23 to 145 square metres and most building blocks take the form of 9 to 13 storey slab blocks or occasional 4 storey blocks and 20 to 25 storey point blocks. Each flat has its own kitchen and bathroom fitted with modern sanitary fixtures and its own electrical, water and gas supplies. More recently, flats have been supplied in different quality finishes: no frills, standard or improved. This gives the new owners greater freedom to decide the style and quality of the flat's interior.

Increasingly, the HDB is trying to understand more fully the expectations and aspirations of residents. One major outcome is the renewal of older housing estates to avoid the problem of obsolescence. As Lau

(1998: 42) explained, 'Generally speaking, there was nothing wrong with these old flats, considering the acute housing shortage and budget constraints at that time. However, they were rapidly becoming sub standard in comparison with newer ones.' Thus, as early as 1978, the HDB started a parallel programme of redevelopment and upgrading for the older housing estates. Allocated a budget of S\$15 billion in 1989, the upgrading programme, as announced by the Minister for National Development, 'will improve the interior and exterior of flats in existing HDB estates, and progressively convert them into precincts and communities of middle class housing comparable to or even better than the latest HDB projects at Pasir Ris or Bishan', (per Mr Dhanabalan, the then Minister for National Development, see Parliamentary Debates, 1989, Vol. 54 Col 332–33).

Improvements are made to the interior of the flat, to the block and to the estate. Improvements to the flat generally include the addition of balconies, service yards, toilets, better wall and floor finishes that together not only increase the living space but also bring the standard of design and layout of the older flats closer to newer ones. In order to make the block design more varied and individualised, improvements may include additional architectural features such as pitched roofs, colour claddings for walls, additional lifts, distinctive entrances and lift lobbies. In some instances, entire blocks of 1 and 2 room flats built in the 1960s are demolished to make way for the development of larger flats and the provision of communal facilities. Affected residents are compensated and can choose to purchase the new flats or sell their old flats and move to other areas. The current compensation for 1 room flats ranges from S\$35 000 to S\$48 000 while for 3 room flats the amount varies from between S\$110 000 and S\$145 000.

The upgrading programme is generally targeted at flats over 17 years old and residents have the right to determine whether they want their estate to be upgraded. At least 75 per cent of residents must elect for the upgrading before it will be implemented and they pay between 8 per cent (1, 2 and 3 room standard package) and 42 per cent (executive flats with standard plus package) of the total cost of upgrading.²¹ The remaining cost is borne by the government and is seen as a means of improving the value of the flats and increasing the wealth of flat owners. Viewed in another way, it is an asset-enhancing exercise, a way to share the nation's wealth (*The Straits Times*, 22 Aug 1993). The HDB policy of continuous upgrading, while responsive to the rising affluence and aspirations of the population, is pivotal to gaining acceptance for this form of housing. Although initially built to house

the poor from slum clearance and squatter resettlement, public housing has over the decades become increasingly associated with affordable middle class housing for the majority of the Singaporeans.

Challenges and future developments

With the extensive development of public housing, the sector has become a major force shaping the life and living environment of Singaporeans. It has delivered decent, affordable housing to the majority of the population and in the process rid the city of its slums and overcrowded housing conditions. Through its allocation policy and eligibility conditions, it has embraced the private domain of residents while supporting certain perceived desirable norms and traditions. Through its innovative housing finance, it has rationalised universal public housing provision and created a property owning democracy that has helped to build hegemony and political legitimacy of the government. Nevertheless, the programme is not without its own problems and challenges. They are as much the result of the successful housing policies as they are of the changes over time in the wider economic situation and population characteristics. As Chua (1997: 38) concluded, 'An almost absolute monopoly on housing, no matter how politically and materially effective, generates its own problems internally.' The following serve as illustration.

Arrears

One issue is that of rent and mortgage arrears. Even though the Housing and Development Act provides for forfeiture (or repossession in cases of non payment of mortgage instalments) of a flat when the rental is in arrears for 3 months or more, there are few cases of forfeiture/repossession because of arrears. Chua (1991: 38) offered one possible explanation when he observed that, 'given that public housing is the only form of housing for the masses, the arrears cases cannot be evicted from their flats without the eviction itself becoming a public issue: an evicted family would immediately become homeless, and hence a visible social problem requiring social welfare attention.' Furthermore, the policy is to provide shelter to those in need, thus even in bankruptcy cases, HDB flat owners should not lose their flat to their creditors.

Rental and mortgage arrears is nevertheless a management problem that may become increasingly an issue in times of economic difficulties. To contain the problem, help is offered to families in financial difficulties. This commitment does not stem from welfare

objectives but rather is motivated in part by the government's vision to provide housing for the nation and in part by its belief that home ownership in giving the people a greater stake in the nation will induce in them a greater measure of nationalism. Thus, for example, during the recessions of 1985–87 and more recently, during the Asian financial crisis, the government announced that the HDB would not penalise any household that went into arrears as a result of unemployment. Under a reduced repayment scheme, owners and applicants can choose to pay only 75 per cent of their normal monthly mortgage payments for the first five years, they may also reschedule their mortgage loans and extend the repayment period from 20 to 30 years provided they will not be older than 65 years old by then, and they may defer mortgage payments for six months or settle their loan arrears by instalments over a period of time after re-employment. In addition, during the Asian financial crisis public flats have been given rebates on utility charges. Needy families living in 1 and 2 room flats have also been able to obtain assistance under the Rental and Utilities Assistance Scheme.

Rental and utilities assistance aside, the government has also recognised the inability of some households to pay for even a minimum size flat from their own income. Thus, under the Sale of Flats to Sitting Tenants Scheme introduced in 1994, sitting tenants of 2 and 3 room HDB flats could buy their flats at a discounted price. The discount is set at 3 per cent for every year of occupation with a maximum of S\$10 000. In addition, the government has also initiated a scheme to repurchase 2 and 3 room flats at market prices for sale to lower income families who are renting flats. The flats are offered for sale with a S\$50 000 subsidy per flat.

In addition to these schemes for lower income groups, the government has also responded to the needs of the so called 'sandwich' class of upper middle income people. This is the class of people that found themselves priced out of the private property market on the one hand and whose incomes were above the income eligibility ceiling of public flats on the other. A solution has been found in the provision of middle income housing through the establishment of the Housing and Urban Development Corporation in 1974, and more recently, the development of executive condominiums.²²

Housing commercialisation and its provision

Speculation

It has become clear that housing finance policy, while making possible home ownership, has also contributed to the commercialisation of

HDB flats and increased real estate speculation. Many people, including those who have neither a genuine need for a flat nor the intention to occupy it, started buying public flats as an investment. Demand for public flats soared; the number of applications to buy HDB flats increased from 8 048 in 1969 to 20 598 in the following year and the waiting list lengthened. Illegal subletting became rampant and debarment measures were introduced to discourage the practice. The resale of flats became active especially after the introduction of the 1971 housing policy allowing HDB home owners who had lived in their flats for at least three years to sell them to those eligible for public housing at open market prices.²³

The flat resale policy was introduced to help families to get a larger flat without being unduly penalised and to enhance mobility of the population. Even though not its intention, it gave every public household an opportunity to make potential gains in real estate.²⁴ This has caused widespread public speculation and profiteering in a communally funded commodity. The positive result is the development of residential upgrading among public housing consumers as they gain the means to upgrade and leave behind existing housing stock to lower income groups. While upgrading the housing condition of the nation, the process serves as a powerful reminder to the population of the government's efficacy in fulfilling its promise to improve the living condition of the nation and it thus generates political legitimacy. The increasingly tangible results of the public housing programme also provide a strong moral high ground for the acquisition of land for public housing. Beyond hegemony building, the Singapore experience demonstrates that public housing can be an investment good, and public flat owners need not be excluded completely from real estate investments.

The challenge, however, is to maintain a future supply of housing that can match the need of upgrading, not just supplying new flats for all who apply. In practice, this involves a careful balance of pricing and demand. The first of the HDB flat price increases, in 1974, had the desired effect of reducing the number of applications to a manageable average of between 15 000 and 16 000 in the three years that followed. But it also fuelled profiteering sales by flat owners who had bought their flats before the price increase and spurred a rush of applicants who were afraid that sharp increases would be the way of the future.²⁵ Thus, remedial policies had to be implemented to dampen demand for public flats and these included lengthening the minimum occupation period, introducing a restriction barring the seller from applying for

another HDB flat for a stated time and reviewing prices annually (prices could be adjusted upwards, downwards or frozen at each review depending on the general state of the economy and the affordability level of the population).

Needless to say, the economic performance of the country has a direct effect on housing consumption. Economic growth is quickly translated into purchasing power for better quality and choice of housing. Consumers pay for their choices and the type of public flat rented or purchased is dependent entirely on what the household itself can afford. Arguably, the changing demand for public housing over time is in part dependent on the rising affluence of the population. While this has supported the growth of a 'housing consumption class', it has also contributed to a problem of a mismatch between supply and demand.

Consumer aspirations

The HDB has over the years built a significant amount of housing stock in its effort to meet housing need, but a part of this stock remains unsold. At the beginning of 1987, for example, there were 62 198 applicants on the waiting list while there were 21 939 units of public flats completed but not sold (Castells *et al.* 1988). Since 13 430 of the unsold units had remained vacant for more than a year, there seemed to be a mismatch between HDB provision and consumer wants. One possible tactic was to discover applicants' preferences, before building works began. In 1989, the HDB revised its flat selection system to gather this information. Instead of merely registering eligible applicants according to desired residential zones and allowing them up to three chances to select the exact flat of their choice in the desired zone,²⁶ the revised system would announce in the newspaper every quarter all relevant details of proposed housing estates (their location, building plans, facilities and estimated flat prices) and, before the flats were constructed, invite applicants to indicate their desired flat in order of preference for up to eight estates. In providing applicants with more information to facilitate their flat choice decision, it gave the HDB an indication of demand before building programmes commenced.

Another tactic has been to maintain, modify and improve the housing stock through the upgrading programme. This helps prevent older estates from becoming obsolete and increasingly undesirable and unwanted. The task ahead is to ensure that both the physical and living environment can be made even more pleasant, concomitant with the rising expectations of the population and the vision con-

tained in the country's long range development plan, the Revised Concept Plan. Under this, the thrust in future housing development is to provide bigger and better quality houses (Urban Redevelopment Authority 1991). Each person is expected to occupy a built up space of 30 to 35 square metres as compared to the current 20 square metres. Variety and quality is increasingly catered for by providing the basic shell and allowing buyers to choose the way they partition the flat, the kind of floor tiles, the colour of the flat and the type of internal doors.

Older people

By the year 2030, 26 per cent of the population is expected to be aged 60 years and above (Ministry of Home Affairs 1989). As early as the late 1980s, the HDB considered the building of smaller flats to allow older people to live near their married children. The result was the construction of multi-generation flats designed to accommodate two household units and 'granny flats' that were constructed as studio apartments on the ground floor of larger units above. The schemes were not well received (*The Straits Times* 22 Oct 1992), however, and both projects have been discontinued.

Since 1993, the HDB has considered refitting existing flats to meet the needs of the elderly. Elderly-friendly facilities such as an emergency alarm system are provided free of charge to elderly tenants of 1 room flats. This has generated some interest because the elderly residents do not have to move away from their familiar environments. In general, however, the development of housing provision for the elderly has been limited.

Conclusion

Through a national programme of public housing development, Singapore has over the last three decades successfully provided shelter to those needing housing. Over 86 per cent of the population in Singapore now lives in public housing. In addition to solving an acute housing crisis, public housing development in Singapore has supported the broader orientations of national development and succeeded in not only reshaping the city and contributing to social integration but also to a political legitimacy that is derived from having 'delivered the material goods'. Significantly, it demonstrates that direct universal provision of public housing is ideologically and financially possible to achieve. Such achievement is not randomly produced but the result of much commitment on the part of the government. From the start, the

government invested massive resources in public housing and introduced housing policies that have kept pace with urban growth. Under the impetus of state intervention, housing policy was politically decided before being structurally determined or bureaucratically implemented. Singapore's apartment blocks are powerful symbolic monuments to a government's efficacy and ability to fulfil promises. It is one of the few countries to have successfully combined the necessary legal powers and fiscal measures in a national housing policy directed at the implementation of a large scale public housing programme with a high degree of home ownership, which is at the same time, compatible with overall economic objectives.

Of course there are distinctive features of the Singaporean situation such as its being a small city state with a population largely consisting of Chinese migrants. But the Singapore of the 1960s was not very different from many other countries, then or since, having widespread slums, squatter settlements and other comparable economic, social and political problems. At a high level of generality, there are therefore lessons that have wider relevance. First, its experience shows that universal public housing can be an asset for the population rather than a social welfare institution. Various measures – economic, financial, legislative and social – can be effectively combined into a comprehensive public housing policy to bring about improved living conditions. Second, political commitment is essential to the success of public housing provision. Foresight and determination in acting as the primary planner, builder and financing agent of public housing development has achieved substantive results in the case of Singapore. Third, the ability of the housing authority (the HDB in Singapore) to adjust constantly to changing social and economic conditions is crucial to ensuring that the programme stays relevant over time.

Notes

1. For illustrations of the government's role in planning various aspects of Singapore, see for example Wong (1989), Yuen (1998).
2. For a discussion of the colonial response to the housing situation see Yeung (1973), Teo and Savage (1985).
3. Local Malay word for 'roof', usually made of coconut leaves.
4. Statutory boards are autonomous government agencies created by special legislation to implement various socio-economic development programmes. They are not entitled to the legal privileges and immunities of government departments, but they enjoy greater autonomy in terms of

policy, administration, finance and flexibility in the performance of their functions. Statutory boards are not new but have existed since the colonial period. In the post-independence years, however, a much larger number of statutory boards have been set up to promote national development. See Lee (1976).

5. In 1988, the estate management and maintenance function was transferred to town councils in a move to increase resident participation in town management. For more details on town council see Ooi (1990).
6. Each new town with its centrally located town centre and hierarchical system of neighbourhood and precinct centres provides a full range of services for about 125 000 to 250 000 people housed in 20 000 to 50 000 residential units. For further discussion of the Singapore new town model see Wong and Yeh (1985), Field (1992).
7. Housing and Development Act, Cap 129, 1997 Rev. Edn.
8. The Land Acquisition Act, Cap 152 1985 Rev. Edn. has its roots in the Land Acquisition Ordinance of the British colonial government which was passed in 1920 to empower the Governor of Singapore to acquire private land for public purposes.
9. At present, the relevant date for basing compensation is 1 January 1995 for land acquired on or after 27 September 1995.
10. For example, between 1965–73, Singapore experienced an annual average growth of 12.7 per cent, which slowed down to 8.7 per cent per annum in the following period, 1973–79, and to 8.6 per cent per annum in the period 1979–84.
11. These investments were prompted by a desire to ensure a steady supply of building material to support HDB housing construction and to keep costs competitive. In addition, the HDB also arranged for the bulk purchase and stockpile of such building materials as cement, sanitary ware, ceramic tiles and steel.
12. For further discussion on HDB upgrading and renewal programme see Lau (1998).
13. US\$1 = approximately S\$1.8.
14. The rate of CPF contribution for both employer and employee has increased over the years from 5 per cent of wages in 1955 to 20 per cent in 1994. The ceiling imposed on the total maximum contribution per month has also increased over the years, from S\$300 in 1971 to S\$2500 in 1984 and the present S\$6000. For more details of the CPF scheme see Central Provident Fund Act, Cap 36, 1997 Rev. Edn. and also Low and Aw (1997).
15. The Housing and Development Act provides that no owner of a HDB flat can be dispossessed of his ownership as a result of bankruptcy. Thus, even when the owner suffers bankruptcy, he and his family will not be deprived of a roof over their heads.
16. The two exceptions are the couple who are engaged to marry and two single persons who are not married or related to each other by blood but who are over 35 years old. The latter exception was introduced in recent years to ease the housing difficulties of adult persons who remain unmarried or who are widowed or divorced.

17. Between 1968 and 1981, the number of extended families in Singapore's household structure had decreased by 10 per cent. At the same time, the proportion of elderly in the population is growing at a rapid rate due to the success of an earlier 'two-is-enough per family' population policy.
18. Under the Housing and Development Act and the standard 99-year ownership lease with the HDB, the owner of a HDB flat may not assign, lease or mortgage without consent of the HDB.
19. The maximum mortgage loan, which may be given to flat buyers, is 80 per cent of the selling price of the flat set by the HDB. The monthly instalment payable on the loan cannot exceed 40 per cent of the monthly household income. The maximum loan term is 30 years. See Tan (1998) for further details of the mortgage loan facility offered by the HDB.
20. The selling prices of HDB flats are not uniform but vary according to floor areas and prototypes as well as zonal differences that generally refer to the composition of the estate and its distance from the city centre. For the various flat sale prices see HDB Annual Report 1997/98.
21. Various options and assistance measures are available to make upgrading affordable such as allowing the use of CPF funds to finance upgrading of individual flats, extending the repayment period of upgrading cost up to a maximum of 25 years or deferring for 1 year or until the flat is sold or transferred to another lessee.
22. For further discussion of middle income housing see Tan (1998).
23. Prior to March 1971, owners of HDB flats could only sell their flats back to the HDB at the original price minus any depreciation. After March 1971, the market price of resale flats was determined by the prices of new HDB flats with allowance for depreciation.
24. The magnitude of gains can be glimpsed from a review of the selling prices of public housing. The selling prices of public flats in 1964 were not adjusted until 1974 (in the case of rentals, until 1979) even though per capita GNP grew annually through those years.
25. According to the HDB, the price increase was in part necessary to meet rising land and development costs of new, better-finished flats. See *The Straits Times*, 22 Jan 1992.
26. If an applicant fails to make his/her selection with the three chances, he/she loses his/her place in the queue and has to re-register.

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4

Hong Kong

Kwok Yu Lau

Introduction

In a place that is well known for its residual welfare system (McLaughlin 1993), the co-existence of a strong state housing programme in Hong Kong is beyond the understanding of many people. In 1999, 38 per cent of households in permanent housing in Hong Kong rented public flats, 14 per cent purchased public sector built for sale flats, 12 per cent were in the private rented tenure and 33 per cent were owner occupiers in private housing.¹ In other words, over half of Hong Kong's households are currently housed in public sector rental and sale flats of a reasonably high standard. The remainder are in private sector housing, of diverse quality and price ranging from the highly expensive houses in the Peak area to average priced rural houses in the remote New Territories.

The housing system is also dominated by geography. Housing 6.84 million people in a built up residential area of only 58 square kilometres, Hong Kong is one of the world's most densely populated urban environments (Hong Kong 2000). As a result of the terrain, the limited land supply, high land prices, and the locational preferences of the populace, the most intensive form of housing development in high rise flatted blocks has had to be adopted (Blundell 1996). The average size of dwellings in Hong Kong in terms of saleable floor area is only 45 square metres.²

This chapter outlines, firstly, the institutional and, secondly, the legislative framework of the housing system in Hong Kong. These sections describe the transition from a residual housing policy system that provided rental housing for those with the very lowest incomes to one which, in providing opportunities for home ownership for those on

low and middle incomes, has grown in importance. The final part of the chapter discusses the issues and challenges of meeting housing objectives in the wake of the 1997 Asian financial turmoil.

The institutional arrangements for housing policy

Direct involvement in public housing production in Hong Kong has involved flats built both for rent and for sale. The first involvement started after a great fire on Christmas Eve of 1953 that destroyed the homes of over 50 000 people. After 45 years of effort, about half of the Hong Kong population (6 843 000 people) live in 682 000 public rental and 304 000 subsidised sale flats.³ Of these, the Hong Kong Housing Authority provided over 95 per cent with the remainder provided by the Hong Kong Housing Society.⁴

The Hong Kong Housing Authority

The Hong Kong government's massive involvement in public housing programme was not started until the 1950s. The first resettlement blocks were built in 1954 and managed by the then Resettlement Department. The former Hong Kong Housing Authority completed its first social rented housing estate in 1958. In the mid-1960s, the government started to build low cost public housing estates for low income households. These low cost public estates were under the management of the former Housing Authority.

The Hong Kong Housing Authority is a statutory body established in 1973 to oversee and coordinate public housing development tasks. It inherited housing stock from various publicly funded housing organisations⁵ and proceeded to develop its massive housing programme. Public housing came to include two main types – rental dwellings and flats for sale. Since 1988, the Authority has been providing an interest free loan under the Home Purchase Loan Scheme to encourage sitting tenants in public housing and other eligible private sector tenant households to purchase homes for their own use in the private housing market. It is a government agent empowered to clear land for development and to control squatters and has a statutory responsibility to provide resettlement shelter (temporary or permanent) for those affected by clearance programmes.

The executive arm of the Housing Authority is the Housing Department. As at March 1999, it had a stock of 645 329 rental dwellings in high rise housing blocks (excluding 19 807 rental flats sold to sitting tenants under the Tenants Purchase Scheme) and 6335

rental dwellings in temporary housing areas and interim housing blocks. In addition to this, there were 252 750 sale flats developed under the Home Ownership Scheme and Private Sector Participation Scheme (Hong Kong Housing Authority 1999). Other than building housing, the Housing Authority also owns commercial premises such as shops, car parks and factories, in size totalling 1 290 000 square metres in March 1999 (Hong Kong Housing Authority 1997) and constituting about 10 per cent of the retail commercial space in Hong Kong. The deficit incurred in the rental housing accounts has been met by the surplus generated in the accounts of the commercial premises and the flats for sale schemes. Through the Housing Authority, then, the Hong Kong government has had a mechanism for subsidising the housing costs of selected groups in the population.

To be eligible for public housing assistance, families must demonstrate that they have a definite housing need and meet the income, asset and residence requirements. Households living in squatter or temporary housing areas or other areas included in one of the public programmes of housing clearance were deemed to be in need. Prior to 11th September 1998, such households were not required to pass the means test⁶ and between 1973 and 1995 about two-thirds of the public rental flats were allocated to them (Lau 1994). Another one-third of the public rental flats was allocated to households on the Housing Authority public housing waiting list who had passed the income and asset tests and fulfilled the residence requirement. The latter specified that over half of the household members including the applicant must have lived in Hong Kong for seven years. The income and net asset limits of waiting list applicants vary according to household size. In April 2000, for a typical household of four persons the monthly income limit was HK\$17 700⁷ and the net asset limit was HK\$470 000.

To induce sitting tenants to vacate their public rental dwellings for reallocation, the means test requirements applicable to private housing tenants do not apply where they are seeking to benefit from one of the assisted purchase schemes offered by the Authority. Sitting tenants are often known as green form applicants as their application forms are printed on green paper. Private housing tenant households are generally known as white form applicants as the application forms are printed on white paper. White form applicants of these schemes of assisted home ownership must meet different eligibility criteria. Their total monthly income should not exceed HK\$31 000, this being the

current income limit, irrespective of household size. No household member may own any domestic property and their total net assets should not exceed HK\$700 000. The minimum household size is two closely related persons. The applicant and at least one family member must be permanent residents and have lived in Hong Kong for at least seven years. Single persons are allowed to apply for various subsidised home ownership schemes, with the income and net asset limits set at half of the limits applying to families.

The Hong Kong Housing Society

The Hong Kong Housing Society is a non profit making organisation, founded in 1948 by a group of concerned individuals including the then Bishop of the Anglican Church in Hong Kong, to provide low cost housing for white collar workers. Comparatively speaking, its scale of operation is very small. Between 1952 and June 2000, the Housing Society built 63 452 dwelling units consisting of 38 650 rental dwellings (inclusive of 6313 demolished flats) and 24 802 sale flats. Together they house about 161 000 people. It has been involved in small scale urban redevelopment projects and under its Urban Improvement Scheme 5620 flats were built and sold. It also acts as a government agent in developing housing and administering a loan scheme for the so-called sandwich class. In the early 1990s the government began to be concerned about the problem of middle income households⁸ wishing to purchase homes in the private housing sector but, because of their incomes, not being eligible for Home Owner Scheme flats. A Sandwich Class Housing Scheme and its supplementary loan scheme were introduced by the government in 1993. In order to avoid becoming involved in middle income housing provision directly, the government commissioned the Hong Kong Housing Society to administer these schemes. Under its Sandwich Class Housing Scheme, 11 out of 13 projects were completed in mid-2000 and 10 446 flats were developed.⁹ The Society also has a small stock of commercial premises. Generally speaking, it has followed the practices of the Housing Authority.

From bricks and mortar to consumer housing subsidy

The development and changes of state housing, utilising the two organisations described in the previous section, can be broadly categorised into four periods.

1954–73: from basic shelter to adequate housing

In 1954, the government set up the Resettlement Department. It was charged with responsibilities to manage squatter areas, to prevent further squatting, to demolish squatter huts to clear land for development purposes, and to construct and manage resettlement housing blocks. The standard of resettlement housing was minimal – meeting only the basic shelter need of the victims of fire and those affected by squatter clearance operations. The following quotation in a recent Housing Authority 45th year commemorative publication serves as a vivid description of these sub-standard shelters built at low cost¹⁰ to meet a serious emergency:

The basic design of the earliest resettlement blocks was in the shape of the letter 'H'. These blocks, eight in number and of six storeys, were first constructed in Shek Kip Mei during the latter of half of 1954. Since 1955, another floor was added to make a total of seven storeys to all newly constructed resettlement blocks. At the same time, some slight modifications were made in the design of roof-top for the use by voluntary organisations and education institutions.

It was only a matter of weeks to construct these blocks, some as short as eight weeks (excluding piling). Facilities in these blocks were primitive. The long arms of the H consisted of rooms arranged in a back-to-back manner. Access of rooms was by corridors that ran completely round each long arm of the H. To improve ventilation, openings were made in the partition walls at the rear of each room. There was no water supply in the room. Water stand-pipes, communal bath rooms and flush latrines were provided in the cross bar of the H. There was no lift, staircases were found at each corner of the building.

In the earliest six-storey blocks, all rooms were of 120 square feet, each for five adults (children at or below ten were counted as half an adult) ... The ratio of 24 square feet for each adult was in fact, well below the standard required by housing ordinance – which stated a ratio of 35 square feet for each adult. Each resettlement block could accommodate over 2000 people.

In addition to 'H' shape, due to limited space or difficulties in site formation, there were also a number of blocks constructed in 'I' shape. The design of these 'I' blocks was essentially similar to 'H' ones. Between 1954 and 1961, there were 115 'H' and 31 'I' blocks constructed. (Leung 1999: 50–1)

Due to the lack of space within the tiny rooms, residents in these blocks did their cooking in the public corridor. On hot summer days, some were seen sleeping in nylon foldable beds in the public corridor. Leung (1999) notes that in the 1960s the actual number of people accommodated in the various resettlement estates neared 500 000 – almost double the initial target of 260 000. It was estimated in addition that in 1963/64, the number of squatter residents exceeded 600 000, double the figure in 1953 (Leung 1999). The increase in the squatter population was mainly due to the influxes of immigrants from Mainland China (the territory's population was increased from an estimated 2.3 million in 1950 to more than 3.1 million in 1961).

It was not until 1965 that public rental dwellings for resettlement were built to higher standards. From 1970 onwards, the average living space per person increased to 35 square feet per adult and the size of the largest rooms was increased to 238 square feet. Every family housed in newer design blocks could enjoy its own independent facilities, with toilet, kitchen and water supply being provided within the dwelling unit. To ensure the efficient use of limited public housing land, housing blocks constructed between 1965 and 1970 generally had sixteen storeys with lifts.

During the period 1954 to 1973, a total of 348 100 public rental flats were completed. On average, 18 300 public dwellings were constructed per annum, with an overwhelming emphasis on resettlement housing. The first two decades of state intervention was thus firmly focused on housing for those with the lowest incomes (see Table 4.1).

1973–82: redevelopment and expansion of housing programme in the new town areas

In his 1972 policy address, Sir Murray MacLehose (Governor of Hong Kong 1971–82) announced the Ten-year Housing Programme under

Table 4.1 Public rental housing flats completed 1954 to 1973

<i>Types</i>	<i>Completion period</i>	<i>No. of flats completed</i>	<i>%</i>
Resettlement flats	1954 to 1973	232 089	66.7
Low cost housing flats	1962 to 1973	61 446	17.7
Former Housing Authority flats	1958 to 1973	34 867	10.0
Housing Society flats	1956 to 1973	19 698	5.6
Total	1954 to 1973	348 100	100.0

Note: Low cost rental housing flats were built by Public Works Department and managed by the former Hong Kong Housing Authority.

Source: Wu M. M-h (1983).

which public housing with full facilities and a decent living environment would be provided for 1.8 million Hong Kong citizens. Along with the establishment of the Housing Authority the programme constituted a comprehensive and systematic commitment to meeting housing needs. It would involve the construction of 72 public housing estates, two-thirds newly built, the remainder refurbishments. It was to ensure that 'no one in Hong Kong would ever have to live in an overcrowded residence with poor facilities' (Leung 1999: 147). The intention was stated more fully by Donald Liao, former Chairman of the Housing Authority:

Sir Murray thought that the economic growth of the 1960s had enabled citizens to basically solve the problems of food and clothing. But the problem of shelter was still outstanding. Hong Kong did not have sufficient land to build on, and the cost of gaining land by levelling or reclamation was high. Naturally, land and property prices were high and unaffordable for the average citizen. If the government could actively participate in providing low-cost housing for needy citizens, society would not only gain stability: the construction of housing estates would increase employment opportunities and stimulate consumption, and so bring further economic growth. (cited in Leung 1999: 142–3)

Part of the problem related to the levels of overcrowding. In 1974, 16 of the 25 old resettlement estates accommodated more residents than they had been designed to take. Shek Kip Mei, the oldest housing estate built in 1954, was designed to accommodate 37 000 people. Yet the estate had a population of over 61 000 people (Leung 1999). The redevelopment of these 12 oldest resettlement estates brought about noticeable improvement in terms of housing quality and community facilities. The original plan was to redevelop all 12 estates in ten years. In actual fact the Housing Authority needed 18 years altogether to redevelop these oldest housing estates.

In addition to redevelopment, because of the shortage of urban land, the government drew up a plan for new town development that was to be public housing driven. Shatin, Tuen Mun and Tsuen Wan were chosen to be the first three new towns built under the programme. Despite improved living environments, many people were not eager to move into them, largely because of poor communications. For example of the three new towns, the residents of Tuen Mun were often regarded as victims of poor transport planning with road congestion at rush

Table 4.2 Public flats completed during the ten-year period (1973/74 to 1982/83)

<i>Types</i>	<i>Completion period</i>	<i>No. of flats completed</i>	<i>%</i>
Former resettlement flats	1973/74	1970	0.9
Former government low-cost housing flats	1973/74	6200	2.8
Housing Authority rental flats	1973/74 to 82/83	176 623	80.1
Housing Authority home ownership scheme flats	1979/80 to 82/83	23 020	10.4
Private sector participation scheme (home ownership scheme) flats	1980/81 and 82/83	2260	1.0
Housing Society rental flats	1973/74 to 82/83	10 454	4.8
Total	1973/74 to 82/83	220 527	100.0

Note: The total number of public housing flats built between 1973/74 and 1982/83 does not include 976 sale flats under the Housing Society's Urban Improvement Scheme.
Source: Wu M. M-h (1983).

hours extracting a high social cost.¹¹ In addition to the three new towns, new public housing estates were also built in the second generation new towns such as Tai Po, Sheung Shui, Kwai Tsing (merged with Tsuen Wan) and Yuen Long.

During the period 1973 to 1982, a total of 22 public rental housing estates and nine Home Ownership Scheme courts were completed in the first and second generation new towns.¹² A total of 220 527 public flats were completed (see Table 4.2). The number of public dwellings completed per annum within the ten-year period was 22 053 which was 20 per cent more than the average annual completion during the previous 19-year period. However, the total number of public dwellings completed was only 55 per cent of the original target. The failure to produce sufficient numbers of public dwellings against the background of rising numbers of illegal Chinese immigrants from Mainland China had actually worsened the housing problem. As at March 1983, the number of live applications on the public rental housing waiting list stood at 156 000 (Hong Kong Housing Authority 1983). It was also estimated that there remained some 138 000 domestic squatter huts providing sub-standard accommodation for tens of thousands of families.

This was not the first time that the Hong Kong government had failed to deliver its housing promise. The completion rates ranged from 52 per cent to 77 per cent of the planned public housing construction targets in the two periods, 1959 to 1963 and 1964 to 1970 (see

Table 4.3 Public housing, target and completion

<i>Period</i>	<i>Target housing completion (a)</i>	<i>Actual completion (b)</i>	<i>b/a × 100 (%)</i>
1959–63	400 000 resettlement units	260 000 resettlement units	65
1964–70	900 000 resettlement units	470 000 resettlement units	52
	170 000 former government low cost housing units	130 000 former government low cost housing units	77
1973–83	400 000 flats	220 000 flats	55

Note: The definition of a unit changed during the period.

Source: Lau K. Y. (1996).

Table 4.3). The lack of a strong financial commitment by the government on the planned housing programmes and the poor coordination among land, building and housing departments were the main factors causing under completion.

1980s: from decommodified social housing to privatised public sale flats

Important reforms in the public housing sector had already started in 1977 when the government set up a Home Ownership Fund (HOF) and decided to provide public flats for sale under the Home Ownership Scheme (HOS). This was a departure from the conventional practice of only providing decommodified rental housing to meet the housing needs of low to middle income households. The Housing Authority Home Ownership Scheme (HAHOS) was the first public sector flats for sale scheme. It was the intention to build flats for sale to better off tenants of public housing rental estates and to those lower and middle income sections of the general public whose household incomes were too low to afford to buy flats in the private sector, but too high for public rental housing. So, as well as the adoption of the owner occupied tenure form, it was also a move to cater for people further up the income scale than those for whom the Authority had previously catered.

In addition to the HOF-sponsored HOS, there was a complementary scheme – the Private Sector Participation Scheme (PSPS). This was launched as a result of the Real Estate Developers' Association's expressed anxiety over the entry by government into the domestic flats

for sale market. Under the PSPS, sites are sold by tender to developers for the construction of flats for sale to the Housing Authority's nominees who are selected from the HOS applicants. Under the conditions of sale of the PSPS site, various requirements are imposed upon the developer, including the number and size of flats, car parking spaces, commercial premises, community facilities, and open space. In return, the developer receives a guaranteed price for the flats. The actual prices for PSPS, like HAHOS flats were set by the Housing Authority at levels normally above the guaranteed prices, so that the Authority receives a profit.

The pricing strategy, rules on eligibility, income limits and so on are the same for HAHOS and PSPS and, indeed, to the general public, PSPS is considered as part of the HOS. The major differences however are that housing projects under PSPS have an element of land premium and are financed and constructed by the developer, the construction is controlled by the developer; and following completion the estate management is also undertaken by the developer's associated property management company. Under HAHOS, the Housing Authority is required to pay the land formation costs and not the full market land value. Housing projects under HAHOS are fully financed by the net proceeds from the sale of HOS. The Housing Department's architects and engineers have extensive involvement during the design and construction stage (supervising and monitoring the construction contractor). The management of HAHOS was originally undertaken by the Housing Department and from 1988 onwards, private sector property management agents were appointed to provide day-to-day management agency services. Owners were also encouraged to form an owners' corporation to take over the management responsibilities from the Housing Department.

The provision of privatised public sale flats has changed the composition of housing tenure. Between 1983 and 1993, just over 30 per cent of new production of public housing units was of flats for sale. The proportion of public sector owner occupier households of the total public sector households increased from 5 per cent in 1983 to 13 per cent in 1988 and 32 per cent in 2000 (Hong Kong Housing Authority 1999).

The increase in public sale flats was partly a response to demand. In April 1990, the number of HOS applicants from private housing (using the white form for application) was 18 times the number of available HOS flats and the number of HOS applicants from public housing (using the green form for application) was 7 times the number of avail-

able HOS flats for this category of applicant. The expansion of the HOS was also based on pragmatic financial considerations. The method of setting prices in a way that ensured a profit for the Housing Authority, meant that the objective of turning it into a financially, self sufficient organisation, able to finance its entire public housing construction project, became a reality.

In April 1987, ten years after the launch of the Home Ownership Scheme, a long term housing strategy entitled Private Sector Priority Strategy was announced. The strategy was to cover a period of 16 years (1985 to 2001) and was of great significance as a statement of public policy on housing privatisation. The major concepts of the strategy were that production should be demand led (that is adjusting supply to suit demand), that the public sector should complement the private sector rather than compete with it, and that the growing aspiration for home ownership should be met by a variety of choices at affordable prices. The introduction of consumer subsidies through interest-free home purchase loans was one outcome of this new strategy. Also emphasised was the government's effort to maximise the contribution of private housing developers. The government had forecast that demand for private housing would be less than the production capacity of the private housing developers after 1990 and that outstanding demand for new public rental housing would have been largely satisfied after the mid-1990s. In addition, it was forecast that demand for Home Ownership Scheme sale flats would be largely unmet in the planning period. On the basis of these forecasts policies were formulated in the form of a long term housing strategy to stimulate demand for private housing, to reduce the production of public rental housing, and to increase the production of public sale flats. The extensive expansion of the redevelopment programme covering the old public rental blocks that had been first launched in 1972 was also decided. In the view of the government, this redevelopment provided a means to reduce the deficits on the old and low rent dwellings.

Other specific housing privatisation policies were introduced in subsequent years. After 1988 a new Housing Subsidy Policy required wealthy public tenants to declare their income every alternate year after they had been staying in public rental dwellings for over ten years. If their household income exceeds twice the prevailing waiting list income limits of public rental housing, they are required to pay double rent. A further refinement of the policy was made in 1996, which required those paying double rent for two years to declare their assets every alternate year. Those failing the assets test have to pay

market rents if they continue to live in public rental housing. The policy was again revised in 1999 with the effect that tenants who have paid market rent for one year are required to vacate their tenancy. These policies have in effect re-established the principle of relating public housing subsidy to housing needs at both the entry point as well as in subsequent years (Lau 1997).

1990s: commodification, home ownership promotion and consumer choice

According to Forrest and Murie (1995), there is an important distinction between the privatisation of public housing, which involves disposal at non-market prices favourable to purchasers, and commodification, when former state owned dwellings now privatised are exchanged through the private market. In Hong Kong, the privatised Home Ownership Scheme flats were subject to resale restrictions, introduced to minimise the use of subsidised sale flats for speculative sale. Before 1997 owners of HOS dwellings could in the first five years from first assignment, sell at their original price to the Housing Authority only; in the sixth to tenth years, resale at prevailing HOS prices to the Housing Authority; and only after ten years were free transactions in the open market possible, though even then subject to the payment of a premium proportionate to the original discount.

In order to create an active second-hand market within the HOS sector, restrictions on resale were later relaxed. Purchasers would be free to sell the properties on the open market after five years on condition that a portion of the discount was repaid. Purchasers could sell the properties to the Housing Authority within the first two years at the original price; or to other public tenants and people applying for public rental flats at the price agreed between the vendors and the purchasers between years three and five. The purchasers are not required to pay back the original discount to the Housing Authority. However purchasers who subsequently sold the property in the open market would be liable to pay 70 per cent of the prevailing sale price to the Housing Authority.

As at the end of July 2000, of the 177 272 HAHOS and PSPS flats that had reached the expiry of the resale restriction period, 20 326 flat owners (or about 12 per cent) had paid back the premium. By mid-September 2000, of the 225 415 HAHOS and PSPS flats that had become eligible for resale on the secondary market, 7 431 transactions (or about 3.3 per cent) were recorded.¹³ In other words, about 15 per

cent of HAHOS and PSPS flat owners have chosen to sell their flats after some period of residence.

Since 1988, there has been a number of interest free or low interest loan schemes to help lower and middle income households (the Sandwich Class) and first-time home purchasers to buy flats in the private sector. The Home Purchase Loan Scheme (HPLS) was financed and administered by the Housing Authority. Eligible applicants are offered interest free loans, repayable over the same period as the bank mortgage on the property, up to a maximum of 20 years. Alternatively, they may opt for a monthly subsidy for 48 months, which need not be repaid. In May 1995, to increase the popularity of the scheme, the loan and monthly subsidy were increased to HK\$400 000 and HK\$3400 respectively. Tenant households in the private housing sector are eligible to apply if their total monthly income does not exceed HK\$30 000. In June 1995, to encourage more sitting public housing tenants to purchase private property and thus give up their rental flats for re-allocation, the loan and the monthly subsidies were increased to HK\$600 000 and HK\$5100. In mid-1998, the loan amount for sitting tenants was further increased to HK\$800 000. This is available for use to purchase Home Ownership Scheme flats sold in the secondary market. By the end of March 1996, 12 137 loans and 651 monthly subsidies had been granted, and 7121 public housing units had been recovered for reallocation (Hong Kong Housing Authority 1996). The increase in the loan amount in mid-1998 attracted more applicants and by March 2000 a total 36 035 HPLS loans had been made.¹⁴

In addition to HPLS, the government earmarked HK\$2000 million in 1993 to set up a Sandwich Class Housing Loan Scheme to help families with monthly incomes of between HK\$25 001 and HK\$50 000 to buy their own home in the private housing market. These income limits were revised to between HK\$30 001 and HK\$60 000 in 1997. Successful applicants can borrow up to 25 per cent of the price of a flat or HK\$550 000, whichever is less, to purchase a property, not older than 20 years and worth not more than HK\$3.3 million. The loan is repaid, in 120 equal instalments starting from the fourth year after the loan is made. Interest is charged at 2 per cent a year, which in 1997 was much lower than the market interest rate of 10 per cent. By June 2000, some 5700 loans had been granted.¹⁵

There have been a number of other initiatives aimed at extending home ownership following the announcement of the Chief Executive of the Hong Kong Special Administrative Region (SAR), Tung Chee-hwa, of a target to achieve a 70 per cent home ownership rate by 2007.

The Home Starter Loan Scheme makes available low interest loans. A total sum of HK\$18 billion has been provided for allocation to 30 000 eligible families. Each successful family is entitled to a maximum loan of HK\$600 000. Interest is charged at the rate of 2 per cent per annum for those families with a total monthly income of not more than HK\$31 000. For those families with total monthly incomes between HK\$31 001 and HK\$60 000, a 3.5 per cent interest rate per annum is charged. By late October 2000, a total of 12 000 Home Starter loans were drawn by successful applicants.¹⁶

Another measure to promote home ownership among existing public housing tenants is the scheme to allow selected tenants to buy their existing flats. It is packaged as an additional choice on top of the provision of the HOS flats. Under the Tenants Purchase Scheme (TPS) there is an opportunity over the next decade for at least 250 000 households to purchase their public rental dwellings with a large discount. The arrangements for the sale price are that a market value assessment is made for individual dwellings and the price is set at 30 per cent of this value. To induce tenants to buy early, there is a further discount of 60 per cent and 30 per cent given to first year and second year buyers respectively. In other words if tenants decide to purchase in the first year of the offer, the price will only be 12 per cent of the assessed market value of their dwelling. The price will go up to 21 per cent of the assessed market value if tenants opt to buy in the second year of the offer. In the third year and thereafter, the price will be 30 per cent of the assessed market value. As the Housing Authority has provided a full guarantee against mortgage default by public rental purchasers, most banks are prepared to provide loans at lower than normal home mortgage interest rates. The loan ratio can be as high as 95 per cent of the sale price (normal home purchasers of private properties are provided with mortgage loans of no more than 70 per cent of the assessed sale value). In the six TPS estates identified in Phase 1, 74 per cent of tenants purchased their flats in the first year.¹⁷

The Hong Kong Housing Authority introduced a pilot Mortgage Subsidy Scheme (MSS) in September 1998. The main objective was to give prospective tenants affected by the Public Housing Comprehensive Redevelopment Programme and Cottage Area Clearance Programmes a choice of either renting or buying. Under this scheme, affected tenants can buy transfer block flats or HOS flats with a monthly mortgage subsidy amounting to a total of HK\$162 000 over a six year period. Up to the end of 1999, about 3600 households had acquired home ownership through this initiative.

In March 1999 the Hong Kong Housing Authority introduced a Buy or Rent Option (BRO) to enable prospective applicants on the public rental housing Waiting List and residents affected by redevelopment or clearance operations, as well as junior civil servants, to buy rental flats. Eligible BRO applicants receive a monthly mortgage subsidy of up to a maximum of HK\$162 000 over six years. A total of 2700 flats were designated for sale in Phase 1 of the BRO scheme in June 1999, but the response has been lukewarm with only 1800 applicants.

The requirement to convert completed public rental housing blocks into public sale blocks has become one major consideration for upgrading the design and standards of public rental housing. The further upgrading of security facilities and services (for example, the installation of main entrance gates, door phone systems, closed circuit television in lifts and at main entrances, and a 24-hour service of security guard posted on the main entrances of every rental housing block) has made public rental blocks similar in many aspects to public sale blocks.

The TPS, MSS and BRO plus the expanded quota of Home Purchase Loan Scheme are there to create a combined effect: to open the opportunity of ownership to many more families. In Miller's words:

the aim of these reforms should be to ensure that there is a range of types, sizes, ages and prices of flats available to our clients and a range of financing options so that families move around and trade up within the system one rung at a time, or more if they are able. What we will be offering them is a way through subsidised public rental housing and into ownership in an increasingly private market which for many simply is not there at this time. (Miller 1997).

Despite a rising population and rising aspirations for better housing together with an expanded public housing redevelopment programme, the average number of public housing flats produced per annum in the seven-year period ending March 2000 – 41 500 – stayed at about the same level as that of the previous ten-years period (1983/84 to 1992/93) – 42 600. The low production in relation to high demand may be attributed to the uncoordinated supply of subsidised land for public housing development. The planned increase in production in the following four year period (April 2000 to March 2004) to 61 600 flats per annum has exerted much pressure on all those in the building industry. Moreover, the high level of planned production does not include the forecast supply of about 30 000 to 35 000 private domestic flats of the private developers.

Housing policy and the Asian financial crisis

On taking office as the first Chief Executive of the Hong Kong Special Administrative Region, Tung Chee-hwa accorded a high priority to housing. In his 1997 policy address, he spoke about three housing targets: to build at least 85 000 flats a year (50 000 public and 35 000 private); to achieve a home ownership rate of 70 per cent in ten years; and to reduce the average waiting time for public rental housing to three years. Of the three targets, the first two attracted much criticism, especially after the Asian financial turmoil when property prices continued to fall till mid-2000.

The Hong Kong economy was hard hit by the Asian financial turmoil of 1997. In 1998, the Gross Domestic Product recorded negative growth (minus 7.8 per cent). Unemployment and under-employment figures rose and reached peaks in 1999 (6.0 per cent unemployment and 2.8 per cent under-employment) (Hong Kong Government 2000). Property prices, that had recorded a 66 per cent rise between the fourth quarter of 1995 and the third quarter of 1997, dropped drastically by about 50 per cent by mid-2000 (see Table 4.4). According to a bank research report (Hang Seng Sank Limited 1998), falling property values hurt the economy. They led to a contraction in bank credit, which in turn contributed to a contraction in bank deposits, resulting in higher interest rates and a tight liquidity situation. Falling property prices also reduced consumer spending and exerted a deflationary impact. And, overall, impacted adversely on public finances.¹⁸

There were a number of other adverse consequences. By mid-2000, 170 000 property owners were estimated to be experiencing negative equity.¹⁹ The percentage of defaults on property loans increased from 0.29 per cent in June 1998 to 1.19 per cent in May 2000 (Cheung 2000). The number of Home Ownership Scheme (HOS) applicants dropped from its peak of 112 000 (in August 1994) to 29 000 (in mid-2000).²⁰ Between 1978 and 1999, all HOS flats that had been put up for sale had sold, but in 1999/2000 about 25 per cent had not find purchasers. The vacancy rate in private dwellings also rose from 3.9 per cent in 1997 to 5.9 per cent in 1999, the highest figure in the past two decades.²¹

Under the adverse economic climate, the objectives set out in the Chief Executive's policy address came under serious scrutiny. Private developers and owners suffering from negative equity criticised him for over intervening in the market with the consequence that the long term, stable supply of public and private dwellings was disturbed. Only

Table 4.4 Private domestic price index 1995 to 2000

<i>Year</i>	<i>Quarter</i>	<i>Price index (1989 = 100)</i>
1995	1	284
	2	280
	3	264
	4	261
1996	1	277
	2	289
	3	298
	4	329
1997	1	395
	2	429
	3	433
	4	422
1998	1	354
	2	321
	3	265
	4	258
1999	1	264
	2	264
	3	256
	4	245
2000	1*	248
	2*	229

Note: * = provisional figures.

Source: Rating & Valuation Department Website: <http://www.info.gov.hk/rvd/property/index.htm>.

a matter of days before the Hong Kong SAR celebrated its third year anniversary, the Chief Executive admitted in public that the housing production target of 85 000 dwellings per annum was shelved.²² He further added that the new housing policy would be composed of three basic points.

Firstly, there would be flexible adjustment of the Home Ownership Scheme production targets and increased use of loans to encourage home purchase in the private sector. This implies effective control over the supply of public sale flats. Under the adverse economic circumstances (including the fear for many middle income households of losing their jobs), it is doubtful whether any reduction of public sale flats and provision of more zero or low interest loans would result in considerably higher demand for private home purchase and hence stabilise property prices. Property prices are arguably more sensitive to changes in the economy than to changes in government housing policy.

Secondly, property prices would be stabilised in order to ensure an adequate supply of land for public and private housing developers. However, noting the impact of falling property values on the economy and government finances does not necessarily mean housing policy can ameliorate a situation that is basically caused by hard core economic problems (high interest rates coupled with deflation). The fear of losing jobs among civil servants (in a series of public sector reforms affecting various departments, including the Housing Department and the Water Supplies Department), professional and non skilled people have all contributed to the low take up of offers contained in various policy measures promoting home purchase. In these circumstances it would be most unrealistic for the Chief Executive to insist on reinforcing policy measures for a home ownership rate target of 70 per cent by 2007. After three years of effort, the overall home ownership rate stood at 53 per cent in 2000. After experiencing such a trauma in the dramatic drop in property prices that coincided with actual and potential losses of jobs and reductions of income, it is doubtful that households in Hong Kong will rapidly turn back to their former eagerness for home purchase

Thirdly, there would be provision of affordable public housing to all those who could not afford private sector housing. The average waiting time for public rented housing applicants would be cut to three years from 2003. The shorter waiting time for social rented applicants is a by-product of the policy of turning 16 000 HOS flats into social rented flats for allocation during the four year period 2000/01 to 2003/04. It is evident that the government did not turn HOS flats into social rented flats because demand for social rented housing was high (the number of applicants on the waiting list was as high as 150 000 in the early 1990s). The demand now is much lower than at its height (there were only 107 000 households applying for social rented housing in May 2000). Rather, it is possible that the adjustment of HOS supply is a direct response to the private developers call for reducing or stopping the supply of HOS flats.

Concluding remarks

The Hong Kong Government's involvement in public housing provision in the past 45 years could be regarded as a success story. Over the years, public housing estates have evolved and improved from basic emergency housing, through dormitory types into sophisticated, self-contained flats and communities, supported with a wide range of com-

munity facilities. There has been a remarkable improvement in the living space and standards for consumers of HKHA's flats. By the end of 1999, nearly 2.2 million people live in public rental flats, another 1 million people live in subsidised sale flats and about 10 per cent of the retail commercial space in Hong Kong and nearly 80 000 car parks are owned by the Hong Kong Housing Authority (Miller 2000).

In addition to these quantifiable indicators, Miller also points out the broader achievement in terms of community building, territorial development and urban renewal. In his view:

public housing estates provide the essential infrastructure for new communities to gather, communicate and grow. The well-managed, self-contained and estate-based communities have provided a strong social centre of gravity for local residents which has helped foster a sense of belonging and coherence as development has extended across the territory. This has contributed positively to Hong Kong's stability amidst the various economic and social turmoil of the past five decades. (Miller 2000)

Public housing estates were also a major component of the new towns and became a catalyst for the private development that followed. Miller (2000) remarks that governmental efforts in new town development in the 1970s and thereafter have turned many remote and suburban parts of Hong Kong into modern and strategic growth areas. Many estates in the new towns are now nuclei of transportation, commercial and recreational facilities which preceded and now support the private development nearby. In 2000, about 2.9 million people or 43 per cent of the total population are living in these new towns.

The HKHA could also be considered a pioneer in driving forward the rejuvenation of older urban areas through its massive redevelopment programme. The first programme started in 1973 and involved the 12 oldest public rental estates, 240 housing blocks, 84 450 households, 526 000 residents, 6446 shops and 3668 hawkers (Lau and Suen 1989). The redevelopment programme was extended in 1988 and renamed the Comprehensive Redevelopment Programme with the aim of involving other types of old public housing estates. Between April 1988 and March 2000, about 10 000 old rental flats were demolished per annum. In the four year period April 2000 to March 2004, about 15 000 public rental flats will be demolished to be replaced by high rise

buildings of new town standards. Overall, this has not only improved living standards for residents in these estates and people living nearby, but also helped social rejuvenation in the community by attracting and encouraging more young families to move into these areas (Miller 2000).

This chapter has also shown that the Hong Kong government has had extensive involvement in the provision of public housing since 1954. The change from a direct housing provider role to a housing facilitator role has been witnessed since 1988 when the government started the home purchase loan scheme and the promotion of consumer subsidy. But, in general, the various loan schemes will only attract those with stable incomes that have no other public housing alternatives to meet their needs for housing consumption and investment. Overall, governmental effort has sheltered low and middle income households from suffering from the high housing costs and fluctuating house prices in the private sector. A government commissioned survey conducted in 1999 shows that the median mortgage to income ratio of private sector home owners was 36 per cent compared to 27 per cent for owners of public sales flats. The median rent to income ratio was also higher among private renters (at 29 per cent) than among public tenants (11 per cent) (MDR 2000).

The introduction of many home ownership promotion policies since the mid-1990s has induced many public tenants to become home owners. The relatively lower prices set for public sales flats have helped many low to middle income households to enter the lower rung of the home owning ladder. At times of changing economic climate, from good to less favourable conditions, public home owners with pooled resources from immediate family members (such as parents or siblings) will be less prone to mortgage default (Lui 1995). This in effect may indirectly benefit the banking sector and also the economy as a whole. In addition, the policy requirements imposed upon well off public housing tenants to declare income and assets are seen as measures driving out the well off families and leaving behind only those very poor families in the public rental sector – the often described ‘housing residualisation’ or ‘housing segregation’ phenomena. Using empirical evidence shown in his 1997 study, however, Lau (1997) rejects such claims. In his view, there has been a good social mix in public housing communities, an outcome that is a product of Hong Kong’s public housing policies.

Notes

1. MDR (2000), percentage calculated by author based on figures of Table 11. The four tenures (public rented, public owner-occupied, private rented and private owner occupied) refer to those living in permanent housing. They do not add up to 100 per cent because they have not included the remaining 2 per cent households in rent free permanent housing and 1 per cent households living in housing provided by their employer. According to the survey conducted between January to May 1999, there were a total of 1 982 150 households in Hong Kong of which 1 927 570 were households living in permanent housing and 54 580 households living in temporary housing.
2. MDR (2000) Table 7, p. 23. The figure reflects the average flat size of 1.982 million households in both permanent and temporary housing in Hong Kong as inferred from the survey results. The floor area for a domestic unit is its 'saleable area'. 'Saleable area' is defined by the Rating and Valuation Department as the floor area exclusively allocated to the unit including balconies and verandas but excluding common areas such as stairs, lift shafts, pipe ducts, lobbies and communal toilets. It is measured from the outside of the exterior enclosing walls of the unit and the middle of the party walls between two units. Bay windows, yards, gardens, terraces, flat roofs, carports and the like are excluded from the area
3. See Hong Kong Government (2000). Figures refer to end September of the year. Figures for 1999 exclude quarters sold under the Housing Authority Tenant Purchase Scheme. Subsidised sale flats include quarters built under the Home Ownership Scheme, the Private Sector Participation Scheme and the Middle Income Housing Scheme of the Hong Kong Housing Authority and those built under the Flat for Sale Scheme and the Sandwich Class Housing Scheme of the Hong Kong Housing Society. Figures for 1999 also cover quarters sold under the Housing Authority Tenant Purchase Scheme, which were previously included under public rental housing in 1998 and earlier.
4. Information provided by the Hong Kong Housing Authority and Hong Kong Housing Society in March 1997.
5. Before 1973 these tasks were separately carried out by various bodies: the former Resettlement Department built and managed resettlement housing blocks; the former housing organisation which was also known as the Hong Kong Housing Authority previously was charged with the responsibilities to build and manage low cost housing and housing blocks built by the then Hong Kong Housing Authority.
6. Since 11 September 1998, tenants affected by squatter clearance are also subject to the same means tests (income and net assets tests) applied on the public rental housing general waiting list applicants who are currently living in private tenancy.
7. HK\$7.8 = US\$1.
8. Private tenant households earning between HK\$33 001 and HK\$60 000 per month in April 1997, not owning domestic properties, and with net assets below HK\$1.2 million are classified as sandwich class.
9. Figures quoted from the Hong Kong Housing Society Website (<http://www.hkhs.com/>) in October 2000.

10. In 1954, the expense of fifteen days of emergency relief in terms of free food supply to the fire victims was enough to construct a resettlement building that could accommodate over two thousand people. See *Annual Departmental Report by the Commissioner of Resettlement for the Financial Year 1954-1955*, Government Printer: Hong Kong.
11. A retired housing official remarked that 'In theory, Tuen Mun was then a new town awaiting development based on comprehensive planning. But in effect, nothing was ready when the residents started to move in. The government had expected industrialists to set up factories in the area and provide employment opportunities. What actually happened was that many lots of land in the area were bought by speculators. Employment opportunities were scarce. Most husbands travelled to the urban centre to work, and Tuen Mun relied totally on the Tuen Mun Highway for links with the urban area. Lots of residents had to get up at four or five in the morning, and did not return until ten at night. Meanwhile, their wives were left at home. As shopping malls had not yet been opened, and clinics, kindergartens and nursery centres had not started to operate, they felt helpless.' See Leung 1999: 176-7.
12. Information supplied by the Hong Kong Housing Authority to the author on 10 October 2000.
13. Figures regarding the number of premium paid among HAHOS/PSPS flat owners and the number of transactions in the secondary HAHOS/PSPS market were provided to the author by the Hong Kong Housing Authority on 19 September 2000.
14. Information provided to the author by the Hong Kong Housing Authority on 16 June 2000.
15. Hong Kong Housing Society Website (<http://www.hkhs.com/>) accessed in June 2000.
16. Hong Kong Housing Society Website (<http://www.hkhs.com/>) accessed in October 2000.
17. Purchasers paid 12 per cent (within the first year of the launch of the Scheme) were deemed to have paid 30 per cent of the market value of the TPS dwellings. After five years, if the TPS flat owners sold their flats in the open market, they are liable to pay 70 per cent of the prevailing sale price to the Housing Authority.
18. Revenue from land and properly related transactions accounted for an average of 21 per cent of total government revenue over the past ten years, the majority of which arose from land premium. See *Hang Seng Economic Monthly*, Hong Kong: Hang Seng sank Limited, May 1998.
19. The estimate was made by the Liberal Party in June 2000 before its call for negative equity owners to attend the protest. See *Hong Kong Economic Journal*, 19 June 2000.
20. Information provided to the author by the Hong Kong Housing Authority on 16 June 2000.
21. Hong Kong Government Rating and Valuation Department (various years, 1983-99) *Hong Kong Property Review*, Government Printer: Hong Kong.
22. Press report on the interview with the Chief Executive of the Hong Kong Special Administrative Region, *Wen Hui Pao* and *Ming Pao Daily News*, 30 June 2000.

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5

Taiwan

Hsiao-hung Nancy Chen

Introduction

The view is widely held that, throughout the last half-century, Taiwan has not had a 'housing policy' in a strict sense, but rather a 'public housing policy'. There is a strong cultural emphasis on owning one's own home. This has contributed greatly to the achievement of a home ownership rate that exceeds 80 per cent, while the main focus of state intervention in housing has largely been directed at those who are not home owners. From the beginning of the 1980s, however, this has begun to change; house prices have increased rapidly making it gradually more and more difficult for ordinary people to purchase a house; it is commonly estimated that purchasing requires working and saving hard for 30 years. Even where they have achieved home ownership, because of rapid urbanisation and poor planning, the physical environment experienced by most people is of low quality. These circumstances are beginning to result in popular criticism sometimes taking political expression. Thus with political democratisation, a number of civil organisations such as the Homeless Movement Organisation and the Community Construction Organisation have tried to bring pressure on the government. The history of housing policy in Taiwan, therefore, has been one of several decades of intervention with respect to the housing of a minority of the people, followed by recent moves towards a more comprehensive approach.

The development of housing policy

In the first few years after 1949, when the KMT party led by Chiang Kai-shek moved to Taiwan, government intervention with respect to

housing was fairly limited. This was despite the housing difficulties that had been made worse than they already were by the influx of soldiers and refugees from mainland China. In fact, many of these migrants flocked to the larger cities, particularly Taipei, living in overcrowded conditions in slums and squatter settlements. However, because Chiang Kai-shek and his followers wanted to go back to the mainland they believed that, no matter how bad the living conditions, they were just temporary and, so, tolerable.

At this time, Taiwan was basically an agricultural society in which much of the housing was produced on a self help basis. It was not until 1953, when a huge typhoon hit Taiwan, causing many people to become homeless, that the government was forced to take some action with respect to the squatter settlements. Even so, the tradition of self help in housing continued as the main form of provision; the public sector effort over the next two decades was minor, being largely confined to the enactment of law and the establishment of certain housing organisations. In addition to the Public Housing Loan Act 1957 and the Public Housing Construction Management Act 1961, there were a number of housing organisations established. These included, at the central government level, the Urban Housing Construction Team (later the Public Housing Construction Committee), the Urban and Housing Development Committee and the Public Housing Construction Ad Hoc Committee, and, at the county/city government levels, the Public Housing Construction Committee.

Large scale government intervention in housing actually took place during the period 1976–85 when the Ten-year Public Housing Construction Plan was put into place, with the country's Six- and Four-year economic development plan being implemented at the same time. By the mid-1980s the pace of economic development had been proceeding rapidly for some years. The expansion of the manufacturing sector from the 1960s on had been associated with declining employment in agriculture, and an increasing concentration of population in the major urban areas. With great shortages of housing, squatting increased. The government's hope was that direct housing construction would bring about economies of scale, propelling overall urban development and housing industrialisation. Despite large numbers of new dwellings being built, overall the strategy failed to meet its target due mainly to world-wide economic recession together with problems of design, location, and management technicalities. In fact, housing void problems occurred resulting in the government losing a total of

NT\$19 300 000 000.¹ In order to reduce housing voids, the government decided to loosen the allocation criteria to allow higher income groups to have access, but this resulted, in turn, in further criticisms about the equity of the public housing allocation policy. In response, housing policy was shifted from direct participation in construction to that of encouraging private sector involvement and monetary and fiscal policy provisions.

Housing policy during the Ten-year plan and subsequently, has not been fully comprehensive in the sense of addressing the needs of the entire population. Rather, the dominant view has been that, for the great majority of the population, housing needs should be met by the market and self help. Further, home ownership was the tenure form that best met the needs of the Taiwanese people, but to ensure their aspirations were met the government needed to do little more than ensure the market worked reasonably well. This apart, the main policy measures have been piecemeal, highly targeted, and reflecting the demands of different groups on the public sector. In fact housing policy can be described as a series of largely disjointed, almost *ad hoc*, interventions. The government responded to the housing difficulties of minority groups, sometimes by programmes of direct provision but more usually by subsidies enabling them to compete more successfully in the market. It is possible to identify nine specific groups who have been meted out for special consideration and in this section each is considered in turn.

Central government civil servants' housing

Figures issued by the Executive Yuan² indicate that from 1987 to May 1999 the Housing and Welfare Commission had been responsible for the provision of 84 076 subsidised dwellings. Of these, 2255 units were for central government civil representatives with the remaining 81 821 units being intended for civil servants, including public school teachers.

According to the Commission (Executive Yuan 1999c) there are two major issues with this type of housing. The first concerns the size of the public subsidy related to considerations of partiality and equity. The fund from which these houses receive subsidies had, at May 1999, a shortage of NT\$3 103 830 000. Moreover, due to the fact that the number of civil servants is increasing, the expectation is that in the future the shortage will become even more acute. One strategy adopted in response to this has been a gradual shifting from direct provision to the offering of subsidised loans. Since 1995 there has been no direct provision and, of the total dwellings for civil servants, 71 235 (approx-

imately 86 per cent) have been acquired with the help of subsidised loans. In addition, the Commission has tightened up the eligibility of the applicants to favour those who do not already own a home at the time of their application. More weight has also been put on applications from people with disabilities. The shift from direct provision, however, has also been considered an equity issue. The sale price of civil servants' housing has normally been 5 to 10 per cent cheaper than the market price because the cost of land, rather than being the actual market price, was calculated by the assessment land value method. Moreover, most civil servants' housing was built on public land and so attracted neither land increment tax nor land purchase interest. This situation has led to civil servants being accused of becoming a vested interest group, unfairly receiving preferential treatment (Executive Yuan 1999c).

The second issue concerns illegal occupation. It was found that at the end of 1998, more than 6000 dwellings intended for civil servants were occupied by others (Executive Yuan 1999c). The reasons for this have been variously put down to mismanagement, neglect of the law, and Chinese 'human relationship'.³ Since up to the present time, the Commission has not proposed any effective solutions for preventing illegal occupation, it has rather fuelled the general impression that civil servants have gained a special privilege.

The military servicemen's and veteran's housing

Housing for military personnel has been built in Taiwan since the period of Japanese colonialism. According to statistics produced by the Department of Defence, in 1984 there were 694 military servicemen's communities that together housed 83 440 households. In Taipei City alone there were 120 communities containing 9987 households (Executive Yuan 1984).

As early as 1971, the Ministry of Defence recognised the need for the reconstruction of many of the dwellings, but the massive reconstruction programme did not commence until 1978 when the Executive Yuan passed guidelines covering the reconstruction of Military servicemen's sites (Executive Yuan 1978). During the late 1970s and early 1980s, the Ten-year Public Housing Construction Plan needed massive amounts of land, but this was especially difficult to come by in the urban areas. Collaboration with the military that were considering the reconstruction of their old dormitories seemed to be one feasible solution. As a result over sixty military servicemen's communities were reconstructed and more than 30 000 houses built.

Although the military servicemen themselves have welcomed the reconstruction of servicemen's housing sites, others have voiced questions (Li 1988). These concern matters such as: whether it is lawful to use the land for these purposes; whether it is fair to subsidise the military servicemen; whether it is appropriate to utilise some of the best locations in cities to reconstruct the military servicemen's housing; as well as the terms applied to military servicemen versus the ordinary people. In response to these criticisms, the reconstruction programme has been gradually reduced, particularly after the economic recession of the mid-1980s. This has been further strengthened by developments in the domestic political situation, specifically as the opposition party (the Democratic Progressive Party – DPP) grew stronger (and indeed won the presidential election in March 2000). Ideologically disenchanting with the military servicemen, revitalisation of the military servicemen's housing sites has become increasingly difficult.

Housing for elderly veterans

In Taiwan, there are 556 000 veterans. The Commission of Veterans' Affairs has taken responsibility for the housing of 171 000 veterans in two types of provision: government supported and self-supported.⁴ Government housing accommodates 124 000 veterans. To be eligible for residing in such houses, the veteran must be at least 61 years old, unemployed, have no fixed income, and have a family income in 1999 under NT\$12 444. The self-supported type of housing was introduced only in 1990 in just four locations in the country. It is subsidised so that the costs facing veterans is kept low. Thus the down payment is NT\$15 000 with monthly repayments of NT\$3600 plus NT\$3430 service charge. In order to qualify for a self-supported house a military serviceman must be in receipt of a retirement pension and meet a number of other criteria: they must be single, or if married they must be over 65 years old and their wife over 60 years old; and they must have no one to support them, for example they have never been married or they are widowed or divorced and have no children.

Because the average age of those living in veterans' housing has reached 79 years, and, in any case, a number of veterans have either returned to Mainland China or visited their relatives there after the lifting of Martial Law in 1987, the DPP in opposition challenged the necessity of continuing to provide homes for veterans. They even went so far as to propose terminating the Commission. On the other hand, it is widely recognised⁵ that Taiwan is developing into an ageing society and that, as a consequence, additional sets of needs are becom-

ing important. In addition to enhancing the level of care facilities in the home, the Commission may convert some facilities for elderly disabled people or privatise some to be run as nursing homes for older people.

Public housing

Since 1955 the government of Taiwan has been active in the housing system through programmes aimed at lower income households. In retrospect it is possible to identify four main stages or periods during in each of which the main focus of intervention has shifted.

- (1) 1955–75: loans given to individuals wishing to construct their own homes.
- (2) 1976–81: government construction of public housing.
- (3) 1982–89: in addition to loan programmes and government construction, the government also offered incentives for private sector construction of public housing.
- (4) Post-1989: the loan programme was expanded to allow individuals to purchase homes.

In total, there have been 464 832 units built during the period 1955 to 1999. Of these, 165 858 were the result of direct government construction, 167 278 resulted from loans to individuals wishing to construct their own homes, 35 031 from incentive provisions for the private sector's construction of public housing, and the remaining 96 665 from loans to individuals wishing to buy houses in the market (Table 5.1). Whereas after the 1980s the government continued to build homes, proportionately the programmes offering incentives and

Table 5.1 Public housing construction, by number of households

	<i>Government construction</i>	<i>Construction loans to individuals</i>	<i>Construction by private investment</i>	<i>Loans for purchasing house</i>	<i>Total</i>
1955–75		124 942			124 942
1976–81	67 565	3 670			71 235
1982–85	26 466	18 012			44 478
1986–89	2 596	7 640	432		10 668
1990–91	17 437	4 330	7 216	2 638	31 621
1992–99	51 794	8 684	27 383	94 027	181 888
Total	165 858	167 278	35 031	96 665	464 832

Source: Ministry of Interior (1996).

subsidised loans became more significant. In other words, in order to address the housing needs of lower and middle income groups, the government has progressively moved toward monetary and fiscal measures. This can be seen in the Six-Year Housing Plan scheduled 1996 to 2001, where the government has planned to provide 241 340 units of public housing. Of these, 45 740 will be directly built by the government, 8900 will result from the incentives for the private sector to build public housing, with the majority – 114 900 units – being purchased in the market by individuals using subsidised loans (Table 5.2).

In Taiwan, the two most important factors of production in public housing are land and capital. The government states its intention to ensure their availability largely through the vehicle of its six-year plans. Land is made available from a number of sources including purchase, reconstruction of military servicemen's housing sites, eminent domain, new town or community development, urban land consolidation and urban renewal. Actually, the main sources of land for the 1996–2001 Six-Year Housing Plan will be 45 of the military servicemen's housing reconstruction sites along with land purchased for public housing.

Capital is also made available from a number of sources. According to statistics provided by the Bureau of Construction and Planning Administration (Ministry of the Interior 1996), currently about three-fifths is acquired through bank loans, one-fifth from provincial/city

Table 5.2 Public housing plan, number of households by type of provision

	<i>Government construction</i>	<i>Construction loans to individuals</i>	<i>Construction by private investment</i>	<i>Loans for purchasing house</i>	<i>Total</i>
1996	8 130	1 900	17 100	30 000	57 130
1997	9 950	1 600	12 300	30 000	53 580
1998	7 700	1 500	12 100	15 800	37 100
1999	8 140	1 500	12 100	15 500	37 240
2000	7 130	1 200	9 100	11 800	29 230
2001	4 690	1 200	9 100	11 800	26 790
Taiwan Province	30 000	7 400	64 000	80 300	181 700
Taipei City	8 730	0	800	24 400	33 930
Kaohsiung City	7 010	0	7 000	10 200	24 210
Fukien Province	0	1 500	0	0	1 500
Total	45 740	8 900	71 800	114 900	241 340

Source: Ministry of Interior (1996).

housing funds – most of which is derived from the land increment tax – with a further one-tenth from a central housing fund – mainly derived from the annual budget allocation. The capital requirements are offset by the issuing of loans, the terms of which are outlined in Table 5.3. The general pattern is that mortgages can be repaid over thirty years with that part of the loan coming from public housing funds subject to a rate of interest below the market level. Most loans can cover up to 85 per cent of the cost of housing, while the aggregate amount that can be lent for purchasing from the market is capped so that the government's budget in any one year will not be exceeded.

Access to the different forms of housing and finance is governed by eligibility rules aimed at ensuring that they are restricted to those officially defined as being in need of housing. Successful applicants for government built public housing must:

- (1) Along with their spouse and/or direct relatives (parents and/or children) not own a house, and be registered as residing in the same household;
- (2) Be at least 20 years of age and registered in the area of application;
- (3) Be a low income family (the maximum monthly income per person varies between regions, but in 2000 in Taipei it was NT\$11 625);

Table 5.3 Terms of loans for public housing (1999)

<i>Type of public housing</i>	<i>Amount of the loans</i>	<i>Annual interest rate public housing fund</i>	<i>Annual interest rate bank loans</i>	<i>Duration of the loans (years)</i>
Government construction	85% of sales price	5.075	8.075	30
Construction by private investment	85% of estimated price	5.075	8.075	30
Construction loans to individuals	85% of construction cost	5.075	8.075	30
Loans for purchasing home	1. Estimated by banks 2. The maximum subsidised amount is NT2 200 000	5.075% of the public housing fund and subsidies for the balance of interest payments to banks		30

Source: Ministry of Interior (1996).

- (4) Along with their spouse and direct relatives not previously have received government subsidies to buy a house.

The criteria relating to people who wish to obtain loans to build their own homes and private investors who are interested in the incentive programmes for constructing public housing are broadly similar. For those who wish to apply for loans to buy a house in the private market, the eligibility rules are the same as for those who plan to apply for public housing, but, in addition, the applicant, their spouse and direct relatives residing in the same household must not previously have received any government housing subsidies.

Although most people in Taiwan would perhaps subscribe to the view that since the early 1960s the government's public housing policies have been successful in meeting the housing demands of many middle and low income families, a number of concerns are widely expressed. One area of concern is with respect to tenure with most public housing having been for sale, rather than for rent. The consequences for public finances are complex. On the one hand, because the sale price is higher than the capitalised rents, the subsidy is greater where the government sells the properties. On the other hand, there are considerable administrative costs attached to renting including the collection of rents and rent arrears. There are also issues of a strategic rather than financial dimension: for example, the concern that once units are sold, it is difficult to hold on to control over the land. Land is a scarce resource in Taiwan and loss of control may create problems for future construction. Given the view that rental housing may in any case be more suitable for very low income groups, in recent years it has been frequently argued that the government should 'sell the home but not the land' and that the slogan 'residents to own the house' should be replaced by 'residents with suitable housing' (Taipei Municipal Government 1995; Taipei Municipal Government 1997*a*). Moreover, it is recognised that the demographic and social structure of Taiwan is changing rapidly; more people living on their own, more older people and more single parent families may all create sets of needs that public housing may be required to address in the near future.

Labourers' housing

Government efforts to take care of the housing problems of labourers⁶ began in 1980. House prices increased rapidly in the late 1980s worsening further the ability of labourers to buy their own homes. The Ministry of Labour Affairs promulgated a series of guidelines to assist

Table 5.4 Proposed budget for government subsidised labourers' housing (000NT\$)

Year	Loans for build or purchase	Loans for home repair	Loans for private investment on constructing labourers' housing and dormitories	Labourers' housing community (NT\$60 000 per ping) ¹
1988	58 133			
1989	67 967			
1990	118 772			
1991	188 867			
1992	336 090	20 850	18 350	
1993	622 083	20 760	18 310	
1994	592 083	20 760	18 310	
1995	915 136	20 760	18 310	
1996	1 504 605	21 260	18 310	14 500
1997	2 008 970	94 775	23 755	114 430
1998	2 561 890	249 490	18 755	14 442
1999	2 543 300	271 113	18 755	48 730

Note: ¹ 1 ping = 3.3 square metres.

Source: Executive Yuan (1999d), Council for Labour Affairs, Taipei, Taiwan.

labourers to obtain government loans to buy or repair their houses. Provisions were also made, starting in the early 1990s, to encourage private sector enterprises to construct housing units strictly for labourers. With regard to the interest rate, the repayment period and the upper ceiling of the loans these were similar to those for public housing. As at the end of 1999, there were altogether 165 942 households who had received some sort of government loan, mostly for building or purchase of a home (Table 5.4). The policy has alleviated some housing difficulties but it has been limited because, while most of the communities for labourers have been built in less urbanised areas, the greatest concentrations of labourers are in locations such as Taipei County, which are highly urbanised.

Rehabilitated housing

So called rehabilitated housing was provided with the explicit aim of accommodating residents living in those squatter settlements that were torn down in order to meet some public objective. Mostly built during the period 1962–72, there are approximately 7000 such units, although, due to many unlawful transactions, perhaps as many as 1000

households have still not completed the building registration. Because most of the houses were built over 30 years ago, many are in a poor state of repair, requiring urgent renewal. Unfortunately, the lack of clarity about ownership makes reconstruction problematic.

Low income housing

By definition, low income housing is targeted at low income families. In its early days, it also accommodated some refugees and victims of natural disasters. Residents in this type of housing pay a rent to government of a level only sufficient to cover maintenance. Taking the capital city – Taipei – as an example, the low income housing estates were constructed during the period 1970 to 1979. Altogether there are five estates, accommodating a total of 2048 households and 6390 people (Taipei Municipal Government 1996*b*).

There are a number of widely recognised issues with regard to low income housing. (Taipei Municipal Government 1997*a*). Firstly, because of the limited number of low income housing units, there exists an equity issue as between those who gain access and those who do not. Secondly, it has never been definitively resolved whether the housing is intended as a temporary or permanent solution for meeting people's needs. Thirdly, there is considerable labelling or stigma attached to the estates and this further complicates their social problems. Finally, the deteriorating physical environment of the estates reduces the quality of life of their residents. In response to these issues and problems, a number of policy recommendations have been mooted. These include: integrating low income housing estates into the public housing system; renewing and converting the existing low income housing estates into new low income housing estates; and, selling one of the better located estates, using the proceeds to rebuild the others. There are also proposals to provide rental subsidies rather than constructing more low income housing estates, a rationale being to try to 'de-labelise' the low income housing communities (Taipei Municipal Government 1996*a*).

Farmers' housing

The housing of farmers in Taiwan has become part and parcel of the 'agricultural comprehensive programme' that was intended for implementation between July 1991 and June 2001. In the overall programme, the Council for Agricultural Affairs set aside an agricultural development fund to assist farmers to obtain loans to build and/or repair their houses. All farmers and fishermen over 20 years of age and

residing in the registered area for more than 6 months are qualified to apply for loans. The duration of the loan is seven years, with interest rate at the same level as for public housing, namely 5.075 per cent. The upper ceiling of the loan is NT\$600 000 per household. In 1998 there were altogether 555 households that benefited from loans for house purchase, of which, 502 were farmers and 53 fishermen. In addition, the Council for Agricultural Affairs allocates loans for farmers and fishermen to repair their housing. The maximum amount that each household may obtain is NT\$1 000 000. There are 808 households who have benefited from such loans, of which 769 were farmers and 39 fishermen. During the period 1999–2000, loan budgets were set aside to enable a total of 1000 households to fix or build their homes, with an additional 500 households being able to obtain repair loans.

Indigenous peoples' housing

In the light of political democratisation, the welfare of the indigenous peoples⁷ of Taiwan has earned much attention in recent years. The government has planned to make available a number of provisions: loans to purchase or repair a home; indigenous economic affairs housing loans; and loans to assist the private sector to build indigenous housing communities in metropolitan areas. With the exception of the last of these, which has a duration of five years, in terms of duration and amount they are all the same as loans for public housing. Since many indigenous people are considered as the most deprived group in the society, it could be argued that such convergence of the terms of the loans could be considered as fair.

Current housing profile

The most recent population and housing census conducted in 1995 by the Directorate-General of Budget, Accounting and Statistics, the Executive Yuan, provides measures of the housing stock. These indicate the extent to which state intervention combined with market provision has resulted both in considerable achievements in providing the people of Taiwan with housing of good quality, as well as in a number of actual and potential problems.

Although there are regional differences, overall the home ownership rate has reached 80 per cent (Table 5.5). Concomitant with this relatively high home ownership rate, there is a 12–15 per cent vacancy rate, which might be taken to indicate that perhaps the housing problem in Taiwan is not merely a matter of quantity, but also a matter

Table 5.5 Tenure 1995

	<i>Number of households (000s)</i>	<i>%</i>
Owner occupied	4418	80.7
Rented	653	11.9
Assigned	164	3.0
Others	238	4.4
Total	5473	100

Source: Executive Yuan (1995).

of quality and distribution. In other words, future policy endeavours should be put not only into taking care of the demand of those 20 per cent who are now not owning their own residence, but also into upgrading the housing environment and into creating trickle-down effects.

In 1995, on average each household enjoyed a floor area of about 114 square metres (35 pings) and each person 27 square metres (just over 8 pings), amounts that compare favourably with many western countries as well as with Japan, Hong Kong and Singapore. Twelve per cent of the total dwellings were in buildings in mixed use, with the remainder being used solely as dwellings. As to the year of construction, one-third was completed during the period 1971–80, 22 per cent between 1981 and 1985, with only 8.6 per cent being built from the end of the 1980s; a mere 1 per cent was over half a century old. Given the average life expectancy of individual dwelling units, it seems likely that in the near future housing renewal will become an issue. With regard to the type of housing, most households in Taiwan live in low rise dwellings – almost two-thirds in houses – with the remainder in apartments (Table 5.7). There are more people living in high rise and apartment buildings in the northern region than the southern region

Table 5.6 Area of residential housing occupied by household, 1995

<i>Floor area (square metres)</i>	<i>Numbers of households</i>
59 and under	648 478
60–89	1 525 265
90–119	1 653 186
120–149	700 263
150 and over	945 917

Source: Executive Yuan (1995).

Table 5.7 Type of residential housing, 1995

<i>Housing type</i>	<i>% of households</i>
Detached house (Chinese style)	12.9
Detached house (western style)	7.2
Semi-detached row house or other	45.1
Apartment of 5 storeys or less	26.1
Apartment of 6–12 storeys	7.5
Apartment of 12 or more storeys	1.1

Source: Executive Yuan (1995).

where detached or row houses were more common. This reflects regional differences in the degree of urbanisation as well as preferences.

The census also indicated that housing expenditure constituted 16 per cent or so of the average family's total expenditure. Due to the real estate recession in recent years, however, housing investment as a percentage of fixed capital formation and of gross domestic product has declined, from 8.40 per cent and 1.76 per cent in 1996, to 6.81 per cent and 1.43 per cent in 1997, and 5.65 per cent and 1.21 per cent in 1998 respectively.

Further issues

In Taiwan, then, government intervention in the housing system has been limited in scope and mainly directed, piecemeal, at specific groups of the population that were deemed at various stages to merit assistance. Even so, over the course of the last half century there have been very great improvements in the living conditions of the Taiwanese people. The overcrowded and dilapidated housing of the 1950s and 1960s has been largely replaced by houses of higher quality, with more modern facilities and offering more space to their residents; and 80 per cent of households are now home owners. Nevertheless, it is clear that the housing system and housing policy have some limitations and deficiencies.

The financial needs of the present policy regime

The monetary and fiscal orientation of policy mechanisms imposes a heavy burden on the public purse. As described earlier, there are four different types of housing loan that attract government subsidy: for housing construction and renewal; for house purchase; for housing repair; and for rental housing. As of February 1999, the total number of

units that the government has helped people to buy or construct was 575 103. The net asset is NT\$3819 thousand million. The total interest subsidised by the government has been increasing over the past three years, from NT\$57 thousand million in 1996, to NT\$65 thousand million in 1997 and NT\$91 thousand million in 1998 (Executive Yuan 1999c). Moreover, because the inclination of housing policy has been toward housing for purchase, it can be expected the financial burden will increase in the future. Although in terms of expenditure as a proportion of GDP or of total government expenditure and in comparison with many other industrialised countries, the amount does not appear large, there is reluctance in Taiwan to increase it (and thereby exert upward pressure on taxation). This may of course be seen to reflect the relative political priority placed on housing. One consequence is that not only are present expenditures hard to sustain against competing pressures from expenditure in other sectors, but new policy initiatives in the housing sector – for example, for housing repair loans or rental subsidies – whatever their potential for improving living conditions, are unlikely to be implemented.

Fragmentation of responsibility

At the present time, central government housing affairs are handled by different branches of the government: by the Ministry of Interior, the Ministry of Defence, the Council for Economic Planning and Development, the Council for Labour Affairs, the Council for Agriculture Development, the Council for Indigenous People's Affairs, the Civil Servants' Bureau and the Commission for Veterans' Affairs. This same fragmentation of responsibility for policy formation and implementation exists at provincial and city government level and gives rise to concerns about co-ordination and efficiency as well as over equity. The latter concern reflects the clear differences in the subsidy benefits achieved by the different groups at which present policies are directed. Thus, the terms for public housing and civil servants' loans are particularly favourable in comparison with other provisions. The adverse consequences of the present organisational arrangements have received some formal recognition. The Executive Yuan in its proposals, published in 1999, for enhancing economic strengths suggested the setting up of a single organisation to take charge of the country's housing problems.⁸

The operation of the housing market

Ignoring issues about how efficient and fair government housing policy and implementation might be, it deals with only 5 per cent of

the total housing stock, the remaining 95 per cent have to rely upon the functioning of the private sector. It is important, therefore, that the private market also operates in ways that meet social objectives and this requires the government to appropriately channel, guide and regulate the operation of the market and its actors. In fact, it can be seen that over time government intervention in the market has increased with the government being particularly active in the last few years.

Apart from general regulations, for example through the establishment of a legal framework covering matters such as land development and property transactions, throughout most of the second half of the twentieth century government interventions in the private market were limited. At times of crisis there were sometimes specific measures. After the first oil crisis, the government in June 1973 and January 1974 froze the price of building materials and restricted construction projects that were above five stories. Between 1979 and 1981, when the second oil crisis occurred, the government traced the capital flow of those who were buying houses, and set down regulations as to the time period for the use of empty land and imposed the land increment tax levy. On 28 February 1989 and 10 June 1992, the government adopted selective credit control measures with respect to land purchase loans.

The intention of some of these measures was to restrict speculation in land and housing. The government's actions however attracted considerable criticism (Chen 1995). Private sector interests resisted them since they restricted their ability to profit from the market conditions of the time. On the other hand, particularly between 1987 and 1991, when house prices were increasing particularly rapidly, civil organisations were also most active. Thus the Homeless Coalition organised a massive demonstration in June 1989 against both the government, for adopting measures that were too weak, and the building industries.⁹

From the mid-1980s, with the reduction in the government's housing programmes, the building industry has been operating at far below its capacity. It has been increasingly recognised that the industry has strong linkages with other sectors of the economy and, should it continue to decline, many resources could stay idle. The banking industry would also be affected. In 1998 the Executive Yuan put forward its 'Revitalising the Building Industry's Investment Strategies' (Executive Yuan 1998) with the hope that by combining housing supply and demand, and promoting housing purchase, the industry's output would be increased. To achieve the goals, the Central Bank prepared NT\$1500 thousand million for commercial banks to assist ordinary people to more easily obtain low interest loans to buy a house.

The upper ceiling of public housing loans was raised to NT\$2 200 000 and the interest rate decreased to 5.075 per cent. In order to streamline this strategy, it is calculated that over the next 20 years, the government will have to subsidise interest payments by more than NT\$100 thousand million. However, it is estimated that should the building industry be revitalised, the government's accounts may gain NT\$300 thousand million in tax income while the expanded domestic demand will lead to overall economy recovery (Executive Yuan 1998).

This policy development has become the subject of some criticism (Chen 1999). One argument has been that the crux of the present housing problems is not so much undersupply and dis-equilibrium of prices, but more oversupply. On this view the strategy is interpreted as yet another way for the government to justify bailing out the building industry. Moreover, the experience of many of those living in the metropolitan areas is that even with the assistance of government subsidies they are still not able to acquire sufficient money for a downpayment. One solution put forward has been for a substantial investment in rental housing which even in the capital city accounts for only around 20 per cent of the housing stock and is mainly occupied by low income groups (Chinese Housing Association 1999).

The Asian financial crisis of the last years of the twentieth century has of course had some adverse impacts upon Taiwan's economy. Starting in July 1998, the government launched a series of structural and system re-engineering endeavours with the intention of boosting the economy. Land and housing management policy was one of these endeavours. Moreover, in February 1999, when the Executive Yuan passed the 'Programme to Strengthen the Economy', the government, for the first time, publicly acknowledged the oversupply of housing and the inadequate land system problems. Also for the first time, the government confessed that the oversupply of housing is due mainly to the lack of an overall land use plan and an inappropriate land tax system (Executive Yuan 1999b).

On this analysis it is important for the government to rethink the very fundamentals of its housing policy. This will include establishing improved means of land use planning and management and a more appropriate land tax system. It is also recognised that more emphasis needs to be placed on rental housing. Some further steps were made in this direction in November 1999 when the government determined to revise the income tax system to cover a deduction for rent, to periodically conduct housing surveys and to expedite land use change evaluation procedures. In these steps, it may be recognised that the

government is now able more fully to grasp the crux of the country's housing and land problem.

Concluding remarks

It can be said of Taiwan that housing problems have not generally featured high in the list of political priorities. Although there are a number of housing programmes, they seem to have been dictated by the demands of different groups and/or specific incidents at different stages of Taiwan's development. On the whole, housing policy lacks systematic and comprehensive consideration. Perhaps the Six- and Four-year Housing Plans implemented during 1976 to 1985 could be cited as the only case where housing issues have ranked high among government policy agenda. But, before reaching what was then the vision for housing, in the early 1980s direct and massive government involvement in housing construction was interrupted due to worldwide economic recession. Thereafter, the government housing policy has leaned more and more toward monetary and fiscal strategies and tactics.

However, the Asian financial crisis has brought a new perspective and re-evaluation of the strengths and weaknesses of the housing system. Although this may be based primarily on economic development imperatives, it has again led towards a more comprehensive approach to housing policy in which the government, besides paying more attention to those 20 per cent of the population who are not owning their houses, also recognises the need to improve the operation of the market as a whole. These new priorities indicate a greater role for rental housing, urban renewal and land and tax reform.

Notes

1. As of 25 March 2000, US\$1 = NT\$30.71.
2. The Cabinet.
3. This implies that Chinese society is guided by *Quaou-xi*, which, literally translated, means that if you know someone in charge of the matter, you may get something done more easily even though sometimes it does not conform to the laws and/or regulations. It reflects a view that Chinese society works on a principle of 'relationship-affection' rather than 'law-rationality'.
4. There are altogether 14 government-supported housing sites for elderly veterans and another 4 self-supported ones, see Executive Yuan, (1999a)

5. By 1998 those aged 65 and above already accounted for 8.3 per cent of the population, pushing the government to consider the formulation of a national pension scheme and to pay more attention to living arrangements of the elderly.
6. According to the Labour Standard Law which was promulgated in August 1984 and subsequently has undergone nine revisions, there are altogether 20 different categories of workers ranging from miners to media workers who are considered labourers and may enjoy government welfare provisions including housing.
7. Making up about 2 per cent of the present population, they used to be called mountain people or aborigines. They consist of nine main tribes and are believed to be of Malay origin. It is only very recently that they have been identified as the 'indigenous people'. Since in terms of culture and language, they are so different from the mainstream society, they have been marginalised for a long time and particularly deprived, economically and otherwise.
8. For years, the Executive Yuan has been working on the reorganisation of the Cabinet. Although the principle of setting up a single organisation seems established, what will be the exact name of the specific agency in charge of housing has not been determined. For details, see Executive Yuan (1999*b*).
9. The demonstration gathered at least 100 000 people to sleep overnight on one of the richest and most expensive streets in Taipei as a satirical way to show to both the government and the builders their dissatisfaction on the skyrocketing house prices. Consecutive moves were taken also toward related governmental and business organisations in the same year and won quite a publicity. However, perhaps due to the shift of social concerns in recent years, protest of the same nature initiated by the same organisation last year was not able to arouse the kind of momentum it did ten years ago.

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6

Korea

Dong-Sung Lee

Introduction

Since 1962, Korea has followed a very effective economic development plan and has consequently succeeded in transforming itself from an agricultural society to an industrial nation. The Korean economy developed at a rate which had never been experienced before. For example, over several decades Korea maintained an annual growth rate of 9 per cent and as a result the GNP per capita rose from US\$87 in 1962 to US\$11 380 in 1996. In other words, the GNP per capita rose by 130 times in a period of 34 years. Over the same period the average life expectancy increased from 52.4 years in 1960 to 73.5 years in 1995. Such rapid economic growth was made possible by industrialisation that began with the establishment of labour intensive industries leading to the massive migration of rural manpower. The relative importance of manufacturing industries rose from 17.7 per cent of GNP in 1963 to 32.1 per cent in 1998. Industries concentrated in or near urban centres where the infrastructure was more developed. In turn, this accelerated urbanisation. As a result, urban population rose from 39.1 per cent in 1960 to 87.2 per cent in 1997. More than four out of every five Koreans now live in urban centres of 20 000 people and more.

Urbanisation also brought about various problems including inadequate sewerage and transportation systems and urban poverty. In particular, rapid urbanisation resulted in acute housing shortages, the mismatch between housing demand and supply, housing price inflation and speculative activities (Lee 1995; Lowe 1992). It was inevitable that the increase in housing prices reduced housing affordability. On the other hand, housing speculation meant enormous

capital gains for specific groups thus widening household income distribution and inviting social problems. Against this background, the primary goals of Korea's housing policy can be seen to be the reduction of house prices, the imbalance between supply and demand and the ending of speculation in housing.

This chapter is intended to explain the evolution of Korea's housing policy. First, the problem of the demand–supply mismatch will be examined. Second, housing policy will be reviewed under three headings: supply policy, anti-speculation measures and public sector housing. Third, the impact of the recent IMF regime on housing will be discussed and, finally, a re-orientation of housing policy in the future will be suggested.

Demand–supply mismatch

In 1945, when Korea was liberated from Japanese colonialism and divided into North and South Korea, its GNP per capita was US\$50 making it one of the poorest nations in the world. With manufacturing accounting for less than 20 per cent of GNP, 90 per cent of the population lived in rural areas so that Korea was basically a rural, agricultural society (Hatada 1969). Surprisingly, though housing quality was poor, there was no acute housing shortage.

South Korea's population in 1945 of 15.9 million increased rapidly; in 1946 alone 4 million persons came from North Korea (NSO 1949). Almost a half of these immigrants settled in urban centres provoking acute housing shortages especially in Seoul, the capital city. In response, the Korean government created the housing bureau in the Ministry of Social Affairs, but it accomplished little because of the Korean conflict (1950–53). During the Korean War, about 515 000 dwellings, or 20 per cent of the housing stock was destroyed, about half in urban centres. Moreover, a further one million dwellings were damaged. To make matters worse, more than one million refugees came from North Korea (Henderson 1974). Using foreign aid, the government hastily provided various types of temporary or semi-permanent dwellings such as mobile homes, temporary rural housing and refugees' housing. But housing policy was regarded as a temporary welfare measure; indeed, housing policy was formulated in the Bureau of Welfare of the Ministry of Health and Social Affairs.

By 1957, the recovery of housing was nearly over. Further, with the help of the Japanese Property Fund and USICA Aid Fund, by 1961 about one million dwellings had been built. Set against this, during the

latter half of the 1950s, about 30 000 houses had been destroyed each year by typhoons and floods. The housing supply ratio (the number of dwellings divided by the number of households) fell to 84.2 per cent in 1960 (Ministry of Construction 1987).

The housing shortage crisis was in fact aggravated by economic development policies. Right from the first Five-year Economic Development Plan (EDP), which ran from 1962, Korea's economic development policy was based on the 'growth first' principle and most of the available resources were allocated to economic growth. Moreover, the continual tension between north and south necessitated enormous resources for national defence leaving little room for social investment. As a result, housing was not given great priority and there developed a worsening housing shortage. In the meantime, the urban population continued to increase owing to rural-urban migration and the formation of nuclear households.

The ensuing mismatch between housing demand and housing investment led inevitably to a rise in housing prices. This weakened housing affordability and increased housing insecurity for urban dwellers. The sustained housing price increases brought about housing speculation and some segments of society enjoyed large capital gains (Ministry of Construction 1987).

National plan and housing

It is true that housing has nominally occupied an important place in the 'national plan' (Castells *et al.* 1990). The national plan includes those plans initiated and managed by central government such as the Five-year EDP that started in 1962, the Ten-year National Comprehensive Physical Plan which began in 1972 and the Two Million Houses Construction Project in 1988. Of these, the Five-year EDP and the Two Million Houses Construction Project are the 'action plans' while the Ten-year Physical Plan is an 'indicative plan'.

The series of Five-year EDP are integrated general plans that include housing. However, in the early years the shortage of the government's budgetary resources and the heavy burden of national defence prevented them yielding the planned results as far as housing was concerned. Despite sustained economic development, housing shortages worsened and house price increases were accelerated. Rents also increased rapidly provoking social unrest (Kim 1998).

The expansion of housing demand

In general, housing demand increases with the increase in the number of households, which increases with population increase and the for-

mation of nuclear households (Murphy 1990). In turn, population increase depends on natural increase and migration, which includes rural to urban migration.

The population in 1960, the year when the first population census took place, was 25 million, rising by 1995 to 44.4 million, or 1.8 times. The annual rate of population increase of 2.69 per cent in 1960 had slowed down to 0.53 per cent by the 1990–95 period. There were large differences in population increase by region. The urban population, which was 9.8 million in 1960, increased by more than 4 times to 40.8 million in 1997, representing 87.2 per cent of the total population. The excessive urbanisation led to a concentration of households in major cities that was beyond the capacity of their housing markets to cope with (Lee 1996*b*).

In contrast, the rural population that numbered 15.2 million in 1960 radically shrank to 5.9 million in 1997. This shows the rapidity of the urbanisation taking place especially in the 1960–80 period (see Figure 6.1). After 1980, the speed of urbanisation slowed down.

The number of households rose more rapidly than population because of the rise of nuclear households. Rapid industrialisation combined with urbanisation destroyed the traditional system of extended families resulting in a rapid rise in the number of households. Thus while over the period 1960 to 1995 population increased by 78 per cent, the number of households increased by 197 per cent with the average number of persons per household decreasing from 5.6 to 3.4 (Table 6.1).

Housing demand depends also on income (Charles 1977; Lim *et al.* 1980). With the exception of the early 1970s, marked by the first oil crisis, and the early 1980s, marked by the second oil crisis, the Korean economy maintained an annual growth rate of 9 per cent or more. As a

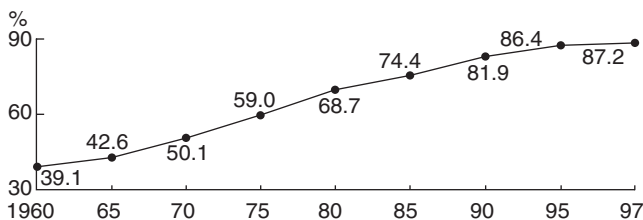


Figure 6.1 Urbanisation in Korea

Source: Ministry of Construction & Transportation (2000).

Table 6.1 Changes of population and households

	1960	1970	1980	1990	1995	Change: 1960 to 1995
Population (000)	24 989	31 466	37 436	43 411	44 554	1.78
Household (000)	4361	5576	7969	11 355	12 958	2.97
Persons per household	5.6	5.4	4.6	3.7	3.4	0.61

Source: National Statistical Office (1995).

result, GNP per capita increased from US\$87 in 1962, the first year of the first Five-year EDP, to US\$11 380 in 1996, the last year of the seventh Five-year EDP. Such an increase in income has inevitably strengthened housing demand.

Chronic housing shortage

In spite of the continual increase in housing demand, housing production, until the Two Million Houses Construction Project that started in 1988, could not catch up with the increase in households. The principal reason was the fact that the housing industry was treated as a 'non-productive' or 'consumption' sector. Housing investments were considered as counter-productive to economic growth (Donnison and Ungerson 1982). In fact, during the first four Five-year EDPs, the priority was escape from poverty, and housing investment constituted no more than 3 per cent of GNP. During the first Five-year EDP (1962–66), housing investment was a mere 1.6 per cent of GNP and the five-year housing production was no more than 325 000 units. From 84.2 per cent in 1960, the housing supply ratio dropped to 81.2 per cent in 1965. The housing investment ratio during the second Five-year EDP (1967–71) was 2.6 per cent, which was considerably higher than it was during the previous period. Although about 540 000 units were built, a little more than the number in the plan, the housing supply ratio dropped by 1970 to 78.2 per cent.

The third Five-year EDP (1972–76) gave greater importance to housing. The government had come to recognise housing as one of the essential dimensions of welfare but in practice a continued lack of resources prevented major improvements. In the meantime, Korea adopted the first Ten-year National Comprehensive Physical Plan (1972–81). A target of producing 2.5 million units by 1981 was set, which would raise the housing supply ratio to 82.8 per cent in cities

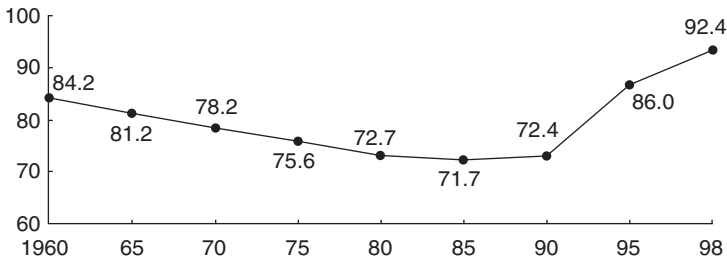


Figure 6.2 Housing supply ratio

and 88.4 per cent in the country as a whole. However, the first oil crisis at the end of 1973 led to a sharp decrease in housing construction. In 1975 housing investment fell to 3.6 per cent of GNP and the housing supply ratio fell to 75.6 per cent (see Figure 6.2).

As a consequence of continued national economic growth, in the late 1970s incomes rose further, but housing shortages became worse. From the fourth Five-year EDP (1977–81) the government made greater efforts, and, as a result, the ratio of housing investment to GNP rose to 3.8 per cent. Despite this, the housing construction industry, in producing 1 126 000 units, reached only 86 per cent of what was planned and the housing supply ratio actually dropped further to 72.7 per cent in 1980. Under such circumstance, the increase in house prices was again large.

From the fifth Five-year EDP (1982–86), the expansion of housing construction and the depressing of housing prices became the policy target. The policy measure envisaged, however, was the strengthening of housing demand, which further aggravated house price inflation and housing speculation. During the first two years of the plan period, inflation was stabilised and the balance of payments turned out to be favourable so that the housing construction plan was revised. However, the actual level of housing construction was 1 155 000 units, or only 80.7 per cent of what was planned, and the housing investment ratio was 5.2 per cent, less than the 5.85 per cent planned. Accordingly, in 1985 the housing supply ratio fell to 71.7 per cent.

The sixth Five-year EDP (1987–91) put the priority firmly on housing construction. The most striking achievement was the Two Million Houses Construction Project designed to reduce the shortage of

housing. The project was put into reality from 1988 and succeeded in providing an enormous amount of housing for different groups of people. Thus, for low income households low cost rental dwellings were provided. For low income workers, both workers ownership and workers rental dwellings were provided at low cost. The middle income group was provided with long term rental dwellings and/or small sized ownership homes. As for high income groups, no restriction was imposed on production; the volume of production being decided by the market (Lee 1990). As policy means, loans by the National Housing Fund (NHF) were mobilised along with private sector funds. The allocation of these funds was carefully planned and the roles of the government and private sectors were clearly defined. Moreover, in order to alleviate land shortage the government announced in April 1989 its development plan for five new towns involving the construction of 294 000 dwellings in the Seoul Metropolitan Area (SMA), which contributed to the dispersal of population out of Seoul.

With the government's strong commitment, the Two Million Houses Construction Project had been achieved in 1991, one year ahead of the initial plan. By 1992, the actual production was 30.2 per cent above the original target. The housing supply ratio rapidly rose and house prices began to fall (Korea Research Institute for Human Settlement 1992). The project accelerated the growth of the housing industry and 600 000 units were produced every year between 1988 and 1992 increasing the housing supply ratio to 77.50 per cent in 1992.

During the seventh Five-year EDP (1992–97), half a million new dwellings were produced a year yielding a total production of 2.5 million. This was possible, because as much as 5.8 per cent of GNP was invested in housing. As a result the housing supply ratio increased to 92.0 per cent by 1997. In the meantime, local government autonomy increased and its role in housing was strengthened. Alongside this, the private building sector was given greater freedom in housing production and increasing public housing reduced the low income housing problem. Unfortunately the housing industry met a new challenge with the arrival in 1997 of the financial crisis resulting in a sharp slowing down of housing production.

Consequences of demand–supply mismatch

Until the end of the period of the Two Million Houses Construction Project, supply could not catch up with demand. In the meantime house prices continued to rise rapidly. In the period 1975–90, incomes

rose by 3.5 times, the consumer price index by 4.1 times but house prices by 6.5 times (Lee and Yang 1992). In particular, during the middle of the 1970s and the construction boom in the Middle East, a huge amount of foreign currency flowed into Korea and housing prices skyrocketed. Moreover, this construction boom provoked serious shortages of cement, steel and other construction materials, which added fuel to price inflation in the domestic market. The excess demand for apartments was so great that the ratio of applicants to apartments constructed by the Sam-Ik Company was 55 to 1 (Ministry of Construction 1987).

In 1979, the second oil shock brought about economic recession. The Korean economy experienced negative growth for the first time and housing construction also experienced a slump. The government adopted housing construction recovery measures in 1980. After the latter part of 1980, the balance of payments was especially favourable allowing increased liquid funds to flow into housing. The economy recovered and began to experience rapid growth in 1981 and house prices began to rise again (Korea Research Institute for Human Settlement 1992). This rise in house prices invited housing speculation and was seen to undermine the desire to work of the workers (Van Vliet and Hirayama 1994). Moreover, house price rise worsened housing affordability and the price to income ratio increased from 5.63 in 1988 to 9.38 in 1991 (Kim 1993). As a result, the home ownership rate fell from 79 per cent in 1960 to 69.0 per cent in 1970, 58.6 per cent in 1980 and 49.9 per cent in 1990, 53.6 per cent in 1985 and 53.3 per cent in 1995. The rental rate rose from 20.9 per cent in 1960 to 46.7 per cent in 1995.

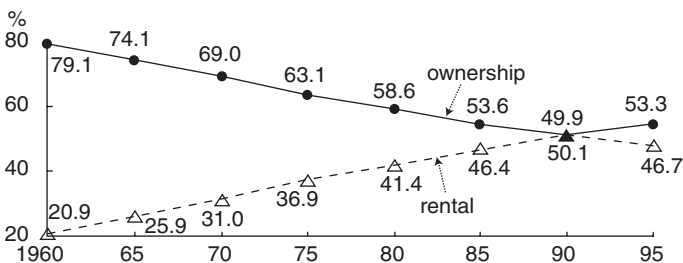


Figure 6.3 Changes in housing tenure

Source: Ministry of Construction & Transportation (2000).

Evolution of housing policy

In order to tackle the housing shortage problem and its related problems such as price increases and housing speculation, the government took a series of policy measures (Lee 1990). These policy measures can be grouped under three headings: supply measures; anti-speculation measures; and policies for low income households.

Policy to expand housing supply

Main features of the legislation

In view of the chronic housing shortage, the government adopted in 1970 the Ten-year House Construction Plan for 2.5 million units. According to this plan, 1 million units in the 1972–76 period and 1.5 million units in the 1977–81 period were to be built. In 1972, the previous Public Sector Housing Law was abolished and instead the Housing Construction Promotion Law (HCPL) was adopted. The purpose of the law was to effect planned housing production and to define provisions for fund raising and other matters necessary for the adequate flow of housing construction. The Minister of Construction was expected to define the ten-year plan for housing construction. Central and local governments, the Korea National Housing Corporation (KNHC) and the Korea Housing Bank were to implement the plan. As for housing funds, in addition to various government sources, housing bonds and foreign loans were allowed and local government and the housing bank were to make special plans for low income housing. The HCPL provided various criteria for housing construction in order to improve housing quality. The law also defined rules for house allocation and for the management of collective housing, which took the form of apartments.

As urbanisation continued in the 1980s urban housing issues became more and more serious. Despite the huge housing demand, development land in urban areas was very limited and an adequate land supply became the major policy issue. The Land Readjustment Scheme – that had been the principal means of providing residential land prior to the 1980s – the Land Assembly Scheme and the Apartment Land Development Scheme could not, even together, provide sufficient land (Hwang 1976). What was needed were some basic changes in the methods of land development. Accordingly, the Land Development Promotion Law (LDPL) was enacted in 1980 and a Public Land Development Regime established. Urban centres and peripheral areas were proclaimed as ‘planned development areas’ and local government, the Korea National Housing Corporation and the Korea Land

Corporation were allowed to acquire land, develop it and sell it to home builders. The LDPL allows the selling of land at a price covering the cost of public facilities such as roads and schools and the return of capital gains taken from development to society to reinvest in the additional development of land (Huh 1995).

Institutions designed to expand housing supply

The government has established a number of institutions designed to expand housing supply. First, the Korea Land Corporation (KLC) was established in order to expand land supply. Second, in order to increase the productivity of the construction sector the system of 'registered builders' and of the nomination of 'designated builders' as well as the Korea Home Builder Association were created. Third, the Korea Housing Bank, housing instalment finance companies and the Korea Housing Finance Credit Guarantee Fund were established to expand the supply of housing funds. Fourth, the Korea Housing Financial Co-operative was established in order to facilitate the supply of construction funds to its member companies. Each is considered in turn.

(1) The Korea Land Corporation: In order to combat land speculation and stabilise land prices, the government adopted an integrated policy. By the Korea Land Corporation Law, the Korean Land Corporation (KLC) was established in 1978, with the mission to acquire, develop and sell land to builders in order to increase land resources and improve the efficiency of land use. The expansion of land supply was made possible because the KLC was expected to stabilise land prices, reduce housing shortage and provide industrial estate land which would greatly contribute to more balanced regional development. Land to be used for primary schools, rental housing and low income housing was provided at cost. Industrial land and land for private sector use was supplied at market price. In this way, land for public use was cross-subsidised. Between 1982 and 1998, public sector land development amounted to as much as 442.6 square kilometres representing 40 per cent of all residential land developed in the country. Of this amount, the KLC provided 191.8 square kilometres, or 43 per cent of public sector land development.

(2) The System of Registered Builders and the Home Builders Associations: Prior to the adoption of the Housing Construction Promotion Law, general builders had constructed houses. By virtue of the HCPL house builders were distinguished from general builders. The HCPL was revised in 1977 and house builders were obliged to meet a number of requirements in order to become a 'registered house

builder'. Among the registered builders, those which had superior capacity were chosen as the 'designated builders' which made them eligible to some privileges in construction loans, residential sales loans and land allocation. This resulted in the active participation of large industrial conglomerates in housing construction (Kim W. J. 1997).

In 1992, the HCPL was revised again and the two groups of home builders were allowed to have two separate associations: the Korea Housing Association for the designated builders of large size and the Korea Home Builders Association for the registered builders of small and medium sized builders. Both associations were given legal status. They were allowed to perform delegated functions such as the registration of builders and the definition of the evaluation of construction performance and training, and they gave advice on policy matters to the government (Korea Home Builders Association 1996).

(3) The Korea Housing Bank, Housing Instalment Finance Companies, Korea Housing Finance Credit Guarantee Fund: Housing requires a large amount of long term funds not only for the builder but also for the consumer. In Korea, despite its importance, housing finance did not progress as rapidly as non-housing sector finance. It was given a low priority and the expansion of housing funds, especially private sector funds, became a major issue. In 1969, the Korea Housing Bank was established.

Until the Korea Housing Bank became privatised in 1998, it had been making loans for housing construction, purchase, land development and other related activities. As of the end of 1996, the Korea Housing Bank accounted for 32.2 per cent of the total housing loans, while the National Housing Fund accounted for 48.1 per cent. The housing instalment finance companies that are in fact residential mortgage companies started their business in 1996. These are allowed to issue bonds up to ten times paid in capital and to make mortgage loans on small and medium sized dwellings. However, with the Asian financial crisis in 1997, their mortgage interest rates increased to 30 per cent and the issuing of their bonds was almost impossible. As a result, these companies drastically curtailed their operations. On the other hand, the Korea Housing Finance Credit Guarantee Fund was established in 1998 in order to enhance mortgage credits.

(4) Korea Housing Financial Co-operative and the Korea Housing Guarantee Company: The chronic shortage of housing funds has prevented house builders from having access to formal sector funds and banks were reluctant to make direct loans to builders. Therefore, the small and medium sized builders had no choice but rely on informal

borrowings at high cost and consequently often faced financial difficulties. The house builders decided to establish the Korea Housing Financial Co-operative (KHFC) in 1993. The KHFC provides a series of guarantees including the home warrantee programme. In addition, the KHFC makes direct loans to builders and provides guarantees for bank loans to house builders. This has made possible the presale scheme and greater access to housing funds. However, since 1997, the economic crisis forced a great number of builders to go bankrupt and threatened the very survival of the KHFC. In fact, the KHFC disappeared in 1999 and, in its place the Korea Housing Guarantee Company (KHGC) was established. The KHGC no longer provides the bank loan guarantees (Korea Home Builders Association 1996).

The Two Million Houses Construction Project

Following the balance of payments going into surplus in 1986 and liquid funds flowing into housing a dramatic house price hike occurred. This led to a differentiated housing situation as between the poor and the well-to-do. The government saw that the best way to alleviate this was through the massive production of housing and in 1988 the Two Million Houses Construction Project was launched. According to the plan, two million houses were to be produced between 1988 and 1992 and to achieve this 6.5 per cent of GNP was allocated to housing construction. This meant a sharp increase in housing production from the previous 200 000 units to 400 000 units per year. In particular, for the Seoul Metropolitan Area, where the housing shortage was most acute, the project included the construction of five new towns.

The government decided to provide one trillion Won (about US\$0.8 billion) of budgetary assistance and the loan to value ratios for the National Housing Fund loans and the Korea Housing Bank loans increased from 30–40 per cent to 40–50 per cent. With respect to land, large scale land development projects were planned by the public sector and the responsibility for approving such projects delegated to local governments. The previous system of price control for new housing was made more flexible by indexing the controlled price to the general price increase. In addition, the floor ratio and land coverage ratio was eased so that low income housing such as low rise collective dwellings could be produced more easily. Another measure was the construction of residential-commercial, dual-purpose buildings that cut down commuting time and costs for a great number of people.

Between 1988 and 1992, despite some doubts at the beginning as to the capacity to produce two million units, no less than 2 717 000 units

were produced. As a result, the housing supply ratio that had continued to worsen began to improve, house prices started to stabilise and speculation was reduced. The housing consumption patterns have changed from 'speculative-oriented purchase' to 'consumption-oriented purchase'. Another outcome of the project was the emergence of greater confidence in government policies. In addition, the house building industry rapidly expanded its capacity owing to the Two Million Houses Construction Project. The number of builders rose from 2390 in 1987 to 9167 in 1991. On the other hand, the project put enormous burden and pressure on materials markets resulting in the use of poor quality materials and a rapid rise in their costs (Ryu 1992).

Anti-speculation measures

Between the 1960s when Korea's economic take off began and the early 1990s when the Two Million Houses Construction Project started to give results, housing speculation was always active and considered a social problem. The government reaction to this took three forms.

Housing price regulation

The sustained housing price increase has brought about, on the one hand, a widening gap between the poor and the well-to-do and, on the other, increased the housing burden of the poor. In response, in 1997 the government imposed an upper ceiling on the price of new dwellings. Since 1989, the regulated housing price has been indexed as a function of construction cost, measured as the cost of land acquisition added to the standardised construction cost per floor area that varies by year.

This system of housing regulation had several shortcomings. The system is applied uniformly throughout the country without allowing for local housing market conditions. One result has been to contribute to the poor quality of housing construction in high cost areas. To make matters worse, the enormous gap between the regulated price and the market price of similar, existing dwellings has led to active speculative activities (Kim J. H. 1991; Kim K. H. 1991; Yoo 1995).

Controlled allocation of new houses

The regulations related to housing allocation were established as administrative measures in August 1977. The price gap between new and existing dwellings has meant that large capital gains accrue to those who are selected to be the buyer of a new dwelling. The regulations require applicants to subscribe to the housing contractual savings

with the Korea Housing Bank for a prescribed time period before they are given the first priority for house purchase. The regulations had a number of other stipulations. First, new housing should be allocated first to the 'homeless' defined as those households that are currently sharing a dwelling with another household. Second, having acquired a new unit, the person is not eligible for selection for a given period of time. Those who have been selected to buy a public sector dwelling lose the eligibility for good. In the case of private housing, the house buyer loses the eligibility for five years. Moreover, in order to prevent speculative gains, the buyer of a public sector dwelling is prohibited from selling the house for five years. If the dwelling is sold within five years, capital gains are taxed away (Korea Housing Institute 1999).

Social recovery of speculative gains

The government has adopted two measures in order to recover speculative gains: a capital gains tax and a housing bond bidding system. The capital gains tax was introduced by the Income Tax Law and levied on capital gains. It was known as an anti speculation tax and made a significant contribution to house price stabilisation in the 1960s and 1970s when severe housing shortage caused violent speculative activities. On the other hand, the capital gains tax has some difficulties regarding its impact on equity. Capital gains tax is not levied in the case where one household owns one house, regardless of the amount of capital gains attained from its transaction. This is liable to favour the well-to-do. If someone owns more than five units for rental purpose, the capital gains are also not taxed away. This creates inequity since those who can afford to invest in no more than four dwellings are not eligible.

The second device was the housing bond bidding system, whereby the house is allocated to whoever offers the highest amount for the housing bond. This system was established in May 1983 in order to reduce speculative activities in the housing market and stabilise house prices. It comes into operation when the amount of potential capital gains, the difference between the controlled price and the market price, was above a pre-established level, i.e. 30 per cent or more. The receipts of the bonds were expected to be added to the National Housing Fund and help low income housing. However, in fact the housing bond bidding system resulted in the acceleration of house prices and in response, in November 1989, the bidding was given an upper ceiling.

Low income housing policy

The government adopted a series of five policy measures designed to ensure decent housing for low income groups. First, the Korea National

Housing Corporation was established in order to maximise the production of low cost housing. Second, the National Housing Fund was created to provide long term housing funds at low cost. Third, in order to maximise the production of low income housing, the government introduced what is called the compulsory building of small sized dwelling up to certain percentage of the total. Fourth, the urban renewal projects were introduced in order to improve the quality of housing and its environment. Finally, the Residential Lease Law was adopted to protect the tenant.

The Korea National Housing Corporation

At the beginning of the first Five-year Economic Development Plan (1962–66), the Korea National Housing Corporation was established in order to promote housing construction, manage public sector housing, alleviate the housing problems of low income households and ensure appropriate housing welfare for all. However, the principal activities of the KNHC were the production of small sized and low cost houses both for sale and for rental. Between 1962 and 1998 the KNHC supplied more than 1.2 million dwellings representing about 11 per cent of total housing production in the period. In contrast to the private sector, then, the KNHC has focused on the production of low income housing and has been concerned with the housing welfare of the low-income group.

The National Housing Fund

The government announced the project of producing 5 000 000 dwellings for the fifth and sixth Five-year EDP and in order to implement this project, the Housing Construction Promotion Law was revised in 1981 and the public housing fund hitherto managed by the Korea Housing Bank became the National Housing Fund. The fund was raised through the government budget, national housing bonds, the housing lottery, NHF bonds, contractual savings, foreign loans, its amortised funds and other related money. One of the principal characteristics of the fund is that it can raise money at low cost and make low cost loans for low income households. In addition, some of its resources come from contractual savings that are, by definition, related to the allocation of housing. Contractual savers are given a priority in the allocation of new housing and the system has led to the impressive increase in housing savings (Kim W. J. 1997).

Compulsory building of small-sized dwellings

The government adopted another measure for low income housing: the compulsory building of small sized houses for low income house-

holds. Private builders tended to maximise their profit by producing middle sized or large sized dwellings for which the effective demand was greater. Unfortunately, this meant that fewer resources were made available for small dwellings for low income people. The government has, since 1978, made it compulsory to allocate at least 40 per cent of residential land developed by public agencies to the production of dwellings with a floor area of less than 85 square metres. As the housing shortage became worse, that was raised to 50 per cent in 1981, 70 per cent in 1991 and 75 per cent in 1992.

However, this policy has now led to the oversupply of small dwellings, while larger houses became relatively scarce thus experiencing additional price increases (Korea Housing Institute 1998). As a result, since 1996, in those regions where the housing supply ratio is more than 90 per cent, the compulsory allocation regulation was removed. In 1998, it was removed throughout the country.

Renewal of low income housing area

The rapid urbanisation resulted in a large number of illegal squatter areas characterised by a lack of basic facilities, poor quality of dwellings and unhealthy and unsafe living environments. The government introduced the renewal project for low income housing areas. It also passed special regulations related to the management of designated buildings designed to legalise the squatter housing. However, the lack of minimum infrastructure and the limited resources of the occupants were such that the legalisation in itself was not sufficient. Long term renewal is required rather than mere legalisation (Ha 1995). In addition, the disposal of public land and city facilities under the legalisation made it possible to improve squatter housing without tackling the underlying causes. The excessive deregulation of building codes and insufficient allowance for such basic services as water supply, sewage and roads were additional hurdles.

In 1973, the government announced temporary measures for housing redevelopment in order to remove some of the institutional problems and administrative difficulties. By virtue of the Urban Development Law, projects for land assembly, low cost apartments and areas eligible for legalisation and improvement were integrated into the residential redevelopment zone and projects for low income residential redevelopment began to start. Unfortunately, the bureaucratic approach generated residents' complaints and could not bring about the expected results. To overcome this, the government adopted, in 1989, temporary measures for the improvement of low income housing to be effective through the end of 1999. These temporary

measures allowed more effective projects of low income housing redevelopment by integrating both the legalisation of the squatter housing and the provision of basic infrastructures.

Rental law and construction of rental dwellings

One of the consequences of speculation in housing has been rapid increases of rent levels and consequently insecurity of tenure. The government passed in 1981 the Rental Law that was designed to protect both the landlord and the tenant. The main provision was that priority was given to guarantee the disbursement of the rental deposit, especially small amounts of deposit, to the tenant at the end of the lease. Moreover, though not written into the law, the lease term was to be at least two years with the result that the landlord cannot evict the tenant at will.

However, the Rental Dwelling Construction Promotion Law, passed in 1984, was designed to accelerate the construction of small sized rental dwellings. For this, the government provided a series of incentives including the supply of residential land at low cost, concessionary loans and favourable taxes. Moreover, the Two Million Houses Construction Project made a significant contribution to the production of rental dwellings. For the period from 1983 to 1999, the total number of rental houses constructed was a little over one million units. Of the total, KNHC provided about 396 000 units of public rental houses, which comprised about 33.9 per cent of the total rental houses constructed in Korea. In 1993, the Rental Law was revised and became the Rental Dwelling Law. The main content of the revision was that anyone who owns five or more dwellings for rental purpose could register as a rental business and receive a series of incentives including exemption from capital gains tax.

Current issues

At the end of 1997 Korea was granted International Monetary Fund (IMF) loans on condition that it undertook structural readjustment in financial, business and other sectors in addition to tight economic policies. This led to high interest rates, high price levels, high foreign exchange rates and a mounting unemployment rate. The high interest rates combined with grave unemployment caused housing demand to fall sharply and a great number of house builders went bankrupt. Moreover, the fact that the Bank for International Settlements (BIS)

requires at least 8 per cent of reserve rate for the banks meant the end of construction loans.

The Korean economy is recovering from the crisis; the income of the middle class is increasing and interest rates are falling. Owing to the sustained trend of producing about 600 000 units per year, Korea's overall housing supply ratio has attained 93 per cent. Home ownership is increasing. However, the Korean economy may never repeat a two digit growth rate and, at the time of writing, it seems unlikely that the violent price hikes of the past will be repeated. This section presents the ensuing changes in the housing market, the housing industry and housing finance.

Changes in the housing market

As the housing supply ratio increased and house prices stabilised, by the 1990s the gap between the regulated new housing price and the market price disappeared. Consumers tended to choose houses not for capital gains but for their usefulness including location and other qualities. Meanwhile, increases in income induced the consumer to ask for a greater variety and better quality of housing in terms of design, construction materials and construction techniques (Lee 1996*b*; Korea Housing Institute 1999). The housing market evolved from a seller's market to a buyer's market. Housing demand in Korea has thus been changing steadily and requires a greater variety in products (Lee 1996*b*). The monolithic supply characteristic of earlier decades failed to satisfy the new trend of housing demand and this was one of main causes of the increasing unsold inventories (Lee 1995). Some of the houses that had once been so popular now became unsold and the number of unsold inventories of dwellings began to increase from 10 000 units in 1991 to 160 000 units in 1995.

In addition, the Korean population is ageing and, with the continued decline of the extended family system, this requires housing to meet the specific needs of older people. The population has also become more mobile because of the increasing importance of service sectors. This means greater demand for monthly rental dwellings. The increasing desire of consumers to live in ecology-friendly environments could signify the increasing popularity of suburban low density housing (Chung and Lee 1998). The declining popularity of apartments is being reflected in the increasing preference for single family dwellings. Thus, housing demand in Korea is shifting from monolithic apartment living to single family dwellings, elderly housing, monthly rental dwellings and suburban housing.

There are some changes also in the supply behaviour. The housing industry is supplying a wider mix of dwellings by type, size and design. The recent increase in house prices could be said to reflect not so much an excess demand as an improvement in housing quality.

Change in the housing industry

Despite rigid regulations, the housing industry has continued to evolve. Whereas the rate of growth varies greatly between builders, in general the industry has been able to overcome the lack of construction funds through the pre-sale system, by which the house buyer pays a substantial part of the construction costs earlier than actual progress of construction. However, the increasing amount of unsold inventories has caused many builders to go bankrupt.

In 1995, because of the slow down of housing market, more than 150 000 units of housing were unsold. This put heavy pressure on the builder's financial position that was further accentuated by the structural readjustment recommended by the IMF, involving the premature repayment of bank loans combined with the stoppage of new bank loan. The number of bankruptcies rose from 60 companies in 1960 to 168 in 1995. Up until November 1997, the monthly number of bankruptcies was 15 companies but after 1997, it went up to 50. The elimination of loan companies that were the principal source of funding for the house builder made their financial position even more precarious. To make matters worse, numerous sub-contractors closed their businesses thus making it impossible to continue housing production. The builders tried to sell their assets, especially real properties, but few buyers appeared. The only alternative was the issuing of high cost debentures in the secondary financial market. Prior to the IMF crisis, the interest rate on construction loan was 15 per cent per year, after the crisis, it soared to 30–40 per cent. Moreover, after the crisis, the cost of construction materials rose 20–30 per cent and the solvability of the builder became further compromised. As a result the number of registered house builders dropped from 9000 in 1991 to 3000 in 1999, resulting in the closing of numerous construction sites.

It is interesting to point out that between 1990 and 1996 the regulated housing price was between 14 and 32 per cent below the actual construction cost (Korea Housing Institute 1997). In 1998, the standardised construction cost, that is the basis for the regulated sales price, increased only by 4.5 per cent whereas the consumer price index

had risen by 6.6 per cent in 1997. The burden of the continual increase in construction cost was squarely placed on the builder.

Changes in housing finance

The system of housing finance in Korea has a number of important characteristics. Firstly, the National Housing Fund and the Korea Housing Bank account for as much as 85 per cent of total formal housing loans; secondly, virtually all housing loans are for new dwellings; and, thirdly, the house price to income ratio is high, which ensures a heavy constraint on the ability of borrowers to repay. Since the IMF crisis, financial institutions have had to observe the BIS asset ratio of 8 per cent and lenders have become much more cautious in making loans. Because loan to value ratios have generally been low, housing loans presented relatively low risks and this has led to a reasonable increase in housing loans. The trend of falling interest rates is likely to increase the amount of loans to the housing sector.

The Korea Housing Bank that had, along with the National Housing Fund, monopolised housing loans was privatised in 1998 and this is likely to stimulate other commercial banks to join in housing loans. In particular the establishment of the Korea Mortgage Corporation that is responsible for the development of the MBS market is another factor favouring the development of housing finance. The loan to value ratio that is now at 30 per cent may be increased, thus diminishing the burden of the down payment. This will strengthen demand for housing loans.

Searching for new policies

The deep changes Korea has experienced since 1997 in housing, finance, businesses and public administration have made it necessary to look for new policy paradigms in housing. The principal component of such paradigms includes the need for continuous deregulation, better protection of the consumer's housing welfare through the creation of the housing guarantee system and the development of MBS.

Deregulation

The main concern of the government since the IMF crisis has been the revival of the housing industry rather than anti-speculation measures. The government has been eliminating a great number of regulations. The regime of regulated sale price is now removed except for very small

sized public dwellings. This has led to a great variety of products such as steel-framed houses and adjustable houses as well as important improvements in facilities and designs. The removal of price regulation has almost eliminated the gap between the regulated price and the market price thus discouraging speculation.

In addition, the builder can now charge prices high enough to justify the development of expensive land in central business districts and this has made it possible to improve the efficiency of land use. The increasing price competition among builders has helped in rationalising the housing industry and non-competitive firms are leaving the sector. The elimination of the compulsory allocation of resources to the production of smaller houses has helped in minimising unsold inventories. Thus, Korea's housing policy is shifting from direct regulations to the role of enabler within the framework of free market.

Establishment of the Korea Housing Guarantee Company

The series of bankruptcies of builders left those consumers who paid the price for presale dwellings without proper protection. The Korea Housing Financing Co-operative that had been responsible for their protection could not do the job properly and the Korea Housing Guarantee Company (KHGC) was created in the place of the Korea Housing Finance Co-operative in June 1999. The government is the principal owner of the new institution whose role is now limited to consumer protection through housing completion warranties and defects guarantees.

Creation of the Korea Mortgage Company

It seems clear that the principal reason for many of the difficulties experienced by the housing industry is the poor state of housing finance. The securitisation of assets such as Mortgage Backed Securities (MBS) is an important element of the development of housing finance. In October 1999, the Korea Mortgage Company (KoMoCo) was created in order to handle the job of securitisation. The MBS regime is expected, by virtue of economies of scale, to raise low cost funds in the secondary mortgage market. If holders of long term funds such as pension funds, life insurance companies and trust companies decide to invest 10 per cent of their assets in MBS, about 8.5 trillion Won could be additionally mobilised for housing. This means 16 per cent of the amount of outstanding mortgage of 54 tril-

lion Won in 1997. Another advantage of MBS is the possibility of attracting foreign funds.

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7

Malaysia

Mohammed Razali Agus

Introduction

Prior to independence in 1957, the concept of public housing was known as 'the institutional quarters' (Agus 1989*b*). Under this concept, the British administration provided housing facilities for the upper class British employees who worked in public institutions such as hospitals, schools and district offices. The only programme aimed at providing housing for the Malayan people was part of the British administration strategy to weaken the support for communist insurgencies by concentrating on the resettlement of Chinese residents in the New Villages all over the country. After independence, the concept of public housing changed from merely providing housing for government officials to that of the home owning democracy, a vision for the housing of all sections of society. As one element of this, the public low cost housing programme was implemented and targeted specifically towards poor households whose incomes were below Malaysian Ringgit (RM) 300 a month.¹

The low cost housing programme was part of the general approach towards meeting housing and other social and economic needs that can be seen to be governed by a number of organising principles. A central objective of successive Malaysian governments was that of achieving rapid economic growth. Initially, this was pursued through the strategy of the development of import substitution industries that entailed the establishment of centrally located, labour intensive manufacturing industries. These required the concentration of labour in urban centres that, in turn, required the migration from rural areas and the provision of sufficient housing to meet the needs of the new urban dwellers. However, the particular economic model pursued also

depended on low taxation so that large scale provision by the state was not a feasible possibility. But, in fact, consistent with this was an underlying ideology that held the family and family resources, emotional and financial, as being responsible for the well being of family members. The role of the state, therefore was not to ensure equality in the consumption of housing, but through regulation and organisation backed by some subsidy, to ensure that people could buy housing of a size and quality compatible with the income they received from working. In housing, as with other areas of welfare, therefore, the aim in general was to preserve existing differentials.

The major, and absolutely central, exception to this reflected ethnic differences and priorities. The so-called 'Bargain of 1957' that had laid down for the newly independent state a commitment to ensure that the relatively inferior economic position of the native Malay (Bumiputra, literally sons of the soil) position, *vis-à-vis* the Chinese, would be rectified. The race riots of 1969 forced a reassessment with a recommitment to the principle that the Bumiputra would benefit from enhanced living conditions in the rural areas they dominated and some would also be encouraged to seek the economic benefits of urban living and employment. Thus, since the introduction of the New Economic Policy (NEP) in 1971, housing programmes have been undertaken, by both public and private sectors, to meet the needs of the population with the overriding objectives of fostering national unity and nation-building through the eradication of poverty, irrespective of race, and the restructuring of society to eliminate the identification of race with economic function and geographical location. Under the NEP, the federal government envisaged the housing industry playing the leading role in providing a stimulus to economic growth and in spearheading further industrialisation and urban development. So, while the overall housing strategy has been based on the requirement that people would purchase their own homes, the Bumiputra have had special privileges in gaining access to housing.

The chapter is divided into four parts. The first part examines aspects of urbanisation in Malaysia, particularly the scale of urban growth and the changing ethnic balance of urban residents. The second part discusses housing programmes, particularly the public low cost housing programme in Malaysia with the focus of discussion on the planning, implementation and performance of the programme from 1971 to 2000. The third part analyses the problems faced by housing developers in implementing public housing programmes in Malaysia. The last part concludes with some tentative recommendations for deliberation

and action by both the public and private sectors in undertaking current and future housing programmes.

Urbanisation and national development

The major factor in the urbanisation process of Peninsular Malaysia has been the implementation since 1971 of the New Economic Policy (NEP), which together with the other push factors in the rural areas, resulted in the rapid migration of the rural population to urban areas (Saw 1972; Evers 1979; Agus 1981). The racial composition of the urban population changed with the increased involvement of the Malays in the urban economy. While in 1957, 11.2 per cent of Malays lived in urban areas (Ooi 1975), by 1980, the percentage had increased to 25.2 per cent (see Table 7.1). However, despite this increase, the majority of the Malays were still living in rural areas, while the percentage of the non-Malay population living in urban areas also continued to increase. Thus, the urban Chinese population increased from 44.7 per cent in 1957 to 56.1 per cent in 1980 while, over the same period, the urban Indian population increased from 30.7 to 41.0 per cent.

The increase in the share of Malays in the urban population during the 1970s was primarily the result of the opportunities promoted by the Malaysian government to encourage them to participate in urban activities. It was not surprising, therefore, that about two-thirds of the

Table 7.1 Urban areas in Peninsular Malaysia: growth and ethnic composition

<i>Census year</i>	<i>Total urban population</i>	<i>Percentage of total urban population</i>		
		<i>Malays</i>	<i>Chinese</i>	<i>Indians</i>
1957	1 666 969	21.0	62.6	16.4
1970	2 530 433	27.6	58.4	20.0
1980	4 073 100	37.9	50.3	11.8
1990	6 524 018	45.6	43.7	10.7
<i>(Percentage of total each ethnic group living in urban areas)</i>				
1957		11.2	44.7	30.7
1970		14.9	47.4	34.7
1980		25.2	56.1	41.0
<i>(Average annual growth rate (%))</i>				
1957-80		5.3	2.7	3.2
1970-80		7.9	3.3	3.3

Note: Indians include others.

Source: Malaysia (1983); Narayanan (1975).

total rural–urban migrants during the decade were Malays. However, rural–rural migration among Malays remained high in subsequent decades because of the increasing number of the government’s land development, housing and resettlement programmes.

The tempo of urbanisation for all ethnic groups from 1970 to 1980 was faster than in the period between 1957 and 1970. Since the Malays had the fastest tempo of urbanisation they had made some improvements in their share of urban population from 27.6 per cent in 1970 to 37.9 per cent in 1980. The increase in the Malay share of total urban population resulted in the Chinese share dropping from 58.4 per cent in 1970 to 50.3 per cent in 1980 (see Table 7.1). By 1990 the Malay share of the total urban population had increased to 45.6 per cent. A similar trend was also projected for the 1991–2000 period with the Malays expected to reach 50 per cent of the total population in urban areas by the year 2000 (see Table 7.2).

The large increase in the numbers of urban residents – six-fold over the period since independence – was one element in the changing urban geography of Malaysia in which there was expansion of existing settlements as well as the creation of new ones. In the post independence period there has been very rapid growth of the capital city, Kuala Lumpur, and its surrounding areas (McGee 1976, 1982). The creation of new towns around the larger metropolitan areas such as Shah Alam, Bandar Baru Bangi and Selayang Baru in the state of Selangor, Senawang in the state of Negeri Sembilan, Senai and Skudai in Johor and Bayan Baru in Penang all contributed to the urban development strategy of promoting the intermediate cities near large metropolitan areas (Mohammad 1983; Malaysia 1976, 1981, 1986).

By 1980, about 20 per cent of the urban Malays were in the Federal Territory of Kuala Lumpur where they made up 33.2 per cent of the total population (see Table 7.3). It is expected that the number of Malays living in Kuala Lumpur city will have reached 48.3 per cent (1.1 million) by the year 2000 (Dewan Bandaraya 1984; Malaysia 1984). In addition to the Klang Valley, the Malays were also attracted

Table 7.2 Ethnic distribution in urban areas, 1991–2000

<i>Year</i>	<i>Malays</i>	<i>Chinese</i>	<i>Indians</i>
1991	46.0	44.0	10.0
1995	48.0	42.0	10.0
2000	50.0	40.0	10.0

Source: Calculated from Malaysia (1984a); Malaysia (1996).

Table 7.3 Kuala Lumpur, ethnic composition, 1970, 1980 and 1991 (%)

<i>Ethnic groups</i>	<i>1970</i>	<i>1980</i>	<i>1991</i>
Malays	24.5	33.2	40.5
Chinese	57.7	51.9	45.0
Indians	16.6	13.9	10.0
Others	1.2	1.0	4.5
Total population	451 810	927 817	1 250 000

Sources: Calculated from Malaysia (1983); Malaysia (1993).

to regional towns due to the availability of jobs. Almost all the population of the new town of Bandar Tun Razak was composed of Malays, while Bandar Baru Bangi, Shah Alam and Pasir Gudang, each of which was supposed to have a balanced ethnic composition, had only tiny non-Malay populations (Mohamad 1983).

The continuing migration of the rural population had large impacts on major urban centres in providing the basic infrastructure to new migrants. Some of them remained poor because of the low absorptive capacity of some urban industries (Ismail 1987) and many ended up working in low income jobs or in the informal sector (Agus 1986a, 1987b). By the end of the 1970s, the potential of the informal sector had been identified and new programmes were implemented at the municipality level (Salih 1979; Agus 1987b). Opportunities in the manufacturing sector also transformed the structure of Malaysian economy (Malaysia 1996).

Overall, the large scale movement of population to urban areas combined with an economy that throughout the post independence period grew at a rapid rate, thus increasing personal wealth, created a sustained surge in the demand for housing. By the end of the 1970s it was apparent that the supply of housing in many urban areas was failing to match up to the demand from both lower and even middle income groups (Tan 1983). Many of the newcomers to the large metropolitan areas such as Kuala Lumpur city, Ipoh city and Johor Bahru were forced to live in squatter settlements (Agus 1981, 1989a). In Kuala Lumpur city, there were about 37 740 Malay squatters in 1968, but this number increased to 67 042 in 1975 (Johnstone 1981). Kuala Lumpur City Hall indicated that in 1980 the number of Malay squatters was approximately 80 000 which represented about 32.8 per cent of the entire Malay population in that city (Dewan Bandaraya 1984). More recent data indicate that by the early 1990s the number of Malay squatters had fallen to 68 0000. (Dewan Bandaraya 1993).

Housing policy

Planned production

Since independence, successive Malaysian governments have formulated and published five-year plans. These have been used to guide investment decisions by both public and private organisations in all the main sectors of the national economy. In each of the plans, investment in the economic sector has been given the greatest priority, averaging at around three-fifths of all public investment, and reflecting the primacy of the national commitment to economic growth. The second priority has been accorded to defence and the third to the social sector.

Although within the social sector investment, public housing production has generally constituted the largest single programme, public housing development expenditure from 1971 to 1990 has never exceeded more than 10 per cent of the total national development expenditure (see Table 7.4). In fact, expenditure for public housing has been quite variable, increasing from 2.7 per cent in the Second Malaysia Plan (1971–75) to 9 per cent in the Fifth Malaysia Plan, but decreasing to 3.3 per cent in the Seventh Malaysia Plan (1996–2000). Within the expenditure allocated to the public sector for housing production, low cost housing has been given the highest single priority in every Malaysian plan since 1971 (Agus 1986*a*, 1986*b*). There was an increase of low cost housing expenditure from 43 per cent in the 1971–75 period to 54.5 per cent in the Seventh Malaysia Plan, 1991–2000,

This increase partly reflected the rising cost of raw materials relative to other costs in the Malaysian economy, but also the general and ongoing priority, established from the outset and stated clearly in the Second Malaysia Plan:

Table 7.4 Public housing development expenditure, 1971–2000 (RM millions)

<i>Five-year plans</i>	<i>Original allocation</i>	<i>%</i>	<i>Revised allocation</i>	<i>%</i>	<i>Low cost housing allocation</i>	<i>%</i>
Second 1971–75	171.89	2.4	239.97	2.7	102	42.5
Third 1976–80	710.15	3.8	1965.52	6.1	633	32.2
Fourth 1981–85	1458.00	3.7	4066.48	8.3	1700	41.8
Fifth 1986–90	1979.64	4.9	3979.64	9.0	2000	50.0
Sixth 1991–95	2056.00	3.5	1825.00	3.3	2013	52.3
Seventh 1996–2000	2761.40	4.1	3503.80	3.9	3340	54.5

Source: Malaysia (1973); Malaysia (1979); Malaysia (1984*b*); Malaysia (1986); Malaysia (1999).

Public housing contributes a major element of the national housing programme. Basically this programme caters to the needs of the low-income groups of all communities irrespective of race. It is designed to eliminate slum dwellings and squatter living, as well as to resolve other socio-economic problems associated with the rapid growth of the urban centres in the country. (Malaysia 1971: 257)

In the earlier plans, the major responsibility for achieving the target numbers was placed on the public sector. Indeed, as the Second Malaysia Plan went on to state, the rationale for public sector involvement was that providing 'housing for low-income groups [does] not appeal to private developers' (Malaysia 1971: 257). By the time of the Fourth Malaysia Plan, however, the emphasis had shifted: major responsibility was now placed also on the private sector. The 'appeal' of low cost housing was to be enhanced by requiring the private sector 'to reserve between 30–50 % of its housing development for the condominium concept of low-cost housing' (Malaysia 1981: 305). The stated intention, then, was to regulate the activities of private developers to ensure that a certain proportion of its house building was built at costs that could be afforded by those with low incomes. Thus, of the 266 500 low cost dwellings planned, 90 000 (about a third) were to be built by the private sector.

In support of this target, the plan also indicated that low cost housing, meant a cost of RM\$12 500 per unit for flats and RM\$8 500 for other dwelling types. In order to assist the private sector the government would use a number of devices to keep costs down. These were to include the availability of subsidised federal loans, along with reductions in the size and quality of the individual units. In the Fifth Malaysia Plan, further strategies were announced: promoting the use of prefabricated systems of construction, promoting research into housing construction and simplifying legislation and regulations.

At the same time, in the Fifth Malaysia Plan the government recognised that there had been adverse consequences from taking too narrow a view of the provision of new housing and indicated that in future housing programmes were to be implemented in the context of the human settlement concept. Under this concept, the provision of social facilities such as schools, clinics and community halls was to be emphasised, in addition to the provision of basic infrastructural facilities and the promotion of economic opportunities. Contributing to this, the public sector was expected to construct about 149 000 units of houses, consisting of 120 900 units of low cost housing with the rest

being the medium and high cost units. Under the low cost housing programme, to be undertaken by state governments, about 18 000 units were to be implemented under the rental scheme with the remaining units being for sale. In addition, another 37 200 units were to be developed by the government jointly with the private sector.

In the Seventh Malaysia Plan, the federal government had proposed the building of 800 000 housing units, comprising 35 000 units for the poor, 200 000 low cost units, 350 000 low/medium cost units, 130 000 medium cost units and 95 000 high cost units. The private sector would play the more significant role in that it would be responsible for 570 000 units or 71 per cent of the total. Specifically, the private sector would construct 140 000 units of low cost housing, 240 000 low/medium units and 80 000 high cost units. Two important observations can be made. First, whereas the private sector was not involved in the Housing for the Poor programme, it was expected to build over two-fifths of the low cost dwellings. Second, the private sector was given the task of constructing 80 000 high cost units, a number well below its capacity. In the Sixth Malaysian Plan, the private sector had completed 100 728 high cost housing units – nearly five times the original target of 26 100 units and 25 per cent higher than the new target.

Actual production

In the fifteen years after 1971, the performance of the public sector in housing production, in relation to the planned targets, deteriorated. In the Second Malaysia Plan the public sector had managed to construct 86 per cent of the planned units whereas in the Fourth Malaysia Plan period, its performance was down to 51 per cent. Actually, the performance with specific reference to low cost housing production was even worse. In the Second Malaysia Plan period only 30 per cent of the planned houses had been completed, though this had risen to 40 per cent during the fourth plan period (see Table 7.5).

In fact, the figures for the Fourth Malaysia Plan period indicate that as poor as the public sector was in meeting the targets set by the government, the private sector was even worse, their respective achievement levels being 50.6 per cent and 38.9 per cent. Moreover, for both sectors the achievement of the targets for low cost housing production had been particularly low (Table 7.6). Surprisingly, during the plan period, some state housing corporations were heavily involved in the construction of medium and high cost housing, achieving 130.9 per cent of their target, as well as the development of industrial sites. These corporations competed with the private developers and diverted some

Table 7.5 Public housing performance, 1971–85 (units)

<i>Development programme</i>	<i>Planned</i>	<i>Completed</i>	<i>%</i>
<i>Second Malaysia Plan, 1971–75:</i>			
All public housing programmes	100 000	44 000	86
Low cost housing programmes	86 076	13 244	30
<i>Third Malaysia Plan, 1976–80:</i>			
All public housing programmes	220 000	73 500	55
Low cost housing programmes	121 500	26 250	36
<i>Fourth Malaysia Plan, 1981–85:</i>			
All public housing programmes	398 570	176 500	51
Low cost housing programmes	201 900	71 300	40
Total public housing programmes	718 570	409 476	57
Total low cost housing programmes	294 000	110 794	38

Source: Malaysia (1973); Malaysia (1979); Malaysia (1984b); Malaysia (1986).

of the funds meant for low cost housing to medium and high cost housing.

During the Sixth Malaysia Plan period, the balance of performance shifted significantly with the private sector considerably surpassing both its target and the public sector. A total of 573 000 units of houses was planned both to meet requirements and replacement of dilapidated units, but the public and private sector together produced 647 460 units or 113 per cent of the target. Whereas the public sector had completed only 48.6 per cent of the 174 000 units planned, the

Table 7.6 Public and private sector low cost housing performance, 1981–85 (units)

<i>Programme</i>	<i>Planned</i>	<i>Completed</i>	<i>%</i>
Public sector:	398 570	201 900	50.6
Public low cost housing	176 500	71 310	40.4
Housing in land schemes	110 010	34 980	31.8
Institutional quarters	58 500	25 450	43.5
Medium and high cost	53 560	70 160	130.9
Private sector:	524 730	204 170	38.9
Private developer low cost housing	90 000	19 170	21.3
Private developer medium and high cost housing	259 470	85 630	33.0
Co-operative societies	25 260	4570	18.1
Individuals and groups	150 000	94 800	63.2
Total	923 300	406 070	43.9

Source: Malaysia (1986).

private sector completed 399 000 units or 141.1 per cent of the target (Malaysia 1996).

During the Seventh Malaysia Plan (1996–2000) a total of 402 943 units of houses or 50.4 per cent of the plan target was completed. Of those, completed, the public sector built 319 535 units or 56.1 per cent of its target with the private sector performing relatively less well. As in earlier plan periods there was a distinct skew with particularly large under-performance with respect to low cost housing. In the low cost housing programme, a total of 90 032 units or 45 per cent of the target was completed, of which 26 774 units or 44.6 per cent were built by the public sector; while, in the low/medium cost housing programme, a total of 44 283 units or 12.7 per cent of the target was completed. For the medium and high cost housing programmes, however, construction by both the private and public sectors exceeded the targets. For the medium cost programme, a total of 136 203 units of 104.8 per cent of the target of 130 000 units was built and in the high cost programme, 119 833 units or 141 per cent were built compared with the target of 85 000 units.

Access and housing finance

Whereas the five-year plans have each placed considerable emphasis on the production of housing of appropriate types in appropriate locations, the government has also been concerned with matters relating to consumption. In part, this has been through rules intended to regulate access to some types of housing. Thus access to institutional quarters is restricted to those employed in certain capacities in the public sector, but, more generally, access to low cost housing is limited according to household income, age, number of family members, political inclination and referees. The importance of the rules being adhered to, and being seen to be adhered to, has been strongly emphasised by government spokesmen. Thus, according to Lim Cheng Tatt (1982: 7), the Director-General of the National Housing Department:

The federal government has distributed guidelines to all state governments on the selection of applicants. These must be followed closely by all officials connected with distribution of houses. If it is considered necessary to accommodate a political bias in the distribution of houses it is important that the proportion to be set aside for this purpose be absolute minimum, say 10 per cent ... if a common register is to be maintained members of the public should be allowed to raise objections on anyone whose name has been

included when he or she does not fall within the definition of the target group e. g. whose income is high, who already has a house or who is not a resident of that area. Unless the distribution system is honest, providing low-cost houses, instead of bringing credit to the federal government, can only bring it shame.

In practice, however, allocation has not always been decided in accordance with the rules. For example, the ethnic quota system requires at least 30 per cent of the units built in urban areas to be reserved for the Malays, but many of the houses built in the private sector are beyond the reach of the Malays because these houses are located in the expensive, prime land areas. In addition, the criteria for selecting house buyers vary from one state to another and this may have allowed parochialism and ethnic and political bias to be the main criteria in determining eligibility. The selection process in the state of Johor, for example, reflects the role of the ruling party at the local level in determining successful applicants. Political intervention is very clear at two points in the process. First, it occurs at the level of criteria where an assemblyman or a member of parliament of the constituency tends to favour his political supporters. A letter of recommendation or an acknowledgement of political membership will favour applicants who are local supporters. Second, political intervention occurs at the final offer stage when a ruling party may decide on the final list of the successful applicants. It is perhaps a reflection of the widespread nature of these aspects of the system in practice that there have been terms coined: houses given to political supporters are known as *rumah politik* (political houses) or *hadiah politik* (political awards).

Study of the allocation process has revealed some of the outcomes in quantitative terms (Agus 1984). The quota of 21 per cent actually allocated for ruling party supporters in Johor considerably exceeded the quota approved by the federal government. Nationally, the ethnic quota system tended to favour the Bumiputra rather than the non-Bumiputras; but, in the case of the state of Johor, there was an increased percentage of Chinese ownership since the member of parliament of the constituency was from the Malaysian Chinese Association, the main partner of the ruling party. In the state of Perak, in contrast, the Chinese percentage was much higher than for other ethnic groups because with no ethnic quota being implemented the higher average incomes of the Chinese allowed them to dominate access.

The importance of income to the allocation process arises because much of the new housing is in the form of home ownership, so that in

practice there are restrictions imposed by the wealth of the household and their ability to raise loan finance. Recognising these restrictions, at various points in time the government has introduced a range of organisations, regulations and subsidies that have increased the availability of loan finance. After independence, the Malaya and Borneo Building Society (MBBS) that had been established in the early 1950s to grant housing loans on terms generally more favourable than those from other sources, was reorganised to serve only Malaysia (Malaysia 1971). By the 1970s the commercial banks had emerged as significant lenders, a position that received encouragement in 1976 when the Central Bank (Bank Negara Malaysia or BNM) introduced requirements that they should channel minimum proportions of their lending to individuals wishing to buy homes and that they should set interest rates at levels below a government-determined maximum. But the government also intervened directly from its own resources through subsidised rates of interest and the setting up of a revolving loan fund. In 1986, CAGAMAS (National Housing Corporation) was established. Owned jointly by the National Bank (20 per cent) and private financial institutions (80 per cent) it provides security to those providing housing loans.

A major development in increasing the ability of people to purchase housing took place in 1994 when the government decided to change the rules governing the use to which the money, that people had been accumulating in the Employees Provident Fund (EPF), could be used. Initially introduced in 1955, the EPF's principal objective was to ensure that each employee built up a fund, from regular contributions made by them and their employers, in order to provide financial support during retirement. Under the new arrangements, each employee's fund was divided into three parts or accounts, with Account Two amounting to 30 per cent of the total and being available for early withdrawal in order to meet housing costs.

Problems of the housing system

While the Malaysian government has intervened in the housing system with the intention of meeting the housing needs of all sections of the population, it is clear that the system has not always developed smoothly and, in numerical terms, at least, rarely according to the stated intentions of the five-year plans. Much of the explanation is probably to be found in implementation problems located in the

public sector itself as well as in the private sector, but there has been much debate about where exactly the blame lies. From the perspective of the private sector, especially the Housing Developers Association (HAD) which is the main representative of the private sector, the problems lie in the public sector (Sen 1987). For its part, the Malaysian government has explained the shortfall in the construction of housing units by the public sector in terms of cutbacks in allocation and administrative delays (Malaysia 1976; 1981; 1984*b*).

Land use policies

The most common complaints about the public sector are the delays in the processing and approval of applications for land development, conversion, subdivision, and the issuance of titles. These matters are the formal responsibility of the State PTG and District Land Offices (Pejabat Tanah Galian), but, relative to the volume of work, the offices are under-manned so that there are necessarily long delays in dealing with applications. In addition, some of the state employees are insufficiently trained. For example, at the state level, the land portfolio is usually chaired by a senior Executive Councillor (EXCO kanan) who is an assemblyman elected during the general election. His office expires after five years and if he is not elected at the general election, a new person will take over. He is also responsible for his constituency but has to make major decisions for other areas in the state. On the other side, it can be said that some private developers who are involved in the public low income housing projects do not understand the procedure for sending in their applications.

Building codes and planning policies

Under the Town and Country Planning Act of 1976, housing developers should submit plans (the layout plan, site plan and engineering plan) to the relevant local authorities. There are numerous regulations governing housing development with such subjects as building lines, size of lots, density of development, and infrastructural matters (roads, drainage, sewage, etc.). To complicate matters further, building codes vary from one locality to another and from one state to another. However, many local authorities lack professional manpower and as such, only the Pembantu Teknik (Technical Assistant) is responsible for reviewing these plans at the planning division. Occasionally, there are delays of more than two years before a final decision is made and such delays may greatly affect the financial programme and position of developers.

Production and construction policies

Under the five-year plans, both the public and private sectors are given the task of constructing houses. Whereas the state corporations were expected to play the major role in constructing and distributing the low cost houses to the lower income groups, in fact they often over produced medium and high cost housing. This diversion from their original goals affected the performance of public low cost housing programmes. For its part, the private sector also managed to complete only a small proportion of the goals with respect to low cost housing, preferring to build housing of the medium and high cost category.

There has also been a change in housing construction technology from the conventional system to a wider application of industrialised building system. The concept of industrialisation of the construction industry in Malaysia has been strongly supported by the federal and state governments but it proved to be ineffective in overcoming the housing shortage and solving the problems of unemployment in urban areas. In fact, not all construction firms were able to cope with the technical challenges of industrialised building. In addition, the price increases of raw materials such as cement, steel bars, bricks, and timber affected the ability of housing developers to hold down the prices of houses.

Management and distribution policies

There are several guidelines regarding the distributing of low cost housing, imposed by the state government on the private sector. For several reasons these are not always followed and the houses are obtained by middle income groups. Many of the houses built by the private sector are actually beyond the reach of the Malays because most of these houses are located in areas where land costs are high. Further, the criteria for selecting house buyers in terms of household income, number of family members, and political inclination varies from one state to another. The different interpretations of the guidelines laid down by the federal government have affected the ability of lower income groups to own houses. Finally, although credit extended by various financial establishments such as the commercial banks and finance companies has increased substantially in recent years, the bulk of the credit facilities for the housing development have tended to go to middle and upper income households rather than to the urban poor.

The Asian financial crisis

In addition to such general sources of under-performance, there were particular problems facing the housing development sector in the final

years of the twentieth century. The scenario changed as a result of the economic slow-down, and credit restrictions introduced in December 1997 by Bank Negara Malaysia (BNM) in guidelines for the property sector (Malaysia 1999). The housing market showed a downward movement as reflected by falling prices for all categories of houses in all states except Kelantan and Malacca that recorded a marginal price increase of 5.2 per cent and 0.1 per cent, respectively. By housing category, there were decreases in prices of 10.2 per cent for detached houses and 6.7 per cent for semi-detached, while terraced houses, priced at RM 150 000 and below, experienced a drop of 5.1 per cent. In addition, there were reductions in the applications for new and renewal permits for advertisements and sales by private developers.

For new developer licences, the number of applications dropped from 130 licences in July 1997 to 30 licences in July 1998, reflecting the reduced number of housing projects in 1998 (Malaysia 1999). A similar trend was observed for the application of new permits for the advertisement and sale of houses that decreased from 90 permits in December 1997 to 40 in July 1998. However, with the relaxation of lending guidelines by BNM in September 1998 to enable house buyers to purchase houses costing RM 250 000 and below, the demand for various categories of houses increased.

During the 1996–99 period, the government introduced several measures to stimulate the housing market. In the low cost housing category, a four-tier pricing scheme was introduced in June 1998. Under the scheme, prices of low cost houses were determined according to their location, as shown in Table 7.7. This new pricing scheme aimed to motivate and attract housing developers to increase investments in low cost housing since this had now become potentially more

Table 7.7 Four-tier pricing for low cost housing

<i>Cost per unit (RM)</i>	<i>Location (land cost per sq m)</i>	<i>Income group (RM)</i>	<i>Type of houses</i>
42 000	Cities and major towns (RM45 and above)	1200 to 1500	More than five storey flats
35 000	Major towns and fringes (RM15 to RM44)	1000 to 1350	Five storey flats
30 000	Small towns (RM10 to RM14)	850 to 1200	Terrace and cluster
25 000	Rural areas (Less than RM10)	750 to 1000	Terrace and cluster

Source: Malaysia (1999).

profitable. The new pricing scheme was, however, not fully implemented during the review period as more time was needed for its acceptance by house buyers and state authorities.

Conclusion and recommendations

The incorporation of housing in the series of national, five-year development plans has reflected the importance placed on the provision of appropriate housing for all sectors of society. Moreover, housing has been viewed as a vehicle that contributes to both economic development and also national unity. In practice, however, much evidence points to the conclusion that housing programmes in Malaysia have favoured the middle and high income groups at the expense of the performance of the low cost housing programme. It could be argued, however, that although this has been the result of failure at both the policy and implementation levels, in many aspects the main responsibility for improving performance lies at the federal government level. On this view there are a number of immediate challenges for those charged with drawing up housing policy.

One area that merits urgent attention is land since its availability is a prerequisite for efficient urban development while its cost will affect the overall development costs. New policy on the processing of applications at the Land and District Office has now been implemented, while problems of identification of suitable sites for housing development should not, in theory at least, emerge again since the government has promised to minimise the delays. State governments should establish a comprehensive form of secure land tenure for the buyers and investors which could create an efficient land distribution, equity and accessibility of land to all the people, especially the lower income groups.

A further priority lies with improving the capacity and efficiency of local authorities in aspects of housing management, effective planning and manpower training. An effective planning policy should be accompanied by an increased public participation in the planning and delivery of social service, especially to the urban poor. Standardised building codes and planning procedures should be applied both at the state and local levels. In this respect, the Town and Country Planning Act of 1976 should be reviewed to accommodate the smooth implementation of housing development. Training programmes for local authorities staff dealing with housing development should be developed in line with the national development strategy.

New construction technologies should be implemented if it is seen as a complementary to the labour-intensive conventional construction system. This development of local entrepreneurship and innovation should be encouraged and supported. All sectors have a valuable role to play in establishing an efficient and productive national development strategy. Lastly, a comprehensive national housing and urban development and policy should be formulated and implemented as soon as possible. This policy should incorporate all sectors such as the public, private and informal sectors so that the objectives and goals of the national development policies could be more meaningful and beneficial.

Note

1. Following devaluation in response to the Asian financial crisis US\$1 = approximately RM4.

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8

Thailand

Mohammed Razali Agus and John Doling

Introduction

Over the course of the twentieth century, Thailand's population increased many fold, from just over 8.1 million at the 1909 census, to 17.4 million in 1947 and to 60 606 947 at the census held on 1 April 2000 (National Statistics Office 2000*a*). With about two-thirds of the population living in rural (classified as non-municipal) areas, many earning their livelihood from agricultural activities, the remaining one-third are urban dwellers. Of the latter, 10.4 million live in the capital and largest city, Bangkok. The housing supply problems created by the increase in the numbers of people, combined with their growing concentration in the Bangkok region, have been exacerbated by the decline in the average household size consequent on lower birth rates and the decline in importance of the extended family system. Thus, whereas in 1960 the average Thai household numbered 5.6 persons, by the 2000 census it was only 3.9 persons.

The assessment of the nature and scale of the problems and the appropriate policy responses have varied considerably, even over the last 30 years. Initially, the housing solutions secured by low income groups were considered wholly inadequate, to be tackled by clearance and rebuilding to high standards. This has been referred to as the 'technological approach – calling for big projects, mostly high-rise' (Wonghangchao 1987: 192). Notwithstanding the fact that the amount of such provision was small, it gradually came to be realised that such policy had some negative consequences, not the least important, being beyond the financial means of those groups in the population the new dwellings were intended to house, a requirement for large amounts of government subsidy. The balance slowly shifted to an acceptance that

much low income housing was acceptable and that the main effort needed to be applied to assisting people to improve what they had. Over the last quarter of the twentieth century the Thai approach to meeting housing needs could thus be characterised as supporting the market and informal solutions.

The development of the housing policy system

In the quarter of a century following the ending of the Second World War, public involvement in housing provision was small in scale. The main problems were seen to be located in the larger municipal areas, especially Bangkok. Here there was a range of sources of housing supply that characteristically met the needs of different income groups. Middle and higher income groups frequently obtained their housing either by initiating the development of a single family house, or by renting or buying dwellings from a private developer. The latter built detached and shop houses as well as condominiums. Lower income groups tended to live in housing provided by an employer or, through their own actions and resources, building or acquiring a squatter or slum dwelling. It was at those occupying makeshift, temporary homes, illegally constructed or just those living at high densities in dwellings with few amenities and low standards that the limited government intervention was mainly directed.

The organisational responsibilities were divided between the Housing Bureau, that had originally been set up in 1942, the Housing Division of the Public Welfare Office, the Government Housing Bank and the Community Improvement Office. Despite the large scale of the housing problems, in terms of both shortages and standards, by 1973 these organisations had between them built only 17 000 dwelling units. As much as anything the limitation on their action lay with the government that made budget allocations that were small and provided on an annual basis. Most of the dwellings were in the form of apartment blocks, with each apartment having a relatively small floor area – 30 sq m or so – and modest amenities. Even so, the cost of production greatly exceeded the financial abilities of the population groups for whom the dwellings were intended, with the result that the subsidy per unit was high.

The 1970s

A watershed occurred in 1973 when, following a re-evaluation of its activities and effectiveness in addressing housing problems, the gov-

ernment decided to combine the separated organisations into the single National Housing Agency of Thailand (NHA). At first, the NHA carried on the activities of the four agencies it had replaced, though increasing the scale to achieve the building of almost 9000 dwellings in the first two years. At the same time, the new agency also set about reviewing its activities and considering how they should mesh in with the preparation for the Fourth National Economic and Social Development Plan. A central dilemma in these preparations concerned the subsidy implications of expanding the housing programme:

One of the most serious dilemmas was the realization that the NHA was established to accelerate the production of public housing and yet the budget bureau and national planning agency representatives kept reminding the subcommittee of the high government budgetary situation out of which resources could not be spared for housing subsidies. (Tamphiphat 1980: 113).

The dilemma was resolved, though only in the short run, when in 1975 the government directed the NHA to increase production at the same time pledging financial support for a five-year programme during which 120 000 dwellings would be built. For its part the government pledged financial support, which it would ensure by taking loans. The NHA would pass some of the capital acquired into subsidies that reduced user costs while user payments would accrue to the NHA for use in producing further dwellings. The 1976–80 Plan proceeded to deliver dwellings, situated in all parts of the country, but built to three types, varying in standard and amount of subsidy, to meet the needs of different income groups. Within two years, however, the five-year programme itself was brought to a halt. In one sense it had been successful, since it saw the start of 37 000 new dwellings, but this number was achieved at a price – in terms of subsidies – the government was not willing to go on paying.

The 1980s

The deliberations of the National Economic and Social Development Board with representatives of a number of ministries made it quite clear that the government accepted that there was a housing problem and that its involvement was needed if it was to be tackled. The difficulty was how this could be achieved without consuming such a large slice of government spending. The deliberations were informed

by two new programmes, both based on World Bank loans. The first was an experiment to test the feasibility of developing sites such that the returns from the eventual occupants alone would be sufficient to repay the loans, that is they required no or minimum subsidy from government finances. The NHA was responsible for land acquisition, infrastructural developments and the development of some community facilities. In addition the NHA built core housing, but the individuals who were to own and occupy them would need to take loans to enable them to complete and extend them.

The second consisted of a number of slum upgrading projects. The context for these projects was the long term migration, particularly in the 1950s and 1960s and particularly into Bangkok, of relatively low income people, often from the countryside and in pursuit of jobs. By virtue of their low incomes many were forced to cram into already densely packed areas of cheap, private housing, while those with even fewer resources often squatted on illegally developed land. The projects could pursue one of three strategies. The first was to upgrade the area for permanent residential use by providing public and community facilities and improving the legal security of the occupants. This involved the provision by the public sector of infrastructure such as roads, electricity, drainage and water supply, while also ensuring greater public safety. The residents themselves could benefit from the provision of social services such as schools and family planning and health care facilities, as well as the securing of legal title to land and buildings. The second was to effect a temporary upgrading until such time as the area was to be used for other purposes. The third was to designate the area for clearance.

The new plan, drawn up for the four-year period 1979 to 1982, incorporated these two initiatives thereby containing targets for three types of development. The NHA would build 5000 rental apartments intended for low income groups and attracting a government subsidy. In essence, this was the model that had been pursued in earlier decades. In addition it would continue its programme of incremental housing by providing 19 000 dwelling units, and its slum upgrading programme that would benefit about 26 000 households. Much of the development under this plan was located in Bangkok although some smaller cities also benefited. In practice, however, progress did not keep up with the plan's targets for reasons founded in both the organisational abilities of the NHA and the continued reluctance of government to meet even the reduced level of subsidies required. In its last year the plan was abandoned.

Another re-evaluation of the activities of the NHA resulted in 1983 in the drawing up of a third plan, which was approved by the government in 1984. Many of the broad aims remained as before. The NHA was to respond to the housing difficulties faced by many middle and especially low income groups. It was recognised that although the problems occurred throughout the country there was a large concentration of effort required in Bangkok. Finally, the minimisation of government subsidy was as firm a constraint as ever. These aims were translated into a number of quantified targets. Bangkok would benefit from the provision of 25 500 new dwellings and the upgrading of the slum conditions of 18 000 households while the areas outside Bangkok would receive 4500 new dwellings. Of these, the new dwellings would be provided on a lease-to-buy (hire purchase) basis to a range of income groups. These arrangements were intended to ensure a level of cross subsidisation (of the poor by the not quite so poor) as well as an overall recouping of the costs of provision from the payments made by the households that would directly benefit. The slum upgrading programmes would involve both the improvements to existing dwellings as well as the movement of some households to other areas. In order to assist a reduction in reliance on government subsidies the plan included an arrangement whereby the NHA would develop commercial buildings the proceeds from which would provide an intended one billion baht.¹ In addition, the government would raise some money from loans, some from external sources such as the World Bank and the Asian Development Bank.

Notwithstanding the lessons learned from the ten years or so of the existence of the NHA and its previous attempts to implement its approved plans, this plan faced difficulties and the undershooting of targets from the very outset. The major problem concerned the country's economic situation. With a trade deficit and a growing public debt, the government was not inclined quickly to establish its financial backing for the NHA's activities even though, in comparison with earlier plans, it was to rely much less on public subsidy. This not only affected direct government funding but also, under the government's rules, the amount of funding the NHA was allowed to generate from loans from external sources. The NHA also faced difficulties in acquiring suitable development land. The plan required the acquisition of 1800 rai² of land in Bangkok and 700 rai in provincial cities, but the cost proved prohibitive.

The next NHA plan was part of the Sixth National Social and Economic Development plan (1987-91). It set about defining a new

housing role for the state, one based on the promotion of the private sector, and in this it achieved considerable success. Private sector developers were encouraged to place greater emphasis in their activities on meeting the housing needs of lower income groups. They did so by switching the balance of new construction from shop houses and condominiums to less expensive row houses. At the same time, the government introduced changes to the financial sector that encouraged the greater availability of housing loans to lower income groups. For example, the commercial banks were required to extend part of their credit at preferential rates of interest, while interest on savings for housing purposes became exempt from income tax and interest on housing loans became tax deductible. These policy changes resulted in the development of the so-called 'down-market trend' describing the outcome, unusual in many Asian countries, for the private sector to cater for the housing needs of many of those with lower incomes.

The 1990s

The Seventh National Social and Economic Plan gave yet more financial incentives supporting low cost housing production. While this continued to mean the push of housing supply down-market, it did not drop so low that it incorporated very low income groups. Thus, notwithstanding the promotion of the Government Housing Bank, set up to 'stimulate homeownership and broaden access to housing finance to a wider segment of the population ... [it] ... is still unable to service the poor' (Wattanasiritham 1997: 18). The penetration of other organisations – credit unions and NGOs – among the poorest groups has also been limited. At the same time, it became recognised that the problem of targeting was apparent even in that part of the housing stock, heavily subsidised and still owned by the NHA. Many of the 18 000 flats it owned in Bangkok, having low rents and central locations, were very attractive options so that 'many occupants sublet their units or sold their occupancy rights to outsiders' (Yap 1996: 311). Indeed on some estates as many as 70 per cent had filtered upwards in these ways.

Against this background, in 1992 the Government established the Urban Community Development Office (UDCO). Receiving a grant of 1250 million baht, its aim was that of mounting a national poverty alleviation programme. The process adopted has been summarised by its managing director:

Credit is used as a mechanism to strengthen the capacity of the community to deal collectively with its own development issues.

Table 8.1 UCDO housing loans

<i>Type of housing loan</i>	<i>No. of projects</i>	<i>No. of communities</i>	<i>No. of families</i>	<i>Amount approved (million baht)</i>
Purchasing existing land or land next to existing slum	9	7	229	44.95
Purchasing land further away for relocation	19	46	2971	287.60
Housing construction	8	8	553	80.48
Housing repair and improvement	146	96	Na	56.12
Infrastructure development	5	—	—	15.48
Total	187	155	3534	484.36

Source: Wattanasiritham (1997).

Through the use of credit, UCDO helps the community develop its role as project initiator, organizer, planner and manager. In so doing UCDO helps the community members to help themselves in broadening access to opportunities to improve their living conditions. Because the communities conceive and implement the projects, it is possible to meet their needs and overcome the constraints of the poorest urban dwellers. (Wattanasiritham 1997: 18)

By the end of its first five years of activity UCDO activities had extended to around a quarter of the urban slum communities in Thailand, many of them in Bangkok and surrounding settlements. Table 8.1 indicates the use to which the funds provided to communities and redistributed to their members, up to June 1997, have been used.

The financial crisis

The decision of the Bank of Thailand in July 1997 to step back from its all-out defence of the baht and allow a managed flotation triggered the spread of exchange rate destabilisation to neighbouring Malaysia and Indonesia and then beyond to other Asian countries. One interpretation is that the starting point had been macro weaknesses inherent in Thailand's transition from an economy based on labour intensive industries to 'one of high-skilled, technologically sophisticated production' (Chaisang 1997: 12). Although Thailand had enjoyed many years of high growth rates, the combination of a shortage of skilled labour

Table 8.2 Economic indicators, 1994–99

	<i>GNP per capita</i>	<i>Balance of payments (million baht)</i>	<i>Consumer price index</i>
1994	45 126	104 827	100
1995	48 500	179 530	108.6
1996	50 380	54 608	112.0
1997	49 396	-299 210	118.2
1998	43 645	57 623	127.8
1999	—	172 695	128.2

Source: National Statistics Office (1997, 1998, 1999, 2000).

and an increasingly global environment, left the country vulnerable to competition from low wage economies elsewhere. The crunch came with a deteriorating current account balance and a decline in exports (Table 8.2).

On this view, the housing sector proved to be largely a victim of the wider economic and financial developments. As incomes slumped and prices in general continued to rise, there was a reduction in the ability of many households to pay for housing:

Following the Thai economy downturn, the value of real estate has also fallen. Investment in the housing sector has dropped drastically due to the moderation in economic activity, and a fall in housing demand combined with an oversupply of housing in the market. (Chaisang 1997: 12)

Yap Kioe Sheng and Sakchai Kirinpanu (2000), in contrast, argue that developments and activities within the housing sector played a crucial part in bringing about the crisis. The key to this was a long, speculative bubble in land and property, especially in Bangkok. The capital city had experienced high rates of population growth during the 1970s and this continued through the 1980s and the first part of the 1990s. From the mid-1980s to the mid-1990s, the rate of new construction about trebled (Table 8.3). Land prices also rose quickly, particularly in the outer ring of the city where land previously used for agricultural purposes was being bought and converted to residential and other urban uses. Both were a response to the increasing demand for homes from a growing and better paid labour force. But, they were also in part a result of government actions in introducing a revaluation of land, changing the floor area ratio, and drawing up a master plan. Moreover,

Table 8.3 Trends in Bangkok's housing market

	<i>New housing construction</i>	<i>Land price index</i>		<i>Vacancies</i>
		<i>CBD</i>	<i>Outer ring</i>	
1987	53 353	100	100	88 697
1988	67 451	159	233	113 098
1989	80 031	235	679	141 301
1990	102 335	347	2 133	172 947
1991	129 488	459	2 271	211 853
1992	108.001	471	2 779	234 972
1993	134 086	488	2 996	263 354
1994	171 234	500	3 225	295 697
1996	172 439	518	3 475	328 792
1997	166 785	—	—	337 822

Source: Sheng and Kirinpanu (1999).

a requirement was introduced that real estate companies had to maintain large land banks.

These developments fuelled, and in turn were fuelled by, the increasing level of speculative activity as more and more individuals and companies sought to realise large returns from land development and from the buying and selling of land and property. Indicative of this was the observation that 'rarely a week passes when there is not a major news article discussing land inflation, speculation or foreign land-grabbing' (Dowell 1991: A007). But Thailand's financial system also played a significant part. This provided those involved in the speculative activities with access to cheap loans. As Sheng and Kirinpanu (2000: 11) put it, however, the 'abundance of money resulted in indiscriminatory spending and investing, because a good return was almost certain'. Any lack of discrimination in their decision making was as characteristic of the financial institutions as much as any other sector and many banks and finance companies were highly exposed to lending against real estate.

Although the need for carrying out of any sort of market research, to demonstrate the likely demand for any individual project, was largely ignored, by the mid-1990s it had actually been apparent for some years that there was a growing oversupply of housing (Table 8.3). By 1994, there were widely recognised fears among those active in the sector and there were some attempting to extricate themselves from their involvement. The findings of a research commissioned by the government Housing Board, however, firmly established the scale of the oversupply problem. It appeared that perhaps as many as 14 or 15 per cent

of the total housing stock of 2 million dwellings in Bangkok was vacant. The publication of the study proved to be extremely influential, contributing to a crisis in the property sector and beyond:

The news of an enormous oversupply of housing pushed speculators to dump their units. This further subdued house prices and made it more difficult for developers to sell their units. This shifted the attention to the situation of the developers. As the economy slowed down and interest rate increased, it became harder to sell units, while buyers stopped making down payments. Once it was clear that many developers were in trouble, the attention shifted to financial institutions. Developers had borrowed heavily from banks and finance companies, with large developers borrowing on off-shore markets. Without repayments by the developers, the finance companies became insolvent. (Sheng and Kirinpanu 2000: 18)

Although it is clear that developments in the real estate sector were not the only factors in the financial crisis, they certainly played a part in destabilising many private companies and particularly some financial institutions, leading to the both bank closures and restructuring. They also forced the Thai government to consider new policies with respect to the real estate sector. To counteract the continuing pressure on the financial institutions these were, at least initially, intended to boost demand for housing. In June 1997, almost exactly one month before the baht was allowed to float, for example, a scheme was introduced whereby the Government Housing Bank and Government Savings Bank could lend up to baht 10 billion each at 9 per cent interest to house buyers. After only two days the allocation was used up. Moreover, the scheme was deemed a failure because it attracted those already committed to buying rather than bringing additional buyers to the market. A somewhat different approach was a proposal to amend Thai law to make it possible for foreigners to purchase land or more than 40 per cent, which was then the limit, of condominiums in a housing project. This was widely seen as ineffectual however, since much foreign capital had already moved away from Thailand while the main interest by foreign capital in the property sector had previously been in central, high income housing rather than the peripheral, low income projects in which the vacancy rates were highest.

The acceptance of the IMF rescue package has placed further restrictions on government action in the housing sector. Under the terms of

the agreement, financial support for the housing sector, at whatever point(s) in the production-consumption chain, is hedged around by the overall limits on public spending.

The housing stock

During the last three decades of the twentieth century, the average standard of the Thai dwelling increased greatly. In part, reflecting rising real incomes and, in part, the consequence of public initiatives providing improved infrastructure and services, more and more Thai households enjoyed the benefits of electric lighting, gas fuelled cooking (rather than more traditional fuels, principally charcoal and wood) and sanitary type toilets (Table 8.4). There has also been a decline in the use of traditional materials in house construction – predominantly wood – as more modern materials – brick and concrete – have grown in importance (Table 8.5) As in many other matters, there are large contrasts between the municipal areas, of which there are Bangkok and 1130 others, and the non-municipal areas. Hidden by the aggregated nature of the statistics, however, are other large differences. As Daniere and Takahashi (2000) have argued, in some respects public authorities in Thailand are reactive, leaving it to individual communities to ask for, or otherwise organise, some services or facilities. As one example, some areas have effective refuse collection services, provided by the public sector on request, while others have litter strewn streets.

Table 8.4 Dwellings with selected amenities (%)
Municipal areas

<i>Amenities</i>	<i>1970</i>	<i>1980</i>	<i>1990</i>	<i>2000</i>
Electric lighting	86.1	94.2	99.0	—
Gas for cooking	8.6	35.8	73.9	74.6
Sanitary type toilet	89.6	95.0	99.0	98.8
Non-municipal areas				
<i>Amenities</i>	<i>1970</i>	<i>1980</i>	<i>1990</i>	<i>2000</i>
Electric lighting	9.0	32.0	87.5	—
Gas for cooking	0.8	3.8	25.2	44.0
Sanitary type toilet	22.7	45.9	83.1	96.5

Note: Sanitary types of toilet include those with flush and/or moulded bucket.

Sources: National Statistics Office (1970, 1980, 1990, 2000a).

Table 8.5 Construction materials, 2000 (%)

<i>Materials</i>	<i>Municipal areas</i>	<i>Non-municipal areas</i>
Cement or brick	48.3	17.8
Wood and cement or brick	17.9	21.7
Mainly permanent materials	29.5	51.9
Non-permanent materials	3.8	7.7
Re-used material	1.3	0.9
Unknown	0.1	0.1

Source: National Statistics Office (2000a).

Table 8.6 Type of dwelling (%)

Municipal areas

<i>Dwelling type</i>	<i>1976</i>	<i>1986</i>	<i>1996</i>	<i>2000</i>
Detached	51.3	49.3	41.5	52.1
Town house	—	3.6	8.8	7.9
Condominium	1.6	4.9	7.5	8.2
Row house	41.1	33.5	33.2	29.3
Rooms	6.0	7.5	8.7	0.8

Non-municipal areas

<i>Dwelling type</i>	<i>1976</i>	<i>1986</i>	<i>1996</i>	<i>2000</i>
Detached	96.5	94.2	90.6	93.2
Town house	—	0.2	3.3	1.3
Condominium	—	0.1	0.3	0.5
Row house	3.3	5.0	5.4	4.1
Rooms	0.2	0.3	0.2	0.1

Note: For 2000, a small number of dwelling types recorded as 'other'.

Sources: National Statistics Office (1996, 2000a).

The changes in the type of housing have been far less significant, particularly in the rural parts of the country where the detached form continues to dominate (Table 8.6). In the municipal areas where the detached form was always less significant the main developments have been an increase in the proportion of town houses and condominiums and a reduction in the proportion of row houses and rooms.

The continuing predominance of owner occupation reflects a strong cultural predilection: 'to be the owner of one's shelter is a much-revered goal in Thailand' (Tamphiphat 1980: 108). This is particularly marked in rural areas where, even with some relative decline over the

Table 8.7 Tenure by area (%)

<i>Tenure and area</i>	<i>1976</i>	<i>1986</i>	<i>1996</i>	<i>2000</i>
<i>Municipal area:</i>				
Owner occupied	47.6	51.1	51.4	62.1
Hire purchase	—	2.9	1.6	3.0
Rented	40.6	32.9	32.9	25.7
Payment in kind	6.0	6.0	8.1	2.2
Rent free	5.8	7.1	6.0	6.4
<i>Non-municipal area:</i>				
Owner occupied	96.2	92.2	89.9	90.5
Hire purchase	—	0.7	0.5	0.9
Rented	1.8	2.5	4.3	3.0
Payment in kind	0.3	2.4	2.0	0.8
Rent free	1.7	2.2	3.3	4.2
<i>Total:</i>				
Owner occupied	89.0	84.4	82.1	81.2
Hire purchase	—	1.1	0.7	1.6
Rented	7.6	8.3	10.1	10.5
Payment in kind	1.1	3.1	3.2	1.3
Rent free	2.3	3.1	3.9	4.5

Note: For 2000, the tenure of a small number of dwellings, amounting to less than 1 per cent, was recorded as unknown.

Source: National Statistics Office (1996, 2000a).

last three decades, the rate by 2000 was still over 90 per cent. The small reduction that had taken place was largely attributable to increases in the proportion of rented and rent-free dwellings (Table 8.7). In contrast, in municipal areas there has been an increase in the level of owner occupation with an associated decline in renting.

Conclusions

Over the course of the second half of the twentieth century many aspects of life in Thailand have been fundamentally transformed. One key to this has been GDP growth – temporarily stalled by the Asian financial crisis – which saw a shift from agriculture to manufacturing as the economic motor, and a movement of population into the big cities, particularly Bangkok. Housing policy has also changed from an early emphasis, though small scale, on provision by the state, to a more widespread support to encourage state–community partnership and self help. Thailand has been particularly successful in encouraging the

private sector also to become involved in solutions to the housing problems of lower income groups, by producing large numbers of low cost dwellings and providing loans for lower income groups. Many people have been able to translate the rising real incomes brought by economic growth into better housing and home ownership. Notwithstanding such positive outcomes, the continuing flow of people into Bangkok, many working for low incomes, has resulted in an unreduced number of households living in slum and squatter areas. As Yap (1996) has pointed out, the location of these areas of low quality housing have shifted outwards from the centre of Bangkok as the expensive inner area land has been claimed from higher income uses, but their scale has not diminished. It seems likely that economic growth and further growth will be pre conditions of tackling this problem.

Notes

1. 1US\$ = approximately 40 baht.
2. 1 rai = 1600 sq. m.

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9

Indonesia

Fashbir Noor Sidin

Introduction

Indonesia is the world's fourth most populous country with the total population expected to reach 210 million by the early years of the present century. However, the land mass, spread over numerous islands, is large so that overall densities are low and the majority of the population lives in rural areas in small towns and villages (Fashbir Noor Sidin 1999a). The population is extremely diverse with some 250 distinct languages and 300 ethnic groups (Hardoy and Satterthwaite 1981). Agriculture remains the backbone and source of livelihood for around 60 per cent of its people. With economic growth, particularly since the start of the Suharto regime in 1966, the reliance on agriculture has been declining. The development of an industrial base has largely been centred in the towns and cities, but this has resulted in a gap between housing supply and the needs of the population. The shortages are particularly acute in the largest urban areas that are currently expected to absorb around 2.2 million new residents every year (Fashbir Noor Sidin 2000a). The result is that 'although incomes may be higher, infrastructure and service provision is little better and the housing conditions are the most overcrowded in the world' (Hardoy and Satterthwaite 1981: 62). In similar vein, Chatterjee (1979: 1) commented that 'the litany is familiar – the squalor of rapidly proliferating slums, congestion in streets, excessive pollution of land and air, inadequate water supply and sewer systems'. Yet, the urban population has continued to grow at about twice the overall growth rate, so that the proportion of the population living in urban areas is expected soon to reach 40 per cent. Since average household size is expected to decline to below the present 4.3 persons, the number of new urban

households requiring housing is expected to increase (Johan Silas 1995).

In fact, the need for housing cannot be separated from urban development policy in general since some aspects of infrastructure and the environment – roads and footpaths, urban utilities and public facilities, for example – are closely related to living conditions and are essential corollaries of urban growth (Eko Budihardjo 1992). Moreover, as the quality of urban life in Indonesia has been improved it has encouraged even more urbanisation, requiring still more investment in urban housing and infrastructure.

Yet, as a developing nation with limited resources that could be directed into the development and modernisation strategies, housing and urban infrastructure have never been given a high priority in the national budget (Fashbir Noor Sidin 1999*a*). Those housing programmes that have been developed have been mainly directed at urban areas, but, even for them, there has been relatively little direct provision or other intervention by the state agencies in housing development (Fashbir Noor Sidin 1999*b*). Rather, housing has been viewed as part of the community development programme whereby the people themselves are involved in the production of housing. The emphasis on self help means that for most people over most of the country, particularly in rural areas, their housing needs are not the subject of national housing strategies. The main focus of this chapter is accordingly on policy with respect to urban housing.

Urban housing development

Indonesia now has more than one hundred municipalities, that is cities that are either self governed with a mayor and a local house of representatives, or 'administrative cities', which are not self-governed (Eko Budihardjo 1997). The size of municipalities varies greatly, upwards from about 20 000 population. The largest city is the capital, Jakarta, which even by 1980 had almost 7 million people, followed by Surabaya, which had 2 million. Even though fertility has fallen dramatically under the influence of both economic development and national family planning programmes, natural increase – the difference between birth and death rates – is still high. Compared to the rural areas, the urban areas have a young age structure and this contributes to a higher rate of natural increase. With industrialisation proceeding at a rapid rate, particularly in Java, urbanisation also appears likely to continue at a rapid rate. In addition, the reclassification of rural areas as urban ones – mostly by decree of the government – has added to urbanisation, as has

annexation of adjacent rural areas by cities. The latter is frequently a cause of dispute between city governments and provinces because these areas are often occupied by those who are relatively wealthy and hence who offer a potential source of property tax for local government.

The 1990 census estimated that only 30 per cent of the population lived in urban areas (Republik Indonesia 1990). However, urban areas are defined such that they are not always synonymous with cities. In the island of Java – where about 60 per cent of the population live – most large cities are ‘under bounded’. On the other hand – outside Java – most cities are ‘over bounded’ so that they include large expanses of rural area and forests. Most cities are located in what is called ‘the crescent’ which runs from the Straits of Malacca, south of the Java Sea and then north to the Celebes Sea. Most of the cities in Sumatra, Java and Sulawesi are on the outer rim of the crescent while cities in Sumatra and in Kalimantan are on the inner rim. Insofar as urbanisation is an indicator of development, this distribution indicates that economic development is not spread evenly through Indonesia (Fashbir Noor Sidin 1999a).

Most Indonesian cities developed naturally by the agglomeration of villages during the period before formal urban development was introduced late in the last century (Djoko Sujarto 1976). In the transformation most of the villages lost their agricultural land and employment. Formal urban housing of a higher standard was constructed, catering mainly for those with formal employment and higher incomes (Eko Budihardjo 1983). The former villages (*kampungs*) were gradually transformed to become higher in density with more informal employment and socio-economically mixed inhabitants (Hasan Poerbo 1983). In recent years, many inner city *kampungs* have experienced decline in the level of population. Many people have moved out to the *kampungs* on the edge or fringe of the urban areas (Mulyanto Sumardi and Evers 1985). However, the development of private housing by real estate companies in the fringe areas resulted in the elimination of rice fields and engulfed the villages. The presence of high-class housing, planned in an *ad hoc* way, increased the contrast between the poor environmental condition in the inner villages and the high standard new houses in the fringe areas (Fashbir Noor Sidin 1994). The result is an urban landscape in which the modern and traditional are woven together in complex spatial patterns:

The sharp distinction between the modern city and the *kampung* city have long been portrayed in both popular and academic literature as being manifestations of the socio-economic dualism which

pervades Indonesian urban society. There are many dimensions to this dualism. The modern city is equated with progress, wealth and the attainment of international standards of urban design and construction, while the *kampung* ... broadly used in reference to any unregulated popular settlement in the city – is associated with poverty, slums, backwardness and the retention of rural traditions in an urban setting. (Leaf 1994: 348)

The development of policies for housing and infrastructure

In comparison with its immediate neighbours, Indonesia has been rather late in developing housing policies and programmes. With most people living in rural areas, the government chose to leave solutions to problems of housing need largely to the people themselves (Kantor Menpora 1987). Insofar as policies were developed they were generally small in scale. It has only been with the quickening of the pace of urban growth since the 1970s and 'The New Era' government that housing has been addressed more centrally (Johan Silas 1995). However, although having come to be a part of the national five-year development plans, the focus of housing provision remains in the private and informal sectors, with direct public involvement remaining limited.

Netherlands East-Indies government

In the period of Dutch occupation before the Second World War, the Netherlands East Indies government had adopted a fairly limited policy with respect to housing. It provided some housing for certain government administrators, but, perhaps more importantly, in the 1930s it also initiated the improvement of urban *kampungs* through upgrading of the infrastructure, especially with respect to accessibility – roads and footpaths – and sanitation – sewerage systems and piped water.

The Sukarno era: 1945–65

Immediately following Independence, the policies of the Netherlands East Indies government continued to be implemented. An attempt to develop urban public housing occurred with the Health Public Housing Congress, held at Jakarta in August 1950. This set out to collect ideas together in order to establish a feasible housing standard for Indonesia and it formulated the steps for providing suitable and economical housing. The congress proposed physical criteria relating to minimum house sizes (Johan Silas 1995).

Following the congress, in 1951 the government under President Sukarno established a number of government bodies with responsibility for housing. These included Jawatan Perumahan Rakyat (Agency for Public Housing) and Yayasan Kas Pembangunan (the Development Funds Foundation). The second of these was an extension of the activities of the housing development treasury in co-operation with local government with the aim of helping those wanting to purchase a house by providing them with somewhere they could deposit their money.

The national five-year development plan for the period 1956–60 contained a number of provisions with respect to housing. These included provisions concerning technical surveys of buildings, and guidance and information on building materials. At that time, the plan stressed the need for people to take responsibility for their housing circumstances, albeit that the government was prepared to co-operate in their endeavours. The People's Consultative Assembly occasion No. 11/1960 stated that the goals of housing policy at that time were to build the health and economy of the nation and to ease access to housing. In acknowledgement of the fact that some people would not be able to afford to buy a house, the government issued a regulation (PP No. 49/1963) stating that the basic rent of the house might not more than 4 per cent of the value of the house. The government also introduced in 1964, for the first time in Indonesia's history, a Law of Housing, which provided a basis for housing regulations particularly with regard to social aspects of housing shortage (Sudarsono 1986).

Notwithstanding these initiatives, overall the effort applied by the government was small. As Johan Silas was later to write of the period before the mid-1960s, 'Indonesia did not have any significant and effective housing policy or programme' (1987: 139). In practice, housing was supplied as a result of the organisational, financial and physical efforts of individuals within the population. Middle and higher income groups employed people to provide housing that accorded with local building codes. For their part, low income groups largely built their own homes, often incrementally and informally, using whatever materials and options were open to them given their particular circumstances and location.

The Suharto rehabilitation era: 1966–80

This was the era in which the foundations for rapid economic development were established. The problems of housing also came to greater prominence, particularly in the cities, which had experienced large

flows of migrants throughout the previous decade. They were now often more overcrowded than ever before. The governments of the larger cities such as Jakarta and Surabaya undertook some improvements of the urban kampungs using finance from their own resources as well as those of the residents involved. In 1971, however, the World Bank stated an interest in supporting these initiatives by offering loans and in 1972 undertook a fact-finding mission. Although only the city of Jakarta took up the offer, in 1974 the government of the Republic of Indonesia had signed a loan agreement with the World Bank for US\$18.2 million (Suyono 1983).

Kampung Improvement quickly became adopted as a nation-wide programme. It took three forms: KIP-Community Initiated, KIP-UNICEF and KIP-UNEP. In the first of these, people in the kampung were required to request, and take responsibility for, the installation of urban infrastructure, the intention and effect being to reawaken the awareness of local people to the need to care for environment quality in their settlement, for example, roads, drains, paths, street lighting, community halls, mosques and other settlement elements. KIP-UNICEF was focused more on dealing with health and welfare problems of mothers and children. KIP-UNEP attempted to improve low-income settlements through the conservation and improvement of environmental quality, seeking active community participation in order to ensure its sustainability. This was the first attempt to deal with the improvement of the physical aspects of low income settlements related to socio-economic mobility of the inhabitants (Hasan Poerbo 1983).

Within a short time KIP was extended to become part of the Integrated Urban Infrastructure Development Programme (IUIDP). This was a city wide provision and improvement of urban infrastructure aimed at increasing the effectiveness and efficiency of KIP. As with many Indonesian programmes the intention of central government was to decentralise responsibilities in urban planning, infrastructure and housing development to the local level. Using its capability in financing, technical ability and project management, local government under IUIDP was required to prepare and implement multi-year integrated infrastructure investment programmes with respect to utilities such as roads, drains and water supply, and community facilities such as schools, markets, clinics, parks and playgrounds.

During the so called 'rehabilitation era', the government was also attempting to establish more effective mechanisms and programmes for ensuring the adequacy of urban infrastructure. During the early

period the approach had been formally based on the principle of partnership, with citizens taking an active role as they had in previous eras, in meeting their living needs. However, the perception that the government needed to proceed quickly in order to make as much progress as possible led them to take a rather top-down, paternalistic approach. In some ways this proved ineffective, but greater progress would require a level of state funding that the government was not willing to make available (Fashbir Noor Sidin 1999a).

Supporting and extending the attempts to upgrade the conditions of those living in the urban kampungs, the government began what has turned out to be a long term strategy for increasing the quantity and quality of the housing available to Indonesian people. The central mechanism for developing the government's approach were the national development plans (Repelita). The first of these, Repelita I, covering the period 1969–74, laid down some preparatory work 'such as the establishment of an institutional framework, development of urban housing prototypes and the utilisation of locale building materials' (Johan Silas 1987: 137). In 1972 a National Workshop on Housing was held in Jakarta to discuss possible solutions for housing, concluding that it was important urgently to establish special institutions to take charge of housing policy, housing production and housing finance. This was taken up the outset of the Second National Five-year Plan (Repelita II) which covered the period 1974–79. In 1974 this established: the National Housing Policy Board (BKPN), which would co-ordinate housing policy; Perusahaan Umum Pembangunan Perumahan Nasional (Perum Perumnas) or National Urban Development Corporation, which would produce low-cost housing; and Bank Tabungan Negara (BTN) or State Savings Bank as a housing mortgage bank, which would help people to buy their homes. Further, the Association of Indonesia Real Estate Developers (REI) was also established to organise private real estate developers. At first BKN provided finance for housing built by Perumnas only, but in 1976 their activities were extended to REI-built homes. Their finance provided loans for up to 95 per cent of the value of the housing to be repaid at rates of interest subsidised by the government over terms as long as 20 years. The general division of the market was that REI housing was intended for higher income groups than was Perumnas housing (World Bank 1990).

The initiatives taken during the period of Repelita I established the beginning of the development of a housing policy system that was to evolve 'from a relatively marginal activity to an important component

of social policy' (World Bank 1990: 126). A further contribution to this came during the period of Repelita III (1979–84) when the position of Junior Ministry of Housing was established with responsibility for co-ordinating housing related activities across boundaries of the ministries and to chair the BKPN (Johan Silas 1995).

By the end of the 1970s, then, the Suharto regime had established what Struyk and his colleagues were to describe as Indonesia's 'two systems for the delivery of housing' (Struyk *et al.* 1990: 9). The first – the popular or household system – was for the great bulk of the population who applied their own resources – financial and otherwise – to meeting their housing needs. In general these households had relatively low incomes and many of them living in urban areas benefited from KIP activity that upgrades the environment in which they lived. The second – the formal system – was directed at those with medium to high incomes. The meeting of their housing needs was assisted by the activities of Perumnas as developer and private real estate developers, supported in many cases by state subsidies.

The Suharto development era: 1981–97

In the second phase of the Suharto regime the pace of economic restructuring and development quickened. Early in the period important steps were taken that gave some new aspects to the housing programme. Firstly, recognising the need for greater co-ordination along the lines of IUIDP other integrated programmes were introduced. These included the Integrated Rural Housing Improvement Programme (P2LDT) and the Intensification of Housing Counselling. Secondly, also in response to co-ordination problems arising from the presence of multi-agencies involved in housing related activities, the Junior Ministry of Housing was elevated into the State Ministry of Housing (Johan Silas 1995).

Moving into the 1990s, during Repelita V (1989–94), the government sought to strengthen the basis for national development and prepare the housing sector for the take-off stage in Repelita VI (1994–99) and for the Second 25 Years Development Plan (PJP II). Presidential Decree No. 5/1990 promoted a programme for the upgrading of slum and squatter settlements in urban areas, not by simple demolition but through community based approaches and consensus. As part of this, rental flats as an alternative type of urban accommodation were promoted. In 1992, the Housing and Settlements Law No. 4/1992 was passed. This gave more responsibility to local govern-

ment especially in the area of land management. A number of government regulations were prepared to support the implementation of the law including regulations concerning the decentralisation of certain Public Works responsibilities to local government. Also in 1992, the BKPN issued the second edition of National Housing Policy and Strategy. While reiterating the view that had informed Indonesian housing policy over the post-war period, that housing is basically the responsibility of the people, it also stressed that government should develop a more enabling role to help people to meet their housing needs (Fashbir Noor Sidin 2000*b*).

In the following year, state guidelines (GBHN 1993–98) were issued which recognised the need to increase the quality of life of the individual and society by alleviating poverty. This was to be achieved by improving access to housing and basic services, a more equitable access to key resources, human resources development and community participation. In 1993, also, new resources for housing finance were mobilised through co-operation between the State Ministry of Housing and the Provident Savings Fund for housing for civil servants. Compulsory contributions into a fund enable government employees to borrow for their housing needs. While the fund is presently limited to government employees, there has been an expectation that eventually it would be extended to private sector employees. It was expected that through this initiative the government would be able to meet its objectives to build 50 per cent (250 000 units) through the National Urban Development Corporation (Perum Perumnas), 40 per cent (200 000 units) through real estate developers and 10 per cent (50 000 units) through other means (mainly, housing co-operatives). Supporting the last of these groups, the State Saving Bank introduced housing funds in the form of 'Triple Purpose' loans for provision of land, house construction and income generation in one package. This was an important development because it allowed low income groups in the form of co-operatives or associations to become eligible for credit.

The engagement of the Association of Real Estate Developers in housing had, up to the 1990s, mostly been with respect to housing development for middle and upper income groups. To entice them to enter the low income housing market, the government launched the RSS 1 that it believed would enable the REI to build without fear of losing profit. Under the new arrangements, real estate developers are able to apply to the State Savings Bank for an advance payment of up to 50 per cent on the purchase of land. At the same time the government intensified enforcement of the '1–3–6 Ratio' which requires developers

to build 6 low cost houses and 3 medium cost houses for every luxury house (Fashbir Noor Sidin 1999a).

In conjunction with these initiatives, the Ministry of Home Affairs instructed all local governments of major urban centres to establish a Housing Agency or Dinas Perumahan. Its purpose is to manage housing development under the Office of the Mayor, which is provided with adequate staff and resources. Presently, only a few cities have a Dinas Perumahan with limited tasks such as collecting rents in government houses. The Ministry of Home Affairs has also required local governments to expand the functions of the Local Development Planning Agencies to include shelter planning and co-ordination. In order to provide more power to the BKPN to control and co-ordinate housing development activities, in 1994 BKPN was transformed into BKP4N (National Housing and Human Settlements Policy Supervisory Board) by Presidential Decree No. 37/1994.

Repelita VI (1994–99) sought to establish an enabling environment for shelter provision and improvement as part of the overall national development strategy. The government intended to take steps to stimulate the economic potential of the community, private developers, and construction industry and non commercial development consultants in housing. It was thus limiting direct government intervention in housing to the role of a facilitator and co-ordinator. If the approach in the past had been to rely mainly on the formal sector to meet housing needs, the new approach was to enable the informal sector as well, by facilitating access to key resources, such as affordable and suitably located land, credit, and income generating opportunities and information. This approach was piloted in the community based, low cost housing project that assisted organised low income groups to undertake house construction with the help of credit provided by the State Savings Bank. The demand-driven approach – referred to as ‘Community Based Housing’ strengthened by local strategies and action programmes – has been particularly well suited to compensate for the inadequate supply from the supply driven formal sector (Fashbir Noor Sidin 1999b). The community based approach has also stressed the need for sustainable development and emphasised environmental concerns in housing and human settlements development. Basically, the community based housing development strategy focused on the collective efforts of the citizen to mobilise local resources for community self-managed housing and economic development.

The urban housing situation

As a consequence of its policy regime, most of the existing houses in Indonesia are self built either by their owners, individuals or by companies for their staff and employees. The majority is owner occupied. In the early 1980s, only 0.2 per cent of all existing houses were purchased from developers. In fact, developer-built houses began to come on to the market only in 1976 after the government launched its first housing programme for low and lower middle income groups. In addition to providing houses for low and lower middle income groups, private developer companies also started to build houses for higher income groups. The production of houses by formal developers can be separated into subsidised and non-subsidised units. Subsidised units are financed by mortgages from the State Savings Bank and PT Papan Sejahtera, a government owned housing finance company. They include units produced by Perum Perumnas, the government owned housing developer (Fashbir Noor Sidin 1999a).

Houses and households

In Indonesia in 1990 there were 10 788 890 urban houses compared to 5 581 529 in 1980, an annual growth of 9.39 per cent (Table 9.1). The number of urban households also increased during the decade, the result not so much of an increase in total numbers of people but of a decrease in the average household size. Even though the number of households increased at a slightly slower rate than did houses, there are still more households than houses.

In fact there was a greater deficit of houses compared with households in 1990 than in 1980, 940 133 units compared to 585 669. In proportional terms this represents a slight decrease with the ratio decreasing from 1.10 to 1.08 (Table 9.2). The fact that around 15 per cent of households are sharing houses is, however, only partly a reflection of housing shortage, that is a surplus of demand over supply,

Table 9.1 Number of houses, households and urban population, 1980, 1990

	1980 (000s)	1990 (000s)	Percentage increase
Houses	5582	10 789	93.9
Household	6167	11 693	89.6
Urban population	32 846	55 434	68.8

Source: Republik Indonesia (1980, 1990).

Table 9.2 Number of households and family members, 1980, 1990

	1980	1990
Households per house	1.10	1.08
(Urban) family members/household	5.30	4.90
(National) family members/household	4.70	4.50

Source: Republik Indonesia (1980, 1990).

since it is also a feature of Indonesian culture that newly married couples live close to or with their parents.

Physical characteristics

The most common urban house type in Indonesia is the detached house, the absolute and relative numbers of which actually increased between 1980 and 1990 (Table 9.3). Flats contribute only a very small figure especially in some of the largest cities such as Jakarta, Surabaya, Bandung, Medan and Palembang.

As to the numbers of rooms, 29.5 per cent of houses have one room, 38.9 per cent two rooms and 31.6 per cent three or more. In terms of floor area about one-third of urban houses are in the range 50–99 square metres. Over the course of the 1980s the proportion of small houses (below 50 square metres) decreased and the proportion of large homes (100 square metres and over) increased, so that the overall average also increased. By 1990, as a result of both trends in the stock and decreasing household sizes, each household member on average enjoyed 6.0 square metres which compares favourably with the UN/ILO minimum standard of 5.2 square metres.

Amenities and accessibility

The quality of the urban housing stock can also be measured in terms of access to public and private services. For the range of services specified in Table 9.4 it can be seen that, with the exception of parks

Table 9.3 Urban house types, 1980, 1990

<i>House type</i>	<i>1980 (%)</i>	<i>1990 (%)</i>	<i>Change</i>
Single house	73.90	76.70	2.80
Link-house	11.36	10.92	-0.44
Terrace	14.49	12.36	-2.13

Source: Republik Indonesia (1980, 1990).

Table 9.4 Accessibility to amenities, 1992

Public facilities	Percentage houses within			
	<1 km	1–2 km	3–4 km	>5 km
Public transport	69.5	25.9	2.6	2.0
Clinic/drugstore	37.8	54.1	6.1	2.1
Market/shops	31.9	52.1	10.8	5.2
Cinema/theatre	15.0	47.1	17.0	21.3
Parks/recreation	6.7	19.0	17.1	56.8
Elementary school	66.2	31.4	1.0	1.4
Junior high school	36.8	51.5	8.3	3.3
Senior high school	27.8	51.9	11.7	8.6

Source: Johan Silas (1995).

and recreational facilities, well over half of Indonesian urban homes are located within two kilometres.

Current production levels

During the 1980s and the first half of the 1990s around 90 per cent of house development was undertaken by individuals, with the remaining 10 per cent developed by public private sector agencies. There was, however, an increase in the contribution of agencies during the first half of the 1990s. Table 9.5 indicates that whereas by 1991 the National Urban Development Corporation had developed 216 054 dwellings, this total increased by almost 50 per cent by 1995. The increases over this period were slightly larger for Real Estate Indonesia and other private developers using state bank credits. Together their new development was particularly large in 1994–95, amounting to over a-third of a million units. The geographical distribution of the units

Table 9.5 Accumulated totals of housing development, 1991–95

Developers	Accumulated total reached in each year				
	1991	1992	1993	1994	1995
Perumnas – public sector	216 054	230 771	247 646	274 822	313 526
Real estate Indonesia	292 951	349 862	406 987	473 181	546 051
Private – state bank credit	514 562	544 206	561 125	562 668	796 594
Total	1 023 567	1 124 839	1 215 758	1 310 671	1 656 171
Units built during year	102 272	90 919	94 913	345 500	—

Source: Republik Indonesia (1995).

Table 9.6 Source of financial funding for housing development, 1995

Island	State savings bank		Private bank	Total
	Perum Perumnas	Private		
Sumatra	51 916	73 535	41 187	174 638
Java	182 726	637 018	474 714	1 294 458
Kalimantan	6 677	26 283	21 622	54 582
Sulawesi	16 633	38 629	27 433	82 695
Other islands	12 677	21 129	15 992	49 798
Indonesia	270 629	796 594	588 948	1 656 171

Source: Republik Indonesia (1995).

produced by agencies approximately matches the distribution of the population across the different islands that make up the country. The sources of finances for housing development was distributed between public and private banks, but with the majority of credit, about two-thirds, coming from the State Savings Bank.

Current issues and evaluation

There are aspects of the Indonesian approach to housing that, bearing in mind its stage of economic development including its resources as well as the enormity of the housing problems resulting from its large population, have achieved considerable success. Of particular significance, noted almost two decades ago, has been the success of KIP:

From the standpoint of its scale, the number of beneficiaries, and the number of cities affected KIP is one of the most remarkable slum-upgrading programs in the developing world. The challenge that lies ahead is in effectively extending the program to the innumerable smaller urban areas in the country that do not have the same kind and size of administrative and technical staff that is present in larger cities (Suyono 1983: 183)

A more recent assessment has been equally positive:

The main finding of this report is that the Kampung Improvement Program improved the quality of life of Indonesian urban areas at a low cost of investment. The projects had very positive impacts on the kampungs where the inputs were targeted. (World Bank 1995: 8)

In addition to this success, Struyk and his colleagues have also drawn attention to a number of other aspects of the Indonesian approach that constitute object lessons for other countries at similar stages of economic development (Struyk *et al.* 1990). Firstly, some common forms of intervention, such as rigid rent control, that reduce the efficient functioning of the housing market have been avoided. Similarly, there has not been a rigid application of building codes that elsewhere have limited the pace of popular housing development. Secondly, the land law system has had sufficient flexibility to allow several degrees of tenure that, in turn, have encouraged housing investment.

Notwithstanding such achievements, overall the combination of rapidly increasing population numbers and even faster growth in the number of urban households has barely been matched by housing production. One result is that throughout the post-war period the gap between housing needs and housing supply has remained large. This estimation of total housing demand varies widely depending on the assumptions made. However, the Sixth Indonesian Five-year National Development Plan (Repelita VI) set the need for housing at 750 000 units to meet new household formation, 700 000 to upgrade old and dilapidated houses and bring them up to an acceptable standard, 350 000 units to replace destroyed and obsolescent housing, and 100 000 units to make up for the previous year's backlogs. Together these targets amount to 1.9 million units per year. Even if the need for upgrading existing poor quality housing is ignored, the other components still amount to more than a million units per year. The main challenge facing the housing sector, then is how to improve its capacity to meet growing urban housing needs of the country which exceed the current levels of formal housing production.

This challenge has been made more difficult in the last few years as a result of both economic and political instability. The combined effect of the impact on Indonesia of the Asian crisis of 1997, continuing civil unrest and internal tensions, along with the change in the presidency, has been, amongst other things, to erode efforts to improve the housing standards of the Indonesian peoples.

Conclusion

Since the start of the Suharto regime, and particularly since 1980, Indonesia experienced an extended period of economic development. Although its urban areas have expanded rapidly, the land area is large and even at the turn of the millennium the majority of the population

lives in rural areas. For this majority there has been little by way of government intervention in their housing solutions. The expectation, repeated periodically throughout recent decades, is that the people are part of, indeed central, to any solution. Even within the urban areas where the government has been more interventionist, it has turned away from being an active participant in directly providing housing and infrastructure. Rather it has established a framework for housing provision but required local government, community groups and individuals to play central roles. Thus, the government has introduced low cost housing schemes through a subsidised credit system by state banks. Subsequently, private real estate for middle and high income groups has grown particularly in the suburbs of cities where land is relatively cheap. Central government has monitored the housing development but has left the implementation of regulations to local authorities. Local authorities designating certain areas for real estate have performed the role of an intermediary between the real estate companies and landowners.

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10

The South and East Asian Housing Policy Model

John Doling

Introduction

At one level, the aim of this book has been to bring together, in one place, up to date information that would serve as a reference or starting point for readers interested in any of the countries included. At another level, the intention has been to move beyond a series of single country, information rich stories, to consider what is similar and what different about them. This chapter provides a re-appraisal of this intention. It greatly summarises the main features of the eight countries and indicates that with respect to housing they share some common elements, so much so that, arguably, there is validity in supporting the notion of an Asian housing policy system that differs in significant ways from western ones. Further, it summarises those features that indicate differences in approaches and outcomes that separate one Asian country from another.

In addition, the present chapter considers some of the consequences – actual and possible – of the Asian financial crisis of the last years of the twentieth century. Most of the country chapters consider the impact of the crisis; here, those considerations provide a springboard for a brief discussion of future directions in Asian housing policy systems.

The distinctiveness of the Asian model

The question pursued in this section is whether, when considered at a macro level, housing policy and housing outcomes in our eight Asian countries appear to constitute a distinctive model. The response to the question is approached through comparison with western models.

In terms of outcomes, the housing stocks of the Asian countries do show some distinctive characteristics (see Table 10.1 a and b). Overall, the Asian countries have greater proportions of home owners than do western countries, a difference that is even more marked with the post-1994 developments in Hong Kong that have resulted in large increase in its home owning sector (see Chapter 4). Thus Table 10.1, duly updated, would indicate that on average the proportions are perhaps some 10 to 15 percentage points higher in the Asian countries. Whereas in comparison with western households it is more likely that the Asian household will be home owning, the table also indicates that far greater percentages of Asian households lack amenities such as piped water, closed sewers and inside WCs, that in western countries are considered both normal and essential. Although in part the pattern of their incidence may be related to national prosperity – among western countries the percentages are low in Turkey and among Asian countries high in Japan – this would not seem the entire explanation. For example, notwithstanding its place in the GDP per capita league tables (see Chapter 1), they are also low in Singapore. Much the same can be said of the persons per room ratios that, with the exception of Japan and Turkey, are much higher in the Asian than the in the western countries. Whereas the ratio will reflect the larger average household sizes in Asian countries, a consequence of both higher birth rates and the greater incidence of the extended family form, one outcome is less housing space per household member.

In summary, then, Asian households experience lower average housing standards than do western households. A possible explanation lies in the economic growth of the last decades that has brought them up to GDP per capita levels of the west, but has outstripped the ability of their construction industries to add sufficient new housing of a standard commensurate with those economic levels. The west with its much slower economic growth has over the long run been able to add new stock, and adapt existing stock, so that a much higher proportion is of a quality consistent with economic development. On this view, it is only a matter of time before stock replacement in the Asian countries, as can be seen currently in the redevelopment of 1960s and 1970s housing in Singapore, brings them up to the average levels common in the west.

A second possibility – thought the two are not necessarily mutually exclusive – is that the averages reflect the wide distribution of wealth and income characteristic of Asian countries, allied to the relative absence of policies, in the housing sphere or elsewhere, that are redis-

Table 10.1 Characteristics of housing stocks

(a) Asian countries

	<i>Year of survey</i>	<i>Owned %</i>	<i>Rented %</i>	<i>Other tenure %</i>	<i>Piped water %</i>	<i>Electricity %</i>	<i>Inside WC %</i>	<i>Closed sewer %</i>	<i>Persons per room</i>
Hong Kong	1994	45.1	50.1	4.8	86	—	69	65	2.8
Indonesia	1990	87.0	5.0	8.0	15	55	52	25	1.7
Japan	1993	59.8	38.5	1.7	81	—	93	98	0.5
Korea	1995	74.9	22.5	2.6	83	50	75	—	1.1
Malaysia	1991	63.4	25.0	11.3	65	65	—	56	2.6
Singapore	1990	87.5	—12.5—	91	98	64	64	2.5	
Taiwan	1990	78.5	12.8	8.7	79	100	94	69	1.2
Thailand	1990	86.0	11.2	2.3	30	90	41	31	2.7

(b) Western countries

	<i>Year of survey</i>	<i>Owned %</i>	<i>Rented %</i>	<i>Other tenure %</i>	<i>Piped water %</i>	<i>Electricity %</i>	<i>Inside WC %</i>	<i>Closed sewer %</i>	<i>Persons per room</i>
Australia	1994	65.3	34.7	—	97	98	92	99	0.6
France	1992	53.8	39.2	7.0	100	—	96	74	0.7
Germany	1993	38.9	61.2	—	100	100	98	97	0.5
Portugal	1991	64.7	35.3	—	91	99	92	76	0.8
Sweden	1990	55.9	40.0	4.1	99	98	98	96	0.6
Switzerland	1990	31.3	69.5	2.2	100	—	93	92	0.6
Turkey	1994	77.2	12.0	10.8	68	57	71	42	2.2
UK	1991	66.4	33.6	—	—	—	100	—	0.5
USA	1995	59.7	32.1	32.1	87	97	98	100	0.5

Source: *Encyclopaedia Britannica* (1998).

tributive in aim or outcome. In these Asian countries, then, some households enjoy very high housing standards, others experience very much lower ones. The latter group deflate the overall averages.

Further insights concerning the differences between Asian and western countries can be gained by considering the information contained in earlier chapters, in the context of the literature on policy regimes. Thus, Donnison and Ungerson (1982) constructed a typology of western housing policy types in which they distinguished between countries with institutional or comprehensive housing policies and those with residual or social ones. Key characteristics of the former were that governments take responsibility for ensuring that the housing needs of all the population are met with housing seen as a productive sector of the economy. In contrast, the latter referred to countries where their governments intervene only in a residual way, to support those whose needs are not met by the market. An interpretation of the Asian countries represented in this volume is that they have aspects of both. In their national plans they appear to be comprehensive in orientation, seeking to take an overall view of housing needs, whereas in access, market rules are central with, in most cases, fairly limited state provision and subsidies directed only at those whose housing circumstances would otherwise be below acceptable norms.

Elaboration of this interpretation of the Asian countries has been provided in a study of the little tiger states of Hong Kong, Korea, Singapore and Taiwan, which uses the concept of the housing provision chain (Doling 1999). This recognises that a comprehensive description of housing policy needs to recognise the life cycle of any individual house, taking it from the stages of development, to construction and to consumption. What happens in the consumption stage, including what there is to consume – the nature, size and location of the housing stock – is influenced by actors and activities in the development and construction stages. Thus, where states encourage the growth of large and highly capitalised construction firms, this is likely to result in high rise buildings each containing many individual dwelling units: where the state permits low capital construction firms to flourish, there will generally be the continued development of the low rise, single dwelling unit form.

The activities in, and outcomes of, each of the stages can be characterised as being principally determined by state processes or market processes. Thus at some stages there may be mainly state actors such as civil servants and politicians pursuing objectives and making decisions based on bureaucratic and political criteria; at other stages there may

be mainly private individuals and companies operating within private market frameworks. The distinction is of course a crude one, but it allows the specification of a number of ideal types (see Table 10.2).

In the Liberal model (type a), markets, largely unfettered by state intervention, dominate all three stages: housing is seen as a private good, decisions to provide new housing are taken by private developers working without the constraints of strong planning legislation, houses are built by private construction companies and they are sold or leased to individuals on the basis of willingness and ability to pay. In terms of consumption outcomes it is to be expected that this regime type will result in high levels of inequity reflecting the distribution of household income. The USA is the archetypal case.

The mainland European model (type b) – of which Sweden is archetypal – is characterised by a development stage that is strongly directed by the state. Local municipalities are charged with identifying the need for additional housing of different sizes, tenures, qualities and locations. They acquire land at a price that does not reflect its future, residential, use and they contract private builders to construct to specified

Table 10.2 Housing regimes

(a) Liberal

	<i>market</i>	<i>state</i>
Development	X	
Construction	X	
Consumption	X	

(b) European

	<i>market</i>	<i>state</i>
Development		X
Construction	X	
Consumption		X

(c) Little Tigers

	<i>market</i>	<i>state</i>
Development		X
Construction	X	
Consumption	X	

designs at a competitive price. Further influence over prices – for example through rent regulation – and over household budgets – through subsidies – contributes to a consumption stage in which principles of need are significant in allocation. (Dickens *et al.* 1985).

In the little tigers model (type c) – of which Singapore is archetypal – there is also state control at the development stage. With strong government control of the economy and highly directive, five-year plans, governments are able to determine much of the speed, location and nature of development. The construction stage is undertaken by private companies often building to contract. The significant difference between models (b) and (c) is that there is little attempt in the latter to ensure that need is a determinant of levels of consumption.

As noted in Chapter 1, and from the evidence presented in Chapters 2 to 8, the Asian countries all have housing policies that constitute stronger or weaker versions of this third ideal type. They all have strong state intervention in the development phase, based on five-year plans, they all depend on the privates sector for construction, and in all of them allocation and consumption is primarily dictated by the willingness and ability of households to pay from their own incomes. To the extent that in Europe there are stronger redistributive tendencies particularly in the consumption stage, the Asian policy regimes appear to constitute a distinctive type.

Within model differences

Whatever the group distinctiveness of our eight countries in their approaches to housing policy, it is also important to indicate some of the differences. Even among the little tiger states these are considerable, for example between Singapore and Hong Kong on the one hand and Taiwan and Korea on the other (Doling 1999). In the former there has been a far greater role for the state, with strong control over land and high levels of state provision as compared with weaker controls and market provision in the latter. There are some exceptional aspects to the approach of Hong Kong and Singapore, with their more general reliance on directed or governed markets, and in both countries the state has taken a major role in housing provision to the extent that public housing has come to dominate their housing systems.

In fact, as the chapters of this book demonstrate, if among some of the countries of our eight direct state provision and high subsidies are central, in some others there has been a somewhat different paradigm. In the early post-war years, Indonesia, Malaysia and Thailand each had

programmes, albeit small in scale, for state provision of housing. Often aimed at privileged groups, such as civil servants, and requiring high levels of subsidy per unit, they provided housing of a standard higher than the average. From the 1960s on they have reduced the importance of such programmes, developing alternatives based on developing and utilising the skills and motivation of low income groups. In these countries, self help, community development and partnerships have come to be key components in slum and squatter upgrading programmes (see Pugh 1997 for a review of developments in self help housing policies).

One typology of our eight countries, therefore, would distinguish between the strong state providers and developers (Singapore, Hong Kong) and the state supported, self helpers (Indonesia, Malaysia and Thailand). Intermediate positions (Japan, Korea and Taiwan) cover those countries in which selective state intervention and subsidy has been used in order to ensure that the housing needs of low income groups were met within a market framework. Diagrammatically, this could be represented as an axis – describing different approaches within the Asian Housing policy model – at points along which each of our eight countries could be located (Table 10.3)

There are a number of possible explanations for the different locations of the eight countries. The Asian policy model, outlined here and in Chapter 1, is based on a notion of relatively autonomous states, that is states that have largely been able to isolate themselves from the interests of both capital and electors and consequently to pursue policies deemed to be in the interests of the nation as a whole. Part of the differences between the housing policies of our eight countries may be attributed to a partial lack of autonomy enabling housing policy to be skewed in favour of sectional interests. Thus, it has been argued elsewhere (Park 1998) that the Korean approach to housing has been characterised by markets as a result of the coalition between the state and the chaebols. These big, industrial complexes were granted investment priority by the state, but as the mainspring of national economic strategy they had the ability to resist other state agenda. Specifically as

Table 10.3 Asian housing policy approaches

<i>State provision</i>	<i>Selective intervention</i>	<i>Supported self help</i>
Hong Kong	Japan	Indonesia
Singapore	Korea	Malaysia
	Taiwan	Thailand

major landowners they were able to resist attempts to regulate land speculation.

In addition to domestic or internal pressures on the autonomy of the nation state, increasingly there are also external ones (see Deacon 1997). Particularly important in this respect has been the World Bank which through the second half of the twentieth century has, by virtue of its economic assistance, been able to mould domestic social and housing policies, as well as economic ones. It has played a prominent role in both Thailand and Indonesia (see Chapters 8 and 9) shifting their housing policies in the direction of the orthodoxy of the time, and influencing the emphasis away from state provision of housing and high subsidies to community based and partnership approaches relying greatly on principles of self help. Similarly, with the Asian financial crisis, the IMF has more recently imposed its policy prescriptions on a number of national governments in the region.

Where now?

Whatever the similarities and differences to be found in the Asian housing model to this point, their futures are uncertain. One possible future can be identified through comparison with historical developments in many western countries. The case could be argued that, in some or all of the eight countries considered here, the stage of large scale and rapid urban development and restructuring has largely been completed. Whereas there will be continued investment in the physical fabric of urban areas – for example, in better and more extensive mass transit systems – the first round of the housing problem – coping with the rapid urbanisation on which industrialisation has been dependent – is in many cases now complete. The argument here is not that housing shortages and slum living have been eliminated in their entirety, but that in some of our countries the scale of these problems has been very greatly reduced. Moreover, the flow of migrants from rural areas has reduced so that the broad pattern of settlements has been established with future changes being likely to be less dynamic. In these circumstances it is possible that states will begin to relax their control of the housing development process and the allocation of the factors of production. So, as with the demise of mass social housing in western countries (see Harloe 1996) it is possible that there will be similar tendencies for governments of Asian countries to move toward relatively less state oriented systems of provision. On this view, east–west convergence is possible.

In a number of the eight countries – Indonesia, Malaysia, South Korea and Thailand in particular – the future is dominated, at least at the start of the present century, by the continued responses and restructuring consequent upon the financial crisis that broke, in spectacular fashion, in 1997. This certainly has a housing and more general property dimension to it since it was non viable investments in these sectors that played a role in precipitating the crisis in the first place (see Henderson 1998). In responding to exchange rate pressures, widespread debt and insolvency, Malaysia has set its own macro economic and financial corrections, with the other three having accepted the IMF conditions for reform that have been attached to loan finance. The restructuring packages have, as earlier chapters indicate, a variety of consequences for housing sectors and, more generally, for the built environment. Cedric Pugh (1999: 158) has outlined the general impacts:

The short-term austerities will curb urban capital investment owing to increased interest rates and stricter fiscal controls. In the first instance this will stall work on infrastructure projects in the afflicted countries ... Housing standards in both the formal and informal sectors will tend to decrease and rental tenure will increase relatively more than homeownership which is subject to higher deposit-to-income ratios, tougher loan scrutiny on capacity to repay, and raised cost of repayment.

In the short term then, it can be expected that, relative to what they would have been, levels of both public and private investment in housing is reduced. In the longer run (which in the case of Indonesia, because of political difficulties, may be somewhat longer than elsewhere), the restructuring of financial sectors along with general economic recovery may have different sets of consequences. On one view, all these countries will experience ‘a more transparent, better regulated, and increasingly efficient allocation of finance into “real” investment [that] will enhance urban capital development [and] the deepening of housing finance systems’ (Pugh 1999: 158). The allocation of finance to the housing sector, then, may become less the preserve of the state and more that of the market.

The possibility of some loss of control by the state over resource allocation as a longer term outcome of the late 1990s’ financial crisis has some resonance with earlier, pre-crisis, speculations by Jeffrey Henderson (1993). At that time, his argument was that it was not at all

clear whether the plan-rationality at the heart of the east Asian economic miracles, would last in the same form, or indeed at all. Particularly with respect to Taiwan and Korea he foresaw the possibility that as their economies became more international, the more that some private sector interests would both demand and achieve greater autonomy from the state.

It is not unusual for such speculation to take place in the context of explicit reference to a version of the globalisation thesis that in its economic-reductionism form would support the substantial loss of state control. This simply follows, according to the globalisation orthodoxy:

We are now entering a new phase in world history in which cross-border flows in goods and services, investment, finance and technology are creating a seamless world market where, the law of one price will prevail. What we are witnessing, say the proponents of globalism is no less the demise of the nation-state as a power actor, the end of 'national capitalism' with their characteristic welfare systems and industrial policies, and, ultimately world-wide convergence on one kind of economic system: Anglo-American-style free-market capitalism. (Weiss 1998: 167)

Insofar as some activities and resources are less mobile than others – and land, of course, is determinedly not so, though construction companies are – the case might be developed that it would seem likely that under such a scenario considerably more control could continue to be exercised over housing development than, say, sections of manufacturing industry. This being so, the five-year plan and targets for housing investment, by type, location and so on, may continue to be a feature of state planning and control in the typical Asian housing system.

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