

**ROLE OF THE STATE AND MARKET IN LOW
COST HOUSING PROVISION:
THE CASE STUDY OF OPEN REGISTRATION
SYSTEM (ORS) FOR LOW COST HOUSE
BUYERS IN MALAYSIA**

SYAFIEE SHUID

PhD 2011

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REGISTRATION SYSTEM (ORS) FOR LOW COST
HOUSE BUYERS IN MALAYSIA**

SYAFIEE SHUID

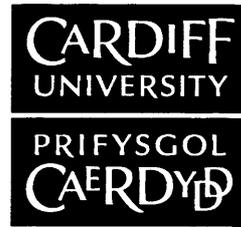
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M Sc. Housing (USM)

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the School of City and Regional Planning, Cardiff University

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Dr Pauline Card
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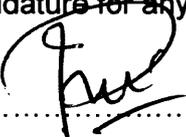
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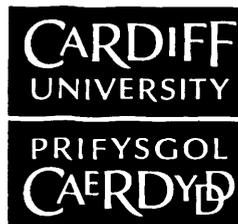
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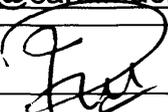
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SUMMARY

The aim of this research is to examine the role of the state and market in low cost housing allocation in Malaysia in the context of a global trend towards neo-liberalism. This research explores the transformation in low cost housing provision in Malaysia particularly in the allocation process.

The research is premised on a qualitative research paradigm using case study research design. The low cost housing allocation system in Malaysia under the Open Registration System (ORS) was selected as a case study to determine the role of the state and market in housing allocation. Meanwhile the State of Selangor was selected to study the implementation of ORS at the state level. The research framework was based on the Structure of Housing Provision (SHP) approach in order to determine the changes in housing provision system in Malaysia since the 1950s and to identify the key players involved in the low cost housing production and allocation process. The method of data collection was based on the analysis of documents, qualitative interviews and a group interview.

The key findings include, firstly, the fact that housing provision in Malaysia shows no sign of convergence with the Western neo-liberal model. The state continues to control and regulate the market in low cost housing allocation through ORS. Secondly, although low cost housing production shows trends of commodification since the early 1990s, but the allocation process remains the sole responsibility of the state and is highly decommodified. Thirdly, most low cost house buyers prefer the market to manage the allocation for private low cost housing. Finally, ORS implementation shows the state is dominant in housing provision in Malaysia, which is synonymous with the developmental state approach.

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GLOSSARY

ACA	-	Anti Corruption Agency
CPI	-	Consumer Price Index
GDP	-	Growth Domestic Product
IUM	-	International Islamic University Malaysia
IMF	-	International Monetary Fund
MBS	-	Malayan Building Society
MHLG	-	Ministry of Housing and Local Government
NHD	-	National Housing Department
NDP	-	National Development Plan
NEAC	-	National Economic Action Council
NEP	-	New Economic Policy
NICs	-	Newly Industrialised Countries
ORS	-	Open Registration System
PHP	-	People Housing Programme
PLCHP	-	Public Low Cost Housing Programme
RM	-	Ringgit Malaysia
SAPs	-	Structural Adjustment Programmes
SEDC	-	State Economic Development Corporation
SHPB	-	Selangor Housing and Property Board
SHP	-	Structure of Housing Provision
SLMO	-	State Land and Mines Office
SSDC	-	Selangor State Development Corporation
TCPI	-	Transparency International's Corruption Index
UK	-	United Kingdom
UN	-	United Nations
UNCHS	-	United Nations Centre for Human Settlements
USA	-	United State of America

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CHAPTER 1:
INTRODUCTION

CHAPTER 1:

INTRODUCTION

1.1 INTRODUCTION

The purpose of this chapter is to set the scene for the whole study and briefly outline the structure of the thesis, which is divided into eight sections and includes the background to the research, the research problem, research aim and objectives and the key research questions. Meanwhile other sections focus on explaining the significance of the research, the theoretical and research framework and the research process.

1.2 BACKGROUND TO THE RESEARCH

The neo-liberal transformation started in many countries in the 1980s and has been propagated by international agencies, particularly the International Monetary Fund (IMF) and the World Bank (see Zanetta, 2004; Davis, 2006; Jenkins et al., 2007). In developing countries, the transformation was achieved through Structural Adjustment Programmes (SAPs) to address debt issues and economic growth (Zanetta, 2004, p.3) .The neo-liberalist development policies accomplished through SAPs offered market oriented development strategies, minimal roles for the state, the promotion of 'free' trade, financial discipline, the seeking of comparative advantage, and targeted prosperity through economic growth (Jenkins et al., 2007, p.45). Clearly the most prominent features of neo-liberal thinking are its emphasis on maximising the role of the market and minimising the interventionist role of the state (see Moody, 1997; Brenner and Theodore, 2003). The neo-liberal ideology requires the replacement of

interventionism by more non-interventionist states, and encourages the expansion of market forces by undertaking various market-friendly policies (Watton and Seddon, 1994, p.335). Malaysia is one of the East Asian developing countries that accepted World Bank structural adjustment packages and began economic liberalisation in 1986 (see Horton et al., 1994; Jomo, 1999).

However, in the context of East Asian developing countries including Malaysia, during the post-independence period there emerged a form of developmental state which adopted various state-centred, interventionist development plans and programmes to reduce foreign ownership, enhance economic self-reliance, redistribute income, develop infrastructure, and promote the overall living standards of the people (see Wise, 1990; Haque, 1999). Remarkably, the ideological shift towards more market oriented policies advanced by capitalist countries such as the United Kingdom and United States of America put pressure on many East Asian countries to abandon the developmental state approach and adopt neo-liberal reform (Haque, 1999, p.198).

Therefore, since the early 1980s the statist development programmes have increasingly been replaced by market oriented policies through privatisation, deregulation and liberalisation under neo-liberal regimes. The neo-liberal advocates not only wish to revive market forces, but also at the same time dismantle the basic economic and welfare rights of the citizen such as education, economy security and health provision (King 1987, p. 3). The role of the market and non-governmental organisations has been extended and increasingly governments are relying on the market to provide public housing (World Bank 1993). Governments were advised to abandon their earlier role as producers of housing and to adopt an enabling role of managing the housing sector as a whole. During the Asian Financial Crisis of 1997-1998, the IMF renewed its commitment to imposed neo-liberal reform in the East Asian countries affected by the crisis, particularly those seeking financial aid to rescue their crumbling economies (Robison and Hewison, 2005, p. 184).

This ideological shift from a state-centred to a market-driven perspective has had a significant impact on the role of the state and market in housing provision in many East Asian countries. However, the outcome of neo-liberal reform in the housing sector is still uneven between countries in the region. Studies on the role of the state and market with regard to housing provision in a few East Asian countries show mixed results (Zhang and Sheng, 2002, p.2). China, Thailand and Taiwan

demonstrate the increasing role of the market. Meanwhile, Malaysia is an exception to the broad-based trend of market-orientated reform, since there is a strong reluctance to relax state control and promote market mechanisms. The state still maintains its tradition of strong intervention in housing and even restricts the distribution of low income housing developed by the private sector.

Thus, a research on the role of the state and the market in housing provision in Malaysia can provide a useful contribution to the literature on why some East Asian countries are still reluctant to adopt neo-liberal housing policies. This research will focus on the role of the state and the market in low cost housing provision in Malaysia in the context of political economy changes over the last 30 years under global neo-liberal economic regimes. Low cost housing in the context of Malaysia refers to houses with a sale price of less than RM42,000 per unit, targeted at households with an income not exceeding RM1,500 per month (MHLG 2002). Further explanation on definition of low cost housing will be given in Chapter 5 of this thesis. Although the provision of low cost housing in Malaysia has been widely studied by local and international scholars, but mostly emphasises the role of the state and the market at the production stage (see Drakakis-Smith, 1981; World Bank, 1993; Mayo and Malpezzi, 1997; Agus, 2002; Agus et al., 2003). There is still a lack of studies focussing on the role of the state and the market at the consumption/allocation process. Thus, this study will examine the role of the state and market in low cost housing provision in Malaysia, with emphasis on the consumption/allocation process.

1.3 RESEARCH PROBLEM

In 2001, 924 million people or 31.6 percent of the world's urban population lived in slums; the majority were in developing regions and 60 percent of the world's total slum dwellers lived in Asia (UNCHS 2003, p.1). The United Nations (UN) also make the point that the main single cause of increases in poverty and inequality during the 1980s and 1990s was mainly due to the retreat of the state, largely caused by globalization instituted under neo-liberalism (UNCHS 2003, p.43). Similarly, in the context of Malaysia, although the market has been actively involved in low cost housing provision since early 1980s, it has still failed to solve the problem of illegal squatters.

A study by Ministry of Housing and Local Government (MHLG) in 1999 identified that a total of 571,261 people or 3 percent of the country's population live in squatter settlements (MHLG 1999). Thus, this indicates that the market has failed to address the squatter problem in Malaysia with minimum state intervention after economic liberalisation in 1986. The underlying problem is actually not caused by an inadequate stock of low cost housing built by both the private and public sectors, but has largely been brought about by an inefficient and corrupt housing allocation system (see Agus 1986; 1992, 2002; National Housing Department 1997). The low cost houses for sale were usually allocated to ineligible buyers and people with political connections to the ruling party. Therefore, the deserving poor people were left with no choice but to live in squatter settlements.

State intervention in low cost housing allocation was politically important to achieve the national development agenda, particularly since the introduction of the New Economic Policy (NEP) in 1971. Low cost housing provision was one of the strategies for poverty alleviation and the restructuring of society. However, corruption among the bureaucrats and misuse of power by many politicians during the mid 1980s and early 1990s again denied the opportunity to allow the actual target group access to low cost housing (Agus 1986, p.2). Similarly the issue of low cost housing allocation in Malaysia is also highlighted by Zhang and Sheng (2002):

"...housing in Malaysia serves as part of the government's political strategy. By applying rules based on racial preference, it gives Malays an incentive to migrate from rural to urban areas. Concretely, housing allocation favours the Malays over the non-Malay population; Malays enjoy special privileges in gaining access to housing. Political attitudes, but also the fact of being associated with the ruling party, are also taken into consideration for housing allocation. The procedures strongly favour supporters of the ruling party. These practices contrast starkly with the modern trends in many other countries where state intervention is meant to reduce racial and political discrimination..." (Zhang and Sheng 2002, p. 4).

The practice of low cost housing allocation in Malaysia is clearly different compared to other countries in the region. With more than 80 percent of low cost housing in Malaysia was built by the private sector for home ownership. Thus, it is crucial for the government to ensure only eligible people eventually buy and live in low cost housing. The Federal government of Malaysia realised the production of low cost houses alone could not solve the problem of the squatter; it was necessary to find ways to ensure only targeted people could buy low cost houses. Thus, the issue of

low cost housing provision in Malaysia no longer concerns housing production, but rather consumption/allocation. Hence, it is important for the government to improve access to low cost housing, not only for slums dwellers but also for people receiving a low income in general. In order to address the issue, in 1997 the Federal Government under the Ministry of Housing and Local Government Malaysia (MHLG) introduced the Open Registration System (ORS) for low cost house buyers in Malaysia. Therefore, the ORS implementation was chosen as the case study to analyse the role of the state and market in low cost housing provision in Malaysia, particularly at the consumption/allocation stage.

1.4 RESEARCH AIM AND OBJECTIVES

The study aim is to examine the role of the state and market in low cost housing allocation in Malaysia in the context of the global trend towards neo-liberalism.

The specific objectives of the study are as follows:

- i) To identify the changing role of the state in housing provision from Western and East Asian perspectives.
- ii) To establish a housing system for Malaysia using the Structure of Housing Provision (SHP) approach.
- iii) To analyse the role of the state and market in low income housing allocation in the context of the Open Registration System (ORS) for low cost house buyers.
- iv) To identify the relationship between the key players involved in low cost housing allocation.
- v) To determine the current and future direction of Malaysian low cost housing provision model.

1.5 KEY RESEARCH QUESTIONS

Exploratory and Descriptive Questions

- i) Who are key players in low cost housing production and allocation in Malaysia?
- ii) What is the nature of the Malaysian low cost housing allocation system in terms of policy, institutional set-up and legislation?
- iii) What is the view of the state and non-state players involved in low cost housing allocation?
- iv) What is the current trend and future direction of low cost housing provision in Malaysia in the context of the global shift towards neo-liberalism?

Interpretive and Explanatory Questions

- i) Why does the state intervene in low cost housing allocation?
- ii) How does the government intervene in low cost housing allocation in the market?

1.6 SIGNIFICANCE OF THE RESEARCH

There are four significant elements to the research. Firstly, the study is important to gaining an understanding of the role of the state and market in housing provision in Malaysia and low cost housing in particular. While many East Asian countries demonstrate the increasing role of the market in housing provision, most available literature points to the opposite conclusion in the case of Malaysia. Furthermore, there are a limited number of studies which focus on low cost housing provision in Malaysia in order to address the issues related to the role of the state and the market in the context of political economy changes.

Secondly, the study of low cost housing provision in Malaysia also highlights the importance of the market's role in housing production. More than 70 percent of low cost houses in Malaysia have been built by the private sector since the 1990s. Despite various rules and regulations introduced by the government to control the private sector housing production, they still managed to deliver low cost housing. Interestingly, no financial subsidy was given to the private sector to build low cost houses, yet the government still control the allocation of the houses.

Thirdly, overall more than 80 percent of the low cost houses in Malaysia were built for homeownership, with a small number of public rental low cost houses available to the low income people. Meanwhile, all the low cost houses built by private housing developers are intended for home ownership. Therefore state intervention in low cost housing buyer registration and allocation is crucial to ensure only eligible buyers can access and eventually buy the houses. It is common in Western welfare state countries for the state to control the access of people earning a low income to public rented social housing, but this does not often apply to home ownership. Thus, the situation in Malaysia is unique in the sense that similar control is aimed towards low cost houses for sale, especially those built by private developers.

Finally, the role of the state and market in low cost housing allocation in Malaysia provides an interesting case study on how a developing East Asian country can address corruption issues and political interference in low cost housing distribution. In developing countries, the corruption in low cost housing allocation means that many houses are bought by undeserving buyers (UN-Habitat, 2003). Therefore, many of these countries cannot solve the problem of squatters and housing problems in general. Improvement of the housing consumption process should be emphasised by the governments of developing countries in order to ensure the targeted group will gain the opportunity to buy houses.

1.7 THEORETICAL AND RESEARCH FRAMEWORK

In terms of a theoretical framework, the study uses the role of state theory in development, specifically the Neo-liberalism and Developmental State perspective. Most literature on the role of the state in East Asia focuses on a shift in the political economy towards neo-liberal state, particularly since the 1980s. This research will

analyse the impact of neo-liberal reform and the globalization process on housing provision in Malaysia. Malaysia, like most East Asian countries prior to the crisis, embraced the developmental state path in most sectors. The study will analyse how these two development perspectives influence the outcome of low cost housing provision in Malaysia.

Meanwhile, the Structure of Housing Provision (SHP) thesis is used as the research framework for this study. SHP has been developed and defended by Ball and Harloe since the mid 1980s as a tool for the explanation and comparison of housing systems (Lawson, 2006, p. 27). Ball (1986, p. 147) defines housing provision as “a physical process of creating and transferring a dwelling to its occupiers, its subsequent use and physical reproduction and, at the same time, a social process dominated by the economic interest involved”. What determines the nature of a structure of housing provision, according to Ball, is how the various social players intervene in the physical process of provision. A social relationship is part of a structure of provision if it is a component of the physical process of production, allocation, consumption and reproduction of housing. Discussion of the role of the state enables a general point to be made about political intervention into housing provision.

However, the framework developed by Ball is subject to much criticism, particularly by Kemeny (1987), who argues SHP is under-theorised and deliberately attempts to avoid issues of tenure and state consumption subsidies. He adds that neglecting such issues makes the analysis one-sided and incomplete for the purpose of understanding the housing issue. Although the SHP is an extremely valuable pedagogical device to redress an imbalance which has undoubtedly existed between production and consumption issues, Kemeny considers that it has gone too far in the opposite direction.

Ball and Harloe (1992) later responded to criticisms of SHP by Kemeny. They explain that SHP is not a theory, but rather a meta-theoretical concept or analytical framework that may be used in combination with other theories in the examination of particular aspects of housing development. Thus, SHP is theoretical in nature and encompasses the principal features observed into a relatively simple organising framework. In order to be useful, it must be combined with wider social theories, methodologies and empirical investigation and, where necessary, statistical analysis. Most importantly, according Ball and Harloe (1992 p.2), SHP can accurately summarise the main forms of housing provision in countries at particular points in time. However, Ball tends to

downplay the role of the state, emphasises the economic relationships of production and assumes that the state plays an integral role in regulating such economic relationships (Lawson, 2006, p.27).

Despite the criticism of the SHP framework by many scholars, it still provides a useful understanding of the housing system in a particular country. Therefore, this research will use the SHP framework only to determine changes in the structure of housing provision and understand the relationship between the key players in low cost housing provision. The key players in the context of this research are the state (Federal and State government) and non-state players (private housing developers and low cost house buyers).

1.8 RESEARCH METHODOLOGY

The research methodology of this study is shown in Figure 1.1. Based on the research questions outlined earlier, the literature reviews the changing role of the state in housing provision in Western countries, East Asia and Malaysia. This is followed by details of empirical data and secondary data collection in Malaysia from March to May 2008. The analysis of the interviews was conducted using NVivo software version 8. Subsequently, the connections between the empirical and secondary data and the research questions were identified. Finally, the summary and recommendations for future research appear at the end of the thesis. The key period for the analysis in this research is from 1997 to 2008. Further explanation of the research methodology will be outlined in Chapter 3 of this thesis.

1.9 STRUCTURE OF THE THESIS

This thesis is divided into eight chapters covering specific subjects, as follows:

Chapter 1: Introduction

Briefly introduces the reader to the rest of the thesis. This includes an outline of the research aim and objectives, research questions and the significance of the research.

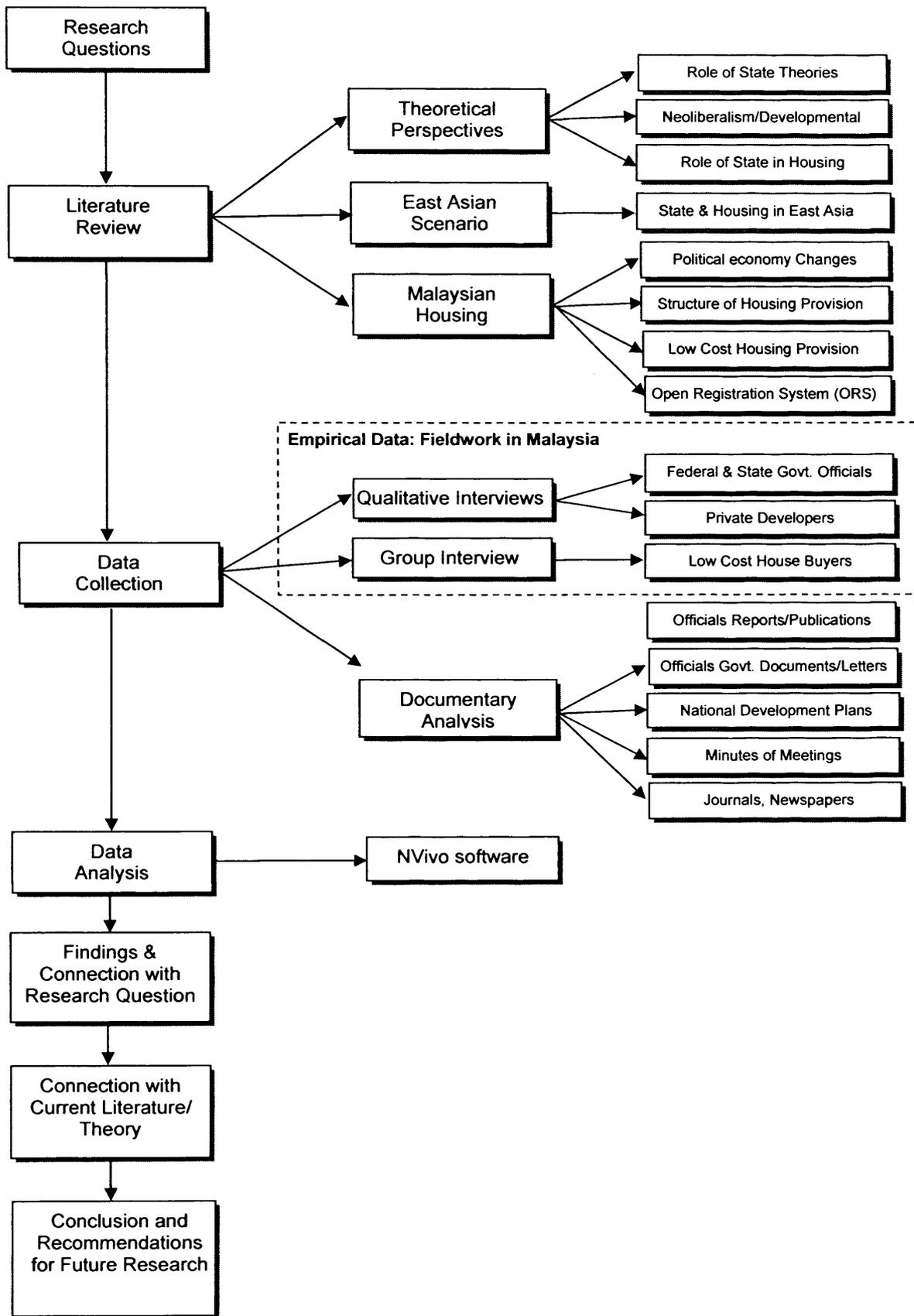


Figure 1.1: Research Methodology

Chapter 2: Literature Review

The chapter focuses on the theoretical context of the changing role of the state from a political economy perspective, focusing on housing provision in particular. This theoretical study is critical to providing a framework to evaluate the performance of the role of state and market in low cost housing provision in Malaysia.

Chapter 3: Research Methodology

This chapter deals with methodological issues. Attention is devoted to a discussion of qualitative research design, justification of the type of methods used in data collection, how these were applied, the problems encountered and how these were resolved. Ethical and validity issues are also discussed in this chapter. See Figure 1.1 for an overview.

Chapter 4: Housing Provision in Malaysia

This chapter focuses on housing provision in Malaysia which includes an analysis of the context of the structure of housing provision. In addition, the chapter also includes an analysis of the changes in Malaysia's political economy and their influence on housing provision in general.

Chapter 5: Low Cost Housing Provision in Malaysia

The chapter focuses on the changing role of the state and market in low cost housing provision in Malaysia. This includes a definition of low cost housing in the Malaysian context and an analysis of the changing role of the state in the implementation of low cost housing policy and programmes as the framework for analysis in the next chapter.

Chapter 6: Case Study: ORS at the Federal Level

In this chapter, a case study based on the Open Registration System (ORS) for low cost house buyers will be discussed in detail. The analysis will be based on empirical evidence and secondary data collected during the fieldwork. The role of the federal government in low cost housing allocation and the need for ORS is the main focus of this chapter.

Chapter 7: Case Study: ORS Implementation in the State of Selangor

The analysis in this chapter is based on the operations and implementation of ORS in the state of Selangor. A private low cost housing development was also selected for detailed study and to gather feedback from the key players involved in low cost housing allocation. The empirical and secondary data collected will be used to analyse the role and relationship between key players involved in low cost housing allocation in the state of Selangor. The perception of the current practice of low cost housing allocation from the viewpoint of key players, particularly the state government, private housing developers and low cost house buyers, will also be examined in this chapter.

Chapter 8: Conclusion

This chapter comprises the discussion and synthesis. The idea is to work towards an interpretation and explanation predicated on delineating matters arising from both the literature and empirical components of the thesis. The theoretical implication is also discussed in order to locate the research findings in the context of the literature. Suggestions for further research are also included in this chapter.

CHAPTER 2:
LITERATURE REVIEW

CHAPTER 2:

LITERATURE REVIEW

2.1 INTRODUCTION

This chapter reviews existing literature which addresses the changing role of the state in terms of political economy and housing provision, from the perspectives of Western and East Asian countries in particular. The literature review also focuses on the changes in the global political economy under neo-liberalism and globalization over the last three decades. Neo-liberal transformation has changed the role of the state in many countries and has impacted upon housing provision since the 1980s. However, the impact of the neo-liberal policy agenda remains uneven between countries and regions. There are continuous debates on the adoption and rejection of neo-liberal policies, particularly in East Asian countries.

This chapter is divided into five sections which discuss literature on the role of the state, the changing role of the state in East Asia, welfare state regimes and housing provision, the changing role of the state in housing provision and housing commodification-decommodification debates.

2.2 THE CHANGING ROLE OF STATE DISCOURSE

Over the last two decades, neo-liberalism has dominated policy discourse, policy formulation and policy implementation in many countries (Forrest and Hirayama, 2009, p.1). In many parts of the world, neo-liberal transformation is also seen as a symbol of modernisation (Forrest, 2008, p. 178). This section will focus on a discussion related to

the rise of neo-liberalism, globalization and the changing role of the state from the perspectives of Western and East Asian countries.

2.2.1 *The Rise of Neo-liberalism*

Historically, the idea of neo-liberalism was introduced by a small and exclusive group of people, mainly academic economists, historians and philosophers, together with renowned Austrian political philosopher Friedrich von Hayek, who created the Mont Pelerin Society in 1947 (Harvey, 2005, p.20). Other notables in the society included Ludvig von Mises, Milton Friedman and Karl Popper. The group's members depicted themselves as 'liberals' because of their fundamental commitment to ideals of personal freedom. They also supported Adam Smith's view that the hidden hand of the market was the best device for achieving human desire for wealth and power for the benefit of all (see Brenner and Theodore, 2002; Harvey, 2005).

Various interpretations of neo-liberalism have been put forward, particularly by political and economic scholars. Typically, the interpretations were based on two perspectives. The first perspective viewed neo-liberalism as related to the rise of wealthy individuals and multinational corporations (see Moody, 1997; Harvey, 2005; Craig and Porter, 2006). Harvey (2004, p. 19) describes neo-liberalism as "...a utopian project to realize a theoretical design for the reorganization of international capitalism or as a political project to re-establish the conditions for capital accumulation and to restore the power of economic elite". A similar argument is also raised by Craig and Porter (2006, p. 2) which states "...neo-liberalism changed how the command over resource accumulation and use shifted away from the cabinet of independent nations, and out into the trading and boardroom of financial corporations". In other words, some of the largest corporations nowadays have more power and influence than politicians in some countries. Generally, the neo-liberal policy agenda will help wealthy individuals and large corporations to do business across the world. The increase in the power of corporations is also related to the decline of the trade unions which posed a huge problem in the past (Moody, 1997, p.119).

Meanwhile, the second perspective viewed neo-liberalism in the context of the declining role of the state or 'retreat of the state' (see United Nations, 2003; Brenner and Theodore, 2002; Peck and Tickell, 2002; Sorensen, 2006). Retreat of the state scholars see the market as much stronger and the state correspondingly weaker and

argue that the changes taking place pose a serious threat to the power and autonomy of the state (Sorensen, 2006). The adoption of the neo-liberalism policy also meant "...the reduction of all forms of government spending and regulations, particularly those that might inhibit people being active in the market" (United Nations, 2003, p. 43). Meanwhile, Brenner and Theodore (2002, p. 2) describe the neo-liberalism ideology as a "...belief that open, competitive and unregulated markets, liberated from all forms of state interference, represent the optimal mechanism for economic development". Most importantly, neo-liberal ideology not only transformed the political and economic landscape, but also every aspect of people's lives in any country touched by it. As explained by Moody (1997, p. 119):

"...neo-liberalism aspires to create a 'utopia' of free market liberated from all forms of state interference, it has in practice entailed a dramatic intensification of coercive, disciplinary forms of state intervention in order to impose market rule upon all aspects of social life."

The neo-liberal doctrine also deeply opposed state interventionist theories propagated by John Maynard Keynes or centralised state planning in the Marxist tradition (Harvey, 2005, p. 20). The proponents of neo-liberalism also believed state decisions were bound to be politically biased, depending upon the strength of the interest groups involved such as unions, environmentalist or trade lobbies. Similarly, state decisions on matters such as investment and capital accumulation were bound to be wrong because the information available to the state could not rival that contained in the market (Harvey, 2005, p. 20). Thus, the second perspective is more relevant in the context of this thesis and will be discussed further.

Brenner and Theodore (2002 p.16) explain the basic elements in terms of destructive and creative moments of institutional change within actually existing neo-liberalism. The basic elements are: wage relations, forms of intercapitalist competition, forms of financial and monetary regulation, the state and other forms of governance, international configurations and uneven spatial development. However, only two elements will be highlighted here, namely forms of financial and monetary regulation and the state and other forms of governance (see Table 2.1). In terms of financial and monetary regulation, the state began dismantling the regulatory framework and allowed the market to dictate the global financial system. International financial liberalisation allowed financing for housing development and house buying to be easier to access than before. Meanwhile, in terms of governance, the state began to abandon

its traditional role and rely on the market to provide good and services to the public. The strategies include privatisation of public utilities and services to the private sector.

Table 2.1: Destructive and Creative Moments of Actually Existing Neo-liberalism

Site of Regulation	Moment of Destruction	Moment of Creation
1. Financial and Monetary Regulation	<ul style="list-style-type: none"> • Dismantling of Bretton Woods global monetary system and deregulation of money markets • Erosion of national states' capacity to control exchange rates • Dismantling of regulatory constraints impeding monetary and financial speculation in global markets • Separation of financial and credit flows from productive sources of investment 	<ul style="list-style-type: none"> • Creation of speculation-driven currency markets and "stateless monies" outside national regulatory control • Expanded role of global regulatory bodies (such as the Bank for International Settlements) in the monitoring of global financial transactions • Creation of offshore financial centres, international banking facilities, and tax havens
2. The State and Other Forms of Governance	<ul style="list-style-type: none"> • Abandonment of Keynesian forms of demand-management • Dismantling of traditional national relays of welfare service provision • "Hollowing out" of national state capacities to regulate money, trade, and investment flows • De-centring of traditional hierarchical bureaucratic forms of government control • Dismantling of traditional relays of democratic control at national and sub-national levels • Strategies to "hollow out" the auto-centric national economy as a target of state intervention • Erosion of traditional managerial-redistributive functions of national and sub-national administrative agencies • Imposition of fiscal austerity measures aimed at reducing public expenditure • Shrinking of public sector employment 	<ul style="list-style-type: none"> • "Rolling forward" of supply-side and monetarist programmes of state intervention • Devolution of social welfare functions to lower levels of government, the social economy and households • Mobilisation of strategies to promote territorial competitiveness, technological innovation, and internationalisation • Establishment of public-private partnerships and "networked" forms of governance • Creation of "new authoritarian" state apparatuses and "quangos" that are insulated from public accountability and popular-democratic control • Rescaling of state economic intervention to privilege strategic supra-national and sub-national spaces of accumulation • Underwriting the costs of private investment through state subsidies • Transfer of erstwhile forms of public employment to private sector through privatisation

Source: Adopted from Brenner and Theodore, 2002, pp.17-19

The neo-liberal policy agenda only began its dominance in the early 1980s, particularly during the British Prime Minister, Margaret Thatcher's, administration in the United Kingdom and President Ronald Reagan's administration in the United States (Harvey 2004, p. 22). Harvey explained that, as a result of the perceived failure of embedded liberalism during the 1970s, most capitalists would choose to move towards neo-liberalism rather than deepening state control and regulation of the economy through corporatist strategies. The neo-liberal policy agenda later spread to many other Western countries during the 1990s.

In developing countries, neo-liberal reform was enforced under Structural Adjustment Programs (SAPs) for countries that were gripped by the debt from the World Bank or International Monetary Fund (IMF) during the 1970s and 1980s (see Zanetta, 2004; Davis, 2006; Jenkins et al., 2007). SAPs were implemented to adjust 'malfunctioning' economies to become viable components in the global economic system (Jenkins et al., 2007, p.45). In order to achieve that, the World Bank and IMF imposed market oriented development strategies, minimal roles for the state, the promotion of free trade, financial discipline, the seeking of comparative advantage and targeted prosperity through economic growth in line with a neo-liberal agenda.

The IMF also played a key role in ensuring the East Asian countries affected by the Asian Financial Crisis 1997-1998 followed a neo-liberal path. The neo-liberal reform was particularly imposed on those countries seeking financial aid from the IMF during the crisis, especially Indonesia, Thailand and South Korea. Meanwhile, other East Asian countries such as Malaysia, Singapore and Taiwan which did not seek financial aid from the IMF were still subject to constant pressure from international agencies to embark on neo-liberal reform.

In the former socialist countries of the Soviet Union, Eastern Europe and China the neo-liberal transformation began in the early 1990s (Payne and Grover, 2004). Following the collapse of the Berlin Wall in 1989, most socialist countries started economic reform towards building a market economy with the retreat of the state in many areas of social service provision. Thus, during the 1980s and 1990s the global political economy trend was clearly transformed towards a market economy along a neo-liberal path.

However, over the last ten years there has been growing criticism of neo-liberalism and free market capitalism. Some of the United Nations (UN) agencies began to blame neo-liberal policy as the main single reason for increases in poverty and inequality during the 1980s and 1990s (UN-Habitat, 2003, p.43). The UN-Habitat also described "...the redirection of income through progressive taxation and society safety nets severely threatened by the ascendancy of neo-liberal economic doctrines that explicitly demanded an increase in equality."

Meanwhile, in many developing countries, neo-liberal reform through SAPs seemed limited in term of scope and imagination (Craig and Porter, 2006, p.2). Craig and Porter explain the loan used to finance privatisation had a perverse outcome and

radical downsizing of the state had failed to produce a more efficient or effective set of institutions that could support market growth. Therefore, they argued that an unregulated global market caused enormous disruption to both rich and poor societies. Imposition of policies suitable for developed countries does not work well in developing countries. Experiences in many developed countries show the end of state monopolies in many areas has resulted in greater competition, lower prices and a wider choice for the consumer, but in developing countries the retreat of the state in social areas such as healthcare, housing and education has been detrimental. Neo-liberal policy and implementation strategies clearly failed to help the poor in these developing countries. Therefore, the governments of developing countries began to question the legitimacy of the neo-liberal policy agenda (Beeson and Islam, 2005, p.198).

There are also continuous debates among scholars about the neo-liberalism policy agenda. They highlight several factors and events which have combined to force a rethink of the original tenets of neo-liberalism (Beeson & Islam, 2005 p.198). This includes perceived mishandling of the East Asian crisis by Bretton Woods Institutions, the termination of the long economic boom of the 1990s in the United States, a series of corporate scandals that has tarnished the image of American capitalism, the tragedy of 'fast-tracking' capitalism in Eastern Europe and the ex-Soviet Union and the failure of a neo-liberal experiment in Latin America; finally, inequality and poverty have all turned out to be influential in restraining the rise of neo-liberalism. Despite all the criticism, neo-liberalism continues to dominate the global political and economic landscape.

2.2.2 Role of the State and Market Debates

Max Weber defined the 'state' as "...a human community that successfully claims the monopoly of the legitimate use of physical force within a given territory" (cited in Sorensen, 2004, p.14). Similarly, Sorensen (2004, p.15) described the state as "...a sovereign entity with a defined territory, a population and a government. The government acts on behalf of the population, no sharp distinction is made between the state as a government and the state as a territorial unit with population and resources." Thus, the state is more than just a physical boundary; it is also a legitimate entity to control the people.

Meanwhile, the meaning of 'market' is similar to those of the private sector or commercial organisations (Alcock, 1996, p. 60). Like most commercial organisations, the expectation of profit is the motivating factor for its establishment and the owners or shareholders will benefit from the project. A market generally has several distinct characteristics (see Barlow and Duncan, 1994, p. 8). Firstly, it transmits information through the signals of costs and profit rates about economic conditions, market trends and future demand. Producers and consumers can then act appropriately and make plans for the future. Secondly, it sets incentives in terms of profit and loss so the economic agents can respond to these signals quickly and efficiently. Thirdly, market behaviour will mean organising production processes to achieve the best productivity rates possible. Fourthly, economic control and coordination will be decentralised and concentration of economy i.e. power will be minimal. Finally, goods and services are efficiently transferred from the producers to consumers. Markets can do well in the right circumstances and the advantage of the market over state planning is maximising allocation efficiency while minimising the cost of microeconomic coordination (Barlow and Duncan, 1994, p. 8).

The question regarding the respective roles of state and the market in the development process has been debated continuously since the end of the 1940s (Martinussen, 1996, p.257). There are great variations in how different countries, during different periods of time, have arranged interactions between the state and the market. During the 1980s, the neo-classical economists recommended that the economic role of the state should be minimised or the state should be subject to the price mechanism in a competitive market to decide what should be produced and in what quantities. The overriding consideration was to set the right prices, because the market would then take care of the dynamics, the growth and the structural transformation of the backward economies (Martinussen, 1996, p. 263).

In contrast to neo-liberal assumptions that 'more market mean less state', market economisation produces an enormous demand for legal regulation of money exchanges which increases state intervention, particularly with respect to regulations (Sorensen, 2004, p. 33). According to Angel (2006 p.13) "... a real economy cannot function without state intervention or without markets". Therefore there has to be some state intervention in the economy. The key argument advanced by the neo-liberalists was that the role of the state is to create an enabling environment for the market to work by relinquishing control over the economy (Angel 2006, p.14).

State intervention in the market should be allowed in certain circumstances. Martinussen (1996 p.258) outlines five situations in which the state should intervene in the market. The first is the procurement of general judicial and institutional preconditions for the production and exchange of commodities and services, including a legal framework for enforcing property rights and contracts. The second is in terms of macro economy policies such as fiscal, income, and exchange rate policies. The third is procurement of material infrastructure, including roads and railways and provision of public services in areas like education and health. The fourth is operational control over private sector companies and, finally, the last is the state's direct participation in the production of goods and services.

Similarly, Alcock (1996 p. 63) describes that in order for markets to function freely there must be laws concerning property ownership and contract rights, and these need to be enforced independently through the state. There are many state activities and services which operate in effect to support, rather than to undermine, the operation of a modern market economy as state provision, for instance education and healthcare, meets the long term strategic goals. Whereas state protection, for instance for the unemployed or chronically sick, ensures that individuals do not suffer unduly where the market fails or is unable to reach those goals. State intervention is needed to prevent potential social problems and to protect all citizens from monopolies or cartels developing that would subvert the natural self-regulation of the market's operation. In many areas where markets do operate, consumers are clearly unable to make informed choices about how best their needs might be met. Finally, free choice in the market will be constrained by consumer immobility and consumer poverty. Hence, the free and unregulated market to which Hayek and Friedman aspire does not actually exist in practice in modern capitalist states (Alcock, 1996, p.65). Therefore, in an unequal society, a pure market system will inevitably fail to meet the service demands of the poor people.

2.2.3 *Impact of Globalization and the Changing Role of the State and Market*

Another important aspect which influenced the changes in the role of the state during the 1980s and 1990s was globalization. Much of the economic and political environment within which globalization has accelerated since the 1980s was instituted under neo-liberalism (UN-Habitat, 2003, p.6). Globalization is defined as "...an increasing and intensified flow between countries of goods, services, capital, ideas,

information, and people, which produce national cross border integration of a number of economic, social and cultural activities” (UN, 2001, p.8). Similarly Friedman (2000, p.9) refers to globalization as an:

“... inexorable integration of markets, nation states and technologies to a degree never witnessed before in a way that is enabling individuals, corporations and nation-states to reach around the world farther, deeper and cheaper than ever before.”

A more recent interpretation by Sorensen (2006, p. 23) described “globalization, in the broadest sense, the expansion and intensification of economic, political, social and cultural relations across borders.” However the most important aspect of globalization was economic integration in the financial sector (UN, 2001). Cross border financing in the property sector enables more people to buy houses since they are no longer limited to certain geographic regions. Thus, globalization in the broader sense could change people’s way of life and the role of the state in the future.

Recent debates among political economy scholars have largely been devoted to the theme of globalization and its impact on the role of state. One of the key issues discussed was whether globalization weakened the role of the state and eventually led to the end of state sovereignty (UN, 2001, p.29). However, many scholars believed the state did not actually lose sovereignty, but remained as a key player in the process of globalization (see Kapstein, 1994; UN, 2001; Lister and Marsh, 2006; Sorensen, 2004 & 2006). According to the UN (2001), the state is still important in the domestic as well as in international arenas. In international arenas, close cooperation and concerted action among states represent an exercise of state sovereignty and in domestic arenas the state assumes a great number of functions which cannot be performed by any other actor. States still need to intervene and create a regulatory framework which makes the whole process possible (Sorensen, 2004, p. 5).

Similarly, other economic actors also look to the state in order to gain market access and to ‘level the playing field’ of international competition’ (Kapstein, 1994, p. 6). In order to achieve that, states enforce rules and supervise the players in the marketplace and they intervene in order to achieve order and stability. Globalization also requires the state to improve its capacity and governance. In order to improve state capacity and governance, reform under the New Public Administration was introduced by the IMF and World Bank during the 1980s (UN, 2001, p.32). These reforms seek to reduce the role of the state in production, as well as in service delivery

and to encourage deregulation of public enterprises. The need to enhance efficiency in the public sector and to cut costs was accompanied by a series of measures including privatisation, deregulation, and the introduction of a market-like mechanism in the public sector. In reality, the state and markets have actually been transformed under conditions of economic globalization (Sorensen, 2006, p.6). The role of the state changed since it operated under different circumstances than before and later developed new ways of regulating the market. The state was also increasingly influenced by events and decisions made beyond their territorial reach. The result was an increasing demand for political cooperation across borders through interstate, trans-governmental and transnational relations.

2.3 THE CHANGING ROLE OF THE STATE IN EAST ASIA

Debates on the changing role of the state in East Asia focus mainly on Japan and other nations belonging to the first generation of New Industrializing Countries (NICs) such as Hong Kong, Singapore, Taiwan and South Korea. However, there is still a lack of literature on the changing role of the state in the so-called 'Asian Four' or the second generation of NICs, namely Malaysia, Thailand, Indonesia and the Philippines, which are more typical of developing countries (World Bank, 1993, p. 2). East Asian countries have generally experienced long term political and economic stability, and they have constituted a self-reinforcing regional market (Jenkins et al., 2007, p. 292). Prior to the Asian Financial Crisis of 1997-1998, East Asia was one of the most successful developing regions in the world (World Bank, 1993; Richter, 2000).

According to Boyd and Ngo (2005 p. 5), East Asian NICs' successful pursuit of the goal of economic development over the post Second World War period owed much to the strong role played by the state. This form of development guided by the state was characterised as 'Developmental Capitalism'. Meanwhile, Wade (1990) earlier referred to this picture of a centralised state interacting with the private sector from a position of pre-eminence so as to secure development objectives as the 'Developmental State'. This section will discuss the changing role of the state in East Asian countries in the context of developmental state debates and the pressure for neo-liberal reform over the last 20 years.

2.3.1 East Asian Developmental State

The success of East Asian countries during the early 1990s, particularly Japan, Hong Kong, Singapore, South Korea and Taiwan, can be largely attributed to developmental states and the governed market according to many scholars (see Johnson, 1982; Wade, 1990; Johnson, 1987, Woo-Cumings, 1999, Kwon, 2005). They concluded the market has not been free in the context of East Asia, but rather controlled and steered in a direction deemed appropriate by the state in order to achieve economic growth. The term developmental state was coined by Chalmers Johnson (1982) based on his observation of the economic planning bureaucracy model in Japan during the early 1980s. The developmental state, as described by Boyd and Ngo (2005, p.3), "...hinges upon the claim the plan-rational state can engineer economic growth". In other words, a state led by technocrats who enjoy a high degree of political economy, insulation from societal demands, and yet who are simultaneously embedded in that society. Meanwhile, Kwon (2005, p. 6) described the developmental state as:-

"...a state that plays a strategic role in economic development with a bureaucracy that is given sufficient scope to take initiatives and operate effectively. Economic development is given priority over other spheres of public policy, and the national economy as a whole has priority over the comparative advantage of particular industries."

The advocates of the developmental state suggest that the state should play an important role in economic development (see Wade, 1990; Low, 2004; Boyd and Ngo, 2005; Groves et al., 2007). They also believe the developmental state is no longer just a theory, but rather part of real world politics in East Asia. Six major components define the developmental state model (Leftwich, 1995, p. 85) including a determined developmental elite, relative autonomy, a powerful, competent and insulated economic bureaucracy, a weak and subordinated civil society, the effective management of non-state economic interests and finally repression, legitimacy and performance. The characteristics of the East Asian developmental state model are summarised in Table 2.2 (Woo-Cumings, 1999). The characteristics are clearly in stark contrast to the neo-liberal idea of the role of the state in terms of finance, business relations and governance.

Table 2.2: Characteristics of the Developmental State Model

Characteristics of the Developmental State	
1. Finance	<ul style="list-style-type: none">• Finance is the tie that binds the state to the industrialists.• Raising and deploying financial resources to create or strengthen state organisation.• The state can exert influence over the economy and investment patterns & guide sectoral mobility.
2. Business Relations	<ul style="list-style-type: none">• Strong relationship between the state and big business.• Creates cronyism.• Intent to hone the competitiveness of national business in the international system.• Ethnic division of labour in managing politics and the economy.
3. Governance	<ul style="list-style-type: none">• “Political Capitalism”, where profits and investment depend on decisions made by the state.• “Developmentism”, a dominant developmental discourse on the necessity of industrialisation and state intervention to promote it.• “Appointive Bureaucracy”, in which most government officers are affected by regime change.• The power of the bureaucrat is highly unstable.

Source: Adopted from Woo-Cumings, 1999, pp. 10-20.

In the context of the role of the state and market debates, developmental state theories “...did not passively support the operation of the ‘invisible hand’ of market forces, but actually guided economic growth, especially through top-down, plan-rational, and industry specific policy” (Jessop, 2005, p. 23). Therefore development state theory is essentially a theory of economic growth or ‘state-led growth’ rather than full reliance on the market (Moon and Prasad, 1994, cited in Boyd and Ngo, 2005, p. 3). The developmental state, according to Jessop (2005), appears more realistic than the neo-liberal approach. At the same time, he added that the developmental state paradigm tends to exaggerate the autonomy of East Asian developmental states because more ‘naïve theorist’ and policy advocates believe that this is what distinguishes them from the more liberal, pluralistic Western political system. Government in East Asia also successfully tapped private sector strengths to their advantage. Therefore, the success of state led development in East Asia was actually seen as a challenge to the neo-liberal approach (Robinson and Hewison, 2005, p.184). Even the World Bank (1993) found it difficult to explain how the success had been achieved in contradiction of basic neo-liberal principles.

Many studies related to the developmental state in East Asia focus on countries like Japan, South Korea, Taiwan, Hong Kong and Singapore (Johnson, 1982; Woo-Cummings, 1999; Kwon, 2005; Boyd and Ngo, 2005). Therefore, some scholars avoided the debates over whether other South-East Asian countries including Malaysia

followed a similar developmental state model to the North-East Asian countries. Pempel (1999, p.160), for example, suggests Singapore, Malaysia, Thailand, Indonesia or even China and North Korea should not be included as 'developmental regimes' due to differences of features compared to the typical developmental states of Japan, South Korea and Taiwan. Meanwhile, Low (2004 p.17) categorises Malaysia, Thailand and Indonesia as being included within the second generation of developmental states and therefore fall into theories of dependencies.

There are eight features of developmental states in East Asia commonly shared by Japan, South Korea and Taiwan, according to Pempel (1999, p.161), which makes them unique from most other regimes. Firstly, all three have "strong states" in which technocrats and bureaucrats enjoy a disproportionately high level of power and wield a variety of tools to enforce their will. State actors are also relatively free from major populist pressures, especially from organised labour and peasants. Secondly, there is no sharp dichotomy between state and society. The presence of semi-permanent socio-economic coalitions closely linked to state institutions makes such a reified bifurcation meaningless. Thirdly, all three underwent land reforms that virtually eliminated large landholders as major elements in the socio-political landscape. With limited natural resources and small land areas, none of the three is a major exporter of agricultural products or natural resources. Fourthly, all have domestic power structures that, for males at least, are open to entry largely on the basis of individual merit rather than descriptive traits such as social class.

Fifthly, the regimes in all three have taken on what Jessop (1983) might call "hegemonic projects" that entail two essential elements: first, the enhancement of their national economic competitiveness through the development of internationally marketable goods, and second, an ideologically and economically rooted opposition to communism, socialism and big states. Sixthly, in conjunction with the project of improved economic competitiveness, all three reject the deified Western concept of "the market", opting instead for active market manipulation, but in ways that are market enhancing rather than market rejecting. Next is the extent to which they have been successful in advancing their overall production, national income per capita, and shares of world trade; all three have also done so relatively free from the compromising effects of international capital penetration. The three regimes have retained highly effective filters over foreign direct investment and foreign capital flows. Finally, all three are exceptionally closely linked, both in economic and security policies, with the United States.

However, the developmental state regime in East Asia was also subject to constant criticism from Western countries and international institutions. During the Asian Financial Crisis of 1997-1998, the World Bank and IMF argued the developmental states which were regarded as the recipes for success in the past could be said to be the ingredients of failure (see Jomo, 1998; Richter, 2000; Robinson et al., 2005). The Asian Financial crisis brought down many so called miracle economies and dealt a fatal blow to claims about the functional superiority of the highly centralised, state led system of 'Asian Capitalism'. The impact of the Asian economic crisis was substantial, since currency plunged, enterprises failed, financial institutions closed, and rapid economic growth turned into recession (Richter, 2000, p.2). This prompted the need for neo-liberal reform in the region propagated by the IMF and the World Bank. In the next part, the discussion focuses on the impact of neo-liberal reform towards the role of the state in East Asia.

2.3.2 *Neo-liberalism and the Changing Role of the State in East Asia*

The economic success of East Asia through the last three decades of the twentieth century was spectacular, with booming growth rates, burgeoning exports and income gains. However a study by the World Bank (1993) suggests the policy approach in East Asia clearly did not 'fit' the neo-liberal development model. The World Bank, in its report, the 'East Asian Miracle' (1993), concluded the governments in East Asia had indeed intervened to foster development. The state role was assessed and justified as only 'market facilitating'.

However, the aftermath of the Asian Financial crisis prompted questioning of the future of the developmental state in theoretical and policy terms (Jessop, 2005; Kitthananan, 2008). Following the crisis convergence theory towards neo-liberalism became an important term in the region (Robinson et al., 2005, Lister and Marsh, 2006). Most East Asian states were urged to eliminate cronyism and embrace the natural efficiency of the market. As Jessop (2005, p. 40) predicted, neo-liberalism would further alter the developmental state in East Asia in the future and thus reject the triumph of the developmental state. Robison and Hewison (2005 p. 184) describe the crisis as an opportunity for neo-liberal policies to be strengthened and many commentators confidently expected a convergence of development models, where economies in which the state played a significant role and where prevailing predatory or corrupt

political arrangements were present would be replaced with free markets, private sector capitalism, enhanced transparency and good governance.

The initial impact of the neo-liberal agenda has been substantial, especially in South Korea, Thailand and Indonesia where the IMF played a central role in defining and implementing reform policies. The crisis and the collapse of a number of East Asian and South East Asian economies was seen by many within the neo-liberal camp as cutting the ground from under their opponents and signifying the superiority of market over state (Robison and Hewison, 2005, p. 188). Thus, since the crisis the developmental state in Asia has been dismantled and replaced by the neo-liberal model with a new democracy, new social movement and civil society (Low, 2004, p.13).

The crisis also represented an important stage in an on-going effort by international financial institutions and Western governments, together with businesses, to change the systems of state-led industry policy and predatory cronyism. As Robinson et al. (2005) describe “for neo-liberal reformers within the World Bank and the IMF, and in the Treasuries and Finance Ministries of the Western governments, the crisis confirmed that the various models of ‘Asian Capitalism’ were in fact outmoded and dysfunctional in an age of global markets”. After the crisis, much more instrumental power lay in the hands of the IMF, which demanded the implementation of reform measures aimed at deregulating markets, privatising state sectors and imposing fiscal austerity (Robinson et al., 2005, p. 173).

However, more than one decade after the crisis, the outcome of neo-liberal reform among East Asian countries remains uneven. Different forms and degrees of neo-liberalism have emerged, according to Robison and Hewison (2005, p. 188). Some states in Asia deliberately sought to intervene in the market, in contrast to the neo-liberal vision (Kitthananan, 2008, p.77). Domestic forces were often interested only in making appropriate neo-liberal policy adjustments to sustain a restructured, recalibrated developmental state that could respond to the perceived imperatives of the globalizing, knowledge based economy. Despite neo-liberal policy changes in East Asian countries towards greater marketization and economic liberalisation, they have not led to convergence with the Anglo-American model of a minimally regulated market (Cheung, 2009, p.200).

In some countries affected by the crisis, the states quickly adjusted their policies and economic strategies. In Singapore, for example, the government has attempted to introduce new strategies for integration into global markets without disturbing the essence of the existing structure of the Developmental State (Cheung, 2009). Meanwhile, in Thailand, Indonesia and South Korea a range of powerful political and economic interests intent on undermining market reform emerged in order to retain their power and privilege, thus denying the triumph of neo-liberalism in East Asia. There is also a growing rejection of neo-liberal policy in East Asia, given that much of the neo-liberal agenda directly threatens existing patterns of political and economic power across much of the region.

Many of the East Asian countries embraced neo-liberalism less enthusiastically, especially given that there are continuing doubts about its merits and possible impact. There is widespread resistance to neo-liberal reform among East Asian leaders, as described by Beeson and Islam (2005, p. 210). In reality the neo-liberal motivated process has been 'highly contested', leading to contradictory, ambiguous and sometimes surprising outcomes (Cheung, 2009 p.31). Recent studies also show that neo-liberal ideas have failed to achieve any meaningful impact on both growth and poverty (Beeson & Islam, 2005, p. 208). Opponents of neo-liberalism in East Asia also argue that, after more than two decades of deregulation, privatisation and fiscal austerity in some countries, neo-liberal policies have still failed to eliminate poverty and, to a greater extent, inequality (Robison and Hewison, 2005, p. 188). In the next section, the discussion will focus on welfare state regimes and housing provision from Western and East Asian perspectives.

2.4 WELFARE STATE REGIMES AND HOUSING PROVISION

Esping-Andersen (1990) has made an important theoretical contribution to the comparison of social policy, including housing, via the development of a welfare regime typology which identified three welfare regimes from a study of 18 countries. Although Esping did not include housing in his analysis, subsequent researchers have used his typology in the housing context. Barlow and Duncan (1994), for example, have used the Esping-Andersen framework to study the relative effectiveness of the market and governments in housing provision in Western Europe.

Meanwhile, according to La Grange (1999), most studies of housing policy related to welfare state regime debates in the 'old industrial' countries, new industrial countries, transitional socialist countries and developing countries tend to focus on privatisation of public housing. Therefore, there is a lack of understanding in terms of the applicability of the prevailing concept of welfare regimes, refinement and adaptation in areas other than North America, European and the East Asian 'Tiger Economies'. Therefore, in this section, the analysis will focus on identifying welfare state regimes from Western and East Asian perspectives and their relationships with housing provision, particularly in the production and consumption stages.

2.4.1 Welfare State Regimes from the Western Perspective

Esping-Andersen's (1990) typology has been commonly adopted by housing researchers to examine the relationship between welfare state regimes and housing provision. He argues that different regimes derive from different power structures and constellations of class-derived power relationships. The three distinctive welfare regimes identified by Esping-Andersen are: liberal, corporatist and social democratic.

In Liberal Welfare States, social and labour market policies are characteristically based around means-tested assistance. Benefits are mostly aimed at people with a low income, the working class and state dependents. In these countries, the social policies system is normally used to uphold traditional and liberal work ethic norms. The state encourages the market over other forms of state organisation. According to Esping (1990, p. 15), the United States of America and the United Kingdom are archetypal examples of this cluster. Typically, in liberal welfare regimes, state intervention in housing is limited to stigmatised provision for a residual population who cannot meet their housing needs in the market, with homeownership usually the dominant tenure (La Grange, 1999 p.18).

Meanwhile, in Corporatist Welfare States, the state focuses on the preservation of status differentials. The state is also ready to reinforce rights attached to class and to displace the market as a provider of welfare, if necessary. This essential conservatism is reinforced by the major political and social role held by the church and is strongly committed to the preservation of traditional families. Social insurance typically excludes non-working wives and family benefits encourage motherhood. In principle, the state only intervenes when the capacity of the family, especially the women, to

service its members is no longer adequate. Germany, Austria and the Netherlands fall into this group. Under this regime, in terms of housing provision, the state does not rely on the market to same extent as the Liberal approach, nor does it provide universal benefits, but rather attempts to reinforce the rights attached to different classes and professions (La Grange, 1999, p.18).

Finally, the Social-Democratic Welfare States as a social democracy are the dominant political force behind reforms based on principles of universalism and decommodification which are extended to all classes. This type of welfare state promotes an equality of minimal needs. In political terms, the social democratic model constructs a 'one-nation' version of the welfare state, where state allocation replaces the market to a much greater extent than in the other two regimes (Barlow and Duncan, 1994, p. 29). Esping-Andersen (1990 p.20) also notes the enormous costs of maintaining a solidaristic, universalistic and decommodifying welfare system. It means high taxation, but most importantly it also minimises social problems. Therefore, this is best achieved in countries in which most people are working and few live off social benefits. Sweden and other Scandinavian countries belong to this group. In terms of housing provision, under a social democratic welfare state it is based on universalism and decommodification.

Barlow and Duncan (1994) include another type of welfare state regime known as the 'Rudimentary Welfare State' which they believe is excluded from Esping-Andersen's analysis. In these countries, according to Barlow and Duncan, there is no right to welfare and no history of full employment policies. In some respects, this regime is similar to the liberal model which stresses residualism and forcing entry into the labour market. The state can still rely on older, religious traditions of welfare where women cover reproduction costs in extended family systems. It retains a strong agriculture bias with surviving elements of a household subsistence economy and large black markets. This system is particularly obvious in countries with authoritarian and militaristic governments, where fascist dictatorships consciously opposed any welfare state of equal citizens. Greece, Portugal and Southern Italy are examples of this type of welfare regime. In rudimentary welfare states, there is little tradition of direct state involvement in housing provision.

Esping-Andersen (1990 p.8) also argues the importance of class and class alliances in determining the nature of welfare provision. Social democratic welfare regimes are successfully constructed by working class movements. The corporatist welfare regime

is effectively a deadlocked power system in which no one interest can dominate and in which, as a result, each party wrests its own welfare sub-system for corporatist political horse-trading. The liberal regime emerges in a system dominated by conservative force and faces a divided working class. The type of welfare system that results from these welfare regimes is therefore distinctive. As Kemeny (2001) explains, it reflects the different degrees of de-commodification that are the outcome of different balances of power between classes. Since Esping-Andersen (1990) does not include housing in his analysis, many researchers have tried to use the typology in a comparative housing analysis on the role of state and market in the Western European context (see Barlow and Duncan, 1994; Domburg-De Rooij and Musterd, 2002; Hoekstra, 2003).

Housing is one of the four major pillars of the welfare state (Kemeny, 2001, p.53), the others being social security, health and education. After the Second World War, in most Western countries, welfare systems were being established and developed in order to provide sufficient housing of an adequate standard. An essential goal of social policy in Western Europe has been to raise the general standard of housing and to eliminate substandard housing (Nesslein, 1988, p. 95). European welfare states were governed by distinctly different mechanisms. Two integral components of this model are some form of housing price control, usually within a large rental sector, and an emphasis on non-profit housing. Housing sectors in the welfare states are neither co-ordinated nor controlled by the information and incentive structures of the price mechanism. In Western European welfare states, the optimal economic organisation of the housing sector remains one of the most ideological and politically divisive issues of public policy (Nesslein, 1988 & 2003).

2.4.2 Welfare State Regimes of East Asia

Most East Asian countries, except Japan, emerged from the Second World War with different political systems and different imperatives (Groves et al., 2007, p. 177). Therefore, Grove et al. argued that all these states did not have the same organised demands from the labour movement for welfare reform as the Western countries after the war. East Asian countries had also not experienced the same impact of recession as industrialised economies and did not have the pattern of representatives for democracy or trade union representatives that were so important in the establishment of the welfare state in Europe. The development of East Asian welfare states is therefore not the product of a particular stage in economics, political systems or in

urban development, but rather they reflect the interests, alliances and political conditions that were effective at the key point in time. The development of welfare provision after the Second World War was also associated with the threat of communism, which was influential in determining the political economies of East Asian countries (Groves et al., 2007, p.178). Common characteristics of welfare states in East Asia include single minded focus on economic performance and concentration on the mainstream population, with the view that wider or universal provision of services is an 'unaffordable luxury'. Welfare state systems in East Asia are therefore more forward looking and focused on national and economic stability and growth.

Similarly, Agus et al. (2002 p. 13) argue that East Asian countries have established social policy systems that are largely subordinate to the needs of economic growth. They note that East Asian welfare state systems, particularly social services and social security, are based on low government spending. Meanwhile, Jones (1993) describes welfare states in East Asia as 'Confucian Welfare States' based on extended family traditions. A significant role is taken by the family and, to some extent, employers, thus reducing the government's responsibility for social services provision. East Asian states generally emphasise education and human capital development as opposed to health and housing.

Features of East Asian welfare states, according to Groves et al. (2007 p.196), include a lack of intention to provide a safety net to meet the needs of the whole population. Secondly, they are not based on the concept of citizenship rights or on a process of democratic negotiation and bargaining. Thirdly, they demonstrate an absence of a well established civil society and institutions for representation, participation and engagement between citizens and government. Finally, they are less 'bottom-up' and are less concerned with addressing the problems of previous decades than was the case in the traditional welfare state in Europe. However the Asian financial crisis actually helped to spur welfare expansion rather than cause retrenchment (Cheung, 2008, p.33). Cheung explains that, since no other actor than the state would be able to fill the gaps in the welfare system, an increasing role for the state looked likely. The concern about increasing social instability amidst economy uncertainties gave rise to pressure for welfare expansion after the crisis.

The 'Developmental Welfare State' (see Kwon, 2005) and 'Property Owning Welfare State' (see Groves et al., 2007) were the most common terms used to describe East Asian welfare state regimes as follows:-

a. *Developmental Welfare State*

Welfare states in East Asia have undergone significant changes since the Asian financial crisis (Kwon, 2005, p. 2). Many new social programmes were introduced and the existing ones were strengthened through reforms. State institutions and the welfare state in particular play a greater role amid instability and flexibility in the globalized market. The changes, according to Kwon, seem to counter the neo-liberal argument that market driven globalization renders the welfare state of marginal importance in economic life. Thus, the welfare reforms in East Asia have provided an important example that social inclusion can go hand in hand with economic development. In East Asian countries, social policy has been used as an instrument for economic development strategies. Policy makers, according to Gough (2001), set economic growth as the fundamental goal, pursue a coherent strategy to achieve it and use social policy as an instrument for attaining that goal.

The characteristics of the East Asian welfare state model could be divided into four key elements; the first is a development ideology that subordinates welfare to economic efficiency. The second is the fact that dependence on the state is discouraged. The third is private sources of welfare being promoted and, finally, financial resources for social insurance are diverted into investment in infrastructure (Kwon, 2005, p. 2). To avoid a demand for universal entitlement, the state does not provide funding for welfare programmes, but enforces the rules, both formal and informal, which regulate the payment of contributions for social benefit by companies and their employees. Thus, generally only people who contribute and are part of an active workforce are entitled to social benefit.

Even though the state played a strategic role in the economic development of all the East Asian economies, the role of the state in different countries was not exactly the same. Using Taiwan and South Korea as examples, Kwon (2005, p.15) notes the state deliberately intervened in the economic decision making of firms to facilitate industrialisation of the whole economy, rather than certain sectors with comparative advantages. Although East Asian countries share the characteristic of the developmental welfare state, there are differences in the structure of their welfare states. South Korea and Taiwan moved towards an inclusive type of developmental state, while Malaysia, Singapore and Hong Kong maintained their selective welfare state characteristics. Meanwhile, Malaysia, according to Kwon (2005 p. 18), adds an important variation to the developmental welfare state due to its historical background and the institutional configuration of its welfare state. After the crisis, in contrast with

other East Asian countries, the welfare states in Malaysia, Singapore and Hong Kong remained largely unchanged.

b. Property Owning Welfare State

Groves et al. (2007 p. 1) describes the welfare state model in East Asia as 'Property Owning Welfare' which positions property development and ownership, particularly housing, in a much more significant position. They also suggest the unique East Asian welfare model adds 'property owning' as the fourth world of welfare capitalism in addition to the three world welfare capitalism identified by Esping-Andersen (1990). For many East Asian countries, home ownership has always been a key factor in their housing policies. Home ownership, according to Lee (2003, p. 8), is pursued on both political and economic grounds. Politically, home ownership is fairly believed to be capable of generating social stability and, hence, political legitimacy; economically, the performance of the housing market is invariably an important source of growth for the economy (King, 1998, p.2). However, housing preferences are constrained by income, family ties, employment and market conditions.

The East Asian welfare model also tends not to use cash benefits or social security arrangements; instead, it uses a system in which access is available to services in kind, including housing. Unlike the welfare state model in advanced industrial countries, it is mostly initiated due to local and national pressures which emphasise the importance of citizenship rights as a determining factor for access to services as (Esping-Andersen 1990). However, in East Asia, as described by Groves et al. (2007 p.2) "...there was no concept of government as the property of the people or the existence of rights but rather founded on the basis of struggle."

Although Groves et al. (2007) argue East Asian countries do not have significant or generous transfer payment and social security systems with underdeveloped welfare states, but the government encourages compulsory savings for people to invest in property. As described by Groves et al. (2007 p.11), the property "...direct or indirectly provide resources in older age and in periods of low income are significant alternative which should not be dismissed simply because it does not follow the western model". Therefore, in East Asian welfare states, housing plays a very important role with the expectation that the property will appreciate over time. The property owning welfare state involves more minimalist provision through the state. The individual asset ownership largely associated with ownership of housing has enabled the state to

reorganise and modernise its role in a way that is more in tune with global economic pressures and economic orthodoxies about the role of the state.

However, reliance on property as future savings also has weaknesses, since the price of property is subject to economic cycles. Those people who invest in property at the right time may become wealthy as a result or the reverse situation could happen. It can also create inequality among people based on two dimensions, namely place and between groups. The inequality among the group is more critical, since it could deprive the low income group from owning property, especially due to multiple property ownership. The emerging group of property owners or the new landlord class not only own the property in which they live, but have purchased other properties as well (Groves et al. 2007, p. 207). In many cases these are people who were in advantageous generational positions and in the right place in terms of property and the economic cycle.

In terms of housing provision, it is important to recognise the success of East Asian welfare systems over the last two decades in reducing the most visible shortages, achieving a decline in overcrowding and sharing of accommodation and the amelioration of the worst housing conditions with reduced government intervention, with the exception of Singapore and Hong Kong. Thus, in general, housing provision in East Asia is not structured around universal citizenship rights, but is based on the ability of the household to pay rather than principles of fairness and equality (Doling, 1999, p. 203).

2.4.3 *Housing Policy Regime of East Asia*

Doling (1999) suggests the determination of housing policy regimes should be carried out based on an assessment of the balance between the market and the state. He used an approach which is similar to that earlier used by Ambrose (1994) for the system of producing and maintaining the built environment. The process of housing provision involves three main stages, namely development, construction and consumption (see Figure 2.1). Both development and construction stages are also known as the production stage by Ambrose (1994, p.39). Ambrose meanwhile uses the term 'allocation' to describe the consumption stage. Therefore, for the purpose of this thesis, the terms housing provision mainly refers to production and allocation process.

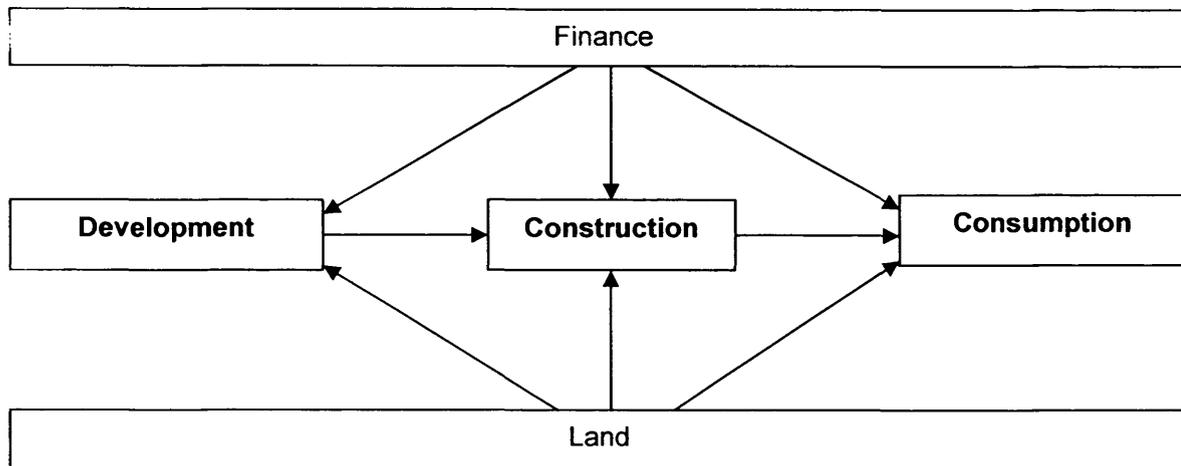


Figure 2.1: Housing Provision Process

Source: Doling (1999a, p.231)

The development stage involves various agents setting-up the conditions for house construction to take place (Doling, 1999a, p.231). This stage, according to Doling, will involve acquiring land and ensuring any requisite development permission, acquiring finance, drawing-up plans for the development and engaging a builder. The construction stage involves assembling the raw materials into a physical shelter. Meanwhile, the consumption stage takes place when construction is completed. Other factors of production, especially land and finance, are also important in determining the housing provision regime of a particular country. At each of the stages, the state may intervene to a different degree which causes a different mixture of market and state. The level of state involvement will determine the type of housing regime adopted by particular countries.

Based on Doling analysis of selected East Asian countries housing regime (1999a and 2002), he developed the distinct East Asia 'Little Tigers' model, of which Singapore is archetypal. Doling concluded that, in East Asia generally, there is strong state control of the economy and development which is highly directed through five-year plans. Meanwhile, the construction stage is undertaken by private companies, often building to contract arrangement. Housing allocation and consumption is primarily dictated by the willingness and ability of households to pay from their income. Nevertheless, Doling also noted some differences within the East Asia model, particularly in the cases of Singapore and Hong Kong in which the state plays a greater role, with strong

control over land and high levels of state provision compared to Taiwan and South Korea, which have weaker state controls and rely on market provision. A comparison between the East Asian model and Western model is summarised in Table 2.3.

Table 2.3: Comparison of Housing Regimes in East Asia and the West

Stage	Market	State
a) Liberal Regime		
Development	X	
Construction	X	
Consumption	X	
b) European Regime		
Development		X
Construction	X	
Consumption		X
c) East Asia 'Little Tigers'		
Development		X
Construction	X	
Consumption	X	

Source: Doling (2002 p.182)

Doling (2002, p.183) also identified that other East Asian countries, like Malaysia, Indonesia and Thailand, each had small scale programmes for state housing provision which were often aimed at particular groups such as civil servants and low income groups. In these countries, he added that self-help, community development and partnership have become key components in slum and squatter upgrading programmes. Thus, Doling categorises East Asian countries' housing policy approaches into three types: Hong Kong and Singapore fall under state provision, Japan, Korea and Taiwan fall under selective intervention and, finally, Indonesia, Malaysia and Thailand qualify as supported self-help.

2.5 THE CHANGING ROLE OF THE STATE AND MARKET IN HOUSING PROVISION

The debate on the changing role of state in housing provision under neo-liberalism has been widely discussed in the literature over the last two decades (see Barlow and Duncan, 1994; King, 1998; Angel, 2006; Dogson, 2007; Forrest, 2008). Nevertheless, most research has focused upon Western European, North America and other English speaking countries such as Australia and New Zealand. Despite a growing number of

studies examining the changing role of the state and market in East Asia, research is generally still concentrated on selected countries, mainly Japan and Asian Tiger economies i.e. South Korea, Taiwan, Hong Kong and Singapore (see Doling, 1999; Agus et al., 2003; Forrest and Lee, 2003; Forrest and Hirayama, 2009) and China (Wu, 1998; Zhou and Logan, 2001; Chiu, 2003). There is a distinct lack of research which is focused on East Asian developing countries, particularly Malaysia, Thailand, Indonesia and the Philippines. This is despite the fact that these countries could offer an important lesson on how to deal with growing housing issues in other developing countries in sub-Saharan Africa and South America.

Recently, several scholars have conducted comparative studies between Western and East Asian countries in terms of housing provision (see Doling, 1999; Forrest and Lee, 2003; Agus et al., 2002; Forrest and Hirayama, 2009). These scholars identified several differences between East Asian and Western housing systems. Firstly, in East Asia the state is dominant in housing production through five-year national plans which set targets for the production of different types of housing in different locations. Secondly, the allocation of housing in East Asia is not based on bureaucratic procedures reflecting principles such as equality or fairness, but on the ability of the household to pay. Thirdly, East Asian countries have a greater proportion of home owners than Western countries. Fourthly, social housing in the West has been deeply embedded in the welfare state, but in East Asia the housing system is still largely residual in nature. Finally, housing resources in the West are generally targeted at specific income groups, while social housing programmes in East Asia are targeted at the poorest section of society. Thus, in this section the discussion will focus on the changing role of the state in housing provision from Western and East Asian perspectives.

2.5.1 *Debates on the Role of the State and the Market in Housing Provision*

In developed countries, during different historical periods, different conditions can alter the balance between market and state (Kemeny, 2002, p.191). Usually, when the market cannot profit from housing, the state intervenes to fill the gap. Once housing becomes profitable, the state partially withdraws. The main issue in terms of housing provision is whether society should be organised on the basis of private ownership of the means of production (capitalism, market system) or public control of the means of production (socialism, communism). A regime combining certain features of state

intervention with some of a free market may avoid the failures of either a purely planned or a free market model. Failure of the socialist systems has been identified as over emphasis of the role of the state in the economy (Zhang, 2001, p. 67). At the same time, it may be equally impossible to have a successful economy without the state, since individual welfare cannot be fully met in the market.

Neo-classical economists believe that individuals behave rationally in maximising utilities according to their preference, and relative prices drive the market towards long equilibrium. The market is therefore structured according to the players competing by price and quality rather than in other ways. However, according to Zhu (1997 & 2005), there are usually market failures and imperfections and the housing market is not perfectly competitive. The property market, including housing, is one of the least perfect markets due to the heterogeneity and immobility of its products, high cost of transactions and the fact that it is heavily influenced by fluctuations in economic development. Owing to these characteristics, government interventions seem indispensable, not only to make market operations efficient, but also to achieve other non-economic goals.

During the 1970s and 1980s, it became increasingly clear that the government could not maintain its role as a direct producer of housing and that this role must necessarily be performed by the formal or informal private sector (World Bank, 1993, pp. 19). The government should play the role of an enabler, facilitator in order to encourage housing activities by the private sector in line with neo-liberal policy agenda. The role of the state and the market has been at the centre of the housing policy debate, while low-income housing is of long term concern to every country, particularly those in Asia, as described by Zhang and Sheng (2002 p.1). The traditional conceptualisation of state and market has been under increasing strain and, over the last two decades, the conventional distinction between the state and the market has been challenged. The role of the state has gradually shifted from control to influence and from direct provision to steering and enabling.

The role of the private sector and non-governmental organisations has been extended and, increasingly, governments rely on the private sector to provide public housing services, as described by the World Bank (1993). Governments are advised to abandon their earlier role as producers of housing and to adopt an enabling role of managing the housing sector as a whole. The market for housing can go a considerable way towards meeting housing needs, but does not always do so

effectively (World Bank, 1993, p. 38). Eliminating or mitigating the effect of market failure is a key feature of governments' enabling role in the housing sector, a role that deals with the causes of many urban housing problems. Market failures, according to Zhu (1997, p. 5), are obvious and inherent, especially in the urban land market. Without state involvement, the market would produce an inadequate amount of non-rival and non-excludable public goods. The public goods, for example, infrastructure, open space and greenery, are necessary for the functional well being of city dwellers. At the same time, governments have an obligation to avoid intervening in ways that disrupt the market.

In terms of housing provision, according to the United Nations (UN-Habitat, 2003 p.43), the major policy changes towards a market economy and neo-liberal policy firstly include the reduction of most public 'welfare' expenditure in the developing world; this was usually carried out under the terms of SAPs following a fiscal crisis. The second change is the privatisation of many forms of government enterprise. The new rule is that the government should not be involved in anything that the private sector can do. The new role of government is to enable the private sector by improving its institutions and its planning and supportive capabilities, rather than engaging directly in productive activity. The enterprises most affected are utility companies and public housing. The final change is reform of regulation, as a large number of regulations and restrictions have been removed in many countries.

As recommended by the World Bank, governments should enable the housing sector to function well by focussing on seven operational instruments in order to stimulate housing demand, to facilitate the process of housing supply, to create an overall institutional framework for managing the housing sector and ensure adequate access to housing for the poor (World Bank, 1993, p. 39). The seven operational instruments are shown in Table 2.4.

Table 2.4: The Do's and Don'ts in Enabling Housing Markets to Work

Instruments	Do	Don't
Developing Property Rights	<ul style="list-style-type: none"> • Regularise land tenure • Expand land registration • Privatisise housing stock • Establish property taxation 	<ul style="list-style-type: none"> • Engage in mass evictions • Institute costly titling systems • Nationalise land • Discourage land transactions
Developing Mortgage Finance	<ul style="list-style-type: none"> • Allow private sector to lend • Lend at positive/market rates • Enforce foreclosure laws • Ensure prudential regulations • Introduce better loan instruments 	<ul style="list-style-type: none"> • Allow interest rate subsidies • Discriminate against rental housing investment • Neglect resource mobilisation • Allow high default rates
Rationalising Subsidies	<ul style="list-style-type: none"> • Make subsidies transparent • Target subsidies for the poor • Subsidise people, not houses • Subject subsidies to review 	<ul style="list-style-type: none"> • Build subsidised public housing • Allow for hidden subsidies • Let subsidies distort prices • Use rent control as a subsidy
Providing infrastructure	<ul style="list-style-type: none"> • Coordinate land development • Emphasise cost recovery • Base provision on demand • Improve slum infrastructure 	<ul style="list-style-type: none"> • Allow bias against infrastructure investments • Use environmental concerns as reason for slum clearance
Regulating Land & Housing Development	<ul style="list-style-type: none"> • Reduce regulatory complexity • Assess costs of regulation • Remove price distortions • Remove artificial shortages 	<ul style="list-style-type: none"> • Impose unaffordable standards • Maintain unenforceable rules • Design project without link to regulatory/institutional reform
Organising the Building Industry	<ul style="list-style-type: none"> • Eliminate monopoly practises • Encourage small-firm entry • Reduce import controls • Support building research 	<ul style="list-style-type: none"> • Allow long permit delays • Institute regulations inhibiting competition • Continue public monopolies
Developing a Policy & Institutional Framework	<ul style="list-style-type: none"> • Balance public/private sector roles • Create a forum for managing the housing sector as a whole • Develop enabling strategies • Monitor sector performance 	<ul style="list-style-type: none"> • Engage in direct public housing delivery • Neglect local government role • Retain financially unsustainable institutions

Source: The World Bank, 1993

2.5.2 The Changing Role of the State and Market in Housing Provision in Western Countries

Over the last two decades, neo-liberal supremacy and a market economy has changed the political economy landscape in many European and North American countries, including the corporatist and social-democratic welfare states. Housing, according to

Forrest (2008, p.179), "has been at the forefront of so called 'modernization' projects by selling of state housing, introducing market actors into the management of state housing, marketizing state rental systems and reducing the overall role of direct government provision in the housing market." The current trend in housing provision in many European countries has shown movement along a neo-liberal path, as concluded by many scholars (see Doling, 1999; Peck and Tickel, 1999; Whitehead, 2003; Forrest and Lee, 2003; Dogson, 2007; Forrest, 2008).

The neo-liberal transformation in housing provision began in liberal welfare states, particularly the United Kingdom (UK) and the United States of America (USA) during the early 1980s. In the UK, the state began to sell council public housing stock to the sitting tenants under the 'Right to Buy' scheme introduced during British Prime Minister Margaret Thatcher's administration which included significantly reduced state involvement in the provision of new housing stock (Lund, 1996, p.49). The role of housing provision was also transferred to the private sector and thus earmarked the retreat of state from direct housing provision. Neo-liberals claimed production and housing allocation should be 'marketized' as far as possible and state intervention should be reduced or even removed (Barlow and Duncan, 1994, p.38).

Nevertheless neo-liberal transformation clearly brought new challenges for public policy, particularly in housing provision. In order to solve the problem, Western countries have commonly re-structured housing subsidy systems by replacing them with demand subsidies in line with neo-liberal policy. The states have also begun to withdraw from public provision and shift more emphasis towards the private sector and market. At the same time, states "... concentrate on improving financing system and market framework as well as developing guarantee and insurance systems to support the provision of funding" (Whitehead, 2003, p.61). The retreat from direct housing provision in the West is also associated with growth in individual home ownership and an increase in private renting. Therefore, by the early 21st century, housing provision was more thoroughly embedded in market processes and the dominant direction of change has been towards a higher level of individual ownership (Forrest, 2008, p.179).

A recent review of literature on housing provision in several European countries also indicates the highly varied and uneven application of the neo-liberal policy regime. Countries such as Belgium and France suggest that there is little evidence of the withdrawal of the state from housing. Meanwhile, countries such as Sweden and Germany have shown clearer examples of apparent state withdrawal from housing and

a shift in emphasis to the market as a housing provider (Dogson, 2007, p.90). Sweden for example, regarded as a typical social-democratic welfare state in Europe during the early 1990s, has ceased to maintain a high degree of state intervention in housing provision. According to Clark and Johnson (2009), since the early 1990s, the housing sector in Sweden has been radically reformed in accordance with neo-liberal ideology. Under the new conservative party, housing is regarded as a commodity, with subsidies discontinued or radically reduced.

However, the implementation of neo-liberal transformation in housing provision in Western society has inevitably resulted in consequences for the social and national economy. After more than two decades of neo-liberal policy implementation in many countries, problems began to emerge and have been widely debated by housing scholars. Among the consequences highlighted in the literature is a weakened state capacity to resolve housing problems. Forrest (2008 p.174) argues “the reduction of direct housing provision has arguably diminished state capacity to respond as effectively as in the past to shifting housing needs and demand of population”. In many situations, state intervention was crucial to resolving housing problems. Adequate state intervention, particularly in land and capital markets, proved to be essential.

The second consequence is exposure of housing to the vulnerability of financial markets. The housing market tends to be more volatile in financially deregulated countries with periodic price booms and bursts (Forrest, 2008, p.181). Forrest (2008) states “lending practices in the deregulated environment have often involved higher loan to value ratios and thus higher risk exposure for both households and institutions.” Individuals and households nowadays are subject to a credit system shaped by the neo-liberal global financial regime. The recent role of housing in the subprime crisis and the consequent ‘credit crunch’ proved market inefficiency under the neo-liberal regime. It also demonstrated the significant influence of the housing sector in the wider economy under economic globalisation nowadays (Glynn, 2009, p.9).

Thirdly, increasing housing affordability problems have occurred, despite a global trend in the deregulation of financial markets and low interest rates. Financial globalisation has resulted in the acceleration of the homeownership boom over the last two decades (Forrest and Hirayama, 2009, p.7). However, at the same time, free market practices have created unequal competition among buyers, particularly with regard to the poor and younger generation. This problem is concentrated by the multiple ownership of houses and speculative buying practices among middle and high income people.

Thus, the younger generation find it difficult to step onto the property ladder, as shown in a comparative study of Japan and the United Kingdom by Forrest and Hirayama (2009). The problem is similar in France, as explained by Natiel (2009); in many cities, the new houses are beyond the affordability of a lot of people, despite many unoccupied homes. These properties, as she explained, are actually owned by wealthy French or foreign investors and are left empty for speculative purposes. Another factor is rapid house price inflation which contributed to a lack of housing affordability for those seeking to enter homeownership (Forrest, 2008, p.195). Nonetheless, for existing house owners, rising property values are very important for their investment, but this is not true for new homebuyers.

Finally, the failure of the market to provide adequate houses will contribute to inequality among poor and rich people (Glynn, 2009, p.33). Reliance on the market to meet the housing needs of economically disadvantaged households and the poor has proved difficult. Inefficient markets, according to Glynn, transmit their imbalances and volatility into the rest of society, thus affecting savings, investment, expectations and eventually the whole of the economy. Thus, the neo-liberal policy agenda has resulted in many economic and social consequences in Western societies which could provide valuable lessons to other countries.

2.5.3 The Changing Role of the State in Housing Provision in East Asia

Studies examining the role of the state and the market in a few Asian countries show mixed results (Zhang and Sheng, 2002). China, India, Thailand and Taiwan demonstrate the increasing role of the market. The governments of those countries are shifting their role from one of direct intervention, control and order to that of enabling and steering. The governments restrict their role to that of providing assistance to low income groups. Countries like China are undergoing more radical changes, challenging the established housing systems and moving towards a more market-orientated approach (see Wang, 1996, 2000 & 2001; Logan, 2002). Despite maintaining a developmental approach to housing policy and the implementation of housing programmes during the early 1990s, there is a tendency among East Asian countries to move towards a relatively less state oriented system of housing provision (Doling, 1999 p.185). Since the early 1990s, the system of housing provision and consumption in East Asia has been increasingly deregulated, with greater emphasis on market mechanisms (Hirayama and Ronald, 2007, p.4). Thus, many scholars

during the 1990s suggested a convergence of the East - West policy approach seemed possible.

The neo-liberal transformation in East Asia accelerated faster following the Asian financial crisis. Countries worst affected by the crisis were expected to adopt neo-liberal housing policies, particularly South Korea, Thailand, Indonesia and Malaysia (Agus et al., 2002). Housing investment by the public sector in East Asian countries since the crisis has reduced significantly. The housing sector is also expected to be more transparent and better regulated in line with neo-liberal policy. The allocation of finance for the housing sector became less the responsibility of the state and more of the market (Doling, 1999, p.186). Most East Asian states instead focussed on stabilising the housing market after the crisis and, at the same time, encouraged the private sector to get involved in housing provision.

However, in general, housing in East Asia still shows few signs of convergence with the Western neo-liberal model (see Hirayama and Ronald, 2007; Cheung, 2009). Japan, particularly, and other 'little tigers' have all demonstrated elements of a specific type of corporatism to a greater extent. As Hirayama and Ronald (2007) explain, despite some similarities in the commodified private housing and the residual nature of public housing, there is a considerable variety of state-market mix and the stage at which the state intervenes in housing provision among East Asian countries. Singapore, for example, still pursues active and extensive state subsidised housing provision in line with its national development agenda. Meanwhile, Japan, South Korea and Taiwan commit to low social welfare spending on housing compared to Singapore and Hong Kong. Japan, South Korea and Taiwan have weaker controls and more selective state intervention. Subsidies are used to ensure that housing meets the needs of low income groups within a market framework. Thus, Japan, along with the other 'Asian Tigers', according to Hirayama and Ronald (2007), not only shows divergence from the Western model of housing provision, but also demonstrates differences in the set of social and political relations which link state authority to housing policy.

2.6 HOUSING COMMODIFICATION AND DECOMMODIFICATION DEBATES

The concept of commodification-decommodification has been widely used to explore aspects of social, economic and political transformations associated with the rise of industrialisation and with the subsequent development and changes in welfare policies in industrial countries (Doling, 1999b, p.156). According to La Grange et al. (2004 p.558), there are three main streams of research related to the concept of commodification-decommodification. The first focuses on labour under capitalism, particularly work by Nelson and Barley (1997) and Siegal (1998). The second stream of research on the commodification-decommodification of social policy mainly refers to the framework by Esping-Andersen (1990) on welfare state regimes related to healthcare, children, education (by Churchill, 1999; Le Grand and Robinson, 1984) and housing (see Barlow and Duncan, 1994; Hoekstra, 2003; La Grange et al, 2003 & 2004). The final stream addresses the commodification of space including cities as tourism destinations (Schollman et al., 2000), place promotion and entrepreneurial cities (Wu, 2000) and regional industrial policy (Addleson, 1989).

Commodification, according to Radin (1996) and Sternberg (2000), means “a process whereby objects became tradable and commensurable in the market.” For a market system to function it must commodify those goods, services and attributes that people value. Commodification also refers to buying and selling goods or services and, in a broader sense, incorporates the practice of thinking about interactions as if they were sale transactions (Radin, 1987; Wilkinson, 2000). Chiu (2001 p.100) highlights that the term commodification has often been interchangeably used with marketization. She explains “commodification emphasizes the exchange value of the object whereas marketization underscores the institutional framework in which exchange value is realized.” Meanwhile, decommodification in the context of welfare provision means “the degree to which welfare services are free of the market” (Giddens, 2006, p.367). He explains that, in a system with high commodification, welfare is provided publicly and is not in any way linked to one’s income or economic resources.

Since the 1980s, many scholars have studied the relationship between housing provision and the market process in advanced capitalist countries using the commodification and decommodification concept (see Forrest and William, 1984; Forrest and Murie, 1995; Doling, 1999). Forrest and William (1984) discuss the “erosion of decommodification forms and reorganisation of commodified relations in the housing sector” and the intensification of the commodification process at the level of consumption and at the level of production. Forrest

and Murie (1995) identify zones of transition in British cities where former state-owned dwellings have been privatised under the Right to Buy legislation and the cumulative effects of these individual transactions is the progressive commodification of the neighbourhood.

However, studies have only recently begun to focus on East Asia, particularly South Korea, Hong Kong and Taiwan (La Grange, 1999; La Grange and Nam Jung, 2004; La Grange and Pretorius, 2005; La Grange et al., 2006) and China (Wang and Murie, 1996 & 1999; Wang, 2001; Chiu, 2001; Logan, 2002; Wu, 2001 & 2003). Meanwhile, other South East Asian countries including Malaysia are still not extensively discussed in the literature. Studies by La Grange and others in selected Asian countries, particularly Hong Kong (1999 & 2005), South Korea (2004) and Taiwan (2006), have identified the trend towards housing commodification in these countries. Nevertheless, the states remain in control of elements of production, particularly land; thus, housing is still not considered to be fully commodified in these countries.

Similar studies by Wang and Murie (1999), Chiu (2001), Logan (2002) and Wu (2003) explain that the housing system in China has become more commodified since market reform in the early 1990s. Commodification has enabled China to become more efficient in producing housing and increased homeownership among its citizens (Chiu, 2001, p.109). However, the housing commodification model in China is different from other former socialist countries with distinctive characteristics (Wang and Murie, 1999; Chiu, 2001). Thus, a different forms and characteristics of housing commodification has emerged in East Asia over the last 20 years.

2.6.1 Measuring Levels of Housing Decommodification

Esping-Andersen (1990) used decommodified measures to categorise Western industrial countries and Japan into three types of welfare states known as social democratic, corporatist and liberal. However, his measures of welfare decommodification levels did not include housing. Therefore, many scholars later began to develop decommodification measures related to housing (see Dickens et al., 1985; Barlow and Duncan, 1988; Harloe, 1995; Doling, 1999b; La Grange et al., 1999, 2004, 2005 & 2006; Groves et al., 2007). Most scholars focus on the analysis of housing tenure to determine the level of decommodification (see Barlow and Duncan, 1988; Harloe, 1995; Groves et al., 2007). Decommodification is usually associated with a high level of social rented housing and a country with a high level of homeownership is considered to be commodified (Harloe, 1995, p.5). The tenure data

was used to calculate the level of decommodification. The score was then used to locate the level of the housing system of a particular country in terms of commodification or decommodification. However, the outcomes of analyses based on housing tenure alone were sometimes inaccurate and misleading (Doling, 1999b, p.160).

Doling (1999b p. 157) then suggested the rules of access and rules of exit to determine the level of housing decommodification. The rules of access refer to income and other non-financial criteria. When access to housing is based on non-financial criteria or citizenship rights are dominant, the level of decommodification is high. If access is based on individual income, particularly for homeownership, the country is considered to be highly commodified. The rules of exit, meanwhile, refer to security of tenure "...that govern the ability of the occupants to continue living in the house when their income changes. Whenever they allow continuity without the householder being driven to acquire their former level of income, there will be high level of decommodification" (Doling, 1999b, p.158).

In addition to analysis of housing tenure, some scholars added other elements such as land, subsidies and financing in the determination of decommodification levels (see Dickens et al., 1985; La Grange et al., 1999, 2004, 2005 & 2006). Dickens (1985 p.120), for example, identified government subsidies, rent control, welfare benefits, state control over housing finance and land as elements suitable to measure the level of decommodification. Meanwhile, La Grange et al. used land, subsidies and financing to determine the housing commodification-decommodification continuum in several East Asian countries (Hong Kong, Taiwan and South Korea). The continuum method used by La Grange et al. however, was derived from Radin's (1987) earlier work. Radin (1987) suggested using a 'continuum' to reflect the degree of commodification and draws a distinction between two aspects of incomplete commodification, namely participant and social. The former, according to Radin, refers to the co-existence of market and non-market aspects of interaction, although money changes hands, while the latter refers to societal recognition that things have a 'non-monetisable' participant significance by regulating the free market.

La Grange et al. (1999, 2004, 2005 & 2006) then further developed the idea and proposed that the continuum has end points. At one end land and housing is wholly decommodified, produced and consumed according to criteria unrelated to market considerations and at the other end, wholly commodified, namely wholly produced and consumed in the market (La Grange 2006, p.54). Thus, if the continuum is continuous, then movement along the continuum might be treated as the extent to which housing has a use value or an exchange value. The movement along the continuum can be in either direction. They also suggested

the key features of housing in order to determine the level of commodification as, firstly, ownership of land, secondly, ownership of housing and thirdly, financing of housing. According to them, housing is incompletely commodified when at least one of these components is decommodified to a significant degree.

2.7 CONCLUSION

Over the last two decades, neo-liberalism has dominated policy discourse and implementation in many countries, including in the sphere of housing provision. The discussion in this chapter, however, highlights that the impact of neo-liberalism around the globe is still uneven and the pace is changing over a period of time. After almost two decades of neo-liberalism dominating policy implementation in developed and developing countries, most countries nowadays have begun to question the need to pursue a neo-liberal political economy agenda. This includes perceived mishandling of the East Asian crisis by Bretton Woods Institutions, the termination of the long economic boom of the 1990s in the United States, a series of corporate scandals that has tarnished the image of American capitalism, the tragedy of 'fast-tracking' capitalism in Eastern Europe and the ex-Soviet Union and the failure of the neo-liberal experiment in Latin America.

Similarly, in East Asia the outcome of neo-liberal reform is still uneven. Different forms and degrees of neo-liberalism have emerged, according to Robison and Hewison (2005 p. 188). Some states in Asia deliberately sought to intervene in the economy in a manner different from the neo-liberal vision (Kitthananan, 2008, p.77). Domestic forces were often interested only in making appropriate neo-liberal policy adjustments to sustain a restructured, recalibrated developmental state that could respond to the perceived imperatives of the globalizing knowledge-based economy. However, neo-liberal policy changes in East Asian countries towards greater marketization and economic liberalisation have not led to convergence with the Anglo-American model of a minimally regulated market (Cheung, 2009, p.200). In some countries affected by the crisis, the state quickly adjusted its policy and economic strategies. In Singapore, for example, the government has attempted to introduce new strategies for integrating into global markets without disturbing the essence of the existing structure of the Developmental State

There is also a growing rejection of neo-liberal policy in East Asia, given that much of the neo-liberal agenda directly threatens existing patterns of political and economic power across much of the region. Therefore, many East Asian countries embraced neo-liberalism

less than enthusiastically, especially given that there are continuing doubt about the merits and possible impact; in fact, it could be said that there is widespread resistance to neo-liberal reform among East Asian states (Beeson and Islam, 2005, p. 210). In reality, the neo-liberal motivated process has been 'highly contested', leading to contradictory, ambiguous and sometimes surprising outcomes, as explained by Cheung (2009, p.31). Recent studies also show that neo-liberal ideas failed to register any meaningful impact on both growth and poverty. Therefore many neo-liberal opponents in East Asia also argue that, after more than two decades of deregulation, privatisation and fiscal austerity in some countries, neo-liberal policies have still failed to eliminate poverty and, to a greater extent, inequality (Robison and Hewison, 2005, p. 188). Thus, after more than two decades of neo-liberal reform and a market economy, most East Asian countries still maintain a largely developmental state approach in their policy implementation.

Meanwhile, in terms of housing provision, a recent review of the literature on housing provision in several European countries also indicates a highly varied and uneven application of the neo-liberal policy regime. Countries like Belgium and France suggest that there is little evidence of withdrawal of the state from housing. Meanwhile, countries such as Sweden and Germany have shown clearer examples of apparent state withdrawal from housing and a shift in emphasis with regard to the market as a housing provider (Dogson, 2007, p.90). Sweden, for example, was regarded as a typical social-democratic welfare state in Europe during the early 1990s, but has ceased to maintain its high degree of state intervention in housing provision (Clark and Johnson, 2009).

Similarly in East Asia, Japan, along with the other 'Asian Tigers', according to Hirayama and Ronald (2007), not only show divergence from the Western model of housing provision, but also display differences in the set of social and political relations which link state authority to housing policy. Singapore, for example, is still pursuing active and extensive state subsidised housing provision in line with its national development agenda. Meanwhile, Japan, South Korea and Taiwan commit to low social welfare spending on housing compared to Singapore and Hong Kong. Japan, South Korea and Taiwan have weaker controls and a more selective state intervention. A discussion on the changes in the global political economy in the context of Malaysia and its influence on housing provision will be examined in Chapter 4.

CHAPTER 3:
RESEARCH METHODOLOGY

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RESEARCH METHODOLOGY

3.1 INTRODUCTION

This chapter discusses the methodology of the research. Divided into six sections, it covers the research strategy, research design, research stages, method of data collection, validity and reliability issues, and ethical issues. Justifications for the selection of research strategy, research design and methods used in data collection will be discussed in each section.

3.2 RESEARCH STRATEGY

The study is premised on a qualitative research paradigm and its inherent assumptions. The choice of a qualitative research paradigm is based on the ontological, epistemological and methodological assumptions of the study phenomenon. Firstly, ontology, which concerns itself with the nature of reality, is seen as subjective and multiple in the eyes of the participants in the study. The process and issue of the role of the state and the market in low cost housing allocation in Malaysia is more likely to be better understood from a qualitative ontological viewpoint because of a multiplicity of factors such as socio-cultural, economics, politics and the local context. Therefore, a critical realist perspective of the ontological position will be adopted in this research.

Critical realism is a philosophy of science with a particularly ontological perspective (Lawson, 2006, p.45). It entails a structured notion of reality with related overlapping domains: real (mechanism), actual (events) and empirical (experience). Critical realism also promotes active acknowledgement of the structured, open and dynamic nature of the object or phenomenon under examination regarding important causal dimensions that may or may not be directly observed or recorded. Realism not only acknowledges the existence of socially constructed experiences (multiple meanings and actor's interpretations), but also physical and non-physical conditions, actual events and influential social relations. Meanwhile, Social Constructionism claims access to the material world is mediated through language and discourse (Jacobs et al., 2004 p.3). Social constructionists take lay perceptions of housing very seriously. They consider that everyday concepts provide the basis for many (housing) related actions. Strong social constructionists claim that, in reality, housing only exists at the level of experience and that it is not necessary to look beyond this reality as perceived by actors (Lawson, 2006, p.47). The research will focus on understanding the low cost housing allocation process in Malaysia according to various key players' interpretations from a critical realist perspective.

Secondly, epistemology is understood to be the source and nature of knowledge. The key question regards the relationship of the researcher to that of the researched. In the qualitative paradigm, the researcher interacts with the research subjects. This is in contrast to the quantitative paradigm assumption, where the researcher is viewed as being independent of that being researched, which implies non-interaction. The qualitative approach is advantageous in the context of this study because it facilitates the gaining of deeper insights from the researcher's immersion in the processes, thus illuminating the research issue rather than adopting an aloof stance that brings a greater understanding of the research phenomenon.

Finally, there is the issue of methodological assumptions. Qualitative research is an inductive rather than a deductive process. As explained by Cresswell (1994, p.5), one issue is the cause-effect relationship and the desire to prove causality in the quantitative paradigm against "a mutual simultaneous shaping of factors" in the qualitative paradigm. Although the research looks at the effect of the relationship between various agents in low cost housing allocation, it will be impossible to prove a cause and effect relationship between the two aspects. Thus, a triangulation of evidence drawn from multiple sources may indicate how the factors affect one another. The qualitative paradigm also allows for the possibility of an evolving design in terms

of categorisation of data during the research process. In quantitative research, data categorisation is conducted beforehand, with minimal scope for flexibility with regard to the emergence of new data categories during the collection process.

3.3 RESEARCH DESIGN

The study is based on the use of multiple methods in the context of a case study design. The selection of a case study design was made based on several reasons. Firstly, the case study is a powerful empirical research method that provides the opportunity to investigate an actual context (Bryman, 2001, p.49). As a research strategy, the case study method allows researchers to retain the holistic and meaningful characteristics of real life events such as the individual's life cycle, organisational and managerial processes (Yin, 2003, p.2). Thus, in the context of this research, the Open Registration System (ORS) for low cost house buyers is selected as a case study to analyse the role of the state and market in low cost housing allocation in Malaysia.

Secondly, case study design is suitable for individual researchers as it gives an opportunity for in-depth study of one aspect of a problem within a limited time scale (Yin, 2003, p.2). Since the study was conducted within a limited time period and required the involvement of people from Federal and State government, private housing developers and low cost house buyers, only one state in Malaysia was selected to investigate the role of the state and market in ORS implementation. Thirdly, case studies are preferable when it comes to focussing on contemporary phenomena within a real-life situation where the researcher has little control over events (Yin, 2003). In this study, the researcher obviously has no control over events related to the implementation of ORS. Finally, there is the ability of the case study to draw evidence from multiple sources (Hakim, 1987). This is facilitated by the use of a variety of data collection techniques and methods, thus making the case study potentially overlap with other research strategies which offers their combined and complementary strengths and allows the investigation to retain a more holistic and meaningful approach to real life situations (Hakim, 1987; Yin, 2003). To achieve a more holistic and meaningful approach to the role of state and market in ORS implementation, the study combines several data collection methods which include documentary analysis, qualitative interviews and focus group discussion (see Figure 3.1).

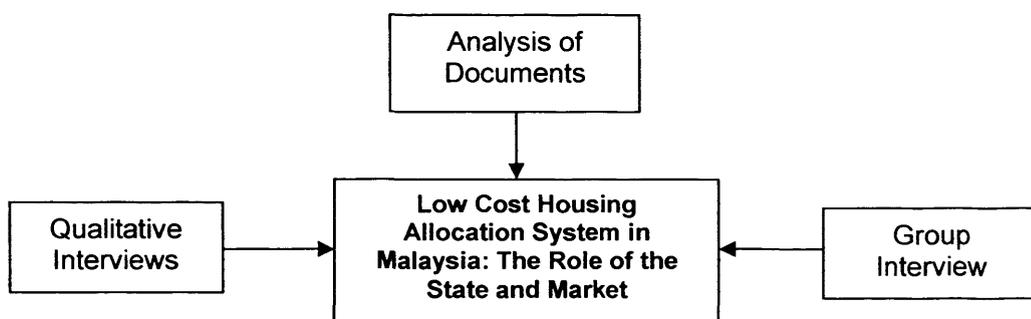


Figure 3.1: Triangulation of Evidence from Multiple Sources

Source: Author

There are four types of case study; these comprise the critical case, unique case, revelatory case and exemplifying case, which is important when addressing the issue of external validity (see Yin, 2003; Bryman, 2001). In the critical case study, the researcher usually has a specific hypothesis and a case is chosen on the grounds that it will allow a better understanding of the circumstances (Bryman, 2001, p.51). The unique case is commonly used in clinical studies. The revelatory case exists when the researcher has an opportunity to observe and analyse a phenomenon previously inaccessible to scientific investigation (Yin, 2003, p.44). Meanwhile, the exemplifying case is the most common type and is “often chosen not because they are extreme or unusual in some way but because they will provide a suitable context for certain research questions to be answered. As such they allow the researcher to examine key social processes” (Bryman, 2001, p.51). In this research, the ORS provides a suitable context to understand the process of the low cost housing allocation system in Malaysia and answer the research questions.

One rationale for a single case is the representative or typical case (Yin, 2003, p.41). The objective is to capture the circumstances and conditions of an everyday or commonplace situation. ORS can be categorised as a typical case of a low cost housing registration and allocation system implemented by the Federal government in Malaysia. If an independent low cost housing allocation system in a particular state in Malaysia was chosen for the case study, the outcome would be more likely to discuss the operation of the system rather than a larger contribution towards the theory of the role of the state and market in housing provision.

Meanwhile, in terms of the research question or the choice of data collection strategies, Yin (2003 p.5) observes that “in general, case studies are the preferred

strategy when “how” or “why” questions are posed...”, but in general the design is appropriate for a whole range of familiar research questions which includes “who”, “what”, “where”, “how” and “why”. Four of these types of questions are pertinent to the research questions identified earlier in Chapter 1.

However, the case study strategy has also been criticised on various grounds. The main concern is that case studies provide an insufficient basis for scientific generalisation (Bryman, 2001, p.52). However, the exponents of case study research suggest that the purpose of this research design is not to generalise to other cases or to populations beyond the case. Yin (1984, p. 10) also provides an explanation on this issue; he distinguishes between analytic and statistical generalisability. He points out that, in fact, scientific facts are seldom based on single experiments, but rather on multiple experiments which replicate the same phenomenon under different conditions. Therefore, like experiments, the generalisation of a case study is intended for theoretical propositions rather than for populations.

Secondly, the opponents of case study strategy suggest that when using this method the researcher often tends to become sloppy and allow anecdotal evidence or biased views to influence the direction of the findings and conclusions. However, the critics forget that bias can also encroach into the conduct of experiments, as well as into the design of the questionnaire in the case of social surveys. Finally, a common objection is that case studies take too long to complete and often result in enormous unreadable documents. Yin (2003, p.11) explains that there is no need for case studies to take a long time, as this assumption incorrectly confuses the case study method with a specific method of data collection such as ethnography.

3.3.1 Case Study Selection

The selection of ORS to analyse the role of state and market in low cost housing allocation in Malaysia was made based on several reasons. The first is the importance of ORS in the context of the low cost housing allocation system in Malaysia. Since the structure of government in Malaysia is based on a Federal system, housing provision and allocation is always the responsibility of respective State governments under the Federal Constitution. Prior to the establishment of ORS in 1997, all 14 States in Malaysia had their own low cost housing registration and allocation system. However, centralisation and standardisation of low cost house buyer registration and allocation

by Ministry of Housing and Local Government under ORS means the Federal government has indirectly taken the responsibility from the State government in low cost housing allocation. This shows the importance of ORS in the low cost housing allocation process in Malaysia since 1997. The study of ORS will also provide an understanding of the role of the state and market in low cost housing provision and allocation in Malaysia.

The second reason is a lack of academic research on the implementation of ORS at the State level. Since the establishment of ORS in 1997, only one study in 2006 has been conducted to look at the implementation of the ORS by the National Housing Department (NHD). A study by NHD shows many State governments still not fully adopted ORS for low cost housing allocation and formulate different policies. A variation of low cost housing policies and institutional set-ups are expected because housing is under the responsibility of respective State governments. Therefore, the study of ORS implementation at the State level is important in order to understand the relationship between the key players in low cost housing allocation, particularly the State government, private housing developers and house buyers. For that purpose, the State of Selangor was selected for the detailed study.

The third reason is that ORS features a unique practice in East Asian developing countries in managing and administering housing for people with a low income. Not many developing countries have established an effective system to control buyer registration and allocation of low cost houses, especially for homeownership. Thus, ORS could provide an important lesson to governments in other developing countries in dealing with housing for people with a low income, improve housing administration and eventually solve housing problems.

Fourthly, in the context of low cost housing provision in Malaysia, the issue is no longer related to the stage of housing development and construction. The public and private sector, over the last 20 years, has managed to build an adequate number of low cost houses in Malaysia. However, the real problem is to ensure the targeted group will eventually buy and own the low cost house. ORS implementation, therefore, was the key strategy by the government to ensure only the poor can access and eventually buy low cost housing. Finally, in Malaysia, the government not only controls the allocation of public housing, but also low cost housing built by the private sector. Therefore, an analysis of the implementation of ORS at the State level is crucial to understanding government intervention in the low cost housing market.

The State of Selangor was selected for the detailed study of ORS implementation in Malaysia. Selection of Selangor was based on several criteria. Firstly, the State of Selangor is located in the most developed region in Malaysia known as Klang Valley (see Figure 3.2). The national capital of Malaysia, Kuala Lumpur and several of the country's other largest cities are located within Klang Valley including Petaling Jaya, Shah Alam (Capital of Selangor) and Klang. Due to its location, the demand for housing was greater in Selangor compared to other states in Malaysia.



Figure 3.2: Map of Selangor

Source: R & D Unit, State Economic Planning Unit (www.selangor.gov.my)

Secondly, there is a demographic factor. Although Selangor is only the eighth largest State in Malaysia (with a land area of 125,000 sq km), it has the largest population in Malaysia with 5.1 million people in 2010 (Department of Statistics Malaysia, 2010). Over the last 10 years, the Selangor population has increased 21.8 percent or an average of 2.18 percent annually, the highest rate of increase in Malaysia. In addition, Selangor also has the largest number of households and living quarters in Malaysia (see Table 3.1). The situation largely came about due to high natural growth and net in-migration from other States in Malaysia (Selangor, 2003). In terms of ethnic composition, Selangor has among the lowest Bumiputera population in Malaysia with 53.5 percent, 30.8 percent Chinese, 14.6 percent Indian and 1.1 percent others (Department of Statistics Malaysia, 2000). Meanwhile, 88.4 percent of the people lived in urban areas in 2010. Higher population growth and net in-migration therefore put more pressure on the State government to provide adequate housing for the people, particularly the people with a low income.

Table 3.1: Population, No. of Household and Total Living Quarters according to State in Malaysia, 2000 & 2010

State	Population ('000)		Household ('000)		Living Quarters ('000)	
	2000	2010	2000	2010	2000	2010
Johor	2,762.5	3,305.9	652.2	792.6	748.7	961.9
Kedah	1,671.9	1,966.9	364.2	444.3	419.8	501.0
Kelantan	1,361.4	1,670.5	271.3	316.9	311.6	345.2
Melaka	646.6	771.5	145.4	179.9	188.0	247.9
N. Sembilan	866.1	1,011.7	194.9	237.4	252.2	320.7
Pahang	1,295.8	1,534.8	290.6	358.5	318.8	388.8
Perak	2,091.7	2,460.8	485.9	566.9	567.9	656.3
Perlis	207.6	240.1	47.0	54.0	52.4	58.5
Pulau Pinang	1,332.7	1,596.9	309.9	382.4	385.8	525.1
Sabah	2,603.5	3,214.2	507.7	650.8	549.8	713.9
Sarawak	2,071.7	2,506.5	436.3	539.5	483.4	600.3
Selangor	4,188.9	5,102.6	986.5	1,374.1	985.3	1,416.1
Terengganu	902.6	1,050.0	179.6	221.0	205.5	244.5
Federal Territory	1,492.1	1,818.0	354.2	426.1	403.8	508.6
MALAYSIA	23,494.9	28,250.5	5,198.9	6,544.5	5,873.0	7,488.9

Note: * Kuala Lumpur and Labuan

Source: Population and Housing Census 2010, Department of Statistics Malaysia

The third criterion is the economy. In 2008, Selangor contributed 22.1 percent or RM28.3 billion to national Growth Domestic Products (GDP), the highest contribution in Malaysia. Services and manufacturing are the main contributors to the economy of the Selangor, which contributed 51.6 percent of state GDP in 2008 (Department of Statistics, 2010). The manufacturing sector particularly attracts younger people to migrate into the Selangor and the majority of people in this category are in the low income group. The average household income was RM3,702 per month in 2005

compared to the national average of RM2,472 per month, the second highest in Malaysia after Kuala Lumpur. Meanwhile, incidence of poverty in Selangor was only 1.4 percent representing 64,100 households in 2002. Therefore, Selangor is considered to be a high income State in Malaysia (Selangor, 2003).

Fourthly, Selangor had the largest squatter population in Malaysia in 1999. Despite rising income and better access to financing since, Selangor had the largest number of people living in squatter settlements with 171,396 in 1999 (MHLG, 2006). However, the State government managed to reduce the number of people living in squatter to just 3,928 in 2006. Thus, Selangor provides an interesting example of how a State government managed to reduce the squatter population through a low cost housing allocation system.

Fifthly, in 2008 there were a total of 702 private housing developers operating in Selangor, the highest in Malaysia (LPHS, 2008). More than 70 percent of low cost housing built during the Seventh Malaysian Plan (1996-2000) and Eight Malaysian Plan (2001-2005) was constructed by the private sector, including that built in Selangor. This shows the important role played by the private sector in low cost housing provision in Selangor over the last 20 years. Finally, Selangor has one of the best institutional set-ups for housing administration in Malaysia under the Selangor Housing and Property Board (SHPB), established by the State government in 2002, which is responsible for implementing ORS in Selangor. From 1997-2005, Selangor had the highest number of people registered under the ORS in Malaysia, namely 148,139, thus justifying the selection of Selangor for the detailed study on ORS implementation at the State level.

3.4 RESEARCH STAGES

The research process for this study can be divided into five stages (see Figure 3.3). The data collection for each stage was conducted in sequence during the fieldwork. In Stage 1, the identification of the case study was accomplished after studying the present low cost registration and allocation system in Malaysia. ORS was selected as the case study to analyse the role of the state and market in low cost housing registration and the allocation system, based on the justification given earlier.

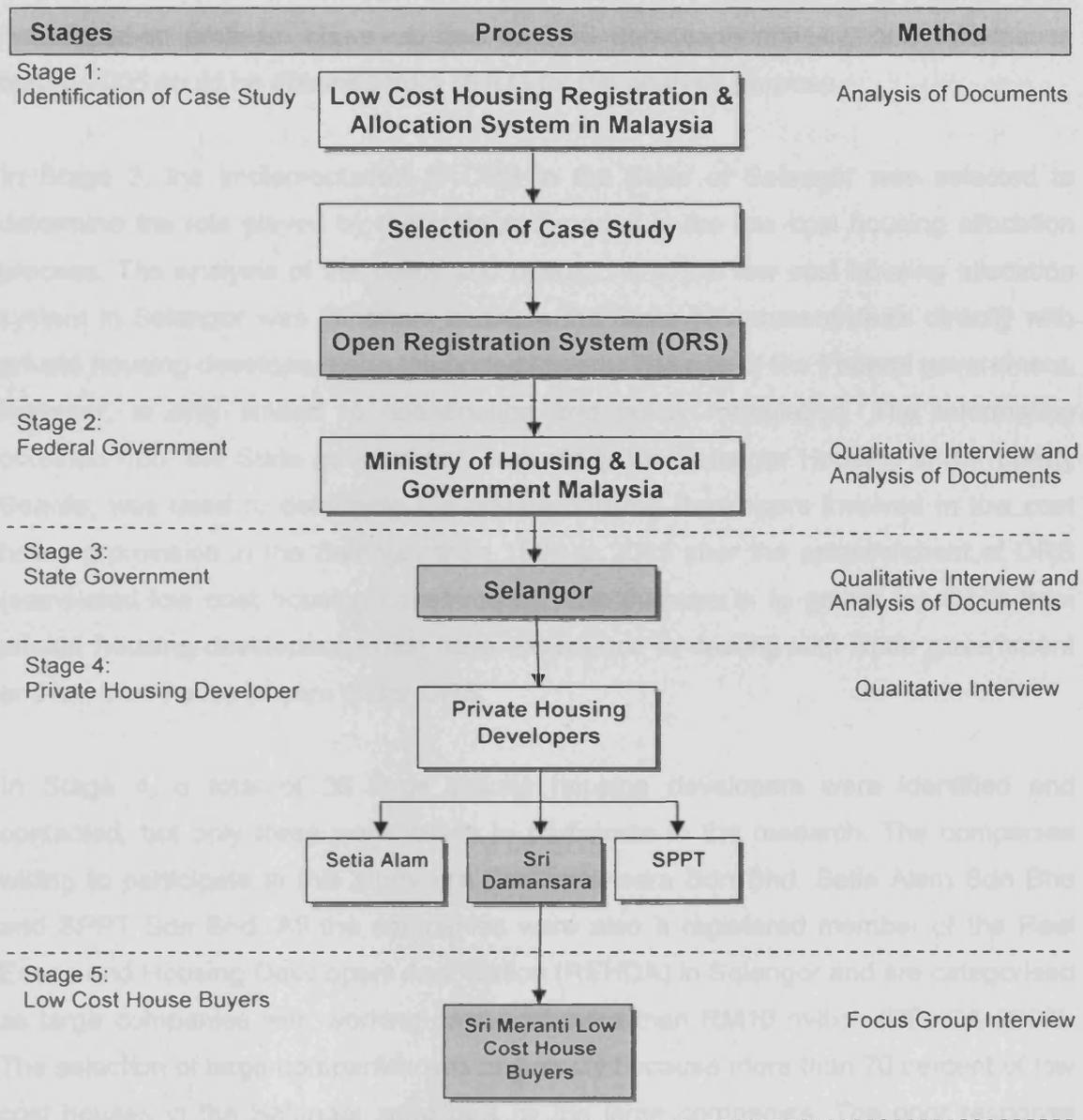


Figure 3.3: Research Process and Method of Data Collection

Source: Author

In Stage 2, the data collection focussed on the role played by the Federal government, particularly the Ministry of Housing and Local Government Malaysia in the establishment of the ORS. Interviews with the officers involved with the setting up of the ORS were conducted. Various ministry official documents related to ORS were also collected by the researcher to identify the need and reasons which led to the establishment of the ORS. Information related to policy, development and improvement to the ORS since its establishment in 1997 were also collected in order to analyse the role played by the state and market in low cost housing registration and

the allocation process. However, due to ORS data confidentiality, only information before 2005 could be obtained from MHLG for the analysis purpose.

In Stage 3, the implementation of ORS in the State of Selangor was selected to determine the role played by the state and market in the low cost housing allocation process. The analysis of the policy and operations of the low cost housing allocation system in Selangor was important because the State government deals directly with private housing developers and the house buyers. The role of the Federal government, however, is only limited to coordination and policy formulation. The information obtained from the State government, particularly the Selangor Housing and Property Boards, was used to determine the private housing developers involved in low cost housing provision in the Selangor from 1998 to 2005 after the establishment of ORS (completed low cost housing construction). The purpose is to gather feedback from private housing developers which have experience in dealing with State government and low cost house buyers under ORS.

In Stage 4, a total of 36 large private housing developers were identified and contacted, but only three were willing to participate in the research. The companies willing to participate in this study are Sri Damansara Sdn Bhd, Setia Alam Sdn Bhd and SPPT Sdn Bhd. All the companies were also a registered member of the Real Estate and Housing Developers Association (REHDA) in Selangor and are categorised as large companies with working capital of more than RM10 million (REHDA 2008). The selection of large companies was necessary because more than 70 percent of low cost houses in the Selangor were built by the large companies. The poor response from the private housing developers was expected due to unwillingness among the developers to openly discuss issues related to the low cost housing allocation system, which is politically very sensitive, especially after the general election. An interview with a representative from each of the private developers was conducted to gather feedback on the issues related to low cost housing allocation and relationships with other key players, especially the State government and the low cost house buyers. The interviews and discussions with the representatives of the housing developers were also used to identify the low cost housing project and the house buyers for the next stage.

In Stage 5, a group of house buyers from the Sri Damansara Sdn Bhd project was identified to gather feedback on the role played by the state and market in low cost house registration and the allocation process. Justification for the selection of the Sri

Damansara low cost housing project and the buyers for the focus group interview will be offered in the next section. A focus group interview was conducted with selected low cost house buyers from Sri Meranti Low Cost Apartments in Bandar Sri Damansara, Petaling Jaya. Bandar Sri Damansara is situated in Petaling Jaya, Selangor near the northeast border of Kuala Lumpur under the jurisdiction of Petaling Jaya City Council (PJCC). Sri Damansara is surrounded by Sungai Buloh in the north, Kepong in the north east and Damansara in the south (see Figures 3.4 and 3.5). The developer for this project is Sri Damansara Sdn Bhd, a subsidiary of Land and General Bhd, a company listed on the Kuala Lumpur Stock Exchange (KLSE) and the Singapore Stock Exchange (SSE). Therefore, Sri Damansara Sdn Bhd is considered to be a large developer with strong financial backup. The development of Bandar Sri Damansara began in 1988 with the launch of a 150-acre Industrial Park. Bandar Sri Damansara covers an area of 1,260 acres of freehold land which was approved for 14,026 units of mixed development (see Table 3.2).

Table 3.2: Background of Bandar Sri Damansara

Developer	: Sri Damansara Sdn Bhd
Development Commenced	: 1988
Completion	: Still on-going
Land Area	: 1,260 acres
Land Use Components	: Residential – 13,287 units, Commercial – 152 units Industrial – 587 units
Population	: Approx. 61,000 people (average 4.6 per household)

Source: Sri Damansara Sdn Bhd, 2008

In terms of housing development, a total 13,287 units of single-storey and double-storey houses, condominiums, apartments, semi-detached homes and bungalow lots were launched and delivered to the purchasers. Of that figure, a total of 3,530 units are low cost houses developed in five phases since 1995 (see Table 3.3). Also of that figure, 37.7 percent are high cost housing, 35.7 percent are medium cost housing and 26.6 percent are low cost housing. However, in 2002, the State government reviewed the low cost housing quota and reduced the figure to 20 percent in line with declining demand for low cost houses (SHPB 2003). Therefore, the total number of low cost houses in Sri Damansara is still higher than the minimum requirement set by the State government.



Figure 3.4: Location of Bandar Sri Damansara in Selangor
 Source: Town and Country Planning Department, Selangor

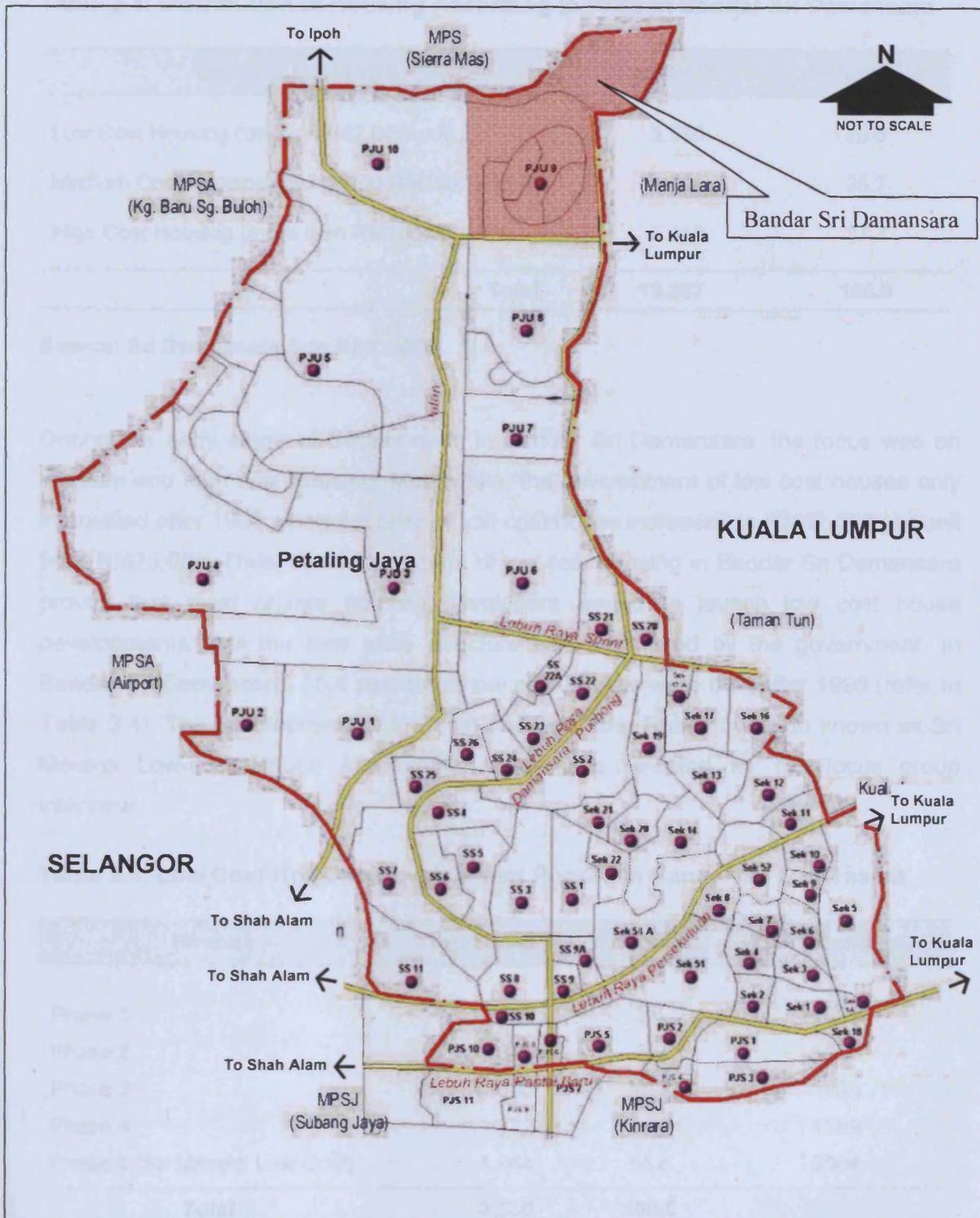


Figure 3.5: Bandar Sri Damansara Location Within Petaling Jaya City Council Area

Source: Petaling Jaya City Council, 2008

Table 3.3: Distribution of Housing According to Price in Bandar Sri Damansara

Housing Type/Price	Total Units	Percentage
Low Cost Housing (below RM42,000/unit)	3,530	26.6
Medium Cost Housing (RM42,000-RM100,00/unit)	4,744	35.7
High Cost Housing (more than RM100,000/unit)	5,013	37.7
Total	13,287	100.0

Source: Sri Damansara Sdn Bhd, 2008

During the early stage of development in Bandar Sri Damansara, the focus was on medium and high cost housing. Meanwhile, the development of low cost houses only intensified after 1998 when the price of low cost house increased to RM42,000 per unit from RM25,000. Thus, the development of low cost housing in Bandar Sri Damansara proved that most private housing developers waited to launch low cost house developments until the new price structure was introduced by the government. In Bandar Sri Damansara, 55.6 percent of low cost houses were built after 1998 (refer to Table 3.4). The development of low cost houses under Phase 5 is also known as Sri Meranti Low-cost House Apartments, which was selected for the focus group interview.

Table 3.4: Low Cost Housing Development Phases in Bandar Sri Damansara

Phases	Total Units	Percentage	Year of Completion
Phase 1	120	3.4	1995
Phase 2	314	8.9	1995
Phase 3	360	10.2	1998
Phase 4	772	21.9	1999
Phase 5 (Sri Meranti Low Cost)	1,964	55.6	2004
Total	3,530	100.0	

Source: Sri Damansara Sdn Bhd, 2008

3.5 METHODS OF DATA COLLECTION

Three methods of data collection were used in this research, namely analysis of documents, qualitative interviews and a focus group interview.

3.5.1 Analysis of Documents

Analysis of documents has been described as part of a wider interpretation of mute evidence which includes written texts and artefacts (Hodder 1994, p.393). In this study, documentary analysis focuses on written texts. Texts are important to qualitative research for various reasons. To this end, it has been pointed out, for example, that access to documents can be easy and low cost and texts endure and thus can shed light on historical insights. Texts or documents can also be used alongside other forms of evidence (Hodder, 1994, p.394), as is the case in this study where evidence is drawn from multiple sources. The application of documentary analysis in the study has meant that the researcher has been able to compare and cross check the information with data from other sources.

The use of text or documentary analysis allows this study to interpret the meaning of written words to illuminate the research issue. Unlike verbal evidence, documentary evidence has a high degree of physical endurance and can thus be detached or separated, both in space and time, from its originator, author or producer. In most cases of documentary evidence, therefore, there is very little scope for interaction between the researcher and the producer of the information or evidence. The interaction gap between researcher and source or producer of documentary evidence raises questions over issues such as context and the process which culminated in the production of the document under examination.

For this research several main sources of data for documentary analysis have been identified, including official government reports, documents, letters, press statements, minutes of meetings and seminar papers related to the establishment and implementation of the ORS. The key official documents related to the implementation of the ORS include the Guideline for Selection of Low Cost House Buyers under Open Registration System prepared by National Housing Department and minutes of meetings. Table 3.5 shows the key meetings related to ORS implementation from 2004-2006. The researcher attended several of these meetings, thus providing a better insight into the sentiments of Federal and State governments with regard to the

operation and implementation of ORS. However, some of the early reports and documents related to ORS could not be traced during the data collection stage due to poor record management and the difficulty of accessing the archive materials. Therefore, the analysis of documents is based on various sources in order to gain an overall picture of the establishment of ORS and policy changes.

Table 3.5: Key Meetings Related to ORS 2004-2006

No.	Meeting/Date/Venue	Chair/Attended by
1.	National Housing Council Meeting No. 1/2004 13 th May 2004 / Istana Hotel, Kuala Lumpur	Chaired by Minister of Housing and Local Government Malaysia and attended by all State government representatives (EXCO Member)
2.	Improvement of Computerised Open Registration System and Low Cost House Allocation Committee Meeting No. 1/2004 8 th June 2004 / MHLG HQ, Kuala Lumpur	Chaired by Chief Secretary of Ministry of Housing and Local Government Malaysia and attended by all State government representatives (State Secretary)
3.	Meeting to Discuss Amendment to Standardised ORS Application Form 1st December 2004 / MHLG HQ, Kuala Lumpur	Chaired by Director, Planning and Coordination Section of National Housing Department and attended by all State government representatives (Housing Secretary/Director)
4.	Meeting Related to Adopting Standardised Form for Open Registration System No.1/2004 22 nd December 2004 / MHLG HQ, Kuala Lumpur	Chaired by Chief Secretary of Ministry of Housing and Local Government Malaysia and attended by all State government representatives (State Secretary)
5.	National Housing Council Meeting No. 1/2005 27 th Jan 2005 / Pan Pacific Hotel, Kuala Lumpur	Chaired by Minister of Housing and Local Government Malaysia and attended by all State government representatives (EXCO Member)
6.	Meeting to Discuss the Implementation of Standardised ORS No. 1 3 rd October 2005 / MHLG HQ, Kuala Lumpur	Chaired by Director, Planning and Coordination Section of National Housing Department and attended by all State government representatives (Housing Secretary/Director) and an IT Consultant
7.	Meeting to Discuss the Implementation of Standardised ORS and Launching Ceremony by Prime Minister 7 th March 2006 / MHLG HQ, Kuala Lumpur	Chaired by Director General of National Housing Department and attended by all State government representatives (Housing Secretary/Director) and an IT Consultant
8.	National Housing Council Meeting No. 1/2006 18 th September 2006 / Hotel Seri Pacific, Kuala Lumpur	Chaired by Minister of Housing and Local Government Malaysia and attended by all State government representatives (EXCO Member)

Source: Ministry of Housing and Local Government Malaysia, 2004-2006

3.5.2 Qualitative Interviews

The interviews were targeted towards knowledgeable informants in various contexts such as government departments at State and Federal government, the private housing developers and people who have vast knowledge of ORS. Qualitative interviews were used because they provide deeper insights into knowledgeable informants, most of whom were professional persons involved directly with the low cost housing allocation process at the time of the study. King (1994 p.14) describes the qualitative interview as an interview aimed at gathering descriptions of the life-world of the respondent in terms of "interpretation of meaning.." of phenomenon being researched. The qualitative interview does not seek to generate quantifiable data. It seeks to build an understanding of the research issue from the interviewee's perspective, as well as how and why the respondent adopts a particular perspective. In general, qualitative interviews have certain distinct characteristics; for example, a minimal structure in terms of questions is imposed by the researcher on the respondent, which focuses on specific situations, events and action sequences in the realm of the respondent's context rather than general opinions outside this domain.

The interaction between the researcher (interviewer) and the researched (interviewee) is an important feature of the qualitative interview. More interaction and rapport is an essential component in accessing the insights required by the researcher in qualitative research. The development of a relationship between the two parties is a useful part of the research rather than a distraction. One of the most important strengths of qualitative interviews is flexibility. The interview can be used to focus on decision making processes within the groups and organisations. The qualitative interview can also be used to examine topics which have different meanings to respondents such as attitudes and perceptions. The qualitative interview method also gives informants an opportunity to talk freely about their own work and experiences, which is difficult to achieve in structured interviews which use closed questions. The opportunity to talk freely has been observed as a way of stimulating enthusiasm in the interviewee, as they reveal their knowledge and beliefs.

However, the qualitative interview method also has its own weaknesses. It is time consuming to conduct qualitative interviews, especially in terms of securing suitable and convenient appointments. Moreover, analysis of the collected data is also labour intensive and time consuming. Analysis of qualitative data seemed to be the most valuable as a progressive and iterative process, but the researcher was also under

pressure to implement other aspects of research strategy rather than devoting all his attention to qualitative interviews. The limited time available for the research thus limited the extent of iteration. Also, considerable skills were needed by the researcher to distinguish between valuable data and information of no value, since some informants, despite the semi-structured nature of interviews, would digress with little scope for repeated interruptions by the researcher without antagonising them. Some respondents, although with prior permission to be interviewed, were unable to reveal certain types of information i.e. information related to ORS data. Despite the problems of qualitative interviews, this was an important method for this study in generating in-depth insights from individual knowledgeable informants. In the context of the use of multiple methods in the case study research strategy, the combined strength of other methods used in this study is expected to have minimised the inherent weaknesses of qualitative interviews.

The advantage of individual interviews is that they provide an in-depth understanding of a person's opinions. There are three types of interview. According to Fielding and Thomas (2001), unstructured interviews require some preparation beforehand. The interviewers have a list of topics, and they should be kept constantly in mind. This type of interview is characterised by a minimum of control over the informant's responses. The questions are asked in any order that seems sensible in the interviewing process. Meanwhile, semi-structured interviewing requires all the skills of unstructured interviews, but is based on the use of an interview guide (Bernard, 1995). This is a written list of questions and topics that need to be covered in a particular order. Although this type of interview will follow the order of questions or topics, the sequence can still be changed and more information probed for or an uncertain situation met. The interviewer can thus adapt the research instrument to the level of comprehension of the respondent. It is common that people often provide answers to questions which might be asked later, according to the sequence.

Finally, a structured interview provides the same order and the same questions to the informants (Fielding, et al. 2001). One variety of structured interview involves the use of an interview schedule – an explicit set of instructions to interviewers who administer questionnaires orally. The structured interview is appropriate when the researcher already has some ideas and an understanding of the research questions and the research topic. The three typologies of interviews have their own advantages and disadvantages. Thus, they are suitable according to different situations, backgrounds and the needs of the research.

The interviews can be divided into two main categories. One is the administered or face-to-face interview and the other is the self-administered interview. According to Bernard (1995), face-to-face interviews have several advantages and disadvantages. The process of the interview can be controlled to probe for more complete data, for example, the time allocated for the interview can be extended. During the interview process, it is possible for the interviewer to apply different data collection techniques e.g. open ended questions or the use of visual aids. With the face-face interview, the interviewer knows who is answering the questions. Nonetheless, Bernard also mentions several disadvantages, particularly the fact that face-to-face interviews require high skill to administer a questionnaire. Sometimes it is still difficult to achieve the target that the interviewer may expect. The cost in terms of both time and money is higher and the number of interviewees over a certain period of time would be less.

Meanwhile, the advantages of the self-administered questionnaire are that the interviewee can use more time to find information for their response. Self-administered questionnaires also allow a single researcher to gather data from a large, representative sample of respondents at a relatively low cost. At the same time, interviewer's bias can be reduced since all the informants receive the same questions. The interviewer can put more questions to more informants compared to face-to-face interviews. The disadvantages of the self-administered questionnaire include a lack of control of the interpretation of the questions by the people. Another problem is the generally low response rate from self-administered questionnaires. Even if a questionnaire is returned, it is sometimes not known whether the questions were answered by the right person.

This study used face-to-face semi-structured interviews with knowledgeable informants (refer to **Appendix 1** for a questions guide to the semi structured interview). The knowledgeable informants are mostly people attached to organisations within both public and private sectors. In most cases, informants held positions of responsibility and, by virtue of being in important positions, they had a better understanding of overall organisational roles and objectives. They were, in most cases, in a better position to shed light into operations of the ORS at the Federal or State level. The knowledgeable informants were selected based on both the researcher's intuition and on recommendations from other knowledgeable informants (see Table 3.6).

Table 3.6: List of Informants for Qualitative Interviews

Reference/ Date of Interview	Organisation	Position	Age	Working Experience	Responsibility
STAGE 2: FEDERAL OFFICERS					
Federal Officer 1 (16/4/2008)	National Housing Department	Retired Deputy Director General of NHD	57	More than 20 years in MHLG/ NHD	Member of ORS establishment team and further development
Federal Officer 2 (31/3/2008)	Ministry of Housing & Local Government	Senior Assistant Director	53	15 years in MHLG	Member of ORS establishment team
Federal Officer 3 (2/4/2008)	National Housing Department (NHD)	Assistant Director	31	5 years in NHD	Current Officer in- charge of ORS in NHD
STAGE 3: STATE GOVERNMENT OFFICER					
State Officer 1 (15/4/2008)	Selangor Housing and Property Board (SHPB)	Assistant Director	33	7 years with LPHS	Current Officer in- charge of ORS in the State of Selangor
STAGE 4: PRIVATE HOUSING DEVELOPERS					
Housing Developer 1 (17/4/2008)	Sri Damansara Sdn Bhd	Sales & Marketing Manager	32	10 years with the company	Sales manager dealing with house buyers
Housing Developer 2 (19/4/2008)	Setia Alam Sdn Bhd	Sales & Marketing Manager	33	8 years with the company	Sales manager dealing with house buyers
Housing Developer 3 (20/4/2008)	SPPT Sdn Bhd	Sales & Marketing Manager	34	13 years with the company	Sales manager dealing with house buyers
Ex-Housing Developer 1 (6/5/2008)	Previously worked with Sri Damansara Sdn Bhd	Town Planning Manager	40	10 years work with the company	Officer in-charge dealing with State government 1997- 2005 on ORS

Source: Author

However, several problems were encountered during the interviews with knowledgeable informants. Since the fieldwork was conducted right after the country's 12th General Election in March 2008, some identified informants refused to participate in the research. The reason they gave was that they were too busy after the election. However, in reality, most officers are not comfortable talking about the low cost housing allocation policy, particularly in the State of Selangor which is under a new coalition government known as Pakatan Rakyat (People's Coalition). Even those willing to be interviewed were very cautious with their answers and avoided giving too much information during the interviews.

The digital voice recorder data from the qualitative and focus group interviews was then transferred onto a computer for analysis. Full interview transcripts were prepared and analysed using Nvivo 8 software. The use of Nvivo 8 allowed the researcher easy access to data and identified the themes for the analysis. Since the interviews were conducted in both Malay (government officers and low cost house buyers) and English (private housing developers) language, the original transcripts still maintain the language used by the informants. The reason was to ensure the meaning was not lost during the translation process. Translation is only done when quotations from specific interviews are used in this thesis.

3.5.3 Focus Group Interviews

Many academics suggest that focus group interviews or discussions should be arranged between four to 12 people to discuss the topic of concern for a one or two hour session with the guidance of a moderator (see Cronin, 2001; Hakim, 2000; Morgan, 1997; Kitzenger and Barbour, 1999). They further suggest that a focus group of four to five people is better for a more in-depth discussion. Focus groups can provide the opportunity to observe a large amount of interaction on a topic in a limited period of time. This social science research approach provides direct evidence of the similarities and differences in the participants' opinions and experiences, as opposed to the researchers.

The focus group interview was initially applied in market research and political opinion research (Yates, 2004). The approach of focus groups has also been regarded as a form of "group in-depth interviewing". As with in-depth interviews, focus groups should have a topic, an object, a text or some other "focus" instead of simply a general discussion. There should be at least one "moderator" or "facilitator" in the focus group. The task of the moderator is to ensure that the discussion addresses the topics in the schedule for the focus group. The level of interaction between participants, which ultimately will affect the type of data produced, is largely dependent on the role taken by the group moderator or facilitator.

Cronin (2001) divided moderation into two levels. The first level is low-level moderation, which means that the moderator's role in the discussion is kept to a minimum. In this scenario, the moderator usually introduces the broad topic and then withdraws from the discussion. The data and information from the discussion are entirely dependent upon the interaction of the group members. The second level is high-level moderation. This means that the moderator operates a high degree of control over the direction and nature of the discussion. The moderator asks the questions in a specific order and there is little opportunity for participants to deviate from the topic or to raise topics of concern to them. This approach may be appropriate to achieve a very precise sort of information. However, this type of moderation is not suitable for gaining in-depth qualitative material about attitudes, behaviour and experience. In practice, the majority of focus group interviews are operated at a level of moderation somewhere in between these two levels. The moderator, who would be ready to interject, asks questions and probes for further information when necessary, and normally guides the focus group interviews.

The fundamental way of generating qualitative data in the study of social phenomena through focus groups is listening to and learning from what people say. Therefore, a good focus group is thus an interactive and communicative process between the researcher and the group participants. The focus group belongs to the qualitative research approach and is therefore used with a view to generating a richer understanding of participants' perceptions, aspirations, experiences, beliefs and concerns over a given phenomenon. As part of the qualitative methodological approach, focus groups share three of the inherent strengths of the research domain, as described by Morgan (1998), namely: exploration and discovery, context, and interpretation. In the context of this study, exploration and discovery is pertinent to the research issue, as it is both under-researched and under-documented in Malaysia. Therefore, there is a need to explore and discover from the point of view of a low cost house buyer. The context provided by the case study of ORS is unique in terms of the role of the state in housing.

One strength of the focus group interview is its reputation for being "quick and easy" (Morgan 1997, p.13), because this approach not only gives access to reports on a wide range of topics that may not be observable, but also ensures that the data will directly target the interests of the research. However, in addition to being fast and easy, it also has disadvantages. It may not provide data that is as in-depth and personal as interviews. The advantage of focus groups is that they yield additional

reactions, as people react to views with which they disagree. The focus group discussion involves the exploration of ideas and the interpretation of what people say. However, it differs from the individual interview in that the focus group is dependent upon interaction between participants. Focus groups do not replace individual interviews and surveys, but rather complement them.

Meanwhile, Krueger (1997) has identified several limitations of this method, namely time and attention, clarity, culture and language. Firstly, in terms of time and attention, focus groups normally last between one and two hours. This is a typical and recommended time limit. If the discussions proceed beyond this time limit, there is a danger that participants will start losing interest and their attention with regard to the research issue will correspondingly decline. This hurdle was overcome through the use of an interview guide and therefore none of the interviews lasted for more than an hour. Secondly, regarding clarity, there is a need to ensure that the concepts used in the focus group interviews are understood by the participants. Failure to ensure conceptual clarity by the researcher may generate ambiguous and varying responses on the research issue. This has the potential effect of compromising the quality of data.

Thirdly, culture may have a significant impact on the types of questions which are suitable for a focus group. Depending on the research issue, some cultures may be candid and receptive while others may be less approachable. As the study was conducted in the researcher's own country, he was reasonably familiar with local expectations. Finally, language is a critical aspect of the success of data generation from focus groups, both from the participants' and the researcher's point of view. Without a common language, there is bound to be a serious communication breakdown in the operation of the focus groups. It was noted at the beginning of this section that the hallmark of focus group qualitative data acquisition lies in its interactive and communicative process. It is absolutely essential that the language used in focus group discussions be normally understood by all the agents in the process. Although it is possible to use interpreters, it is warned that "Conducting focus groups through an interpreter is not only difficult and tedious, but also of questionable research value" (Krueger, 1997, p.51).

In focus group discussions, it is possible for the informants to report inaccurate data. They may also withhold their views in public for certain reasons. Bernard (1995) proposes several reasons to explain why informants report inaccurate data about matters of externally verifiable fact in the focus group interview. One reason is that the

informants may talk about what they suppose happened, rather than what they actually saw. The second reason is that they may be misled by what they see according to their own prejudices. It is often the case that memories may not be accurate or correct. It is even possible that the informants may not like to tell the truth because they may not understand or know it. Besides, they sometimes may try to mislead the interviewer for other reasons. There is another important reason; some participants withhold things that they might prefer to say in private.

Cronin (2001) suggests four criteria necessary for a successful focus group discussion: range, specificity, depth and personal context. Range refers to ensuring the maximum number of relevant topics to be covered in the focus group schedule. It is necessary to consider both the interviewer's idea of issues for discussion and participants' likelihood of raising the topics that interest them. Specificity means that one of the targets of the facilitator is to encourage participants to go beyond the abstract to explore more from their actual live experience. This second criterion helps to shed light on the sources of attitudes and beliefs and add clarity and depth to the points being made, which is the third criterion. The fourth criterion of personal context is to take account of the participants' lives. In other words, it is necessary to consider the social role the participants perform and the social category to which they belong. With attention to such issues, a better insight can be gained into the social construction of people's attitudes and beliefs.

In the case of this research, the response from the low cost house buyers was very good. A focus group interview consisting of 13 Sri Meranti low cost house buyers was conducted on 26th April 2008 (see Table 3.7) based on a semi-structured questionnaire (refer to **Appendix 2** for the question guide for the focus group interview). The researcher himself acted as the moderator with an assistant to record the conversation and note the reactions of the participants. During the session, all the participants were actively involved in the discussion and expressed their thoughts freely; the session lasted for two hours. Since there is no buyer's list available from the developer or the State government, the selection of participants was made randomly with help from the Sri Meranti Resident Association President. Another difficulty was to identify the owner of the house according to race. Therefore, no non-Bumiputera participants were involved in the interview. Meanwhile, all the participants were male, since none of the female buyers were willing to participate in the interview due to the cultural and religious belief that the male is the head of the household. Thus, the majority of the buyers are male and it was very difficult to find a female house owner for the interview.

The age of the participants ranged between 30 to 43 years and all were still of active working age. Meanwhile, the main occupations of the participants are: factory production operator, clerk, salesman and general labourer located either in Petaling Jaya or Kuala Lumpur. It is interesting to note some of the participants revealed they are buying a low cost house through channels other than registration through ORS. The analysis in the next section will focus on the low cost house buyers' experiences and their perception of the State government intervention in the private sector low cost housing allocation.

Table 3.7: List of Participants of the Focus Group Interview from Sri Meranti Low Cost Apartments (Stage 5)

Reference	Gender	Race	Age	Occupation	Workplace	Register with ORS
Buyer 1	Male	Bumiputera	38	Technician	Kuala Lumpur	No
Buyer 2	Male	Bumiputera	41	General Labourer	Petaling Jaya	Yes
Buyer 3	Male	Bumiputera	43	Salesman	Kuala Lumpur	Yes
Buyer 4	Male	Bumiputera	39	Fishmonger	Kuala Lumpur	Yes
Buyer 5	Male	Bumiputera	40	Production Operator	Petaling Jaya	Yes
Buyer 6	Male	Bumiputera	32	Clerk	Petaling Jaya	Yes
Buyer 7	Male	Bumiputera	41	General Labourer	Petaling Jaya	Yes
Buyer 8	Male	Bumiputera	41	Production Operator	Petaling Jaya	Yes
Buyer 9	Male	Bumiputera	38	Production Operator	Kuala Lumpur	Yes
Buyer 10	Male	Bumiputera	30	Bank Clerk	Petaling Jaya	No
Buyer 11	Male	Bumiputera	34	Production Operator	Petaling Jaya	Yes
Buyer 12	Male	Bumiputera	38	Clerk	Petaling Jaya	Yes
Buyer 13	Male	Bumiputera	38	IT Salesman	Kuala Lumpur	Yes

Source: Focus Group Interview, 2008

3.6 VALIDITY AND RELIABILITY ISSUES

The concepts of reliability and validity are often used either closely or interchangeably (Neuman, 1997 p.145). However validity is the most prominent or widely used of the two. It has been argued that reliability is necessary for validity and it is also easier to achieve than validity (Neuman, 1997, p.145). Although reliability is necessary to achieve the valid measurement of a concept or construct, it does not guarantee validity. In other words, reliability is a necessary, but not sufficient, condition of the achievement of validity, since a measure can produce the same result many times (i.e. be reliable), but without necessarily matching the definition of the construct (i.e. be valid). It is apparent that there are problems in defining the concepts of validity and reliability. There is also a lack of one agreed definition of validity and it has been argued that the concept has been overused and confused with related ideas, according to Neuman (1997 p.145). There are several definitions of validity in quantitative research, in which validity relates to description and explanation. It is about whether the explanation fits or fails to fit the description (Janesick, 2000). Validity is concerned with the credibility of explanation. There is not a single way, no one "correct" interpretation of an event or issue.

In fact, construct validity is always a major issue highlighted by people who criticise the case study design. They point out "...the fact that a case study researcher fails to develop a sufficiently operational set of measures and that 'subjective' judgement are used to collect the data" (Yin, 2003 p.35). However, Yin suggests, in order to meet the test of construct validity, a researcher must cover two steps. Firstly, they must select the specific types of changes that are to be studied and, secondly, must demonstrate that the selected measures of these changes do indeed reflect the specific types of change that have been selected. Thus, in the context of this study, the changes in the role of the state and market will be studied and the measurement used will be the housing commodification-decommodification level/degree discussed earlier in the literature review.

The second issue is related to external validity in order to know whether a study's findings are generalisable beyond the immediate case study. The problem of external validity has been a major barrier to conducting case studies (Yin, 2003, p.37). However, Yin explains that generalisation is not automatic and a theory must be tested by replicating the findings in other areas. Once such direct replications have been made, the result might be accepted as providing support for the theory. Thus, a similar

study on ORS implementation and operations in other States in Malaysia can also be carried out based on the result of this research.

In terms of the reliability of case study design, the objective is to ensure later researchers can follow the same procedures as described by an earlier researcher and conduct the same case study all over again (Yin, 2003, p.37). The goal is to minimise the errors and biases in a study. Yin also suggests that the researcher should follow case study protocol to maintain reliability. This is because, in the past, case study research procedures have been poorly documented, making external reviewers suspicious of the reliability of the case study (Yin, 2003, p.38). The general way to solve the issue is to make as many steps as possible operational so others can check their reliability. Every piece of information and procedure necessary to conduct this research has been well documented for the reference of future researchers who may seek to study the ORS.

3.7 ETHICAL ISSUES

Ethical practice is an important consideration in the conduct of social research. Ethics have been defined as what is or not legitimate or right to do, or what a 'morally correct' research procedure should entail (Neuman, 1997, p.443). In some instances, a researcher may resort to short-cuts which culminate in unethical practice because they may be under some form of pressure such as time. According to Swetham (1997 p.16), the achievement of ethical research practice is based on several elements; for example, no harm should be inflicted on participants in a research project, either physically, mentally or socially. Secondly, care should be taken not to exploit vulnerable groups. Thirdly, no physical or environmental damage should be caused by a research project. Fourthly, participants in a research project should, wherever possible, be fully informed of the nature of the work and should give their consent rather than being forced or hoodwinked into participation. Fifthly, anonymity, confidentiality and privacy, where requested, should be guaranteed and honoured. Finally, researchers have a duty to ensure that they do not bring their own institutions or affiliations into disrepute.

According to Bulmer (2001), ethics is a matter of principled sensitivity to the rights of others. From an ethical point of view, respect for human dignity is more important than the observation of the truth. Those ethical considerations influence all scientific

research and, when the research is designed, the ethical implications should be treated as a key issue. During social science research, a study needs to be ethically sound. The possible ethical issues within this study have been dealt with, as have concerns over how the names of respondents are used, how the data will be published, how the anonymity of individual respondents will be preserved, and how the confidentiality of the final data will be safeguarded.

Yates (2004, p.160) raises seven issues of concern in ethics, namely gaining access to participants: what is your route in? Secondly, getting past the “gatekeepers”: who controls access? Those people may control or have power within the research context you are proposing to explore. The third issue is informed consent: how much do you tell the participants? How much do you tell the participants about the research project? In many cases researchers do not wish to overly inform participants in case this knowledge will impact on how they respond in an interview. The fourth issue is deception: are there grounds for deceiving the participants? In nearly all cases the answer to this question is “no” on principled moral and ethical grounds.

The fifth issue is right to privacy: how private are the things being discussed? To what extent do the participants wish to be identified as the individuals involved in the research? This is followed by the sixth issue, the right to withdraw: how do participants get out of research? Finally, self-presentation: how do you present yourself in the interview/research context?” Ethical research therefore requires a concerted effort to strike a balance between the value of advancing knowledge against the value of maintaining non-intrusion or non-interference in the lives of other people affected by research (Neuman, 1997 p.445).

Permission from the relevant authority in Malaysia was obtained prior to fieldwork from the Ministry of Housing and Local Government Malaysia (refer to Appendix 3 for a letter of approval to conduct the study from MHLG). Since most information related to ORS was classified as confidential, the ministry could not release specific individual records or the latest data from the ORS database. Permission was also granted to access selected ministry officials for in-depth interviews. However, in Malaysia there is no need to gain permission from the government to study low cost house buyers. All informants were also required to sign the informed consent form prior to the interview. The approval from the University Research Ethic Committee was also obtained prior to conducting the fieldwork in March 2008.

3.8 CONCLUSION

This chapter has discussed the methodology of the research. The choice of the qualitative research paradigm was influenced by the objective of the research to seek an explanation and understanding of the relationship between the key players. The objective of this qualitative research was to interpret the account of the ideas, perceptions, beliefs and behaviours of various agents involved in the low cost housing allocation process, based on the ORS case study. Therefore, the study is more inclined towards a critical realism perspective rather than social constructionism. In this context, the study is both explanatory in that it examines and documents a topic which is both under-documented and under-researched in Malaysia.

The general research strategy based on the case study approach was the application of multiple methods, within which diverse research methods, especially data and information collection, were applied simultaneously and cross checked to minimise the weaknesses of each individual method. Two categories of sources of data i.e. documentary analysis and interviews spanning three methods and techniques of data collection were used in this study to generate and triangulate evidence on the study phenomenon. The first was the use of qualitative interviews based on a semi-structured questionnaire targeting knowledgeable informants. The results of the interview are presented in Chapters 6 and 7. The second method was documentary analysis. Much of the documentary evidence was from secondary sources. The review of secondary documentary evidence provided general and background information and much of this forms the basis for Chapters 4, 5 and 6 of this study. Meanwhile, the focus group interview was the third source of evidence used in this study. The focus group interview was targeted towards low cost house buyers from a selected project identified during the fieldwork. The evidence from the focus group interview is mostly incorporated into Chapter 7.

The issues of validity and reliability were also addressed in this research to ensure it follows the usual case study protocol as suggested by Yin (2003). Prior approval from related bodies on research ethics and in order to access sensitive materials was also obtained before the fieldwork was conducted in Malaysia.

CHAPTER 4:

HOUSING PROVISION IN MALAYSIA

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HOUSING PROVISION IN MALAYSIA

4.1 INTRODUCTION

Malaysia has experienced rapid economic development with rising per capita income and urbanisation, particularly since the early 1990s (World Bank, 1993, p.1). Thus, the pressure on housing is enormous, particularly among people with a low income. More people are demanding a better quality of housing in line with rising income, but at the same time thousands still live in poor conditions in squatter settlements throughout the country. The social and economic changes experienced by the people necessitate improvements in housing conditions. As a multiracial country, housing provision has played an important role in nation building and political stability in Malaysia. The changes in the global political economy towards neo-liberalism and a market economy over the last 30 years have clearly directly influenced Malaysia's housing policy.

The purpose of this chapter is to discuss the impact of the changes to the political economy and housing provision in Malaysia from the late British Colonial period until 2005. The discussion will begin with an understanding of Malaysia's changing political economy before exploring an in-depth analysis of the role of the state and market in housing provision using the Structure of Housing Provision (SHP) approach. The chapter will be divided into three sections to discuss Malaysia in general, the impact of changes to the political economy regarding housing provision and, finally, discussion of developmental state debates and housing provision in the context of Malaysia.

4.2 MALAYSIA IN GENERAL

The Federation of Malaysia, formed in 1963, originally consisted of Malaya, Singapore, Sarawak and Sabah (Singapore left the Federation in 1965). Malaya is now known as Peninsular Malaysia, and the two other territories on the island of Borneo are known as East Malaysia. Prior to 1963, these territories were under British rule for varying periods from the late eighteenth century. Malaya gained independence in 1957, Sarawak and Sabah (the latter known previously as British North Borneo) in 1963. Currently, the Federation of Malaysia consists of 14 States including Federal Territory and covers an area of 329,750 sq. km (see Figure 4.1).

In 2010, the population of Malaysia was 28.3 million comprising 61.4 percent Bumiputera, 23.7 percent Chinese, 7.1 percent Indian and 7.8 percent others/non-citizens (Department of Statistics Malaysia, 2010). Bumiputera literally means 'son of the soil' (Roslan, 2001, p.2). Malay are the main Bumiputera in Peninsular Malaysia, meanwhile in Sabah there are Kadazan, Bajau and Murut. In Sarawak they are Iban, Malay, Bidayuh and Melanau. Therefore, Malaysia has one of the most complex ethnic mixes in South East Asia (Funston, 2001, p.160). Bumiputera show the highest growth rate compared to other ethnic groups which has risen from 49.8 percent in 1957 to 61.4 percent in 2010 (see Table 4.1). The largest population is concentrated along the west coast of peninsular Malaysia, especially in the Klang Valley region, with 55 percent of Bumiputera living in urban areas. The State of Selangor has the highest population in Malaysia, numbering 5.1 million in 2010.

Table 4.1: Population of Malaysia According to Ethnic Group 1957-2010

Ethnic	1957	1970	1980	1991	2000	2010
Bumiputera	3,125,474 (49.8%)	5,78,250 (55.6%)	7,782,813 (59.2%)	10,299,903 (58.6%)	14,248,179 (61.2%)	17,306,684 (61.4%)
Chinese	2,333,756 (37.2%)	3,495,977 (33.9%)	4,167,053 (31.7%)	4,623,882 (26.3%)	5,691,908 (24.5%)	6,701,111 (23.7%)
Indian	696,186 (11.1%)	933,250 (9.0%)	1,101,699 (8.4%)	1,316,086 (7.5%)	1,680,132 (7.2%)	2,007,506 (7.1%)
Others/Non-Citizens ¹	123,342 (1.9%)	151,847 (1.5%)	84,544 (0.7%)	1,323,549 (7.6%)	1,654,471 (7.1%)	2,205,428 (7.8%)
Total	6,278,758 (100.0%)	10,319,324 (100%)	13,136,109 (100%)	17,563,420 (100%)	23,274,729 (100%)	28,274,729 (100%)

Note: ¹ Others category from 1991 Population and Housing Census include non-citizens

Sources: Department of Statistics, 2000 and 2010

Despite being a multiethnic country, since independence Malaysia has achieved a remarkable degree of political stability along with economic and social progress (Funston, 2001, p. 160). The United Malays National Organization (UMNO) is a dominant political party in Barisan Nasional (National Front). The UMNO, alongside the Malaysian Chinese Association (MCA), Malaysian Indian Congress (MIC) and other smaller parties formed a coalition government in 1955. The Barisan Nasional (known as Perikatan or 'Coalition' prior to 1971) has been in power at the Federal level from 1957 until the present day. Since independence, Malaysia has had six prime ministers namely Tunku Abdul Rahman (1957-1970), Tun Abdul Razak (1970-1976), Tun Hussein Onn (1976-1981), Tun Dr. Mahathir Mohamed (1981-2003), Tun Abdullah Ahmad Badawi (2003-2009) and Najib Tun Razak (2009 - to date). Dr. Mahathir Mohamed is the longest serving prime minister of Malaysia, as he held office for 22 years. During his tenure, Malaysia was transformed into the second-tier of Newly Industrialised Countries (NICs) in the 1990s.

Political stability has been the key factor behind Malaysia's continuous economic growth since independence. The most important achievement in terms of its economy is success in transforming the country from a commodity-based economy into one based on manufacturing; this change has occurred since the 1970s. Malaysia's economic growth since independence has been remarkable, with an annual Growth Domestic Product (GDP) of more than 5%, except for the periods of 1986-1987 and 1997-1998 during the recession which show negative growth (see Figure 4.2).

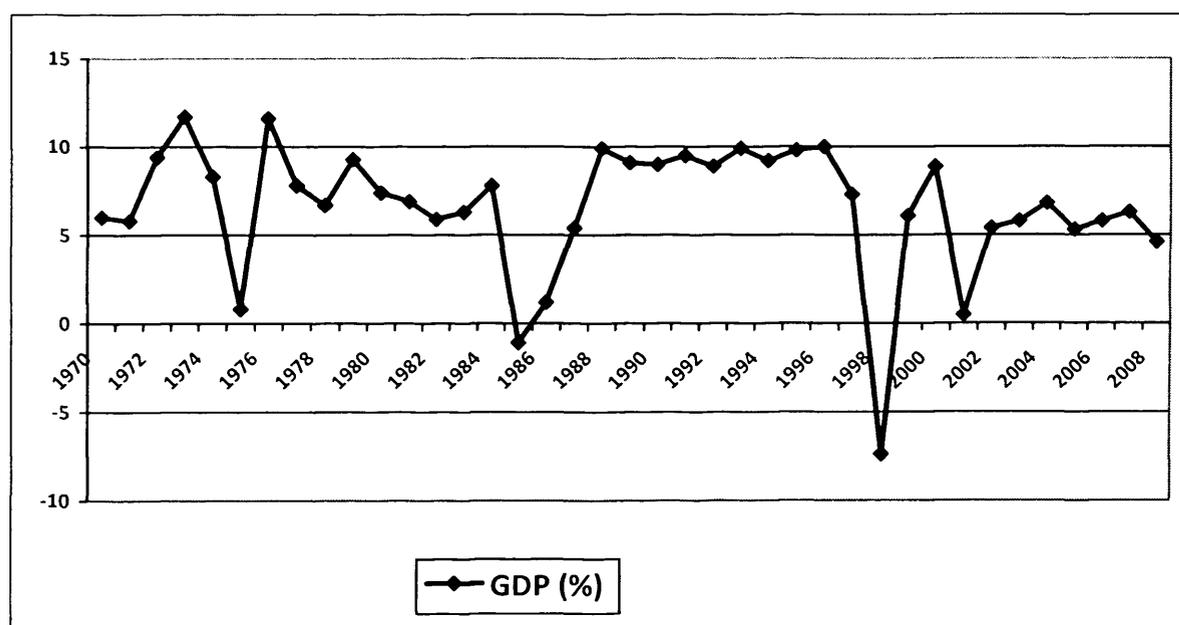


Figure 4.2: Malaysia's Annual Growth Domestic Product (GDP) 1970-2008

Source: The World Bank, 2010 (<http://data.worldbank.org/country/malaysia>)

In terms of household monthly income distribution, the mean household income increased substantially between 1957 and 2007, especially among the Chinese and Indian ethnic groups (see Table 4.2). The income disparity between the ethnic groups and between rural and urban areas is still present despite various efforts by the government to improve the situation. Bumiputera remain the lowest income earners and the majority still live in rural areas. This situation justifies the government's continuous efforts to reduce the income gap between ethnic groups and between urban and rural areas.

Table 4.2: Mean Monthly Gross Household Income by Ethnicity, Urban and Rural, 1957-2007

Ethnic	1957 (RM)	1967 (RM)	1970 (RM)	1979 (RM)	1989 (RM)	1999 (RM)	2007 (RM)
Bumiputera	134	154	172	492	940	1,984	3,156
Chinese	288	329	394	1,002	1,631	3,456	4,853
Indian	228	245	304	756	1,209	2,702	3,799
Rural	307	340	428	1,045	1,606	3,103	4,356
Urban	166	175	200	523	957	1,718	2,283

Source: Economic Planning Unit, 2010

Meanwhile, in terms of structure of government, Malaysia practices a constitutional monarchy and parliamentary democracy with a three-tier government structure, namely Federal, State and Local/District (see Figure 4.3). Federal executive power is vested in the cabinet led by the prime minister. The cabinet is chosen from among members of parliament and is collectively responsible to that body. The Malaysian Parliament consists of the *Yang di-Pertuan Agong* or king, the Senate (*Dewan Negara*) and the House of Representatives (*Dewan Rakyat*). Meanwhile, legislative power is divided between Federal and State legislatures. Malaysia's parliament was based on the Westminster model and makes Federal laws applicable to Malaysia as a whole (Funston, 2001 p.179). It also examines the government's policies, approves the government's expenditure and new taxes and also serves as the forum for criticism and the focus of public opinion on national affairs.

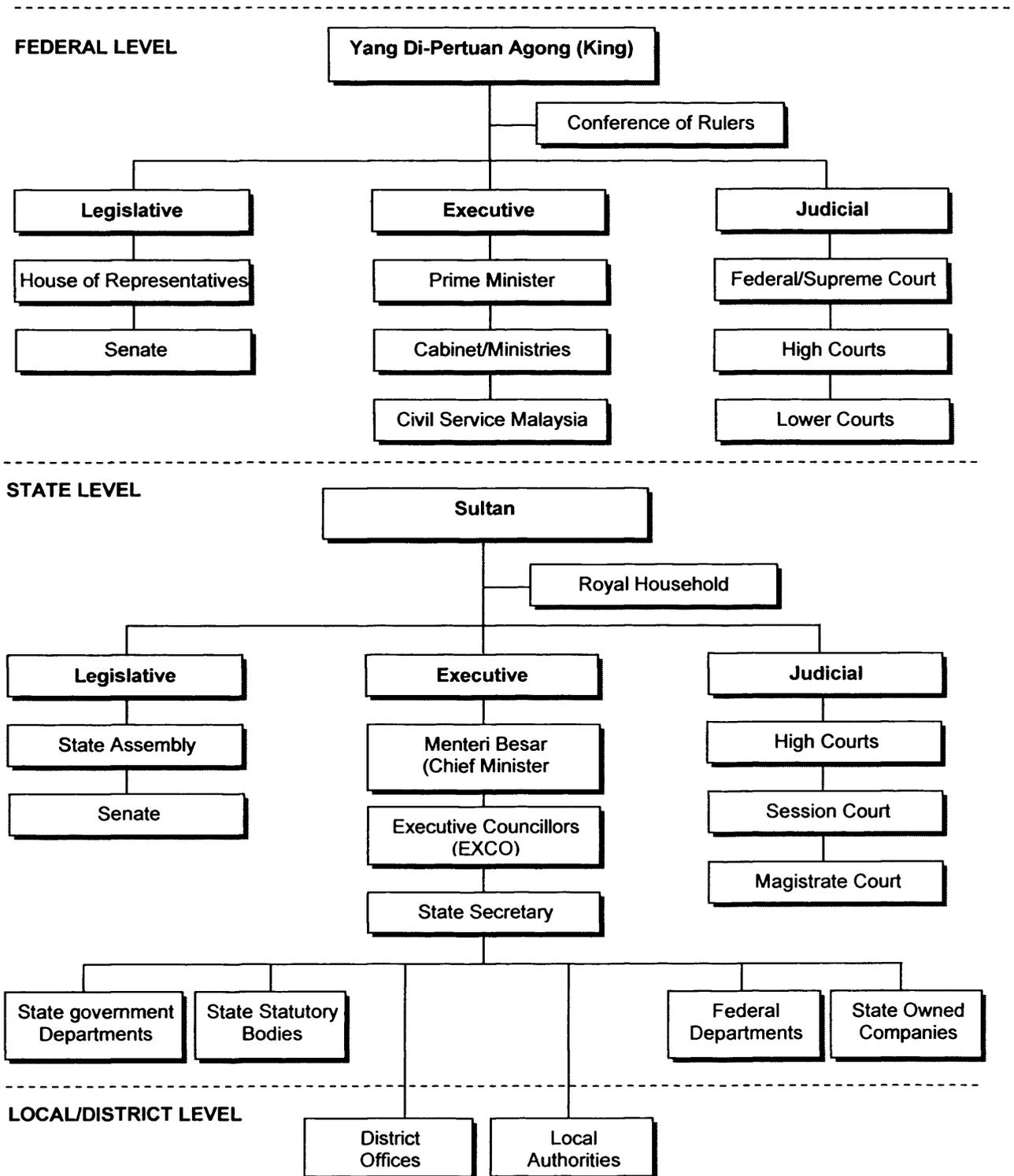


Figure 4.3: Structure of Government in Malaysia

Source: Public Service Department Malaysia (PSD), 2010 at www.jpa.gov.my

Malaysia's Federal Constitution clearly outlines the responsibility and division of power between the Federal and State government. The Federal government has authority over, among other things, external affairs, defence, internal security, civil and criminal law and the administration of justice (except for certain civil law cases among Malays

or other Muslims which are adjudicated under Islamic law), federal citizenship, finance, trade, commerce, industry, shipping, communications, transportation, power, education, medicine, health, labour and tourism. The State governments have, in their respective states, authority over, among others, land, local government and services of a local character such as markets, fairs, licensing of places of public amusement. Both the Federal and State governments have concurrent jurisdiction over, among others, social welfare, town and country planning, public health, sanitation, drainage, irrigation, housing and provisions for housing accommodation.

The State governments are presided over by ceremonial state rulers. The ruler acts on the advice of the State Executive Council that is chaired by the chief minister. All the states have unicameral legislatures and elections are held every five years. In states where there is no hereditary ruler, a governor is appointed by the king to be the ceremonial head of state. The State governments are led by chief ministers (Menteri Besar or Ketua Menteri), selected by the state assemblies. The state legislature has the autonomy to pass any law so long as it is consistent with Federal laws. Local government comprises two components: district administration and local authorities. District administration is the prominent administrative body at the district level for both the state and Federal governments. The District Officer usually heads the District Council and is responsible for the development of the district as a whole. There are two types of local governments: municipalities for large towns, and district councils for small urban centres. The State government appoints the mayor, chief administrative officer, and local councillors.

However, many political scientists describe federalism in Malaysia as highly centralised (Jomo and Hui, 2002; Moten and Islam, 2004). The most common issue highlighted in the research was related to the financial power held by the Federal government. In Malaysia, the Federal government is responsible for collecting all direct taxes such as income tax, import and export duties. Meanwhile, the State governments are only assigned to collect residual revenues related to land, real property, agricultural and forestry. Therefore, the State governments rely very much on Federal grants, including those for infrastructure development and public housing programmes. Over the last twenty years, State governments have surrendered various functions to the Federal government due to a lack of fiscal resources, including low income housing provision (Funston, 2001 p.190).

4.3 CHANGES TO THE POLITICAL ECONOMY AND HOUSING PROVISION IN MALAYSIA

Many scholars have published studies on the changes to the political economy in Malaysia since the British Colonial period (see Boo Teik, 2001; Jomo, 1999; Okposin et al., 1999). However, no previous research looks at the impact of the changes to the political economy in Malaysia in relation to the changing role of the state and market in housing provision. The aim of this section is to briefly discuss the impact of changes to the political economy on the role of the state and market in housing provision. Therefore, the existing literature on changes to the political economy of Malaysia will be used for analysis in this section. Malaysia has undergone different phases of political and economic development that have influenced the role of the state and market in the economy since independence.

Jomo (1999 p.85) explains Malaysian economic development planning has been primarily shaped by the nature of the ruling regimes and their respective visions for development. He distinguishes four different regimes of Malaysian development as Late Colonial Priorities (1950-1957), Alliance Laissez-Faire (1957-1969), Growing State Intervention (1970-1985) and Economic Liberalisation (1986-1997). Since Jomo's analysis was conducted only until the Asian Financial Crisis in 1997, the regime after the crisis was identified as Semi-autarchy (1998-present) according to Boo Teik (2001 p.194).

Meanwhile, the analysis of the changing role of the state in housing provision in Malaysia will use the Structure of Housing Provision (SHP) framework developed by Ball (1986). Various studies have used SHP as a research framework for explanation and comparison of different housing systems (see Ball et al., 1988; Wu, 1996; Li, 1998). The analysis in this chapter focussed on overall housing provision system in Malaysia, particularly the role of state and market in housing production and allocation. Land matters and housing finance will be discussed briefly in the analysis. A detailed analysis of low cost housing provision in Malaysia will be carried out in the next chapter.

A summary of housing policy development and the key players in housing is shown in Table 4.3. The key local and international policy documents which guide the housing policy formulation are also listed in the table. The summary is then followed by an analysis of changes to the political economy and their impact on housing provision.

Table 4.3: Summary of Housing Policy Development in Malaysia, 1950-2005

Theme/Period	Key Housing Issues	Focus of Attention	Key Housing Policy/Implementation Strategies	Key Documents/ Laws	Key Player
Late Colonial Priorities (1950-1957)	<ul style="list-style-type: none"> • Illegal squatters. • Overcrowding and slums in urban areas. • Housing shortage after the war due to lack of budget 	<ul style="list-style-type: none"> • Resettlement of people mainly from squatter areas during Malayan Emergencies into new villages. • Provision of housing for low income people in the urban areas 	<ul style="list-style-type: none"> • Building of 480 new villages throughout Malaya and resettlement of more than 500,000 people under military command. • Setting-up of the Government Housing Trust in 1951. 	<ul style="list-style-type: none"> • Malayan Union Housing Committee Report, 1947. • G. Rudduck Report, 1950 • Briggs Plan, 1952 • Housing Trust Ordinance, 1950 • 1st Malaya Plan (1956-1960) 	<ul style="list-style-type: none"> • Federal Government as key player in housing provision through The Housing Trust
Alliance Laissez-Faire (1957-1969)	<ul style="list-style-type: none"> • Housing shortage due to low production by the public and private sector. • Government priority for infrastructures & rural development. • Rural – urban migration increases after independence. 	<ul style="list-style-type: none"> • Encourage government servants and public to own their house under the Home Owning Democracy Program in 1961. • Emphasis on housing provision for low income people especially in the urban areas • Encourage private sector involvement in housing provision. 	<ul style="list-style-type: none"> • Setting-up of Ministry of Local Government and Housing in 1964 • State development agencies and large local authorities begin housing programmes. • The Housing Trust concentrates on building low cost houses. • Introduction of the industrialised system for housing construction. 	<ul style="list-style-type: none"> • 2nd Malaya Plan (1961-1965) • 1st Malaysia Plan (1966 – 1970) • Housing Developer Act, 1966 enacted 	<ul style="list-style-type: none"> • Federal and State government as key players in housing provision for low cost housing. • Private sector focuses on medium and high cost housing
Growing State Intervention (1970-1985)	<ul style="list-style-type: none"> • Acute housing shortage in urban areas due to a huge influx of people from rural areas. • Formation of squatter and slums. 	<ul style="list-style-type: none"> • Eradication of poverty and restructuring of society • Housing provision through land development schemes and regional development authorities. • Encourage national unity in housing development. • Public sector continues to provide housing for low income people • Setting-up of state development agencies to build houses. • Private sector continues to focus on medium and high cost housing. 	<ul style="list-style-type: none"> • Recognition of informal sector; squatter upgrading and sites-and-services; subsidies for land and housing. • Establishment of National Housing Dept. in 1976 to replace The Housing Trust • State government takes over responsibility to provide low cost houses under Public Low Cost Housing Programme (PLCHP) • Imposition of minimum 30% Bumiputera quota for housing allocation • National Consultative Council on Housing set-up in 1980 to discuss housing issues between private and public sector. • Structure and Local Plan provides better framework for housing development and land allocation. • Introduction of new ceiling price for low cost housing at RM25,000 per unit in 1982 and standardisation of 30 % low cost housing quota 	<ul style="list-style-type: none"> • New Economic Policy, 1971. • 2nd Malaysia Plan (1971-1975) • 3rd Malaysia Plan (1976-1980) • Vancouver Declaration (Habitat 1, 1976). • Town and Country Planning Act, 1976 • 4th Malaysia Plan (1981-1985) • 1990) • Privatisation Policy, 1981 • Shelter, Poverty and Basic Needs (World Bank, 1980); • World Bank evaluations of sites-and-services (1981-1983) 	<ul style="list-style-type: none"> • Private sector takes over as the key player in housing provision except low cost housing • Stategovernment takes over responsibility for low cost housing provision from the Federal government (the Housing Trust)

Theme/Period	Key Housing Issues	Focus of Attention	Key Housing Policy/Implementation Strategies	Key Documents/ Laws	Key Player
Economic Liberalisation (1986-1997)	<ul style="list-style-type: none"> • Rapid economic development, increasing influx of foreign immigrants. • Worsening illegal squatter problem. • Housing oversupply during Asian Financial Crisis in 1997-1998. 	<ul style="list-style-type: none"> • Human Settlement Concept for housing development with an emphasis on sustainable development. • To ensure all people, regardless of their income level, live in a decent house. • Securing an enabling framework for action by people, the private sector and markets. • Privatisation Policy including housing provision 	<ul style="list-style-type: none"> • To build more affordable housing especially low and low medium cost housing. • Joint venture housing development between public and private sector. • Ministry of Housing and Local Government (MHLG) introduced new regulations and guidelines related to housing development (1991-1995) • New ceiling price for low cost housing set between RM 30,000 and RM42,000 per unit according to location in June 1998. 	<ul style="list-style-type: none"> • National Development Plan, 1991 • 5th Malaysia Plan (1986-1990) • 6th Malaysia Plan (1991-1995) • 7th Malaysia Plan (1996-2000) • Global Shelter Strategy until the year 2000 (UNCHS, 1988) • Agenda 21 (UNCHS, 1992) • Enabling Housing Markets to Work (World Bank, 1993) • The Habitat Agenda (UNCHS, 1996); Global Report on Human Settlements (UNCHS, 1996) 	<ul style="list-style-type: none"> • Private Sector takes over as the key player in housing provision including low cost housing • Government began to retreat from direct housing provision
Semi-Autarchy (1998-present)	<ul style="list-style-type: none"> • Unresolved squatter problems • Oversupply of low cost houses • Inefficient housing allocation system 	<ul style="list-style-type: none"> • Emphasis on sustainable development and adequate housing for all income groups. • Emphasis on information and communication technology and the use of industrialised building systems. • Public sector to play a major role in housing provision for low income people. • Nationwide squatter elimination programme 	<ul style="list-style-type: none"> • Government announced 35,000 units of low cost housing to be built nationwide as part of the economic stimulation package during the Asian Financial crisis in 1999. • Emphasis on squatter elimination programmes by the year 2005. • Implementation of People Housing Programme (PHP) for rental in 1998 • Introduction of Computerised Open Registration System (ORS) for low cost house buyers in 1998. • Flexibility on the 30% quota of low cost houses in 2002 • Implementation of alternative Build then Sell Concept for housing development since 2006 	<ul style="list-style-type: none"> • Vision Development Plan, 2001 • 8th Malaysia Plan (2001-2005) • 9th Malaysia Plan (2006-2010) • Report of study on Computerised Open Registration System Improvement, 2006 • Amendment to Housing Developer Act, 1966 (rename Housing Development Act) in 2002. • National Squatters Census and Relocation Study, 1999 	<ul style="list-style-type: none"> • Private Sector remains the key player in housing provision including low cost housing • Federal government began to increase its role in low cost housing provision under PHP

Sources: Shuid, 2004 and Various Five Year Malaysia Plans

4.3.1 Late Colonial Priorities (1950-1957)

a) Political Economy

During the late colonial period, the British Colonial government were more concerned with British owned rubber plantation and tin mining interests in Malaya (Jomo, 1999, p. 88). Therefore, the main priority was to repair facilities damaged during the war and to provide new infrastructure such as telecommunications, electricity, roads, highways and ports in order to service the primary commodity export economy. However, little was done by the Colonial government to improve living conditions and the economy before independence. Only fourteen percent was allocated to the economic sector for social services compared to sixty nine percent for infrastructure under the First Malaya Development Plan (1956-1960) (Jomo, 1999 p.88). The housing sector then only received seven percent from the total amount allocated for social services. At the same time, the Colonial government was fighting the communist insurgencies in the Malayan jungle, which further limited the amount the government could spend on social services and housing. Meanwhile, the people of Malaya were generally divided geographically according to their social and economic backgrounds. The Malays largely lived in rural areas and worked in small agriculture plots. The Chinese were concentrated in urban areas and were involved in more lucrative activities such as trade and mining and the Indians mainly worked and lived in the large rubber plantations owned by the Europeans.

b) Housing Provision

Since the country was predominantly rural in nature, the structure of housing provision was relatively simple during this period (see Figure 4.4). The Federal government, particularly through the Malayan Housing Trust (the Housing Trust), was responsible for housing provision during this period. The establishment of the Housing Trust could be traced after World War II. According to a report by the Malayan Union Housing Committee, there was a house shortage of 27,000 units in Malaya, particularly in urban areas due to a lack of new house construction and house destruction during the war (Shuid, 2006, p.40). Following recommendation by the Malayan Union Housing Committee, the British Colonial government established the Housing Trust Federation of Malaya in 1951 under the Housing Trust Ordinance, 1950. The Housing Trust was empowered to raise money to be used to pay private builders for housing construction, to build houses and purchase land where no suitable state land was available

(Jagatheesan, 1979: 24). Meanwhile, State government involvement was limited to identifying suitable land for housing development. The financing for housing construction was provided by the Housing Trust. However, due to a limited budget and lack of manpower, the trust only began its operation in 1953 and only managed to build a total of 1,552 units of housing in Malaya from 1953 to 1957 (Shuid, 2006).

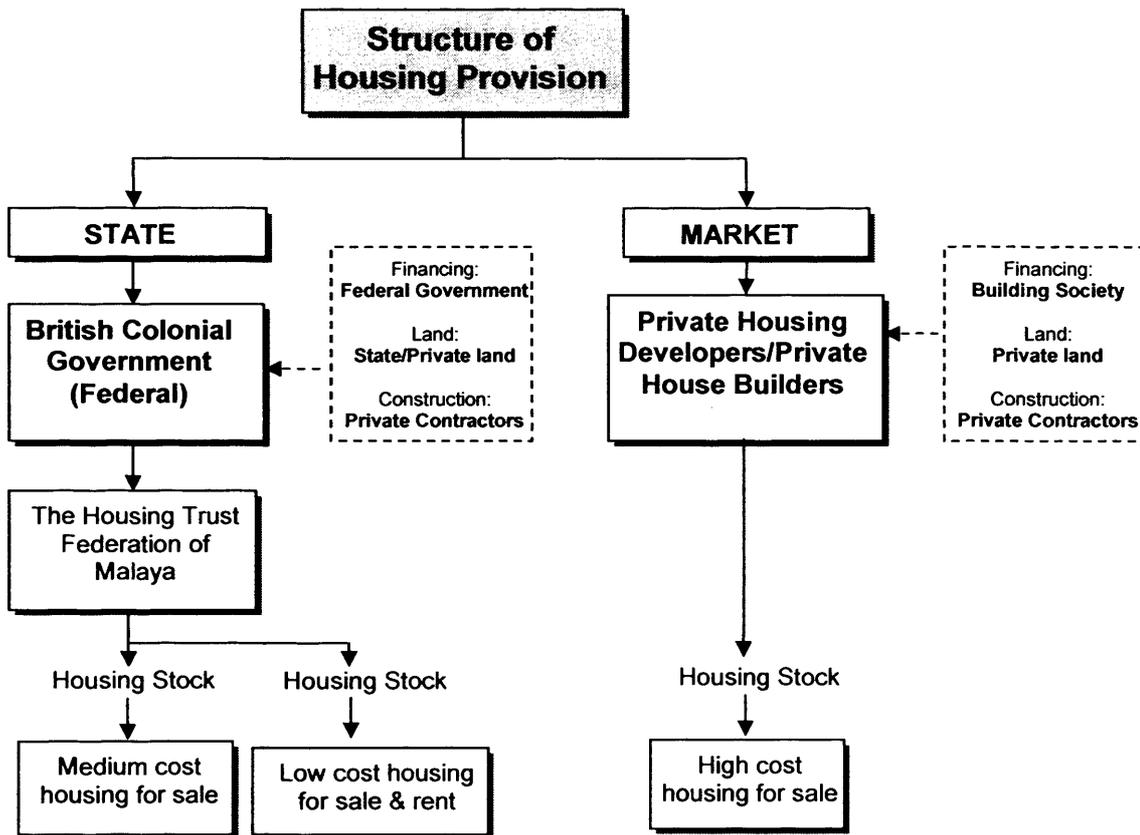


Figure 4.4: The Structure of Housing Provision in Malaya during the Late Colonial Period, 1950-1957

Source: Author

The only large scale housing programme implemented by the British Colonial government occurred during the Malayan Emergency from 1948 to 1960 (Agus, 1998). Under the Briggs Plan from 1952 to 1955, the people who lived in the fringe of jungles and who were mostly illegal squatters were resettled in new villages across Malaya to avoid contact with communist insurgencies. Due to the urgent need for the relocation of 500,000 people into 480 new villages, the houses built were mostly not up to the required building standards and were poorly constructed by military personnel with the help of the villagers. Since the programme was implemented under military control, the houses built were therefore never considered to be part of a public housing programme (see Figure 4.5).



Figure 4.5: Typical Houses Built in the New Villages during the Malayan Emergency, 1948-1960

Sources: Courtesy of the National Archive, Malaysia

Meanwhile, the involvement of the private sector was fairly limited to high cost housing developments in urban areas such as Kuala Lumpur, Klang and Penang. British owned companies operated in major cities to cater to the needs of wealthy businessmen, for example, the Kenny Hill Development in Kuala Lumpur during the 1950s (Shuid 2006, p.60). Small scale private house builders also provided house construction for individuals. Furthermore, the sources for house financing from private companies were limited and difficult to find; for example, that provided by the Malayan Building Society (MBS).

4.3.2 Alliance Laissez-Faire (1957-1969)

a) Political Economy

In preparation for Malayan independence, the British ensured that the “ethnic elites committed to protecting their interest were cultivated to eventually inherit state power in 1957” (Jomo, 1999, p. 90). Thus, the alliance of the political elite from three major ethnic groups, namely UMNO, MCA and MIC, formally took state power and political

jurisdiction over post-colonial Malaya. The compromise protected foreign economic interests mainly held by the British, particularly the plantations and tin mines. Jomo adds "...the Alliance government's development strategy reflected the class interest and political compromise. Consistent with this compromise, the state pursued a basically laissez-faire development strategy with minimum state interference ...". Similarly, other scholars describe the state during this period as playing a 'restrained role', promoting 'laissez-faire capitalism' and having an unprotected market (see Boo Teik, 1997; Funston, 2001).

However, as a newly independent nation, the development priority was to provide infrastructure and rural development, as reflected by government allocation under the Second Malaya Plan (1960-1965) and First Malaysia Plan (1966-1970). More than sixty percent of development expenditure was allocated to the economic sector compared to less than thirty percent for social services during both plan periods. With less priority given to social services by the government, the housing sector received an allocation of only three percent under the Second Malaya Plan and five percent under the First Malaysia Plan. The small amount of money allocated for public housing is therefore consistent with a laissez fair economy adopted by the government during this period.

b) Housing Provision

The housing provision during this period was still not much different from that available in the pre-independence period, except the role of the British Colonial Government was replaced by the Federal Government of Malaysia with minor roles played by the State governments (see Figure 4.6). The Federal government, through the Housing Trust, still played an important role in low cost housing provision. Financing for the programme was provided by the Federal government through State governments in the form of loans, while the Trust provided the technical expertise for layout preparation, house design, tender administration and the monitoring of house construction (Ministry of Local Government and Housing, 1966). The house construction was undertaken by the private building contractors. The State governments' role was still limited to identification of suitable land for housing provision and managing the loan repayment to the Federal government when houses were sold by the Housing Trust.

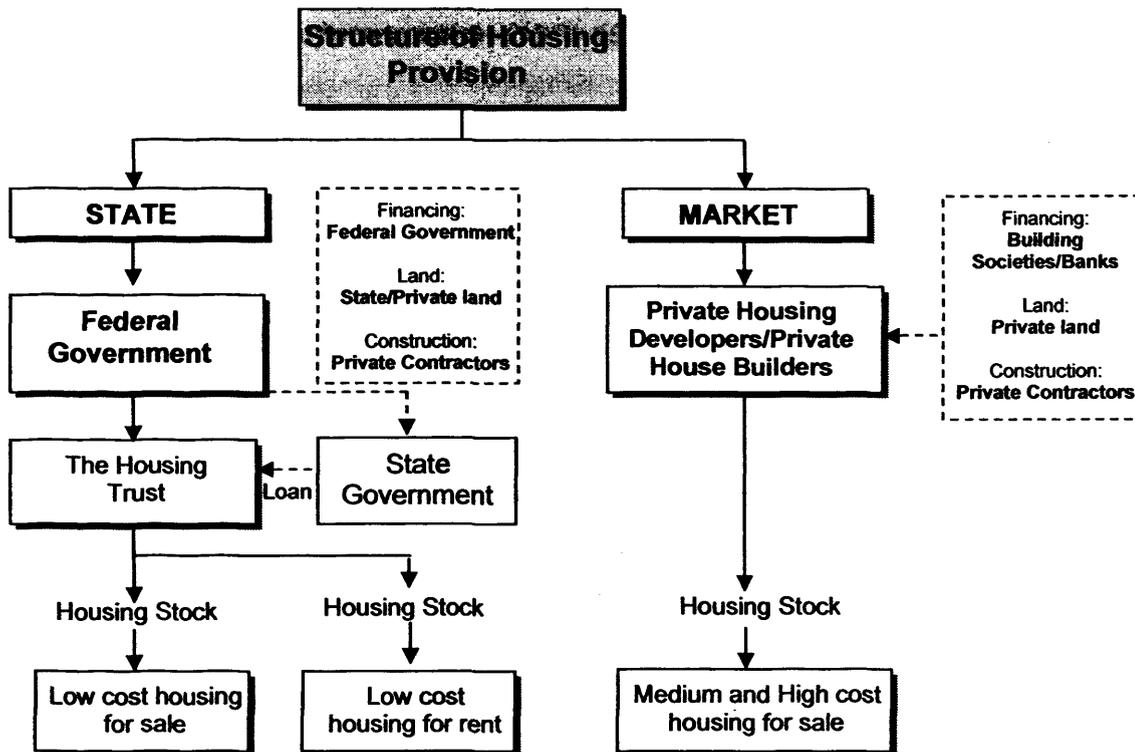


Figure 4.6: The Structure of Housing Provision in Malaysia during the Alliance Laissez-Faire Period, 1957-1969

Source: Author

In terms of market provision, after independence more local companies began to become involved in housing development, particularly for medium and high cost housing. During this period, the private housing developers enjoyed a relatively free market with minimum government controls and regulations in line with the *laissez-faire* economic policy adopted by the government. Their number grew rapidly and by 1972 there were a total of 626 registered private housing developers in peninsular Malaysia, more than in any other South East Asian country at that time, as described by Johnstone (1980). The government also did not impose any requirement for the private housing developers to build low cost housing in line with the *laissez-faire* economic policy practiced during that period. The private housing developers obtained the sites for development from private land. Financing for house construction was available from a growing number of private financial institutions and building societies. The private contractors were usually appointed to undertake housing construction by the private housing developers. However, in 1966, the Housing Developers Act (Control and Licensing) was enacted by parliament to regulate and control the operation of private housing developers in order to protect the house buyers due to an increasing number of fraud cases by the private developers (Malaysia 1966), thus showing the early signs of state control in the housing market.

4.3.3 Growing State Intervention (1971-1985)

a) Political Economy

The economic imbalance among ethnic groups and a population divided according to geographical locations could not be sustained in Malaysia. The conditions contributed to tension and, subsequently, the racial clash known as the '13th May 1969 Tragedy'. Following the incident, the country was ruled by the National Operations Council (NOC) headed by Deputy Prime Minister Tun Abdul Razak under the State of Emergency from 1969 to 1971. Razak's regime, according to Boo Teik (2001, p. 176), no longer relied on laissez-faire capitalism and began to devise the New Economic Policy (NEP) (see Malaysia, 1991; Jomo & Gomez, 2000; Pillay, 2000 for detail on NEP). The NEP had two main objectives; the first was to eradicate poverty by raising income levels. The second was to increase employment opportunities for all Malaysians, irrespective of race, and accelerate the process of restructuring Malaysian society in order to correct the economic imbalance and to reduce and eventually eliminate the identification of race with economic function (Malaysia, 1973). Therefore, the state visibly encroached into the market including employment in manufacturing, property ownership, company equity, etc. in order to meet its NEP targets. The NEP envisaged the incidence of poverty declining from 49 percent in 1970 to 16 percent in 1990 and the Bumiputera share of corporate equity rising from 2.5 percent in 1970 to 30 percent in 1990.

Many scholars argue that Malaysia's growth and restructuring policies throughout the NEP period were interventionist, with strong roles for both market and government (see Jomo, 1999; Rasiah and Shari, 2001). NEP implementation required the state to be actively involved in the economy and physical development and to allocate more funds to public expenditure (Jomo, 1999, p.93). Thus, the NEP was unique, not only in comparison with Singapore which shares a similar history and institutional background, but also in the context of East Asia as a whole (Kwon, 2005, p.93). In 1981, Dr. Mahathir became Prime Minister which saw a dominant and dramatic change in the role of the executive with a shift towards a developmental state approach based on the Northeast Asia model through the *Look East Policy* (Funston, 2001, p.198). The developmental approach adopted in the early stage of the Mahathir administration further increased state intervention in all economic and social policies, including housing provision.

b) Housing Provision

Following the cessation of the operation of the Malayan Housing Trust in 1976 (MHLG, 2006), the State governments began to take responsibility for public housing provision from the Federal government (see Figure 4.7). The State governments, through the Housing Section, provided low cost housing in the states under the Public Low Cost Housing Programme (PLCHP). The State governments also established their own State Economic Development Corporation (SEDC) and were involved directly in housing development. The establishment of the SEDC by the State government was crucial to achieving NEP objectives through housing provision. The SEDC not only provided medium and high cost housing, but also low cost houses as directed by the State governments. The SEDC received financial support in the form of grants and loans from the State governments to provide housing, including low cost. Land for housing development for the SEDC was usually provided by the State government from state land or through land acquisition. Meanwhile, house construction was undertaken by private contractors.

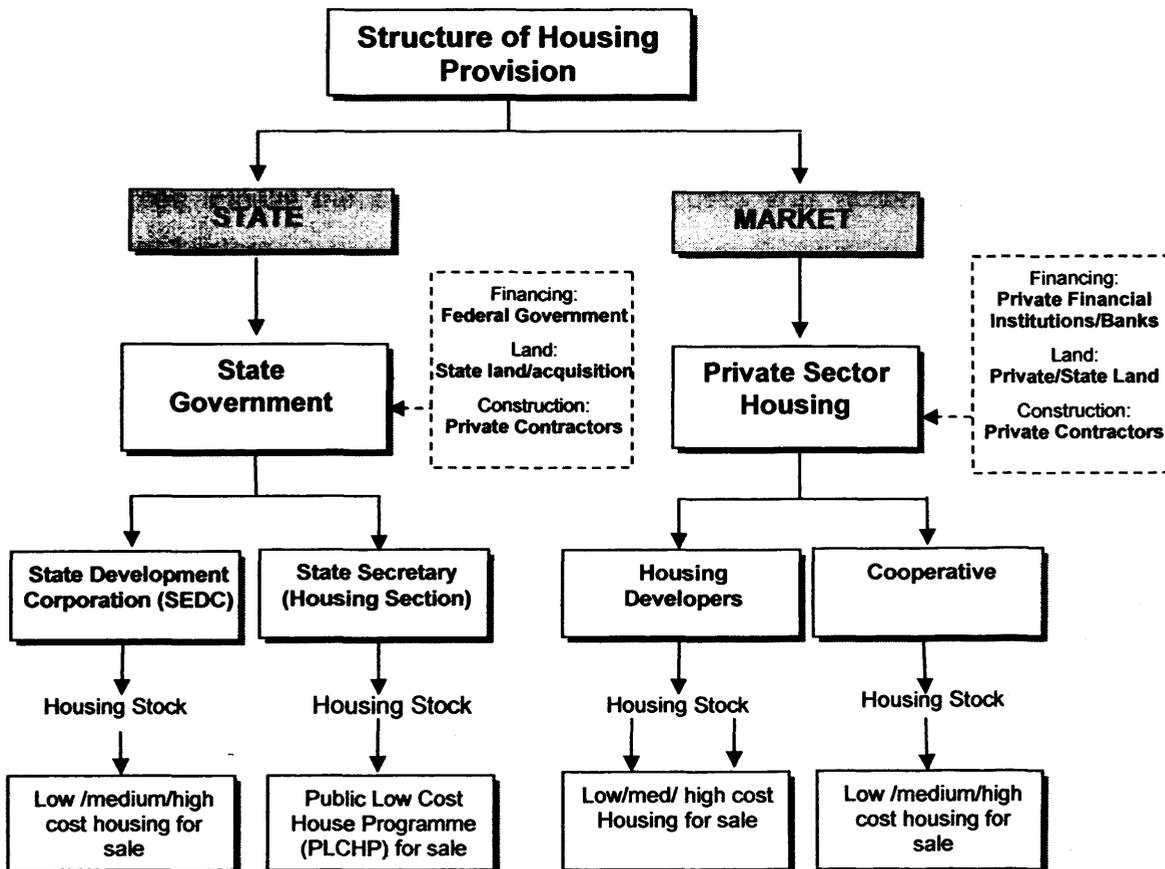


Figure 4.7: The Structure of Housing Provision in Malaysia during the NEP Period, 1971-1985

Source: Author

In line with NEP objectives to restructure society, the state encouraged the rural-urban migration among the Bumiputera. A sudden increase in migration and rapid urbanisation during the early 1970s caused housing shortages in urban areas. The failure of the state to provide a sufficient number of low cost houses through the Housing Trust prompted the need for private sector involvement. Under Mahathir's administration, the government began to impose various regulations and guidelines for housing development undertaken by private developers. This included a requirement for 30 percent low cost housing through the planning system and a ceiling price per unit of RM25,000 throughout the country after 1981 (Malaysia, 1981).

Meanwhile, the private sector continued with the construction of medium and high cost housing with increased control by the government. Private housing developers and cooperatives began to play a vital role in housing production after the privatisation policy introduced by the government under Mahathir's administration in 1981. The increased role played by private developers in housing production, despite various controls and regulations, shows how the government skilfully attracted the market to become involved in national development. The land for housing development by the private sector was either purchased directly from the market (individual/company) or the State governments (state land/land acquisition). The financing for housing development was usually provided by private financial institutions or the developers' own sources. Finally the construction of the houses was accomplished by private housing contractors.

4.3.4 Economic Liberalisation (1986-1997)

a) Political Economy

The state began to rethink its intervention policy and embarked on economic liberalisation after the recession in 1986-1987. The business community generally blamed the government's excessive intervention policy as the main reason for poor economic growth (Jomo, 1999; Jomo and Gomez, 2000 p. 292). Thus, they called for a less regulated market and reduced state intervention in the economy, including among the Malays elites. The state began economic liberalisation and selective interventions were implemented in order to overcome market failure and to enhance economic performance (Jomo, 1999; Rasiah & Shari, 2001). Meanwhile, Malaysian economic recovery and prosperity during the early 1990s was largely as a result of export

oriented manufacturing investment, with average annual growth rates above 8 percent from 1989 to 1997. Malaysia was recognised as one of the newly industrialised economies with liberal and export oriented industries governed by the markets by the mid 1990s (see the World Bank, 1993; Saleh and Meyanathan, 1993; Jomo, 1999; Rasiah and Shari, 2001). A blend of government intervention and the market helped to make export-oriented industrialisation a success and specific distributive policies helped to reduce poverty and inequality.

The Federal government realised a partnership between the private sector and the state was the key 'ingredient' to achieve sustained growth (Malaysia, 1991). Thus, the government began to rely on the market during the early 1990s and partially retreated from social services provision. Despite implementation of NEP strategies during the 1970s and 1980s, neo-liberal orthodoxy has portrayed Malaysian economic fundamentals as having been fulfilled by market-friendly policies (Rasiah and Shari, 2001 p.58). Therefore, the World Bank considered the second-tier NICs, including Malaysia, as better models for the global liberalising process for other developing countries (World Bank, 1993, p.2). In 1991, the NEP was replaced by the National Development Plan (NDP), which emphasised economic growth, but still maintained the NEP's ethnic considerations.

b) Housing Provision

During the early 1990s, the housing policy in Malaysia was largely influenced by international agencies' recommendations which promoted a neo-liberal agenda in developing countries. The World Bank Report "Housing: Enabling Market to Work" in particular emphasised the reform of government policies, institutions, and regulations to enable the housing market to work more efficiently (World Bank 1993, p.1). Governments were advised to abandon their earlier role as producer of housing and to adopt an enabling role of managing the housing sector as a whole. As a result, governments throughout the world began to retreat from public housing provision and were only involved in providing assistance to the self-help housing sector (Pugh 2001, p. 400).

In Malaysia, economic liberalisation from 1986 onwards further increased the government's reliance on the private sector to provide housing for the people. The total number of houses completed by the private sector for the categories of low, medium

and high cost housing since the Fifth Malaysia Plan (1986-1990) shows that the market made a significant contribution to housing provision (see Figure 4.8). The trend continued during the Sixth Malaysia Plan (1991-1995), when 86.9 percent of total housing was built by the private sector compared to only 13.1 percent by the public sector. Even during the Asian Financial Crisis, the private sector continued to provide 85.8 percent of the total number of houses built during the Seventh Malaysia Plan (1996-2000).

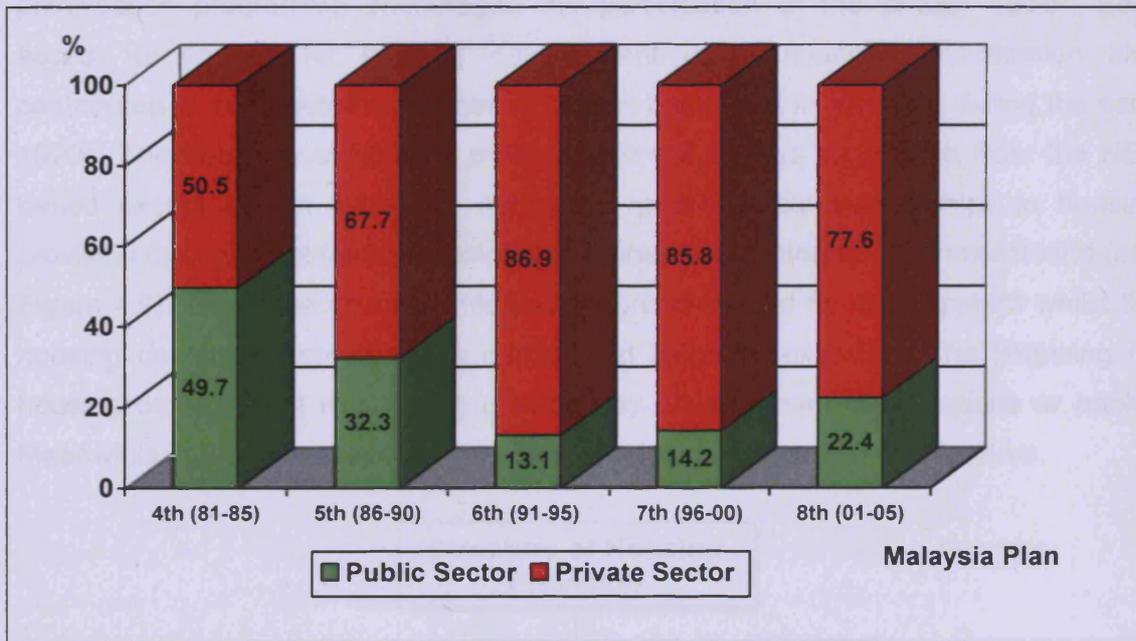


Figure 4.8: Share of Public-Private Sector Housing Provision from the Fourth to the Eighth Malaysia Plan, 1981-2005

Sources: Various Malaysia Five Year Development Plans

Surprisingly, during the 1990s, the state continued to control the housing market. A study by the World Bank (1993) indicated that private housing developers in Malaysia were required to satisfy at least 55 different steps of a regulatory process which might take five to seven years before they could deliver their products to the market. This is in contrast with Thailand, where the entire process of seeking approval involved only 15 different steps and took approximately 100 days. However, a major result of these regulatory requirements was increased risk associated with participating in the residential construction industry. Therefore, in Malaysia, only firms that were relatively large and had sufficient capital could afford to deal with this process. Meanwhile, another study by Mayo and Malpezzi (1997) explains how various public intervention constraints supply elasticity in Malaysia's housing market. Although the state began to

retreat from direct housing provision, as recommended by the World Bank, it still intervened in the market through various regulations.

Nevertheless, for many private housing developers, housing development remained attractive and profitable to the private sector due to relatively free market practice in the middle and high income housing markets. In addition, generous asset transfer, particularly of land from the government to large private companies, under the privatisation programme encouraged the participation of the private sector. Easy access to finance for housing development under financial globalization also contributed to an increasing number of houses being built in Malaysia during the early 1990s. The structure of housing provision did not change very much from the NEP period except for an increased number of public-private partnerships in housing provision through joint-venture companies or the privatisation of government land (see Figure 4.9). The State governments usually provided land for development whilst the housing developers provided the capital and technical expertise. The financing for housing development was mainly provided by private financial institutions or banks. Meanwhile, house construction was usually undertaken by private contractors.

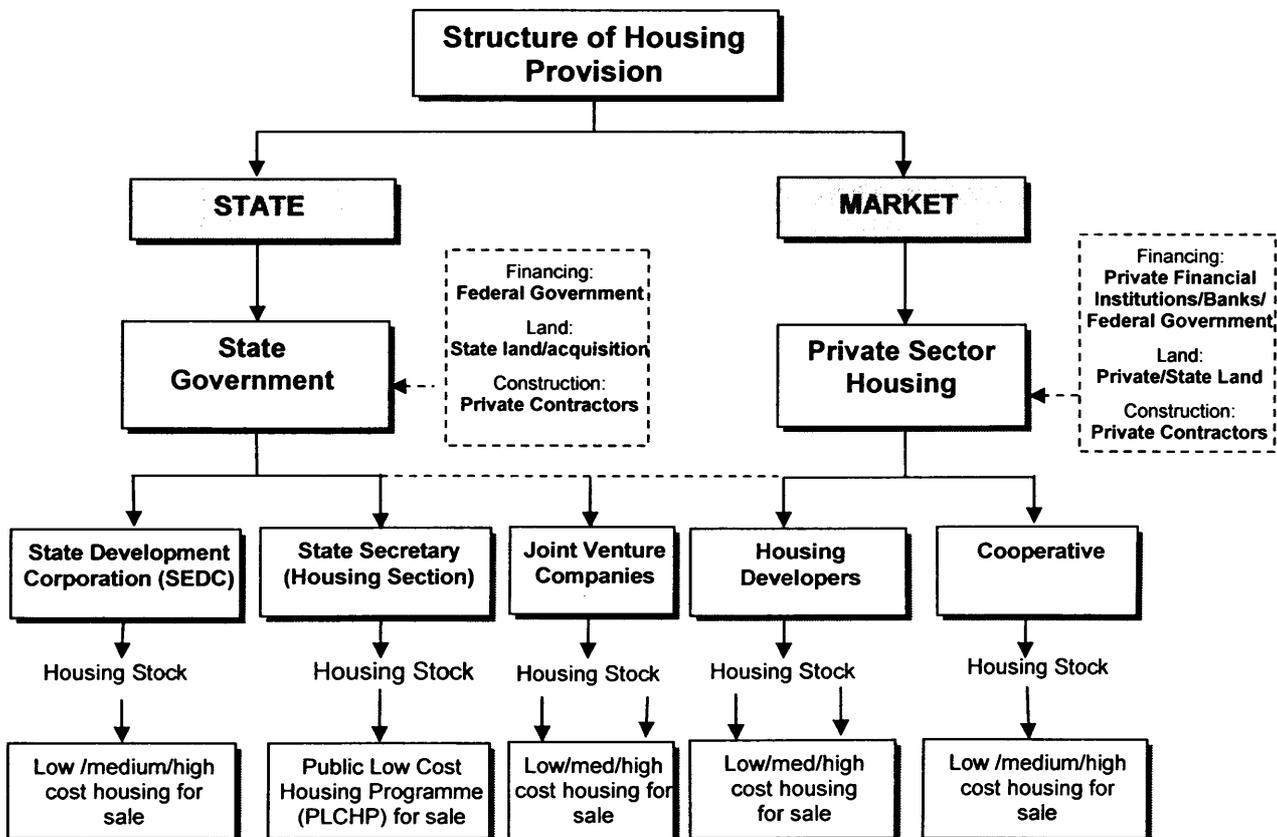


Figure 4.9: The Structure of Housing Provision in Malaysia during the Economy Liberalisation Period, 1986-1997

Source: Author

4.3.5 Semi-Autarchy (1998 – 2005)

a) Political Economy

Before the Asian financial crisis of 1997, Malaysia was one of the most rapidly growing economies in East Asia. Unfortunately, Malaysia's progress towards industrial nation status almost came to an abrupt halt due to the financial crisis (see Jomo, 1998, Flynn, 1999, Mera and Renaud, 2000; Rodan *et al.*, 2001 for details of the Asian financial crisis). The Asian financial crisis began to threaten the survival of the conglomerates and upset the state's relationship with the market. Apart from the currency crisis, many scholars believe the Asian financial crisis was also triggered by excessive bank lending to the real estate sector, particularly housing (Koh *et al.*, 2005; Quigley, 2001; Mera and Renaud, 2000). They argue that speculation in the real estate market was rampant in many Southeast Asian economies in the early 1990s. Corruption had also become deeply entrenched among both political leaders and the bureaucrats, with a lack of transparency (Funston, 2001, p.197).

Despite all the problems, Malaysia was still among the countries which weathered the crisis due to its 'mixed economy' and strong economic fundamentals (see Besson, 2000; Case, 2005 p. 28). The Malaysian mixed economy produced rapid growth and stability and enabled the government to initially resist the crisis induced pressures for reform that engulfed other East Asian countries. During the Asian Financial crisis in 1997, there was also greater pressure from the international agencies, particularly the IMF, for neo-liberal reform. The IMF required countries affected by the crisis including Malaysia to pursue the principles of 'good governance', 'economic reform' and 'market discipline' in order to achieve economic recovery (Boo Teik, 2001, p.213). However, the Malaysian government refused to seek financial aid from the IMF in order to avoid interference from international agencies in the country's economic affairs and through fear of the possible dismantling of the NEP (Jomo and Gomez, 2000, p. 275). Although Mahathir transformed the country into a modern capitalist state and had shown sensitivity to the forces of globalization since 1986 (Verma, 2004, p.9), during the financial crisis he began to blame globalization for the loss of control over national economic programmes.

After the crisis, the state began to emphasise statist interventions in managing the economy (Case, 2005, p. 285). However, this move was clearly against the neo-liberal

reform propagated by the IMF. Due to continuous pressure from international agencies, the state turned to neo-liberal reforms and good governance agendas in both public and corporate sectors by the early 2000s. However, this new market thrust failed to re-energise foreign investment. Eventually the Mahathir administration returned to statist intervention until the end of his period of office in 2003. After 22 years in office, Mahathir finally stepped down from his post and was replaced by Abdullah Badawi in October 2003. After taking over, Abdullah Badawi renewed reformist commitments to reduce corruption and pursue neo-liberal reform (Case 2005). From late 2003, the government began to refurbish its regulatory apparatus, giving new attention to neo-liberal reform and good governance agendas.

Under the Abdullah Badawi administration, the government introduced more regularised procedures in both public and corporate sectors. This was later followed by the introduction of master plans and codes of conduct geared towards neo-liberal reforms and good governance (Case, 2005, p. 294). Some observers consider that the approach undertaken by the government since the appointment of the new Prime Minister Abdullah Badawi could be the best-regulated and most transparent in Asia. Thus, under the new administration, the Malaysian political economy has regained some of its earlier equilibrium prior to the crisis. His administration strongly identified with neo-liberal reforms and evoked another policy turn from statist intervention to market forces (Case, 2005, p. 305). In conclusion, the state embarked on statist intervention during the crisis in order to protect the political elites and Malaysian conglomerates before neo-liberal reform began after 2003.

b) Housing Provision

During the crisis, unsold property, including housing, soared in price and many buyers were caught unawares when the interest rate rose, especially those buying for speculative purposes (Boo Teik, 2001, p.198). Subsequently Federal government established National Economic Action Council (NEAC) to make recommendations in order to revive the country's economy (NEAC 1998). NEAC recommended several strategies related to housing. These included the construction of houses which cost less than RM200,000 per unit, particularly low cost housing, and the introduction of flexible prices for low cost houses (NEAC, 1998, p.195). Low cost housing seemed to provide a viable solution to stimulate economic growth and to create job opportunities. The Federal government also believed there was still demand for low cost housing,

despite the economic crisis, in view of the large number of squatters in the country. As an alternative for people with a low income who faced difficulty in obtaining finance during the crisis, the NEAC recommended that the Federal government, State governments and local authority should build low cost housing for rental instead of for sale (NEAC, 1998, p.196). Another important NEAC recommendation was the revision of low cost house selling price by MHLG. The new low cost housing price structure was finally approved by the Cabinet in June 1998 (MHLG, 1998). The ceiling price for low cost housing was increased to between RM25,000 and RM42,000 per unit, according to location, land cost and type of house. Thus, an element of market forces was reflected in determining low cost house prices. Based on the recommendations by the NEAC, the Federal government began to build public low cost houses for rental, which were also known as the 'People Housing Program (PHP) NEAC in 1998.

Despite government efforts towards market reform in housing provision, it still remained inadequate. As described by Zhang and Sheng (2002), "Malaysia is an exception to broad-based trend of market-orientated reform, since there is a strong reluctance to relax state control and promote market mechanisms." The state, according to them, "maintains its tradition of strong intervention in housing and providing housing not only for low income groups but also for medium and high-income groups". Among the most important issues highlighted by Zhang and Sheng was the fact that the state even restricts the distribution of low income housing developed by the private sector, which is an unusual practice in the region. Meanwhile, according to Agus (2002, p.49), excessive state control over housing hindered the development of the market, while the potential of the private sector's capacity was under-utilised. Clearly the state still maintained strong control and intervention during the crisis, despite IMF and World Bank pressures for market reform.

The structure of housing provision during this period clearly became more centralised and heavily controlled by the Federal government (see Figure 4.10). Everything from financing, design and building construction monitoring was handled by the Federal government through the National Housing Department (NHD). Meanwhile, the State governments' involvement in direct housing provision was limited to the State Economic Development Corporations (SEDC). From 1998, most SEDC were transformed from state agencies into corporate entities with the majority of shares still owned by the State governments. The corporations began to operate like private companies with profit oriented objectives, thus reducing political interference and avoiding selling houses at subsidised prices.

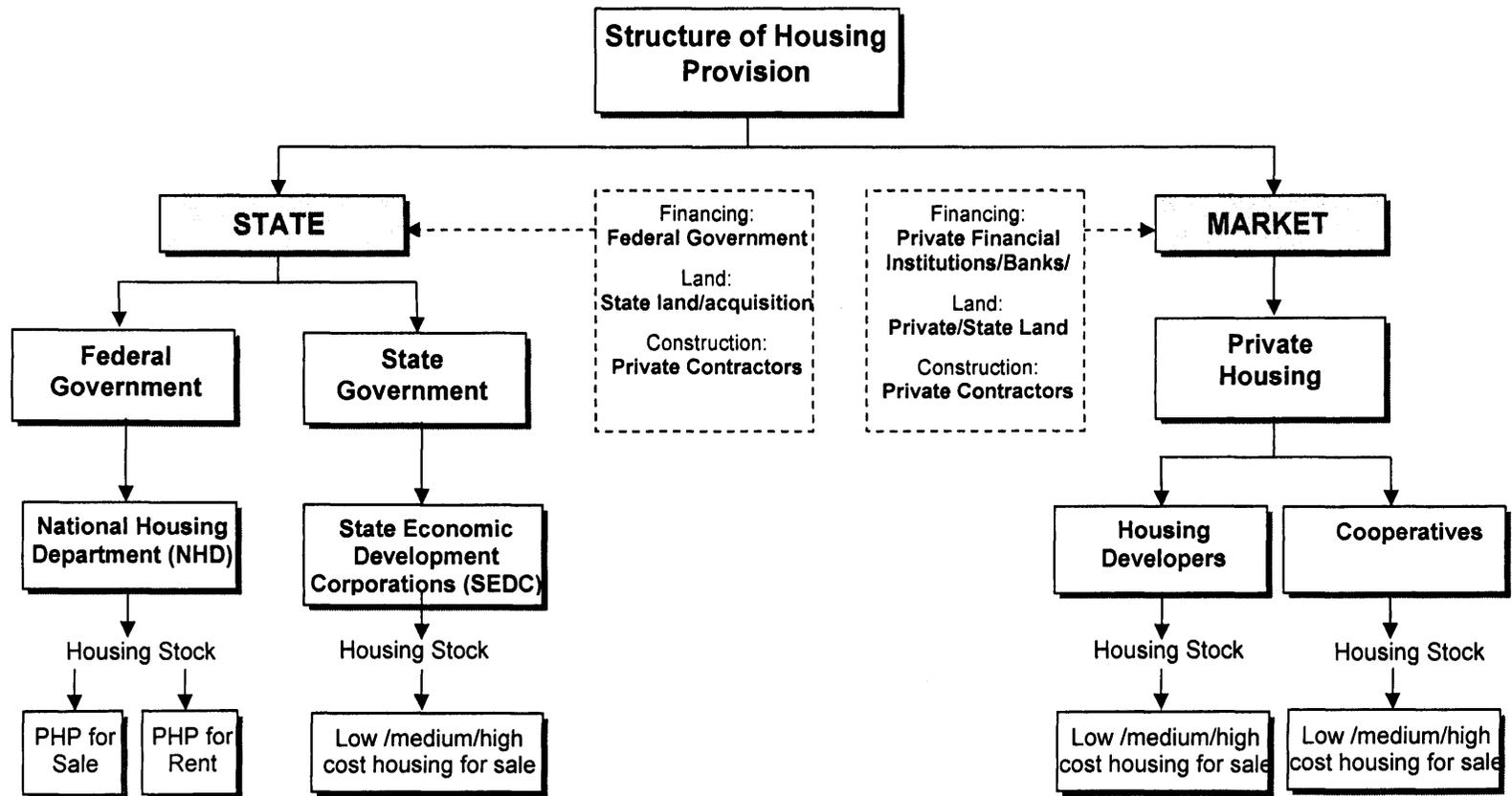


Figure 4.10: The Structure of Housing Provision in Malaysia After the Crisis, 1998-2005

Source: Author

The Asian financial crisis and state intervention in low cost housing provision under PHP has had a direct impact on housing tenure in Malaysia after 1998. With more people facing difficulty in accessing finance during the crisis and an oversupply of housing, people tended to be more cautious in buying property (Usilappan, 2006, pp. 74-75). Furthermore, the implementation of PHP gave an opportunity for people with a low income to rent their house rather than buying. The homeownership rate among Malaysians decreased from 85.1 percent in 1991 to 77.2 percent in 2000 (Department of Statistics, Malaysia, 2000). Furthermore, the National Housing Policy Study (MHLG, 2005) projected homeownership in Malaysia to continue to decline to only 60 percent in 2005 (see Figure 4.11). Interestingly, the trend for public and private rental kept increasing over the years from 14.9 percent in 2000 and further increased to 40 percent in 2005. Thus, unlike other countries in the region, homeownership in Malaysia shows a declining trend.

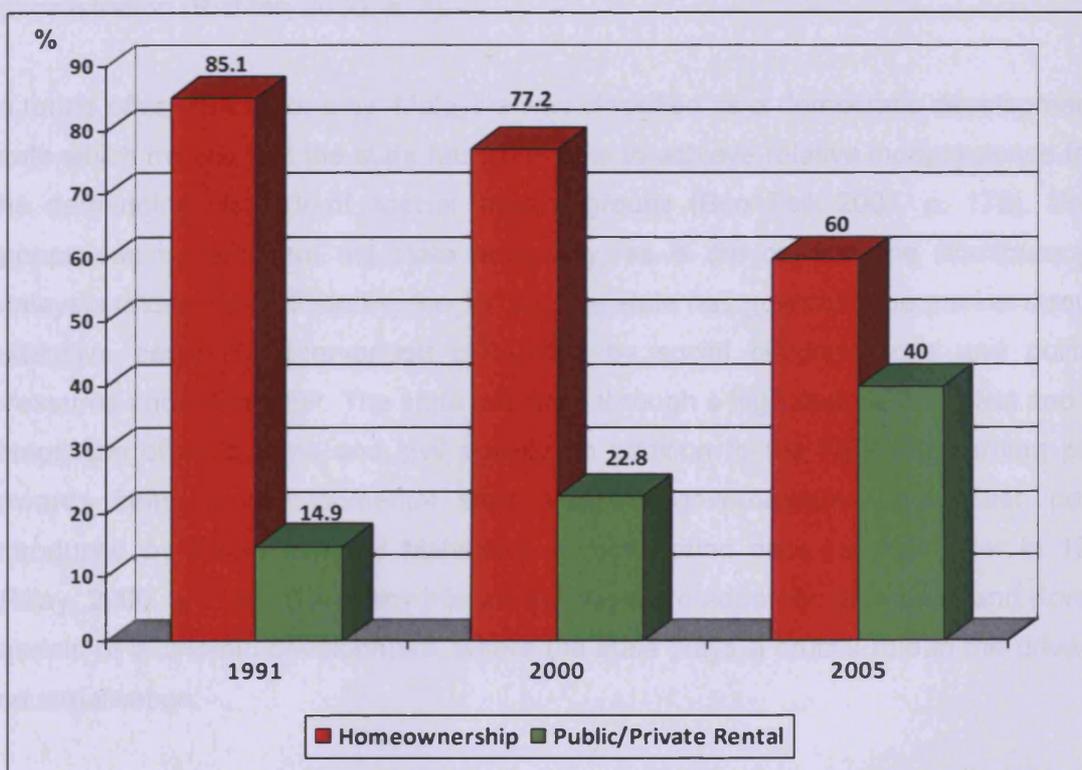


Figure 4.11: Changes in Housing Tenure in Malaysia, 1991-2005

Sources: Department of Statistics, Malaysia, 2000 & National Housing Policy Study 2005

4.4 HOUSING PROVISION IN MALAYSIA IN THE CONTEXT OF DEVELOPMENTAL STATE DEBATES

Any analysis of the development of the political economy of East Asian countries commonly discusses developmental state regimes. In the context of Malaysia, before 1997 many scholars agreed that Malaysia was a developmental state (see World Bank, 1993; Leftwich, 1995; Jomo, 1999). Leftwich (1995), in his analysis of six major components to define the developmental state, describes Malaysia as fitting within the developmental state model. Leftwich also identifies three previous Malaysian prime ministers as being developmental: Tunku Abdul Rahman, Tun Abdul Razak and Dr. Mahathir Mohammad. These leaders, together with a small group of politicians and bureaucrats, were instrumental in establishing a developmental regime and its culture. Malaysia was described as an 'authoritarian state', 'semi-democratic state' or 'illiberal state' (Beng Huat, 2005, p. 99). Malaysia, like many other developmental states, is very much controlled by the prime minister particularly during the Mahathir's administration (Richter, 2000, p. 7).

In terms of relative autonomy, Malaysia was classified as a democratic developmental state which means that the state has been able to achieve relative independence from the demanding clamour of special interest groups (Boo Teik 2001, p. 178). Some groups can benefit from the state autonomy, as is the case of the Bumiputera in Malaysia under the NEP during the 1970s. The state has governed the market through extensive economic intervention conducted by social circumstances and political pressures under the NEP. The state functions through a high degree of control and the integration of institutions and civil society. In addition to the NEP, the turning point towards being a developmental state was the government's 'Look East' policy introduced by Prime Minister Mahathir's administration once he took over in 1981 (Pillay, 2000, p. 209). The policy intended Malaysia to adopt the Japanese and Korean models of economic development, where the state plays a crucial role in the drive for industrialisation.

The bureaucrats were also very strong and dominant in Malaysia. The agencies under the prime minister's department appear to have real power, authority, technical competence and insulation in shaping developmental policy. Malaysia was led by a strong executive and thus the government relied upon subtle ideological control and nationalist sentiment to maintain an authoritarian structure (Verma, 2004, p.208). However, there is a history of strong bureaucrats and technocrats in Malaysia which extends way back to the British Colonial period. The British provided a strong

authoritarian bureaucratic foundation for Malaya independence and helped to educate an elite group of people to later take over the administration of the country (Funston, 2001, p.161). In contrast, the civil society in Malaysia was considerably weaker with state practices controlling the media and labour organisations (Leftwich, 1995, p.417).

However, it is important to recognise the Malaysian variant of the developmental state model compared to the typical Northeast Asia Model (see Trezzini, 2001; Low, 2004). The difference can be seen in many aspects such as land reform, state control of finance, macroeconomic management, industry policy, income policy and social organisation.

The Trezzini study identified many dissimilar features between Malaysia and the ideal type of developmental state in East Asia (see Table 4.4). In addition to the eight features of developmental states identified by Pempel (1999), Trezzini added four more features for comparison which include: ethnicity, cultural heritage, saving rates and investment in human capital. The main similarities found in the key features of developmental states are 'strong state' and 'authoritarian regime'. Nevertheless, many scholars still regard Malaysia as a developmental state, despite its differences from Asia's North East countries model (see Woo & Cummings, 1999; Jomo, 2000; Trezzini, 2001; Low, 2004; Ju Kwon, 2005). Even during the Asian financial crisis there was strong reluctance by the government to adopt neo-liberal reform (Jomo, 2000; Low, 2004). Jomo explains that the strong statist intervention adopted since the 1970s in Malaysia was the reason behind the refusal of IMF financial aid and subsequent neo-liberal reform.

The analysis of housing provision regimes since the British Colonial period until 2005 clearly shows strong state intervention. State intervention is particularly obvious since the implementation of the NEP in 1971. Even after economic liberalisation in 1986, the state continued to control the housing market through various regulations and laws such as those required the private developers to provide low cost housing with the buying and selling price determined by the state. Furthermore, the implementation of PHP for rental in 1998 by the Federal government was a clear indication of a government response to market failure and enhanced its role in housing provision.

Table 4.4: A Comparison Between the Ideal Type of East Asian Success Model and Malaysia

Ideal Type of 'East Asian Success Model'	Malaysian Peculiarities
1. Ethnic-religious homogeneity	1. Ethnic-religious heterogeneity
2. Neo-Confucian cultural heritage	2. Predominantly Malay-Muslim cultural heritage, Islamic resurgence and a sizeable ethnic Chinese cultural element
3. Geo-strategic exposure, financial aid from the USA, propitious world markets	3. Predominantly Malay-Muslim cultural heritage, Islamic resurgence and a sizeable ethnic Chinese cultural element
4. Socio-structural reforms such as a sweeping land reform which toppled or weakened old oligarchic and landed elites	4. No real land reform
5. Comparative low income and wealth inequality at the outset of the catching-up with industrialisation process	5. More marked income inequality, but successful poverty reduction, rising intra-Malay inequalities through NEP trusteeship and cronyism
6. Relative scarcity of natural resources	6. Relatively abundance of natural resources
7. Authoritarian political system, legitimacy of rule strongly based on economic performance and nationalist appeal	7. Formal democracy with strong authoritarian tendencies
8. 'Strong state' with regard to state capacity and autonomy	9. 'Strong state' with regard to state capacity, limited state autonomy and complex embedded autonomy
8. Comparatively low reliance on foreign direct investments, promotion of local entrepreneurial expertise and enterprises	10. Heavy reliance on foreign direct investment, promotion of a 'Bumiputera Commercial and Industrial Community'
9. Alternation between places of import-substitution and export oriented industrialisation	11. Less successful attempts at deliberate policy change and industrial upgrading and enduring structural imbalances
10. Sound macro-economic fundamentals and high saving rates	12. Generally achieved and forced saving schemes such as 'Employees' Provident Fund'
11. High investment in human capital development	13. Education policy marred by ethnopolitics

Source: Trezzini, 2001, p. 328

4.5 CONCLUSION

The analysis of changes to the political economy from the late Colonial period until 2005 shows Malaysian housing provision has experienced different regimes/phases. The development of the political economy of the country and the pressure of international agencies has also had a huge influence, specifically on housing policy and provision. Prior to 1969, the free market mechanism clearly dominated the housing sector. The government was only concerned with the provision of low cost housing through The Malayan Housing Trust with limited success. Meanwhile, the private sector focused on medium and high cost housing, generally without state intervention.

However, the racial riot of May 13, 1969 suddenly changed the landscape of the political economy of the country. The government introduced the New Economy Policy (1971-1990) in 1971 with objectives to restructure society and eradicate poverty. The government began to align all national and state policies towards achieving NEP objectives, including those for housing. Thus, the government began to control the housing market through the introduction of racial quotas in housing allocation and house price control. When Prime Minister Mahathir took office in 1981, he moved further towards a developmental state based on the Japanese economy by encouraging large corporations to become involved in housing development through generous asset transfer and joint venture projects with government agencies/departments. Although the Mahathir administration began economic liberalisation in 1986 (Jomo, 1997), he still maintained NEP objectives even after 1990. The political scenario at the end of the 1980s also made it difficult for the government to fully dismantle NEP policy. NEP objectives and policy continue under the country's subsequent National economy development plan.

Housing provision in Malaysia since 1970 has clearly moved along the developmental path, with most activities initiated or controlled by the government. Privatisation of housing provision is mostly undertaken by selected large corporations who receive support and privilege from the government. Some of the biggest housing developers in the country have received large tracts of land from the government at very low prices. The practices were even more rigorous during the boom period of 1990-1996. Nevertheless, the Asian financial crisis changed the political economy scenario of the region, particularly for countries which accepted financial help from the International Monetary Fund (IMF). Those countries had to embark on neo-liberal

reform in all areas of policy. Although Malaysia was not subject to the IMF policy, it still faced growing international pressure to adopt neo-liberal reform. Mahathir's administration continued to resist reform until his resignation in October 2003. Under Prime Minister Badawi's administration, the government began to show signs of neo-liberal reform in managing the country's economy. However, the neo-liberal reform did not permeate into the housing sector until the later stages of his administration. The government continue to control the housing market and were still directly involved in public low cost housing for sale and rental in 2005. The state's intervention in low cost housing provision is a clear example of how the state intervened in the housing market. Therefore, in the next chapter the analysis will focus on the role of the state and market in low cost housing provision in Malaysia.

CHAPTER 5:
LOW COST HOUSING PROVISION IN
MALAYSIA

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LOW COST HOUSING PROVISION IN MALAYSIA

5.1 INTRODUCTION

The objective of this chapter is to set the development of low cost housing policy and provision in Malaysia into historical context. The Structure of Housing Provision (SHP) framework will be used to identify the changing role of the State and market, particularly in low cost housing production and the allocation process. This chapter will also provide understanding and context for analysis in subsequent chapters. It is divided into eight sections; the first section will outline the definition of low cost housing and is followed by the development of the low cost housing policy in Malaysia since 1956. The next four sections will discuss low cost housing policy, programmes and the allocation system according to the themes identified in this chapter. The final two sections will explain the role of the private sector in low cost housing production in Malaysia and the distinctive features of Malaysian low cost housing provision model.

5.2 LOW COST HOUSING: THE DEFINITION

The term 'low cost housing' has been widely used in housing literature and policy throughout the world. Low cost housing generally means housing for people with a low income (Ural, 1980, p.1). However, it is difficult to standardise the meaning of low cost housing, since the definition of a low income differs from one country to another. Nevertheless, many scholars agree that the term low cost housing relates to the construction cost of the house (Drakakis-Smith, 1981; Lal, 1995; Kilham, 2008). According to Lal (1995, p.38), "...low cost housing may be defined as the provision of housing which caters to the minimum requirements of masses within their income

capabilities, without scarifying the quality of construction...” Meanwhile, Kilham (2008, p.175) explains the meaning of low cost housing from the designer’s point of view “...it is important to strike the balance between comfort and the minimum construction cost for low cost housing provision.” To ensure the large group of people with a low income can afford to buy low cost houses, the state should intervene to reduce the construction costs in terms of land, building materials, labour and planning/building standards (Drakakis-Smith, 1981, pp.172-181).

Therefore, it can be established that the meaning of ‘low cost housing’ is different from ‘affordable housing’ which has also been widely used to describe housing for people with a low income. As Stone (2006, p. 154) explains “affordable housing is not necessary low cost housing...typically encompasses not only social housing and low income housing but also financially assisted housing for middle income households that find it difficult to purchase houses in the private speculative market”. Hence, there is no specific price threshold or construction cost limit for affordable housing as long people can afford to pay for the house.

Meanwhile the United Kingdom government, based on Circular 9/98, uses the following definition: “... affordable-housing or affordable homes used in this circular to encompass both low cost market and subsidised housing (irrespective of tenure, ownership whether exclusive or share or final arrangements that will be available to people who cannot afford to rent or buy homes generally available on the open market” (cited in Cullingworth and Nadin, 2006, p.168). In conclusion, the implementation of low cost housing requires state intervention in order to reduce the construction costs and the selling price (supply side subsidies). Meanwhile, affordable housing requires state intervention to ensure people with a low income can afford to buy the houses, regardless of the price, either by providing financial assistance or housing allowance (demand side subsidies).

In Malaysia, the term ‘low cost housing’ has been used to describe housing for sale or rental targeted for low income people since 1956 (Housing Trust, 1956, p.1). Moreover, the term was politically acceptable to reflect government efforts to help people with a low income. Low cost housing in the context of Malaysia always refers to conventional housing provided by both public and private sectors for people with a low income rather than squatter upgrading or aided self-help housing programmes. The conventional housing provision represents housing that is produced through the official channels of recognised institutions such as planning authorities, banks and building

societies and land development companies and observes formal legal practices, building standards and land use subdivision regulations (Drakakis-Smith, 1981, p.40).

The selling price, the target group and building specifications have been used by the government to define low cost housing in Malaysia (Malaysia, 2006, p.55). The selling price of low cost housing is subject to review from time to time by the government to ensure people with a low income can afford to buy houses. The government also constantly reviews the building specification and design standards of low cost houses in order to minimise the construction costs (CIDB, 1998). Therefore, low cost housing in Malaysia can be defined as housing provided for people with a low income either for sale or rent by both the public and the private sector, according to appropriate building standards. However, for the purposes of this research, only low cost housing for sale will be discussed further.

People with a low income in the context of selling low cost houses means people above the poverty line (see Table 5.1). The Poverty Line Income (PLI) method has been used to determine the poverty line in Malaysia since 1977 (Mat Zin, 2007 p.31). The PLI was estimated based on the minimum requirements of a household for three major components, namely food, clothing and footwear, and other non-food items such as rent, fuel and power, furniture and household equipment, medical care and health expenses, transport and communications and recreation, education and cultural services (Malaysia, 2001, p.58). The PLI is also updated annually to reflect changes in the levels of prices by taking into account changes in the Consumer Price Indices (CPI). It is important to note, low cost housing is not targeted for people below the PLI since they are categorised as hard core poor in Malaysia and most likely would not be able to afford to buy a house. Instead, they have received assistance directly from the Federal and State governments through a special programme known as Program Pembangunan Rakyat Termiskin (*Hard Core Poor Development Programme*) since 1993 (Malaysia, 2001, p.59). Assistance given to this group in terms of housing includes free building materials for house construction in rural areas or subsidised monthly rental for public low cost houses in urban areas. However, analysis of the housing programme for hard core poor people is beyond the scope of this research.

Meanwhile, the determination of the income ceiling for low cost house buyers was derived from the affordability of monthly instalments; effectively a buyer should not spend more than 30 percent of their income to pay for the instalments. Based on that formula, the ceiling income for low cost house buyers was set between RM500-750 for

a house price of RM25,000 per unit (1981-1998). When the sale price for low cost houses was increased to RM42,000 per unit in 1998, the ceiling income for buyers was raised to RM1,500 per month. Based on PLI and the income ceiling, the target group or 'people with low income' in the context of selling low cost houses is determined by the government from time to time.

Table 5.1: Poverty Line Income, Income Class and Target Group for Low Cost Housing in Malaysia, 1970-2007

	1970	1979	1989	1999	2007
Poverty Line Income (RM)¹					
Peninsular	n.a.	272	370	510	661
Sabah	n.a.	352	544	685	888
Sarawak	n.a.	304	425	584	765
Income Class (% household)²					
RM499 and below	89.3	57.0	25.7	6.0	1.7
RM500 – 999	7.5	25.7	35.3	19.0	6.8
RM1,000 – 1,499	1.8	8.5	17.0	18.8	15.8
RM1,500 – 1,999	0.6	3.6	8.5	13.9	13.5
RM2,000 – 2,499	0.3	1.9	4.8	10.1	11.2
RM2,500 – 2,999	0.2	1.0	2.9	7.3	8.6
RM3,000 – 3,499	0.1	0.6	1.7	5.7	7.1
RM3,500 – 3,999	0.1	0.5	1.0	3.9	5.8
RM4,000 – 4,999	0.0	0.5	1.3	5.5	8.6
RM5,000 and above	0.1	0.7	1.8	9.8	20.8
Total	100.0	100.0	100.0	100.0	100.0
Low Cost Houses³					
Target Group (Income)	> RM300	RM300-750	RM500-750	RM750-1500	RM750-1500
House Price ('000)	RM15-18	RM15-18	RM25	RM25-42	RM25-42

Note: [---] Target Group for low cost house

Sources: ¹ & ² Economic Planning Unit Malaysia, 2010

³ Asek, 2007, p. 144

Similarly, the percentage of households within the target group according to income class was also used by the government to justify the 30 percent low cost house unit requirement for private sector residential development from 1981. However, by 2007 only 22.6 percent of the population was eligible to buy low cost housing based on their income level. Although the government established the number of households within the target group, it was difficult to determine demand according to location and status of homeownership. Therefore it was important for the government to establish a low cost house buyer registration system to address the issue.

5.3 LOW COST HOUSING POLICY DEVELOPMENT IN MALAYSIA

The changes in the low cost housing policy, programmes and allocation system in Malaysia will be examined according to the themes identified in this section. The major themes are explored within four chronological periods known as Selective State Intervention (1956-1970), Emergence of State Control (1971-1990), Market Reform (1991-1997) and Squatter's Clearance (1998-2005). These periods were selected because they generally represent four distinct phases in the development of the low cost housing policy and also correspond with changes to the political economy in Malaysia, as discussed earlier in Chapter 4.

'Selective State Intervention' represents a period when the state had to be selective in low cost housing provision due to a limited budget and manpower capacity. Although the country faced an acute housing shortage during the 1960s, the state still could not provide adequate housing for its people, especially in small towns and rural areas. Instead, most low cost housing projects were implemented in major towns. The low cost housing programme also targeted selected groups of people including government employees and political supporters, especially prior to the general election. In general, low cost housing provision during this period was not meant to address the housing shortage, but rather to gain political support.

Meanwhile the 'Emergence of State Control' period earmarked the beginning of strong state intervention in low cost housing production and allocation following the introduction of the NEP in 1971. Low cost housing ownership was identified as one of the key strategies to achieve NEP objectives to eradicate poverty, particularly among the Bumiputera. Therefore, state intervention in low cost housing production and allocation was crucial during this period. At the same time, the government imposed low cost housing requirements for the private sector with regard to housing development. Various rules and regulations were also introduced by the state to regulate and control the market during this period.

The 'Market Reform' period shows a policy shift from state to market for low cost housing provision. During this period, the state began to retreat from direct housing provision in line with the recommendations of the World Bank and international agencies. The reform was implemented by the state through a privatisation programme and financial liberalisation for low cost housing construction. The success of market reform was reflected by a total of 214,889 units or 82.2 percent of low cost

housing completed by private housing developers during the 1991-1995 period compared to only 17.8 percent by the public sector.

Finally, the 'Squatter Clearance' period shows state commitment to eliminating squatters through the provision of mass housing for sale and rental under the People Housing Programme (PHP). Despite a large number of low cost houses built by the public and private sector, the number of squatter settlements kept increasing during the 1990s. The Federal government launched a nationwide large scale squatter clearance programme in 1998 and implemented PHP as a strategy to relocate the squatters.

Figure 5.1 shows a summary of main public and private sector low cost housing programmes and the key players from 1956 to 2005. Meanwhile, Table 5.2 displays a summary of the low cost housing policy, programmes and allocation system during a similar period. A detailed analysis of the low cost housing issues, policy, programmes and allocation system according to themes identified earlier will be carried out in subsequent sections. However, a detailed analysis of low cost housing allocation under the Open Registration System (ORS) will be conducted in the next chapter.

Period/ Key Player	1956-1960	1961-1970	1971-1980	1981-1990	1991-2000	2001-2010
STATE						
Federal Government	Low Cost Housing (by Housing Trust) 1956-1976				PHP (by NHD) 1994-2004	
State Government			PLCHP (by State Governments) 1976-2002			
Government Owned Company (National Housing Company)						PHP after 04
MARKET						
Private Housing Developers				Low Cost Housing (based on 30% low Cost Quota) 1980-today		
Special Government-Private Developers Programme				SLCHP 87-89		

Note:

NHD - National Housing Department
 PLCHP - Public Low Cost Housing Programme

PHP - People Housing Programme
 SLCHP - Special Low Cost Housing Programme

Figure 5.1: Summary of Key Public and Private Sector Low Cost Housing Programmes, 1956-2005

Source: Author

Table 5.2: Summary of the Low Cost Housing Policy, Programmes and Allocation System in Malaysia, 1956 - 2005

Theme	Year	Housing Issues	Key Policy/Programme(s)	Allocation Policy/System	Target Group/ Eligibility Criteria
SELECTIVE STATE INTERVENTION	1956	Squatter and shop house overcrowding in urban areas due to rural-urban migration after World War II.	British Colonial Government through the Housing Trust introduced low cost housing for sale and rental for the first time in 1956.	'First Come First Served System' for low cost houses built by the Housing Trust.	<ul style="list-style-type: none"> • People live in squatter and low rank government servants • People with monthly income less than RM300 • Dependents (max. 16)
	1960	Acute housing shortage nationwide particularly low cost due to population increase and old stock replacement.	Federal government promote 'Home-Owning Democracy' policy to encourage people to buy a house in 1960.	'Point-based Waiting List System' introduced in 1964 by Ministry of Local Government and Housing.	
	1967 - 1969	Inadequate low cost house units built by the Housing Trust prior to 1967. Housing shortage continues.	Federal government via the 'Crash Programme' launched to impress voters prior to the 1969 General Election completed 14,175 units between 1967-1969.		
EMERGENCE OF STATE CONTROL	1971	Poverty and lack of homeownership among the Bumiputera.	Government imposed requirement of minimum 30% low cost houses allocated to Bumiputera.	'Point-based Waiting List System' with ethnic quota introduced.	<ul style="list-style-type: none"> • Bumiputera • People with monthly income RM300 – RM750 • Dependents (max. 16) • People live in the state
	1976	Failure of the Housing Trust Federation of Malaya to provide adequate low cost houses.	State governments take over responsibility for low cost housing provision under Public Low Cost Housing Programme (PLCHP) from the Housing Trust.	State governments take over responsibility for low cost housing allocation from the Housing Trust.	
	1981	Rapid rural-urban migration under NEP contributed to housing shortage and squat formation.	Government imposed 30% low cost house requirement and RM25,000 ceiling price for housing development by the private sector.	State government began to control low cost housing allocation by the private sector.	
	1986-1989	Economic recession has an impact on housing market.	Government introduced Special Low Cost Housing Programme (SLCHP) for private housing developers.		
MARKET REFORM	1991 - 1997	Housing affordability issues and growing number of squatters.	<p>Private sector takes a leading role in low cost housing provision. State began to retreat and encourage privatisation of housing.</p> <p>Federal government build 14,751 units of low cost housing for rental under the People Housing Programme (PHP) and spend RM600 million to relocate the squatters in 1994.</p>	State governments still responsible for low cost housing allocation for both public and private sector housing	<ul style="list-style-type: none"> • Bumiputera • People with monthly income RM500 – RM750 • Dependents (max. 7) • People live in the state • Applicants' age • House condition
SQUATTER CLEARANCE	1998	Economic crisis and growing number of squatter	Federal government launched PHP NEAC for rental to relocate the squatters and to revive the economy. Low cost house price to RM42,000 per unit according to location.	'Point-based Waiting List System' with ethnic quota under Open Registration System (ORS) for low cost housing established by Federal government in 1997.	<ul style="list-style-type: none"> • Squatter residents • People with monthly income RM500 – RM750 • Dependents (max. 7) • People live in the state • Applicants' age • Disability • Consumer Price Index
	2002 - 2005	Failure of State governments to provide adequate low cost under PLCHP	PHP New Policy for sale and rental implemented by Federal government to replaced (PLCHP) by the State government since 1976.		

Source: Author

5.4 SELECTIVE STATE INTERVENTION (1956-1970)

The Housing Trust Federation of Malaya (Housing Trust, 1957) identified two main housing problems during the 1950s: the squatter settlements and shop house overcrowding where people lived in accommodation of sub-human standards (see Figure 5.2). It was reported that in Kuala Lumpur alone approximately 30 percent of the population or 100,000 people (20,000 families) lived in squatter during this period (Housing Trust 1957, p.2). The problem was mainly caused by a disproportionate increase in the population and rapid rural-urban migration after World War II. The population of the Federation of Malaya increased at the rate of 2.5 percent per annum from 1947 to 1957 and therefore required approximately 10,000 new houses annually (Housing Trust, 1956, p. 4). However, due to a lack of funding, the British Colonial government failed to provide adequate low cost housing. Thus, the quality of life for many people with a low income failed to improve after the war.



Figure 5.2: Squatters and Shop House Overcrowding Were Common Housing Problems in Malaysia During the 1950s and 1960s

Source: Courtesy of the National Archive, Malaysia

Meanwhile, the Atkinson Report on Low Cost Housing in Malaya (Atkinson, 1961) revealed that a large proportion of low cost housing was in poor condition throughout the Federation. He estimated the government needed to construct between 35,000 and 40,000 new low cost houses a year to replace the dilapidated houses and to fulfil

increasing housing need due to rural-urban migration. Subsequently, the study by the Ministry of Local Government and Housing (MLGH) in 1964 estimated the country needed more than 18,720 units of low cost houses annually based on the population increase. The figure, however, does not take into account the backlog in urban housing need resulting from squatters, overcrowding of shops, cubicles and slum clearance (MLGH, 1966, p.4). From 1956 to 1970, only 33,073 units of low cost housing were built by the government throughout the country. This represents only two percent of the total of 1.6 million units completed during the same period by both public and private sectors (Soo Hai, 1979, p. 67). This achievement in low cost housing construction was way below the total annual low cost housing units recommended in the Atkinson Report (1961) and MLGH (1964). The low cost housing shortage not only occurred in Malaysia, but was also a common problem in other developing countries during the 1960s (Abrams, 1964).

5.4.1 Low Cost Housing Policy and Programmes

Prior to independence, the British Colonial Government introduced the low cost housing programme in response to continued housing problems. The Housing Trust Federation of Malaya was entrusted with providing low cost housing by the government from 1956. Prior to 1956, the Housing Trust confined itself to the provision of houses for sale for the middle income group (Housing Trust, 1956, p.2). Following the general election in 1955, the Housing Trust came under the Ministry of Natural Resources and Local Government and the minister was appointed as the Trust's chairman. The minister then decided that the Housing Trust should concentrate only on providing low cost houses for rental and sale. The housing was targeted at people with a household income of less than RM300 per month. The Housing Trust's role as a government agent also earmarked the beginning of state intervention in low cost housing provision in Malaysia (Housing Trust, 1956 p.5). Meanwhile, the private sector continued its role of providing housing for people with a middle and high income.

After independence, the low cost housing policy was largely influenced by recommendations from the United Nations and British government experts. The report by Mr. Atkinson, the Head of the British Tropical Building Section (Atkinson, 1961), on low cost housing revealed a large number of houses in poor condition throughout the Federation of Malaya particularly the low cost houses. Under the Second Malaya Plan (1961-1965), the government emphasised the provision of cheap housing as a basic

social need based on the 'home-owning democracy' (Agus, 1997, p.34). However, the programme never achieved its objective to increase homeownership among people with a low income due to a limited number of low cost houses built by the government during this period (Johnstone, 1979, p.220).

Following the establishment of the Ministry of Local Government and Housing (MLGH) in 1964, the formulation of low cost housing policy was based on two guiding principles. Firstly, the Federal government should provide the necessary funds at a low interest rate and utilise the technical services of the Housing Trust. Secondly, the State governments would provide land at a nominal price with the necessary roads, road-side drains and water mains free of charge (MLGH, 1966, p.3). The housing, however, was still targeted at people with a monthly income of less than RM300, usually working class people such as general labourers and lower rank government staff. From 1964 onwards, a lot of ground work and research was conducted to prepare for a more intensive low cost housing programme under MLGH. This includes the formation of "a Committee on Standards" which was appointed to draw up minimum standards for low cost housing with a view to achieving uniformity throughout the country and also to reduce the cost of construction (MLGH, 1966, p.5).

The structure of low cost housing provision shows the significant role played by the state during this period. From 1956 to 1970, most low cost houses were built by the Housing Trust (see Figure 5.3). The reason was because private housing developers did not find it economically viable to undertake low cost housing, especially on land which they bought at a competitive market price (Soo Hai, 1979, p. 175). In addition, there was no requirement from the government for the private sector to provide low cost housing. That was in line with government policy for minimum intervention in the housing market.

The low cost houses built by the Housing Trust were for both hire purchase and rental. The hire purchase housing was defined as "housing where the monthly rent paid by the tenant is recorded as a hire purchase instalment" (Housing Trust 1956, p.6). The tenants were also not required to pay an initial purchase deposit and they became the owner of the house when the cost of the building and ancillary services was fully repaid. Loans were provided to purchasers by the Housing Trust at a heavily subsidised rate of 2 percent with a 10 year repayment period. The monthly repayment was fixed at RM35 which meant that the total cost of the house including land and services must not have exceeded a total of RM3,500. The provision of timber for low

cost houses under this category targeted people living in rural areas or the fringes of urban areas (see Figure 5.4). Therefore, it shows the Housing Trust were willing to use local materials for housing construction to reduce the construction costs.

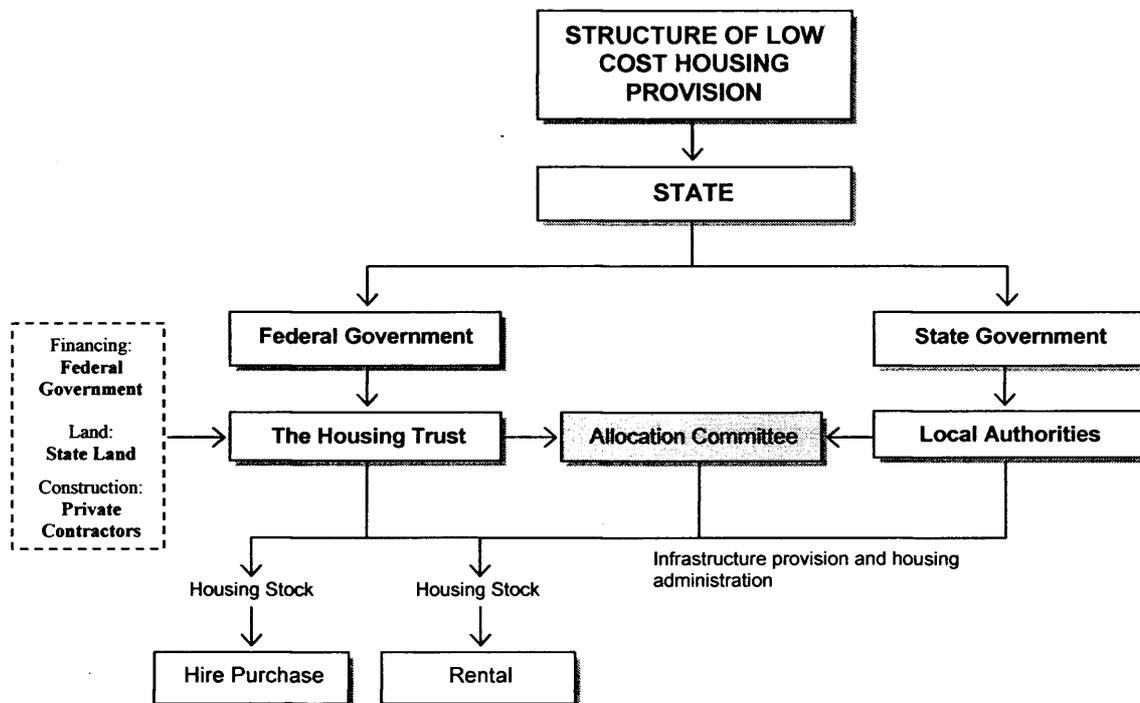


Figure 5.3: The Structure of Low Cost Housing Provision in Malaysia, 1956-1970
 Source: Author

Meanwhile, rental housing was defined as “housing where the tenant pays a monthly inclusive rent sufficient to cover repayment of loan, interest, fire insurance, rates, maintenance and administration” (Housing Trust 1956, p.6). The inclusive monthly rent was fixed at not more than RM50 per month. Loans were provided for a period of up to 30 years at the subsidised rate of 3 to 5 percent per annum to local authorities for housing construction by the Housing Trust. The rental housing then became the property of the local authority when the repayment of the loan to the Housing Trust was completed. It was decided to implement this policy through the construction of houses and flats of brick or concrete construction in inner urban areas (see Figure 5.5). Local authorities were still involved directly in house allocation and the collection of monthly rents from the tenants.



Figure 5.4: Typical Wooden Low Cost House Available Under the Hire Purchase Scheme in Rural Areas by the Housing Trust

Source: Annual Report Housing Trust Federation of Malaya, 1957



Figure 5.5: Typical Low Cost House Available for Rental in Urban Areas by the Housing Trust

Source: Annual Report Housing Trust Federation of Malaya, 1957

In order to implement the programme, the Housing Trust required cooperation from State governments and local authorities. The State governments were responsible for identifying suitable land for low cost housing and contributed financially towards the provision of infrastructure. A subsidy in the form of land, either free or with a nominal premium, was required from the State governments. Meanwhile, local authorities allowed for faster planning approval for low cost houses built by the Trust. The arrangement between the Housing Trust, State governments and local authorities continued until 1970 for low cost housing production.

In 1967, the Housing Trust implemented the '*Crash Programme*' to overcome the housing shortage (MLGH, 1968a). The main objective of the programme was to build small schemes of 50 or 32 dwellings per scheme in the smaller towns which had not previously had a low cost housing project. The essence of this programme was speed, and the ministry, through the Housing Trust, paid for land acquisition and was responsible for infrastructure. The whole programme emphasised standardisation to the highest possible level. It began with standardised layouts of 2.3 acre plots to accommodate 50 dwellings or 1.66 acre plots to accommodate 32 dwellings and continued with a standardised house design and standardised tender and contract procedures. A total of 14,175 low cost housing units were completed under this programme from 1967 to 1969.

However, the real intention of the programme was to impress voters prior to the 1969 general election (Drakakis-Smith, 1979; Alithambi, 1979). As described by Alitambhi (1979, p.51), the Crash Programme also "demonstrate[d] the ability of Federal government to harness its resources to implement the housing programmes if it really wants to do." Clearly, the low cost housing programme's implementation during this period was based on a 'Tokenism' approach. The goal of a tokenism housing programme was mainly to gain political mileage rather than solve a housing problem (Pacione, 2009, p.538). Pacione added, "...the programme [was] implemented to be [a] visible symbol of government concern for the poor rather than meeting the housing need and usually taking [the] form of high rise block irrespective of their fiscal or cultural suitability." The "Crash programme" also demonstrated the importance of political intervention in low cost housing production and allocation during the 1960s.

In terms of financing, before 1960 the Federal government channelled all the funds directly to the Housing Trust as part of revolving fund for housing construction (Housing Trust, 1956, p.3). When the purchasers or tenants repaid the loans to the

Housing Trust, the money was used for future low cost housing projects. However from 1964, Federal funds were loaned directly to the State governments and municipalities, as described by MLGH:

“The Ministry controlled the allocation of loan and funds and invited bids annually from the various State governments to undertake low cost housing schemes. On approval of a project a loan agreement was drawn up between the Federal Treasury and the State government for the amount allocated and the State government was granted the architectural and supervisory services of the Housing Trust free of charge. The Trust in conjunction with the State P.W.D. (Public Work Department) and the State Town Planner, designed the project, supervised the construction and on completion handed over the houses to the State governments” (MLGH 1966, p.3).

The construction of low cost houses for the Housing Trust was always undertaken by private building contractors from 1956. The Housing Trust was only involved in project design and supervision, but relied on private contractors to build the houses which were later handed over to State government for sale or rental.

5.4.2 Low Cost Housing Allocation

From 1956 to 1964, low cost housing allocation was on a first come first served basis. Priority to buy low cost houses was given to people who lived in squatter, overcrowded shop houses or who were lower rank government employees (see Housing Trust, 1956; Agus, 1998). Since the total number of public low cost houses constructed by the Housing Trust was relatively small, the allocation process was very simple. The Allocation Committee members comprised representatives from the Housing Trust and local councils where the project was located and they were responsible for the selection of low cost house buyers and tenants (Housing Trust 1957, p.20).

The low cost housing allocation system began to improve after the establishment of the Ministry of Local Government and Housing (MLGH) in 1964. Although the MLGH generally accepted income as a reasonable yardstick to measure an applicant's financial status, it was also believed that the government should consider other criteria to determine eligibility (MLGH, 1968a, p.7). Therefore, in 1964, the MLGH began to allow people with a monthly income of up to RM750 per month to buy low cost houses, subject to a number of dependents, up to 16 people. The priority for low cost house allocation, however, remained for people with a monthly household income below

RM300. At the same time, the government also introduced a more systematic allocation system for low cost houses based on a 'points based waiting list system' to identify the house buyers.

5.4.3 Conclusion

From 1956 to 1970, low cost housing provision in terms of production and allocation was the responsibility of the Federal government through the Housing Trust Federation of Malaya. However, the achievements of the Housing Trust were hampered by a lack of funds and professional staff to implement low cost housing projects. Therefore, the Housing Trust had to prioritise and focused on low cost housing provision in major cities and towns. Low cost housing production by the Housing Trust only increased significantly during the "Crash Programme" launched by the Federal government before the 1969 general election. However, the programme was implemented in order to impress the voters rather than to fulfil the housing needs of people with a low income. In general, the Housing Trust failed to address the housing problem by providing adequate houses for people with a low income.

5.5 THE EMERGENCE OF STATE CONTROL (1971-1990)

The implementation of the NEP in 1971 earmarked a major shift toward greater state control in low cost housing provision. Low cost housing provision suddenly became a central focus in order to eradicate poverty and restructure society. However, one of the consequences of NEP implementation was a sudden increase in housing demand, particularly among people with a low income due to rapid rural-urban migration during the early 1970s. Rapid migration and the government's failure to provide adequate housing in urban areas contributed to an increased number of people living in squatter (Agus, 1992; Wagelin, 1979). The squatter settlements were mainly concentrated in the Klang Valley, particularly Kuala Lumpur and parts of Selangor. In 1973, approximately 30.5 percent of Kuala Lumpur's population or 169,500 people lived in squatter settlements compared to 4 to 6 percent in other major towns (Wagelin, 1979, p.97). The problem was further compounded, as most public low cost housing units were not offered to existing squatters and were instead allocated to police and army personnel (Wagelin, 1979, p.98).

During the 1970s, international agencies, particularly the World Bank, encouraged most developing countries to adopt aided self-help housing and slum upgrading programmes to solve the squatter problem (Pugh, 2001, p.400). However, the Malaysian Government continued to pursue a conventional public housing programme and refused to adopt aided self-help housing or slum upgrading programmes. The reasons for the government's rejection of the World Bank's recommendations were because the people of Malaysia had a relatively high per capita income and the magnitude of the squatter problems was more manageable than other South and South-East Asian countries (Wagelin, 1980, p.102). At the same time, the political leaders also favoured technocratic modernisation in housing and buildings rather than slum upgrading programmes.

However, the main problem during this period was the capacity of the Housing Trust to build adequate conventional low cost houses for people with a low income (see Drakakis-Smith, 1980; Johnstone, 1979; Alithambhi, 1979; Soo Hai, 1979). Several factors contributed to the relative failure of the Housing Trust to provide adequate low cost housing from the 1950s to early 1970s. The first was a lack of funding available for low cost housing construction. Due to other development priorities, low cost housing only received a small amount of money from the Federal government. Low cost housing provision was not considered to be as important as infrastructure and rural development, which received a large amount of investment.

The second was the high standard of building and infrastructure specifications imposed by the government for low cost housing construction. As described by Pugh (2001 p. 401) "...the inappropriateness of public housing provision in many developing countries during the 1960s is because they usually used the idea and building standard transplanted from the developed countries..." Similarly, in Malaysia, the Housing Trust adopted the highest possible standard of construction for its public housing based on the Western model (Housing Trust, 1957, p.8). The obvious example was the construction of low cost housing units for Pekeliling Flats, Kuala Lumpur and Rifle Range, Penang in 1969 using the industrialised housing technique (see Figure 5.6). The problem was that the construction techniques could not be replicated in other projects due to high capital involvement and thus contributed to a higher monthly rental rate beyond the affordability of people with a low income.

Therefore, the implementation of the project was regarded as a failure by the government (Wagelin, 1978; Drakakis-Smith, 1979).



Figure 5.6: Pekeliling Flats was the First Public Low Cost Housing Project Using Industrialised Housing Construction Techniques in Malaysia

Source: Author (Photos taken by Author in 2001)

The third was a lack of private building contractors who were capable of constructing low cost houses, since the guiding principle adopted by the Housing Trust was to provide structurally sound houses at a minimum cost (Housing Trust, 1957, p.8). The Housing Trust also faced difficulties in identifying suitable contractors, especially in small towns and rural areas, at a reasonable tender price. As described in the Housing Trust Annual Report, 1957, there were "...not many contractors outside Kuala Lumpur capable of handling contracts for more than about fifty houses" (Housing Trust 1957, p.8). Meanwhile, some projects faced serious delays due to the contractors experiencing difficulty in completing the construction. This happened mainly because some of the smaller building contractors took on contracts beyond their financial and organisational abilities (Housing Trust, 1957, p.13).

Finally, there was a drawback to the relationship between Federal and State government, which particularly related to land issues and programme financing

towards the end of the 1960s (MLGH, 1968a, p. 7). MLGH realised that low cost housing provision during this period was problematic due to the limited role played by the Housing Trust, which could only provide financial assistance, supervisory, technical and professional services to the state governments.

As a result, only 26,779 units of low cost housing were built by the Housing Trust during the period of 1956-1974 (see Figure 5.7). From 1956 to 1965, the Housing Trust managed to build a total of 7,431 units of low cost housing or on average 826 units per year, well below the annual figure recommended by the Atkinson Report (Atkinson, 1961). Housing production via the Housing Trust still failed to improve after 1965, except under the "Crash Programme" (1967-1969) with 14,175 low cost housing units completed or 52.9 percent of total units completed from 1956 to 1974. The Housing Trust also failed to cope with increasing demand for low cost housing after 1970 under the NEP. The total number of houses completed declined from 1970 to 1974, with only 3,398 units finished. The Housing Trust finally ceased to operate in 1976 (MHLG, 2006).

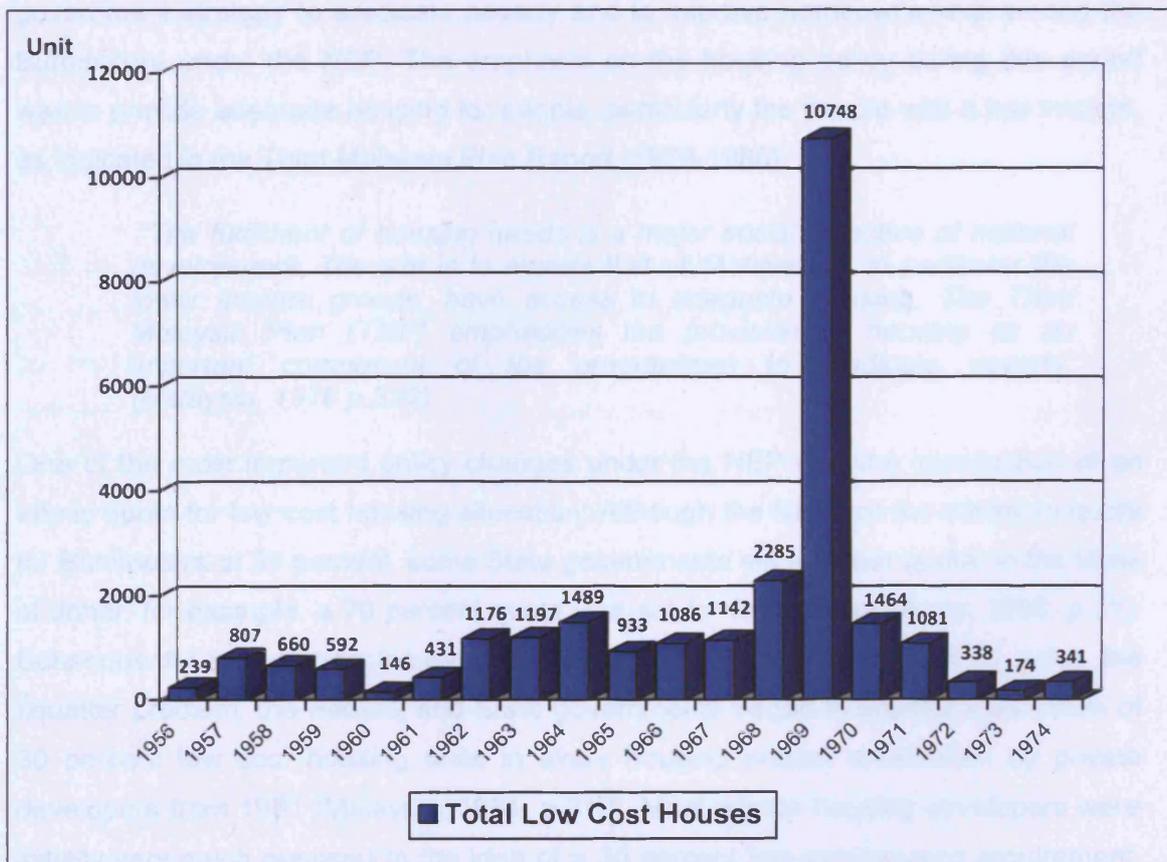


Figure 5.7: Low Cost Housing Production by the Housing Trust 1956-1974

Source: Jagatheesan (1979, p. 26)

The role of low housing provision was later taken over by the State governments. The Federal government then confined its role to providing advisory services and loans to State governments to implement new programme known as Public Low Cost Housing Programme (PLCHP). The National Housing Department (NHD) was then established in 1976 by the Federal government, but only to provide a technical advisory service to the State governments. The Ministry of Local Government and Housing also changed its name to the Ministry of Housing and Local Government (MHLG) in 1976 to reflect the importance of housing in the national development agenda.

5.5.1 Low Cost Housing Policy and Programmes

The State government began to play a significant role in low cost housing provision and allocation after 1976. The implementation of a low cost housing programme was supposed to be easier, since the State governments had more power in terms of land matters and housing according to Federal Constitution (Malaysia 1960). Furthermore, the implementation of public low cost housing programmes was important as part of a government strategy to eradicate poverty and to improve homeownership among the Bumiputera under the NEP. The emphasis on the housing policy during this period was to provide adequate housing for people, particularly the people with a low income, as indicated in the Third Malaysia Plan Report (1976-1980):

“The fulfilment of housing needs is a major social objective of national development. The aim is to ensure that all Malaysians, in particular the lower income groups, have access to adequate housing. The Third Malaysia Plan (TMP) emphasizes the provision of housing as an important component of the programmes to eradicate poverty” (Malaysia, 1976 p.330).

One of the most important policy changes under the NEP was the introduction of an ethnic quota for low cost housing allocation. Although the NEP set the minimum quota for Bumiputera at 30 percent, some State governments set a higher quota. In the State of Johor, for example, a 70 percent quota was set for Bumiputera (Agus, 1986, p.71). Subsequently in order to increase low cost housing production and to solve the squatter problem, the Federal and State governments began to impose a minimum of 30 percent low cost housing units in every housing project undertaken by private developers from 1981 (Malaysia, 1981, p.210). Most private housing developers were initially very much opposed to the idea of a 30 percent low cost housing requirement. Later, the concept of ‘cross-subsidisation’ for low cost housing provision was introduced in the late 1970s to ease the financial burdens faced by private developers

(Salleh and Lee, 1997, p. 60). Under this concept, the private developers expected to make a huge profit on medium and high cost developments to cover their loss, while providing low cost houses in the same project. The government agreed not to control the selling price for medium and high cost houses. However, the approach contributed to a huge price increase for medium and high cost housing (Johnstone, 1980, p.356). Subsequently the selling price was increased from RM18,000 to RM25,000 per unit to encourage private developers to build low cost houses (Malaysia 1981, p.210).

According to Johnstone (1980 p.338), there are three ideological justifications which explain the need for private sector involvement in low cost housing provision by the government. The first is government recognition that the private sector housing industry had attained maturity and that it had the efficiency, capability and capacity to be dominant producers of adequate and affordable homes for the community. Although the private sector had already been involved in housing provision since the 1950s, that was only for medium and high cost housing (Johnston, 1980, p.356). After more than 20 years in the industry, the government believed private developers should be involved in low cost housing provision as part of their social obligations. The second justification was that, in order to achieve economy of scale, the private sector should be able to come up with more innovative designs and technologies. Finally, private sector participation would allay any accusation of the government posing unfair competition through its own involvement in housing.

The structure of low cost housing provision remained the same from 1971 to 1997 (see Figure 5.8). The only significant change during this period was the leading role played by the state governments and market in low cost housing provision. The state governments were key players in low cost housing provision from 1971 until 1990; however, the market took over the leading role after 1990. The Public Low Cost Housing Programme (PLCHP) was the main low cost housing programme formulated by the Federal government in 1976. The objective of the programme was to provide affordable housing for low income people through State and Federal government cooperation. Under the PLCHP, the State government was the key player in low cost housing production. As explained by Dali (1998, p. 124):

“PLCHP is a housing programme implemented through an intergovernmental cooperation and division of responsibility between the Federal and States government. Under this programme federal government acts as a coordinator and financier, provide funds in the form of loan to State governments. Whereas State governments act as developers, whose borrow money from Federal and implement the projects.”

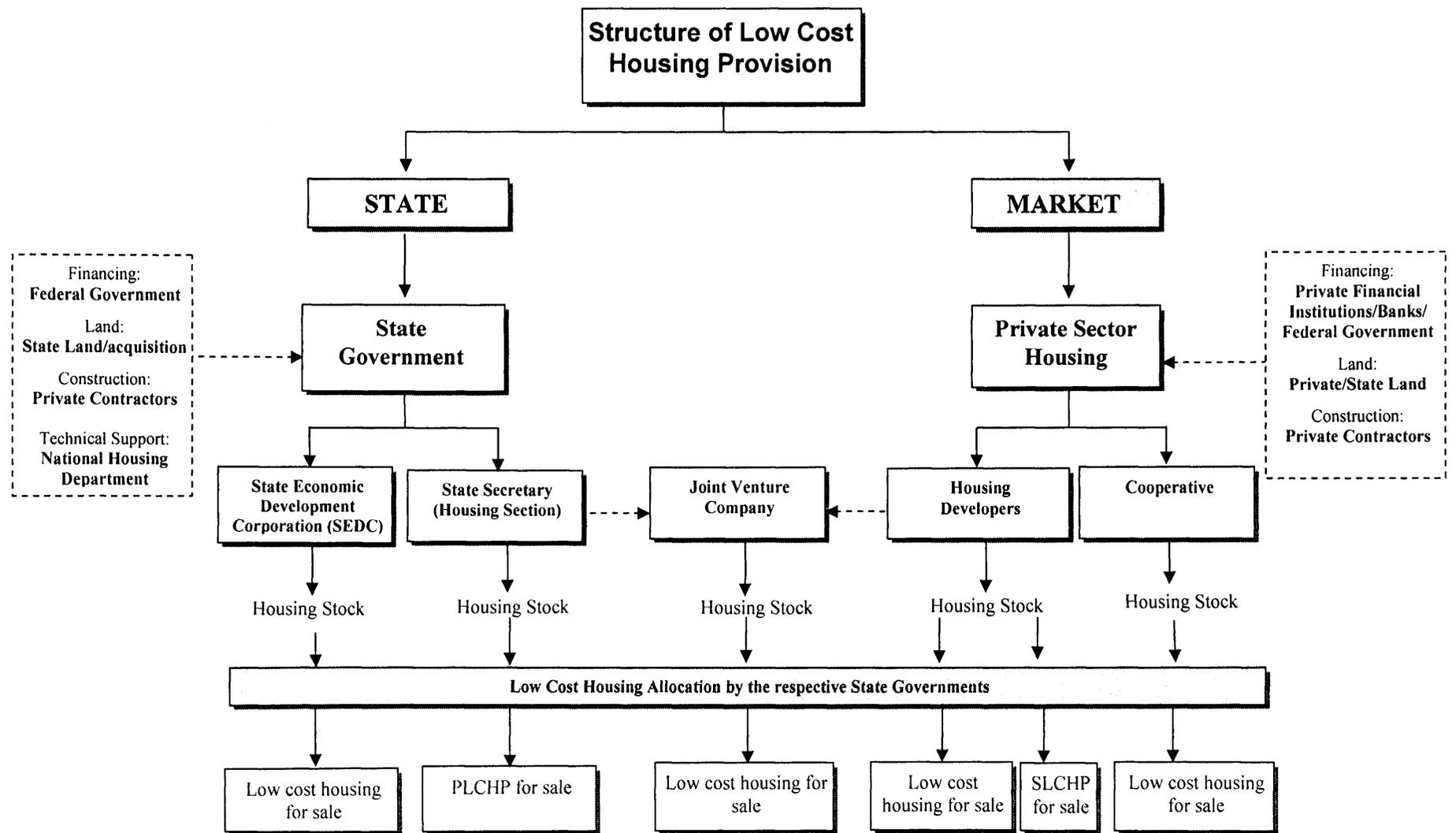


Figure 5.8: The Structure of Low Cost Housing Provision in Malaysia, 1971-1997

Under the PLCHP, the respective State governments were responsible for identifying suitable land to build low cost houses, planning, implementing and administering the programme with assistance from NHD on the technical matters. The main features of the PLCHP included a selling price not exceeded RM25,000 per unit with 3 bedrooms, a minimum size of 60 sq metres and targeted at people with a household income of less than RM750 per month from 1981 (Malaysia 1981, p. 211). Low cost house units built under this programme were either for sale or rent for a number of years with the option to buy under the hire purchase scheme (Dali, 1998, p.125). The financing for PLCHP projects were provided by the Federal government to State governments through the Ministry of Housing and Local Government.

The amount of loans given were based on the number of low cost housing units proposed by the State government at RM25,000 per unit. The Federal government then charged an annual interest rate of 4 percent and imposed a repayment period of 20 to 25 years for the loan (Asek, 2007, p. 211). The State governments then sold the houses to people with a low income at the same price and charged the buyers an interest rate of 5.5 percent, which was paid directly to the State government every month for a period of up to 30 years. Thus, under the hire purchase scheme, the buyers were not required to obtain any financing from private financial institutions. The financial arrangement to purchase the houses under the PLCHP was more convenient because buyers only had to pay RM143.35 per month for 30 years and the upfront money was equivalent to two or three months of instalments (Dali, 1998, p. 127). Dali adds, if the loan was obtained from private financial institutions, the buyer would have had to pay up to RM275.00 per month. Thus, shows the loan was highly subsidised by the State government for the low income people.

The State government was responsible for the selection of buyers and the collection of monthly instalments from those buyers. The money collected was then used to pay back the loan from the Federal government (Asek, 2007, p.211). The house construction was usually carried out by private building contractors and their selection was made according to state government standard procedures (Dali, 1998, p. 131). Implementation of the PLCHP clearly reflects the significant role played by the State governments in low cost housing provision. The State governments were not only directly involved in the production of low cost housing, but also the financing and allocation process.

During the 1970s, the State governments also provided low cost housing through the State Economic Development Corporation (SEDC), especially in new growth centres and rural areas. Although the main purpose of the SEDC was to become involved in property development in order to improve the State's economy, low cost housing provision was still the State governments' main priority in order to achieve NEP objectives. The financing for low cost housing provision partly come from the State governments and private financial institutions in the form of loans.

However by early 1980, the Federal and state governments realised they could not solve the problem of low cost housing without the involvement of the private sector. As a total of 626 private housing developers and 1,147 construction firms had registered with the government since 1972, the private sector could play a crucial role in alleviating low cost housing shortages in Malaysia (Johnstone, 1980, p. 56). Large conglomerates began to venture into housing development and became directly involved in low cost housing provision. These companies not only have large banks of land for housing development, but also have strong financial back-up from internal sources or private financial institutions (Johnstone 1980, p.57). Implementation of the Privatisation Policy in 1981 further accelerated the private sector's involvement in low cost housing provision (Malaysia 1981, p.211).

Therefore, in the 1980 and 1990s, more than 70 percent of low cost housing units were built by large companies (Yusof, 2007, p.152). Furthermore many joint venture companies were set up between the State governments/local authorities and private developers to undertake housing development. The arrangement was usually that the State government would provide the land and the private developer would provide technical knowledge and capital for the project. The joint venture companies were still required to provide 30 percent low cost housing units imposed by the State governments. Cooperatives were also involved in low cost housing provision, although the number was relatively small and they were built for members only.

During the economic recession from 1986-1989, the Federal government sought cooperation from the private sector to provide low cost houses. The programme was known as the Special Low Cost Housing Programme (SLCHP) and was implemented in 1987 with a construction target of 240,000 units of low cost housing (Soernarno, 1986, p. 34). The main objectives of the programme were to mitigate the adverse effects of the economic recession, to generate economic growth and to create employment opportunities. The programme was implemented wholly by the private

sector, but was coordinated by MHLG (Subramaniam, 1986 p.3). Under this programme, the Federal government, through the Central Bank of Malaysia, provided a financial package of RM2 billion for housing construction. However, by 1989, private housing developers had failed to achieve their target, despite various incentives offered by the government and only 84,940 units were completed. The reason for the poor rate of achievement was mainly because most private housing developers were not confident of the actual demand for and saleability of the 240,000 units targeted by the Federal government (Sen, 1986). This shows that financial assistance alone without accurate market information failed to convince private housing developers to build low cost housing.

5.5.2 Low Cost Housing Allocation

In 1976, the State governments began to take over responsibility for public low cost housing allocation from the Housing Trust. This was in line with the role played by the State governments as the key players in the PLCHP implementation. Every State government then began to establish a low cost housing allocation system based on their own selection criteria. Although State governments maintained the main selection criteria based on monthly income and number of dependents, most gave priority to the people who were born in the state. At the same time an ethnic quota for housing allocation was also introduced in line with NEP strategy. After 1971, those eligible to purchase houses were divided according to an ethnic quota determined by the state government (Alithambi, 1979, p.66).

In terms of the registration and allocation process during the 1980s, the study by Agus (1982) on the States of Melaka, Johor and Perak shows different allocation policies were adopted (see Figure 5.9). The State of Perak adopted a simple way to select eligible buyers through an interview. Meanwhile, Melaka used a points based system according to criteria set by the State government, which was followed up by an interview to determine the eligible buyers. The State of Johor, however, had a clear policy on low cost housing allocation which included a quota according to ethnic group and political supporters. For both the States of Perak and Melaka, the ethnic quota was not clearly spelt out in the housing policy and thus those state governments had the flexibility to change the percentage of houses allocated for specific groups. The politicians influence over the selection process was rather rampant during the 1980s. Johor was one of the States in Malaysia which had formally adopted a policy to

allocate at least 10 percent of low cost housing units to political party supporters. In other States, the actual percentage allocated to political party supporters was not officially announced in the allocation policy..

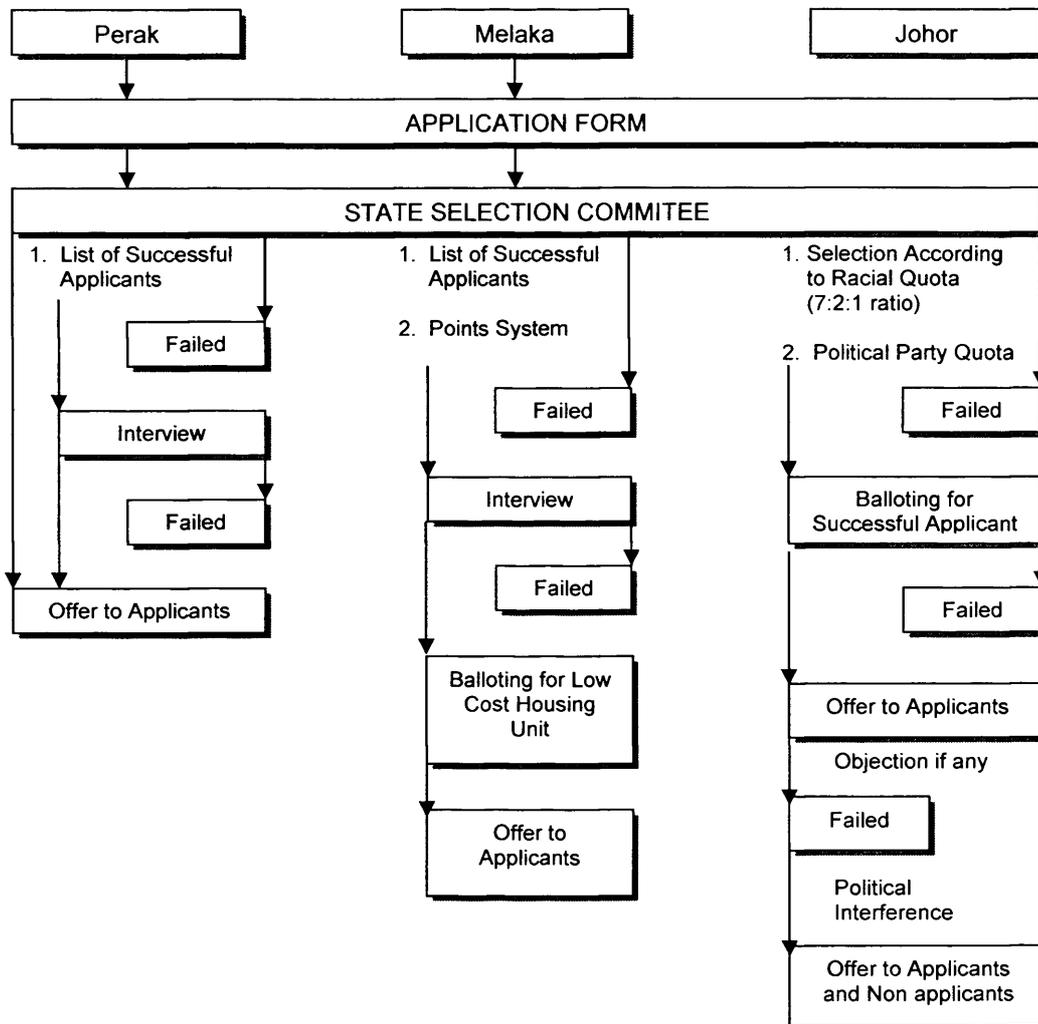


Figure 5.9: Low Cost House Buyer Registration and Allocation Process in the 1980s

Source: Agus, 1986, p. 72

Applicants for low cost housing must also complete an application form provided by the respective State government. An incomplete application form would mean the application would be rejected. This included a failure to attach all the necessary documents i.e. identity card, birth certificate, marriage certificate and supporting letter from employer. Some applicants also attached a recommendation letter from their local politician or member of parliament to support their application. The State Selection Committee was usually headed by the chief minister or menteri besar and the members included State Executive Council Members (EXCO) for housing,

members of parliament or state assemblymen and senior government officers. Since the committee members also included politicians, most decisions were therefore likely influenced by political agenda and in favour of ruling party supporters.

When the power for low cost housing allocation was transferred to the State governments after 1976, one of the unintended consequences was that politicians began to intervene in the process. Most politicians believed their involvement in the low cost housing allocation process was important since it could influence election results in particular areas if houses were allocated to their supporters. Therefore, many people who purchased low cost houses during the 1980s were strong supporters of the ruling political party (Agus, 1982, p. 60). The low cost housing unit or 'Political House' as described by Agus (1986, p.61) was used to honour party members who were close with local politicians or contributed to the party. In the State of Johor, for example, more than 10 percent of low cost housing was allocated to ruling party members without them having to go through the normal selection process. As described by the Director General of the National Housing Department of Malaysia in 1981 (cited in Agus, 1986, p. 74):

"...Government has distributed guidelines to all State government on the selection of applicants. There must be followed closely by all officials connected with distribution of houses. If it 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 the absolute minimum, say 10%..."

The Federal and State governments generally acknowledged the need to allocate a certain percentage of low cost house units to political supporters. Therefore, the government suggested a maximum of only 10 percent should be allocated to political supporters. However, in reality, the number of political supporters buying low cost houses could have been higher (Agus, 1986, p. 74). Meanwhile, a study by Hassan (1984) describes how local politicians from the ruling party could influence the selection process. In some cases, the political supporters didn't have to go through the selection process set by the State governments. The allocation system was also subject to manipulation by politicians and housing administrators. The low cost housing allocation practiced during the 1980s could explain why many people with a low income faced difficulty in accessing the low cost housing, despite a large number of units being built by the public and private sectors during this period.

5.5.3 Conclusion

Implementation of the NEP in 1971 earmarked a shift in low cost housing provision to the State government. Low cost housing ownership was identified as one of the key strategies to eradicate poverty under the NEP. Thus, state intervention in low cost housing provision was important to ensure that targeted groups, particularly Bumiputera, had access to buy the houses. Following the closure of the Housing Trust operation in 1976, the State government began to take main responsibility for provision of low cost housing under the PLCHP. In 1981, the government began to impose compulsory low cost housing provision on the private sector through the introduction of a 30% low cost housing quota policy. State governments were not only responsible for public low cost housing allocation, but also for houses built by the private sector in order to achieve the NEP target to increase homeownership among the Bumiputera. However, State governments' involvement in low cost housing allocation increased political interference and exposed the allocation to corruption at the State level.

5.6 MARKET REFORM (1991-1997)

Although the country's economic liberalisation started as early as 1986, it was not until 1991 that the market's transformation began to emerge in low cost housing provision. Furthermore, the implementation of the Privatisation policy and Malaysia's Incorporation was almost completed by the end of the 1980s (Jomo, 1999, p. 76). Thus, this provided a good platform for market involvement in low cost housing provision. During the Sixth Malaysia Plan (1991-1995) the emphasis was on the private sector to take a leading role in national development, including housing provision. The World Bank's recommendations (World Bank, 1993) further enhanced the market's role in housing provision in Malaysia. However, at the same time, rapid economic growth encouraged rural-urban migration and a widening income gap between the rich and poor people. Poor access to low cost housing among people with a low income left many new migrants with no other alternative but to live in squatter settlements. Many middle income people found it difficult to buy a house in the market due to high selling prices as a result of the cross-subsidy approach used in low cost housing construction. This group, in a desperate attempt to own a house, would use any chance to buy a low cost house. The situation led to corruption and cheating in the low cost housing application process, thus putting more pressure on the government to control the selling and buying process of low cost housing.

5.6.1 Low Cost Housing Policy and Programmes

Generally the government still maintained a low cost housing policy similar to that formulated in the 1980s. During the Sixth Malaysia Plan (1991-1995) the private sector began to take a leading role in low cost housing provision, with 129,598 units or 82.2 percent compared to only 60,999 units or 17.8 percent built by the public sector (see Figure 5.10). This impressive achievement by the private sector was largely caused by the imposition of a 30 percent low cost housing quota in every private residential development (Salleh and Lee, 1997; Sirat et al., 1999). However the figure declined slightly to 68 percent during the Seventh Malaysia Plan (1996-2000) following the economic crisis. Although the trend shows a decline in private sector low cost housing provision after 1995, overall its contribution is still significant. It is interesting to note, even without direct financial subsidies and with various regulations imposed by the government on the market, they still managed to provide low cost housing (see Appendix 4 for details of low cost housing production by the public and private sectors 1971-2005).

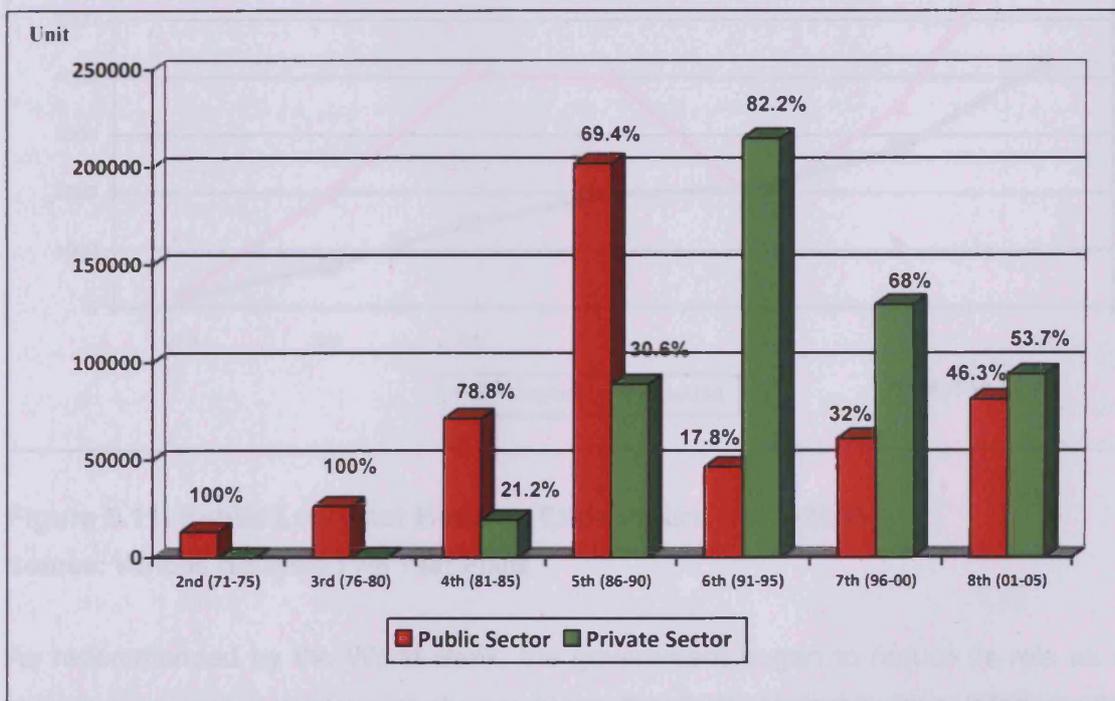


Figure 5.10: Completed Low Cost Housing Units by Public-Private Sectors from 2nd to 8th Malaysia Plan, 1971 – 2005

Source: Various Malaysia Five Year Development Plans

Meanwhile, in terms of public low cost housing expenditure in Malaysia, from 1971, expenditure on public housing steadily increased in every five year Malaysia plan. With the exception of the Sixth Malaysia Plan (1991-1995), actual expenditure was usually higher than that originally allocated by the government (see Figure 5.11). Based on the revised figures, expenditure increased steeply from the Second Malaysia Plan (1971-1975) at RM0.2 billion to RM4 billion in the Fourth Malaysia Plan (1981-1985) in line with state commitment towards housing provision under the NEP. However, the government's public low cost housing expenditure began to decline during the Fifth Malaysia Plan (1985-1990) at RM3.9 billion to only RM1.8 billion in the Sixth Malaysia Plan (1991-1995). This is in line with economic liberalisation and the increasing role played by the private sector in housing provision during the boom period. The expenditure kept increasing after the financial crisis due to active government involvement in low cost housing provision.

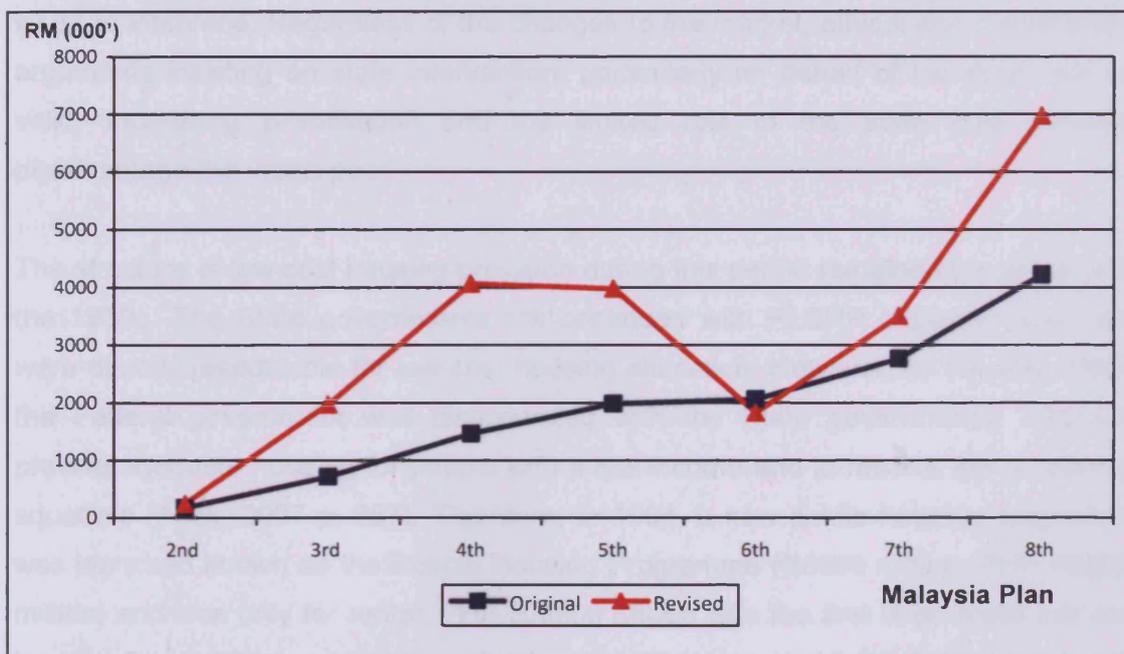


Figure 5.11: Public Low Cost Housing Expenditure, 1971-2005

Source: Various Malaysia Five Year Plans

As recommended by the World Bank, the government began to reduce its role as a low cost housing provider, as shown during the Sixth Malaysia Plan (1990-1996). Instead, the government emphasised its role as an enabler and facilitator which provided institutional support for the delivery of houses by private developers (Yahya, 1997, p. 244). State governments and local authorities also slowly retreated from being major players in the provision of low cost houses by the mid 1990s. Although most

private housing developers had to provide low cost housing as part of planning permission approval requirements, The government also gave other incentives such as faster planning and building approval processes, lower standards of planning requirements (i.e. car park spaces, open spaces) and lower building specifications to reduce the cost of construction (Sirat et al., 1999, pp. 81-83).

Increasingly, government role was confined to being regulator of land sales, land conversion and development, land use and construction standards (Sirat et al., 1999 p. 37). The country's complex political economy made it necessary for the government to rely heavily on market forces for many aspects of low cost housing provision, while simultaneously trying to get a grip on legal, regulatory and economic frameworks (Sirat et al., 1999, p.40). Therefore Sirat et al. (1999) argued 'housing enablement' in the Malaysian context does not imply a non-interventionist stance by the government. It was more of a situation or framework whereby the government decides where and when to intervene. Regardless of the changes to the market, ethical and philosophical arguments insisting on state intervention, particularly on behalf of the poor, are still valid. Increasing privatisation and the limited role of the state may seriously disadvantage the urban poor.

The structure of low cost housing provision during this period remained the same as in the 1980s. The State governments still continued with PLCHP implementation and were directly responsible for low cost housing allocation. However, by the mid 1990s, the Federal government was disappointed with the State governments' failure to provide adequate housing for people with a low income and to resolve the problem of squatters (Asek, 2007 p. 257). Therefore, in 1994, a new public housing programme was launched known as the People Housing Programme RM600 million (PHP RM600 million) and was only for rental. PHP RM600 Million was the first large scale low cost housing for rental programme ever implemented in Malaysia by the Federal and state governments. Under this programme, the Federal government tried to emulate the success of Singapore's government in the implementation of low cost housing and sought to eventually eliminate squatters from the country (Asek, 2007, p. 238).

Unlike the PLCHP, the PHP was not initially planned to be a permanent feature of Malaysian housing policy, but rather a one-off housing programme to solve the issue of squatters. The idea was initiated by the MHLG in view of the many existing squatters in major urban areas occupying State land reserved for public purposes (Asek, 2007, p.267). It was therefore easier for the government to develop the land

with public housing. A study by the MHLG in 1993 also revealed that most people in squat areas could not afford to buy a low cost house at the price of RM25,000 per unit and would struggle to pay the 10 percent deposit for house purchase and monthly instalments. Therefore, the MHLG realised the need to provide low cost houses for rent targeted at squatter and people with a low income of less than RM500 per month (hardcore poor). Under the programme, the squatters were required to move out temporarily from the land they occupied which would then be used for low cost housing construction (Asek, 2007, p. 234). The people then moved into the rental low cost housing built by the Federal government in the same area when it was completed.

Under this programme, the Federal government was responsible for overall housing provision through the National Housing Department (NHD) including project design, finance, tendering and construction monitoring. Meanwhile, the state governments were only responsible for tenant selection. When construction was completed, the house ownership was handed over to state governments, who were also responsible for monthly rental collection and overall maintenance. In terms of financing, the Federal government provided RM150 million and another RM150 million was provided by the Central Bank of Malaysia; the remaining RM300 million was obtained from private financial institutions in the form of a long term loan. With strong economic growth during the mid 1990s, in an effort to improve people's quality of life, the Federal government was willing to spend RM600 million, with low financial returns to the government. A total of 14,751 units were completed under this programme nationwide, mainly in Kuala Lumpur (see Table 5.3). Meanwhile, monthly rental was set at RM124 per month, based on affordability among people with a low income (MHLG, 1996).

Despite the government's efforts to reduce its involvement in direct low cost housing production in a move towards the market in the early 1990s, the continuous squatter problem required urgent government attention. Thus, the implementation of the PHP RM600 Million programme reflected a market failure to eliminate squatters and solve the housing problem among people with a low income. However direct state intervention in low cost housing production with a highly subsidised rental rate was clearly not in line with neo-liberal policy. The average cost of each low cost housing unit built under PHP was RM41,329 per unit or 65 percent higher than the selling price of low cost housing in the market at RM25,000 (Asek, 2007, p.287). With rent of RM124 per month set by the Federal government it was well below market rate and not even sufficient to cover maintenance costs.

Table 5.3: PHP RM600 Million Projects According to State, 1994-1998

State	PHP RM600 Million		
	No. of Projects	No. of units	Allocation (RM Million)
Johor	1	1,502	48.45
Kedah	3	758	25.30
Kelantan	0	0	0
Melaka	2	720	26.39
Negeri Sembilan	1	190	5.75
Pahang	0	0	0
Perak	2	868	32.24
Perlis	1	150	6.42
Pulau Pinang	2	1,441	61.73
Selangor	1	1,152	49.43
Trengganu	4	955	43.67
Kuala Lumpur	7	5,297	231.04
Sabah	2	1,462	55.18
Sarawak	1	256	11.87
MALAYSIA	28	14,751	597.47

Source: National Housing Department, 2005

5.6.2 Low Cost Housing Allocation

During the early 1990s, the practice of low cost housing allocation remained similar to that of the 1980s. To enhance the efficiency of the allocation process, some developed State governments began to improve allocation with the introduction of a computerised system to replace the manual approach. The State of Selangor was the first to establish the computerised low cost housing allocation system in 1995 to cope with an increasing number of applicants and a huge amount of low cost housing constructed by the private sector (MHLG, 2003). By mid 1990s, there was growing criticism from housing developers regarding the low cost housing allocation system in Malaysia. At the same time, a huge number of people living in squatter required attention from the government to improve access to low cost housing for people with a low income. Studies by Salleh and Lee (1998) and Sirat et al. (1999) identified several problems related to low cost housing allocation practice during the 1990s.

The first problem was the ineffectiveness of the State government low cost housing allocation system. The Housing Developers Association of Malaysia (HDA), in their memorandum send to the relevant authorities in 1995, urged them to take a closer look at the system of allocating the sale and distribution of low cost housing to the

public (Sirat et al., 1999, p.79). The action was necessary to check the unhealthy activities of speculators in low cost housing. The problem of housing allocation practice was also highlighted by the former President of the HDA (Chan, 1997, p. 211):

“One of the most problematic areas in the whole issue of low cost housing is distribution... given the present system of distribution and sale of low cost houses where there are hardly any controls binding low cost housing purchasers, the system is open to abuse. For example a purchaser of a low cost house does not have to abide by any regulation requiring them to occupy the unit. There are also no restrictions on the resale price that the purchaser may demand from the next buyers, making the system vulnerable to speculative activities by undeserving purchasers...”

The second problem was delays in the allocation process. As described by Sirat et al., (1999, p. 99) the delays in the allocation process by the relevant government agencies caused holding costs for the housing developers. The delays also affected the applicants and there were cases where applicants had to wait for between three and five years before being offered the opportunity to purchase a low cost house. The third issue was political intervention in low income housing allocation in Malaysia (Agus, 2005, p. 74). Although political intervention was not new in Malaysia, rapid economic growth and urbanisation during the 1990s made the problem even worse. The fourth problem was the fact that the names in the States' low cost housing registers were usually not up-to-date. There was no mechanism in place to regularly update the applicants' details and status in the system. The updating of the State register was important to weed out those potential buyers who already owned a house or were no longer eligible to purchase a low cost house due to an increase in household income. Finally, the system for allocating low cost houses to eligible buyers from the State government register was not transparent. The lists were prepared internally by the State governments without private developer involvement. Therefore, they were criticised as lacking transparency in the allocation process (Salleh and Chai, 1997, p. 226).

The government also believed that improvement of the low cost housing allocation system was important to solve the squatter problem in Malaysia. An efficient and transparent housing allocation system was required to ensure better access for people with a low income to own a low cost house and to stop people from living in squatter as an alternative. Clearly, by the mid 1990s, there were an increasing numbers of issues related to low cost housing allocation practices in Malaysia. Thus, this situation required attention from the Federal government to improve people's access to low cost housing and solve the squatter problem.

5.6.3 Conclusion

Rapid economic growth and financial liberalisation during the early 1990s encouraged private sector involvement in low cost housing provision. The private sector began to take over the leading role in low cost housing provision in 1991 until the financial crisis hit the region in 1997. At the same time, the state began to retreat from direct low cost housing provision and became a facilitator for the private sector in line with recommendations from international agencies particularly the World Bank. The practice of low cost housing provision during this period clearly reflects changes towards the market and a neo-liberal policy approach. Thus, the convergence towards market provision was likely to happen in Malaysia.

The rapid economic growth also contributed to an increase in rural-urban migration and income inequality among the people. This issue, combined with poor access to low cost housing, meant many people with a low income ended up living in squatter settlements during the 1990s. Despite the success of the private and public sectors in providing a large number of low cost houses, the squatter issues continued to get worse. By the mid 1990s, the state realised the market alone could not solve the squatter problem and housing needs among people with a low income. Therefore, in 1994 they began to implement public low cost housing for rental known as PHP RM600, which specifically targeted squatters for a relocation programme. The public low cost housing programme to eliminate the squatters continued after 1997.

5.7 SQUATTER'S CLEARANCE (1998-2005)

The number of people lives in squatters was still growing, despite the country's rapid economic growth and active private sector involvement in low cost housing provision during the 1990s. The Asian financial crisis in 1997-1998 provided an opportunity for the government to review low cost housing policy and the reasons behind their failure to solve the squatter problem in the past. A nationwide squatter census conducted by the MHLG in 1999 and the Selangor Government earlier in 1997 revealed there was a total of 571,261 people living in 129,117 squatter buildings (see Table 5.4). Selangor had the highest number of residents living in squatter, with 171,396 people or 30 percent of total squatters in Malaysia.

Table 5.4: No. of Squatter Settlements, Buildings and Residents According to the State, 1999

State	Squatter (1999)		
	Settlements	Buildings	Residents
Selangor (1997)	314	40,064	171,396
Sabah	143	32,235	148,099
Federal Territory Kuala Lumpur	197	26,941	134,345
Johor	74	7,708	30,832
Sarawak	75	8,268	29,173
Perak	118	3,945	14,991
Kedah	58	3,074	12,822
Pulau Pinang	26	2,009	6,985
Perlis	22	1,380	6,558
Pahang	23	1,074	4,511
Federal Territory Labuan	1	1,315	5,978
Terengganu	12	792	3,915
Negeri Sembilan	9	256	1,460
Melaka	5	56	196
MALAYSIA	1,077	129,117	571,261

Source: Ministry of Housing and Local Government, 2006

Meanwhile, in Sabah, the squatter residents were mostly illegal immigrants from the Southern Philippines and the squatter settlements became a haven for criminals and smugglers (MHLG, 1999). Thus, the squatter issues in Malaysia not only contributed to physical, environment and social problems (see Figure 5.12), but also to national security. Despite both private and public sectors having completed 261,386 units of low cost housing during the Sixth Malaysia Plan period (1991-1995), squatters were still a major housing issue in Malaysia, thus raising a question over the effectiveness of the low cost housing allocation process by the state governments.

Various studies conducted during the 1990s on low cost housing provision identified three main reasons which could explain why the government could not resolve the squatter problem (see Salleh and Chai, 1997; Salleh and Meng, 1998; Dali, 1998; Sirat et al., 1999). Firstly, there was a mismatch between low cost housing supply and demand. In many areas, the supply did not reflect the actual housing need in the particular area. Scholars argue that the private sector failed to deliver the houses where demand was most pressing, particularly in urban areas. With most squatter settlements located within existing towns and cities, it was identified that most new low cost housing development was located in the urban fringes and new growth centres. The problem was also partly caused by the blanket 30 percent low cost house requirement imposed by the government on the private housing developers through

the planning system (Sirat et al., 1999 p. 80). Although the policy increased total housing production, but it failed to encourage private developers to build low cost houses in areas with high demand, especially the urban areas.



Figure 5.12: Images of Squatter in Malaysia During the 1990s

Source: Author (Photos taken by Author in 1996 at Kg Medan, Petaling Jaya Selangor)

The second reason was affordability for squatter residents to buy low cost housing. They also faced difficulty in obtaining financing from private financial institutions, which denied them access to low cost housing (MHLG, 2003; Asek, 2007). The final reason is related to the poor system of low cost housing allocation. Poor allocation practice and corruption led to difficulties being faced by genuine applicants, including the squatters, with regard to gaining access to low cost housing.

Furthermore the implementation of PLCHP by the State government also faced several problems which contributed to the squatter problem and access to housing by people with a low income (Asek, 2007). The first was poor loan repayments by the State governments. To provide low cost housing, the State governments were expected to have an effective and efficient system of loan repayment to the Federal government and collection of monthly instalments from the house buyers. However, since most State governments were facing these constraints, they preferred not to

undertake low cost housing development directly and instead imposed it on the private sector. Initially, the State government would provide loans for the purchasers, but due to many loan defaulters in the mid 1980s, buyers were urged to take out a loan from the financial institutions. Overall the performance of State government in low cost housing provision under the PLCHP was poor, despite the assistance given by the Federal government in terms of technical help and financing. Between 1976 and 1990, most State governments only managed to deliver between 30 to 60 percent of the total units planned by the Federal government (see Table 5.5). Therefore, the Federal government began to question the State governments' capability and commitment to implement the PLCHP (Asek, 2007).

Table 5.5: Performance of Public Low Cost Housing Programme According to State, 1976-1990

States	3 rd Malaysia Plan		4 th Malaysia Plan		5 th Malaysia Plan	
	Target	Completed	Target	Completed	Target	Completed
Johor	10,693	2,833	22,896	11,977	7,114	4,560
Kedah	4,3743	1,757	7,681	5,835	1,233	1,021
Kelantan	1,497	141	6,172	2,699	3,072	1,180
Melaka	3,514	763	5,657	3,936	1,087	757
Negeri Sembilan	4,369	1,987	8,824	4,932	3,979	2,185
Pahang	5,894	1,392	12,572	3,320	8,813	5,772
Perak	3,310	1,520	16,897	3,074	5,775	3,839
Perlis	1,875	210	2,390	2,120	441	365
Pulau Pinang	3,870	982	6,983	4,397	1,065	615
Selangor	10,635	4,264	20,234	6,260	3,998	2,162
Trengganu	2,391	1,015	6,103	3,804	1,333	290
Kuala Lumpur	14,194	3,718	46,227	16,735	1,207	1,000
Sabah	2,160	1,284	6,983	910	2,895	1,734
Sarawak	4,730	559	6,793	3,257	3,788	692
MALAYSIA	73,506	22,425	176,502	73,258	45,800	26,172
% Completed	30.5%		41.5%		57.1%	

Source: Dali, 1998 p. 12

The second problem was the delays in many PLCHP projects that meant the State governments were faced with financial constraints and an inadequate development fund. The third was the practice among the State governments of privatising government land in strategic locations to private companies. This left most of the PLCHP projects located in undesirable areas. In some cases it led to unsold low cost housing units which were eventually abandoned. Finally, the last problem was

intervention by the politicians in low cost housing allocation and delays in processing the applications by the State governments. As a result, there were cases of completed public housing projects that were not occupied for months or even over a year because the list of buyers was not available (Endan, 1984, p. 71).

5.7.1 Low Cost Housing Policy and Programmes

In 1996, the Federal government began to step up its efforts to eliminate the squatters following a discussion between Prime Minister Mahathir and the Mayor of Kuala Lumpur (NHD, 2006). Several approaches were outlined to solve the problem including conducting a nationwide squatter census, registration, control and implementation of the Open Registration System (ORS) to select low cost house buyers. In April 2001, all the State governments agreed to pursue comprehensive action to achieve zero squatters by the year 2005. In order to achieve the target, the Federal government began to implement various efforts which included reviewing the low cost housing price structure in order to encourage the private sector to build low cost houses. For seventeen years the price of low cost houses remained the same throughout the country, regardless of project location, house type and inflation (Salim, 1998). This clearly does not reflect the market mechanism in price determination and showed strong government control over the low cost housing market.

The selling price also did not reflect the actual construction cost of the low cost houses. The average development cost per unit for low cost houses built by private housing developers in Peninsular Malaysia from 1987 to 1996 shows a sharp increase after 1993 which was largely caused by higher land costs and building materials during the boom period (Saleh and Lee, 1997, pp.56-57). The development cost for a terraced house increased from RM31,699 per unit in 1993 to RM48,463 per unit in 1996 (see Figure 5.13). The private developers generally had to subsidise almost 100% of the cost based on a selling price of RM25,000 set by the government. Meanwhile, for flats the cost was slightly lower at RM34,464 per unit, but still the developers had to subsidise another RM9,464 per unit. The 'cross-subsidy' with medium and high cost housing no longer worked in this situation and the private developers incurred huge losses for low cost housing provision.

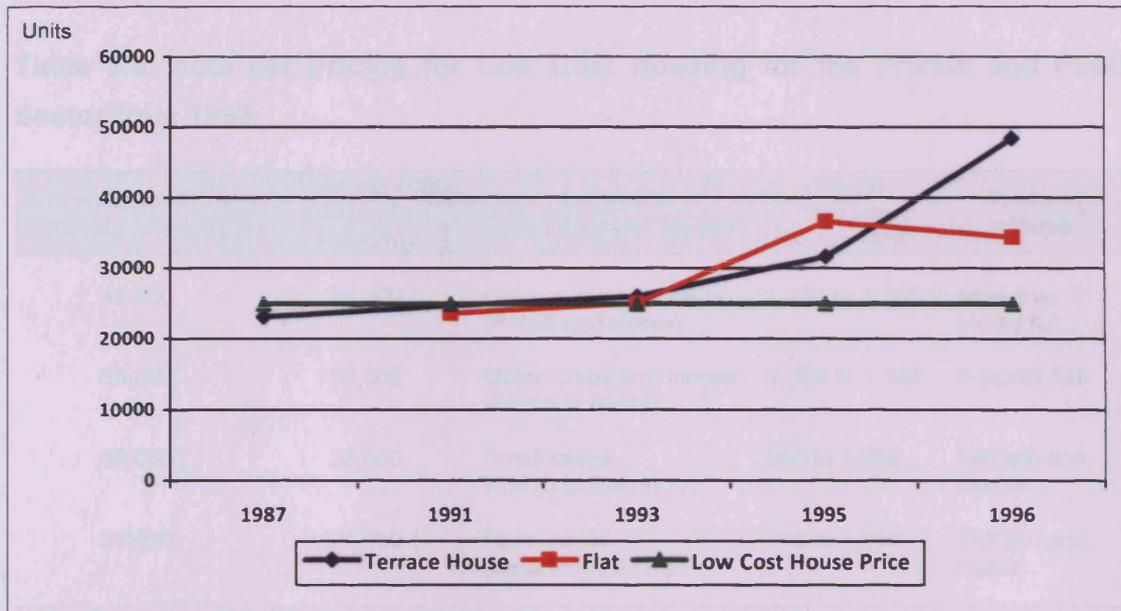


Figure 5.13: Average Construction Cost and Selling Price for Low Cost House by Private Housing Developers in Peninsular Malaysia 1987-1996

Source: Saleh and Lee, 1997 p.56

Following continuous complaints from private housing developers (Morshidi et al., 1997; Saleh and Lee, 1997), the Ministry of Housing and Local Government began to review the price of low cost housing. Finally, the government agreed to introduce a new pricing structure in June 1998. The changes also affected the overall housing price structure used by the MHLG for planning purpose. Low cost house ceiling price was increased to RM42,000 per unit, low medium cost house from RM42,001 to RM60,000 per unit, medium cost house between RM60,001 to RM100,000 per unit and high cost house more than RM100,000 per unit (MHLG 2002).

Unlike in the past, the determination of the new low cost housing price structure was based on the land cost where the project was located (see Table 5.6). Therefore, it began to reflect market consideration in the pricing of units. However, for the public housing projects, the price structure was slightly different with a lower selling price according to location. At the same time, the Federal government also issued various guidelines on low cost housing planning and design, particularly through the Construction Industry Development Board (CIDB) and the Town and Country Planning Department (TCPD) (see **Appendix 5** for details of the design guideline for low cost housing).

Table 5.6: Four-tier Pricing for Low Cost Housing for the Private and Public Sector from 1998

Price per unit (RM) Private Housing	Price per unit (RM) Public Housing	Location (Land cost per sq. m.)	Target Income Group (RM)	Types of House
42,000	35,000	Cities and major towns (RM45 and above)	1,200 to 1,500	More than 5-storey flat
35,000	30,000	Major towns and fringes (RM15 to RM44)	1,000 to 1,350	5-storey flat
30,000	28,000	Small towns (RM10 to RM14)	800 to 1,200	Terrace and cluster
25,000	25,000	Rural Areas (Less than RM10)	750 to 1,000	Terrace and cluster

Source: National Housing Department, 1998 & 2002

The floor area of a low cost house was fixed at a minimum of 650 sq ft with three bedrooms from 1998 (CIDB, 1998). However, the size of household did not determine the size of the house allocated by the state government under the present guidelines. Buyers with large households were still allocated a low cost house unit similar to people without dependents. Clearly, the government's objective was to relocate families from squatter and to provide decent houses for first time home buyers rather than fulfilling the space requirement according to household size. This is unlike Western societies, where the size of the household will determine the size of the house allocated to them, regardless of their income (Yuen, 2003, p.45).

The structure of low cost housing provision significantly changed after 1998 (see Figure 5.14). Based on the successful implementation of the PHP RM600 million in 1994, the Federal government was confident about implementing a large scale low cost housing programme after the crisis. In 1998, the Federal and State government began to intensify public low cost housing programmes to eliminate the squatters under PHP.

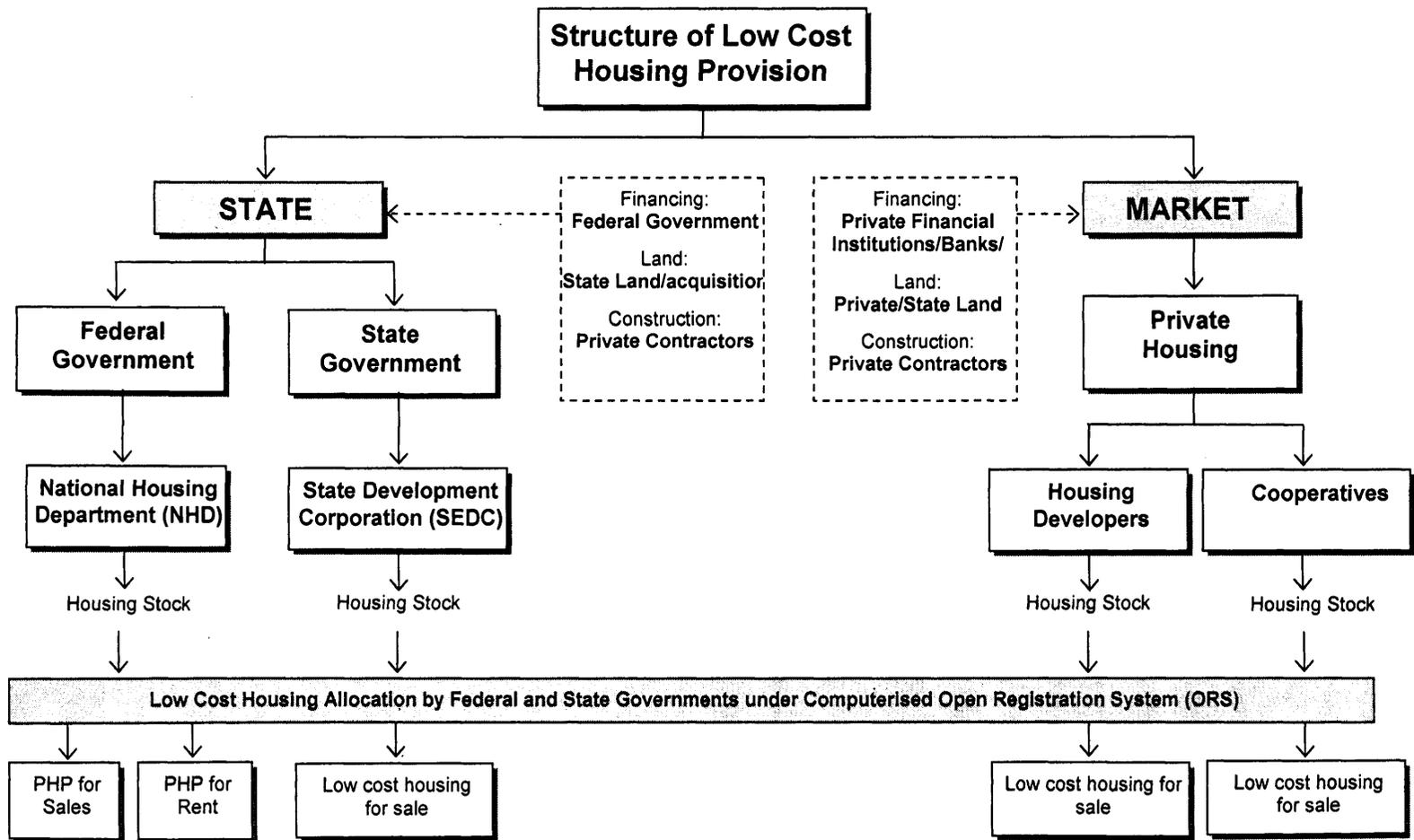


Figure 5.14: The Structure of Low Cost Housing Provision after the Crisis, 1998-2005

Following the recommendations by the National Economic Action Council (NEAC), the Federal government began to build public low cost housing for rental, also known as 'PHP NEAC'. The objective of the programme was to spur economic growth following the crisis and to eliminate the squatters (Asek, 2007, p.131). For implementation of the PHP NEAC, a total of RM 2.32 billion was allocated for construction of 52,496 units of public rental houses within five years (1998-2002) nationwide by the Federal government and private sector financing (see Table 5.7). PHP NEAC was the largest public low cost housing programme dedicated to rental since independence by the Federal government (Asek 2007, p.131). The Federal government believed that the construction of rental houses was not only vital for the squatter resettlement programme, but was also crucial to kick-start the economy through the construction industry during the crisis. The bulk of houses were built in Kuala Lumpur, with 23 projects consisting of 33,952 units.

Table 5.7: PHP NEAC Projects According to State in Malaysia, 1998-2002

State	No. of Projects	No. of units	Allocation (RM Million)
Johor	0	0	0
Kedah	2	1,894	84.79
Kelantan	0	0	0
Melaka	0	0	0
Negeri Sembilan	1	420	20.75
Pahang	0	0	0
Perak	6	682	25.92
Perlis	2	1,228	55.10
Pulau Pinang	3	782	37.24
Selangor	3	4,884	92.64
Trengganu	0	0	0
Kuala Lumpur	23	33,952	1,509.39
Sabah	9	6,658	464.21
Sarawak	4	1,996	33.77
MALAYSIA	53	52,496	2,323.81

Source: National Housing Department, 2005

Under this programme, houses were still rented out at a very low rate of RM124 per month to make them affordable to the squatters, similar to the previous PHP RM600 million (Asek, 2007 p. 221). The implementation of the PHP NEAC adopted a similar approach with PHP RM600 million. PHP for rental was initially planned as temporary housing to relocate the squatters and would later be offered to other people with a low income when the Zero Squatter Programme had achieved its target (see Figure 5.15).

Although the State government was still responsible for low cost housing allocation, the Federal government realised the need for them to monitor the allocation process at the state level. Therefore, the Federal government required every State government to use the Open Registration System (ORS) for low cost housing to replace the existing allocation system they used (NHD, 2003, p. 3).



Figure 5.15: Squatter Area Redevelopment for Low Cost Housing Construction under PHP NEAC, 1998-2002

Source: Author (Photo taken by Author in 2001 at Kg Medan, Petaling Jaya Selangor)

The success of the PHP NEAC (1998-2002) implementation prompted a review of the government's public low cost housing policy. Following the Cabinet decision dated 27th February 2002, the Federal government through National Housing Department (NHD) was given the responsibility to implement a new low income housing programme named 'People Housing Programme New Policy' (PHP New Policy). The programme was formulated to replace the PLCHP implemented by the State governments since 1976 (NHD, 2003). It involved two separate categories of low cost housing, one was PHP for sale and the other was PHP for rental. PHP for rental was a continuation from the PHP RM600 million and PHP NEAC. Meanwhile, PHP for sale was a new programme to replace the houses for sale under PLCHP.

There were four reasons for the implementation of the PHP New Policy (Asek, 2007, p.257); the first was not to repeat the State governments' failure to provide adequate low cost housing under the PLCHP. Poor achievement during the PLCHP also portrayed a lack of commitment from State governments and a lack of capacity to provide low cost housing. In order to tackle the problem, the Federal government had to come up with a new strategy (Asek 2007, p.259):

“This opportunity was taken by federal government as an opportunity to explore new approaches and strategies that could tackle the housing problems as well as having upper hand in the implementation of public low cost housing which before this was not federal domain...This indirectly could influence the public low cost housing distribution to the interested parties which it chooses in spite all the claim that housing distribution is still the domain of the State government.”

Secondly, the programme also gave the Federal government opportunity to get involved directly in construction tender distribution to selected private contractors, especially the Bumiputera. Thirdly, it was felt that the success of PHP RM600 million and PHP NEAC implemented by the Federal government should set the benchmark for the implementation of future public housing programmes. Finally, under the new PHP policy, the Federal government also wanted to portray a better image of public low cost housing programmes. Public low cost housing in the past had been called many negative names by the people such as 'Cheap House' (rumah murah), 'Lightning House' (rumah kilat) and Kai Boh House (Kai Boh is the former Minister of Housing in the 1960s). The Federal government intended to wipe out the attached stigma of public low cost housing programmes with a new name known as the 'People's Housing Programme' which was politically acceptable (Asek, 2007, p. 260).

There were seven implementation strategies outlined by the NHD for the PHP implementation. The first was to implement two type of PHP for rental and sale. A total of 50,000 units were planned for rental and 40,000 units for ownership throughout the country by 2006. Secondly, the Federal government would cover in full the land cost for PHP for sale. Thirdly, the Federal government would not cover the cost for state land for PHP for rental, as the houses would eventually be handed over to the State governments when completed. Fourthly, Federal government would cover 50% of infrastructure cost in the form of a subsidy towards PHP for ownership. Fifthly, the Federal government created a PHP Trust Fund to cover the building construction and infrastructure cost. Sixthly, the end finance for buying houses was provided by private

financial institutions. Finally, the house prices would be determined according to MHLG Guidelines.

Another important feature of PHP New Policy is the need for State government to use Open Registration System (ORS) for low cost house buyer registration and allocation process (MHLG 2006, p.3) The summary of the role of the Federal and State governments in PHP New Policy implementation is shown in Figure 5.16.

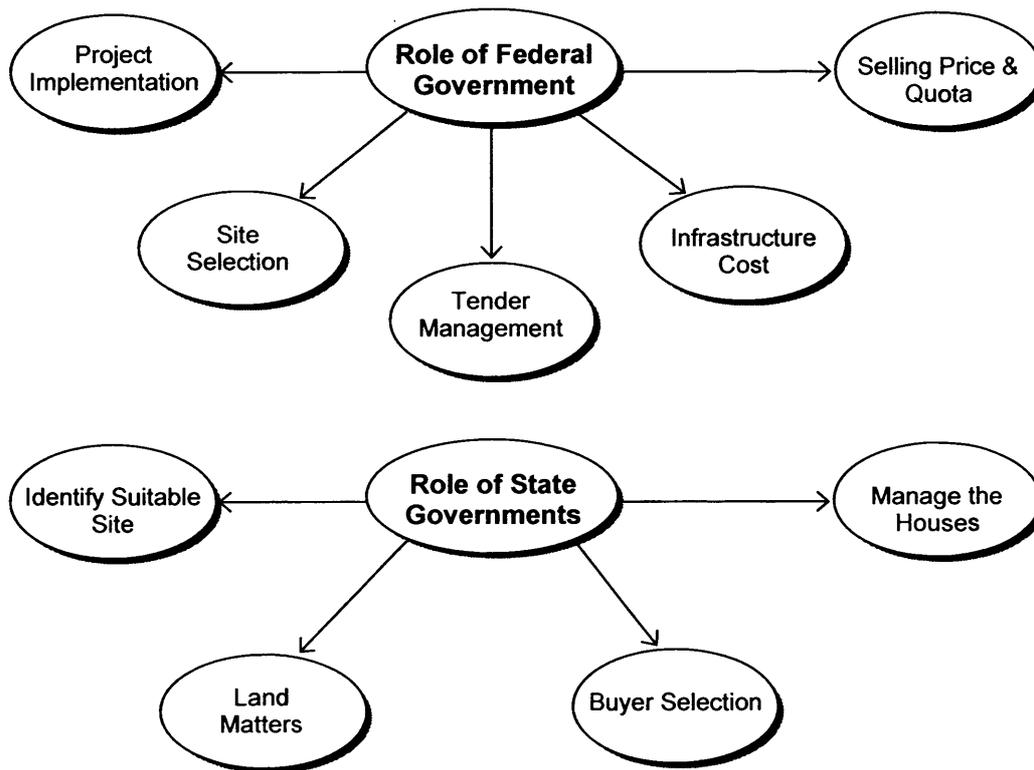


Figure 5.16: Role of Federal and State Government in PHP New Policy Implementation (2002-2004)

Source: Modified from Asek 2007, pp. 280-284

In general, Asek (2007 p.280) describes the PHP New Policy implementation by saying "...for the first time in history after the independence in which Federal government directly involved in developing low cost housing at the large scale". PHP also managed to reduce the 'red tape' and bureaucracy involved in dealing with state governments and therefore the implementation could be achieved by a 'fast track' approach. With the MHLG acting as the developer, it was easier to obtain finance from financial institutions for the programme and also end finance for house buyers (refer to Figure 5.17). Thus, a large amount of money could be raised for the programme's

revolving fund. The success of the PHP New Policy implementation, according to the MHLG (2006), was largely caused by strong support from the top leadership of the government and no stringent cost limits imposed by the Federal government.

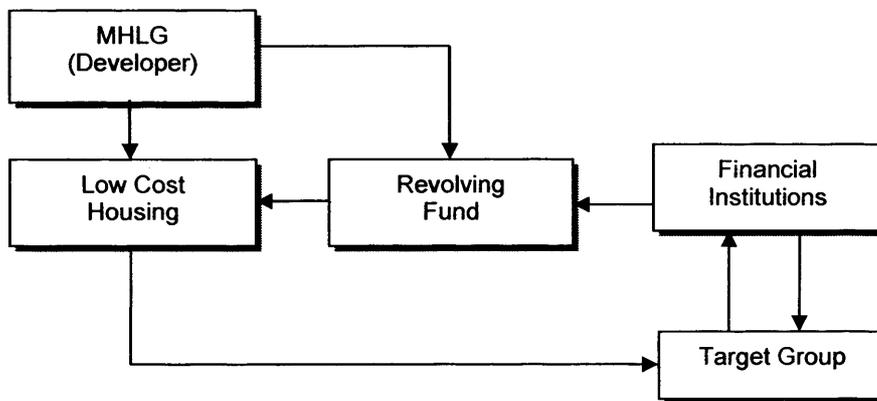


Figure 5.17: Implementation of Low Cost Housing Under the PHP New Policy, 2002-2004

Source: Asek, 2007 p. 282

However, the implementation of the PHP New Policy was not as smooth as expected due to several problems faced by the NHD, especially a lack of manpower to implement the programme. Firstly, there was a limited number of professional staff at the NHD to handle the large number of houses built under the programme (MHLG, 2006). Secondly, there were delays in project implementation. The new projects only took off after the completion of previous projects under the PHP NEAC. Therefore, the NHD failed to achieve the construction of 50,000 units for rental and 40,000 units for sale, as targeted by the Federal government. As of December 2004, only 10,070 units were completed in the States of Johor and Sabah (MHLG, 2006c, p.15). The implementation of the remaining PHP units was transferred to the National Housing Company (NHC) or *Syarikat Perumahan Negara Berhad* in 2004.

The NHC was incorporated under the Minister of Finance Incorporated in August 1997 as a fully government owned company with capital of RM2 billion to increase the supply of housing costing RM150,000 and below. From 2004, the NHC was responsible for the development of PHP for sale (Asek, 2007, p. 224). The involvement of the NHC was also to ensure efficiency in the implementation of the housing programme based on market operation. The structure of PHP implementation after 2004 is shown in Figure 5.18.

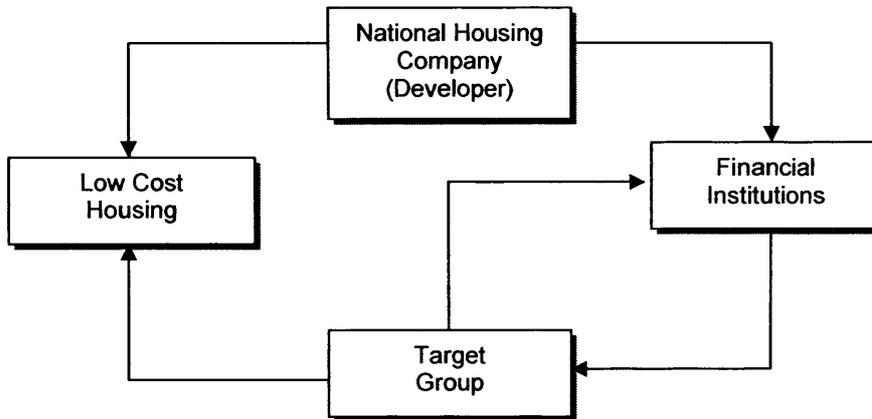


Figure 5.18: Implementation of PHP For Sale After 2004

Source: Asek, 2007 p. 283

Meanwhile, private sector housing developers continued to build low cost houses, although the number declined after 1995. Private sector low cost housing provision fell to 129,598 units during the Seventh Malaysia Plan (1996-2000) from 214,889 units throughout the Sixth Malaysia Plan (1991-1995). The figure further declined to 94,029 units during the Eighth Malaysia Plan (2001-2005). The increased role played by the state in low cost housing production under PHP and the impact of the economic crisis clearly affected the number of low cost houses built by private developers. Furthermore, in 2002, the government began to review the 30 percent low cost housing quota based on information obtained from the National Property Information System (NAPIC) and ORS database (MHLG, 2005, p.3). The low cost housing quota was later reduced to 20 percent and the other 10 percent was allocated to medium cost housing at a price between RM42,000 and RM60,000 per unit.

The outcome of the PHP implementation, together with private sector low cost housing, managed to reduce the number of squatters from 571,261 in 1999 to 102,045 residents as of June 2006, a reduction of 82.1 percent (see Table 5.8). This shows a successful public-private sector partnership in low cost housing provision. However, the reduction could not have been achieved without an efficient low cost housing allocation system under ORS. The low cost housing allocation system under ORS will be discussed further in the next chapter.

Table 5.8: Total Squatters Resident in 1999 and 2006 According to State

State	Squatter Resident (1999)	Squatter Resident (2006)	Changes (+/-)	
			No. of Squatter Resident	%
Selangor	171,396	3,928	-167,468	-97.7
Sabah	148,099	38,868	-109,231	-73.8
Kuala Lumpur	134,345	11,969	-122,376	-91.1
Johor	30,832	11,411	-19,421	-63.0
Sarawak	29,173	9,515	-19,658	-67.4
Perak	14,991	7,766	-7,145	-48.2
Terengganu	3,915	846	-3,069	-78.4
Kedah	12,822	3,520	-9,302	-72.5
Pulau Pinang	6,985	5,835	-1,150	-16.5
Perlis	6,558	2,266	-4,292	-65.4
Pahang	4,511	2,928	-1,583	-35.1
Labuan	5,978	1,068	-4,910	-82.1
Negeri Sembilan	1,460	247	-1,213	-83.1
Melaka	196	85	-111	-56.6
MALAYSIA	571,261	102,045	-469,216	-82.1

Source: Ministry of Housing and Local Government, 2006

However, state intervention in public low cost housing provision under PHP clearly went against neo-liberal policy. The rent that the public housing tenants were charged was way below the market value. A study by Asek (2007, p.290) reveals the RM124 rent was too low based on the cost of houses per unit and current market rental (see Table 5.9). In some states like Kuala Lumpur and Pulau Pinang, the amount of rent subsidised by the Federal government was up to RM450 per month, more than three times the rent actually paid by the tenants. Meanwhile, the average cost of PHP for sale was RM45,345 per unit. With a selling price of RM35,000 per unit, the Federal government subsidised RM10,345 for every unit sold to the public. As Asek (2007 p.294) describes "...the Federal government was subsidizing the housing unit not the target group and as the result those who had access to PHP units were like those who struck the lottery".

Table 5.9: Average Cost Per Unit and the Appropriate Monthly Rental for PHP (Rental), 1998-2005

State	Average Cost/Unit (RM)	Appropriate Monthly Rental (RM)	Monthly Rental (RM)	Subsidy (RM)
Kuala Lumpur	50,946	574	124	450
Perak	35,000	376	124	252
Kedah	48,248	519	124	395
Perlis	44,878	482	124	358
Pulau Pinang	51,090	576	124	452
Selangor	43,999	496	124	372
Negeri Sembilan	49,407	557	124	433
Peninsular Malaysia	46,224	511	124	387

Source: National Housing Department 2005 (adopted from Asek, 2007 p.290)

5.7.2 Conclusion

The economic crisis and the large number of squatters who still occupied government and private land required government intervention to resolve the issue. At the same time, it was thought that construction of low cost housing could revive the crumbling economy after the crisis. The PHP NEAC was implemented by the Federal government in 1998 to relocate the squatters through the provision of low cost housing for rent. Subsequently, the PHP New Policy was launched to replace the PLCHP implemented by the state government in 1976. The implementation of the PHP New Policy also shows the rolling back of the state in low cost housing provision in Malaysia. With the private sector beginning to reduce low cost housing production after the crisis, the government had to be directly involved to fill the gap. To improve access to low cost housing, the Federal government introduced the Open Registration System (ORS) for allocation of low cost housing built by both public and private sectors in 1997. However, state intervention in low cost housing production under PHP and highly subsidised public housing for sale or rental clearly did not fit with neo-liberal policy.

5.8 THE IMPORTANCE OF PRIVATE SECTOR INVOLVEMENT IN LOW COST HOUSING PROVISION IN MALAYSIA

The analysis in earlier sections has highlighted the important role played by the private sector in low cost housing provision in Malaysia, particularly since 1990. Without private sector involvement, especially private housing developers, it was impossible for

the government to provide adequate low cost housing and eventually reduce the number of squatters in Malaysia. A housing developer, according to the Housing Development (Control and Licensing) Act 1966 (Malaysia, 1966), “means any person, body of persons, company, firm or society, who or which engages in or carries on or undertakes or causes to be undertaken a housing development.” Meanwhile, housing development “means to develop or construct or cause to be constructed in any manner more than four units of housing accommodation and includes the collection of moneys or the carrying on of any building operations for the purpose of erecting housing accommodation in, on, over or under any land; or the sale of more than four units of housing lots by the landowner or his nominee with the view of constructing more than four units of housing accommodation by the said landowner or his nominee.”

A study by Malaysia’s Real Estate and Housing Developers Association (REHDA) on the private sector’s social obligations with regard to low cost housing development revealed Malaysia was the only country in East Asia which required private housing developers to build low cost housing without any direct financial subsidy from the government (REHDA, 2006). In Singapore and Thailand, for example, the private sector was not required to build low cost housing which was instead undertaken fully by the government agency dedicated to public housing provision (see Table 5.10). Meanwhile, in Indonesia, the housing development was totally market driven. Therefore, both public and private sectors were not obliged to provide low cost housing. In Hong Kong there was no indication that the state imposed any low cost housing requirement on private developers. This explains why the contribution of the private sector in low cost housing provision was significant in Malaysia compared to other East Asian developing countries.

In terms of the housing delivery system, the practice in Malaysia was generally similar to other South East Asian countries. The Sell-then-Build (STB) system was commonly practiced in the region as compared to the Build-then-Sell (BTS) system. Under the Sell-then-Build system, the house construction would begin once all the units had been sold (REHDA, 2006, p. 6). The buyers usually had to pay a minimum 10 percent deposit and the remaining payments were paid progressively according to construction progress, as stipulated in Schedule G (for landed property up to 24 months) and Schedule H (high rise property up to 36 months) under the Housing Developers (Control and Licensing) Act 1966 (refer to **Appendix 6** for detail of Schedule G, H and housing development process in Malaysia under STB system).

Table 5.10: Comparison Between Malaysia and Selected East Asian Countries in Terms of Private Sector Socio-economic Obligation, Housing Delivery System and Low Cost Housing Allocation

Country	Private Sector Socio-economic Obligation	Housing Delivery System	Low Cost Housing Allocation
1. Malaysia	<ul style="list-style-type: none"> Both public and private sector provide low cost housing Private developers to built between 20-30% low cost housing units in every residential development Minimum 30% allocated for Bumiputera Private developers to provide the infrastructure for new development 	<ul style="list-style-type: none"> BTS – Practiced by the private developers but not for low cost housing STB – commonly practiced by private developers 	<ul style="list-style-type: none"> State managed low cost housing allocation for both the public and private sector
2. Singapore	<ul style="list-style-type: none"> Singapore Housing Development Board (HDB) manages all social housing requirements Private developers not obligated to include low cost/social housing as part of their developments 	<ul style="list-style-type: none"> BTS – Applicable for secondary markets. Not applicable for private new development or HDB projects. STB – Commonly practiced by private developers and HDB 	<ul style="list-style-type: none"> State only manages allocation for public low cost housing
3. Thailand	<ul style="list-style-type: none"> National Housing Authority of Thailand (NHA) manages all social housing needs Private developers not obligated to include low cost/social housing as part of their developments Infrastructure for new developments will be discussed between developers and agencies concerned 	<ul style="list-style-type: none"> BTS and STB both used by the private sector. Varies from project to project 	<ul style="list-style-type: none"> State only manages allocation for public low cost housing
4. Indonesia	<ul style="list-style-type: none"> Private sector housing is not regulated and all developments are market driven No socio economic obligation imposed on private developers 	<ul style="list-style-type: none"> The systems used depend on the developers. Both BTS and STB used by the developers 	<ul style="list-style-type: none"> Market driven
5. Hong Kong	<ul style="list-style-type: none"> No socio-economic obligations imposed on private developers 	<ul style="list-style-type: none"> BTS – common but not mandatory STB – subject to consent from the Lands Department and after providing sufficient information to purchasers 	<ul style="list-style-type: none"> State only manages allocations for public low cost housing

Note:

BTS – Build-then-Sell system

STB – Sell-then-Build system

Sources: Adopted from REHDA Bulletin November 2006 & Author

In Malaysia, the success of the government's efforts to ensure market participation in low cost housing production from the 1980s was mainly due to the planning system. The Town and Country Planning Act 1976 (Malaysia, 1976) clearly gave the power to local authorities (which were also local planning authorities) to impose a low cost housing requirement on every residential development undertaken by private developers. Section 22 (3) of the act states "after taking into consideration the matters specified in subsection (2), the local planning authority may, subject to subsection (4), grant planning permission either absolutely or subject to such conditions as it thinks fit to impose, or refuse to grant planning permission..." One of the conditions usually imposed by the local authority before granting planning permission was to ensure the developer fulfilled the 30 percent low cost housing requirement.

The practice was generally similar to other countries, particularly the United Kingdom and former British colonies such as Hong Kong and Australia which share a similar planning system (see Whitehead, 2007; Beers et al., 2006; Chiu, 2006). The trend in these countries over the last two decades was to encourage low cost/affordable housing provision through the planning system. In the UK, the power to implement the policy by the local authorities was clearly stipulated under Section 106 of the Town and Country Planning Act 1971. The policy was adopted by 90 percent of local authorities in the UK. There are three main economic reasons for the provision of affordable housing through the planning system (Whitehead, 2007, p. 26). The first is to provide adequate land for affordable housing. The second is to ensure the provision of affordable housing and the final reason is because it is an effective way of redistributing wealth. The majority of the contributions required are expected to be in the form of on-site provision of affordable housing or a financial contribution.

In the context of Malaysia, local authorities, with strong back up from the state governments, successfully implemented the policy of 30 percent low cost housing in every residential development built by private developers. The State governments and local authorities across the country continuously adhered to the policy, despite complaints by private developers which began in the 1980s. This proved the planning system was an effective way to ensure private developers provide low cost housing, even in the context of developing countries. However, further studies are required to support the argument, which is beyond the scope of this thesis.

Another unique feature of Malaysian low cost housing provision was the low cost housing registration and allocation system. In other East Asian countries, the state was only involved in public low cost housing allocation. However, in Malaysia, the state was responsible for low cost housing allocation for both public and private sectors. This unique practice in Malaysia therefore warrants further investigation as to how and why the state controlled low cost housing allocation.

5.9 DISTINCTIVE FEATURES OF MALAYSIAN LOW COST HOUSING PROVISION MODEL

In order to identify distinctive features of the low cost housing provision model for Malaysia, a simple comparison with other East Asian countries was performed (see Table 5.11). Singapore was selected for comparison since it represents a typical East Asian developmental state model with strong state control in both the production and allocation processes (Li, 1998; Lee et al., 2003; La Grange, 2006). Meanwhile, Taiwan was selected to represent an example of an East Asian neo-liberal state housing model. As La Grange et al. (2006, p. 71) note "...land and housing are almost totally commodified in Taiwan and the country's has one of the most speculative land and housing market in Asia. Similarly Li (1998 p.57) explained the state intervention in housing sector was also low in Taiwan compared to other East Asian countries.

The unique features of the Malaysian model can be divided into four include, firstly, the role of the market in low cost housing production. The majority of low cost houses for sale in Malaysia have been built by private housing developers since 1990. Meanwhile, in Singapore and Taiwan, the low cost houses were built by the state. Secondly, there is the role of state in low cost housing allocation. Unlike Singapore and Taiwan, the state in Malaysia not only controls public housing allocation, but also low cost houses built by private housing developers. Thirdly, both Singapore and Taiwan used demand-side subsidies to encourage people with a low income to buy a house. In Singapore, a housing grant of up to \$50,000 was offered to buyers to buy public housing. Meanwhile, in Taiwan, loans at a subsidised interest rate were offered to eligible public housing buyers. However, in Malaysia, the state still controls the low cost house prices at below market rate and has done since the 1950s. The practice of state control of the selling price for houses clearly does not fit with the neo-liberal model, which prefers the state to offer demand side subsidies.

Table 5.11: Comparison of the Malaysian Low Cost Housing Provision Model with Typical East Asian Developmental and Neo-liberal State Models

Characteristic	Malaysian Model	Developmental State Model (Singapore)	Neo-liberal State Model (Taiwan)
% of Home ownership	• 77.7% (2000)	• 81.0% (2000)	• 85% (2000)
% of Public housing	• 5.5% (2000)	• 82% (1999)	• 5% (1999)
Housing delivery system	• Sell and then build (pre-sale)	• Build and then sell	• Pre-sale
Main low cost housing provider	• Market (private housing developers)	• State (Housing Development Board)	• State (Local Authorities)
Form of state assistance for low income people to buy new low cost house	• Government control selling price for public and private low cost houses (below market). No cash subsidy to house buyers from the government.	• Cash grants up to \$50,000 from government to low income people to buy house. House price set according to market value.	• Subsidised loan from government
Agency/body responsible for low cost housing allocation?	• State (Federal and state governments) for both public and private low cost housing	• State (HDB for all types of public housing only)	• State (Local authority for public housing only)
Current housing allocation mechanism	• Waiting list under ORS	• Registration System for flat for all public housing (Build to order houses) since 1998	• Not available
Target group	• Low income people. Applicants must register with the state	• Low income people. Applicants must register with HDB	• Low income people in need of housing. Applicants must register with the state.
Legal back-up for low cost housing allocation	• Not available	• Housing and Development Act (Singapore), 1990	• Not available

Sources:

1. Malaysia - Agus et al. (2003); MHLG (2006)
2. Singapore - Yee (1998); Lee et al. (2003); Huat (2005)
3. Taiwan - Li (1998); Lee et al. (2003); Chen (2002); La Grange et al. (2006)

Finally, there is the low cost housing allocation mechanism. In Singapore, after the Asian financial crisis in 1997-1998, the state moved away from a waiting list system towards a more market based allocation system. The houses were only built by the HDB if there was demand. Therefore, the supply of houses was decided by the market

rather than dictated by the state. Meanwhile, in the case of Taiwan, due to a small number of public houses for sale or rent, housing allocation was controlled by local authorities. However, in Malaysia, the state still managed and controlled low cost housing registration and allocation at a national level with the cooperation of the state governments. The state still used a waiting list system to allocate the houses and made final decisions without consulting the low cost house buyers.

The comparison with both Singapore and Taiwan shows the difficulty in drawing a conclusion regarding how to locate Malaysia's low cost housing model in the context of East Asia. Thus, Malaysia did fit well with both the developmental and neo-liberal state model in terms of low cost housing production and allocation.

5.10 CONCLUSION

The analysis of housing provision and policy changes since the 1950s highlighted several features of the Malaysian low cost housing system. The first is the government's reliance on the private sector to build low cost houses. Malaysia provides a unique example of how the state could mobilise the private sector to provide low cost housing. The private sector began to take a leading role in low cost housing provision in the early 1990s. Without private sector involvement, the government definitely faced difficulties in providing an adequate number of low cost houses, as shown during the 1960s and early 1970s. The state governments not only forced the private sector to build low cost houses through the planning system, but also controlled the housing allocation to the buyers.

Secondly, the majority of low cost houses were built for home ownership rather than for rental. Only a small number of rental units were retained by the state governments or local authorities before the implementation of the first PHP programme in 1994. Meanwhile, all low cost houses built by private housing developers were for homeownership. Low cost houses have been used by the government as part of their strategy to eradicate poverty since the 1970s. Therefore, Malaysia fits within the 'Property-based welfare state model', similar to many other East Asian countries in the region. Low cost houses were used as a stepping stone for many first time buyers to get onto the property ladder. Thirdly, continuous improvement was made to the low cost housing registration and allocation system by the government. Since the 1950s,

the government has provided various mechanisms for the registration and allocation of low cost housing. By 2001, all state governments had begun to use a computerised allocation system to replace the manual system. The improvement to registration systems was crucial to ensure better access among low income people to buy low cost housing.

Fourthly, the state was still continuously involved in low cost housing provision in order to achieve the country's social and economic development objectives. Low cost housing provision was not only used by the government to house people with a low income, but was also a most important strategy during the economic crisis. During both economic crises of 1986-1987 and 1997-1998 in Malaysia, the Federal government implemented large scale public and private low cost housing programmes to kick start economic recovery. The fifth feature is the fact that state intervention in low cost housing provision and allocation are crucial in a multi-racial country like Malaysia. A fair distribution or allocation system will ensure political stability and promote national unity. Finally, the last feature is the preference of the Malaysian government towards clearing squatter and conventional public housing programmes. Unlike many other developing countries, since the 1970s Malaysia has preferred to implement programmes to clear squats and relocate the people into conventional low cost houses built by the public and private sectors. Under PHP implementation during 1994 to 2004, most public low cost houses were built on existing squatter settlements throughout the country.

However, state intervention in low cost housing provision and allocation also created several unintended consequences. The first was the fact that the state policy of a 30 percent low cost housing quota contributed to oversupply and mismatch between supply and demand in certain locations. Many low cost housing projects built by the public and private sectors were located in urban fringes or in new growth centres, whereas the demand for low cost houses was greater in existing city centres, particularly from squatters. Thus, many private housing developers found it difficult to sell low cost houses in these areas. The competition between the state and private sector to sell low cost houses in the same location also made the situation even worse. This could explain why the squat settlements kept increasing during the 1990s, despite a large number of low cost houses being built by the public and private sectors.

The second unintended consequence relates to the low cost housing allocation system. Without documented policy and legal back-up for the low cost housing

allocation system, it was still subject to manipulation and interference from politicians at the state government level. The improvement done to the low cost allocation system after the 1960s still could not stop corruption and abuse of powers among the state government housing officers. Thus making it difficult for people with a low income to register and eventually buy low cost housing. The analysis in the next chapter will discuss the practice of low cost housing allocation in Malaysia under the Open Registration System (ORS).

CHAPTER 6:
**CASE STUDY: THE ORS AT THE
FEDERAL LEVEL**

CHAPTER 6:

CASE STUDY: THE OPEN REGISTRATION SYSTEM (ORS) AT THE FEDERAL LEVEL

6.1 INTRODUCTION

This chapter will discuss the low cost housing allocation system in Malaysia under the Open Registration System (ORS) introduced by the Federal government in 1997. The objective is to answer the question: why did the state intervene in low cost housing allocation in Malaysia? Therefore the chapter will be divided into five sections to discuss the following aspects. The first is to find out the importance of state intervention in low cost housing allocation in Malaysia from the 1950s until the present day. The second section will explain the reasons which led to the establishment of ORS in 1997. The third section, meanwhile, will focus on the operations and improvement to the ORS since 1997. Section four will discuss the role of the Federal government in the low cost housing allocation process under ORS and, finally, section five will explain the changes made to the low cost housing provision process since the introduction of ORS.

The data used for the analysis in this chapter were mainly obtained from interviews with Federal government officers and Ministry of Housing official documents related to ORS. Due to the confidential status of some of the documents and the sensitivity of the data, some information could not be used in this chapter for further analysis.

6.2 THE IMPORTANCE OF STATE INTERVENTION IN LOW COST HOUSING ALLOCATION IN MALAYSIA

As explained earlier in Chapter 5, state intervention in low cost housing allocation was not only limited to public housing, but also to that built by the private sector. The government has been involved in low cost housing allocation since the 1950s and shows no sign of giving up the responsibility to the market. Therefore, this section will discuss the importance of government intervention in low cost housing allocation. Based on an analysis of secondary and empirical data, it can be said that there are four main reasons for state intervention in low cost housing allocation in Malaysia.

The first is to maintain the country's economy and social and political stability. Unlike other countries in the region, Malaysia has an ethnic-religious heterogeneous population comprising 61.4 percent Bumiputera, 23.7 percent Chinese, 7.1 percent Indian and 0.7 percent others in 2010. Government intervention in low cost housing allocation was crucial to ensure balanced home ownership among various races in Malaysia following the racial clash in May 1969 (Trezzini, 2001, p.328). The introduction of the New Economic Policy (NEP) in 1971 was the turning point in state intervention in low cost housing allocation in Malaysia. Under NEP, a minimum 30 percent of low cost housing was allocated for the Bumiputera as part of the strategy to increase home ownership and to eradicate poverty (Salleh, 1997). Low cost home ownership was part of the government's wealth distribution strategy which contributed to the rise of Bumiputera equity ownership of share capital and property from 2.4 percent in 1970 to 19.3 percent in 1990 (Jomo, 2004, p.9). At the same time, the incidence of poverty was significantly reduced from 42.4 percent in 1971 to 17.1 in 1990 (Rasiah and Shari, 2001, p. 10) which was partly caused by increased home ownership among people with a low income. The policy still continues today, despite the NEP formally ending in 1990.

This reason was supported by the Federal Officer 2 when asked about the need for the government to intervene in low cost housing allocation:-

"...the control was done in relation to our development philosophy. First is because we are multiracial society. Our development thrust at that time under NEP since 1971 was to restructure the society and asset. We don't want to repeat the 13th May 1969 tragedy because imbalance asset ownership according to ethnic and income category..." (Federal Officer 2, age mid 50s, has worked for more than 20 years with the Ministry of Housing and Local Government).

Clearly imbalanced asset ownership among the different races has far greater consequences than failing to provide adequate housing for the people in the case of Malaysia. Thus, state intervention in low cost housing allocation in Malaysia is necessary not only to ensure people with a low income can buy low cost houses, but also for economic, social and political stability in the country. With more than 30 percent of the population considered to be earning a low income in 2000 (Malaysia, 2001), state intervention in low cost housing allocation was still required even after 1990.

The second reason is to provide better access to low cost housing for people with a low income. State intervention was important due to the government's policy of encouraging homeownership among this group. Malaysia, like many other East Asian countries, sees the development of home ownership is mainly achieved "through the activities of private developers and private households rather than product of pervasive and direct state intervention and orchestration" (Lee et al., 2003, p.4). The private sector has contributed significantly to low cost housing provision, as explained in Chapter Five. Thus, state intervention is crucial to ensuring people with a low income have access to private low cost housing in Malaysia.

Access to low cost housing was a common problem for people with a low income in many developing countries, which led to the formation of squatters and slums (UN, 2003). Therefore, since the 1950s, the government in Malaysia has continuously tried to improve access to low cost housing for this group. Through a more systematic and transparent low cost house buyer's registration system, it was easier for the Federal and State governments to identify and allocate houses to buyers with a low income. Most importantly, competition from people with a middle and high income could be eliminated and thus provide a better opportunity for people with a low income to buy low cost houses. The actions taken by the Malaysian government to improve people's access to low cost housing was consistent with the recommendation from the United Nations under the Habitat Agenda to ensure adequate shelter for all (UNCHS, 1996).

Meanwhile, in the context of private low cost housing allocation in Malaysia, the government usually acted as a mediator between the market and house buyers. Since most people with a low income have poor knowledge of the property buying process, they faced difficulty buying low cost houses from private housing developers. Therefore, they relied on the government to provide market information and assistance

in the low cost house buying process. The situation prompted the need for the government to create a mechanism not only to manage the low cost house buyers' registration and allocation, but also to obtain private sector low cost housing information. The State government Officer interviewed also highlighted the importance of state intervention in low cost housing allocation in order to give the opportunity to people with a low income to buy a low cost house:

"In my opinion at the moment we have to take care of low income people welfare so they can buy a house...there are people still need low cost house. If we open to developers to allocate, they will restrict chances of low income to buy the house. It still required government intervention. That the only way we can give the opportunity to low income to buy the house..." (State Officer 1, aged mid 30s and has worked for more than five years for the Selangor Housing Board).

The third reason is to optimise public and private sector financial investment in low cost housing provision. The public and private sector have spent a large amount of money on low cost housing provision, particularly since the 1980s. However, the government were continuously criticised by private housing developers and the public for failing to ensure people with a low income had the opportunity to buy low cost houses (Sirat et al., 1998). Therefore, it is important for the government to take the necessary actions to prevent people with middle and high incomes from buying low cost houses. The Federal government, who spend a lot of money on public low cost housing programmes, really wanted to ensure the houses were bought by the low income group in order to prevent them from living in squatter and slum areas. By the mid 1990s it was clear the government needed to ensure that public and private sector investment in low cost housing was directed to the most needy people at the right time and in the right location in order to minimise the waste of money.

The final reason is to facilitate private housing developers in low cost housing provision. This is in line with recommendations by the World Bank for the government to become a facilitator and enabler for the market to work (World Bank, 1993). Since the role of low cost housing provision shifted from the public to the private sector during the early 1990s, the government had to do whatever it could to facilitate the market to work. Their experience during the implementation of the Special Low Cost Housing Programme (SPLCH) from 1986-89 taught an important lesson to the government on how to encourage the private sector to build low cost houses. Without reliable data on housing demand according to location, most private housing developers were generally reluctant to build low cost houses and this lack eventually

contributed to the failure of the programme. Therefore, the Federal government realised the establishment of a centralised low cost house registration system could provide valuable information to the private sector with regard to their housing provision planning. A list of eligible buyers obtained from the system meant housing developers generally didn't have to worry about the demand and saleability of low cost houses.

Based on the factors explained earlier, it was considered important for the state to intervene in low cost housing allocation in Malaysia. The Federal and State governments continued to intervene in low cost housing allocation during the 1990s with the introduction of the Open Registration System (ORS) for low cost house buyers. In the next section, the discussion will focus on the reasons which led to the establishment of the ORS by the Federal government in 1997.

6.3 WHY DID THE FEDERAL GOVERNMENT ESTABLISH ORS?

The analysis of official documents related to ORS obtained from the Ministry of Housing and Local Government Malaysia (MHLG, 1997; MHLG, 1998; MHLG, 2006) did not give a detailed and clear explanation of the events which led to its establishment. Moreover, some of the original documents related to the establishment of ORS could not be traced for further analysis due to poor record management by the ministry. Thus, the analysis in this section will be based on the interviews conducted with Federal government officers involved in the establishment of the ORS and limited information obtained from the ministry's official documents. The analysis revealed several reasons which led to the decision by the Federal government to establish the ORS in 1997.

The first was the need to reduce and eventually eliminate corruption in the low cost housing selling and buying process. In many South East Asian countries, including Malaysia, "Bureaucracies are subject to various forms of corruption with varying degrees from one country to another and from one department of the public service to another. Nepotism, bribery, speed money, extortion red tape, and inefficiency could be found in the different departments of public administration..." (Ahmed, 2005, p.158). Meanwhile, according to Transparency International's Corruption Perception Index (CPI), in 1997 Malaysia ranked 32nd in the list of countries studied compared to 23rd in 1995. It shows there was an increasing trend of corruption in Malaysia during the mid 1990s. Therefore, the low cost housing administration and allocation process in

Malaysia was also not immune from corruption. Federal Officer 2, when interviewed, admitted there were corrupt practices in the low cost housing administration and allocation process during the 1990s:

“...what happen, I believe some people involved in the system operation are not ethical. So he can delete or amend the applicant’s information, this made them (house buyers) more desperate...”
(Federal Officer 2).

Federal Officer 2 also pointed out that some of the State governments’ officers who were responsible for low cost housing allocation could manipulate the system for their own benefit. Changes made to the applicants’ information such as income or the number of dependents could increase the applicants’ chances, but at the same time deprive other eligible applicants of the opportunity to buy low cost houses. Another common practice in the public sector in Malaysia was ‘speed money’ or money paid to expedite any process in government departments (Ahmed, 2005, p. 50). Although Ahmed did not specifically mention the practice within the low cost housing buying process, it could still have happened.

There is a possibility that money could have been paid by the applicants to state housing officers in order to expedite the allocation process or to jump the waiting list. However, it was difficult for the Federal and State governments to take action against those involved in corruption due to a lack of evidence and witnesses and partly a lack of manpower in Malaysia’s Anti Corruption Agency (ACA). From 1991-1997 a total of 58,290 cases were reported, but only 1,349 cases (or 2.3 percent) were brought to justice by the ACA (Siddique, 2010, p. 50). In view of the difficulty of bringing the culprits to justice, the ACA recommended prevention as a major strategy to combat corruption in Malaysia (Siddique, 2010, p. 158).

Thus, the implementation of the ORS was part of the prevention approach taken by the MHLG to reduce corruption in the housing allocation process. With the system linked directly to the ministry, officers at the state level were unlikely to be able to delete or change the applicant’s information without informing and updating the applicant’s database held by the ministry. At the same time, it also promoted greater transparency and fairness in the low cost house buyer selection process. Moreover, the introduction of the ORS was very important to restore the confidence of the people and private sector with regard to the low cost housing allocation system in Malaysia. The effort was also in line with government strategy to improve public sector management and

governance, as promoted by the World Bank during the early 1990s (World Bank, 1993).

The second reason was to eliminate fraud in the low cost house buying process. Poor coordination and information 'cross-checking' among the 14 States in Malaysia allowed some unscrupulous buyers to buy more than one low cost house unit in different states. Since 1976, low cost housing allocation has been under the responsibility of the respective State government; therefore, it was difficult to cross-check the applicants' backgrounds and their status regarding low cost house ownership. As explained by Federal Officer 1, with regard to the problem of multiple ownership of low cost houses:

"...previously, there are some people own 2 or 3 units of low cost house. In one cheating case, he registered in Kedah and he knows our system weaknesses so he went to Johor and register again. Eventually he got 2 low cost houses. That the weaknesses of the system especially on the monitoring aspect in addition to lack of manpower..." (Federal Officer 1, aged early 60s).

Federal policy clearly stated that people with a low income were only allowed to own one unit of low cost housing (MHLG, 1997). A combination of corruption and the weaknesses of the low cost housing allocation system allowed buyers to buy more than one low cost house in other states in Malaysia undetected. The statement confirms an earlier study by Salleh and Lee (1997, p. 23) as they describe "... the mechanism for the allocation of low houses is defective because of favouritism, patronage, indifference, fraud and inadequate database resulting the units being allocated to the undeserving (i.e. well-to-do)." However, no available statistics on the number of fraud cases in low cost house buying have been revealed by the ministry or State governments for further analysis.

Meanwhile, in some cases, the applicant did not declare they already owned a low cost house and submitted false information to support the application. Most people were still willing to take the risk of buying a low cost house, despite the consequences. All the applicants were required to make a statutory declaration in the presence of a Commissioner for Oaths, Judges of Session Court or Magistrate under the Statutory Declaration Act, 1960 in the application form. However, many still submitted false information in order to increase their chances of buying a house. The most common false information given by the applicant was related to household income and the number of dependents which was used to determine the buyer's eligibility and

awarded the highest points (MHLG, 2006, p.55). Under the Statutory Declaration Act, those caught giving a false declaration were punishable under Section 199 and 200 of the Penal Code (Act 574, 2006) which carries the penalty of up to seven years imprisonment and fines. Furthermore, the house purchased using false information could also be confiscated. However, due to political and social sensitivity, it was difficult for State governments to take action against the culprits and bring them to justice. There was no reported case of any State government taking action against fraudsters under the law. In order to solve the problem, the Federal government, through the MHLG, needed to intervene and eliminate the corrupt practices in low cost housing allocation.

The third reason was to provide the information required for the planning of low cost housing by the public and the private sector. In the public sector, the MHLG required comprehensive data to plan for low cost housing planning in the Five Year Malaysia Economic Plan. Together with other demand for demographic and housing data, the ministry was able to plan low cost housing requirements more accurately according to state in Malaysia. The State governments then could determine the number of low cost houses to be built according to location based on actual demand. The low cost housing programme by the government could thus target the areas with high demand. As explained by Federal Officer 1:

"...the data is very important when formulating the National Housing Policy especially to identify the housing need. Because when we (ministry) planned for the housing for each state, let say 100,000 units for the State of Selangor but we don't know where to build? State of Selangor is very big. So if we have the housing need data we can use it. Let say we built 10,000 in the (district of) Gombak, Shah Alam, Hulu Selangor, that exactly match the need. If there is no housing need, so no point we built the house. May be we don't have to build at all, why wasting money..."(Federal Officer 1).

Data obtained from the system could also be used to guide future policies related to low cost housing provision. The decision to reduce or abandon the low cost housing quota imposed by the State governments on private housing developers could be decided based on actual housing demand data rather than assumption. Meanwhile, similar to the public sector, the data obtained from the ORS database could be used for low cost housing planning by the private sector. Federal Officer 3, when interviewed, described the importance of ORS data for private housing developers:

“...first we want to know who get the house. Secondly is in term of planning according to location requested by the applicants. During the application stage we already know the district and mukim (sub-district) requested. If properly planned, developers should know where to build the house? Where the demand is? They will know where to built low cost house?” (Federal Officer 3).

The data are important to avoid a mismatch between supply and demand of low cost housing, particularly with the introduction of a 30 percent low cost house unit quota for private sector residential development after 1981. The ORS database has been used to justify changes to low cost housing policy in Malaysia since 1998. This includes a reduction made by the MHLG to the low cost housing quota for private housing developers from 30 percent to 20 percent in 2002. A further revision was made in 2006 when the MHLG recommended that private housing developers should provide low cost housing units according to demand in a particular area rather than meet a blanket 20-30 percent quota as in the past (MHLG, 2006). This shows the significant contribution of the ORS to low cost housing policy formulation in Malaysia. At the same time, it helped the market to operate efficiently with accurate low cost housing demand data. Most importantly, both public and private sectors have been building low cost houses since independence, but nobody knows how many more low cost houses should be built and where without an appropriate mechanism to monitor production and consumption.

The fourth reason was to determine the migration pattern and housing needs of people with a low income. The country experienced rapid economic growth and rural-urban migration during the early 1990s and the trend of migration was mostly from less developed states to more developed states with a higher average income (see Table 6.1) such as Selangor, Pulau Pinang and Johor. In 1995 and 2000, Selangor had the highest number of migrants, 37,635 people and 24,304 people respectively mainly from the States of Perak, Johor Terengganu and Kuala Lumpur (Selangor State Structure Plan Report, 2003). The migration trend also contributed to rapid urban population growth from 33.5 percent in 1970 to 49.8 percent in 1990 and 61.8 percent in 2000 in Malaysia (Statistical Department, 2000) putting more pressure on housing provision.

Table 6.1: Migration According to State in Malaysia in 1995 and 2000

State	1995			2000		
	In Migration	Out Migration	Net Migration	In Migration	Out Migration	Net Migration
Perlis	2,897	2,484	413	1,832	3,567	-1,735
Kedah	18,798	17,943	855	22,530	23,143	-613
P. Pinang	24,436	11,925	12,511	29,735	15,077	14,658
Perak	15,975	36,346	-20,371	20,711	27,656	-6,945
Selangor	78,005	40,370	37,635	60,941	36,637	24,304
Kuala Lumpur	14,137	45,183	-31,046	4,459	34,200	-29,741
N. Sembilan	23,535	15,438	8,097	16,293	17,110	-817
Melaka	13,224	10,961	2,263	9,688	9,507	181
Johor	22,387	24,471	-2,084	31,522	18,146	13,376
Pahang	17,218	25,488	-8,270	17,908	19,720	-1,812
Terengganu	11,689	15,913	-4,224	19,953	11,519	8,434
Kelantan	22,406	17,679	4,727	12,846	21,422	-8,576
Sabah	12,685	11,615	1,070	13,147	21,079	-7,932
Sarawak	8,133	9,709	-1,576	9,284	12,066	-2,782

Sources: Migration Investigation Report 1995 and 2000, Department of Statistics, Malaysia

In Malaysia, rural-urban migration was an always important contributing factor towards the formation of squatters in urban areas (Johnstone, 1983, p 293). Since most people who migrated were people with a low income, the need for the state to intervene and monitor the situation was very great in order to avoid these people from ending up living in squatters. The low cost housing registration system could be used to determine the migration pattern of this group within the state and eventually across the country. Information on the applicant's current address and preferable location for low cost housing could be used by the government to determine migration patterns particularly amongst people with a low income looking for job opportunities. Federal Officer 2 explained how the need to identify the migration pattern of people with a low income contributed to the establishment of the ORS:

"...during the 1990s, the country's has transformed from agriculture to industrial oriented development... many people migrated to Klang Valley but there was no houses... therefore in early 1990s we began to think, why not we have the central registration system. So we could know people movement and plan accordingly. With that information local authorities and town planning department could prepare local and structure plan for particular town and it land uses..."(Federal Officer 2).

Meanwhile the data from ORS can also be used by local authorities and town planning departments to determine the number of low cost houses required and land use in the Local and Structural Plan for the particular area. Most importantly, the oversupply of low cost houses can be avoided if data from the ORS is used by the local authority when making the decision to grant planning permission.

Finally, there was a need for a better mechanism for the allocation process and the monitoring of the implementation of the People Housing Programme (PHP). As explained earlier in Chapter 5, the Federal government implemented the PHP in 1998 with the intention to eliminate the existing squatter and to prevent future formation of squatter settlements. Therefore, it was crucial for the Federal government to ensure that people with a low income and existing people live in squatters could have better access to low cost housing. Since the low cost housing provision was no longer under the sole responsibility of the State governments, the Federal government could make sure the PHP units were eventually owned by eligible buyers. The implementation of ORS by the State governments eventually covered low cost housing provided by the private sector.

Despite the success in the provision of low cost housing during the early 1990s, the ministry was still criticised by various parties regarding the selling and buying process of low cost houses (MHLG, 1997, p.1). Private housing developers have complained since the early 1990s that many low cost houses were not being sold to the target group. Meanwhile, the people with a low income described the buyer selection process as highly questionable and subject to corruption (Salleh, 1997; Sirat et al., 1999). At the same time, the Federal government also needed to address several issues related to low cost housing allocation, as highlighted in Chapter Five. The issues included the ineffectiveness of the allocation system used by the State government, political intervention in the allocation process and difficulties faced by people with a low income when buying low cost housing.

6.4 THE OPERATIONS AND IMPROVEMENTS TO ORS

This section is divided into three parts. The first part primarily focuses on the ORS' background and operations. The second part will discuss the improvements made to the system since 1997 and the third part analyses the background of low cost house applicants from 1997-2005. The data for analysis in this section was mainly derived

from secondary data from the MHLG such as ORS guidelines and reports, the ORS computerised database, minutes of meetings related to ORS and supported by information from interviews with Federal government officers.

6.4.1 ORS Background and Operations

In order to modernise and solve problems related to low cost housing allocation in Malaysia, the Open Registration System (ORS) was proposed by the Federal government in 1997 (MHLG, 1998). The National Housing Department (NHD) under the Ministry of Housing and Local Government (MHLG) was given responsibility for preparing the proposal to establish ORS. After consultation with the State governments, ORS was finally approved for introduction and implementation throughout the country in a cabinet meeting dated 28th May 1997 (MHLG, 2004 p.1). Thus, all State governments were required to adopt ORS and abandon their existing allocation system (MHLG, 2006, p. 54). However, Sarawak was the only state in Malaysia to refuse to adopt the ORS framework for low cost housing allocation until the present day.

There were five main purposes for the establishment of the ORS (MHLG 1998); the first was to provide a countrywide “waiting list” of eligible low cost house buyers. The second was to standardise the criteria for the selection of eligible buyers who are considered qualified and therefore can be “short listed”. The third reason was to avoid misconduct in the selection of eligible low cost house buyers. The fourth was to ensure that only eligible buyers were entitled to buy and subsequently own low cost houses and that no buyers would be allowed to purchase more than one unit of low cost housing; and the final reason was to ensure the selection process became more transparent.

The MHLG (MHLG, 2006) expected full implementation of the ORS throughout the country to derive several outcomes; firstly, data on potential and eligible applicants and supplies of low cost housing stocks could be compiled by relevant authorities in a more systematic and comprehensive manner. Secondly, the allocation processes could be monitored with relative ease. Thirdly, an evaluation of the backgrounds of the applicants and the selection of eligible buyers could be done within a shorter time frame; and finally, the ORS could allow a more transparent and fair distribution of low cost houses.

The idea of establishing a standardised and centralised low cost housing registration system was suggested by the MHLG as early as 1990 (interview with Federal Officer 1). However, the proposal to introduce ORS only materialised in 1997 following a Federal government announcement of the implementation of PHP. Since the Federal government was responsible for the implementation of PHP, standardised selection criteria for low cost house buyers were required for the whole country. Although State governments were still responsible for the day to day operation of low cost housing allocation, the implementation of ORS would allow Federal government to coordinate and monitor the low cost house buying process.

During the implementation of PHP NEAC in 1998, the ORS was intended to be used for the allocation of low cost housing for both rental and for sale. However, allocation for rental public housing under PHP NEAC was never used by the State governments (MHLG, 2004). Instead, the State governments continued to use their own low cost housing administration systems. Management of rental housing not only involved the allocation process, but also other aspects such as the monitoring of monthly rental payments and maintenance. Therefore, ORS was primarily used for PHP units for sale by State governments. Later, the usage of ORS was extended for low cost housing allocation built by the private sector, as described by Federal Officer 1:

"...at that time the low cost houses built by the government and that is why government need to monitor, that is our purpose. Later in the second stage, government also wanted to monitor low cost houses built by private sector to avoid it being sold to people who already own the house"(Federal Officer 1).

Under ORS, the applicants who aspired to purchase a low cost house had to register with the MHLG through the respective State government (MHLG, 1998). Registration was open throughout the year, which explains why the system was called an 'Open Registration System'. Registration could be done manually at all state housing sections or district offices by filling in the form provided (see Figure 6.1). The MHLG, through its agents at the state level, then input the data into the computerised ORS. District Offices played a very important role in ORS implementation, particularly with regard to the distribution and receipt of application forms. They were also responsible for informing the ORS secretariat of any low cost housing projects within the district. The information was used to identify the eligible buyers who had already chosen two preferred locations on their application form. Upon receiving the form with all relevant documents, the State governments started processing the application. Data on the applicants were sorted by computers and, on the basis of their incomes, dependents,

age and their housing needs, numerical scores were assigned to each applicant. The list of successful applicants was then forwarded to the National Housing Department for record.

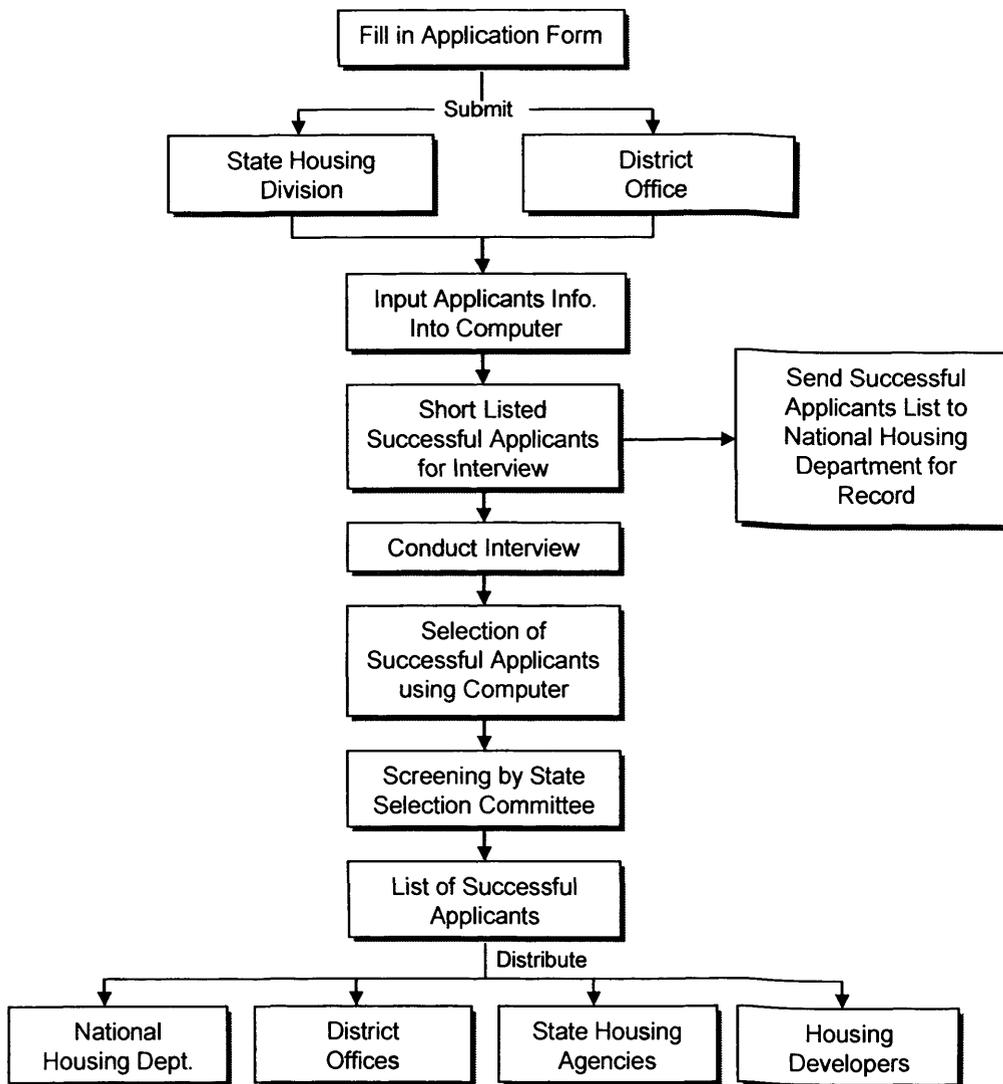


Figure 6.1: Low Cost Housing Registration and Allocation Process Under ORS, 1997-2006

Source: National Housing Department, Malaysia, 1997

Successful applicants were then short listed and called for the interview by the State Housing Section in order to check the authenticity of the documents submitted and the information given in the application form (MHLG, 1997, p. 6). However, the interview process received criticism from the public due to difficulties faced by the applicants with regard to attending the session and the complicated application process (MHLG, 2006 p.53). The interview sessions conducted by State government housing officers

also increased the human interaction and negotiation in the low cost housing allocation process. Although the intention behind the interview session was good in order to confirm the buyer's eligibility, at the same time it also increased chances for corruption to occur. Therefore, in a subsequent improvement of the ORS in 2006, the interview session was scrapped in order to minimise the negotiation in the low cost housing allocation process (MHLG, 2006, p.93).

The list of successful applicants after the interviews was then sorted by the computer to determine the applicant's priority level. The applicants were placed in the waiting list until there any low cost housing units were available for sale in the district requested in the application form (see Figure 6.2). Upon request by the state housing agencies or private housing developers, the State Housing Section then forwarded the list of applicants from the waiting list to the State Selection Committee headed by the Chief Minister or State Executive Councillor for final screening and endorsement. The final list was then distributed to state housing agencies or private housing developers as requested. A copy of the list was forwarded to the National Housing Department and District Office where the project was located for record.

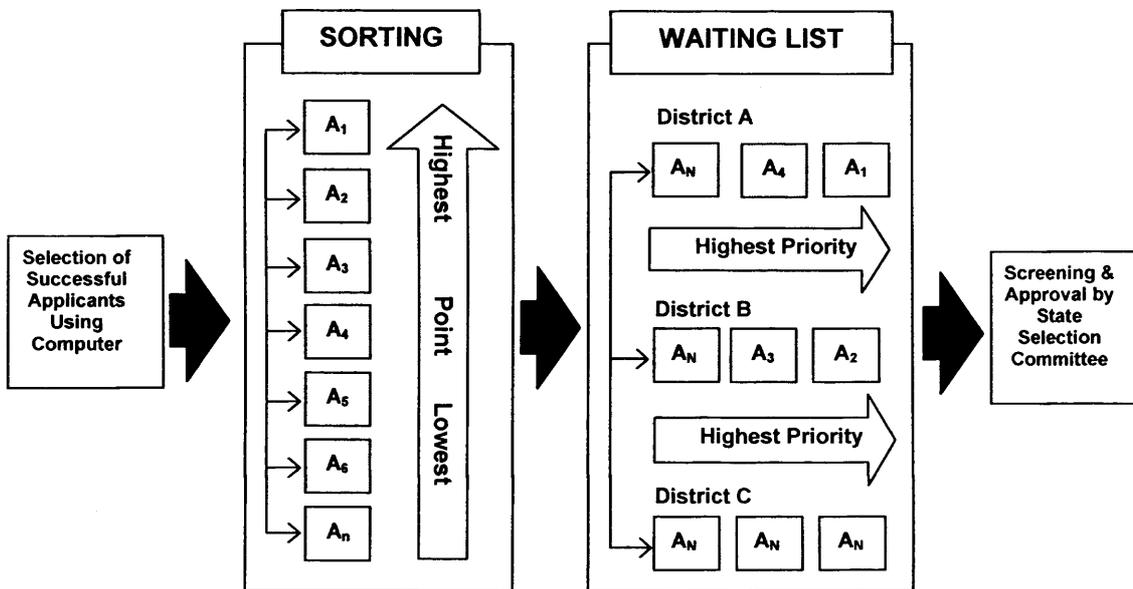


Figure 6.2: Applicant's Sorting and Waiting List Process Under ORS

Source: Modified from MHLG 1998 by Author

The low cost housing allocation process under ORS was not governed by any law, but rather based on administrative procedure. Therefore, the procedures and process of low cost housing allocation were different from one state to another. The State

governments had the right to change the procedures and buyers' selection criteria according to their needs. Similarly, the eligible buyer list from ORS's housing register was not controlled under the law. This left the low cost house buyers' selection process to respective State government interpretation and priority.

6.4.2 Improvements to ORS

Implementation of ORS during the early stage was not as smooth as expected by the Federal government. Two key areas constantly required attention from MHLG for continuous improvement; the first was the low cost house buyer's selection criteria and the second was the ORS computerised database. Improvements to the ORS buyer selection criteria and database ensured it remained relevant and efficient as a low cost housing allocation tool. Table 6.2 shows the timeline for the implementation of ORS and improvements between 1996 and 2006.

Table 6.2: Timeline for ORS Implementation and Improvements, 1996-2006

Date	Events
January 1996	Ministry of Housing and Local Government (MHLG) issued the 1 st edition of the guideline for the Selection of Low Cost House Buyers under the Open Registration System (ORS)
28 th May 1997	Cabinet Meeting approved the implementation of ORS nationwide
September 1997	MHLG issued the 2 nd edition of the guideline for the Selection of Low Cost House Buyers under ORS (1997 Guideline)
April 1998	MHLG issued the 3 rd edition of the guideline for the Selection of Low Cost House Buyers under ORS (1998 Guideline)
December 2001	Computerised ORS was implemented by MHLG. Only 4 states linked directly to the ministry and other states updated applicant data manually.
April 2004	The issue of unsold low cost housing emerged in the media. ORS inefficiency blamed for unsold low cost housing nationwide.
May 2004	NHD conducted a study with IIUM to improve Computerised ORS
13 th April 2005	Cabinet approved implementation of Improved Computerised ORS
16 th April 2006	Prime Minister launched the implementation of the new improved ORS nationwide and new guideline for the Selection of Low Cost House Buyers under ORS (2006 Guideline)

Sources: MHLG, 1997, 1998 and 2006

a. Low Cost House Buyers' Selection Criteria

Since the establishment of ORS, the low cost house buyers' selection criteria have been changed several times. The guidelines were issued by the Ministry of Housing and Local Government to standardise the buyers' selection criteria. Four editions of guidelines for the Selection of Low Cost House Buyers under ORS were published by the MHLG from 1996 to 2006. The first edition of the guideline was issued in January 1996 prior to ORS's approval by the Cabinet on May 1997 (NHD, 1997). The 1996 guideline, however, was not available in MHLG records for further analysis. The second edition was issued in September 1997 and the third in April 1998 (NHD, 1998). Changes to both were made following further discussions with the State governments and the need for PHP NEAC implementation in 1998. The latest change to the guideline was made in April 2006 following various problems encountered during the implementation of ORS (National Housing Department, 2006). Despite the changes, basic criteria such as applicant's income, dependents, occupation, age and disability have always been used to determine eligibility.

The total points awarded to each buyer's selection criteria reflect the Federal government's priorities in low cost housing allocation (see Figure 6.3 and Table 6.3 for details of main criteria). However, there was no justification indicated in the guidelines with regard to how each set of eligibility criteria was derived by the ministry. In the 1997 Guideline, priority was given to applicants paying for rental accommodation (refer to **Appendix 7**). Therefore, the highest points were awarded to applicants who pay a high monthly rent. Similar points were also awarded to the burden of the mortgage instalment which the applicant was expected to pay when they purchased the low cost housing. Households with an income of between RM500-RM600 per month were given the highest points, although those with an income up to RM750 per month were eligible to purchase a low cost house for their household. The determination of income eligibility to purchase a low cost house was based on the buyer's ability to pay. Therefore, applicants with an income of less than RM500 per month were not given any points due to the assumption that they might face difficulty in obtaining and repaying the loan.

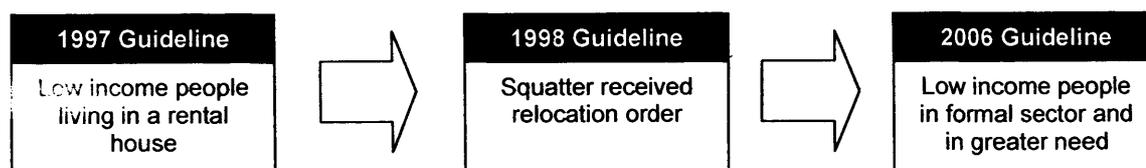


Figure 6.3: Government Priority Groups for Low Cost House Allocation Under ORS

Sources: MHLG, 1997, 1998 and 2006

Table 6.3: ORS Main Eligibility Criteria 1997, 1998 and 2006

1997 Guideline			1998 Guideline			2006 Guideline		
Rank	Main Criteria	Max. Points	Rank	Main Criteria	Max. Points	Rank	Main Criteria	Max. Points
1	i) Existing house rental burden	100	1	i) Loss of home	100	1	i) Monthly household income	30
1	ii) L/C house mortgage instalment	100	2	ii) Monthly household income	50	1	ii) Dependents	30
2	iii) Status of existing house	50	2	iii) Status of existing house	50	2	iii) Applicant age	10
3	iv) Marital status	25	3	iv) Marital status	25	3	iv) Marital status	6
3	v) Occupation	25	3	v) Occupation	25	4	v) Applicant disability status	5
3	vi) Disability	25	3	vi) Dependents (child)	25	5	vi) Health status	4
3	vii) Other dependents	25	4	vii) Disability	10	5	vii) Status of existing house	4
3	viii) Monthly household income	25	4	viii) Other dependents	10	6	viii) Ex-police/Army	3
4	ix) Loss of home	10	4	ix) Applicant age	10	7	ix) Occupation	2
4	x) Dependents (child)	10	4	x) Place of work	10	7	x) Registration duration	2
4	xi) Applicant age	10	4	xi) Length of stay in current house	10	7	xi) Disabled children	2
4	xii) Place of work	10	4	xii) Place of birth (state)	10	7	xii) Disabled spouse	2
4	xiii) Length of stay in current house	10						
4	xiv) Place of birth (state)	10						
Total Max. Points Awarded = 435			Total Max. Points Awarded = 335			Total Max. Points Awarded = 100		

Sources: National Housing Department, 1997, 1998 and 2006

The 1998 Guideline attempted to simplify the selection process of low cost house buyers by reducing the number of criteria and making point calculation easier (refer to **Appendix 8**). The highest points were given to those people who had received a relocation order in squatter settlements. This is in line with the 'Zero Squatter Target by 2005' policy formulated by the Federal government during the mid 1990s. The income eligibility threshold to purchase a low cost house was also increased from RM750 to RM1,500 per month in line with changes in the ceiling price of low cost housing to RM42,000 per unit (MHLG, 2002). Clearly, the 1998 Guideline placed greater emphasis on applicants' social and economic background in awarding points. Criteria such as the number of dependents, marital status, occupation and disability were given higher points rather than the physical condition of the applicants' existing houses. The 1998 Guideline also included pre-conditions to apply for low cost housing which particularly related to the applicant's citizenship, age and income. Only Malaysians of an age greater than 21 years and with an income of not less than RM500 were allowed to apply for low cost housing. The applicants also could not own any house or land to build a house in order to qualify.

More than five years after the implementation of the ORS, the system began to receive widespread criticism from the people, Non-Governmental Organisations (NGO) particularly the Real Estate and Housing Developers Association (REHDA), private housing developers and State governments, as reported in the local media in April 2004. However, the issues of unsold low cost houses in the State of Selangor in 2004 provided the real test of ORS effectiveness. The issue started with controversy as it was claimed that the State Government of Selangor had allowed the sale of low cost houses to people with a middle and high income (The New Straits Times, 12th April 2004), thus triggering negative responses from the public and various NGOs. The Real Estate and Housing Developers Association (REHDA) claimed there were more than 300,000 units of unsold low cost houses nationwide and the highest number was in the State of Selangor with 250,000 units. The ORS was deliberately blamed for the failure to sell low cost houses in the State of Selangor (MHLG, 2004c). The prime minister was finally involved and resolved the issue by directing the State Government of Selangor not to offer low cost housing to middle and high income groups (The Star, 15th April 2004). Instead, the prime minister instructed the MHLG to review and improve the low cost housing allocation system.

Subsequently, a study was conducted by the National Housing Department (NHD) with the International Islamic University Malaysia (IIUM) in 2003 to identify the problems and to make recommendations to improve the low cost housing allocation system under ORS (NHD, 2006, p. 1). The study highlighted the fact that not all State governments appeared to follow the guideline on low cost house buyers' selection criteria prepared by the NHD in 1998 (see Table 6.4). Instead, the State governments had a tendency to include additional criteria based on their needs.

Table 6.4: Number of Criteria and Maximum Points Adopted by the State governments, 2003

State	No. of criteria/sub-criteria	Maximum points
1. MHLG Guideline, 1998	66	335
2. Selangor	94	86
3. Negeri Sembilan	80	100
4. Terengganu	69	-
5. Kedah	114	147
6. Melaka	76	198
7. Perak	97	217
8. Perlis	98	227
9. Pulau Pinang	101	317
10. Kuala Lumpur	74	316
11. Johor	76	304
12. Kelantan	84	-
13. Pahang	77	120
14. Sabah	99	200
15. Sarawak	68	75

Source: National Housing Department, 2006

Additional criteria meant more information required from the applicants and a more complicated application form used by the State governments. The State Government of Selangor, for example, used the 'Optical Mark Reader' format which was very difficult for people with a low income to complete (see Figure 6.4). A complicated application form and additional documents required during submission discouraged people with a low income from registering under ORS (NHD 2006, p. 65), thus defeating the purpose of establishing the ORS to improve people with a low income's access to the low cost housing market.



KERAJAAN NEGERI SELANGOR

BORANG PENDAFTARAN PERMOHONAN RUMAH KOS RENDAH

BORANG SSP 01
Boyang di bahagi RM 2.00

LEKATKAN DENGAN BETUL GAMBAR ANDA DI SINI DENGAN GAM SAHAJA (JANGAN STAPEL)

SYARAT-SYARAT PERMOHONAN

1. Hanya WARGANEGARA MALAYSIA sahaja layak memohon.
2. Pemohon atau keluarganya hanya dibenarkan memohon satu permohonan sahaja dan borang yang ditolakkan tidak boleh dipindah milik.
3. Pemohon atau keluarganya pemohon yang telah memiliki rumah tidak dibenarkan memohon.
4. Pertimbangan akan dibuat berdasarkan keajaiban Keajaiban dan Kemampuan pemohon mengabdikan keterangan yang diberikan di dalam borang ini dan maklumat pemilik rumah yang sedia ada dalam komputer. Oleh itu, anda tidak secara automatik dibenarkan rumah.
5. Pemohon perlu datang sendiri untuk menyerahkan borang. Hantaran borang melalui pos tidak akan diterima.

PANDUAN MENISI DAN MENJAJA BORANG OMR

Borang OMR (Optical Mark Reader) ini hendaklah diisi dengan tepat dan betul. Hanya borang-borang yang lengkap diisi dan ditandatangani sahaja akan diproses.

1. Pastikan ruang sebarangnya dengan menggunakan pensil 2B sahaja.
2. Pastikan sebarangnya kodarasi harus meninggalkan sebarang kesan.
3. Pastikan bilangan Daerah dan Mukim di Bahagian A.
4. Pastikan bilangan / Cop Ketua Jabatan / Majikan tidak ditandatangani dan tidak yang disediakan.
5. Pastikan semua maklumat yang disukan adalah betul sebelum borang pendaftaran permohonan ini dihantar.

CANTON 1

Contoh 1: Data lengkap No. KIP area

Contoh 2: Data lengkap No. KIP area

CANTON 3

Contoh 3: Data lengkap Pendaftaran Pemohon/Permohonan

PERHATIAN

Borang ini adalah permohonan yang telah siap diisi, bolehlah dikembalikan ke mana-mana Pejabat Daerah di Negeri Selangor atau Lembaga Pertumahan dan Hartanah Selangor, Tingkat 5, Pudu-Utara, Bangunan SSAAS 49903 Jalan Alam Selangor beserta dengan salinan dokumen-dokumen berikut:

- i. Kad Pengalihan / Surat Beranak / Kad Polis / Tawaran bag-buat-buat di tingkat di mana-mana yang berkaitan
- ii. Surat Kawarperguruan / Bilik air
- iii. Surat pengalihan pendaftaran / perniagaan / perniagaan cukai pendapatan / surat lain-lain
- iv. Kad cukai cukai
- v. Bilik air dan bilik air
- vi. Bilik air / Bilik air / Bilik air
- vii. Bilik air / Bilik air / Bilik air
- viii. Bilik air / Bilik air / Bilik air
- ix. Bilik air / Bilik air / Bilik air
- x. Bilik air / Bilik air / Bilik air

Borang ini diterima oleh

Nama: _____

Tandatangan: _____

Cop: _____

Tarikh: _____

Figure 6.4: Example of a Complicated Low Cost Housing Application Form Used by the State government of Selangor in 2004

Source: Selangor Housing and Property Board, 2004

The study then recommended that the MHLG should reduce the number of criteria, simplify the application process, request less information and make application forms easier to complete (MHLG, 2006). The idea was to persuade more people to register with the State governments under the ORS and thus gain more accurate information on low cost house demand in particular areas. The revised eligibility criteria based on the 2006 Guideline reflected simplicity and avoided unnecessary points being awarded to unimportant criteria (refer to **Appendix 9**). Any information relating to applicants' background was not awarded any points and was used only for statistical purposes. Instead the highest priority was given to people with a household income of less than RM1,500 per month and more dependents. In addition to income, applicants' current house location was also considered when awarding the points since it reflected the burden they faced. Income was also will adjusted based on the Consumer Price Index (CPI) and only real income was used to determine the applicants' eligibility. For the first time, economic factors such as the cost of living and CPI were taken into account when making the decision to allocate the low cost housing.

Under the 2006 Guideline, priority was no longer given to squatter to apply for low cost houses. The Federal government changed the priority in order to ensure other people with a low income in the formal sector (i.e. low rank government servants and factory workers) and people with a real need for a house (i.e. single mothers and disabled people) were given the opportunity to buy a low cost house. By doing so, the government sent a strong message to people who illegally occupied government or private land, as they were no longer given priority to buy low cost housing in the future. Also for the first time priority was given to people with a disability and health problems. Single parents or widows were given higher points than married couples in revised criteria to reflect the difficulties faced by this group. However, the government still required other information such as age, occupation, the disability of spouses and children and the length of registration to determine the buyers' eligibility. Most importantly, a reduction in the information required meant a less complicated application form to be completed by the applicants.

The idea was to encourage more people with a low income to register with the State governments under the ORS to buy a low cost house. No additional documents were needed during the application stage except for a copy of the national identity card to ensure only Malaysian citizens could apply for a low cost house in view of the millions of illegal immigrants still living in the country. The overall registration and allocation process was improved again in 2006 (see Figure 6.5). This included the appeal process for unsuccessful applicants going directly to the MHLG and simpler procedures to submit and check application status. In the past, no appeal was allowed for applicants who failed during the selection process. Thus, the revised process gave applicants the opportunity to explain and submit additional information to ministry officials to support the application if required. Previously the application could only be made at the State Housing Department or District Offices, but under the improved system more options were given to applicants to submit their application form. After several meetings between the MHLG and State governments, the final version of the application form and eligibility criteria was agreed. The proposal was then tabled in National Housing Council Meeting No.1/2005 and approved by cabinet for implementation nationwide on 13th April 2005. Malaysia's Prime Minister then officially launched the new improved ORS on 16th April 2006 (MHLG, 2006, p.1).

	Stage	Responsibility	Remarks
Form	Purchase and Complete ORS Application Form	- District Office - Local Authorities - State Housing Division/ Housing Corporation - Post Office / Housing Developers - Ministry of Housing and Local Government	To ensure easy access for target group to obtain an application form.
	Submit Form and Points Calculation	- District Office - Local Authorities - State Housing Division (check the application form and to issue acceptance letter).	Points calculation to be done immediately upon submission using the computer and to notify the applicant of the preliminary result.
	Eligible Buyers List to be Forwarded to National Housing Department	- National Housing Department - State Housing Division	List of eligible buyers will be checked and records to be kept by National Housing Department
	Inform the Successful/ unsuccessful Applicants	- State Housing Division	State Housing Division will issue letter to successful and unsuccessful applicants. For successful applicants the process ends here.
First Stage Selection	Shortlist of Applicants to be Interviewed	- State Housing Division	State Housing Division will issue a letter to applicants for interview by State Selection Committee (case to case only, if necessary).
	Conduct the Interviews with the Selected Applicants	- State Housing Division - State Selection Committee	Interview required if there are problems on applicant's income or other additional information required as determined by the state.
	Evaluation by State Selection Committee	- State Housing Division - State Selection Committee	Evaluation based on the outcome of the interview.
	List of Successful Applicants Sent to National Housing	- National Housing Department - State Housing Division	List of successful applicants will be checked and the records to be kept by National Housing Department.
	Inform the Successful/ unsuccessful Applicants	- State Housing Division	State Housing Division will issue letter to successful and unsuccessful applicants.
	Second Stage Selection	Unsuccessful Applicants Submit an Appeal	- National Housing Department - State Housing Division (state government to set-up the Appeal Committee)
Final List of Successful Applicants		- State Housing Division	State Housing Division to provide final list of successful applicants according to ranking based on the points awarded.
Final List	Forward List to Housing Developers	- State Housing Division - State agencies and private housing developers	State Housing Division to forward list to housing developers according to preferred location and priority.

Figure 6.5: Low Cost House Registration and Allocation Process Under ORS Since 2006

Source: National Housing Department, Malaysia 2006

b. ORS Computerised Database

Initially the ORS was only intended to standardise the selection criteria among the states in Malaysia, but later the MHLG realised the important of the computerised registration and allocation system. The Computerised ORS was introduced by the MHLG in December 2001 because some of the State governments were still using a manual system for low cost housing allocation (MHLG, 2004b p.1). The computerisation of the low cost housing allocation system was introduced as part of Federal government administration modernisation under the E-Government initiative during Prime Minister Mahathir's administration (Karim, 2004, p.211). The Computerised ORS was not only used for low cost housing registration and allocation, it was also useful to the MHLG for monitoring purposes. The centralised database system was maintained by the MHLG with direct online links to four State governments without their own computerised system, namely Kelantan, Perlis, Terengganu and Perak (see Figure 6.6). Meanwhile, other State governments forwarded the low cost applicants' data manually to MHLG and the data was then updated in the ORS database.

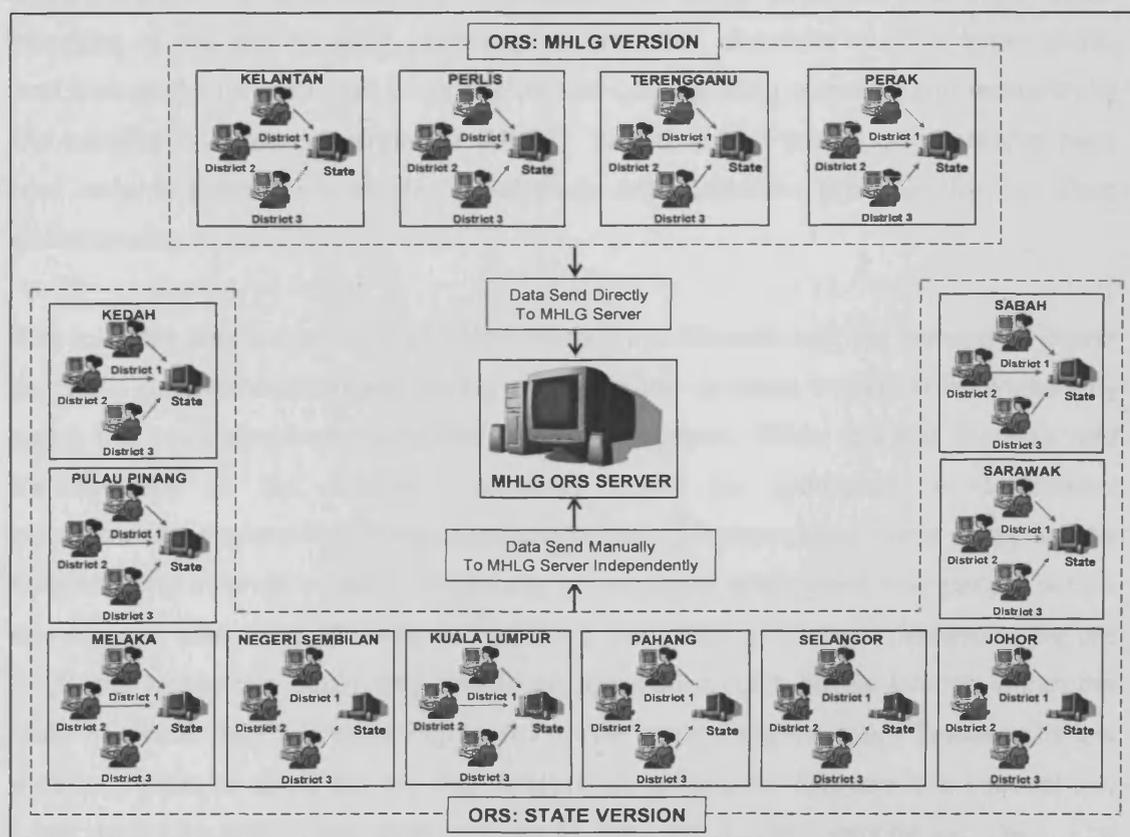


Figure 6.6: Computerised ORS Operations, 2001-2006

Source: MHLG, 2004

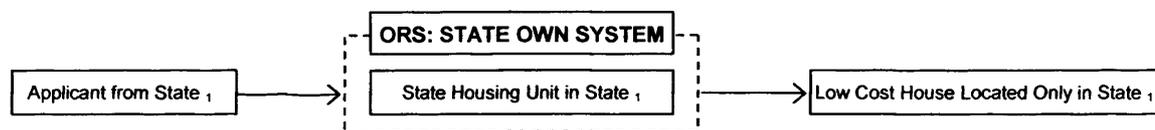
However, a study conducted by the MHLG (MHLG 2003) revealed that most applicants' data held by the Ministry was outdated due to failure by most State governments to update the data regularly in the ORS database. Two years after the implementation of the Computerised ORS, the MHLG was still facing difficulty in receiving updated data on low cost housing applicants from the State governments, which mostly used an independent computerised system. The study not only recommended improvement of the low cost house buyers' selection criteria, but also suggested a single computerised system should be established nationwide in order to solve the problem. This meant that all State governments must abandon their existing computerised systems and use the computerised system developed by the MHLG.

The new computerised low cost housing allocation system under ORS was introduced in April 2006 by the MHLG to replace the old system. Under the new computerised system, all states were provided with computers which linked directly to the Ministry of Housing and Local Government ORS computerised database. The registration of applicants' data could be updated immediately by the State governments. The data from the ORS database would allow for inter-state cross-checking of low cost housing applicants' information, eliminate multiple applications, and was useful for statistical purposes for low cost housing planning and research by the ministry or State governments (MHLG, 2004b, p.2). Federal governments were also able to keep track on the registration and allocation practices by the State governments.

The ministry also expected that interference by politicians and the misuse of power by State government officers during the selection process could be minimised by using the centralised computerised allocation system. Thus, greater fairness and transparency in the allocation process could be promoted. A centralised computerised system also meant applicants from different states could apply for low cost housing in another state, especially government employees and people with a low income who were thinking of migrating into another state in Malaysia. Before 2006, the applicants could only submit an application for a house located within the state in which they live (see Figure 6.7). The changes gave more flexibility to low income people to apply for low cost housing anywhere in Malaysia and request low cost houses for sale in any state through the new improved Computerised ORS. The data from the system could not only be used to identify local demand, but at the same time assess inter-state low cost house demand. This is also important to

prevent people from less developed states or rural areas ended up living in a squatter if their housing needs could not be fulfilled by the government after they migrated to the urban areas.

Before 2006 (2001-2006): Single state application and allocation



After 2006: Interstate application and allocation

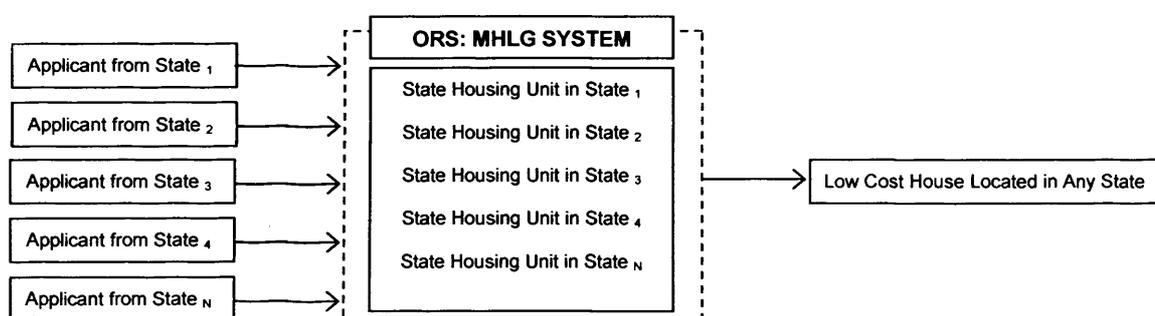


Figure 6.7: Low Cost Housing Registration and Allocation Mechanism under Computerised ORS Before and After 2006

Source: Author

During the Ninth Malaysia Plan (2006-2010), there was further improvement of the registration and allocation system for low cost houses to ensure proper distribution and prevent genuine target groups from being denied the opportunity to buy low cost houses (Malaysia, 2006). The Federal government aimed to update the information in the ORS database regularly and the criteria for the selection of eligible buyers was revised and standardised for all states. The existing centralised database system at MHLG was upgraded and integrated with the database administrated by State governments to facilitate the selection and distribution of low cost houses in a more systematic and transparent manner (Malaysia, 2006, p.447). The new improved system also allowed applicants to check their application status online via the Internet at the Ministry of Housing and Local Government’s website. The changes clearly made it easier for low cost housing applicants to check their status and at the same time promoted greater transparency in the system.

The status of applicants in the ORS database were organised into eight categories according to three stages, namely: application, waiting list and decision by the

applicant (see Figure 6.8). Upon receiving the form under stage 2, the State government began to process the application and the applicant was placed under: Status 1: *Processing the application*. Those applicants who qualified to buy a low cost house were then put under Status 2: *Shortlisted* or in waiting list. Meanwhile, disqualified applicants were placed under Status 3: *Application Rejected*. Under the ORS Guideline in 2006, the applicants had the right to appeal directly to the MHLG. In stage 3, the qualified applicants were offered State government the chance to buy a low cost house by the State government, according to the location requested in the application form. Those applicants already offered a house would be either be put under Status 4: *House Offered* or Status 5: *House Not Offered* (house to be offered when available).

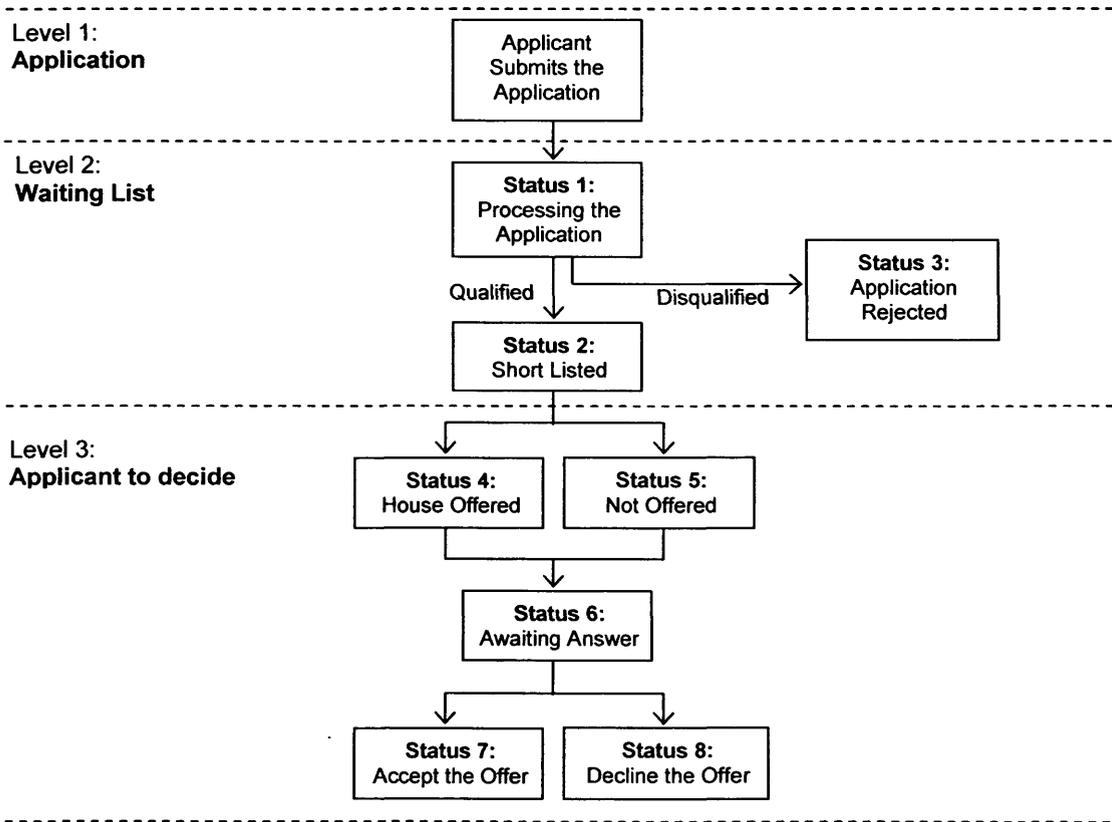


Figure 6.8: Status of Applicant Under Computerised ORS

Source: Modified from MHLG, 2004

The State government, however, still awaited the decision by the applicants to buy a low cost house so they were placed under Status 6: *Awaiting Answer*. When the applicants accepted the offer from the State government, they were put under Status 7: *Accept the Offer*. However, if they declined it then they were placed under Status 8: *Decline the Offer*. Under the ORS, applicants were given the power to decide

whether they wanted to accept or reject the house offered by the State government with an appropriate reason. This is particularly important, because the low cost house allocated by the State government was for sale. Therefore, various factors must be taken into consideration by the house buyers including location and type of house before a decision could be made. In general, the status of applications was useful for Federal and State governments to determine the number of applicants in the waiting list for low cost housing provision planning.

6.4.3 Background of Low Cost House Applicants Under ORS 1997-2005

Since the information from the ORS database is considered to be highly sensitive and confidential under Malaysian Law, only limited data could be obtained for analysis purposes. Between the establishment of the ORS in 1997 and 2005, a total of 492,150 people had registered with the ORS (MHLG, 2005) or an average of 54,683 people per year. In terms of ethnic composition, the majority of the people who registered under the ORS are Bumiputera, with 59.5 percent, Chinese 26.7 percent and Indian 13.6 percent (see Figure 6.9). Overall, the percentage of ORS applicants was still balanced according to ethnic composition. Thus, this shows that no particular races were denied access to low cost housing in Malaysia.

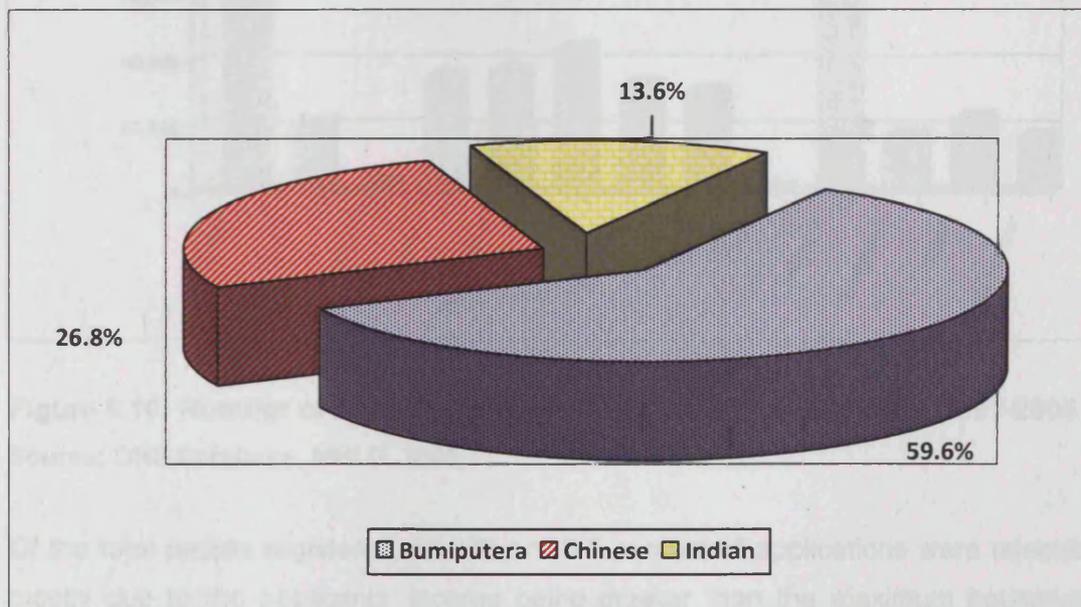


Figure 6.9: Number of Applicants According to Ethnicity Under the ORS, 1997-2005

Source: ORS Database, MHLG, 2005

Meanwhile, in terms of spatial distribution, the State of Selangor had the highest number of people registered, with 148,139 (30.1 percent) followed by Johor and Pahang (see Figure 6.10). The developed states such as Selangor and Johor received more applications to buy low cost houses due to their larger population and higher degree of net migration. However, the states with a larger population did not necessarily have more people registered under the ORS, for example, Kelantan, Perak and Kuala Lumpur. Surprisingly, poorer states like Kelantan and Perlis had the lowest number of people registered to buy low cost houses under the ORS. This shows there was no relationship between the number of people registered to buy low houses in a state and the total population, net migration, economic status or number of squatter.

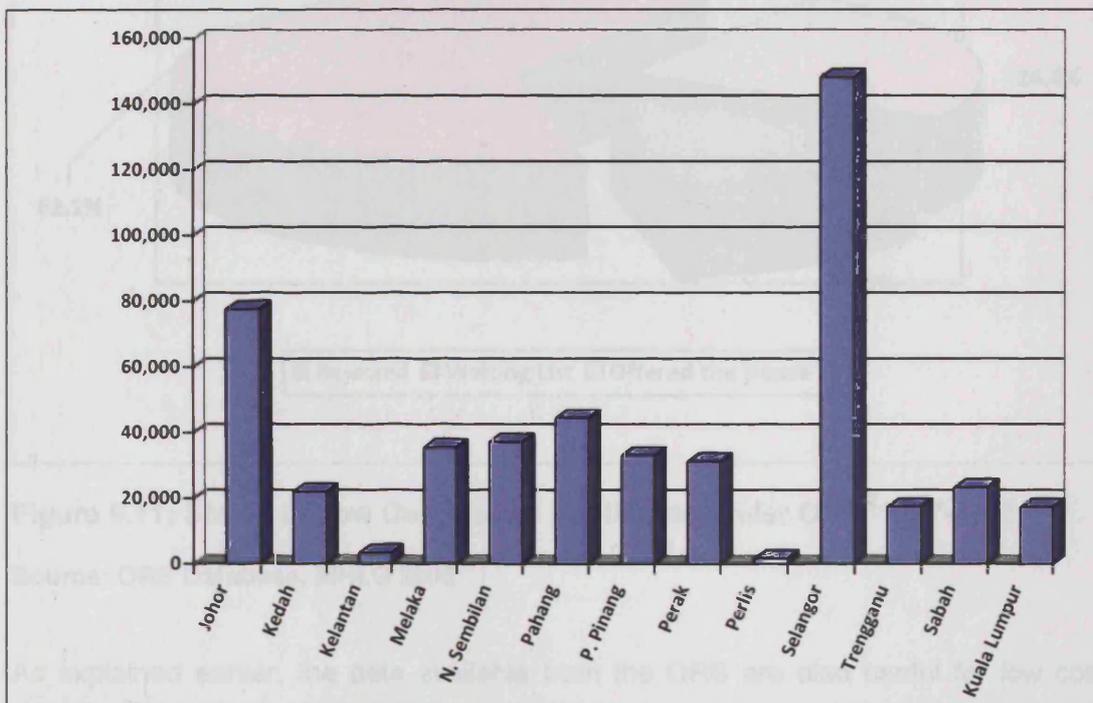


Figure 6.10: Number of Applicants Under ORS According to States, 1997-2005
 Source: ORS Database, MHLG, 2005

Of the total people registered, 66,278 or 13.5 percent of applications were rejected, mostly due to the applicants' income being greater than the maximum household income set by the government. Meanwhile, only 119,964 applicants or 24.4 percent were offered the chance to purchase a low cost house during the same period. The majority of applicants were actually still stuck in the 'waiting list', with 305,908

applicants or 62.1 percent of the overall number of people registered under the ORS (see Figure 6.11). This significant number still on the waiting list should not have happened based on the total number of low cost houses completed since 1997, as explained earlier in Chapter 5. This shows that the ORS still cannot expedite and improve access to low cost housing. Another explanation for the large number of people still on the waiting list was the State governments' policy to relocate squatter in low cost houses without registration under the ORS as part of the 'Zero Squatter' by 2005 target. This meant many people registered under the ORS had to wait longer before being offered the chance to purchase a low cost house.

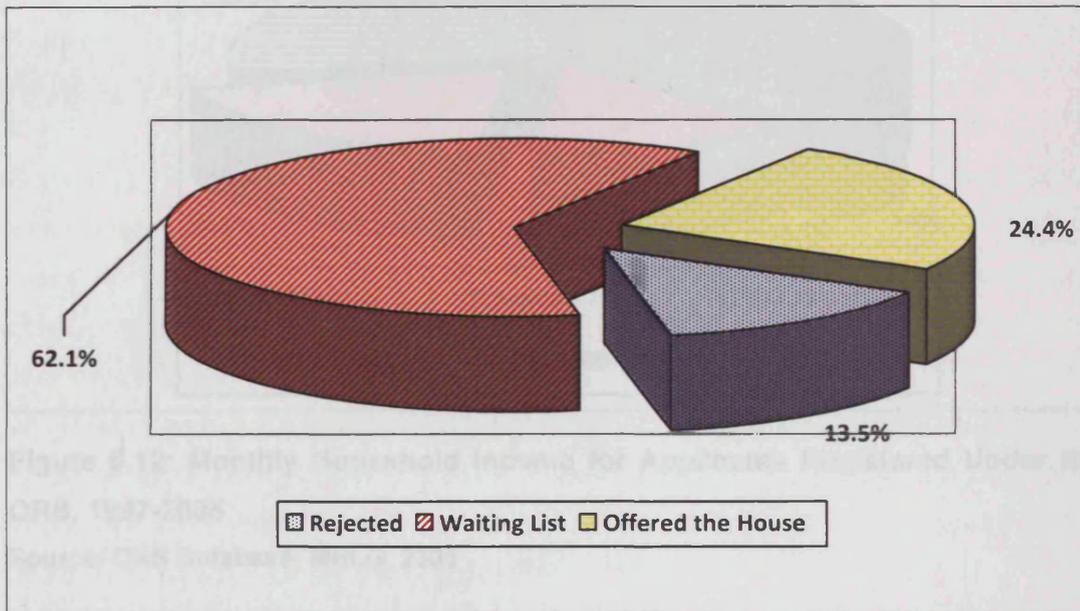


Figure 6.11: Status of Low Cost House Applicants Under ORS, 1997-2005

Source: ORS Database, MHLG 2005

As explained earlier, the data available from the ORS are also useful for low cost housing policy formulation either at Federal or state level. A study by the National Housing Department (MHLG, 2006) revealed that 36.3 percent of people registered under the ORS have a monthly income of more than RM1,500 per month (see Figure 6.12). Therefore, in 2006, the MHLG decided to review the policy to allow applications only from people with a monthly household income of less than RM1,500 per month. After extensive discussion with the State governments (NHD, 2004), the MHLG finally agreed to allow people with an income greater than RM1,500 to register with ORS and eventually purchase a low cost house subject to the consideration of other criteria such as number of dependents, age, marital status and disability.

However, people with a household income between RM751 and RM1,500 were still the largest group who applied for low cost housing, accounting for 45.4 percent of total applicants. This shows that the majority of people applying for a low cost house had a sustainable income and were capable of paying monthly instalments for the house purchase compare to only 5 percent of people with an income of less than RM500 per month. It also indicated that low cost houses in Malaysia were not targeted at the hard core poor or people without a sustainable income.

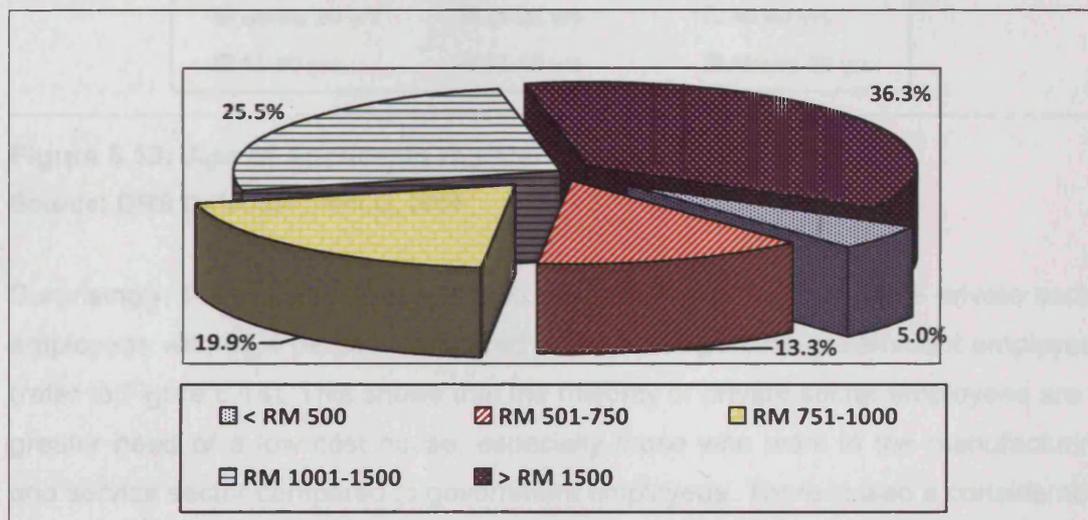


Figure 6.12: Monthly Household Income for Applicants Registered Under the ORS, 1997-2005

Source: ORS Database, MHLG, 2005

Meanwhile, in terms of applicants' age, the largest group registered under the ORS are people aged between 30-40 years with 44.5 percent, followed by people in the 21-29 age group at 31.6 percent and then the 41-50 age group at 18.6 percent (see Figure 6.13). People with an active working age between 21 to 40 years are the largest group seeking to buy low cost housing in Malaysia. This indicates that most people of working age are eager to buy a low cost house, especially married couples with children at 74.5 percent, compared to only 12.8 percent for single people and 12.1 percent for widower/single mothers.

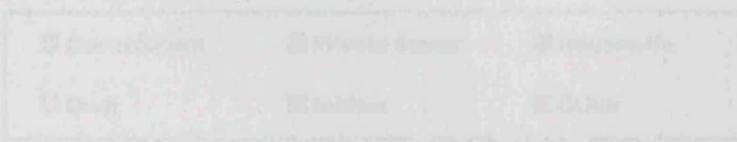


Figure 6.14: Occupation of Applicants Registered Under the ORS, 1997-2005
Source: ORS Database, MHLG, 2005

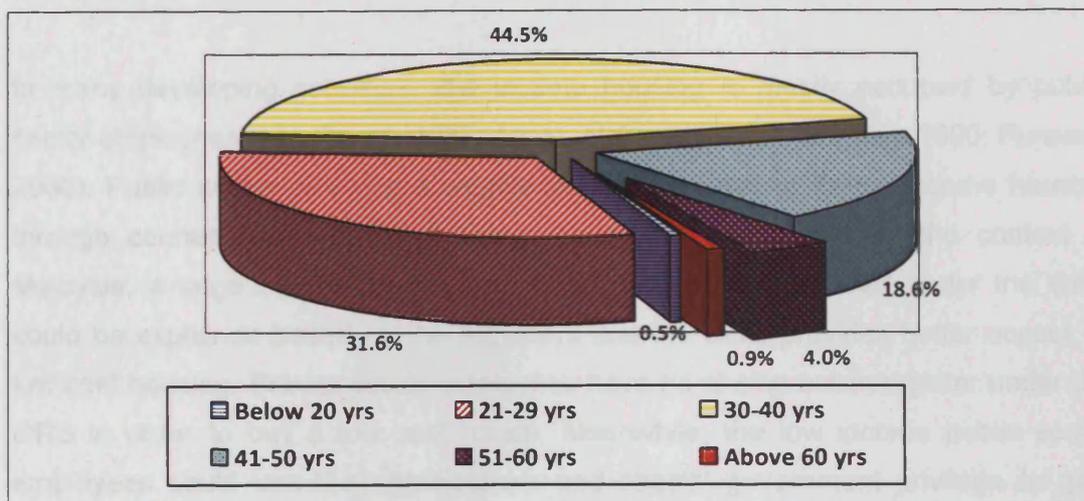


Figure 6.13: Age of Applicants registered under ORS, 1997-2005

Source: ORS Database, MHLG, 2005

Surprisingly, the majority of people who registered with the ORS were private sector employees with 62.4 percent compared to only 17.4 percent government employees (refer to Figure 6.14). This shows that the majority of private sector employees are in greater need of a low cost house, especially those who work in the manufacturing and service sector compared to government employees. There is also a considerable small number of applicants who work in the informal sector (12.8 percent) such as street hawkers and general labourers. Therefore, the majority of people registered under the ORS work in the formal sector, the public and private sector which represents 79.8 percent of total applicants.

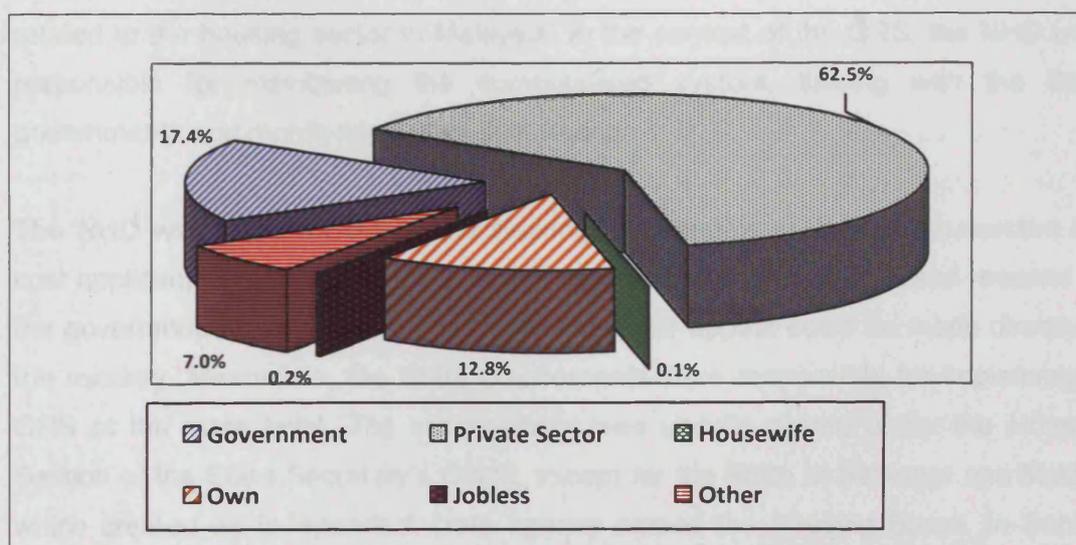


Figure 6.14: Occupation of Applicants Registered With the ORS, 1997-2005

Source: ORS Database, MHLG, 2005

In many developing countries, low income housing is mostly occupied by public sector employees (see Payne, 1977; Amos, 1984; Siddiqui and Khan, 1990; Purewal, 2000). Public sector employees usually have better access to low income housing through connections with the housing developers. Meanwhile, in the context of Malaysia, a large number of private sector employees registered under the ORS could be explained based on the argument that the ORS provides better access to low cost housing. Private sector employees have no choice but to register under the ORS in order to buy a low cost house. Meanwhile, the low income public sector employees could use their connections and special government privilege to gain access to low cost housing. A further analysis of this issue will be conducted in the next chapter.

6.5 ROLE OF FEDERAL AND STATE GOVERNMENTS IN LOW COST HOUSING ALLOCATION UNDER ORS

The implementation of ORS required close cooperation between the Federal and State governments in Malaysia. In terms of institutional set-up, the Federal government, through the Ministry of Housing and Local Government (MHLG), was responsible for coordinating the implementation of ORS nationwide. The task was undertaken by the National Housing Department (NHD) which was responsible for the formulation of policies, legislation, regulations and the conducting of research related to the housing sector in Malaysia. In the context of the ORS, the NHD were responsible for maintaining the computerised system, liaising with the State governments and monitoring the implementation.

The NHD was also responsible for hearing the appeals submitted by rejected low cost applicants. If the applicants believed they had enough evidence and reasons for the government to consider his/her application, the appeal could be made directly to the ministry. Meanwhile, the State governments were responsible for implementing ORS at the state level. The responsibility was usually placed under the Housing Section of the State Secretary's Office, except for the State of Selangor and Melaka which created an independent state agency named the Housing Board. In Sabah, ORS implementation was under the responsibility of the Ministry of Housing (refer to **Appendix 10**). Sarawak was the only state in Malaysia not using the ORS for low cost housing allocation.

Implementation of the ORS had changed the role played by the Federal and State governments in low cost housing allocation. This is unlike the practice in many Western welfare state countries, which relied on local authorities to manage public housing allocation. However, in the case of Malaysia, the Federal government was involved directly in low cost housing allocation, together with the State governments who were responsible for day to day operations. The local authorities had no role to play in low cost housing allocation process under the ORS in Malaysia. The role of Federal government through the MHLG under ORS includes, firstly, coordinating and monitoring ORS implementation in all the states in Malaysia (see Figure 6.15). Through ORS, coordination in terms of selection criteria and allocation procedures could be standardised throughout the country. The implementation of a single application form and applications between states could also be achieved. Secondly, a centralised database for low cost housing applicants could be created at the national level, not only for low cost housing allocation purposes, but also for planning by the Federal and State governments.

Thirdly, Federal government, through the Ministry of Housing and Local Government, was also responsible for hearing the appeals submitted by rejected low cost applicants. If the applicants believed they had enough evidence and reasons for the MHLG to reconsider the application, the appeal could be made directly to the ministry. Fourthly, they were responsible for improving the ORS according to the current and future needs of low cost housing allocation. The ministry also reviewed the computerised system from time to time to ensure better coordination with the State governments. Finally, they formulated policy related to low cost housing allocation at the Federal level. Thus, the policy on low cost housing allocation could be standardised throughout the country. Discussion with all the State governments was organised by the ministry before any final decisions for implementation could be made.

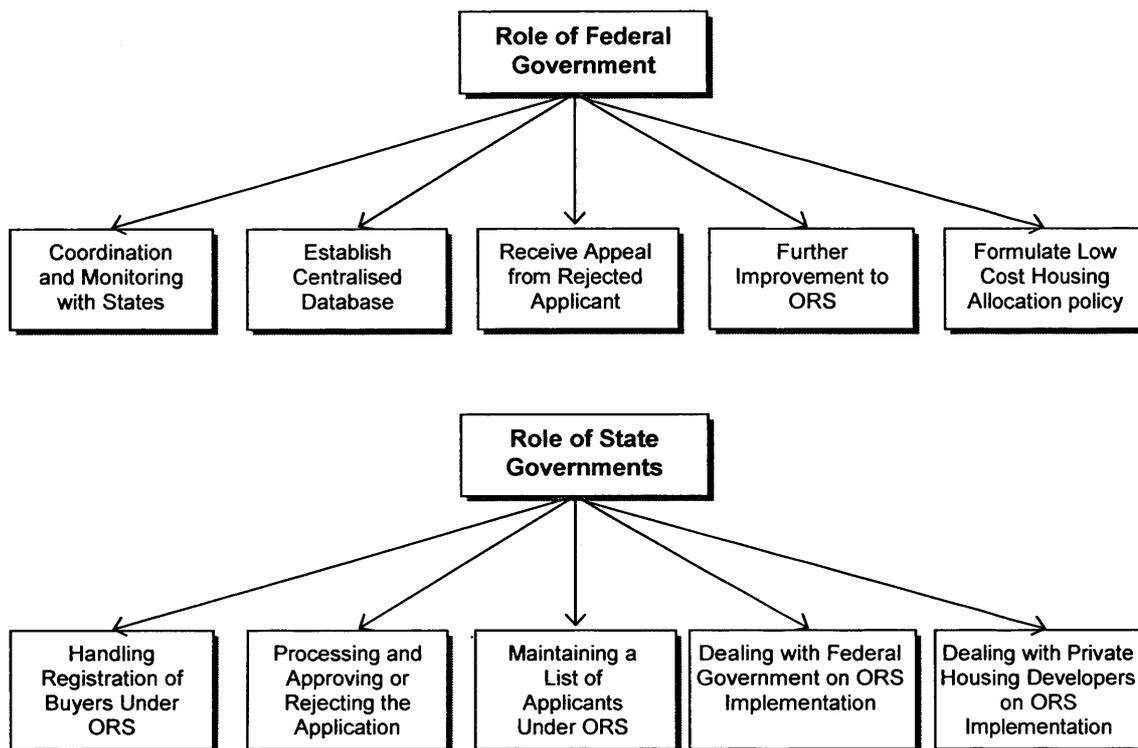


Figure 6.15: Role of Federal and State government in ORS Implementation

Source: Author

However, the implementation of centralisation and standardisation of the low cost housing allocation system in Malaysia was difficult without cooperation from the State governments. Under the Federal system, the State governments had the right to adopt or refuse any policy introduced by the Federal government. Centralisation of low cost house buyer registration also meant the State governments had less control and responsibility over housing provision in the states. Thus, the Federal government were not only directly involved in public low cost housing provision through PHP, but also indirectly controlled housing allocation in the state through ORS. Politically it was important for the Federal government to have access to the low cost housing allocation systems in the states, particularly those controlled by the opposition parties. Nevertheless, whether the political motive led to the implementation of the ORS is beyond the scope of this thesis to investigate.

The role of State governments encompassed more than just day to day management of the operation of low cost housing registration and allocation; they also promoted home ownership by people with a low income. Thus, the State governments were expected to encourage as many as possible of this group to register under ORS and to allocate houses in a transparent manner, as envisaged by the Federal

government. Although the State governments were still responsible for day to day low cost housing allocation, the decisions and processes were still subject to policy formulated by the Federal government from time to time. Generally, the State governments played five roles; the first was making sure that people with a low income registered with the state before they could buy low cost houses. Secondly, they processed applications and subsequently approved or rejected the applications according to criteria set by the Federal and respective State government. Thirdly, they maintained a list of applicants under the ORS register. The people on the waiting list were offered the chance to purchase the low cost house from private housing developers when it became available. Their fourth role was to deal with the Federal government on ORS implementation which included applying the allocation policy to the computerised system. Finally, they dealt with private housing developers on ORS implementation in the state. This includes identifying the low cost housing projects and the number of low cost house units in particular projects.

Several issues undermined the relationship between the Federal and State governments. Firstly, from a State government perspective, the purpose of the ORS was more than coordination and monitoring of low cost housing allocation; they felt it was also used to impose Federal control over state housing affairs. Therefore, in 2006, the Federal government placed increasing pressure on all State governments to use the system developed by the MHLG and abandon their existing independent computerised allocation system. Meanwhile, according to the Federal government officers interviewed, there was still a need for a monitoring mechanism to ensure State governments adopted the low cost housing allocation policy formulated by the MHLG (interview with Federal Officers 1 and 2). This is important, especially when the State governments are controlled by opposing political parties and are therefore in the position to adopt or reject the Federal policy of low cost housing allocation. After the 12th General Election in 2008, five states, namely Selangor, Perak, Pulau Pinang, Kedah and Kelantan, were controlled by opposition parties.

The second issue was poor coordination between Federal and State governments in terms of ORS policy formulation and implementation. Despite all State governments agreeing to adopt the computerised allocation system developed by the ministry in 2006 (MHLG 2006), implementation remained uneven among State governments. There was growing refusal by State governments to allow intervention by the Federal government in low cost housing allocation at the state level. According to Federal Officer 3, when interviewed, the governments of six states, namely Selangor, Johor,

Pulau Pinang, Pahang, Sabah and Sarawak, still have not fully adopted the improved Computerised ORS. These states have tried to delay the implementation of ORS for various reasons, as described by Federal Officer 3:

“When it came to implementation stage, we received a lot of complaints from the state... that is why we get the state involved from the beginning. When we want to implement they found a lot of problems. In reality those use the system is the low rank officers at the state. They see what can be implemented and what is not. Those attended the meetings (at the ministry) mainly the top state officials, according to them everything is fine. That the problem. There is no understanding between the top State government officials and the lower rank officers...” (Federal Officer 3).

The statement shows that Federal and State governments have different views on the ORS and its purpose. Furthermore, the misunderstanding continues to exist between the Federal and State governments with regard to ORS implementation, particularly the low rank housing officers. The lower rank officers are usually the people dealing directly with applicants at the state level. Therefore, they believe the State government should impose strict controls during the application stage in order to eliminate cheating applicants. Without the necessary power and political will, it is therefore difficult for the Federal government to monitor the allocation activities in the state (Interview with Federal Officer 3). As the officer-in-charge of monitoring and coordination of ORS implementation at the state, Federal Officer C's statement clearly indicates the frustration among the Federal officers when dealing with State governments. The implementation of the ORS without legal back-up also confirmed it is not meant to be mandatory for the State governments to adopt it, but is rather intended for housing administrative purposes, as described by Federal Officer 2:

“...When we design the system, what we found is some states already have their own system. We tried to match with their system. But the state has the right not to use the system because it will involve cost, time, thinking, redesign and so on. For the state without any system like Trengganu so we pump the money, give them PC, give them computer system. We don't care whether they are using manual or on-line system but the most important thing to us (ministry) is all the states are covered” (Federal Officer 2).

Although the MHLG had already agreed to further improve the system in order to satisfy the remaining six states, there was no assurance that they would adopt the system. Federal Officer 3's interview indicated most State governments were still not in favour of the proposal for inter-state applications for low cost housing, fearing the state would lose the power to control the allocation process which would be politically

unpopular. Prior to 2006, applications for low cost housing were limited to the state in which the applicants dwelt, but the ministry later proposed inter-state applications, which thus gave the opportunity for applicants to apply for low cost housing in any state in Malaysia.

Finally, there was a misunderstanding regarding the purpose of ORS implementation between Federal and State governments. The Federal government's intention was to make it easier for people with a low income to register under ORS, but the State governments thought otherwise. The State governments imposed stringent application procedures and eligibility criteria to ensure that applicants were not only eligible to purchase a low cost house, but were also later able to acquire a loan from financial institutions. However, the changes affected a number of people with a low income registered under the system in the states. As a consequence, the data in the ORS did not actually reflect the actual demand for low cost housing in the states and therefore could not be used for planning purpose, as explained by State Officer 1:

"... we (the state) cannot use the data because many people don't know they have to register to purchase low cost house... people register to buy house, not register for census purpose. So we cannot use the data to determine housing demand..." (State Officer 1).

In the wider context of debates on the role of state and market, this certainly proved that the state showed no sign of retreating from low cost housing allocation. The continuous power struggle between the Federal and State governments to control low cost housing allocation also meant the government still dominated the low cost housing market. Meanwhile, centralisation of power to the Federal government under ORS shows a deepening of the state's power in housing allocation and was hence consistent with the developmental state approach.

6.6 ORS IMPLEMENTATION AND THE CHANGES TO THE LOW COST HOUSING PROVISION PROCESS IN MALAYSIA

The analysis in this section specifically discusses the role of ORS in the low cost housing provision process, particularly at the consumption stage. The discussion begins with an analysis of the housing provision process in Malaysia in the context of East Asian and European countries. Subsequently, attention will be focused on low cost housing provision with an emphasis on the consumption stage. In many East

Asian countries, the housing provision process usually involves three main stages, namely Development-Construction-Consumption (Doling, 1999, p.231). Meanwhile, finance and land play an integral part in the overall process.

However, in Malaysia the sequence is rather different and can be summarised as Development-Consumption-Construction. This difference in sequence of the housing provision process is caused by the 'sell and build system' adopted by both the public and private sectors in housing provision. The housing provision process still starts at the development stage, but is followed by consumption instead of construction like other East Asian countries. A comparison of Malaysian housing with other regimes reveals differences which are particularly related to the stages of the housing provision process and the role between the state and market (see Table 6.5). Malaysia clearly does not follow a similar pattern to other East Asian countries, but is more like a European regime in terms of the role of state and market. However, despite the similarities with the European regime, the situation is rather different in terms of the purpose of state intervention, especially at the consumption stage. In Malaysia, the state intervenes in the housing consumption stage only to ensure home ownership among the people with a low income. But in the case of the European regime, state intervention is to ensure universal housing provision under the welfare state system. Thus, these differences highlight the peculiarity of the Malaysian housing regime compared to other countries.

Doling (2003) categorises Malaysia as being similar to Indonesia and Thailand which have small scale housing programmes aimed at particular groups such as civil servants and people with a low income. Self-help, community development and partnership have become key components for slum and squatter upgrading programmes in these countries. However, the housing provision regime in Malaysia is clearly different from that described by Doling (2003). Instead, Malaysia has increasingly relies on large scale market provision, especially for low cost housing, since the 1990s.

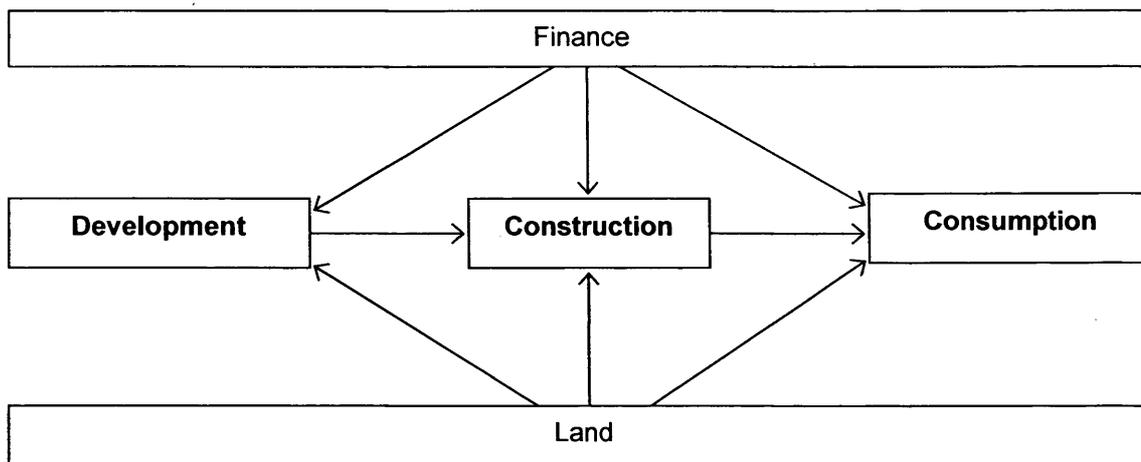
Table 6.5: Comparison of Housing Processes in Malaysia and Other Regimes

Stage	Market	State
a) Liberal Regime		
Development	X	
Construction	X	
Consumption	X	
b) European Regime		
Development		X
Construction	X	
Consumption		X
c) East Asia 'Little Tigers'		
Development		X
Construction	X	
Consumption	X	
d) Malaysia		
Development		X
Construction	X	
Consumption		X

Source: Adopted from Doling, 1999 (except for Malaysia)

Meanwhile, in the context of low cost housing provision in Malaysia, implementation of ORS significantly changed the process, particularly at the development and consumption stage (see Figure 6.16). At the development stage, data obtained from the ORS database has been used to determine housing demand according to location by the government. Together with other demographic and housing census data, the MHLG can produce a more accurate plan for low cost housing provision. The number of registered buyers under ORS will be used to determine the number of low cost housing units to be built according to location by the public and private sector. The information is also important for the public and private sector to obtain necessary financing and land for low cost housing provision. Without reliable data on low cost housing demand, it is difficult, particularly for the private sector, to provide low cost housing. Like other East Asian countries, the state still plays a significant role at the development stage of low cost housing provision in Malaysia through ORS.

East Asia



Malaysia

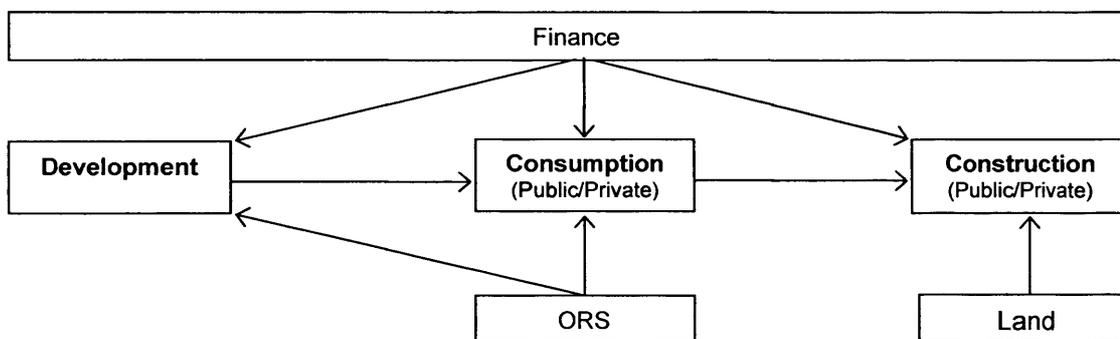


Figure 6.16: Comparison Between the Typical Process of Low Cost Housing Provision in East Asia Countries and Malaysia

Source: Doling (1999, p.231)

Meanwhile, at the consumption stage, in other East Asian countries the market is responsible for housing allocation without state intervention. Even in Singapore, with its high level of state intervention in the housing provision, the trend is clearly moving towards the market in the low income housing consumption process (Lee et al., 2003, p.41). However, in Malaysia, the state still plays a significant role in the low cost housing consumption process through ORS. State control is restricted to low cost housing, but overall it still accounts for at least 30 percent of overall housing provision in Malaysia. Uniquely, the state only intervened at the consumption stage of low cost housing provision through the implementation of the ORS. Meanwhile, other factors of production such as finance and land are still left to the market to decide, including interest rates and land prices.

6.7 CONCLUSION

The analysis in this chapter revealed the importance of state intervention in low cost housing allocation in Malaysia. The social political situation and imbalanced economy among the races in Malaysia required continuous state intervention in low cost housing allocation. At the same time, it was important for the government to enable people with a low income to have better access to the low cost housing market, regardless whether units were built by the public or private sectors. The government also needed to determine the actual demand for low cost housing in order to formulate future low cost housing policy in Malaysia. Since the government had limited money available for the low cost housing programme, it was important to ensure that people with a low income had access to buy the low cost housing. Thus, the establishment of the ORS was a reaction by the MHLG to various problems faced by the low housing allocation system in Malaysia during the 1980s and early 1990s.

Although ORS was introduced for low cost housing allocation for both rental and sale, the State governments never used the system for rental house allocation. Moreover, the size of the rental house stock managed by State governments is relatively small compared to houses built for sale. The ORS is not only used for low cost housing allocation built by the public sector, but also for that constructed by the private sector. Due to large scale private sector low cost housing provision in Malaysia, the ORS became an important tool for Federal and State governments to intervene in the market. Analysis shows the introduction of the ORS has not significantly changed housing tenure, either in public or private sector low cost housing in Malaysia. Nevertheless, the ORS became the single most important tool to improve the access of people with a low income to housing, since it introduced greater transparency and minimised corruption in low cost housing allocation.

Thus, the ORS is more than just a low cost housing allocation mechanism; it also helps the government to eliminate corruption in the system. Corruption among the State governments' officers and intervention by local politicians in the low cost housing allocation process has been reduced by the implementation of a centralised buyer's registration system. At the same time, the data obtained from the system has been used for low cost housing planning by the public and private sectors. The implementation of PHP NEAC in 1998 prompted a greater need for a centralised low cost housing allocation system since the programme was fully funded by the Federal government.

Since 1997, the ORS has been improved by the MHLG in line with changes in circumstances at the state level in order to meet the needs of low cost house buyers. The improvements are largely related to low cost house buyers' selection criteria and the introduction of a computerised system. However, some State governments still refused to adopt the system, despite all the changes made by the MHLG. Sarawak is the only state in Malaysia which refuses to use ORS in low cost housing allocation. The establishment of ORS also undermined the relationship between the Federal and State governments. Implementation of ORS meant the State governments no longer had full authority over low cost housing allocation. Instead, all the housing allocation activity at the state level was monitored and controlled by the Federal government. The changes and improvements made to the ORS since 1998 reflect the fact that the low cost housing allocation system in Malaysia is not static. The allocation policy and criteria will be reviewed from time to time in accordance with social, economic and political changes.

The analysis also revealed the differences between the housing provision regime in Malaysia and other East Asian countries. The differences are mainly caused by the sell and build concept adopted by the housing provision system in Malaysia. This means that the house must be sold to buyers before construction can begin. The sell and build concept is used by both public and private sectors. However, the introduction of ORS proved to be important to the process of low cost housing provision in Malaysia. In conclusion, Malaysian housing in general and low cost housing provision in particular is highly controlled by the state, similar to Singapore and Hong Kong (Doling, 1999 & 2003). Low cost housing allocation practices in Malaysia under ORS prove the state had still retained control over the low cost housing provision process over the last 10 years, despite the global trend towards market economy and neo-liberalism.

In the next chapter, the discussion will focus on the implementation of ORS in the State of Selangor. The purpose is to analyse the outcome of ORS implementation at the state level and gather feedback from various players involved in low cost housing allocation.

CHAPTER 7:
**CASE STUDY: THE ORS IMPLEMENTATION
IN THE STATE OF SELANGOR**

CHAPTER 7:

CASE STUDY: ORS IMPLEMENTATION IN THE STATE OF SELANGOR

7.1 INTRODUCTION

The purpose of this chapter is to analyse low cost housing allocation in the State of Selangor. Most importantly, it objectives to analyse the role of the state and market in low cost housing allocation. A private low cost housing project located in Selangor known as Sri Meranti Low Cost Housing Apartments in Sri Damansara, Selangor, was selected for the detailed study. Various state and non-state players involved in the production and allocation of low cost housing in Selangor were interviewed to gather feedback on the role of the state and market in the process.

This chapter is divided into nine sections; the first outlines the structure of low cost housing provision in Selangor. The second section seeks to identify the low cost housing allocation policy in the state and the third section discusses the low cost housing registration and allocation process under ORS in Selangor. Meanwhile, section four will focus on the background of the selected project in order to provide a detailed study. Section five discusses the consequences of state intervention in the low cost housing registration and allocation process. This is followed by an examination of low cost house buyer preference between state and market in low cost housing allocation in section six. Section seven will discuss market view on low cost housig allocation. Section eight then discusses the relationship between the state and market in low cost housing allocation. Finally, section nine represents a summary of access to low cost housing by people with a low income in the State of Selangor.

7.2 LOW COST HOUSING PROVISION IN THE STATE OF SELANGOR

The objectives of State of Selangor's housing policy are to provide adequate, quality, and affordable housing to be owned or rented, to expedite the development of 'People Housing' and finally to ensure access for people with a low income to enable them to own or rent a house (Selangor, 2005, p. 5). Therefore, the State government has, since 1998, placed an emphasis on the provision of low cost housing in order to eliminate the squatters in line with the Federal government's 'Zero Squatters by 2005' target (Selangor, 2003). In 1998, the total number of families living in squatter settlements across the state was 46,941, the highest in Malaysia. However, by the end of 2006, 44,165 squatter families, or 94.1 percent, had been relocated to public and private sector low cost housing (Selangor, 2006, p. 76).

The significant reduction in squatters from 1998 to 2006 in Selangor could not have been achieved without a private developer contribution. During the Seventh Malaysia Plan (1996-2000), a total of 28,000 units of low cost housing were planned for construction in the state of Selangor by both the public and private sector. At the end of the plan, the public and private sector had managed to complete the construction of 85,642 units rather than the targeted number of low cost housing units in Selangor (MHLG, 2005). Similarly, during the Eighth Malaysia Plan (2001-2005), a total of 85,929 low cost housing units were completed by the public and private sector, a considerably greater number than the 30,000 units planned by the State government. During both plans, more than 85 percent of the low cost housing units were provided by the private sector for homeownership. The market clearly played an important role compared to the public sector in low cost housing provision in Selangor. This therefore explains why the issue of low cost housing provision in Malaysia, and the State of Selangor in particular, is no longer related to housing production, but focuses on the housing consumption process.

The number of low cost houses built by the private and public sectors was more than enough to relocate all the squatters and meet the housing needs of people with a low income in general and squatters in particular (see Figure 7.1).

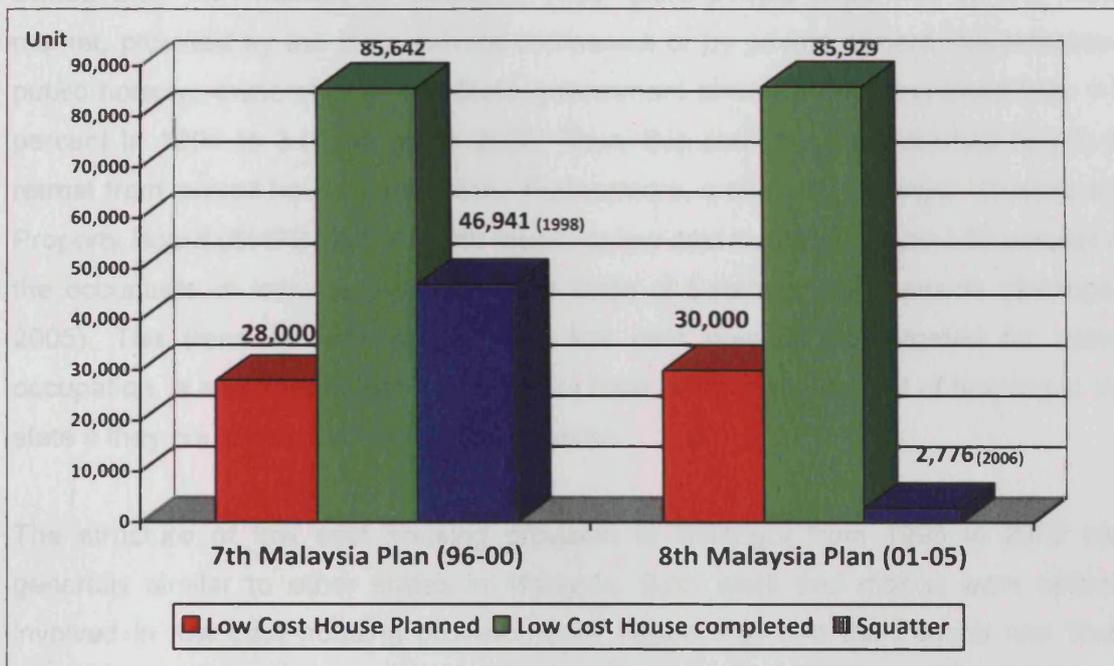


Figure 7.1: Total Low Cost Housing Units Planned, Completed and Squatter Households During the Seventh and Eighth Malaysia Plans in Selangor
Source: Seventh Malaysia Plan and Eighth Malaysia Plan, Selangor

Surprisingly, as of January 2006, not all squatters had been relocated into low cost housing, despite the huge supply available in the market. There are two possible reasons for this: firstly, they could not afford to buy low cost houses and, secondly, there was a mismatch between supply and demand. A mismatch between supply and demand was identified as the main reason for unsold low cost houses and the failure to relocate the remaining squatters, based on the study conducted by the State government (Selangor, 2003; Yunus, 2008). Despite state intervention through the implementation of ORS since 1997, the problem of mismatching and unsold low cost houses in Selangor still could not be solved. This therefore raises the question about the effectiveness of state intervention in the low cost housing registration and allocation system in Selangor.

In terms of housing tenure, Selangor experienced the highest decrease in private home ownership in Malaysia from 89.2 percent in 1991 to 68.3 percent in 2000 (Department of Statistics Malaysia, 2001). This therefore indicated that more people rented houses in the state over those 10 years. Meanwhile, the National Housing Policy Study conducted by the MHLG in 2005 showed only 54 percent of the people

owned their own houses in Selangor. Thus, more people depended on the rental market, provided by the state, private companies or by private owners. Nevertheless, public housing ownership by the State government shows a declining trend from 4.8 percent in 1991 to 3.0 percent in 2000. Thus, this confirms the state had begun to retreat from overall housing provision. Furthermore, a study by Selangor Housing and Property Board (SHPB) in 2005 with regard to low cost housing revealed 50 percent of the occupants of low cost houses in the State of Selangor were tenants (Selangor, 2005). The trend is worrying because low cost houses are targeted for owner occupation. It also meant that some buyers have more than one unit of housing in the state if they could rent out their low cost house.

The structure of low cost housing provision in Selangor from 1998 to 2005 was generally similar to other states in Malaysia. Both state and market were actively involved in low cost housing provision (see Figure 7.2) and the Federal and State governments focused on public low cost housing for rental under PHP and council homes. Although the Federal government was actively involved in low cost housing provision under PHP to eliminate the squatters, the number of houses built in Selangor was relatively low compared to other states in Malaysia. From 1998 to 2002, only 4,884 units of low cost housing were built under PHP in Selangor or 9.3 percent of 52,496 units planned nationwide. In addition to Federal government programmes, the State government of Selangor was also involved directly in the provision of low cost housing with the construction of 8,264 units of 'Council Homes' for rent in selected local authorities (Selangor 2006).

Housing matters in Selangor had been under the responsibility of SHPB since 2001. SHPB are responsible for the implementation of housing programmes and the allocation of low cost houses built by both public and private sectors, alongside the Federal government. The SHPB also managed all the rental low cost houses built by the Federal government under PHP and state owned Council Homes. Another important agency is the Selangor State Development Corporation (SSDC). From 1998, the corporation was transformed into a state owned company and run as a private company. The corporation no longer rely on the State government for funds and was allowed to sell houses at the market price, except for low cost houses. Despite corporatisation, the SSDC still focus on low cost housing provision, especially squatter relocation programmes with cooperation from the State government (Selangor 2005).

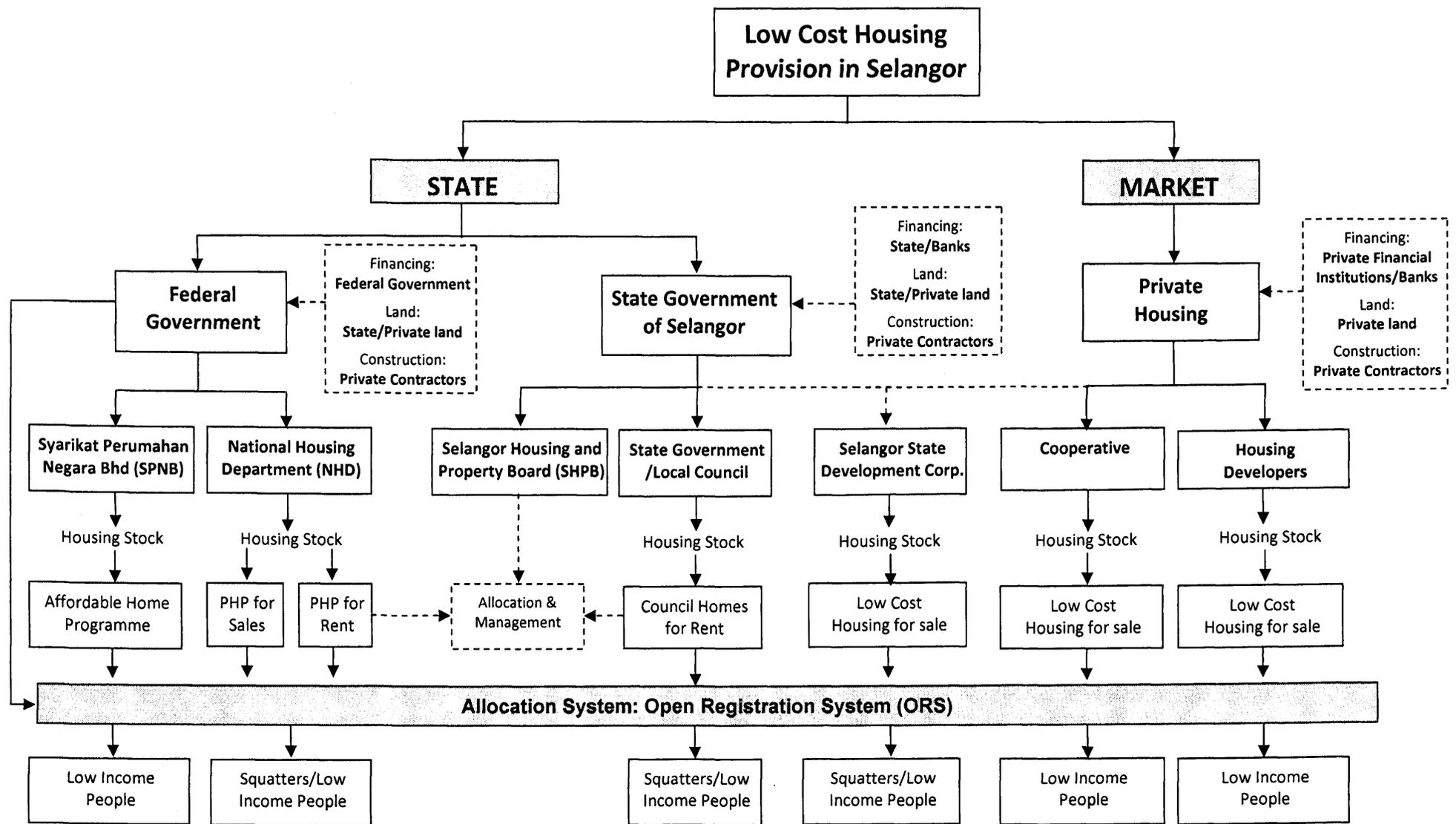


Figure 7.2: The Structure of Low Cost Housing Provision in Selangor, 1998-2005

Source: Author

Meanwhile, with regard to the market, low cost housing was largely provided by private housing developers. According to the Housing Development (Control and Licensing) Act 1966, a private housing developer “means any person, body of persons, company, firm or society (by whatever name described), who or which engages in or carries on or undertakes or causes to be undertaken a housing development.” Meanwhile, housing development “means to develop or construct or cause to be constructed in any manner whatsoever more than four units of housing accommodation and includes the collection of moneys or the carrying on of any building operations for the purpose of erecting housing accommodation in, on, over or under any land...”.

From 2001 to 2005, there were a total of 702 private housing developers registered in Selangor, of which 544 were small size developers, 87 medium size developers and 71 large size developers (see Table 7.1). The size of housing developers in Malaysia were categorised based on the paid-up capital of the company as small (Less than RM3 million), medium (RM3 million to RM10 million) and large (more than RM10 million) (REHDA 2007). However, 69 percent of the low cost house units in the state were built by large developers during the same period. This shows that the majority of low cost houses in Selangor were built by large companies. According to Yusof (2006, pp.120), the large developers usually had the financial capability and owned large residential projects in highly strategic locations. This therefore allowed them to ‘cross-subsidise’ low cost housing developments with huge profits made from high cost developments within the project. Since 1998, the State of Selangor had adopted the ORS framework for the low cost house buyers’ registration and allocation process for both public and private sector low cost houses for sale.

Table 7.1: Total Private Housing Developers, No. of Developers and Total Low Cost Houses Approved According to Size in Selangor, 2001-2005

	Total No. of Developers	No. of Developers Building Low Cost Houses	Total No. of Low Cost Houses Approved
Small Developers	544	83	9,803
Medium Developers	87	49	16,859
Large Developers	71	50	59,419
Total	702	182	86,081

Source: Ministry of Housing and Local Government (adopted from Yusof, 2006, p.120)

7.3 LOW COST HOUSING ALLOCATION POLICY IN SELANGOR

There is no specific document which describes and explains the low cost housing allocation policy in the State of Selangor. Therefore, the information used for the analysis in this section derives from various sources including interview with a State government housing officer and publications by State government agencies, particularly the SHPB. The information was then used to identify the levels of the low cost housing allocation policy in Selangor (see Figure 7.3). The State government intervened and imposed an allocation policy on two levels, ethnic quota and squatter status. The policy applied to both public and private sector low cost housing development since 1998.

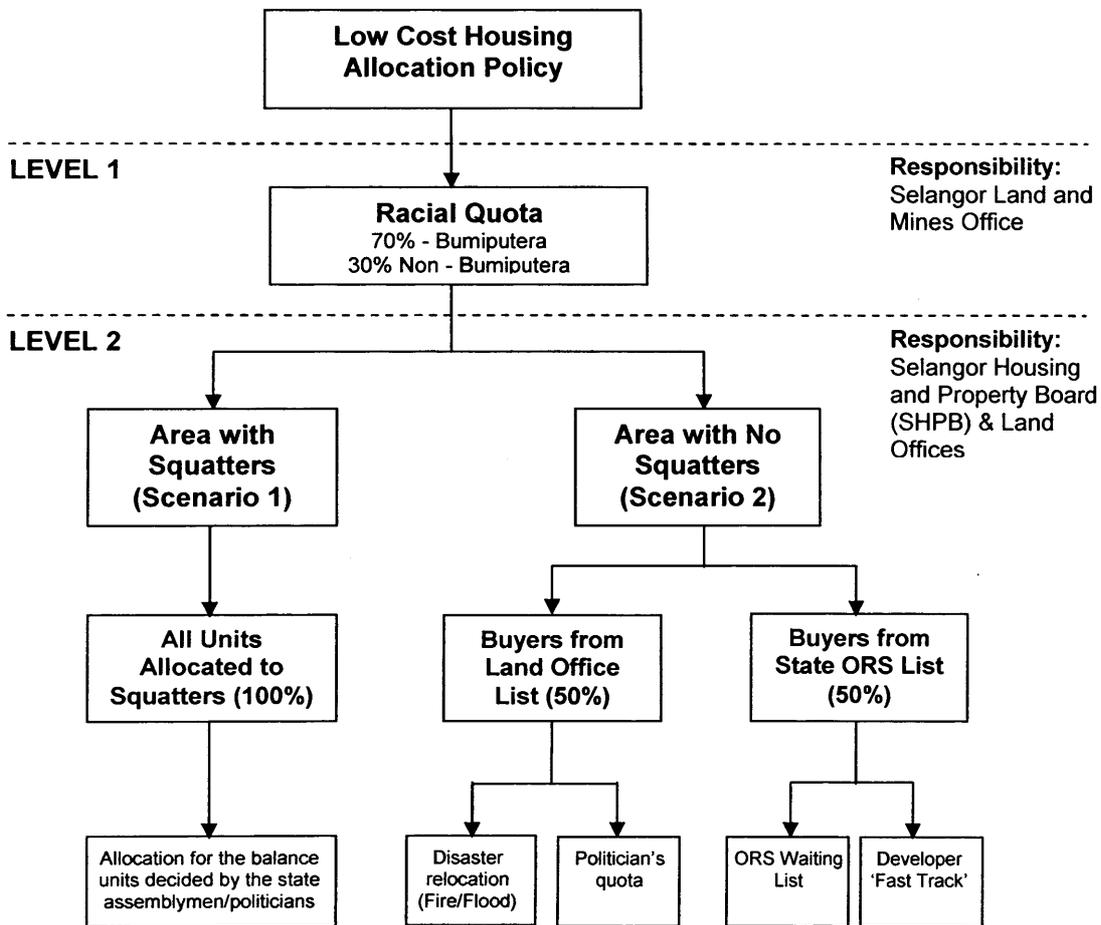


Figure 7.3: Levels of the Low Cost Housing Allocation Policy in Selangor

Sources: Level 1 – Selangor Housing Blueprint Report, 2005

Level 2 – Selangor Housing and Property Board

At the first level, the State government imposed an ethnic quota for Bumiputera and non-Bumiputera. The practice was in line with the New Economy Policy (NEP) strategy implemented from 1971, regardless of the size or location of the project. Under state policy, 70 percent of the low cost houses were allocated to Bumiputera and the remaining 30 percent to non-Bumiputera (Selangor, 2005). The Selangor State Land and Mines Office (SLMO) were responsible for imposing and monitoring the implementation of the ethnic quota in the state. The State government of Selangor clearly used its power to impose a higher quota for Bumiputera rather than the minimum 30 percent quota recommended by the NEP. Although the imposition of the ethnic quota was important to achieve NEP objectives, the excessive number of units allocated to Bumiputera had several negative impacts on low cost housing development in the Selangor.

Firstly, the policy created an ethnic imbalance in some areas of the state, as reported in the Selangor Housing Blue-print Report (Selangor, 2005, p. 123). The blanket 70 percent low cost housing units allocated to Bumiputera and not according to people's housing needs did not contribute to ethnic integration. The report also highlights that the quota imposing a percentage according to race in housing developments in Selangor is no longer relevant and needs review. Even in the areas where the demand for low cost housing among the Bumiputera was very low, the State government still imposed the same low cost housing quota. However, information on the actual ethnic quota and homeownership for specific projects could not be obtained from the State government since the data is considered to be politically sensitive and highly confidential. Therefore, in reality, the figure could be higher than the minimum 70 percent quota imposed by the State government.

Secondly, the quota reduced the chances of non-Bumiputera applicants who really needed low cost houses. The situation was largely caused by a limited number of units and greater competition among the non-Bumiputera, who comprised 46.5 percent of overall population (Department of Statistics Malaysia, 2001). Moreover, according to the Selangor Structure Plan Report (Selangor 2003), 65 percent of squatters were non-Bumiputera. In many countries with a multiethnic population, ethnic discrimination is unacceptable practice in housing allocation. In the United Kingdom, for example, the Race Relations Act 1976 places various duties on housing providers to eliminate ethnic discrimination and promote equality of opportunity (Blackaby and Chahal, 2000, p. 3). Therefore, local authorities have a legal obligation to ensure housing allocation is conducted in a way which eliminates discrimination and, at the same time, promotes

equality. Any ethnic or ethnic minority allocation policy is only decided upon consultation with the group involved. However, in Malaysia, the situation was rather different because the State government imposed the quota based on the national development agenda. Thus, the state played a crucial role in determining the ethnic distribution of the population in a particular area, rather than deciding according to the market or individual preferences. Even in countries with a multi-ethnic population like the United States and the United Kingdom, the state does not determine the minimum residential quota of low income housing for the majority white population instead of targeting the ethnic minority or black population (Boal, 2000).

Finally, private housing developers faced difficulties in selling low cost houses to Bumiputera buyers in selected areas. A study by Yunus (2005 p.70) revealed some private developers in Selangor faced these difficulties, particularly in urban fringes due to a lack of demand. The Bumiputera applicants were also spoiled for choice with regard to low cost houses available in the state. The imposition of the Bumiputera quota also meant direct state intervention in the low cost housing market and therefore went against neo-liberal practice.

Meanwhile, at the second level, the low cost housing allocation process was decided based on two different scenarios. In Scenario 1, when the low cost housing project was located in an area with squatters, 100 percent of the houses were allocated to squatters already identified by the local authority in the respective area. This is in line with State government policy to eliminate squatters. If there were any units leftover after allocation to squatters, the power to distribute the remaining units was given to the local State Assemblymen/women who are also politicians. Currently there is a total of 56 State Assemblymen/women in the State of Selangor. The SHPB, together with land offices across the state, were responsible for implementing and monitoring low cost housing allocation in the state. Surprisingly, there was no policy to indicate who would be offered the house by the State Assemblymen/women. Most likely the practice of 'political houses', described by Agus (1986) as when low cost units are offered to political party supporters as a reward, was still relevant. When responsibility was given to the politicians to offer the houses, this most likely exposed the allocation system to nepotism and corrupt practices. Some of the units could be offered to middle and high income people to buy. At the same time, it also denied the chances of people registered under ORS in the state who were really in need and who were eligible to buy a low cost house.

In Scenario 2, or a low cost housing project located in an area without squatters, fifty percent of the units were allocated for applicants registered under the state ORS. The buyers were identified from the applicants in the waiting list and offered the chance to purchase the house. Meanwhile, the remaining fifty percent of buyers were then identified by the Land Office, according to the State Assembly areas; the Land Office, through District Land Committee (DLC), was responsible for identifying the buyers. According to State Officer 1 interviewed, priority was given to people affected by natural disasters such as flooding, landslides and fire or who were affected by infrastructure development such as new highways and schools. The involvement of state Assemblymen/women in the committee shows the politicians were still very influential in the selection of low cost house buyers. The selection process also lacked transparency and was subject to manipulation by state officials and politicians.

The low cost house allocation policy in Selangor highlighted two main differences between State and Federal government intention. Firstly, the State government's priority was to eliminate squatters. Therefore, regardless of squatters' income or background, they were entitled to buy a low cost house. The main objective of the State government was to ensure that people in squatter moved into low cost houses. Squatters did not have to register with the State government to buy a low cost house; instead they were allocated a dwelling as part of squatter's clearance programme and to improve the physical environment. In an area with squatters, people who registered with the ORS were totally denied the opportunity to buy a low cost house. In the meanwhile, when the Federal government introduced the ORS they wanted all low cost house buyers including squatters to register with the State government and undergo the selection process like other applicants. Furthermore, the squatters had been occupying state and private lands over the years without paying any taxes or rental. Thus, it was unfair to other people with a low income who lived in rented accommodation or an employer's house.

Secondly, politicians continued to intervene in low cost housing allocation, particularly in areas without squatters. The politicians were still given the opportunity to allocate low cost houses without clear policy or guidelines from the State government. It was most likely that the house would end up being bought by middle and high income people with political connections. The practice therefore defeated the purpose of the ORS implementation by the Federal government to create a fairer and transparent allocation system. The discussion in the next section will focus on state intervention in the low cost housing allocation process under ORS in Selangor.

7.4 THE LOW COST HOUSING REGISTRATION AND ALLOCATION PROCESS UNDER ORS IN SELANGOR

The typical low cost housing registration and allocation process under the Sell and Build concept by the private sector involved ten key stages (see Figure 7.4). The process began with buyer registration and finished when the completed house was handed over to the buyers. It is important to identify the approximate duration of the process, since that determined the waiting time and difficulty faced by low cost house buyers registered with ORS. There were three key players in the low cost housing allocation process in Selangor: the State government, private housing developers and the house buyers. The diagram also shows various stages where the state intervened in the low cost housing allocation process.

The duration of each stage was identified based on information obtained from the SHPB, interviews with State government officers, housing developers and house buyers. The period for housing construction under the Sale and Build concept, however, was fixed by the government under the Housing Development (Control and Licensing) Act 1966 which stipulated 24 months for landed houses and 36 months for high rise houses. Although the process of housing allocation under ORS seemed straightforward, the length of time taken from the application stage to house completion was the main concern. Based on the approximate time taken at each stage, the total duration from application to moving into the house could have taken up to 77 months (six and a half years) not including delay during the construction stage. However, the duration could be shorter or longer subject to the house buyer's period on the waiting list.

The low cost house buying process was generally similar to that of medium and high cost housing, except the buyers had to register with the State government of Selangor rather than go directly to private housing developer to buy the house. The people who intended to buy the low cost house had to submit their application form to the SHPB directly or land offices across the state for stage 1. In stage 2, the SHPB or District office received the application form from the applicant. They checked immediately to ensure the applicant fulfilled all the pre-conditions for the application i.e. citizenship, household income and age. If the applicant did not fulfil the requirements and failed to complete the necessary information for the form, the application was rejected. Upon acceptance of the submitted form, the applicant was given a registration reference number.

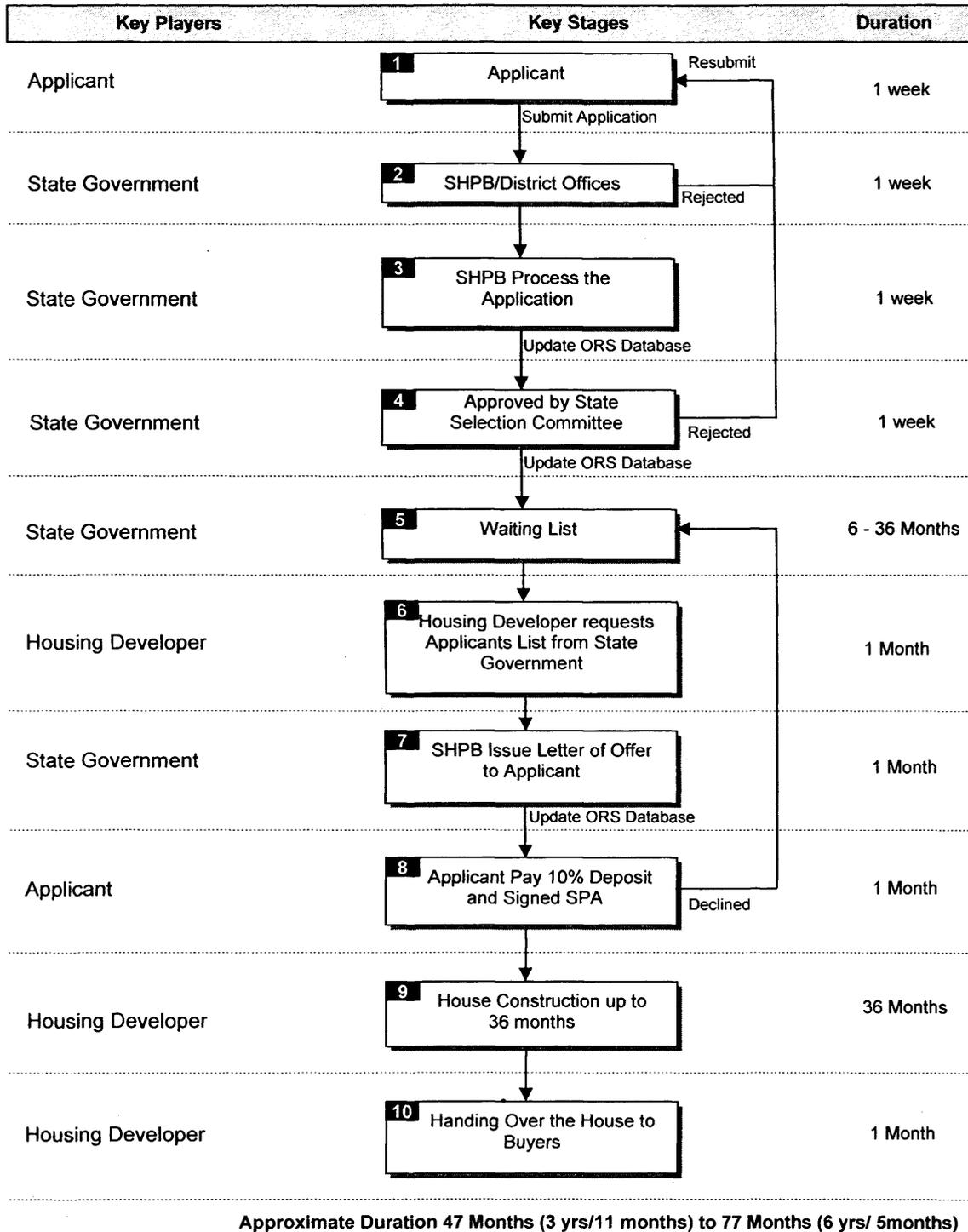


Figure 7.4: Low Cost Housing Registration and Allocation Process under ORS in Selangor

Sources:

1. Selangor Housing and Property Board, 2008
2. Schedule G & H of Housing Developers (Control and Licensing) Act 1966
3. Interviews with State government officers, private housing developers and low cost house buyers

In stage 3, the state computerised system began to process the application forms and award the points according to the criteria set by the State government. The results were issued immediately and the applicants were sorted according to the points awarded and area requested (in terms of district, sub-district and town). Meanwhile, in stage 4, after the sorting was completed, the applicant list was forwarded to the State Selection Committee for endorsement. Once endorsed by the State Selection Committee, the applicants' names were kept on the 'waiting list' in stage 5. Since the low cost housing provision in the private sector was beyond the control of State government, nobody was certain of the duration of the waiting list. The State government was less concerned about the duration, since they were not obliged to provide accommodation or financial assistance for people on the waiting list. This is typical in a developmental state, where civil society is considered to be weak by bureaucrats. In general, the selection process under ORS was more transparent and suffered less interference from politicians and top State government officials compared to the list produced by the land office.

The involvement of private housing developers in low cost housing allocation was limited to requesting the list of eligible buyers from the State government (stage 6). Private housing developers requested a list of eligible buyers after obtaining building plan approval for low cost housing development. After receiving the list of eligible low cost house buyers from the State government, the developer contacted the applicants to finalise the purchase. In stage 7, the State government provided the list of eligible buyers to the private housing developer when they started low cost housing development. At the same time, the State government issued 'offer letters' to selected applicants from the waiting list.

Since the houses were built for home ownership, the State government and housing developers were not in a position to force applicants to buy low cost houses (stage 8). After visiting the project site and obtaining the additional information from the housing developer, the applicants then decided whether to continue with the house purchase or not. The applicant could decline the offer and their name would be placed back on the waiting list. The final decision to purchase was also subject to the ability of the applicant to pay the 10 percent deposit and obtain financing from a financial institution for the remaining 90 percent of the purchase price. Thus, the allocation of houses for sale was far more complicated than those for rent, since there were a lot of factors to be considered before buying a house. Even if the project was located within the

preferred location, other factors such as the developer reputation, the type of house and the low cost location within the project would also determine buyer interest. When the construction was completed, the buyers would receive the house keys from the private housing developer. Once all the available low cost house units were sold, only at that point would the housing developer start the construction stage (stage 9). Although securing home finance was the responsibility of house buyers, in practice the developers would provide assistance to buyers to obtain a loan from financial institutions. Finally, in stage 10, upon completion of building construction, the house was handed over to the house buyers.

The lengthy low cost housing registration and allocation process clearly had direct consequences for the house buyers. In order to analyse the intended and unintended consequences of state intervention in low cost housing allocation, a low cost housing project in Selangor known as Sri Meranti Low Cost House Apartments in Bandar Sri Damansara Selangor was selected for the detailed study.

7.5 BACKGROUND TO SRI MERANTI LOW COST HOUSE APARTMENTS

Sri Meranti Low Cost Apartments are located in the north-west of Bandar Sri Damansara; the development of the Sri Meranti low cost house development began in June 1999 on 81.12 acres of land (see Table 7.2). A total of 1,964 units were approved by the Petaling Jaya City Council (PJCC) for five-storey walk up apartments (see Figures 7.5 and 7.6). According to data obtained from the PJCC, the low cost housing development in Sri Meranti was the largest in Petaling Jaya developed by the private sector. However, with a density of 24 units per acre, Sri Meranti Low Cost Apartments is still considered to be a medium density development, although it is located in a strategic area of Klang Valley. As part of the integrated township development, it also has excellent facilities, therefore justifying why Sri Meranti Low Cost Apartments become sought after property among people with a low income and property speculators.

Table 7.2: Background to Sri Meranti Low Cost Apartments

Development Commenced	:	1999
Completion	:	2004 (delay of 2 years and 1 month)
Total Units	:	1,964
Land Area / Density	:	81 acres / 24 units per acre
Population	:	Approx. 9,034 people

Source: Sri Damansara Sdn Bhd, 2008

According to Schedule H of the Housing Developers (Control and Licensing) Act 1966, the maximum period for high rise housing construction should not take more than 36 months. Therefore, the original completion date of the house should have been June 2002. However, due to problems faced during the construction stage, the houses were only completed in July 2004 after a delay of 2 years and 1 month. Sri Meranti Low Cost Apartments were eventually completed and handed over to buyers after 5 years and 1 month. The delay, according to the developer, was due to technical problems faced during the construction using new technology. Delays or abandonment of housing construction are common problem in Malaysia under the 'sell and build' concept, particularly when private housing developers are involved (Dahlan, 2009). The impact is severe for people with a low income who are buying low cost houses since they still have to pay the monthly mortgage to the bank even if the house is incomplete or abandoned.

However, the floor area for the low cost house apartments in Sri Meranti was 60.4 m², smaller than the size recommended by the Construction Industry Development Board of Malaysia at 63 m² (CIDB, 1998). Other than that, the development of the low cost houses in Sri Meranti exceeded the building and planning standards set by the CIDB (see Figures 7.7 and 7.8). With quality housing provided both in terms of building and the facilities within the well-planned township, the price of RM 42,000 was clearly well below market price. Meanwhile, the medium and high cost housing was well above at RM100,000 per unit within the township.



Figure 7.5: Bandar Sri Damansara Layout Plan and Location of Sri Meranti Low Cost House Apartments



Figure 7.6: Sri Meranti Low Cost House Apartments Layout Plan
 Source: Sri Damansara Sdn Bhd, 2008

Bandar Sri Damansara low cost housing development also shows the concept of 'cross-subsidy' with medium/high cost housing worked well for big developments by an established developer. Thus, big private housing developers still continued to play an important role in low cost housing provision in Malaysia after the 1970s (see Johnston, 1979; Sirat et al., 1998; Yusof, 2007). Although the developer faced several problems during the construction stage, they still managed to complete the house construction after two years delay. Without financial support from the parent company, it is difficult for the developer to complete a project in these circumstances due to huge cost increases.

No information on ethnic data or a detailed buyers list for the Sri Meranti development could be obtained from the housing developer or the State government. Both developer and State government consider the data to be highly confidential and believe it should be kept from public knowledge to avoid any controversy or prevent it from being used by political parties to attack government policy. However, the information obtained from the Sri Meranti Low Cost Apartments residents' association, based on their survey, indicated that more than 90 percent of the residents are Bumiputera. Through observations during fieldwork, public facilities provided in the area particularly the size of mosque and large number of Bumiputera's restaurants in the area suggested that the majority of the residents are Bumiputera. In terms of low cost housing allocation, according to the developer of Bandar Sri Damansara, the development was located in an area without squatters. Therefore, the allocation policy was based on Scenario 2 in which 50 percent of buyers were selected from a list provided by the state ORS and the remaining 50 percent came from the Petaling District Land Office.

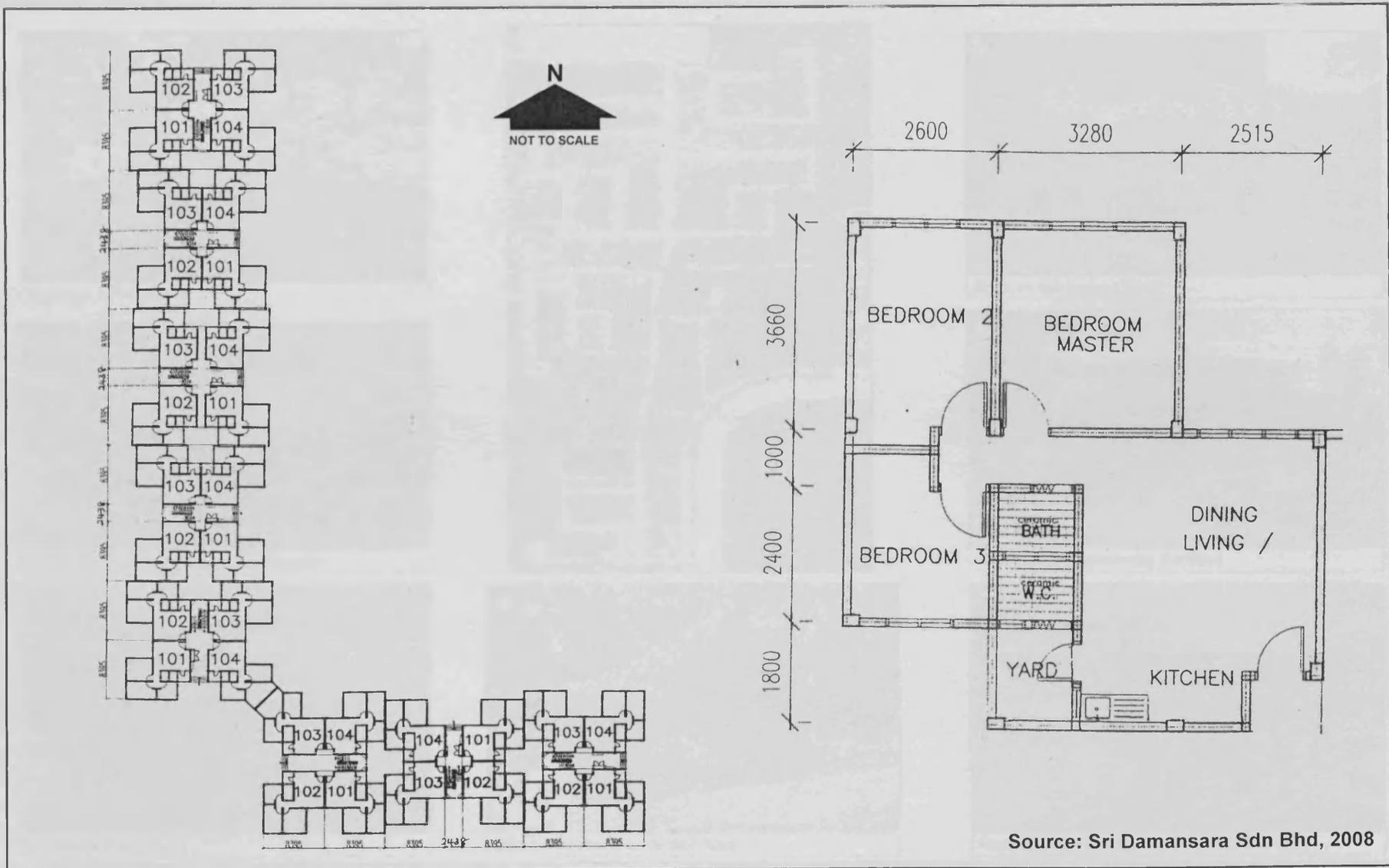


Figure 7.7: Sri Meranti Low Cost Apartments Floor Plan



1 Entrance to the project



2 Five-Storey Low Cost House Apartments



3 Children's Playground



4 Communal Waste Collection Area



5 Shop on the Ground Floor



6 The Mosque, Community Facilities



7 Recreational Facilities, the Football Field

Figure 7.8: Photos of Sri Meranti Low Cost House Apartments
Source: Author (Photos taken in April 2008)

7.6 STATE GOVERNMENT INTERVENTION IN THE LOW COST HOUSING ALLOCATION PROCESS AND ITS CONSEQUENCES

The main intention of the Federal government when it established ORS was to encourage people with a low income to register and eventually be offered the chance to buy a low cost house by the State government if eligible. However, the state's intervention in the low cost house buying process, particularly in the market, produced several unintended consequences. The experiences of low cost house buyers who are registered and those who are not registered under the ORS provide a different perspective on the outcome of state intervention in housing allocation. The interview with low cost house buyers registered with the ORS brought the unintended consequences of state intervention to light.

Firstly, the ORS contributed to difficulties among people with a low income who wished to buy a low cost house. The fact that most people with a low income in Malaysia are not well educated and depend on government assistance to buy a low cost house is well documented in many previous studies (see Salleh, 1998; Sirat et al., 1999; MHLG, 1999). Therefore, excessive registration procedures and allocation control by the State government actually made it difficult for that group to buy low cost houses compared to people in a higher income bracket. All people with a low income who intended to buy a low cost house had to obtain a registration form at the price of RM2.00 per form from the SHPB Office in Shah Alam or from one of twelve District Offices across the state. The applicant then had to complete a complicated registration form and attach to it the additional documents required by the State government such as a national identity card, birth certificate, salary slip, marriage certificate and medical status report. The application form then had to be endorsed by the Commissioner for Oaths or Head of Department for Government Servants. Once completed, the form could only be submitted at the SHPB Office or District Offices.

Despite modernisation and computerisation, the applicants still had to submit the form in-person to these offices as required under ORS procedure. An interview with low cost house buyers reveals some of the difficulties faced when submitting the form or dealing with State government housing officers, as follows:

“... so many rules and regulations when I purchased the low cost house in 1999. They said you must arrive before 11.00 am (to the SUK's office) so go out as early as 5.00 am. They are really double standard when

dealing with us the low income people as if we really desperate to buy the house. So they can do whatever they like such as asking the employer confirmation letter and pay slip just to get the application form. The form also held by somebody and if want it you must see this officer. Then they asked for your identity card. They found out I come from state of Perak. I have to change the identity card since they not allowed people from outside Selangor (to buy the house)..." (Buyer 4, male, aged 39 who works as a fish seller in Kuala Lumpur).

Buyer 4 also had to change the address in his national identity card in order to be able to purchase a low cost house in the State of Selangor. Since his previous address was in the neighbouring state of Perak, the officer in-charge did not even allow him to buy the application form. Although ORS policy clearly stated the State government must accept applications from people with a low income, in practice some State government officers could deny buyers from other states the chance to register in Selangor, thus denying people from other states in Malaysia the opportunity to buy a low cost house in Selangor. Meanwhile, for some people with a low income, access to the registration centre was a major concern, based on the experiences of Buyer 2:

"... as a low cost house buyer we have to face many problems when dealing with the state such as waiting time to see them, how to travel to the office and various state bureaucracy. The state should give low cost house buyers easier and less bureaucratic access when dealing with them. We don't want bureaucracy and we have to refer here and there. That's make our life difficult..." (Buyer 2, male, aged 41 who works as a general labour in Petaling Jaya).

The state's intention to control the low cost house buying process through ORS was to ensure only eligible people could buy low cost houses. However, in reality most buyers interviewed found excessive state control discouraged people from registering with the state. It is common in many developing countries for the state to control low income housing allocation, but in Malaysia the state imposed strict procedures on the buyers in this group. They also had difficulty in dealing with private housing developers due to a lack of knowledge about the house buying process. Meanwhile, some of the salespeople in private housing development companies treated the low cost house buyers differently from medium and high cost house buyers.

Secondly, the State government failed to match demand for and supply of low cost housing according to buyers' preference. The interview revealed that many buyers were offered a chance to purchase a house outside their preferred location. The

problem emerged because the State government had no control over low cost housing development by the private sector in terms of quantity, location and timing. Thus, it was difficult for the State government to match demand for and supply of low cost housing. Furthermore, housing supply does not respond quickly to changes in demand and the stock is immobile to meet demand in other locations (Lund, 2006, p.7). Due to high land costs, most private housing developers in Selangor preferred to build low cost houses in urban fringes and new growth areas (Yusof, 2006, p.122). Therefore, the houses were often located very far from the existing town and available jobs.

As explained by Payne (1977, p.78), land is always a main factor to determine the location of low income housing in developing countries and “speculation frequently gives it distorted and artificial value...” Furthermore for people with a low income, location is the most important factor to take into consideration before buying a low cost house. As explained by Payne (1977 p.54), people with a low income require a house near their workplace in order to maximise access to employment. Meanwhile, rich people usually have “more resources to apply either to transport cost or obtaining in whatever location it choose”. Thus, matching supply and demand for low cost houses is always a difficult task due to the nature of the low cost housing provision system in Malaysia under the ‘sell and build’ concept. In social rented housing in Western welfare state countries, the state only manages the allocation of existing housing stock, but in Malaysia the allocation is based on future stock. In addition to that, the houses allocated in Malaysia are for home ownership and not rental.

Some of the buyers interviewed revealed that they were initially offered a house which was not in the area requested on the application form. However, after submitting appeals to the State government, they were finally offered the opportunity to buy a house in Sri Meranti. Below are some of responses received from house buyers when asked about the offer they received from the State government to purchase a low cost house:

“...SUK (state) offered in other place at Bukit Raja, I work in Kuala Lumpur, I don't want to live in Bukit Raja...” (Buyer 9, aged 38 and working as a production operator in Kuala Lumpur).

(Note: distance from Bukit Raja to Petaling Jaya = 30 km)

"...communication with the buyers must be right, if we work in PJ (Petaling Jaya) and get the offer in Rawang, I don't think it appropriate. Burden to the buyers..." (Buyer 12, aged 38 and working as a clerk in Petaling Jaya).

(Note: distance from Rawang to Petaling Jaya = 37 km)

Both buyers 9 and 12 were offered a house more than 30 km from their existing workplace in a new growth area located north of Klang Valley. The distance from their workplace could have increased their transportation costs and many of these areas often had poor public transportation services.

Meanwhile, due to the unavailability or insufficient number of low cost houses in certain districts in the state, the applicants were also being offered houses in neighbouring districts. The problem arises when some of the applicants are forced to purchase a house in the area offered by the State government. Despite the fact that there is no official policy on how many times applicants could decline offers to purchase low cost houses from the state, they were threatened by State government officers and told they should accept the offer or they might not have the chance again in the future to buy a low cost house, as described by Buyer 2:

"... I feel cheated (by State government) when they offered me (house) in Rawang. We never asked for that place. We work around this area in Selangor (Petaling Jaya). Travelling cost already half of our salary. When we protest they said, if you don't want the house we are not going to offer again in the future. Reluctantly we just accept the offer..." (Buyer 2, male, aged 41 and working as a general labour in Petaling Jaya).

However, no policy document or guidelines for the ORS mentioned any negative consequences for the buyers if they decided to decline the offer. Thus, the action taken by the state housing officer was more likely an attempt to quickly clear people from the state low cost housing waiting list. Furthermore, the increase in the price ceiling for low cost housing in 1998 also contributed to oversupply and most people with a low income became choosier in terms of location:

"... the situation is different before Sri Damansara. Sales of low cost house before that just like the 'hot fried banana'. After Sri Damansara, price of low cost house already increase to RM42,000 and the house available everywhere. So we can choose where to buy unlike before that if the state send to Rawang people still want it because the price is RM25,000 people don't mind as long they get the house..." (Buyer 4, male, aged 39 and working as a fish seller in Kuala Lumpur).

Before the introduction of the new price structure in 1998, most buyers were less concerned about the location of the low cost house offered to them by the State government because the price was relatively low at RM25,000 per unit. The ceiling price increase in 1998 encouraged many private developers to begin low cost housing construction. Thus, buyers not only had to pay a higher price, but were also spoilt for choice since many houses were available on the market. Nevertheless, Sri Meranti low cost houses still enjoyed great demand due their location and medium density development. In contrast, many private housing developers struggled to sell low cost houses, especially in suburban, rural areas and new growth centres during the same period (Yunus, 2008, p.134).

The low income housing market was clearly more complicated than the State government thought. The decision to purchase a low cost house involved many factors such as the reputation of the housing developer, the influence of friends and family and the community, in addition to usual factors such as location and financing. The State government's assumption regarding the needs and preferences of house buyers most likely went wrong. Thus, this confirmed the neo-liberal belief that state intervention in the housing market not only generates problems, but is also inefficient in terms of the production and consumption process (Lund, 2006, p.5).

Finally, the ORS increased the buying period for low cost houses. The problem was mainly caused by the duration of the waiting list. In some cases, low cost housing applicants had to wait for up to three years before the State government could offer them a house. As described by Buyer 3, when asked about his experience buying a low cost house in Bandar Sri Damansara:

"...I have to wait for three years. After three year only I received the offer letter (from the State government)... construction 3 years, in 1999 signed the SPA, in 2004 only the house completed. Meaning 5 plus 3 years become 8 years..." (Buyer 3, Male, aged 43 and working as a salesman in Kuala Lumpur)

The practices in the low cost housing consumption process took a very long time, which was partly caused by low cost housing provision through the 'sell and build' concept. The house construction alone could take at least three years if there was no delay or abandonment along the way. In the case of the Sri Meranti low cost housing project, two years delay in housing construction increased the total period of house

completion to five years. With such a long waiting period, clearly low cost housing was not targeted at people with an immediate need for a house, but rather people who were currently renting their house or living with their parents. Among the problems highlighted by the low cost house buyers (interview with Buyer 3) in the waiting list was the fact that they still had to rent a house while waiting for an offer from the State government. Similarly, during the period of housing construction, they had to pay for monthly rental and a mortgage for the low cost house, even though the project was affected by delays.

Meanwhile, the experiences of buyers who were not registered with the ORS shows they skipped most of the lengthy and strict selection process imposed by the State government. The question is: how they could buy a house directly from the developers without first registering with the state? The explanation given by Buyer 1 and Buyer 10 partly answered the question:

“...actually I am not registered anywhere. I know this project (Sri Meranti) from the beginning. So I go directly to the developer office. I asked whether there’s any unit available. They said if I pay 10 percent (deposit) tomorrow I can buy the house. I just pay the 10 percent and get the house, that it...” (Buyer 1, Male, aged 38 and working as a technician in Kuala Lumpur).

“...I don’t register... I work with the Bank which give loan for this housing project. I got to know the project from that...” (Buyer 10, Male, aged 30 and working as a bank clerk in Petaling Jaya).

Buyer 1’s experience shows that buyers could go directly to the housing developer’s office to buy a low cost house and register with the State government under ORS at a later stage. With regard to the private housing developer, as long the buyer was committed to buy the house and willing to pay the deposit, there was no reason for them not to sell the house. The developer could still arrange the registration of buyers with the state ORS once they had paid the 10 percent deposit before signing the sales and purchase agreement. This practice was sometimes used by private housing developers with the blessing of the State government for low cost housing projects located in undesirable areas or in areas with an insufficient number of people registered (Interview with a state government officer). However, it was unusual for a project located in a strategic area like Sri Meranti to use the this approach to sell low cost houses.

Meanwhile since Buyer 10 worked with the bank which provided financing for the project, that means people who had a working relationship with the developers could also have bought the low cost houses. Interestingly, when he bought the house in 1999, the buyer was only aged 21 and was still single. Since Buyer 1 and Buyer 10 were unwilling to share their detailed experiences of how they bought their houses without registering with the state, the researcher began to look for other buyers who were willing to share his/her experience. After the interview with the former employee of Sri Damansara Sdn Bhd (Ex-Housing Developer 1), which was responsible for dealing with the land office and State government during the project implementation in 1999, he then introduced the researcher to a buyer who was willing to share his experience but not to reveal his identity.

According to the buyer, he managed to buy a low cost housing unit in Sri Meranti after paying RM500 to an agent linked to the housing developer. Since Sri Damansara Sdn Bhd is a subsidiary of a company listed on the Kuala Lumpur Stock Exchange, it is therefore unlikely the company would accept any form of payment from individuals for house purchase. However, the company employees could misuse their power to accept money or bribes from individuals and, in return, allow them to buy a low cost house or houses. Thus shows corruption in the low cost housing allocation practice still could happen in Malaysia, despite various improvements and modernisations implemented by the government under the ORS.

7.7 THE LOW COST HOUSE BUYERS' VIEWS ON THE ROLE OF THE STATE AND MARKET IN LOW COST HOUSING ALLOCATION

Sri Meranti low cost house buyers hold conflicting views on who is supposed to handle low cost housing allocation. While some house buyers interviewed believed the state should be directly involved in low cost housing allocation, the other group of buyers rejected the idea. Despite the fact that more house buyers who were interviewed prefer the market to control low cost housing allocation, the issue is still subject to continuous debate. The proponents of the state's role in low cost housing allocation gave three reasons why the state should continue to control low cost housing allocation.

Firstly, private housing developers could not be trusted in low cost housing allocation. As described by Buyers 12 and 13 below, when asked who is supposed to handle low cost housing allocation:

“... if private (developers) handle, better if I give to my family member, 20 units each. Because I work with private housing developer the priority is to my family member. Nothing to do with the state, no monitoring from the government...” (Buyer 12, male, aged 38 and working as a clerk in Petaling Jaya).

“...under current practice, some of ineligible house buyers even managed to purchase the house through the developer's salesperson...” (Buyer 13, male, aged 38 and working as a computer salesman in Kuala Lumpur).

Clearly, some buyers doubted the private housing developers' sincerity and transparency when dealing with house buyers. Housing developers don't really care who the buyers are as long as they can sell the houses and make a profit. The problem, according to buyers, is also caused by the individuals working in housing developers' companies. They obviously will take the opportunity to sell the houses to their family members, friends and relatives if allowed to do so. Thus, cronyism and corruption eventually flourish in the system which clearly will not benefit the poor.

Secondly, the buyers argued the State government must take the responsibility to ensure only people with a low income own low cost houses. Since many people with a low income still do not own a house, the state should ensure this group is not forgotten in the creation of a home owning society. Through ORS, the State government can at least control and monitor low cost housing allocation more effectively, as described by Buyer 3 and 4:

“...although difficult, at least we know who are the buyers and they are eligible or not...” (Buyer 3, a salesman working in Kuala Lumpur).

“... without the system (ORS) we don't know (who are the buyers). Without SUK (state) monitoring, if you got money you can buy. Those people who are really need a house don't get it...” (Buyer 4, a fish seller working in Kuala Lumpur).

Competition between people with a low income and the higher income groups means state intervention is required in low cost housing allocation. Malaysia's past

experience shows that when people in the low income group fail to obtain a house in the formal sector they will end up living in the slums or squatter settlements. Therefore, registration under ORS will encourage people to buy a house in the formal housing sector.

Thirdly, the buyers claimed they needed government involvement due to difficulties dealing with private housing developers. Many people with a low income still face difficulty in dealing with private housing developers directly. Poor knowledge of the property buying process including legal and financial aspects require State government assistance. The need for State government involvement is important in the event that there are delays in the housing construction, as happened to the buyers in the Sri Damansara low cost housing project. They believe the state will provide assistance and resolve any issues with the housing developer.

Meanwhile, the proponents of market allocation highlighted five main reasons why the market should handle low cost housing allocation. Firstly, they questioned the need for them to register with the state under ORS if private housing developers still treated them just like any other home buyers. Under the Housing Development Act 2001, low cost housing buyers need to pay a 10 percent deposit and to obtain financing from a private financial institution without any subsidy from the government. They don't see any benefit in registering with the government if no special privileges are given to them. The responses received from the house buyers when asked about the issues include:

"... there is no different buying through ORS or not. If ORS establish by the government, the 10percent deposit should be abolish. With ORS the government should not ask people to pay the 10 percent. Low income people don't have money but still have to pay 10 percent deposit. To find the 10 percent is our main problem..." (Buyer 1, a technician working in Kuala Lumpur).

"... If you pay 10 percent, better you directly to developer because you still have to pay..." (Buyer 9, Male, aged 38 and working as a production operator in Kuala Lumpur).

"... we should buy direct from the developer, no need for ORS. If government really wanted to establish ORS, then there is no need to pay the 10 percent (deposit)..." (Buyer 11, male, aged 34 and working as a production operator in Petaling Jaya).

Clearly, most low cost buyers faced difficulty in finding the 10 percent deposit before signing the sales and purchase agreement. When they registered with the State government they expected some privileges would be given to them such as a lower (or no) deposit when making the house purchase. The situation is rather typical of many developing countries, as described by Purewal (2000) based on his study of housing access in India. In order to find decent accommodation, the buyers must have monetary savings, steady incomes and also 'the privilege of contacts' in order to afford or access adequate housing.

Secondly, some buyers felt they were treated poorly by the State government under the ORS. The low cost house applicants believed they would be offered a house immediately by the state, but that is not the case in Malaysia. Some buyers had to wait for up to four years on the waiting list, as described by Buyer 13:

"... from my opinion, ORS was established to register low cost house buyers, registered with SUK (state). When you registered, it takes 3 to 4 years to get the house. Problem, that a long time. But if you buy direct from developer you don't have to wait 3 to 4 years..."

The waiting time was 3-4 years before the construction began. Many of the low cost house buyers would have preferred to go directly to the housing developers when construction had already started. House buyers revealed their experience that the developer would do anything to sell low cost house units, as described by Buyer 13:

"... from my experience buying low cost house, I know from the newspaper. I go straight to developer's office to pay the deposit, look at the pictures, and models. Then pay the 10 percent deposit. After that, they ask us to ballot to determine the house unit. That's all. After paying the 10percent deposit then only they ask whether you have registered with SUK (state). If yet to register with SUK they will ask us to register..."

Instead of asking for any proof of prospective buyer's eligibility, the developers insisted the buyers had to pay the 10 percent deposit to confirm the purchase. The buyers were then asked to sign the declaration form by the developers to ensure they registered with the state. The declaration form included a clause that, in the event the buyer failed to get approval from the state to buy a low cost house, the developer would refund the deposit after deducting all the administration charges. Since they had already paid the 10 percent deposit before submitting the application to the state, this put the State government under pressure to approve the application. This so called 'fast track' application process could deny the opportunity of a house purchase

to people on the waiting list. Furthermore, those buyers who had already committed to purchase a house would do anything to ensure the application was approved by the state, including submitting false information to the state. According to the housing developers who were interviewed, the State government thus far has taken no action to charge people who cheat in the low cost house buying process.

Thirdly, according to some buyers, the low cost housing allocation process is too political. Politicians still have control of the allocation process, despite the implementation of ORS. The buyers believed that the politicians could change the rules and abuse the system for their own benefit. Although the issue of politicians' involvement in housing allocation is not new in Malaysia, as highlighted by Agus (1986, 1992), the practice still continues today, thus reducing the confidence of the public and market with regard to low cost allocation practice in the state.

The fourth reason is that the State government, also according to most buyers, is not sensitive to location preferences. Buyers clearly state their preference of two choices of location on the application form. Nevertheless, the interviews with house buyers revealed that many of them were still offered a low cost house in an undesirable location. The house was still located within the State of Selangor or the same district as requested, but for people with a low income house location is a highly sensitive issue. When making the application under the ORS, the buyers have no idea where they will be offered a low cost house by the State government.

Finally, the buyers also feel many of the State government officers who handle the ORS are not sincere and are corrupt. Some of the buyers interviewed still don't understand why there are so many people who own more than one low cost house if the system works and the people who handle the system are sincere. The state officers also seem to give priority to people with political connections, regardless of whether they are eligible or not to buy a low cost house, as described by Buyer 10:

"... The system could be manipulated. Some people with higher income can purchase. That's mean the government system is not transparent. Low cost house are supposed for low income people but some people involved with politic also can get the house although their income is higher. There are people still live in squatter. Some of this people rent the house they bought, and they live in other place. So how we can ensure low income people will own the house?" (Buyer 10, bank clerk working in Petaling Jaya).

The same argument was also supported by the Federal Government Officer 1. Sometimes the problem with ORS implementation at the state level is caused by

unethical State government officers. Therefore it is difficult to ensure only eligible buyers can buy a low cost house in the state, as described by Federal Government Officer 1:

“... what really happen there are unethical people involved in the system operation. So they can delete or amend the applicant’s information and make the house buyers are so desperate now...”

7.8 PRIVATE HOUSING DEVELOPERS’ VIEWS ON LOW COST HOUSING ALLOCATION

The private housing developers have conflicting views over whether they should take over the responsibility to allocate low cost houses from the State government. Analysis of the interviews clearly indicates some housing developers are not prepared to allocate low cost housing for the low income people due to several reasons. Firstly, there is an understanding among housing developers that the State government has to provide a list of low cost house buyers as part of the 20 percent low cost unit quota imposed by the state for private housing development. The policy aims to provide access for people with a low income to own a house as part of a poverty eradication strategy. Whilst the 20 percent quota for low cost houses is still in place, the State government will continue its role with the provision of an eligible buyers list to housing developers. Thus, it shows a willingness among housing developers to help the State government to achieve its social policy objectives.

Secondly, the private housing developers are also not in the position to check house buyer eligibility in terms of authority and capacity. As described by Developer 1:

“... maybe difficult because we sell house at the price of RM42,000, people sure will rush in. After that, without SUK interference we have to decide who will decide who is eligible or not, how are we going to do? We need to set up a committee to liaise with these people to check their eligibility. We have to check their income, payslip and other to determine their eligibility. But now people can adjust their payslip. So it better for SUK to handle it. If SUK to handle, their purpose is to eliminate squatter and ensure everybody got access to housing although it small. Let SUK continue with the system and not hand over it to the developers.”

They believe that, without state intervention, it would be difficult for private housing developers to determine eligibility among house buyers. As described by Developer 2, even with the government’s strict control, house buyers are still willing to take the risk of buying a low cost house with fake documents and false information, even

though they know the consequences. The situation could be even worse if the developers themselves handle the selection of buyers and allocation. However the third private housing developer interviewed, Developer 3, believed the private sector is capable of handling housing allocation for people with a low income without state intervention if given more power and freedom. Private developers in Malaysia arguably look forward to a free market without state intervention in low cost housing provision and allocation.

Thirdly, the housing developers try to avoid the risk of finding sufficient low cost house buyers for their project. Unlike medium and high income earners, people with a low income are not interested in buying a house which is far from cities or job centres. With the state policy imposing a 20 percent low cost house quota regardless of the project location, some developers will face problems finding buyers. The ORS will provide them with a 'ready buyer list' and they can turn to the State government if there are still not enough house buyers. Besides, not all people with a low income are aware of the location of low cost housing projects in the state; therefore, the state becomes the middleman between the people and housing developers. Thus, in general, housing developers are still not ready to provide and allocate low cost housing themselves since it is a socially and politically sensitive issue. However, if more power is given to private housing developers in relation to low cost housing provision with less State government intervention, then the market might be willing to take over the role from the state.

7.9 THE RELATIONSHIP BETWEEN STATE AND MARKET IN LOW COST HOUSING ALLOCATION IN SELANGOR

The analysis in this section is based on the relationship between the state government and private housing developers with regard to low cost housing allocation in Sri Meranti Low Cost House Apartments. However, the discussion will also include views from other private housing developers involved in low cost housing provision in the State of Selangor in order to gain a wider picture of the state-market relationship in low cost housing allocation.

Despite strict government controls, most private housing developers interviewed enjoyed a very good relationship with the State government. For example, in terms of low cost housing allocation, the State government will ensure there are sufficient

buyers for the houses. The assistance given by the state is not just limited to providing a list of buyers, but also encompasses other matters related to low cost housing provision, as explained by State government Officer 1:

“... Our (state) priority is to provide list of name. Meaning that all the developers planned to build and sell low cost house must obtain name list from us. We will provide the name. Secondly, we give assistance for the house sale. If developers faced problem to obtain house buyers, we will organise an open day for buyers registration together with developers. Meaning that, we will work together and promote the project with developers. On that day potential house buyers can register with us. Then we will check their eligibility immediately and bring back to head office and double check, process and offer them the house. We have no problem doing the promotion together with housing developers. We will help in the promotion. If developers faced the technical problem during low cost house construction with any state departments, we also offer our help. They can tell us what is the problem? We will help on that. If developers still having problem to obtain the buyers, we can loosen some of the eligibility criteria and try our best to help them...”

This explains why housing developers are still keen to provide low cost housing, although the market is tightly controlled by the state. In the event that the buyers list is still not adequate, the State government will do all the necessary tasks to ensure there are enough buyers for the project. This includes conducting a registration drive with housing developers and, to an extent, modifying the eligibility criteria. Most housing developers interviewed were also satisfied with the process of obtaining the list of eligible buyers from the State government, as described by Developer 2:

“...we don't have much problem...from my experience working here, we don't have any problem to get the name from the State government because they can provide. So we don't take long time to sell low cost house...”

However, several issues could undermine the relationship between the State government and private housing developers. The first is the delays in obtaining a list of buyers from the State government, which will definitely affect the sale and construction of low cost houses, which eventually makes the waiting time longer for the house buyers. Clearly the State government is having difficulty providing an adequate list of low cost house buyers, particularly for bigger projects, as described by Developer 1:

“...let say we want to launch 400 units sometimes they cannot give 400 at one time so they will give in batches. First batch maybe around 100 names and few months later another batch with additional 100 names. So in one parcel we need around 4-5 times soft launching...”

The State government is also not obligated to provide a list of eligible applicants within a certain time frame to housing developers. Since the State government does not suffer any penalty or cost, there is no need for them to provide the list immediately. Therefore, it is the private housing developers and house buyers who eventually suffer due to the delay. The second reason is a lack of adequate buyers in some low cost housing projects. Thus, the low cost houses built by private housing developers are not based on actual demand in a particular area. If the developers were informed of the total number of applicants for the area by the State government, the oversupply of low cost houses would not happen. As explained by State government Officer 1:

“... In some projects, particularly in very far location and low demand, we give them (developer) name list. At the same time, the person we offered might be not interested. When they visit the project they are not interested, not their choice of location, but we cannot force them to buy. We tried to help developers, but not all the people in the list requested house in that particular area. When they visit the project and found the house located at further back they sometimes refuse to buy. Since they applied house for ownership, so we cannot force them to buy...”

At the same time, the State government also has difficulty in controlling low cost housing construction by the private sector. Although the state's housing policy indicates that low cost house construction should take place in the early phase of development, it is still subject to decisions made by the developers in terms of the number of units to be built and when to build them.

The third is the ethnic quota imposed by the State government in low cost housing allocation for a housing development size of more than 10 acres. Private housing developers are required to allocate 70 percent of the houses built to Bumiputera and the remaining 30 percent to other races (SHPB, 2003 p. 122). The quota also applies throughout the state, regardless of the racial composition of the district, which thus could contribute to ethnic imbalance. Therefore, in some areas, housing developers face difficulty in attracting enough Bumiputera buyers (Yunos, 2006).

Finally, the housing developers also receive requests from various State government departments, particularly local authorities and the staff of technical departments, to

buy a low cost house. An interview with Developer 2 revealed the dilemma and difficulty faced by the housing developer when dealing with requests from local authorities and technical departments:

"... We are subject to State government policy, and we have to offer to the people. Besides we have many State government agencies... There are also name list of poor people from land offices and MPPJ (Petaling Jaya Municipal Council). We just follow the instruction. So MPPJ gave us the list we have to consider, we assume everyone is eligible. We cannot question the list from land office. This is on top of list received from SUK (SHPB) thus already entitled. We have to allocate carefully..."

The housing developers clearly have difficulty rejecting the requests from these people, since they are directly involved in the housing development approval process. So, the developers have to handle the relationship with the State government staff carefully in order to avoid any problem with them. Therefore, in many cases, the developers just sell the house to these people and submit the name to the state for approval. However, as explained by Developer 2, buyers in this category are relatively small in number. Another issue highlighted by SHPB is the fact that most buyers for low cost houses usually register with the state when the construction of the houses has been started by the developer, especially in the strategic location. State government Officer 1 explained the situation:

"... If they find out the project near to their current resident, they come (to state) to register. At that time we receive a lot of application, although many still don't know there is project in the area. Developer normally will test the market first with fewer house units available for sale, if there is demand then will construct all. But for the people, they will come if the construction already started on the ground... If the project located in the strategic location, many more people will come to register. If in less desirable location they wait until they feel confident enough the project will complete. Sometimes applicants look at who is the developer... They afraid the project abandon halfway..."

With many abandoned projects in the state including low cost housing projects, low cost house buyers do not want to take risk of buying a house. Under the 'sell and build' concept in Malaysia, the buyers still have to repay the total RM42,000 mortgage to the financial institution even if the project is abandoned by the developer. So the financial consequences are greater for people with a low income who spend most of their life savings to buy a low cost house. Secondly, the buyers are offered a house in the wrong location. The housing developers interviewed also

agreed there are some buyers being offered the chance to buy a low cost house outside the area chosen in their application form, as explained by Developer 1:

“... The state make an assumption based on the applicant current address. So if their address is at Meru for example, so they assume they want the house at Setia Alam or Bukit Raja low cost. Purchaser cannot decide which low cost house they want, as long there are low cost houses available the State government will allocate. The low cost house purchasers they want the house but don't have enough money, to them no matter how small the house as long they have a house. After register with the state, they got offer for the house far from the workplace and family members...”

The State government usually make the decision to offer the houses without consulting the applicants. Therefore, this limits the people's freedom of choice to buy the house they prefer and is thus clearly against neo-liberal practice. The failure of the State government to match demand for and supply of low cost housing in a particular location further complicates the matter. This is thus consistent with the statement given by the Sri Meranti low cost house buyers on the issue earlier.

7.10 ACCESS TO LOW COST HOUSING IN SELANGOR

Based on the analysis conducted earlier in this chapter, people could access low cost house through four channels in the State of Selangor (see Figure 7.9); first, buyers from the squatters' list. The squatters were identified by the State government through the local authority in the respective area. The low cost houses for sale were offered to the squatters who could afford to buy. Meanwhile, those who could not afford to buy would be offered a low cost house for rent. Once identified, the local authority informed SHPB of the list of people under this category. The second channel was people who were registered under the ORS in the state. According to the Ministry of Housing and Local Government Malaysia (MHLG), all low cost house buyers were supposed to register with the State government under ORS. Once registered and eligible, the applicants would then be kept on the waiting list (also known as buyers under 'State ORS List').

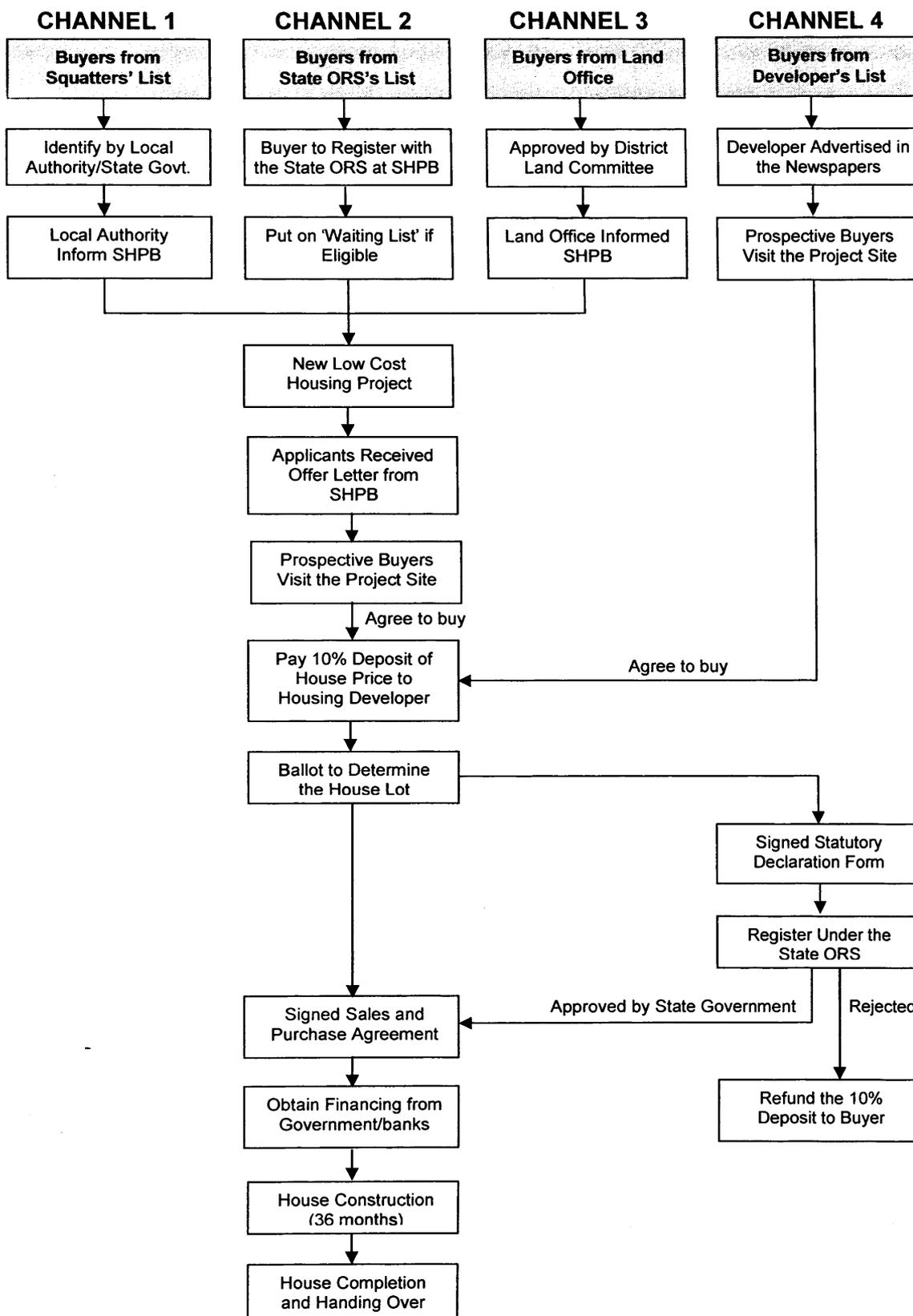


Figure 7.9: Access to Low Cost Housing in the State of Selangor

Source: Author

The third channel was through the Land Office (there are 12 district land offices in Selangor). Under the State government policy, the Land Office provided a list of low cost house buyers for at least 50 percent of low cost housing units in a residential project located in an area with no squatters. The selection of buyers was carried out by the District Land Committee (DLC) headed by a District Officer (DO) and the members included state assemblymen (the politician) for the respective area. Once the DLC had identified the people, the land office forwarded the list to the SHPB for approval by the State Selection Committee.

Fourth channel, the people could also buy directly from the private housing developers under certain circumstances. This usually happened in low cost housing projects located in an undesirable area or which comprised a large number of units. If the State government faced difficulty in providing enough eligible buyers for a particular project, the private housing developers were allowed to sell the houses directly to people, as explained by State government Officer 1 when he was asked about the buyers from developer's list:

"...if developers have difficulty to get the buyers or the project located very far, no demand. We allowed developers to offer the house who come to developer's office. Developers can buy the application from us in bulk and sell it to the people, they fill in the form and submit to developer or to the board. Then we know these people would like to buy the house in the project. We will process immediately and bring to Committee meeting and State Secretary for approval and we will offer the house..."

However, the buyers still had to register with the SHPB under the ORS. After paying the 10 percent deposit for the house, the buyers needed to sign a statutory declaration form provided by the housing developer which stated that if they failed to obtain approval from the State government to buy a low cost house, the developer had the right to cancel the purchase and refund the deposit. The application was made by the housing developer on behalf of the house buyers. Usually the applications were made in a bundle and were considered for 'fast-track' approval by the State government. In some cases, the low cost housing projects were located in rural or suburban areas which usually lacked demand from people with a low income; therefore this approach was used by the State government to deal with a mismatch between supply and demand. Thus, the practice did not affect the chances of people still on the waiting list.

With the exception of buying directly from the developer, the SHPB would then issue the offer letter to the eligible buyers when there was an available low cost housing project in Selangor. Usually the location of the new low cost housing project was used to determine whether buyers were selected from the squatter list, the ORS list or the land office list. A squatter would be offered a house within the same area or district to ensure they did not face difficulty in finding a new job or school for their children. Similarly, buyers from the land office list were also offered a house within the same district. Meanwhile, buyers from the ORS list were determined based on their area of preference stated in the application form.

Once they received the offer letter from the SHPB, the applicant would then take the letter to the private housing developers to finalise the purchase. However, the applicant still had to decide whether or not to purchase the house after visiting the site and obtaining detailed information about the project from a housing developer. If the sale was agreed, the applicant would have to pay the 10 percent deposit and secure a bank loan for the balance. The allocation of housing units was based on a ballot process, since the house price was already fixed by the government. After signing the Sale and Purchase Agreement (SPA), the buyers had to wait for the housing construction to be completed before they could move into the house.

7.11 CONCLUSION

The trend of low cost housing provision in Selangor over the last 20 years shows increasing reliance on the market for provision and commodification. The state began to retreat from low cost housing provision and most low cost houses were provided by the private sector. However, the case study of housing allocation practice in the State of Selangor clearly shows the importance of the role played by the State government in low cost housing allocation. Despite the introduction of ORS by the Federal government since 1997, the State government of Selangor still allocates housing according to its own policy. Low cost house buyers' experiences revealed that the current allocation practiced in the State of Selangor is still subject to manipulation by politicians and State government housing officers. State intervention has also had several unintended consequences towards people with a low income who buy a house through registration with the ORS. This includes a longer waiting period to occupy a house and the failure of the government to allocate houses in the buyers' preferred location.

Buyers who registered under the State government ORS system faced various difficulties during registration and have to wait longer on the waiting list compared to people buying through the land office. Generally, registration through ORS is clearly fairer and transparent. Meanwhile, for those buying through the land office's list, the waiting time to be offered a house is shorter. However, the interview with the buyers revealed there is a lack of transparency and fairness in the housing allocation process through the land office list. The selection process is also subject to corruption and misuse of power by the people involved directly in low cost housing allocation, either private housing developers or State government officers. Meanwhile, politicians' involvement in low cost housing allocation is still prominent in the State of Selangor through the land office list. Many difficulties and longer waiting times are faced by the buyers who register through ORS; this therefore explains why many people with a low income are reluctant to register.

Based on the interviews conducted, there are two conflicting views among the low cost house buyers on who is supposed to handle the low cost housing allocation in Malaysia. Some of the house buyers interviewed believed the state should be directly involved in housing allocation, but the other group of buyers rejected the idea. According to the proponents of the state, the reasons given for state control are mainly due to distrust and difficulty in dealing with housing developers. They believe the state has a responsibility to ensure people with a low income have access to low cost housing. Meanwhile, the market proponents opposed state intervention in low cost housing allocation due to the inefficiency of the ORS system and corrupt government officials. Interviews with housing developers also revealed they are not prepared to allocate low cost houses directly to house buyers due to many other restrictions and regulations imposed by the State government related to low cost housing provision. Without dismantling the regulatory framework related to low cost housing and giving more power to private housing developers, the practice of housing allocation is likely to remain the same in the future.

Finally, the implementation and operation of the ORS in Selangor reflects strong state control in low cost housing allocation. The State government goes even further in controlling the market than Federal government policy. This includes various quotas imposed by the State government for low cost housing built by the private sector such as the low cost unit quota and the Bumiputera quota. Meanwhile, the

private sector played a subordinate role in low cost housing allocation, despite their contribution to overall housing provision in the state. The house buyers were also subject to strict control by the state and were not given opportunities in the low cost housing allocation process.

CHAPTER 8:
CONCLUSION

CHAPTER 8: CONCLUSION

8.1 INTRODUCTION

The objective of this chapter is to conclude the outcome of the research. It is divided into four sections and the first discusses the research findings. The second section focuses on the theoretical implications of the research and the third section explains the contribution of the research. The final section outlines suggestion for future research.

8.2 RESEARCH FINDINGS

This section will discuss the findings in relation to the research aim and objectives as outlined in Chapter 1 of this thesis. The aim of the research is to examine the role of the state and market in low cost housing allocation in Malaysia in the context of the global trend towards neo-liberalism. Meanwhile, the findings according to each research objective are also discussed in this section.

8.2.1 The Changing Role of the State in Housing Provision from Western and East Asian Perspectives

The literature review shows the current trend in housing provision in many European countries has followed the neo-liberal path (see Doling, 1999; Peck and Tickel, 1999; Whitehead, 2003; Forrest and Lee, 2003; Dogson, 2007; Forrest, 2008). Housing has been at the forefront of so called 'modernisation' projects including the sale of state housing, introducing market actors into the management of state housing, marketizing state rental systems and reducing the overall role of direct government provision in the housing market (Forrest, 2008, p.179). Therefore, since the early 21st century, housing provision has been thoroughly embedded in market processes. The retreat from direct

housing provision in the West is also associated with growth in individual home ownership and an increase in private renting. The state has also begun to withdraw from the role of public provision and has shifted emphasis towards the private sector and market. At the same time, the state has concentrated on improving the financial system and market framework, as well as developing guarantee and insurance systems to support the provision of funding (Whitehead, 2003, p.61).

However, housing provision in the context of East Asian countries still does not show sign of convergence with the Western neo-liberal model (Hirayama and Ronald, 2007; Cheung, 2009). As Hirayama and Ronald (2007) explain, despite some similarities in the commodification of private housing and the residual nature of public housing, there is a considerable variety of state-market mix and the stage of intervention in housing provision among East Asian countries. Singapore, for example, is still pursuing active and extensive state subsidised housing provision in line with its national development agenda. Meanwhile, has China undergone more radical changes, challenging the established housing systems and moving towards a more market-orientated approach since the early 1990s (see Wang, 1996 & 2001; Wu, 2001; Logan, 2002). Japan, South Korea and Taiwan have weaker controls and more selective state intervention. Subsidies are used to ensure that the housing needs of low income group are met within a market framework. East Asian countries not only shows divergence from the Western model in housing provision, but also in the set of social and political relationships which link state authority to housing policy (Hirayama and Ronald, 2007).

Similarly, in the context of Malaysia, despite economic liberalisation since the 1980s and growing reliance on the private sector, the state continued its role in the direct production and allocation of low cost housing. Even after the Asian financial crisis, the state continued to build heavily subsidised public low cost housing under PHP and controlled allocation through ORS. Thus, Malaysia, like many other East Asian countries, still does not show any signs of convergence with the Western neo-liberal model of housing provision.

8.2.2 *The Changing Structure of Low Cost Housing Provision in Malaysia*

The analysis of housing provision in Malaysia using the SHP approach shows the changing role of the state and market since the 1950s. In Chapter 4, the analysis was based on the overall model of housing provision in Malaysia in relation to the changing

political economy. Analysis in Chapter 5, meanwhile, focussed on the structure of low cost housing provision in Malaysia. The research identified three distinct phases during which the role of the state and market in low cost housing production and allocation in Malaysia was ever changing (see Figure 8.1). The role of the state in low cost housing production in Malaysia began during the British colonial period through the establishment of the Housing Trust Federation of Malaya in 1951. The housing trust continued its role in low cost housing production after independence until 1976. In view of the continuous failure of the Housing Trust to provide adequate houses for people with a low income and the conflict with State governments, the Federal government decided to cease the trust's operation in 1976. The responsibility to provide low cost housing was then transferred to respective State governments. The state governments received loans from the Federal government to implement PLCHP from 1976 until 2002. The market's involvement in low cost housing production accelerated further after economic liberalisation in 1986. From the early 1990s, the market began to take the lead in low cost housing production with state guidance and control. A planning system was successfully used by the state to ensure private developers provided a minimum of 30 percent low cost house units in every residential development.

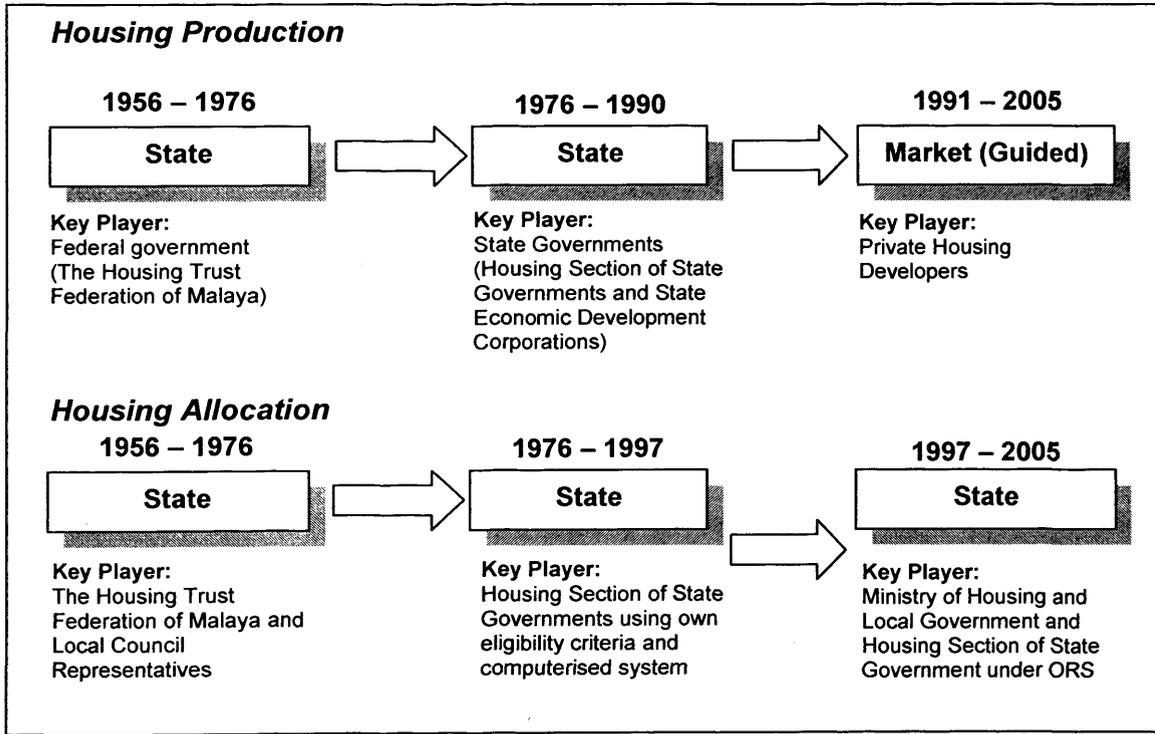


Figure 8.1: Changing Role of the State and Market in Low Cost Housing Production and Allocation in Malaysia

Source: Author

Due to the need to address the problem of squatters, in 1994 the Federal government implemented PHP for rental. The programme aimed to relocate squatters into public rented housing. Later in 2002, the PHP New Policy for sale and rental was announced by the Federal government to replace the PLCHP implemented by the State government from 1976. Despite the implementation of PHP by Federal government, the market still played a significant role in low cost housing provision in Malaysia. From the 1990s, more than 70 percent of low cost houses were built by private developers. Thus, low cost housing production in Malaysia clearly moved towards commodification with a larger role played by the market.

Meanwhile, in terms of low cost housing allocation, the market has not held direct control or played a significant role since the 1950s. The state has continuously been responsible for low cost housing registration and allocation in Malaysia. Instead, the changes only involved the shifting of responsibility between Federal and State governments to manage the low cost housing registration and allocation process. From 1956 to 1976, the Housing Trust Federation of Malaya and the local council where the low cost housing project was located were responsible for identifying eligible buyers. The selection was mainly based on applicants' income and number of dependents. However, following the implementation of PLCHP in 1976, the State governments began to take responsibility for allocating public low cost housing to eligible buyers from the Housing Trust. During the early 1980s, the State governments expanded their control of registration and allocation to include low cost houses built by private housing developers. Therefore, the market was not only required to build low cost houses without government financial subsidy, but also to surrender the responsibility of identifying house buyers to the State government.

In 1997, the Federal government established ORS with the intention to standardise procedures and criteria for the selection of eligible buyers nationwide. The reasons for the establishment of the ORS were mainly to solve the squatter problem, avoid corruption, reduce political intervention and balance the mismatch between supply of and demand for low cost housing. Under ORS, the Federal government and State governments are responsible for maintaining the nationwide low cost house buyer registration and allocation system. However, continuous state intervention and control in low cost housing allocation is not consistent with the commodification trend in low cost housing production. The current practice of low cost housing allocation in Malaysia clearly reflects the trend of decommodification. The state remains the key player and rejects the role of the market in low cost housing allocation. Therefore, low

cost housing provision in Malaysia is not fully commodified and shows variation from the typical East Asian model of the market's role in the allocation and consumption process (see Doling, 1999, p. 239).

8.2.3 *The Role of the State and Market in Low Cost Housing Allocation in the Context of ORS Implementation*

ORS was selected as the case study to analyse the role of the state and market in housing allocation in Malaysia. There are several reasons behind the establishment of the ORS including reduction of corruption and political intervention, elimination of fraud, provision of data for low cost housing planning, identification of migration patterns of people between states in Malaysia and modernisation of the low cost housing allocation system. The most important purpose behind the introduction of the ORS was to ensure only eligible buyers were entitled to buy and subsequently own low cost houses and that no buyers were allowed to purchase more than one unit of low cost housing and, finally, to ensure the selection process was more transparent.

The State of Selangor was selected as the case study to analyse the implementation of ORS at the state level and also to gather feedback from various players involved in low cost housing allocation. The case study in Selangor revealed three key issues related to the role of the state and market in low cost housing production and allocation. The first is the fact that the majority of low cost houses in Selangor from 1998 to 2005 were built by private housing developers. Under the current planning system, the State government did not have direct control over the location of low cost housing projects by private housing developers. Therefore, some low cost housing projects were located in undesirable locations. The mismatch between supply and demand still happens in Selangor due to difficulties faced by the State government in controlling low cost housing supply. The problem was partially caused by a lack of people registered under ORS in the state. Thus, the data on low cost housing needs under ORS was not up-to-date and reliable for planning purposes.

Secondly, there are several ways to access the low cost housing market in Selangor other than registration through ORS. Furthermore, the priority for low cost housing allocation in Selangor was for squatter relocation from 1998. Therefore, not every low cost house buyers in Selangor were registered with the State government under ORS. The state's low cost housing allocation priority was to relocate the squatter. However

the interviews with low cost house buyers revealed the difficulties faced by people registered under ORS to purchase low cost houses due to competition with squatters and other non-registered buyers. Most low cost house buyers interviewed preferred the market to control allocation, especially for low cost houses built by private developers. They believed the current practice leads to corruption and lacks transparency, thus defeating the objectives of the establishment of ORS which were to create a transparent and fairer allocation system.

Finally, the implementation and operation of ORS in Selangor reflects strong state control in low cost housing allocation. In addition to policy introduced by the Federal government, the state government also imposed additional requirements such as an excessive number of units allocated for Bumiputera. Furthermore, the private sector played a subordinate role in low cost housing allocation, despite its huge contribution to overall low cost housing provision in the state. House buyers were also subject to strict controls by the state and were not given opportunity to get involved directly in the low cost housing allocation process. Thus, the practice of low cost housing allocation in Selangor reflects strong state control which fit well with the developmental state approach.

8.2.4 The Relationship Between the Key Players Involved in Low Cost Housing Allocation

The research also identified the relationships between the key players involved in low cost housing allocation under ORS, namely Federal-State governments, State governments-Private Housing Developers, State Governments-Low Cost House Buyers and Private Housing Developers-Low Cost House Buyers. It is important to understand the relationships between the key players in low cost housing allocation. The key findings are as follows:-

a) Federal-State governments

Three key issues undermined the relationship between the Federal and State governments in terms of low cost housing allocation. Firstly, from the State governments' perspective, the purpose of the ORS is more than just coordination and monitoring of low cost housing allocation. State government felt the Federal government intended to impose control over state housing affairs. The second issue was poor coordination between Federal and State governments in terms of ORS policy

formulation and implementation. There was growing rejection by the State governments of intervention by the Federal government in low cost housing allocation at the state level through ORS. However, the problems with the implementation of ORS and the misunderstanding between Federal and State governments are typical issues under the Federal government system in Malaysia (Jomo and Hui, 2002). Finally, there was a misunderstanding of the purpose of ORS implementation between Federal and State governments. Although the Federal government's intention was to make it easier for people with a low income to register under ORS, the State governments believe the application process should be stricter to avoid undeserved buyers taking advantage.

b) State Governments-Private Housing Developers

Despite strict State government controls, most of the private housing developers who were interviewed enjoyed a very good relationship with the state government, since the state government make sure there are sufficient buyers for the low cost houses. The assistance given by the state is not just limited to providing a list of buyers, but is also helpful in other matters related to low cost housing provision. In the event that the buyers list is not adequate, the state government will do all the necessary tasks to ensure there are enough buyers for the project. However, three main issues could undermine the relationship between the state government and private housing developers. The first is the delay in obtaining a list of buyers from the state government, which affects the sale and construction of low cost houses, which eventually makes waiting times longer for the house buyers. The second issue is a lack of adequate buyers for some low cost housing projects. This reflects the fact that low cost houses built by private housing developers are not based on actual demand in a particular area. The third issue is the ethnic quota imposed by the state government for housing development sizes of more than 10 acres. According to state policy, private housing developers are required to allocate a minimum of 70 percent of the low cost houses built to Bumiputera (Selangor 2003, p. 122). The case study of ORS implementation in Selangor shows the state continues to dominate and heavily regulate the market. The market generally has no absolute control over low cost housing production and consumption in the state.

c) State Government-Low Cost House Buyers

The proponents of the state's role in low cost housing allocation gave three reasons why the state should continue to control low cost housing allocation. Firstly, private housing developers could not be trusted in low cost housing allocation. Some buyers

have doubts about private housing developers' sincerity and transparency. Housing developers don't really care who the buyers and whether the people registered with the State government under ORS or not to purchase low cost house. Secondly, the buyers argued the state government must take responsibility for ensuring only people with a low income to buy low cost houses. Since many people in this group still do not own a house, the state should make sure this group are not forgotten in the creation of a home owning society. Through ORS, the state government can at least control and monitor low cost house allocation more effectively. Competition between people with a low income and higher income groups requires state intervention in low cost housing allocation. Thirdly, some low cost house buyers still need government involvement due to difficulty in dealing with private housing developers. Poor knowledge of the property buying process including legal and financial aspects requires the state government's assistance. They also believe that the state will provide assistance and resolve any issues with the housing developer such as project abandonment and poor construction quality.

d) Private Housing Developers-Low Cost House Buyers

The proponents of market allocation highlighted five reasons why the market should handle low cost housing allocation. Firstly, the buyers preferred the market to handle the allocation of private low cost housing. They don't see any benefit in registering with the government under ORS if they do not gain special privileges by doing so. Secondly, some buyers feel they are neglected by the State government under ORS. The common belief among low cost house applicants is that they will be offered a house immediately by the state, but that is not the case in Malaysia. Some buyers have to wait for up to four years on the waiting list. Thirdly, according to the buyers, there is too much politics in the low cost housing allocation process especially the allocation handle by the State government. They believed the politicians still have control over the allocation process, despite the implementation of ORS. The issue of politicians' involvement in housing allocation is not new in Malaysia, as highlighted by Agus (1986, 1992 & 2002), but the practice still continues today. The fourth reason is that the state government is not sensitive to buyers' preferences regarding their low cost house. The interviews with house buyers revealed some of them were offered a low cost house in an undesirable location. Finally, the buyers felt many of the State government officers who handle the ORS are not sincere and are subject to corruption. The state officers also seem to give priority to people with political connections, regardless of whether or not they are eligible to a buy low cost house

8.2.5 Current and Future Direction of the Low Cost Housing Provision Model in Malaysia

The analysis revealed both external and internal factors are behind the current state intervention in low cost housing provision in Malaysia (see Figure 8.2). The external factors can be divided into three; the first is pressure from international agencies, particularly the United Nations, World Bank and IMF. Recommendations by the UN experts, charters and bodies such as UNCHS/UN-Habitat were key motivators for the Malaysian government to provide adequate and decent housing for the people with a low income since independence in 1957. The recommendations by the UN were then translated into policies and implementation strategies by the government in five year Malaysia Plans.

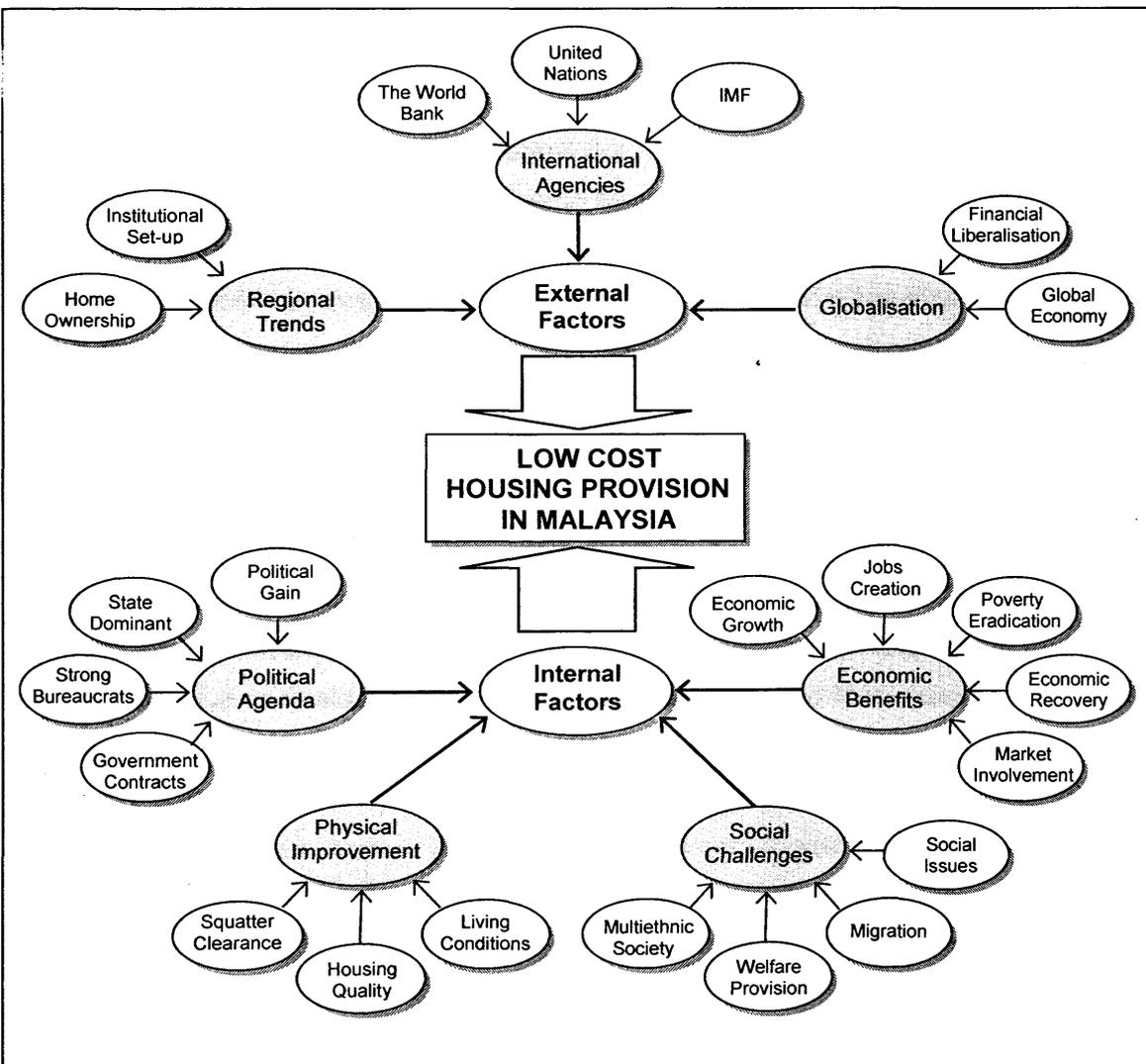


Figure 8.2: Factors Influencing State Intervention in Low Cost Housing Provision in Malaysia

Source: Author

Since the 1970s, the World Bank has played an important role in shaping low cost housing policy in Malaysia. However Malaysian government was not impressed by the recommendations by the World Bank on the site-and-services and self-help housing programmes during the 1970s. During the 1980s and 1990s state began to adopt the neo-liberal policies propagated by the World Bank and IMF following the implementation of Structural Adjustment Programmes. The market began to take a leading role in low cost housing production in Malaysia in the early 1990s. Most importantly, government intervention was crucial role to ensure the market's involvement in low cost housing production.

The second factor was regional trends in low income housing provision. It was noted that most East Asian countries shared similar development trajectories after independence from colonial power after World War II. The housing issues and condition of the slums were generally similar in these countries. Therefore, state intervention in low cost housing provision was crucial to solving housing issues during the early stage of independence. Commonly, the government established special institutions to build public low cost housing such as the Hong Kong Housing Authority in Hong Kong (1954), Housing Trust Federation of Malaya in Malaysia (1951), Housing Development Board in Singapore (1960) and Korean National Housing Corporation in South Korea (1960). In general home ownership was promoted as the key low cost housing strategy in the region, with a small amount of public rented housing. Thus, state intervention in low cost housing provision in Malaysia was partly influenced by the trends and events in the East Asian region.

The third factor was globalization, especially in the financial sector. Although globalization of the financial sector made it easier for the market to become involved in low cost housing provision, at the same time it exposed the low income group to the effects of the global economy. State intervention was important to ensure private financial institutions provided financing for both private housing developers and low cost house buyers, particularly after the government no longer offered loans to buyers after 1998. The price of low cost housing was always controlled by the government in order to prevent fluctuation in house prices due to the effects of the global economic cycle.

Meanwhile, four internal factors were identified. The first addresses the political agenda of the ruling party. Since independence, the Barisan National coalition government has been in power. In order to ensure continuous support from people

with a low income, state intervention in housing production and allocation are crucial. On many occasions, low cost housing programmes were seen as one of the ways to gain political support for the ruling party. However, in the 1980s and early 1990s, the state began to control private sector low cost housing allocation. Most politicians used the opportunity to allocate some of the low cost housing units to party members as a reward for their support (Agus, 1986).

The politicians, particularly at the state and local level, had a significant role in housing development by virtue of their position in the State government hierarchy and agencies. In the context of low cost housing, the politicians could even decide who gets a house, as demonstrated in the case study of the housing allocation process in Selangor. The politicians were also supported by strong bureaucrats who were involved in housing administration. These people formulated low cost housing policy and intervened in housing provision to ensure the state still had control over the market. State involvement in low cost housing provision also provided an opportunity among the contractors to win government tenders, particularly those linked with the ruling party. State intervention in low cost housing provision also reflects their dominance over the market, a typical feature in East Asian developmental states.

The second internal factor is to gain economic benefit. Housing development has significantly contributed to the country's economic growth in terms of construction activities and the provision of job opportunities for the people. Meanwhile, during the economic crisis in Malaysia (1986-1989 and 1997-1998), special low cost housing programmes were launched to drive the economy out of recession. As part of a government strategy to eradicate poverty under the New Economic Policy (1971-1990), low cost housing provision was used to promote home ownership among the low income group. The most important government intervention in the market was the imposition of the 30 percent low cost housing quota by private housing developers. In return, the private sector was allowed to sell medium and high income housing without state control and received no monetary assistance from the government to build low cost houses.

The third factor is pressure for the government to improve the physical environment. In the mid 1990s, the state began to implement a large nationwide scale squatter clearance programme and invested a large amount of money in the public rented housing programme. The objectives were to improve the physical environment, to provide quality housing and better living conditions for people with a low income.

Despite the large contribution of the private sector to building low cost houses, it still failed to solve the squatter problem. Thus, direct state intervention in low cost housing production under PHP and housing allocation through ORS was required.

The final internal factor is to overcome social challenges. Unlike other countries in the region, Malaysia is a multi-ethnic country with a varied economic, cultural and religious background. Therefore, distribution and allocation of low cost housing was identified as one of most important ways to build the nation and to maintain harmony among races in Malaysia. A minimum 30 percent ethnic quota for Bumiputera in every residential development was introduced from 1971 in order to achieve the NEP objective of restructuring society. Low cost home ownership was also an important form of welfare provision in East Asian countries, also known as “asset-based welfare”. The low cost selling price, set below the market price by the government, allowed house buyers to make a substantial profit if they decided to sell their house in the future. Another challenge was to address housing issues created by rural-urban migration in the search for better job opportunities. In the past, the failure of the government to provide adequate housing for low income migrants from rural areas created a squatter problem, especially in the 1970s and early 1990s. State involvement in squatter relocation to formal low cost housing units was important to reduce the social and criminal problems usually associated with squatter settlements.

In general, based on current trend the low cost housing provision in Malaysia shows no sign of convergence towards being fully commodified in terms of production and allocation in the near future. The state continues to control and regulate the market in order to achieve its national development agenda. Despite heavy reliance on the market for low cost housing provision, the state still controls other factors of the production and consumption process through ORS.

8.4 THEORETICAL IMPLICATIONS

In this section, the outcome of research on low cost housing provision in Malaysia will be located in the context of the literature. The first task is to identify low cost housing policy based on neo-liberal and developmental state debates. Subsequently, low cost housing production and allocation in Malaysia will be positioned in the context of housing commodification-decommodification debates.

8.4.1 Malaysia Low Cost Housing Policy in the Context of Neo-liberal-Developmental State Debates

Despite economic liberalisation since 1986 and pressure from international agencies for neoliberal reform during the 1990s, the state in the context of Malaysia still played an important role in housing provision, particularly low cost housing. Thus state intervention in low cost housing provision shows that low cost housing provision in Malaysia is fit well with the developmental state approach. In terms of finance, the private sector and house buyers generally benefited from financial liberalisation and globalization during the early 1990s. Easy access to house finance contributed to a rise in homeownership in Malaysia and the country's economy as a whole.

Similarly, in the context of business relations, the big private housing developers and government linked companies played an important role in housing provision. The big private housing developers provided more than 70 percent of low houses in Malaysia. Priority for government assistance and privatisation was also given to Bumiputera companies, particular those with strong political connections. This created a practice of cronyism in housing provision and formed a barrier against the involvement of new players in the industry. The practice clearly went against neo-liberal policy by dismantling national protectionist policies and allowing international private developers to get involved in housing developments in Malaysia.

Table 8.1: Analysis of Malaysia's Low Cost Housing Policy in the Context of Neo-liberal and Developmental State Models since 1980s

Characteristics		Malaysia	
Neo-liberal Model ¹	Developmental State Model ²	Federal Low Cost Housing Policy	Selangor Low Cost Housing Policy
<p>1. Finance</p> <ul style="list-style-type: none"> Financial deregulation and globalization Deregulation of money market Dismantling of regulatory constraints Separation of credit flow from productive sources of investment. 	<ul style="list-style-type: none"> Finance is the tie that binds the state to the industrialists. Raising and deploying financial resources to create or strengthen state organisation. The state can exert influence over the economy and investment pattern 	<p><u>Neo-liberal Policy</u></p> <ul style="list-style-type: none"> Economic liberalisation and globalisation provide easy access for financing of low cost projects by public and private sector <p><u>Developmental Policy</u></p> <ul style="list-style-type: none"> Continuous increase in state investment in low cost housing since independence. Low cost housing projects to revive the economy during recession in 86-89 and 97-98 Financial assistance for private developers amounting to RM 2 billion under SLCHP 87-89 RM2.9 billion allocated during 94-02 for 67,247 units of low cost housing construction under PHP Central Bank directs private banks to provide loans to low cost house buyers <p>Result: Developmental</p>	<p><u>Neo-liberal Policy</u></p> <ul style="list-style-type: none"> Economic liberalisation and globalisation provide easy access for financing of low cost projects by public and private sectors in the states <p><u>Developmental Policy</u></p> <ul style="list-style-type: none"> Limited funds, depend on Federal government support to implement low cost housing programme <p>Result: Developmental</p>
<p>2. Business Relation</p> <ul style="list-style-type: none"> Selective withdrawal of the state and support for leading national industries. Dismantling of national protectionist policies. Dismantling of national barriers to foreign direct investment. 	<ul style="list-style-type: none"> Strong relationship between the state and big business Creation of cronyism Intent to hone the competitiveness of national business in the international system. Ethnic division of labour in managing politics and the economy. 	<p><u>Neo-liberal Policy</u></p> <ul style="list-style-type: none"> State began to reduce involvement in low cost housing provision in the early 1990s <p><u>Developmental Policy</u></p> <ul style="list-style-type: none"> Housing production in Malaysia mostly dominated by large companies which received assistance from the government through privatisation (i.e. cheap land) Government still protected local companies involved in low cost housing development and awarded tenders for government low cost housing projects only to locals Assistance and priority given to Bumiputera development companies in line with NEP since 1971 <p>Result: Developmental</p>	<p><u>Neo-liberal Policy</u></p> <ul style="list-style-type: none"> Encourage private developers to build low cost housing through joint venture companies or privatisation of state lands. <p><u>Developmental Policy</u></p> <ul style="list-style-type: none"> Highly localised development companies with good relations with the state government involved in low cost housing provision (cronyism). <p>Result: Developmental</p>
<p>3. Governance/Bureaucracy</p> <ul style="list-style-type: none"> Abandonment of demand-management Dismantling of traditional national relays of welfare service provision De-centring of traditional hierarchical bureaucratic and government control Imposition of fiscal austerity measures Shrinking of public sector employment through privatisation Public-private partnership Rescaling of state economic intervention 	<ul style="list-style-type: none"> "Political Capitalism", where profits and investment depends on decisions made in the state. "Developmentism", a dominant developmental discursive on the necessity of industrialisation and state intervention to promote it. "Appointive Bureaucracy", in which most government officers are affected by regime change The power of bureaucrats is highly unstable. 	<p><u>Neoliberal Policy</u></p> <ul style="list-style-type: none"> Encourage market involvement in low cost housing provision <p><u>Developmental Policy</u></p> <ul style="list-style-type: none"> Low cost housing as a form of "political Capitalism" where selling price was determined by the government ORS as demand management tools and centring of hierarchical bureaucratic forms of government control Bureaucrats at the Federal and state governments make most decisions related to housing policy Established National Housing Companies to undertake low cost housing construction <p>Result: Developmental</p>	<p><u>Neo-liberal Policy</u></p> <ul style="list-style-type: none"> Public-private partnership in low cost housing provision <p><u>Developmental Policy</u></p> <ul style="list-style-type: none"> State government controlled the market through planning system (i.e. racial quota and 30% low cost housing requirement) Establishment of Selangor Housing and Real Estate Board in 2001, indicates increasing role played by the state and an increase bureaucracy through ORS registration procedure for low income people including private sector housing <p>Result: Developmental</p>

Sources: Brenner & Theodore¹ (2002) and Woo-Cumings² (1999)

Finally, in the context of governance and bureaucracy, the bureaucrats and politicians continued to have a strong influence over housing matters through various committees and state government agencies. The introduction of ORS was part of a set of demand management tools and shows the centring of hierarchical bureaucratic forms of government control in housing provision. The case study in Selangor demonstrated that the State government bureaucrats and politicians have always had direct influence over housing matters from development to consumption. The private sector in general just adhered to directives or guidelines related to low cost housing imposed by the State government without question. Although the majority of the low cost houses in the state were built by the private sector, they only played a minor role in the registration and allocation process. This shows that the housing practice in Selangor is still very much in line with the developmental approach.

In conclusion, the current housing policy approach in Malaysia fits well within the developmental state model rather than that of the neo-liberal. Although the private housing developers became the main providers of low cost houses from the 1990s, this achievement was a result of state control and regulations. Even though the state continued to adjust its policy to incorporate neo-liberal ideas in low cost housing provision after the Asian financial crisis in 1997-1998, in general it has still retained much of its developmental state characteristics. Thus, low cost housing in Malaysia shows no sign of convergence with the neo-liberal model like most East Asian countries.

8.4.2 Malaysian Low Cost Housing Provision Model in the Context of Housing Commodification-Decommodification Debates

Most scholars suggest analysis of decommodification level based on housing tenure (see Barlow and Duncan, 1988; Harloe, 1995; Groves et al., 2007). But in the context of Malaysia, the lack of data on public and private rental made the analysis based on housing tenure alone difficult. The present statistical data on homeownership and rental housing does not differentiate according to price category (low, medium and high cost housing). Therefore, any analysis based on housing tenure alone can be misleading. The analysis of the decommodification level of low cost housing in Malaysia was conducted using measures employed by various scholars, as explained in Chapter 2 (see Table 8.3). The purpose is to position low cost housing production in Malaysia in the context of commodification-decommodification debates.

Table 8.3: Decommodification Level of Low Cost Housing Production in Malaysia

Decommodification Measures	Low Cost Housing Production	D	C
Dickens et al. (1985)			
1. Government subsidies	Government/private sector subsidised the cost	✓	
2. Rent control	Fixed price and rental by the government	✓	
3. Welfare benefits	No demand-side subsidies or benefits		✓
4. Control over housing finance	No control over housing finance		✓
5. Control over land prices	No control over land prices		✓
		Commodified	
Barlow and Duncan (1988)			
6. Low % of homeownership	High percentage of homeownership		✓
7. Low social rented houses	Low percentage of social rented houses	✓	
		Mix	
Harloe (1995)			
8. High level of state provision	High level of state provision	✓	
9. Low level of homeownership	High level of homeownership		✓
		Mix	
Doling (1999)			
10. Rules of Access	Based on ability to pay & non-financial criteria	✓	
11. Rules of Exit	No intervention from government if house repossessed		✓
		Mix	
La Grange et al. (2004, 2005)			
12. Low % of homeownership	High percentage of homeownership		✓
13. State control of land	State controls land through planning system	✓	
14. State control of financing	No control over housing finance		✓
		Commodified	
Groves et al. (2007)			
15. Large amount of non profit housing	Small amount of not for profit housing		✓
		Commodified	

Note: D – Highly Decommodified C – Highly Commodified

Source: Author

The analysis shows low cost housing production displays signs of a commodification trend over the last 20 years, with a more significant role played by the market. This includes low cost housing finance, land and construction, especially those built by private housing developers. However, the state shows no sign of retreating from low cost housing allocation in Malaysia over the same period. The implementation of ORS in 1997 further enhanced the state's role in the low cost housing allocation process. Therefore, low cost housing allocation process is still not fully commodified, as the state continues to play a significant role. In conclusion, Malaysia's low cost housing provision shows a combination of commodification and decommodification models or a 'hybrid' model which is unique in the context of East Asia (see Figure 8.3).

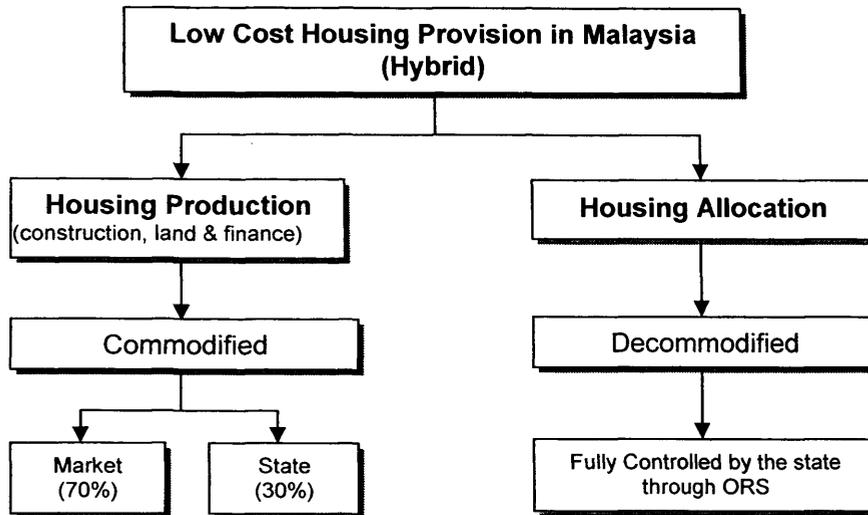


Figure 8.3: A Model of Low Cost Housing Provision in Malaysia

Source: Author

8.5 CONTRIBUTION OF THE RESEARCH

The first contribution of this research is a systematic analysis of the structure of housing provision (SHP) in Malaysia from the 1950s until 2005. The research highlights the impact of changes in the political economy with regard to the structure of housing provision in general and low cost housing provision specifically. For the first time, a systematic and comprehensive analysis of SHP in Malaysia since the 1950s has been conducted by the housing researcher. The research also identifies different themes and periods which earmark the changes in housing policy and SHP. Thus, this study contributes to new knowledge of housing provision in Malaysia and low cost housing provision in particular.

The second contribution is the locating low cost housing provision in Malaysia in the context of neo-liberal and developmental state debates. An analysis of low cost housing policy and provision was used to establish whether the Malaysian housing model fit within the neo-liberal or typical East Asian developmental state models. The finding from the research shows low cost housing policy and provision in Malaysia clearly fit well into the East Asia developmental state model, despite global trend towards a neo-liberal policy approach over the last 20 years.

Thirdly, this study has contributed in terms of housing commodification/decommodification literature. Over the last 20 years, most studies on housing commodification/decommodification have focussed on selected East Asian countries particularly China, Taiwan, South Korea, Hong Kong and Singapore. This research provides important knowledge of the low cost housing commodification/decommodification process in Malaysia. The finding of the research shows the significant role played by the market in low cost housing production, but the states strictly control and regulate low cost housing allocation in Malaysia. This makes Malaysia's low cost housing provision unique compared to other East Asian countries with distinctive features.

The fourth contribution is an in-depth understanding of the low cost housing allocation model in Malaysia. The research on ORS clearly demonstrates the role of the state in solving the housing problem, particularly with regard to squatters and access to low cost housing. Most importantly, the research findings show how the state intervened and regulated private sector housing development in order to achieve its national agenda.

Finally, this study has provided important knowledge on public-private partnership in low cost housing provision. Malaysia was categorised as a typical East Asian developing country alongside Thailand and Indonesia (World Bank, 1993). Therefore, housing policy and practice in Malaysia could provide a good example for the other developing countries of how to deal with housing issues. In many developing countries, the private sector is generally unwilling to accept the high risks and low profits of building houses for the poor (Payne, 1984, p.3). The practice of the Malaysian low cost housing production and allocation system shows how the state and market can work together to solve housing problems for people with a low income.

8.6 SUGGESTIONS FOR FUTURE RESEARCH ON THE LOW COST HOUSING ALLOCATION SYSTEM IN MALAYSIA

Since there is a lack of research on the changing role of the state in low cost housing allocation over the last two decades, especially in East Asian developing countries, further studies are required to fill the gap in the housing literature. An understanding of housing issues and practice in East Asian developing countries like Malaysia is important to provide examples for other developing countries. With a growing tendency

for researchers to examine the impact of neo-liberalism and housing commodification in East Asia. The findings in this research also contribute to filling the gap of knowledge on how the state reacted to pressure from international agencies on neo-liberal reform in housing provision.

However, this research could not cover in detail every aspect of low cost housing provision in Malaysia due to limited time and a vast knowledge gap in Malaysian housing literature. Attention is then focussed on the allocation stage of low cost housing, based on current practice under the ORS. Further studies are required in several areas of low cost housing provision in Malaysia; firstly regarding the perceptions of the various players involved in low cost housing allocation in Malaysia, particularly the private housing developers and the house buyers. The second area for investigation is the implication of government control over low cost housing allocation with regard to private sector provision. Finally, in-depth study on how the ORS has changed low cost housing tenure in Malaysia.

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APPENDICES

In-depth Interview Questions

Federal Officer 1

- Q1: What was your last position in Ministry of Housing and Local Government?
- Q2: Can you explain how ORS was established and your role in its establishment?
- Q3: What is your view on the current ORS implementation?
- Q4: What are the common problems with ORS implementation?
- Q5: Why the government still control low cost housing registration and allocation including those built by the private housing developers?
- Q6: How the ministry used the data obtained from ORS?
- Q7: Why mismatch between low cost housing supply and demand still happen although the State governments have adopted ORS since 1997?
- Q8: Do you think the government should continue to control low cost housing allocation especially for houses built by the private sector or leave to the market?
- Q9: How was the relationship between the Federal and State government in relation to ORS implementation?

Federal Officer 2

- Q1: Can you explain your involvement in ORS establishment?
- Q2: How was the data from ORS used by the Ministry for low cost housing planning?
- Q3: Why the government still control the registration and allocation of low cost housing especially those built by the private housing developers?
- Q4: How the State government overcome the problem of low cost housing mismatch through ORS implementation?
- Q5: Why the government still intervene in low cost housing production and allocation in Malaysia?

Federal Officer 3

- Q1: What is your responsibility in the current ORS implementation?
- Q2: Why the ministry still monitor low cost housing allocation?
- Q3: Why after improvement done to ORS in 2006, there are still some State governments do not adopt the policy and criteria for low cost buyers selection proposed by the Federal government?
- Q4: What are the common problems highlighted by the State governments in relation to ORS implementation?
- Q5: How the coordination between the Federal and State government was done on ORS implementation?
- Q6: How the data from ORS was used by the Federal government?
- Q7: What are the common problems reported by private housing developers related to ORS?
- Q8: Do you think the Federal government should involve in low cost housing allocation?
- Q9: Do you think the government still need to control private sector low cost housing allocation?
- Q10: Do you think ORS still relevant in low cost housing allocation in Malaysia?

State Officer 1

- Q1: What is your position and responsibility in Selangor Housing and Property Board?
- Q2: What is the role play by your section in ORS implementation?
- Q3: How is the ORS implementation status in the State of Selangor?
- Q4: Any complaints from low cost house buyers on registration and housing allocation through ORS?
- Q5: Any complaints from private housing developers on ORS implementation in the State of Selangor?
- Q6: What kind of assistance given by SHPB to private housing developers related to ORS?
- Q7: What is your view on the ORS established by the Federal government?
- Q8: What is the priority group in low cost housing allocation in the State?
- Q9: What kind of assistance given by Ministry (MHLG) to the State government?
- Q10: How is the relationship between the State and Federal government in ORS implementation?
- Q11: How the state government used the ORS database?
- Q12: Why the State government still need to control low cost housing allocation including built by private housing developers?

Private Housing Developers (1, 2 & 3)

- Q1: What do you understand about the Open Registration System (ORS) for low cost house buyers?
- Q2: How long it takes to obtain the list of eligible low cost house buyers from the state government?
- Q3: Please describe your company experience dealing with the state government on the ORS?
- Q4: Do you think ORS is useful in promoting home ownership among the low cost house buyers?
- Q5: Do you think ORS is fair and transparent?
- Q6: Please explain your company experience dealing with the low cost house buyers?
- Q7: Any assistance from the state government in dealing with the low cost house buyers?
- Q8: Do the eligible low cost house buyers from the ORS have any difficulty to purchase the house?
- Q9: Do you think housing developers are ready to allocate low cost houses to purchasers directly?
- Q10: What is your opinion about the future of ORS in Malaysia?

Ex-Housing Developer 1

- Q1: How long you worked with the developer and your last position in the company?
- Q2: How is your experience dealing with the State government to obtained list of eligible buyers under ORS?
- Q3: Why there are many buyers list to purchase low cost house in this project?
- Q4: Is there any other channels to purchase low cost house in the State other than register with ORS?
- Q5: Do you think ORS is effective for housing allocation in Selangor?
- Q6: Do you think housing developers are ready to allocate low cost houses to purchasers directly?

Low Cost House Buyer 14

Q1: When do you bought low cost house in Sri Damansara?

Q2: How do you got the opportunity to buy low cost house without need to register with the State government under ORS?

Q3: Eventually after buying the house do you still need to register with the State government?

Q4: How many low cost house units the agent offered you to buy?

Q5: What is your opinion about the current low cost housing registration and allocation system in the State?

Q6: Do you think housing developers are ready to allocate low cost houses to purchasers directly?

Focus Group Interview Questions

Low Cost House Buyer (Sri Meranti Low Cost House Apartment)

- Q1: What do you understand about low cost housing registration and allocation system in the State?
- Q2: How is your experience buying low cost house from Bandar Sri Damansara developer?
- Q3: What are the problems do you faced during the registration stage?
- Q4: What are the problems do you faced in the waiting list period?
- Q5: How is your experience dealing with State government to register buying low cost house under ORS?
- Q6: What type of assistance given by the State government in the low cost house buying process?
- Q7: What type of assistance given by the housing developers during the registration and house buying process?
- Q8: What is your view on the current low cost housing registration and allocation system?
- Q9: Do you think housing developers are ready to allocate low cost houses to purchasers directly?

Approval Letter from Ministry of Housing and Local Government Malaysia to
Conduct Study on ORS



BAHAGIAN PEMBANGUNAN DAN PENYELARASAN
JABATAN PERUMAHAN NEGARA
KEMENTERIAN PERUMAHAN DAN KERAJAAN TEMPATAN
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Ruj. Tuan :

Ruj. Kami: (37)KPKT(S)06/980/12 Kit. 9

Tarikh : 19 Mac 2008

En. Syafiee bin Shuid
No. 22, Jalan AU 3/14
Medan Sri Keramat
54200 KUALA LUMPUR

Tuan,

**PERMOHONAN UNTUK MENDAPATKAN KEBENARAN MENJALANKAN
KAJIAN BERHUBUNG SISTEM PENDAFTARAN TERBUKA (SPT)
BERKOMPUTER BAGI RUMAH KOS RENDAH DI MALAYSIA**

Dengan segala hormatnya saya diarah merujuk kepada perkara di atas dan surat tuan, bil. phd/001/08 bertarikh 3 Mac 2008 adalah berkaitan.

2. Adalah dimaklumkan bahawa Jabatan ini bersetuju untuk memberikan kebenaran kepada tuan untuk menjalankan kajian berhubung Sistem Pendaftaran Terbuka (SPT) Berkomputer Bagi Rumah Kos Rendah Di Malaysia.

Sekian, terima kasih.

"BERKHIDMAT UNTUK NEGARA"

"KEMPEN KITAR SEMULA – FIKIR DULU SEBELUM BUANG"

Saya yang menurut perintah,

(FARMURHAYATI BINTI JAAFAR)
Jabatan Perumahan Negara
b.p. Ketua Setiausaha
Kementerian Perumahan dan Kerajaan Tempatan

s.k.:

KP/JPN

APPENDIX 4

Low Cost Housing Achievement by Public and Private Sector, 1971-2010

Malaysia Plan	Public Sector			Private Sector			Total		
	Planned	Completed	%	Planned	Completed	%	Planned	Completed	%
2 nd MP (1971-1975)	44,000	13,244	30	-	-	-	44,000	13,244	30
3 rd MP (1976-1980)	73,500	26,250	36	-	-	-	73,500	26,250	36
4 th MP (1981-1985)	176,500	71,300	40	90,000	19,170	21	266,500	90,470	34
5 th MP (1986-1990)	398,570	201,900	51	370,400	88,877	39	768,970	290,777	38
6 th MP (1991-1995)	126,800	46,497	37	217,000	214,889	99	343,800	261,386	76
7 th MP (1996-2000)	60,000	60,999	102	140,000	129,598	93	200,000	190,597	89
8 th MP (2001-2005)	175,000	81,108	46	39,000	94,029	241	214,000	175,137	82
9 th MP (2006-2010)	85,000	-	-	80,400	-	-	165,400	-	-
Total	1,139,370	501,298	48	856,400	936,800	64	2,076,170	1,047,861	55

Source: Five Years Malaysia Plan (various years)

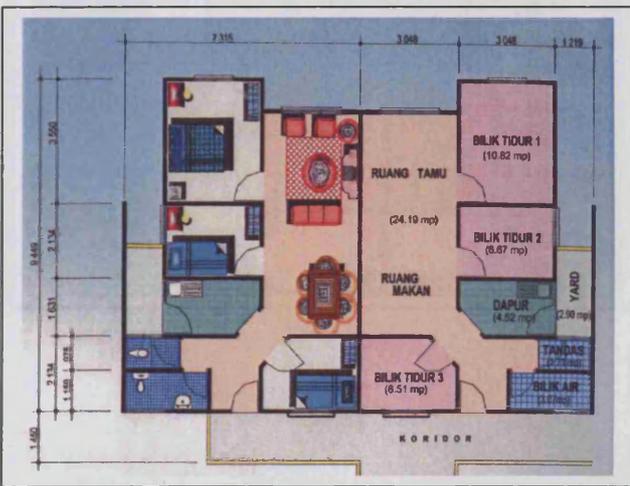
Note: The official statistic for low cost housing in Malaysia only available after 1971 and data for private sector achievement in low cost housing provision only available after 1980.

Low Cost House Design Specifications

Elements	Terrace Houses	Flats
Floor Space	48-60 m ²	45-56 m ²
Bedroom		
-minimum number	3	3
-minimum area of habitable room		
(i) First room	11.7 m ²	11.7 m ²
(ii) Second room	9.9 m ²	9.9 m ²
(iii) Third room	7.2 m ²	7.2 m ²
Kitchen-minimum area	4.5 m ²	4.5 m ²
Living and dining rooms	Provided as one combined space or separately with adequate area according to internal layout.	Provided as one combined space or separately with adequate area according to internal layout.
Bathroom and toilet	Provided separately with minimum area of 1.8 m ² each.	Provided separately with minimum area of 1.8 m ² each.
Storage space and porch	Adequate provision for resident's comfort.	Adequate provision for resident's convenience and comfort.
Drying area	-	Adequate provision for each unit.
(*) Launderette facilities		

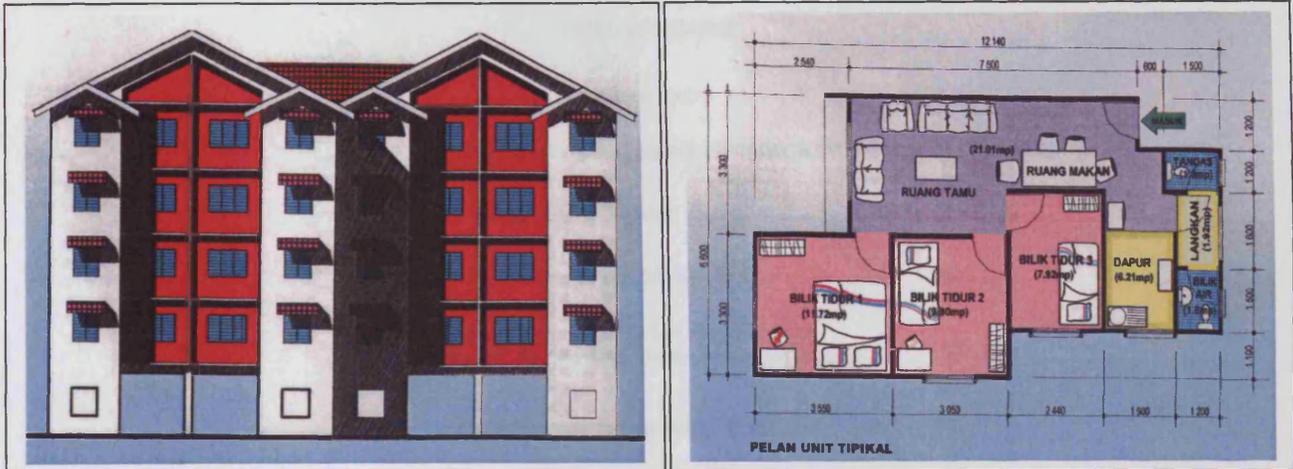
Sources: Ministry of Housing and Local Government 2002 & CIDB 1998

Typical Design for High Rise Low Cost House



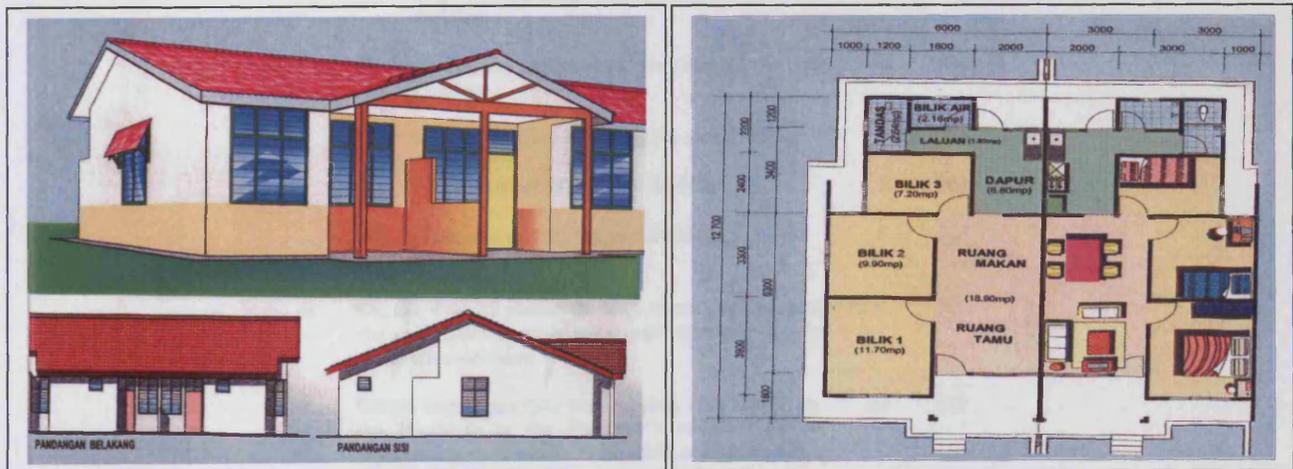
Source: National Housing Department, 2002

Typical Design for 5-Storey Walk-up Low Cost Apartment



Source: National Housing Department, 2002

Typical Design for Terrace Low Cost House



Source: National Housing Department, 2002

**Sales and Purchase Agreement (Land and Building) – Schedule G
Housing Developers Act, 1966**

THIRD SCHEDULE

(Clause 4(1))

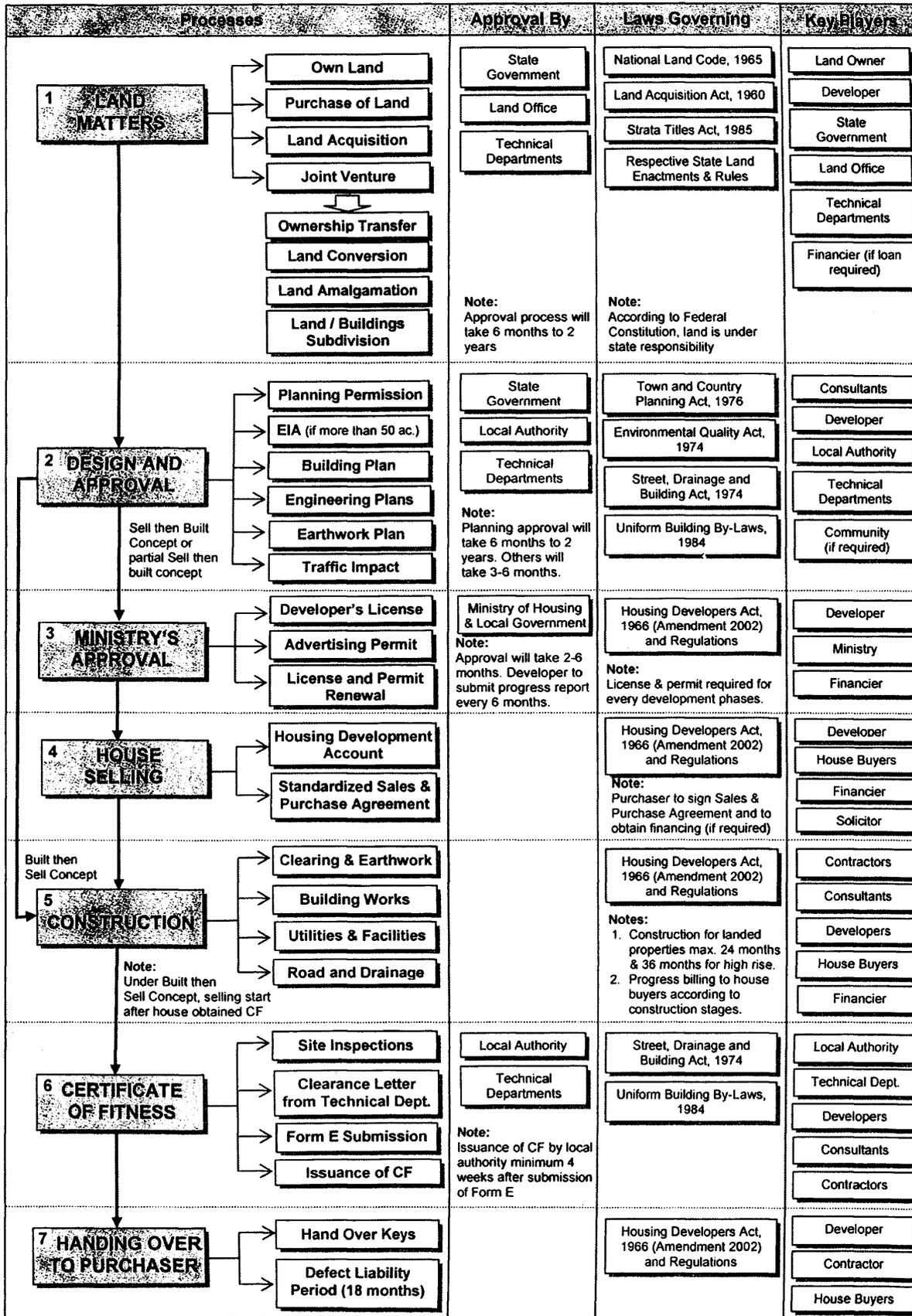
SCHEDULE OF PAYMENT OF PURCHASE PRICE

	<i>Instalments Payable</i>	%	<i>Amount</i>
1.	Immediately upon the signing of this Agreement	10	RM
2.	Within twenty-one (21) working days after receipt by the Purchaser of the Vendor's written notice of the completion of-		
	(a) the foundation and footing works of the said Building;	10	RM
	(b) the reinforced concrete framework of the said Building	15	RM
	(c) the walls of the said Building with door and window frames placed in position	10	RM
	(d) the roofing, electrical wiring, plumbing (without fittings), gas piping (if any) and internal telephone trunking and cabling to the said Building	10	RM
	(e) the internal and external plastering of the said Building	10	RM
	(f) the sewerage works serving the said Building	5	RM
	(g) the drains serving the said Building	5	RM
	(h) the roads serving the said Building	5	RM
3.	On the date the Purchaser takes vacant possession of the said Building, with water and electricity supply ready for connection	12.5	RM
4.	Within twenty-one (21) working days after receipt by the Purchaser or the Purchaser's solicitors of the separate document of title to the said Lot together with a valid and registrable Memorandum of Transfer to the Purchaser duly executed by the Vendor or on the date the Purchaser takes vacant possession of the said Building, whichever is later.	2.5	RM
5.	On the date the Purchaser takes vacant possession of the said Building as in item 3 and to be held by the Vendor's solicitor as stakeholder for payment to the Vendor as follows:-	5	RM
	(a) two point five per centum (2.5%) at the expiry of six (6) months after the date the Purchaser takes vacant possession of the said Building;		
	(b) two point five per centum (2.5%) at the expiry of eighteen (18) months after the date the Purchaser takes vacant possession of the said Building		
	TOTAL	100	RM

**Sales and Purchase Agreement (High rise) – Schedule H
Housing Developers Act, 1966**

	<i>Instalments Payable</i>	%	<i>Amount</i>
1.	Immediately upon the signing of this Agreement.	10	RM
2.	Within twenty one (21) working days after receipt by the Purchaser of the Vendor's written notice of the completion of:-		
	(a) the work below ground level including piling and foundation of the said Building comprising the said Parcel	10	RM
	(b) the reinforced concrete framework and floor slab of the said Parcel	15	RM
	(c) the walls of the said Parcel with door and window frames placed in position	10	RM
	(d) the roofing/ceiling, electrical wiring, plumbing (without fittings), gas piping (if any) and internal telephone trunking and cabling to the said Parcel	10	RM
	(e) the internal and external plastering of the said Parcel	10	RM
	(f) the sewerage works serving the said Building	5	RM
	(g) the drains serving the said Building	5	RM
	(h) the roads serving the said Building	5	RM
3.	On the date the Purchaser takes possession of the said Parcel with water and electricity supply ready for connection to the said Parcel	12.5	RM
4.	Within twenty-one (21) working days after receipt by the Purchaser of the written confirmation of the Vendor's submission to and acceptance by the Appropriate Authority of the application for subdivision of the said Building	2.5	RM
5.	On the date the Purchaser takes vacant possession of the said Parcel as in item 3 and to be held by the Vendor's solicitor as stakeholder for payment to the Vendor as follows:-	5	RM
	(a) two point five per centum (2.5%) at the expiry of six (6) months after the date the Purchaser takes vacant possession of the said Parcel		RM
	(b) two point five per centum (2.5%) at the expiry of eighteen (18) months after the date the Purchaser takes vacant possession of the said Parcel		RM
	TOTAL	100	RM

Housing Development Process in Malaysia under Build-then-Sell System



Source: Adopted from REHDA, 2008

APPENDIX 7

ORS Main Criteria and Point System according to September 1997 Guideline

Main Criteria	Point	Main Criteria	Point
1. Current Rental Burden (RM)		3. Status of Existing House	
Formula = $\frac{\text{Household Income} - \text{Existing Rental}}{\text{No. of Dependent}}$		a) Owned Squatter house	50
0 - 20	100	b) Rent Squatter house	45
21 - 40	95	c) Garage, store, hall, stall, etc.	40
41 - 60	90	d) Rental House (flat, terrace, quarters)	20
61 - 80	85	e) Temporary stay (parents or friend)	5
81 - 100	80	4. Marital Status	
101 - 120	75	a) Widow with children	25
121 - 140	70	b) Single mother	20
141 - 160	65	c) Single father.	10
161 - 180	60	5. Occupation	
181 - 200	55	a) Government servant	25
201 - 220	50	b) Private sector employee	20
221 - 240	45	c) Business/own occupation	20
241 - 260	40	d) Others	15
261 - 280	35	6. Disability	
281 - 300	30	a) Blindness, physical disability	25
301 - 320	25	b) Deafness, dumbness, dwarf	10
321 - 340	20	c) Others	5
341 - 360	15	7. Other Dependents	
361 - 380	10	a) Parents	25
381 - 400	5	b) Siblings/grandparents/niece	20
401 and above	0	8. Monthly Household Income	
2. Current Rental Burden (RM)		a) Less than RM500	0
Formula = $\frac{\text{Household Income} - \text{Existing Rental}}{\text{No. of Dependent}}$		b) RM500 to RM600	25
0 - 20	60	c) RM601 to RM750	10
21 - 30	65	d) RM751 and above	0
31 - 40	70	9. Loss of Home	
41 - 50	75	a) Relocation Order (illegal squatters)	10
51 - 60	80	b) Disaster (i.e. flood) total house damage	10
61 - 70	85	c) Other than above	5
71 - 80	90	10. Dependents (Children)	
81 - 90	95	a) 1 person	2
91 - 100	100	b) 2 persons	4
101 - 110	100	c) 3 persons	6
111 - 120	95	d) 4 persons	8
121 - 130	90	e) 5 persons or more	10
131 - 140	85	11. Applicant Age	
141 - 150	80	a) Below 21 years	0
151 - 160	75	b) 21 to 29 years	2
161 - 170	70	c) 30 to 40 years	5
171 - 180	65	d) 41 years and above	10
181 - 190	60	12. Place of Work	
191 - 200	55	a) Within 5 km from the project	10
201 - 210	50	b) Within 10 km from the project	6
211 - 220	45	c) Within 15 km from the project	2
221 - 230	40	d) More than 15 km from the project	0
231 - 240	35	13. Length of Stay in Current Address	
241 - 250	30	a) More than 10 years	10
251 - 260	25	b) 8 to 9 years	8
261 - 270	20	c) 6 to 7 years	6
271 - 280	15	d) 4 to 5 years	4
281 - 290	10	e) 2 to 3 years	2
291 - 300	5	f) Less than 2 years	0
301 and above	0	14. Place of Birth	
		a) Within the state applied	10
		b) Outside the state applied	0

ORS Main Criteria and Point System according to April 1998 Guideline

Main Criteria	Point	Main Criteria	Point
1. Loss of Home		8. Other Dependents	
a) Relocation Order (illegal squatters)	100	a) Parents	10
b) Disaster (flood) total house damage	100	b) Siblings/grandparents/niece	5
c) Other than above	50		
d) Not relevant	0	9. Applicant Age	
2. Monthly Household Income		a) Below 21 years	0
a) Less than RM500	0	b) 21 to 29 years	2
b) RM500 to RM600	25	c) 30 to 40 years	5
c) RM601 to RM750	50	d) 41 years and above	10
d) RM751 and above	0	10. Place of Work	
3. Status of Existing House		a) Within 5 km from the project	10
a) Rent	30	b) Within 10 km from the project	6
b) Illegal Squatter	50	c) Within 15 km from the project	2
c) Staff Quarters by Employer	20	d) More than 15 km from the project	0
e) Temporary stay (parents or friend house)	0	11. Length of Stay in Current Address	
f) Owned house	0	a) More than 10 years	10
4. Marital Status		b) 8 to 9 years	8
a) Married	15	c) 6 to 7 years	6
b) Widow/Single mother/Single Father	25	d) 4 to 5 years	4
c) Single	5	e) 2 to 3 years	2
5. Occupation		f) Less than 2 years	0
a) Government servant	25	12. Place of Birth	
b) Private sector employee	15	a) Within the state applied	10
c) Business/own occupation	15	b) Outside the state applied	0
d) Others	10		
6. Dependents (Children)			
a) 1 person	5		
b) 2 persons	10		
c) 3 persons	15		
d) 4 persons	20		
e) 5 persons or more	25		
7. Disability			
a) Blindness, physical disability (unable to walk) Deafness, dumbness, dwarf	10		
b) None	0		

ORS Main Criteria and Point System according to April 2006 Guideline

Criteria	Point	Criteria	Point
1. Monthly Income		8. House Status	
a) Less than RM1,500	26	a) Illegal Squatters/temporary stay	4
b) RM1,5001 to RM2,000	15	b) Rental	3
c) RM2001 to RM2,500	10	c) Quarters	2
d) More than RM2,500	5	d) Own house (other than squatters)	1
2. Existing Place of Living		9. Occupation	
a) Metropolitan City	4	a) Government	2
b) City	3	b) Government Pensioner	2
c) Major Town	2	c) Own business (hawkers, etc.)	1
d) Small Town	1	d) Private companies	1
e) Rural Area	0	e) Jobless	0
3. Dependants (No. of Child/Adopted Child)		f) Others	0
a) 1	5	10. Registration Duration	
b) 2	10	a) 3 years and more	2
c) 3	15	b) Less than 3 years	1
d) 4 and above	20	11. Ex-police or Army	
e) <i>Siblings/Parents/Grandparents/</i> <i>Parents in-laws/ Nephews</i>	10	a) Yes	2
4. Applicant's Age		b) No	0
a) 18 to 25 years	5	12. Disable Spouse	
b) 26 to 45 years	10	a) Yes	2
c) 46 to 56 years	8	b) No	0
d) More than 56 years	5	13. Disable Child	
5. Marital Status		a) Yes	2
a) Single Mother/Father (with child)	6	b) No	0
b) Married	3		
c) Single	2		
6. Disability Status			
a) High level (physical/blindness)	5		
b) Medium level (deafness/dumb)	3		
c) Low level	2		
7. Health Status			
a) High level	4		
b) Medium level	3		
c) Low level	2		

Institutional Framework for ORS Implementation

