

# THE CHANGING ROLE OF THE STATE AND MARKET IN LOW COST HOUSING PROVISION IN MALAYSIA

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## ABSTRACT

Since 1990s the global trend in housing provision shows a shift towards greater market role including for low income housing. Increasingly the state relied on market to provide low income housing and confined its role as enabler and facilitator to support the market. Housing provision refers to process of housing production and consumption or allocation by the consumers. Thus, the analysis in this paper focused on the role of the state and market in low cost housing production and allocation process. The findings showed the state gradually began to retreat from direct low cost housing provision and relied on market since 1990s. Despite economic crisis in 1997-1998 the market still played significance role in low cost housing production. Instead the state focused on solving housing problem among the squatters and revived the economy through public housing programmes. However in terms of low cost housing allocation, the state still retained control since 1950s. This explained the unique features of low cost housing provision system in Malaysia.

*Keywords: Role of State and Market, Low Cost Housing, Neo-liberalism, Housing Provision, Housing in Malaysia*

## INTRODUCTION

Since the early 1980s the state's development programmes have increasingly been replaced by market oriented policies through privatisation, deregulation and liberalisation under neo-liberal regimes.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, health provision and housing (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. 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 including Malaysia particularly housing for the low income people.

According to Doling (199), the process of housing provision involves three main stages, namely development, construction (or production) and consumption (or allocation). Although the low cost housing provision in Malaysia has been widely studied by local and international scholars, they mostly emphasized the role of the state and the market at the development and construction stages (see Drakakis-Smith, 1981; World Bank, 1993; Malpezzi and Mayo, 1997; Agus, 2002). There still lack studies focusing on the role of the state and market at the consumption process except by Agus (1986, 1992).

Thus, the purpose of this paper is to analyze the changing role of the state and market in low cost housing provision in Malaysia for both production and consumption stage since 1950s. The main objectives of this study are:

1. to determine the role of the state and market in low cost housing provision.

2. to analyse the role of the state and market in low cost housing provision in Malaysia in the context of global and regional trend towards market provision.
3. to identify the significant role played by the state and market in low cost housing provision according to different period since 1950s.

The paper are divided into five sections including literature review, conceptual framework, analysis of the role of the state and market, summary and conclusion.

## **LITERATURE REVIEW: THE ROLE OF STATE AND MARKET IN HOUSING PROVISION**

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.

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). However 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).

Meanwhile in the context of housing provision, according to Kemeny (2002 p.191) in developed countries, during different historical periods, different conditions can alter the balance between market and state. 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. 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, p. 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 (Zhang and Sheng 2002, p.1). The traditional concept 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 market to provide public housing services since 1993 (World Bank 1993).

Meanwhile studies during early 2000s 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 and Murie, 1996, 1999; 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). Thus, many scholars during the 1990s suggested a convergence of the East - West policy approach seemed possible.

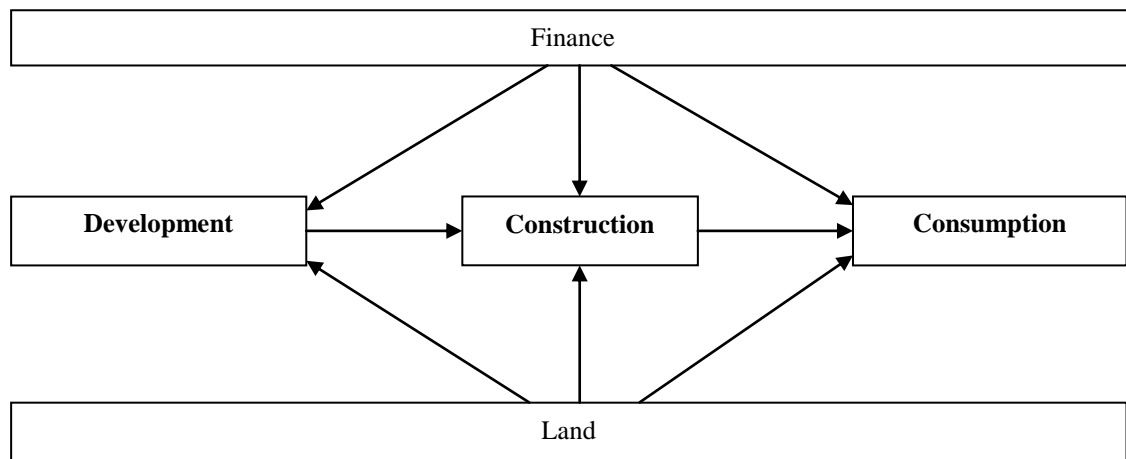
The neo-liberal and market transformation in East Asia accelerated faster following the Asian financial crisis. Countries worst affected by the crisis were expected to adopt neo-liberal housing policies, particularly South Korea, Thailand, Indonesia and Malaysia (Agus et al., 2002). Housing investment 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 focused on stabilising the housing market after the crisis and encouraged the private sector to get involved in housing provision.

However recent studies identified 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) explained, 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. The next section will discuss the analysis of the role of state and market in low cost housing provision in Malaysia since 1950s.

### CONCEPTUAL FRAMEWORK

Doling (1999) suggests the determination of housing policy regimes in any country 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 developed 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 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 paper, the terms housing provision mainly refers to production and allocation process.



**Figure 1: Housing Provision Process** (Source: Doling 1999, p.231)

The development stage involves various agents setting-up the conditions for house construction to take place (Doling 1999, 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 and how the product get into the consumers. 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.

Thus, in the context of this research the analysis of the changing role of state and market in low cost housing provision will be done based on descriptive analysis of the policy according to themes or period since 1950s. The discussion began with explanation of the main housing issues during that period. Then the analysis focused on the role played by the state and market in dealing with the issues in terms of production and allocation. The impact of changing country's and global political economy is also discussed briefly in the analysis to provide better understanding of changing role of the state and market in low cost housing provision. Finally the summary of the changing role of the state and market will be explained based on analysis done earlier. However the analysis was not intended to discuss the impact of these changes on the demand and supply of low cost housing but rather to explain the dynamic of low cost housing provision system in Malaysia since 1950s.

## **ANALYSIS: THE CHANGING ROLE OF STATE AND MARKET IN LOW COST HOUSING PROVISION IN MALAYSIA**

Housing in Malaysia are divided into several categories according to selling price namely high, medium, low medium and low cost housing based on Ministry of Housing and Local Government definition. In Malaysia low cost housing is defined according to selling price and the target group of the house. Selling price and buyers for low cost housing in Malaysia are controlled by the government since 1950s. The target group usually low income people with maximum monthly household income determined by the government from time to time (see Table 1). In 1981, the ceiling price was set at RM25,000 (USD8,333) per unit for people with income below RM750 (USD250) to RM1,000 (USD333) per month. The government also imposed a 30% low cost housing quota for every private sector residential development regardless of the project location. Since 1998 the price of low cost house was increased to maximum RM42,000 (USD14,000) per unit for household with income less than RM1,500 (USD500) per month.

<b>Period</b>	<b>House price/unit</b>	<b>Area</b>	<b>House Type</b>	<b>Target Group (Household)</b>
Before 1970	RM 5,000 (USD556) to RM 12,000 (USD4,000)	All	All	Income less than RM300 (USD100) per month
1970 - 1980	RM 15,000 (USD5,000) to RM 18,000 (USD6,000)	All	All	Income RM500 (USD167) – RM 700 (USD233) per month
1981 - 1997	RM 25,000 (USD8,333)	All	All	Income RM750 (USD250) – RM 1,000 (USD333) per month
1998 – to date	RM 25,000 (USD8,333) – RM42,000 (USD14,000)	Based on land value	According to location	Income RM750 (USD250) – RM 1,500 (USD500) per month

**Table 1: Low Cost Housing Price in Malaysia** (Source: Asek 2007)

Note: Exchange rate as of 31 August 2011 USD1.00 = RM3.00 (Source: Maybank.com.my)

In term of production, since independence until 1970 almost all low cost houses were provided by the state mainly through Housing Trust of the Federation of Malaya. However the number produced generally very low compared to the demand (Jagatheesan 1979, p. 26). The housing

production began to increase after 1970s with bigger role play by the state and market. From 1971 to 2005, a total of 1,047,861 units of low cost house were built by public and private sectors in Malaysia with another 165,400 units planned for 2006-2010 period. Overall, private sector achievement is much better than public sector although they only began active involvement since 1980 with total 546,563 units completed as compared to public sector with only 501,298 units completed. The private sector contributed bigger portion of low cost housing since Sixth Malaysia Plan (1991-1995) in line with global trend towards market provision. However the contribution by private sector began to decline following to Asian Financial Crisis in 1997 (see Figure 2). Similarly, as explained by Kemeny (2002), the government of Malaysia began to increase low cost housing production after the crises when market production decreased.

Since 1971 the public housing expenditure is steadily increased in every five year Malaysia plan. However the government began to reduce the public housing expenditure during the Fifth Malaysia (1985-1990) and Sixth Malaysia Plan (1991-1995). This is in line with economic liberalisation and increased role played by the private sector in housing provision during the booming period. But since the crisis, the expenditure continued to increase sharply in line with bigger role played by the state in housing provision. A total of RM9.4 billion (USD3.1 billion) allocated for low cost public housing during the Ninth Malaysia Plan (2006-2010) compared to RM4.2 billion (USD1.4 billion) in the Eight Malaysia Plan (2001-2005), an increased of more than 110% (see Figure 3). Unlike in the public sector, there is no records on the expenditure spend by the private sector in low cost housing provision.

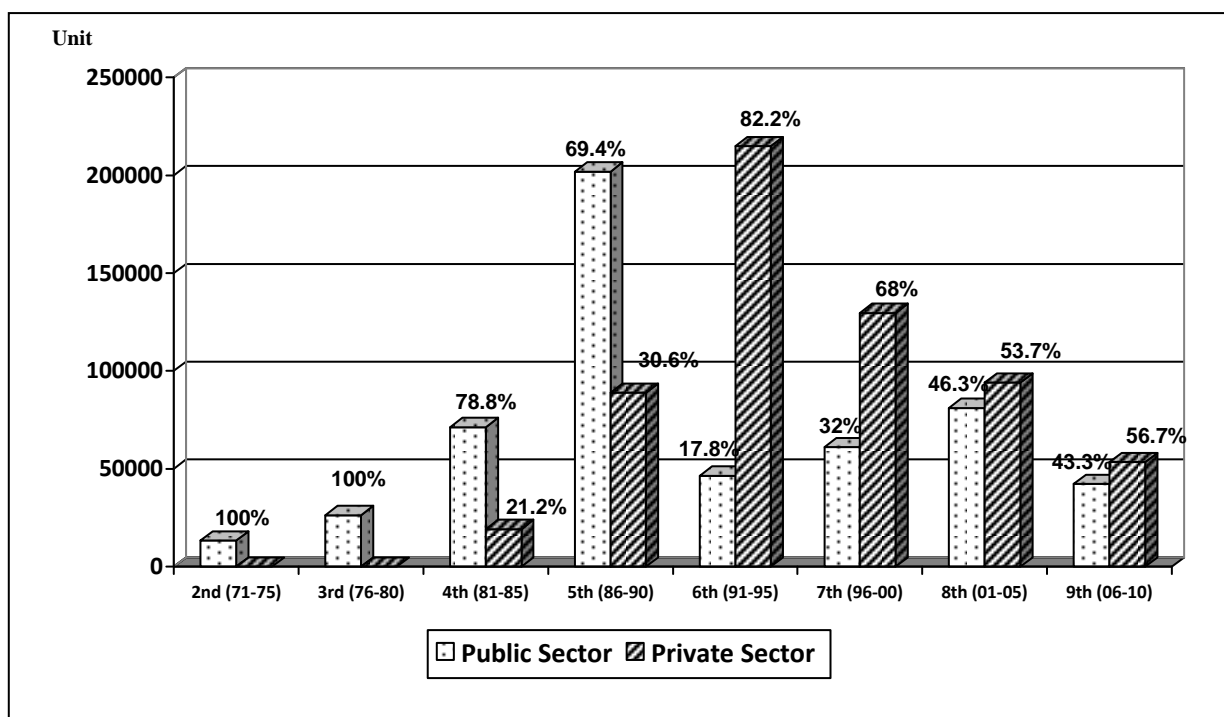
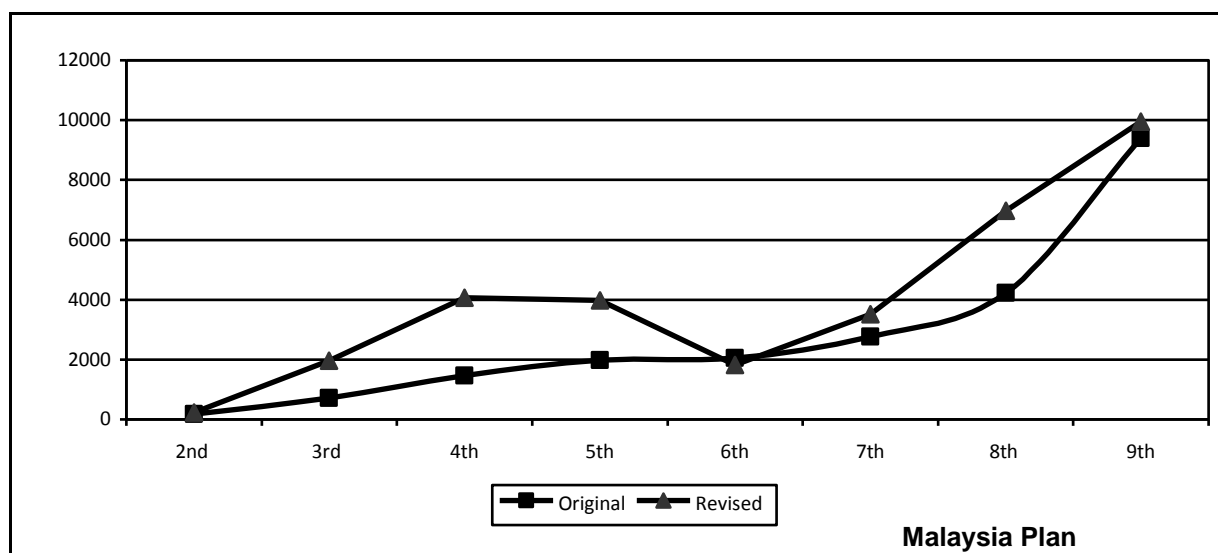


Figure 2: Completed Low Cost Housing Units by Public-Private Sectors from 2<sup>nd</sup> to 9<sup>th</sup> Malaysia Plan, 1971 – 2005 (Source: Various Malaysia Five Year Development Plans)

RM (000')



**Figure 3: Public Low Cost Housing Expenditure, 1971-2005** (Source: Various Malaysia Five Year Plans)

The changes in the low cost housing policy, programmes and allocation system in Malaysia according to Shuid (2011) can be explored within four major chronological periods or themes 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. '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. 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. Table 2 displays a summary of the low cost housing policy, programmes and allocation system from 1956 to 2005.

### ***Selective State Intervention Period (1956-1970)***

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 (Housing Trust, 1956 p.5). The Housing Trust's role as a government agent also earmarked the beginning of state intervention in low cost housing provision in Malaysia. Meanwhile, the private sector concentrated its role of providing housing for people with a middle and high income.

During the early stage of 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 (MLGH, 1966, p.3). Firstly, the Federal government through MLGH 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. 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). In 1967, the Housing Trust implemented the '*Crash Programme*' to overcome the housing shortage (MLGH, 1968). 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. 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 and thus very selective in its implementation (Drakakis-Smith, 1979; Alithambi, 1979).



**Table 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
<b>SELECTIVE STATE INTERVENTION</b>	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"> <li>• People live in squatter and low rank government servants</li> <li>• People with monthly income less than RM300</li> <li>• Dependents (max. 16)</li> </ul>
	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.		
<b>EMERGENCE OF STATE CONTROL</b>	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"> <li>• Bumiputera</li> <li>• People with monthly income RM300 – RM750</li> <li>• Dependents (max. 16)</li> <li>• People live in the state</li> </ul>
	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.		
<b>MARKET REFORM</b>	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"> <li>• Bumiputera</li> <li>• People with monthly income RM500 – RM750</li> <li>• Dependents (max. 7)</li> <li>• People live in the state</li> <li>• Applicants' age</li> <li>• House condition</li> </ul>
<b>SQUATTER CLEARANCE</b>	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 and implemented by the State governments	<ul style="list-style-type: none"> <li>• Squatter residents</li> <li>• People with monthly income RM500 – RM750</li> <li>• Dependents (max. 7)</li> <li>• People live in the state</li> <li>• Applicants' age</li> <li>• Disability</li> <li>• Consumer Price Index</li> </ul>
	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.		

Note: USD1.00 = RM3.00 (as of 31<sup>st</sup> August 2011)

Source: Shuid 2011, p. 118

In term of housing allocation, from 1956 to 1964 it was based 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 straightforward. 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 MLGH. 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, 1968, 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.

### ***The Emergence of State Control Period (1971-1990)***

The implementation of the New Economic Policy (NEP) in 1971 earmarked a major shift toward greater state control in low cost housing provision (see Jomo 1997, 1999; Boo Teik 1998 for the details on NEP). 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, 1979, p.102). At the same time, the political leaders also favoured technocratic modernisation in housing and buildings rather than slum upgrading programmes.

Due to failure of the Housing Trust to provide adequate low cost houses during the 1960s and early 1970s, 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. The State government began to play a significant role in low cost housing provision and allocation after 1976. 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.

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 (USD8,333) per unit with 3 bedrooms, a minimum size of 60 sq metres and targeted at people with a household income of less than RM750 (USD250) 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 State government was responsible for the selection of buyers and the collection of monthly installments from those buyers. The money collected was then used to pay back the loan from the Federal government. 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.

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. 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. Therefore the government agreed not to control the selling price for medium and high cost houses. Nevertheless, the approach contributed to a huge price increase for medium and high cost housing (Johnstone, 1980, p.356).

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 in 1972, the private sector could play a crucial role in alleviating low cost housing shortages in Malaysia (Johnstone, 1980, p. 56). According to Johnstone (1980 p.338), there are three

ideological justifications which explain the need for private sector involvement in low cost housing provision. 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. 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. Similarly, 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). Under this programme, the Federal government, through the Central Bank of Malaysia, provided a financial package of RM2 billion (USD667 million) for housing construction.

Since 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 player 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). 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, 1992, p. 60). 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 (Agus, 198, p.61).

### ***Market Reform Period 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. This was in line with the World Bank's recommendations to further enhance the market's role in housing provision (World Bank, 1993).

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. Many scholars suggest 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.

As recommended by the World Bank (1993), the government began to reduce its role as a low cost housing provider. 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 and lower building specifications to reduce the cost of construction (Sirat *et al.*, 1999, pp. 81-83). They noted despite reliance on private sector to provide low cost housing but the country's complex political economy made it necessary for the government to control the low cost housing market through legal, regulatory and economic frameworks. 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.

However, by the mid 1990s, the Federal government increasingly disappointed with the State governments' failure to provide adequate housing for low income people 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 (USD 200 million) or 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 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. A total of 14,751 units were completed under this programme nationwide, mainly in Kuala Lumpur. Meanwhile, monthly rental was set at RM124 (USD41) per month, based on affordability among people with a low income (MHLG, 1999a).

The practice of low cost housing allocation during this period 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, 2004). 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.

### *Squatter's Clearance Period (1998-2005)*

The number of people living 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. This shows that the increased in market provision does not guaranteed the squatters elimination. However 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 (MHLG, 1999b). Selangor had the highest number of residents living in squatter, with 171,396 people or 30 percent of total squatters in Malaysia. 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, 1999b). Thus, the squatter issues in Malaysia not only contributed to physical, environment and social problems, but also to national security.

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's 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. 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.

The Federal government began to step up its efforts to eliminate the squatters following a discussion between the then Prime Minister Mahathir and the Mayor of Kuala Lumpur in 1996 (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. The price of low cost houses remained the same throughout the country for seventeen years, 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 government finally agreed to introduce a new pricing structure in June 1998. Low cost house ceiling price was increased to RM42,000 (USD14,000) per unit according to location for

private low cost housing and RM35,000 (USD11,667) per unit for public housing (see Table 3).

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 (USD14,000)	35,000 (USD11,667)	Cities and major towns RM45 (US\$15) and above	1,200 (USD400) to 1,500 (USD500)	More than 5-storey flat
35,000 (USD11,667)	30,000 (USD10,000)	Major towns and fringes RM15 (USD 5) to RM44 (USD15)	1,000 (USD333) to 1,350 (USD450)	5-storey flat
30,000 (USD10,000)	28,000 (USD9,333)	Small towns RM10 (USD3) to RM14 (USD5)	0800 (USD267) to 1,200 (USD400)	Terrace and cluster
25,000 (USD8,333)	25,000 (USD8,333)	Rural Areas Less than RM10 (USD3)	750 (USD250) to 1,000 (USD333)	Terrace and cluster

**Table 3: Four-tier Pricing for Low Cost Housing for the Private and Public Sector from 1998**  
(Source: MHLG, 2002)

Based on 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’ during the Asian Financial Crisis (1997-1998). 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 nationwide within five years (1998-2002). 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.

Under this programme, houses were still rented out at a very low rate of RM124 (USD41) per month to make them affordable to the squatters (Asek, 2007 p. 221). 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. 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, the Federal government through National Housing Department 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.

In view of various issues related low cost housing allocation during the early 1990s, the federal government believed there is a need for more efficient and transparent system for low cost housing allocation for the whole country. The Research and Development Division or

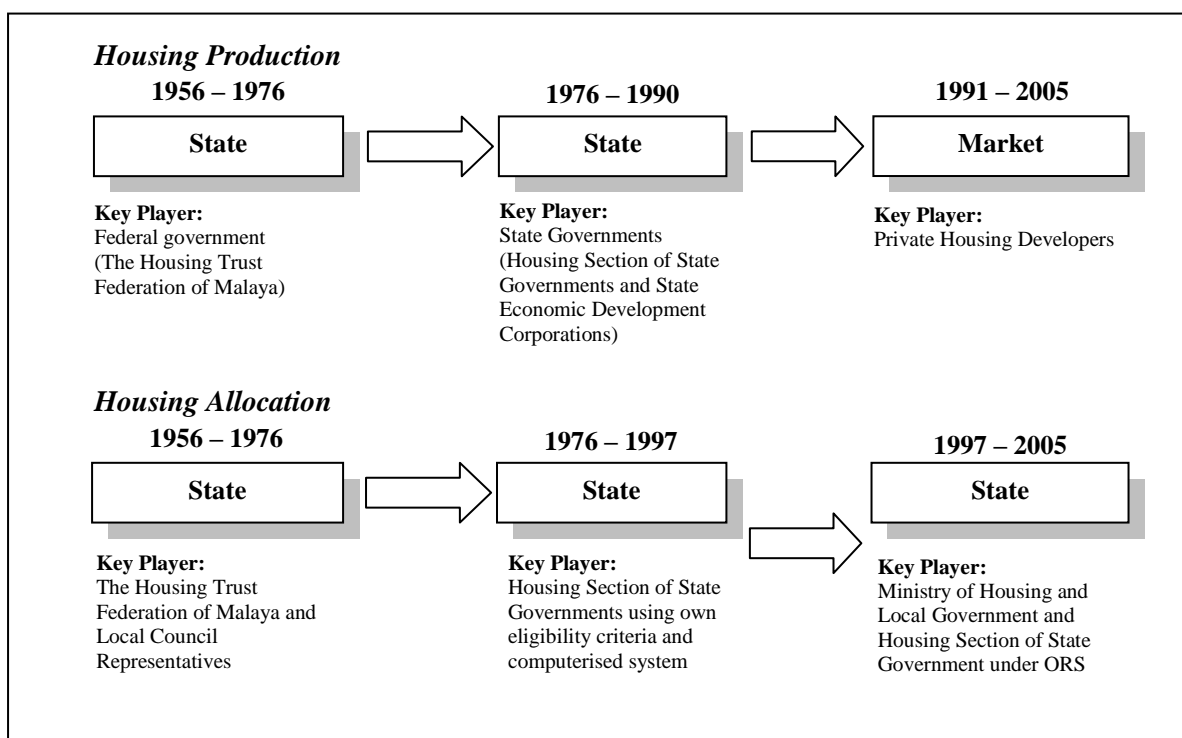
known as MAHSURI (Malaysia Housing Research Institute) of National Housing Department was responsible to come out the proposal to establish the Open Registration System (ORS) in 1996. ORS finally approved for introduction and implementation throughout the country in May 1997 (MHLG, 2004 p.1). The ORS aim to standardized the policy and selection criteria for low cost house buyer for all state governments in Malaysia. Before implementation of ORS, low cost housing allocation is responsibility of respective state government without MHLG intervention. The new allocation system not only limited for selection of buyers for public low cost housing but also include those built by private sector. The system also incorporates systematic and effective measures for the buying and selling of low cost houses.

There are five main purposes of the ORS establishment according to MHLG (NHD 1998). First is to provide a countrywide “waiting list” of eligible low cost house buyers. Second, to standardize the criteria for the selection of eligible buyers that are considered qualified and therefore can be “short listed”. Third, to avoid misconduct in the selection of eligible low cost house buyers, Fourth, to ensure that only eligible buyers will be entitled to buy and subsequently own low cost houses and that no buyers shall be allowed to purchase more than one unit of low cost house; and finally to make the selection process are more transparent. Under ORS, the applicants who aspire to purchase a low cost house must register with the MHLG through the respective state. The registration is open throughout the year, which explained why the system named as ‘Open Registration System’. MHLG also believe involvement of the politician and government officials in the state during selection process could be minimized using the improved computerized allocation system. At the same time it will promote greater fairness and transparency in allocation process. The success of Malaysia to reduce the number of people living in squatters from 571,261 in 1999 down to 102,045 in 2006 (MHLG 2006) showed the crucial role played by both the state and market in low cost housing production and allocation process during this period.

## **SUMMARY OF FINDINGS**

The analysis of housing provision in Malaysia shows the changing role of the state and market since the 1950s. 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 4). 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 4: Changing Role of the State and Market in Low Cost Housing Production and Allocation in Malaysia** (Source: Shuid, 2011, p. 256)

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 of standardizing 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. Thus, maintained strong state intervention in low cost housing allocation process in Malaysia since 1950s.

## CONCLUSION

In 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.

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. In 1981, the government began to impose compulsory low cost housing provision on the private sector through the introduction of a 30 percent 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.

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. Despite increasing role of the market in low cost housing provision, the government continued to control the private developers through various legislations and regulations. The role of government mainly confined towards low income people lives in squatters. The practice of low cost housing provision during this period clearly reflects changes towards the market economy approach.

Due to the need to address the problem of squatters, in 1994 and 1998 the Federal government implemented public housing programme for rental known as People Housing Programme (PHP). 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.

However, continuous state intervention and control in low cost housing allocation is not consistent with the market provision trend in the region. The practice of low cost housing allocation in Malaysia is clearly against the market trend in housing provision. The state remains the key player and rejects the role of the market in low cost housing allocation although the market increasingly played significant role in low cost housing production since

1990s. It also shows the unique features of low cost housing provision system in Malaysia as compared to other East Asian countries which clearly moved towards greater market role in housing provision.

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