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MALAYSIAN HOUSING UNDER THE NEW ECONOMIC POLICY

By

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ABSTRACT

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By

Norhayati Kamaruddin

There are no countries in the world without some form of housing problem. In most of the developing countries, housing is one of the major issues faced by the government.

This paper first examines housing conditions in Malaysia. It looks at past and present conditions, and identifies some basic factors that have contributed to housing problems. The effects these factors have had upon the housing industry are also analyzed.

This paper also describes development and housing strategies implemented by the Malaysian Government under the New Economic Policy. Though provision of housing for low-income groups has been given high priority by the government, many policies have caused more harm than good. This paper evaluates the housing policies to determine their effectiveness.

The Urban Development Authority (UDA), a government agency which is given the responsibility to implement the housing policy, is also examined. This study reviews progress made by UDA and in what respects performance has fallen short of target.

Based on the analysis and the data derived from the secondary sources, recommendations are presented. The study recommends a number of general policy strategies that will reduce some of the present and future problems faced by the government, housing developers, house seekers, and others associated with the housing industry.

For My Loving Husband, Shahriar, Our Future Children, My Beloved Parent And Family.

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TABLE OF CONTENTS

page

Abstract i
Acknowledgements iv
List of Figure ix
List of Tables ix

PART 1 : MALAYSIA IN BRIEF

Location - Area 1

Climate 1

Population 2

System of Government 3

Economy 4

PART 2 : BACKGROUND

Housing Problems 6

Squatters and Slum Dwellers 9

Housing Shortage..... 12
Cutback in Housing Allocation 13
Reluctant Participation by Private Sector 14
Fewer Provision of Low Cost Housing 15

Summary of Housing in Malaysia 19

PART 3 : MALAYSIAN NEW ECONOMIC POLICY

Introduction 20

Pre-Independence Era 23

Post-Independence Era 24

1969 to 1975 Era 25

1976 to Present 28

Consequences of New Economic Policy 32

page

PART 4 : URBAN DEVELOPMENT AUTHORITY

UDA's Functions 38

Joint Venture 40
Land and Property Development Programs 40
Industrial and Commercial Development Programs 41
Guidelines for Negotiation and Agreement..... 42

Comprehensive Urban Development..... 43
Urban Development 44
New Town Development 44

Project Management/Consultant Service 45
Advisory and Consultant Services 46
Project Management Services 46

Acquisition of property 47
Commercial Property Acquisition 48
Land Acquisition 48

Property Marketing 48
Advisory 50
Guarantor 50

UDA Achievements 51
Low Cost Housing Projects 52

PART 5 : RECOMMENDATIONS AND SUMMARY

Introduction 56

A National Housing Strategy 57
In Depth Housing Survey 57
Mobilize Local Talent 58
Utilizing of Natural Resources 58
Balanced in the Development 58

Removal of Government Red Tape 59

Industrialized Approach in Construction 60

Better Cooperation Between Government and Private Sectors 62

Rural Area Development 63

Rental Units 64

page

Price Control 65

Finance/Government Incentives 66

Summary 67

Bibliography 71

LIST OF FIGURE

page

Figure 1.1 : Malaysia x

LIST OF TABLES

page

Table 2.1 : Regional Population Distribution by Ethnic Groups, 1970 - 1980 7

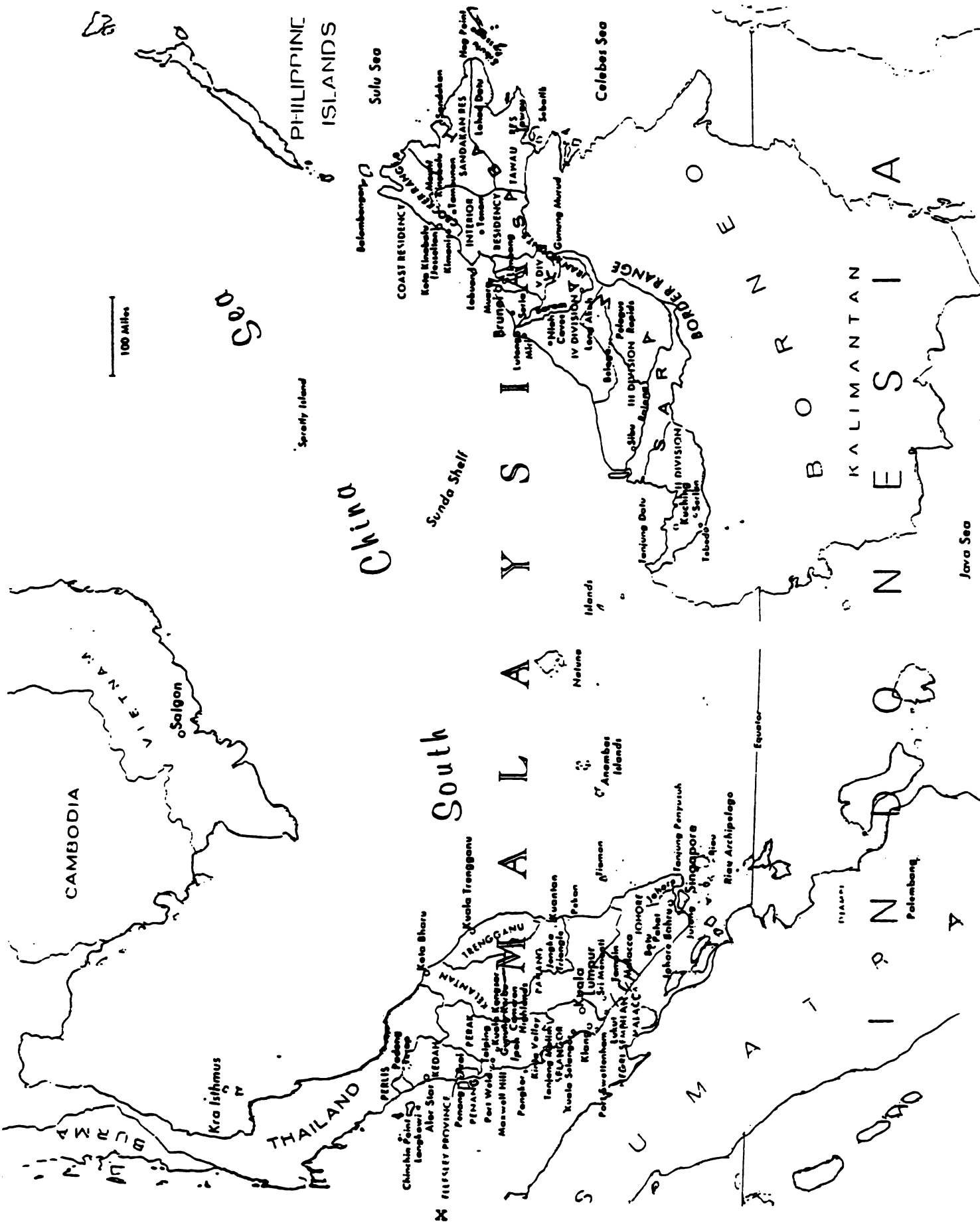
Table 2.2 : Population Growth, 1970 - 1980 10

Table 2.3 : Malaysia Public and Private Sector Housing Performance, 1981 - 1985 17

Table 2.4 : Malaysia Public Development Expenditure for Housing Programs, 1981 - 1990 18

Table 3.1 : Budgetary Allocation for Public Housing, 1971 - 1975 26

Figure 1.1: MALAYSIA



PART 1

MALAYSIA IN BRIEF

Location - Area

Malaysia is located within the region generally known as Southeast Asia and it is formed through the unification of the Federation of Malaya and the previous British Colonies of Sabah and Sarawak. The Federation of Malaya, which is now called Peninsular Malaysia, is located to the south of Thailand and to the north of Singapore. The other parts which are Sabah and Sarawak, or East Malaysia, share the border with the Indonesian territory of Kalimantan (see Figure 1.1). Peninsular Malaysia, which is the largest of the three, has a total area of about 131,794 square kilometers, while Sarawak and Sabah cover roughly 198,000 square kilometers. All of Malaysia lies between 1 and 7 degrees north of the Equator and extends longitudinally 100 to 119.5 degrees east.

Climate

Malaysia's climate is uniformly hot and humid with an average maximum temperature ranging from 85F to 90F during daytime, dropping to an average of 72F to 75F at night. However, at higher altitudes, the temperature might drop to as low as 55F. The rainfall varies from heavy to very heavy

with an average ranging from 100 to 120 inches per year. Over Malaysia as a whole, the change in seasons is marked by the changes in rainfall caused by the cycle of the monsoonal winds. From November to January, the Northeast monsoon from the South China Sea dominates the air stream. It gradually decreases in force during the period of April to May and is followed by the Southeast monsoon. Slightly over 70 percent of Malaysia is covered with forest; much of which is tropical rain forest. Constant warm temperatures and heavy rainfall provide an excellent condition for the growth of vegetation.

Population

In 1980, the population of Malaysia was approximately 13.46 million, 11.14 million of whom live in Peninsular Malaysia. According to the 1970 census, the dominant ethnic group is the Malay, who comprise 53.2 percent of the population in Peninsular Malaysia. The Malay, who are considered an indigenous people, are largely involved in the bureaucracy and rural agriculture. Besides the Malays, there are other small indigenous groups who are commonly called Orang Asli (aboriginals). These people are undeveloped and characterized by nomadic hunting and shifting cultivation. Other ethnic groups include a range of different nationalities, mainly the Chinese and Indians. The Chinese

represent 35.4 percent of the total population and are largely urban dwellers active in the professions and the commercial sectors. The Indians, who are largely from India, represent 10.8 percent of the total population and work prominently in the rubber estates, railway and the bureaucracy.

System of Government

The Federation of Malaya was formed by the unification of two former Straits Settlement of Penang and Malacca and nine Malay states of Perlis, Kedah, Perak, Selangor, Negeri Sembilan, Pahang, Johore, Kelantan, and Trengganu. The largest city, Kuala Lumpur, is the capital of Malaysia. Malaysia received independence from the British on August 31, 1957. In September of 1963, Singapore, Sabah and Sarawak joined Malaya to form Malaysia. However, in 1965, Singapore left Malaysia to become the Republic of Singapore.

Malaysia has unique constitutional system compared to other countries within the region. Penang and Malacca are ruled by an elected Governor, whereas the nine states have hereditary rulers known as Sultans. The Yang Dipertuan Agong, or King, will be elected from among the rulers of the states for a five year term except for Penang and Malacca. The parliamentary system has two houses which are the Dewan Negara, or Upper House, and the Dewan Rakyat, or House of

Representatives, that form all federal matters. All of the states have their own elected state assembly with their own legislative power over state interests. The Yang Dipertuan Agong is given the power to appoint the Prime Minister and his cabinet. These people are chosen from the majority party elected into the Dewan Rakyat. Since the formation of Malaysia, the country has been governed by the National Front which is a coalition of the political parties whose objective is to unite the various ethnic groups.

Economy

Malaysia's rate of economic growth is somewhat higher than other less developed countries within the region. During the period of the Second Malaysia Plan (1971 to 1975), the average growth rate was 11 percent annually and the per capital income was estimated to have increased by 2.8 percent per year. Malaysia's economic achievement resulted from export trade that consisted primarily of petroleum, rubber, tin, and palm oil. Oil exports accounted for a significant share of the total national product. In 1980, the average oil production was about 180,000 barrels per day with exports earning M$7.2 billion. Although natural rubber has been replaced by petroleum as the principle export, it continues to be a major source of export revenue. Due to the introduction of synthetic rubbers the demand for

natural rubber has declined. However, natural rubber still contributes 15 percent of Malaysia's National Product. In 1980, the rubber export earned about M$4.8 billion which put it second to petroleum.

Manufacturing is the second important sector in Malaysia economy. The output of this sector has increased from 16 percent in 1973 to 19 percent in 1978. The major development in the manufacturing sector has been partly due to the government's new economic policy which emphasizes industrial development as opposed to agriculture. The government hopes to raise this percentage to 26.6 percent by 1990. Presently, Malaysia has stepped into a new industrial era by producing it own automobile. The auto industry has evolved and is fast becoming a major export earner for Malaysia.

PART 2

BACKGROUND

Housing Problems

Malaysia, like any other developing country, is facing serious housing problems. Since the beginning of the 1970s, the provision of satisfactory housing has been a major problem and continuous efforts have been made by the Malaysian government to meet the ever-increasing needs of each generation. Until 1970, there was no well planned study conducted with regard to housing in Malaysia. Even though the government recognized the need for adequate housing as early as 1940, there was no full scale housing inquiry undertaken to study the nature and extent of the housing problem. The first full scale study undertaken was the Population and Housing Census of 1970, which provided a comprehensive view of the country's quality and quantity of housing stock.

Malaysia's housing problems are mostly brought about by rapid urbanization, industrialization and general economic growth which results in a massive rural-urban migration to the major urban centers. The country's rapid development has put heavy strains on the government to provide enough satisfactory housing within reach of all income groups, especially the lower income groups. In 1970, the Population and Housing Census found that, "there were approximately 1.6

million private living quarters in Peninsular Malaysia with an average of 6.1 persons per occupied living quarter".[1] In 1980, the Population and Housing Census found that "the number of private living quarters have increased to 2.63 million with an average of 5.5 persons per occupied living quarter".[2] In terms of number of persons per room, "the average number was 2.4 in 1970, while it decreased slightly to 2.2 in 1980".[3]

Table 2.1: Regional Population Distribution by Ethnic Groups 1970 - 1980 (in percent)

Region/State	Malays		Chinese		Indian & Others	
	1970	1980	1970	1980	1970	1980
Northern States	38.1	36.8	8.4	8.1	9.5	11.2
Trengganu	8.1	8.2	0.7	0.7	0.2	0.4
Kelantan	13.6	12.8	1.2	1.2	0.5	1.2
Perlis	2.0	1.9	0.6	0.6	0.2	0.5
Kedah	14.4	13.9	5.9	5.6	8.6	9.1
Southern States	25.7	26.6	26.3	27.0	16.5	17.3
Pahang	6.6	7.5	5.1	5.6	4.0	4.4
Malacca	4.5	4.4	5.1	4.9	3.4	3.7
Johore	14.6	14.7	16.1	16.5	9.1	9.2
Western States	36.2	36.6	65.3	64.9	73.8	71.5
Perak	14.4	13.6	21.3	20.3	23.9	21.9
Selangor	12.0	13.5	24.2	25.6	32.0	31.4
Negeri Sembilan.	4.7	4.8	5.9	5.6	8.4	8.2
Penang	5.1	4.7	13.9	13.4	9.5	10.0
Actual Population (,000)	4,868	6,182	3,122	4,065	933	1,308
Total Population	1970 - 8,939,000		1980 - 11,555,000			

Source: Industrialization Policies and Regional Economic Development in Malaysia, p. 159.

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[1]Soo Hai Tan and Hamzah Sendut, Public and Private Housing in Malaysia, (Kuala Lumpur, Heinemann Asia, 1979), 3.
[2]Ibid., 8.
[3]Ibid.

The number of private living quarters has increased by 38 percent in the 10-year period between 1970 and 1980. On the other hand, the total population has increased from approximately 9 million to 11.5 million (see Table 2.1). The average number of persons per occupied living quarter has remained relatively stable over the 10 years. On the basis of the available data, it is likely that in 1990, the number of private living quarters will triple, but the average number of persons per occupied living quarters and the average number of persons per room will remain relatively high. According to the United Nations standard, a maximum of 1.4 to 2.2 persons in urban areas is considered to be within the acceptable norms, and 3 persons per room is considered overcrowding. Therefore, Malaysia's housing standard falls outside the recommended standard, but under the limit of overcrowding. However, in Malaysia's case, these comparisons can be misleading. Overall, the living quarters in the rural areas have large spaces with little or no partitioning. On the other hand, in the urban areas, most living quarters have a greater number of rooms but are less spacious. The availability of modern facilities such as piped water, lighting and toilets differ between the urban and rural areas. For example, "81.5 percent of urban areas have access to piped water compared to 36.8 percent in rural areas and 83 percent of urban areas have electricity as opposed to 31.4 percent in rural areas".[4] Eventhough the NEP stress the

[4]Ibid., 10.

importance of regional development, the gap between rural and urban areas still remains relatively high. Therefore, Malaysia's housing condition is probably worse than the statistics indicate.

Squatters and Slum Dwellers

Malaysia, like many other developing countries, has to deal with the problems of squatters and slum dwellers in the cities and larger townships. In Malaysia, squatters are referred to as "all those who are in illegal occupation of urban land and buildings, either private or public", whereas slum dwellers are "those people generally living in the older sections of the city, in substandard and deteriorating buildings that have had no maintenance for many years".[5] The majority of people who live in these areas are from the lower income and poorest classes of people. Many squatters and slum dwellers have been there for a long time, and the government has found it difficult to clear or evict them without offering suitable alternatives or compensation.
There are several factors that stimulated or initiated the emergence of squatters and slum dwellers in Malaysia.

The first factor is the rapid population growth experienced by Malaysia over the last two decades. According to the Malaysia's Department of Statistics, "the number of people in Peninsular Malaysia has increased from

[5]Ibid., 180.

approximately 8.9 million in 1970 to about 11.6 million in 1980".[6] Major urban centers, such as Kuala Lumpur, have increased from 456,000 in 1970[7] to 919,610 people in 1980[8], an increase of about 50 percent. Consequently, the total population average growth rate has been 2.95 percent per annum with major urban centers (Kuala Lumpur) having growth rates of 10.2 percent (see Table 2.2).

Table 2.2: Population Growth 1970 - 1980

Growth of Population - Peninsular Malaysia		Increase (%)	Per Annum Increase (%)
1970	8,923,000	-	-
1980	11,555,000	29.50	2.95

Growth of Population - Kuala Lumpur		Increase (%)	Per Annum Increase (%)
1970	456,000	-	-
1980	919,610	101.70	10.20

Source: Public and Private Housing in Malaysia, p. 184, and Pattern of Spatial Development and Regional Inequalities in Peninsular Malaysia, p. 266.

A second factor is the rate of development and urbanization in Malaysia over the last two decades. Rapid development during the late 1960s through the early 1980s,

[6]Dean Spinanger, Industrialization Policies and Regional Economic, (London, Oxford University Press, 1986), 156.
[7]Tan and Sendut, Public and Private Housing in Malaysia, 184.
[8]Zainul Bahrain Mohd Zain, "Pattern of Spatial Development and Regional Inequalities in Peninsular Malaysia," (Ph.D. Dissertation, Michigan State University, East Lansing, 1987), 266.

which was largely centered around a few established urban centers such as Kuala Lumpur and Penang, was accompanied by a large population migration from rural to urban areas. "The movement from rural to urban areas has been due to the low productivity of agricultural areas, lack of employment opportunities, lack of community facilities, absence of public infrastructure and utility services, and a general belief that employment opportunities are plentiful and living conditions are better in the urban centers".[9] However, most of the new urban migrants are young, less educated and have agricultural skills, which are not suitable for employment in urban areas. "In the early 1970s, according to one report, 21.7 percent of squatters' family heads in Kuala Lumpur experienced non-regular employment while 12.9 percent were unemployed".[10] As a result, there exists an economically depressed group whose living condition is well below the standard. "Some 50 percent of squatter families are unable to afford the rents for even heavily subsidized public housing".[11]

A third factor is the inability of the urban areas to support the rural population demand in terms of land, housing, job shortages. As the urban centers grow, so does the number of people living or seeking better opportunities

[9]Tan and Sendut, Public and Private Housing in Malaysia, 184.
[10]Robert S. Aiken, Colin H. Leigh, Thomas R. Leinbach and Michael R. Moss, Development and Environment in Peninsular Malaysia, (Singapore, McGraw Hill International Book Co., 1982), 226.
[11]Ibid.

in the cities. However, the rate of people seeking jobs and housing is far greater than the rate of industrialization. The imbalanced growth rate between population and industrialization has resulted in high unemployment and a high crime rate.

Today, squatters constitute a large portion of the urban population in Malaysia. The population surveyed administered by the federal government, found that within Kuala Lumpur alone, "the number of squatters has increased from 100,000 in 1961, to 175,360 in 1977, which constituted about 21 percent of the city's 835,050 total population".[12]

Housing Shortage

The most serious housing situation faced by the Malaysian Government is the inability to provide enough housing to support its increasing population. The slow economic growth in the late 1970s and early 1980s coupled with the inability of the country to diversify its resources, were the reasons that a sufficiently large housing supply could not be generated. According to the United Nations, "the target rate of construction to meet replacement housing needs in developing countries has been set at between 8 to 10 new dwellings per 1,000 persons per annum".[13] Using the purposed target rate, about 116,000

[12]Ibid., 224.
[13]Tan and Sendut, Public and Private Housing in Malaysia, 15.

replacement units were needed in 1980 to meet the replacement housing needs. Based on the 1980 Population and Housing Census, there were 744,000 new units built during the period from 1971 to 1980, with an average of 74,400 per year. The calculation shows that the number of houses built were just barely adequate to meet the replacement needs. Therefore, the increment of houses built each year did not support the need or meet the requirements of population growth.

Cutback in Housing Allocation

There are several factors affecting the housing industry in Malaysia. As mentioned earlier, the slow economic growth which resulted from the global recession, has hampered progress in the housing industry. During the period between 1981 and 1985, "the country was able to provide 42.5 percent new units of the targeted amount of 923,300 proposed by the government".[14] The global recession of 1981 and 1982 was more severe than anticipated by the government. Economic conditions at the time when the final stage of the New Economic Program (NEP) was launched in 1986, turned out to be worse than expected. The government's original ceiling of M$74 billion for the public sector development expenditure was cut back to M$47.68 billion in order to maintain financial discipline in view of the slow

[14]Harun Din, "Dasar Perumahan Negara," Urus Niaga Kearah Professionalism, No. 1, Year 1, 25.

growth in government revenues.[15] The initial allocation for housing by the public sector during 1980 to 1985, was M$3,399.12 million[16], but the actual allocation, was M$1,851.86 million[17], was well below the projection.

Reluctant Participation by Private Sector

The recession and slow growth in the economy has affected the government's plan of eradicating poverty, restructuring society and balancing regional development. The unfavorable situation and its deflationary impact on the economy has caused an increase in unemployment and restrained labor absorption and income earning opportunities. Between 1984 and 1987, "the overall mean income of all households had declined; especially for the poor and low income people".[18] As a result , private housing industries felt reluctant to participate in the development of housing projects. Private companies realized that, "as housing construction is very speculative, requiring rapid capital movement and flexible income opportunities, ready access to capital is essential".[19] According to the 1980 Population and Housing Census, the private sector was

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[15]Malaysia Government, "Midterm Review of Fifth Malaysian Plan", Kuala Lumpur, 1986-1990, 4.
[16]Ibid., 368.
[17]Malaysia Government, "Fourth Malaysian Plan," Kuala Lumpur, 1981-1985, 530.
[18]Malaysia Government, "Midterm Review of Fifth Malaysian Plan", 37.
[19]Michael Johnstone, "Urban Housing and Housing Policy in Peninsular Malaysia," International Journal of Urban and Regional Research, Vol. 8, No. 4, (Dec 1984): 504.

expected to build about 524,730 units between 1981 to 1985, but the actual units of homes constructed was only 204,200. Therefore, a shortage of housing production for both the public and private sectors exists.

Fewer Provisions of Low Cost Housing

Another major housing problem is the lack of low cost housing for lower income people. In Malaysia, housing needs in the urban areas have been met largely by private developers and are beyond the reach of the low income groups. On the other hand, most of the public housing projects cater to the needs of the low income groups, irrespective of race. According to the Ministries of Housing and Local Government, there is a high demand for low cost housing at the present time. This is based on the finding that "65 percent of the household income in Peninsular Malaysia is below M$600 a month".[20] Therefore, the government estimated that the cost of the house should be at about M$12,500 per unit for flats and M$8,500 for other types of homes in order to bring the housing within the means of low income groups.[21] Based on the government projected population growth and the replacement housing needs, the public sector will construct 176,500 units and the private sector is expected to build about 90,000 units of low cost housing during the period of 1981 to 1985.

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[20]Din, "Dasar Perumahan Negara," 37.
[21]Malaysia Government, "Fourth Malaysian Plan," 361.

However the actual number of housing units constructed by the public sector was about 71,310 units, and the private sector was 19,170 units, a total shortfall of 66 percent (see Table 2.3).

There are several factors that caused the situation to occur but the two most important are the large cutback in government allocations and the inability of buyers to finance the houses. The cutback in allocations has caused the government to reevaluate and institute certain specific measures. The proposed cut-back can be seen in the public development expenditure for housing programs. Between 1981 to 1985, the government allocation for public low cost housing was M$1,717.22 million. However, the allocation between 1986 and 1990 was only M$691.79 million, less than half of the previous 5 year's total (see Table 2.4). The cut-back meant that the majority of the government programs aimed at providing adequate shelter for its population. Especially for low income groups, will be either abandoned or delayed.

Table 2.3: Malaysia Public and Private Sector Performance, 1981 - 1985 (units)

Program	Units Planned 1981-85	No. of units Completed 1981	1982	1983	1984	1985	Total 1981-85
Public Sector	398,570	31,010	43,480	35,050	44,480	47,880	201,900
Public low Cost Housing	176,500	12,900	20,100	11,500	12,590	14,220	71,310
Housing in Land Schemes	110,010	8,930	10,220	5,780	5,740	4,310	34,980
Ins. Quarters & Staff accom.	58,500	3,660	4,000	5,850	5,390	6,550	25,450
Med. & High Cost Housing	53,560	5,520	9,160	11,920	20,760	22,800	70,160
Private Sector	524,730	37,600	44,330	37,710	38,600	45,930	204,170
Private Dev. Low Cost Housing	90,000	5,800	4,860	1,820	4,150	2,540	19,170
Private Dev. Med. & High Cost	259,470	11,690	19,270	15,980	15,020	23,670	85,630
Cooperatives Societies	25,260	1,170	1,270	980	500	650	4,570
Individuals & Groups	150,000	18,940	18,930	18,930	18,930	19,070	94,800
TOTAL	923,300	68,610	87,810	72,760	83,080	93,810	406,070

Source: Fifth Malaysian Plan, p. 522.

The inability of buyer to finance the houses was due to several factors, and among them are slow income growth, high interest rates, difficulty in obtaining housing loans and

rising houses prices. The government regulation that restricted housing loans to first time buyers only, coupled with the high interest rates has discouraged some buyers from buying houses. At the same time, the escalating costs of building materials, labor and financial costs caused the developers to raise the price of homes. As a result, the majority of potential buyers could not afford the houses and this indirectly affected the supply of housing units. Due to the low demand for housing, most of the developers either stopped or postponed construction of their housing projects.

Table 2.4: Malaysia Public Development Expenditure for Housing Program, 1981 - 1990
($ million)

Program	4th Plan allocation 1981-85	Estimated Expenditure 1981-85	5th Plan allocation 1986-90
Public Low Cost Housing	1,712.22	1,659.06	691.79
Site and Services	1.61	1.21	78.41
Government Quarters	89.29	44.47	56.62
Squatters Control	3.36	3.36	17.00
SEDCs and UDA	45.38	45.38	142.71
TOTAL	1,851.86	1,753.48	986.53

Source: Fifth Malaysian Plan, p. 530.

Summary of Housing in Malaysia

Overall, Malaysia's housing problems can be put into several categories. First, the unbalanced growth between the population and economic development has caused a shortage of housing supply and the development of unhealthy residential areas. Second, the recession and weak economic capacity of the population does not generate a large enough housing supply. Third, the enormous migration from rural to urban centers has created an acute housing shortage and prices have soared beyond the average citizen's reach. Therefore, the government and private sector must to continue to develop housing projects that are within reach of all citizens in order to support and meet future housing demands.

PART 3

MALAYSIAN NEW ECONOMIC POLICY

Introduction

Malaysia's economy, by developing countries' standards, is strong and prosperous, but it is also subject to imbalance. This is due to heavy dependence on a few key products such as rubber, palm oil and more recently timber and petroleum. These fluctuating export earnings yield more than half of the export income. At the same time, there exists a wide disparity of income between classes and communities which pose not only economic but also political problems. It is believed that three quarters of a million households are below the poverty line and a majority of them are Malays.

Since gaining independence from the British in 1957, Malaysia has developed several programs in response to the problems. None are more important than the **Malaysian New Economic Program (NEP)**. Since the NEP was established in 1970, there has been an active development program that aims at growth, stability, and diversification and the gradual eradication of poverty. The NEP is aimed at achievement of two objectives:

-- *"to reduce and eventually eradicate poverty by raising income levels and increasing employment opportunities for all Malaysian irrespective of race",*

-- *"to accelerate the process of restructuring Malaysia society to eliminate the identification of race with economic function".*[22]

The main purpose of the NEP is to eliminate poverty, to restructure property ownership on a more equitable basis and to achieve the ownership by natives (bumiputra) of at least 30 percent of commercial and industrial activities in the economy.

To achieve the NEP objectives, the government set out a five year development plan that covered each decade in two parts. The First Malaysia Plan was introduced in 1970, to explain the new approach, and the Second Malaysia Plan covered the years 1971 to 1975. The Third Malaysia Plan was from 1976 to 1980, and the Fourth Malaysia Plan was from 1981 to 1985. The Fifth Malaysia Plan, the current and final program, covers the period from 1986 to 1990. Each period is a continuation of the previous plan and at the same time introduces a new theme and emphasizes a main target for that particular period.

The first plan was established in order to explain the new program approach to development. The government believed the ethnic violence in 1969 indicated the existence of

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[22]Mun Cheong Yong, Trend in Malaysia II : Proceedings and Background Paper, (Singapore, Singapore University Press, 1974), 114.

economic grievances and appropriate remedies needed to be spelled out without ambiguities.

The second plan emphasized the urgent needs of economic improvement for the indigenous, better known as bumiputra or Malay communities. The communal violence showed there was serious Malay discontent with the continuing economic backwardness of their community. The Malays were found predominantly in the agricultural sector, where poverty was exceptionally acute. Meanwhile, the Chinese and other non-indigenous peoples dominated more prosperous activities, such as business. Therefore, if there was to be stability, there had to be major changes in the economic structure.

The third plan recognized that if political objectives were to be attained, measures to relieve poverty had to extend to all poor people regardless of ethnic background. Therefore, there was an opportunity for the poor of other ethnic groups to invade the land settlement plan that was earlier available for only the poor Malays. At the same time, rural improvement was also extended to all residential areas irrespective of their races.

The fourth plan stressed the creation of "Malaysia Incorporated" a plan which regarded the whole country as one corporation. The private and public sector worked together to promote development.

The fifth and final plan focussed on privatization of Malaysia. The management functions previously performed by the government were given to private enterprise. The

government hoped privatization would open up new opportunities for the public, while at the same time decreasing spending and increasing efficiency.

In terms of housing, the government approach has evolved into several stages which can be categorized into four broad periods.

Pre-Independence Era

The first period was the pre-independence era, where the government approach was based on the concept of free market or laisse-faire economics. Under this concept, the government "permitted the unrestricted operation of market forces in the housing system and implemented a range of laws and by-laws that enhanced the activities of private enterprise".[23] During this period, most of the policies implemented were targeted toward the benefits of private industry. Squatting and similar living areas were considered a threat to the concept of private property and social order. In order to stop the increase in squatter settlements, the government introduced the policy of evicting and resettling squatters. However, the policy did not achieve its objective because of the large number of

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[23]Johnstone "Urban Housing and Housing Policy in Peninsular Malaysia," 518.

squatters, high implementation costs and political volatility.

Post-Independence Era

The second period was the post-independence era, between 1957 and 1969. This period can be "characterized as one in which the new Malay ruling class actively continued the laisse-faire economic approach of the previous era and saw the government as the provider of adequate infrastructure and services".[24] At the same time, the government also introduced the industrial and rural development policies had the effect of increasing economic differences between the urban/rural and indigenous/non-indigenous development differentials. The rural areas had limited financial resources and could not be adequately developed to attract industries. Indirectly, this situation affected housing through the population migration into urban areas and the stimulation of population migration. The new policy allowed direct government intervention in housing provision which was previously dominated by private enterprise. The government provided "loans at subsidized rates of interest for public housing on condition that the state provided loans and infrastructure".[25] Even though there was a direct government intervention, private

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[24]Ibid., 319.
[25]Ibid., 519.

enterprise benefited because the actual construction of housing projects was still undertaken by private enterprise.

1969 to 1975 Era

The third period, from 1969 to 1975, followed the race riots of 1969, believed to be initiated by the squatters. During this period the government established and played an important role in regulating the allocation of resources, economy and activities of private enterprises. The period was marked by the large scale clearance of squatters from private and public owned land to make way for "the spatial demands of the expanding modern sector and socio-political needs of the vulnerable governing class".[26] The evicted squatters were either rehoused or moved into low cost public flats. Generally this period exhibited four important changes in the housing system. First, investment in public housing increased. According to calculated budgetary allocation for public housing in Table 3.1, between 1971 to 1975, the government public expenditures were approximately M$815,548 million. During this period, a total of 72,088 public houses were built to support the increasing demand, especially from low income groups.

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[26]Ibid., 520.

Table 3.1: Budgetary Allocation for Public Housing
1971 - 1975

Sectors	No. of Housing Units	Amount Allocated (in million $)
Public Low Cost Housing	13,000	$100.000
Urban Development Authority	460	$ 13.600
Housing for Aborigines	579	$ 1.242
Federal Land Development Authority	15,877	$ 24.160
(Housing for settlers)		
DARA (Regional Development Schemes in Pahang Tenggara)	44	$ 0.352
MARA (Council for Trust for Indigenous People)	325	$ 1.397
FELCRA (Fringe Alienation Schemes)	440	$ 0.704
Government Offices Housing Development Company	7,500	$179.000*
Institutional Housing		
Ministry of Defense	8,512	$149.818
Customs Department	110	$ 1.305
Police	13,510	$214.452
Ministry of Education	992	$ 10.100
Ministry of Health	1,116	$ 19.966
State Agencies		
Sarawak Land Development	1,080	$ 3.800
Sabah Land Development	2,978	$ 9.462
Jengka Development Corp.	683	$ 6.500
Ipoh Municipality	51	$ 1.054
State Development Corps.	4,831	$ 78.636
TOTAL	72,088	$815.548

* This includes money borrowed from a Consortium of Commercial Banks.

Source: Public and Private Housing in Malaysia, p. 27.

The second change in the housing system was the increase in government intervention in the private market. The government realized that in order to attain the NEP objectives, more regulations had to placed on the private construction industry and its financial infrastructure. For example, in order to increase the supply of houses for low income groups, the government required a mandatory provision of 30 percent low cost housing units be built in private housing schemes. Overall, most of the new regulations were introduced in hopes that both the private sector and the government could work together to resolve the various issues governing the housing industry.

Third, the establishment of several statutory authorities and public enterprises to administer and implement government policy, such as the Urban Development Authority (UDA) and the Government Officers Housing Company (GOHC). The Urban Development Authority is a special agency whose function is to take all the necessary steps to implement government proposals and provide help for the indigenous (bumiputra) to participate more effectively in business and commerce in urban areas. These agencies have been engaged in housing activities throughout the country and complement other government agencies charged with the implementation of the New Economic Policy.

The final change in the housing system was the increased private sector participation in housing projects

due to investment of public funds in joint enterprises with the private sector. This period saw an increase in the number of housing development firms and by 1976, "there were some 750 registered firms in Malaysia of which 62 percent had completed one or more projects".[27] These companies, which benefitted from government support, were controlled by Malays who were now able to compete in the housing market previously dominated by private, mainly Chinese firms. For example, "the majority who share capital in four large Kuala Lumpur firms, which together built almost 6000 dwelling units between 1969 and 1976, are owned by government or statutory authorities".[28]

Overall, this period represented a new direction in housing in which the government played an important role helping foster aspects of the government New Economic Policy. Each policy was introduced to alleviate the current and future housing problems.

1976 to Present

The fourth period was between 1976 to the present and saw a rapid implementation and expansion of all the policies established in the previous period. During this period, "the number of housing units built doubled from 259,810 units in

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[27]Ibid., 504.
[28]Ibid.

1975 to 484,190 in 1980".[29] This period also emphasized government commitment to the development of housing for low income groups which included settlers in land development schemes and some categories of public sector employees. During 1976 to 1980, the government allocation for public expenditure for housing programs was M$3,195.19 million, of which 58 percent was specifically for low cost housing schemes. Private sector housing expanded rapidly and made a positive contribution to resolving some of the housing problems. Between 1971 and 1980, the private sector constructed 264,350 units. In addition 49,470 units were either non-completion or at various stages of implementation.

There were also more finance programs at reasonable terms available through the provision of funds to ministries and other statutory agencies. The government provided loans for home buyers at a rate not exceeding 5.5 percent per year with a repayment period of 25 years.[30] In addition, the government also set up a revolving fund for people who were in government projects and who were affected by development projects. Through the fund, people were able to get "housing loans up to M$7,500 at an interest rate of 5.5 percent, repayable within 25 years".[31] Furthermore, in 1976, the government launched another financing program aimed at public employees and people earning less than M$500 per

[29]Malaysia Government, "Fourth Malaysian Plan," 360.
[30]Ibid., 363.
[31]Ibid.

month. The program was a joint venture between the Malaysia National Bank (MNB) and the Employee Provident Fund (EPF), and was targeted toward houses costing below M$20,000 per unit. By 1980, the program had "approved a loan commitment of M$403 million for 27,410 units of low priced houses".[32]

At the same time, commercial banks and borrowing companies, under Malaysia National Bank guidelines, had also contributed substantial housing loans. The Malaysia National Bank required "commercial banks and finance companies to channel at least 10 percent and 25 percent respectively, of the net increase in their loans and advances as housing loans to individuals".[33] This requirement was a significant breakthrough in channeling funds to housing developments as was evidenced by banks offering attractive terms to home buyers and housing developers. "The maximum loan is usually about 75 percent of the property value, not exceeding M$100,000, the repayment period is 10 years and the interest rate is 8.5 percent per annum".[34] As a result, more people were able to get housing loans and the number of approved loans rose from M$107 million by the end of 1970, to M$2,797.9 million by the end of 1980.[35]

Since 1970, the number of commercial public enterprises established to compete with the private sector has grown significantly. By 1975, the government owned and managed 45

[32]Ibid.
[33]Ibid., 364.
[34]Tan and Sendut, Public and Private Housing in Malaysia, 41.
[35]Malaysia Government, "Fourth Malaysian Plan," 364.

separate enterprises. The six major enterprises are: Malaysian Industrial Development Finance Limited (MIDF), State Economic Development Corporations (SEDCs), The National Corporation (PERNAS), Federal Land Development Authority (FELDA), National Petroleum Corporation (PETRONAS), and Urban Development Authority (UDA). "Federal funds to six major public enterprises between 1967 to 1979 amounted to M$16,412 million, of which PERNAS, SEDCs and UDA, all involved in housing construction, took a considerable proportion".[36] These agencies have been instrumental in developing numerous shopping and housing complexes through direct investment in a wholly owned subsidiary or in joint ventures with other private enterprise. The government, through these agencies, will continue to develop housing projects either solely or jointly with the private sector. As a result, the public sectors' financial burden will be reduced and will lead to a greater private sector participation in housing development.

Overall, the government's main objective in introducing policies is to provide opportunities for all people, especially for low income people so they will have access to adequate shelter and related facilities. This objective was realized through the development of public and private housing schemes. In the early 1970s, the government's role and efforts were confined toward providing low cost housing

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[36]Johnstone, "Urban Housing and Housing Policy in Peninsular Malaysia", 523.

and controlling the housing industry by introducing specific regulations to foster the growth of the housing industry. At that time, the private sector's contribution to housing the industry was mainly concentrated toward developing medium to high cost housing. However, in the late 1970s and early 1980s, the government policy changed which affected the private sector directly. The law that required the private sector to build at least 30 percent low cost housing in their housing scheme have increased the private sector contribution in housing industry. The public sector involvement in housing programs, especially for low income, has also increased. The public allocation for housing programs increased from M$716.4 million during 1976 to 1980, to M$1,039 billion during 1981 to 1985. All these measures will continue to be implemented in order to assure greater success overall in the housing development programs.

Consequences of New Economic Policy

Despite government intentions in housing policies, the growth of the housing industry in the 1970s, with the global recession has created several problems within the housing industry. During the period of 1981 to 1985, the private sector was expected to build 90,000 low cost houses, but at the end of the period only 19,170 were constructed, a shortfall of 78.7 percent. On the other hand, 85,630 units

out of 259,470 medium and high cost planned units were completed (see Table 2.3).

The developers appear to be concentrating on high and medium cost houses, although there is a need for more low cost houses. The reason for the failure to build more low cost houses was that the price at M$25,000[37] per unit and below set by the government was just not attractive to developers. With the present cost of land and labor and increasing infrastructure costs, it is virtually impossible to build houses at that price. The fast rate of development and construction boom of the late 1970s, gave rise to a shortage of essential materials and skilled labor which, in turn, led to an increase in construction costs. Therefore, the developers feel it is no longer viable to sell low cost units at M$25,000 . If the price is increased, the rising costs of production will then be passed on to the home buyers. Some of the developers may try to reduce cost by doing away with certain fringes such as fencing of units, or using low quality materials. As a result, there exists an overwhelming number of complaints against defaulting developers and defective houses which were delivered to the buyers. The problem of profit versus price has caused a decline in private sector contributions in providing low cost housing.

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[37]Soo Eng Shin, "Low Cost Condos and the Housing Problem", Housing Properties Digest, Vol. 2, 1983, 46.

Furthermore, it is not easy to get financial institutions to finance low cost housing. The government guidelines which set maximum interest rates at 10 percent per annum for loans not exceeding M$100,000, have discouraged some financial institutions from approving loans. They prefer to finance houses above M$100,000 since they are more profitable. Most of the banks which have reached the government quota, channelling at least 10 percent of their net increase to housing loans, do not entertain any more requests for low cost housing loans from developers. Difficulty in getting low cost housing financing has forced many developers to build the high and medium cost units first in order to subsidize the cost of building low cost houses. Even for some successful loan applicants, the interest rate of 10 percent was high because some applicants earned about M$200 a month. Therefore, the developer can not hold up housing projects because the companies need money for housing construction.

The public enterprise established by the government to compete with the private sector has created much concern among non-indigenous people, especially the Chinese. One of the agency's objectives is to increase the indigenous (bumiputra) ownership of capital assets in commercial and industrial enterprise to 30 percent by 1990. For example, one of UDA's main functions is to help indigenous people to get licenses and tenders. The unfair competitive edge given to Malay enterprises and individuals has caused concern

among the non-indigenous business community. This concern can be seen in the resistance of existing private firms to cooperating with public enterprises. "According to Ministry of Public Enterprise, of the 314 SEDCs companies, 103 had made aggregate profits of M$346.8 million, while 125 had combined losses of M$360.6 million".[38] This resistance has not only increased the tension among the races but also has hurt the housing industry as a whole. Instead of healthy competition in the housing market, there exists a situation where economic achievement of indigenous people was at the expense of others. When a public enterprise enjoys privileges in a particular business, the incentive to maintain economic efficiency is reduced. As a result, there exists some housing projects that were half completed and abandoned due to inefficiencies and mismanagement of the enterprises.

The Malaysian government has a valid reason for intervening in the housing market. However, the large scope of government intervention has and can cause delays. Many developers have to wait longer in order to get approvals for land conversion, subdivision and building plans. Some of the applicants have to wait for two years before they are finally given approval. This is because of the several stages the applicants have to go through such as, approval from the Health Department, Board of National Light,

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[38]Ozay Mehmet, Development in Malaysia : Property Wealth and Trusteeship, (Australia, Croom Helm, 1986), 135.

Waterworks Department, Department of Public Work and Local Authorities. However, most of the developers agreed that the two main obstacles they had to face were the allocations of low cost housing and the high planning standards set by the authorities. The allocation of units is done by a government balloting process. In this process, the buyers are asked to select randomly any number that will match the lot number to determine the buyers' specific lot. The problem arises when the government does not do balloting for just one project but instead accumulates a few projects because of the shortage of manpower. This process can cause delays and although some developers have suggested that the government hold a separate ballot, they were unsuccessful. The shortage of manpower and the government's inability to meet the demand can also be seen in the provision of basic utilities in housing projects. For example, some of the projects were completed by the end of 1980, but the housing areas were not provided with water supplies until 1982.

Another obstacle mentioned earlier was the high planning standards required by the government. According to the developers, specifications requiring housing projects to have large open spaces and wide roads have decreased the developers' profit margins. Furthermore, sometimes there may be new requirements to meet even when plans have already been approved. For example, the initial plan approved stated that there was no provision for a water tank but later, this

was required. As a result, developers have to sacrifice money and effort in order to meet the requirement.

The government's policy of promoting home-ownership has resulted in a situation where home-ownership is regarded as a status symbol and those not owning houses are regarded as homeless. In Malaysian society, too much emphasis has been placed on home-ownership. People become obsessed with owning their own homes and neglect to look for other alternatives. Moreover, the strict National Bank guidelines have caused financial institutions to limit their housing loans and those wishing to invest in residential property have to wait. On the other hand, in most states and large urban centers, there are a large number of people seeking temporary accommodations. With a high demand and low supply of rental houses, it is inevitable that rental prices will increase in the years ahead.

PART 4

URBAN DEVELOPMENT AUTHORITY

UDA Functions

As mentioned earlier in this paper, government participation in the housing industry comes through direct or indirect intervention. One of the Malaysian government's approaches was to establish statutory agencies to compete with the private sector in the economy. Among the many agencies, the **Urban Development Authority, or UDA,** has been instrumental in developing numerous housing and shopping complexes. UDA was established on September 1, 1971, in order to complement other government agencies charged with the implementation of the New Economic Policy. The Urban Development Authority Act of 1971 stated that UDA's main functions are:

-- to promote and carry out projects in urban development areas for the development, redevelopment, settlement, resettlement, public housing and the improvement in environment, service, amenities and other public improvements for the promotion of national unity,

-- to promote and carry out projects in urban development areas with a view to achieve the distribution of opportunities among various races into the fields of commerce and industry, housing and other activities,

-- to translate into action-program the government policy to restructure society through urban development.[39]

UDA will play an active role in the housing industry. As a government entity, UDA will try to penetrate the private market through partnership. According to UDA, the stated functions are designed to achieve the government's objectives of increasing indigenous property ownership in terms of stock and value, and the provision of commercial premises for Bumiputra in strategic urban areas. The 1970 Population and Housing census found that the population of bumiputra in urban areas stood at 27.6 percent, while non-bumiputra made up 70.8 percent. On the other hand, 65.7 percent of the total population in rural areas were bumiputra compared to 34.3 percent non-bumiputra. Without government intervention, the existing imbalance would continue to widen between the two groups. Furthermore, there exists a dominance of foreign and non-bumiputra interests in property development in urban areas, which is due to their control and ownership of the strategic sites and lands. According to one study, "in 1970, the foreign interests controlled 62 percent, Chinese 23 percent, and Malay, who constitute over 55 percent of the population, controlled 1.2 percent of the ownership of the stock of corporations that operate in Peninsular Malaysia".[40] Therefore, UDA, charged

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[39]UDA, "Functions and Background," Kuala Lumpur, 1980.
[40]Wolfgang Kasper, Malaysia : A Study in Successful Economic Development, (Washington, D.C., American Enterprise Inst. for Public Policy Research, 1974), 43.

with carrying out various urban development programs, has set out to remedy the imbalance between these groups.

UDA's approach toward attaining its objectives can be seen through its programs which can be broadly categorized into five groups.

1) Joint Ventures

UDA recognized a need to penetrate property development in the urban areas dominated by the non-bumiputra. UDA realized that through capital contribution methods, it had found a way to facilitate the participation and development of strategic sites. Therefore, UDA adopted a joint venture strategy as one of its programs. UDA's joint venture program can be divided into two areas which are: land and property development and industrial and commercial development.

Land and Property Development Programs

The land and property development programs are designed to "penetrate into areas which up to this time were controlled by non-bumiputra in order to obtain valuable share in ownership of housing estates, shopping complexes and other allied projects".[41] In these programs, UDA's partners can be individual land-owners, developers who

[41]UDA, "UDA Seeks Balanced Urban Community," Malaysian Building and Construction, No. 1, 1976, 3.

invite the UDA to be a partner or vice-versa and state agencies such as SEDCs or other corporations. UDA, with the help of its partners, set out to acquire business premises in strategic locations for bumiputra businessmen by creating various development programs and controlling the distribution of these program areas. As a result, bumiputra firms receive some of the business, such as contracting and supplying materials, and at the same time, the bumiputra people are provided a path for acquiring skills and expertise. Furthermore, through the joint venture programs, UDA personnel and other bumiputra can be exposed to the actual property development business. Aside from that, UDA will be assured control of part of the company and, more importantly, the control and ownership of strategic sites and lands. Above all, UDA's contribution in terms of expertise, capital, knowledge and facilities ensures that the development of properties will be economical and profitable.

Industrial and Commercial Development Programs

On the other hand, the industrial and commercial development programs are designed to "ensure and also to enhance the borrowing power of these companies through UDA's direct support and by virtue of the broader equity base following UDA's capital contribution".[42] At the same time, the capacity and quality of management of these firms can be

[42]Ibid.

upgraded through UDA's participation on their boards, continuous monitoring and support of expansion programs. In addition, through UDA's own supervision and sustained support, these firms will have the capacity to utilize their resources and realize their potential. Proper utilization of manpower and assets coupled with a well-planned management and operational system will put the company in a better place to compete and succeed in the open market. Therefore, UDA will provide assistance in terms of expertise, training and consultation for both newcomers and well established companies. Lastly, UDA's joint venture programs with new partners can contribute directly and dynamically toward the development of entrepreneurs and hence increase the number of bumiputra businessmen in industrial and commercial activities.

Guidelines for Negotiation and Agreement

Generally, UDA's guidelines for all negotiations and agreements in the joint venture can be described as follows. "UDA would participate in land and property development with particular reference to the construction of shop-houses, houses, shopping complexes, office spaces, housing estates, and other pertainable allied development in strategic urban areas".[43] In the early years, UDA activities were concentrated in the big cities such as Kuala Lumpur and Penang. However, as the agency grows, the scope of UDA's

[43]Ibid., 4.

activities has broadened to other state capitals and towns all over Malaysia. In addition to the above guidelines, UDA normally tries to control every aspect of the company's activities and decision-making process by obtaining a majority of the company's share holdings. However, UDA sometimes agrees to participate in a situation where it only controls 30 percent of the shares. In most cases, UDA tries to have the final say in any decision by placing its representatives on the board or in other high ranking positions.

UDA's joint venture scheme is in direct response to the existing imbalance between the bumiputra and non-bumiputra property and industrial development in the urban areas. It is hoped that through UDA participation on the boards of joint venture companies, bumiputra will get equal access of business and equal opportunities in related areas.

2) Comprehensive Urban Development

UDA's second approach involves a comprehensive urban development program geared toward "bringing about an overall impact on all levels of communities, and in particular on the bumiputra".[44] This program was implemented through two sub-programs, Urban Development and New Town Development. According to UDA, these two programs allowed projects to intensify land use, increase floor space, and up-grade the

[44]UDA, "Functions and Background."

environment. At the same time, the program also permitted bumiputra of all levels to participate in the construction industry and provided opportunities for professional bumiputra to show and use their knowledge and expertise in development endeavors.

Urban Development

The Urban Development program involved the clearing of inefficient structures that were located in strategic areas of the cities. These places were then replaced by new structures meeting several of the following requirements:

-- more intensive use of land, providing for larger and better quality of floor space, resulting in increased value to the property,

-- better traffic circulation,

-- addition and improvement of public amenities, and

-- general transfiguration of the environment.[45]

UDA's participation in the Urban Development program has opened up opportunities for establishing new centers with balanced racially mixed populations.

New Town Development

The New Town Development program is aimed "toward building new towns within or at the fringes of the established urban centers that have good potential for

[45]Ibid.

development".[46] Under this program, the new towns provide facilities such as housing, commercial and industrial activities. It creates opportunities for ownership of properties by all races in more equitable proportions. UDA will make sure that each group will be given a chance to either own property or open new businesses and reduce some of the lopsided economic conditions. Furthermore, the new town creates housing opportunities for people in an effort to meet the increase in housing demand.

3) Project Management/Consultant Service

UDA's third approach involves providing consultants and project management services to individuals or companies who do not have the facilities or expertise . According to UDA, the objectives of the program can be categorized in four major areas. First, the program provides advisory services to bumiputra landowners on the most efficient and economical way to develop their land. Second, UDA trains and develops new bumiputra developers who have little or no experience in land development activities. Third, UDA helps accelerate the development of abandoned bumiputra land. Fourth, UDA increases and enhances the market value of the land owned by bumiputra and at the same time increases the stock by providing information about the feasibility and potential development of the land.

[46]Ibid.

Overall, UDA's services can be divided into two areas.

Advisory and Consultant Services

UDA provides assistance in site investigation and feasibility studies in order to make sure the areas can be developed. It also assists in the preparation of lay out plans and designs for the purpose of obtaining approval from the state and local authorities. In addition, UDA provides assistance in the preparation of proposals and financial projections to help the company finance long term loans. Furthermore, it provides financial advances to landowner and developers to help pay initial expenses such as premium payments and license and permit fees. Finally UDA provides advice on the appointment of project consultants, the procedures for appointment of contractors, and at the same time, advises in the implementation and management of the project until its completion.

Project Management Services

In this instance, UDA acts as a full time project manager undertaking full responsibility for the success or failure of the project. The project manager is responsible for the appointment of the project consultant with the approval of the landowner or developers. UDA with its experience and expertise would be able to find and choose the best consultants who can provide quality work at a reasonable cost. At the same time, the project manager is

also responsible for administration and supervision of the project. He or she has to maintain control on time, cost, and quality of the project and must be well informed on the problems and progress of the project. Furthermore, the project manager has to determine the marketing strategy for the building. The important aspect of the strategy is whether the building will be sold or rented. After that, he or she is responsible for appointing lawyers for the preparation of sales and purchase agreements and mortgage on the residential land and manage the financial aspect of the developers.

Overall, UDA's consultant and project management services ensures the credibility of the companies and the success of the project. With the guidance of UDA, decisions can be made after considering all alternatives. Hence, the company will be well managed and the chance of survival of the company is much improved.

4) Acquisition of Property

UDA's fourth approach involves the acquisition of property in the urban areas. According to UDA, the program objective is to increase the number of business premises that could be made available to bumiputra entrepreneur for rental or purchase. UDA's property acquisition can be divided into two major areas which are commercial property and land.

Commercial Property Acquisition

The purchase of commercial businesses involves the acquisition of shophouses and commercial premises in strategic locations by UDA from private developers. These places are then offered to bumiputra businessman and sometimes non-bumiputra. The buildings do not have to be already completed, but can be under construction or old pre-war shophouses. These properties are normally rented to a bumiputra businessman for a certain period of time before being offered for sale.

Land Acquisition

On the other hand, the purchase of land is aimed toward the future. The program is designed to enable UDA to own land that is located in strategic urban areas or on the fringes for future development. This would guarantee that future bumiputra entrepreneurs have the opportunity to compete with other established businesses. An adequate reserve of land also ensures that future planning will be systematic and at a reasonable cost.

5) Property Marketing

UDA's fifth and final approach is designed to assist the bumiputra in renting and owning businesses located in

strategic locations. The three methods used by UDA to help the bumiputra are rental, sales, and rental conversion.

Under the rental method, UDA rents premises at rates lower than the prevailing market rates. The lower rates ease some of the financial burden and give the new businesses a chance to develop, expand and establish themselves in the business communities. On the other hand, the sales method is a way for UDA to encourage bumiputra to purchase business properties operating a business or for investment purposes. The bumiputra can either purchase the properties by cash or loan. According to UDA, a down payment of 10 percent is necessary, but with a interest free period of three months in order to facilitate the procurement of end financing by the purchaser. The rental conversion is introduced to allow tenant to purchase properties that they are currently renting from UDA. However, there are several conditions that have to be met in order for them to qualify for the program. First, the bumiputra tenant must have been renting for business operation from UDA for a specific period of time. Second, the tenant must have been keeping satisfactory records with regard to his business and prompt payment of rentals and other charges. If these conditions are met, the rent paid through the years is taken as a payment toward the purchase price. However, the balance of the purchase price has to be settled within three months of the sale and purchase agreement.

In terms of housing, UDA's activities are not confined to helping bumiputra purchase new houses or to creating equal opportunities to compete at the same level of established companies. It is designed to help and advise individuals or bumiputra companies to become successful developers using his or her own identity. There are several tools used by UDA to help home buyers and bumiputra entrepreneurs.

Advisory

UDA provides advise to new bumiputra home buyers on how to obtain financial loan. Normally, financial institutions provide loans up to 70 percent of the house price with the payment period of 8 to 10 years. However, with UDA's help, the home buyer can receive a loan up to 90 percent with maximum payment period of 15 years. At the same time, UDA reserves a minimum of 30 percent of available houses to bumiputra and therefore assures that future housing demand for bumiputra can be met.

Guarantor

UDA provides help in terms of being guarantor for new bumiputra developers. According to the standard regulation established by the government, a new company has to have a certain amount of money in its bank account in order to obtain a developers' license. As a guarantor, UDA ensures the credibility and integrity of the company. As a result,

new developers can easily obtain access to other facilities such as bank loans and joint venture through equity participation. Furthermore, UDA also provides management and advisory services because it is essential for new comers in order to survive in the business world. According to UDA, the rate of failure of bumiputra business is due mainly to poor management in the initial period rather then lacking of financial assistance. Hence, this program is aimed toward reducing the rate of such failures.

UDA Achievements

One example of a UDA housing project was a joint venture between UDA and the State of Selangor to provide low cost housing. Beside providing low cost housing, the joint venture is aimed toward strengthening the cooperation between the state government and UDA. Under the program, UDA has established two low cost housing projects in the area of Kuala Kubu Baru and Jenderam Hilir.

Initially, Johawaki Sdn. Bhd. was given a contract to build 201 units of low cost houses with a price of M$3.76 million in Kuala Kubu Baru. The company then asked UDA for assistance because they were facing financial and management problems. UDA agreed to help the company under several conditions. According to the agreement, UDA will provide the capital to initially start the project. At the same time, UDA will manage the project for Johawaki with a service

charge of M$94,000. Furthermore, UDA will get 40 percent of the total profit made through the project.

The second housing project involved the construction of 219 units of low cost houses and five shop houses in the Jenderam Hilir area. The contract was first offered to Taman Setia Sdn. Bhd. by the State of Selangor with the price of M$4.23 million. UDA was asked to help after the company faced the same problems as the Johawaki Sdn. Bhd.. UDA agreed to participate with the same condition established in the Kuala Kubu Baru project.

With the completion of these projects, UDA hopes it can convince the State of Selangor and other states to allow UDA to continue to participate in the handling and building of houses from time to time.

Low Cost Housing Projects

A study done by the Kedah State Government showed that an estimated 5000 housing need to be built in order to house low income groups in Alor Setar, the capital of Kedah. According to the state government, an area in Simpang Kuala, which is 4 miles from Alor Setar, had been targeted for redevelopment. This area is occupied with squatters who have lived and worked there for decades. In order for the redevelopment process to be implemented, people have to resettle elsewhere. Most of the squatters are not regular wage earners; average income being M$250 a month. Therefore, the government has to enact a suitable plan for their

resettling because a majority of them cannot afford the housing.

In 1982, the state government acquired 132 acres of padi land in the district of Pumpong, located two miles from Alor Setar, to be used to resettle the squatters and at the same time satisfy the need of housing for low income groups. According to the initial plan, the area was to be turned into a new town to accommodate 10,000 people with complete social and commercial facilities. The job of developing the area was given to the National Housing Department (NHD), a statutory agency established by the government. The NHD was entrusted to implement the project and was given a free hand to create a human settlement according to its belief. According to the state government's plan, half of the project would devote to the resettlement of the squatters, mostly bumiputra, while the other half would build housing for low income people of other races.

The houses were designed to be affordable and comfortable for squatters and the low income earners. According to NHD, the houses would be small initially but it had to provide for expansion as family incomes increase. This expansion includes possible addition of two other bedrooms to the initial two bedroom plan. However, the expansion was limited and confined to the back portion of the house.

The work started in March 1982 and was divided into five phases, or five contracts, for simultaneous

construction. The project was expected to be implemented in 18 months but it went beyond the target period. The delays were attributed to the weather, laying water pipes, and additional work outside the scope of the original plan. However, the project was completed faster than other projects. This is due to the adoption of prefabrication to speed up the project's implementation. The Mergong housing project proved that significant time and money was saved by adopting the prefabrication system.

The housing project was designed to be self-contained, and self-supporting communities by incorporating many interesting aspect of human settlement planning. The housing project was located adjacent to the Mergong Industrial area to ensure that the low income dwellers have easy access to job opportunities. Its closeness to town centers also ensured minimum relocation of the squatters so that they can retain their old jobs. Furthermore, the housing site itself incorporated a variety of commercial spaces. The stalls and cheaper shop lots have been designed to encourage the bumiputra settlers to engage in commercial and economic activities. On the other hand, bigger shops were designed to cater to the settlers' need for other goods and services. In addition, the settlement also incorporated a school and mosque within the vicinity.

The Mergong project has met demand for low cost housing in Alor Setar. The problem of housing for the low income earner has been approached by providing them with smaller

expandable houses and from profit obtained from selling the shop lot units. The project was well-planned and should be an example in providing a decent shelter to the nation's poor.

PART 5

RECOMMENDATIONS

Introduction

Overall, there has been a conscious and consistent policy effort on the part of the Malaysian Government to direct public and private investment to housing for the low income groups. Several housing schemes, such as the administration of mandatory provision of 30 percent low cost housing units to be built in private housing developments were helpful in bridging the gap between the supply and demand for housing. Furthermore, the New Economic Policy introduced by the government also emphasized housing for the poor and low income as one of the planks of government policy. Despite all the policies, the housing industry still faces many problems. After 33 years of independence, Malaysia is still far from solving its housing problems. The housing demand is as acute as ever, while land and houses are priced beyond the reach of the majority of the people. For this situation, all of the people in the building industry, federal and state governments, local councils, architects, planners, contractors, developers, and some members of the public must share the blame. In this section I will seek to address some of the problems and how these

may be rectified, in particular the role of government and its statutory agencies such as UDA in the development process.

A National Housing Strategy

As mentioned earlier in the paper, the government should continue to play an important role in the development process and should try to generate innovative solutions to meet the changing times. First and foremost is the need for an improvement in the housing strategy. Presently, the government has not really established a National Housing Strategy that can be used as a guideline. After 33 years of independence, the country is still in the process of defining a comprehensive housing strategy. Below are several elements a comprehensive plan should cover.

In depth housing survey

First, the government should conduct an in-depth housing survey on housing needs for the whole country, state by state, town by town, and village by village. Presently, the government does not know the extent of the problems. Most information is based on estimates, and there is no comprehensive survey that has been conducted on a national scale. With reliable data and information, the government can properly plan and effectively implement a host of measures to fight the problems.

Mobilize local talent

The rich talents of Malaysian town planners, architects, engineers, administrators, and developers should be encouraged and mobilized to come up with better plans, not only for housing, but also layouts of new towns and urban centers. At the same time the government should continue training and up-grading contractors and skilled workers in all aspect of housing.

Utilizing of natural resources

The government should conserves the country's rich natural heritage of fauna and flora and at the same time promote the use of local products in the housing industry. Greater utilization of the country's rich timber and other natural resources such as bamboo and rattan can reduce housing costs and create a Malaysian style of architecture. In Malaysia's case, good quality, inexpensive products are available locally, yet the country still has substantial imports. It is unfortunate that consumers have the attitude that everything imported is superior than domestic products. Therefore, the government and especially UDA should launch a campaign to remove such attitudes in order to foster a greater sense of pride for national products.

Balanced in the development

A more balanced development between housing and commercial projects should be achieved in order to avert the

land of shortage in one and excessive supply in the other. Presently, there is an excess of office and commercial development in most parts of Malaysia. However, due to the global economic recession, most of the facilities are vacant and too expensive for small businesses. Therefore, the government should reevaluate its priorities and reinvest some of the money and effort in providing affordable housing for the people. UDA should invest more of its money and time in the housing sector rather than building unnecessary commercial spaces.

Removal of Government Red Tape

As mentioned earlier, government red tape is a big obstacle to housing construction and a major contribution to housing cost. Under the present system, it takes inordinate time for a developer to get building plan approval. The government should ask itself whether these delays are justified. Most of the unnecessary and redundant government procedures should be eliminated. For example, the number of stages developers must go through to get approval for the projects should be minimized. The government should establish one department that handles all applications and set standard designs for houses. If there is a standard plan, then developers needn't wait for a long time for the building plans to be approved. This would cut down on the delays in the construction process. Furthermore, the state allocation of units by balloting should be given to the

developers. As a result, developers and the government could save some time and money. However, it is important for the government to keep a close eye on the process in order to guarantee home buyers a fair and equal chance of getting suitable lots. Consequently, many of the areas of delay which not only cost money, but also encourage the developers to inflate profit margins and create a poor climate of confidence, can be eliminated.

Industrialized Approach in Construction

In the housing industry, more effort and research should be devoted to building materials and building construction so that cheaper but durable materials can be substituted for conventional materials. With the ever-increasing demand for housing and the backing of housing units in Malaysia, the task of providing people with houses in sufficient quantity is formidable and it is felt that the problem can not be solved satisfactorily by conventional construction methods. In Malaysia, most of the developers use conventional construction approaches which are not only expensive, but also time consuming. Therefore, the country must take a new approach to save time and costs. Since there is a need for houses which are more economical and are built within a shorter time frame, ready-made building components and industrialized building construction method might be an ideal solution. In a broad sense, Industrialized building is defined as "the planned coordination of design, quantitative

manufacture and construction within the discipline of price, standards, acceptability, and the limits of available skills".[47]

Among the many systems in the Industrialized approach, prefabrication seems to be the most practical. This is because the prefabrication system involves maximum economic use of factory-produced components, mechanisms of on and off-site production, and also the fullest application of modern techniques of mass production. In fact, several local contractors are already using the prefabrication system successfully. According to the Managing Director of PKNS Proton Hous, a leading manufacturer of prefabricated concrete building, the company was able to produce cheaper houses than those constructed using the conventional approach. Besides, the prefabrication method takes less erection time and produces consistent and standardized units. Furthermore, the system enables the company to save 30 to 40 percent in the field of skilled labor and finished buildings were found to be of greater quanlity than conventionally built housing units.

Therefore, the government should encourage the developers to adopt the new building techniques. UDA should play a role in introducing and educating the people on the pros and cons of prefabrication. At the same time, UDA must also continue conducting research and on new methods of

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[47]Mohd Nor Ismail, "Some Aspect of Industrialized Building Construction," Kuala Lumpur, 1982, 115.

construction. It is hoped that the new technique can be used to overcome the increased demand for housing units, the shortage of skilled labor, the rising costs of building materials and skilled labor, and the slowness of the speed in the conventional construction method.

Better Cooperation Between Government and Private Sectors

The government should loosen some of the existing restrictions on housing activities especially if the private sector is to play a key role in achieving the plan targets. The current relationship between the government and the private developers could be categorized as an adversary. The private developers resent the government's interference in their projects, whereas the government, who believes that the developers make profits higher than they should, continues to impose conditions which increase the costs of the final product either through delays or required subsidies. In order to alleviate the housing problems, there must be a change to a cooperative attitude between the government and the private sector. There must be flexibility on both sides with developers and government frankly discussing their positions and taking the required actions.

The flexibility mentioned above means that the government officers at various levels will readily give help and support to developers within their areas of competence. This flexibility works both ways and developers must have the expertise to relate to government technical staffs.

Small developers that have been left out of this process should consider requesting the government to provide technical backup. Therefore, UDA should initiate or introduce programs that can strengthen the relationship between both groups. More dialogue between both groups on problems related to the housing industry should take place frequently. As a result, better coordination and implementation of housing strategies will occur.

Rural Area Development

While government efforts to develop rural areas through land schemes are commendable, a close watch should be maintained over the progress and problems in these areas. The New Economic Program which relocated and resettled large numbers of landless urban dwellers into new areas was obviously helpful in reducing some of the housing problems in the urban areas. However, as time passes and the structure of the communities change, the government's obsession with developing these lands for agricultural purposes has contributed to the problem of urban migration. Younger generations grow up and start demanding more amenities and facilities. However, due to financial constraints, the government, and the village in particular, is not able to meet the demand. Failure to do so has resulted in a large migration of the younger generation into the urban areas. In order to slow this trend and in order for the land scheme to work, the government should bring

urbanization to the countryside. This can be done by spreading out the development and creating large urban communities within reasonable travel distance of rural settlement. In doing so, more job opportunities could be made available to the people while entertainment, opportunities for higher education and other facilities could be brought within their reach. Furthermore, people who are living in the urban areas, would be likely to move out of the city to a more comfortable home. As a result, the gap between the supply and demand for housing can be made closer and more balanced in terms of adequate provision of amenities in relation to the density of the population.

Rental Units

The encouragement of more rental units can also help to bridge the gap between the supply and demand for housing in urban areas. The Malaysian housing industry as a whole is not in a position to build houses which all income groups are capable of buying. The government, through its agencies such as UDA, should realize that fulfilling the basic need of decent shelter can be done not only through home-ownership, but also on a rental basis. Therefore, it is suggested that the government and especially UDA reevaluate and modify the government policies if they are denying individuals additional housing loans to buy second or third houses for investment and rental purposes. Instead of curtailing the rental market, the government should

encourage homeowners to provide housing for low income people on a rental basis.

Price Control

The present rising trend in prices of land, building materials and related materials hampers the government's effort to attract investments in housing development. Consequently the price of houses and some of the economic advantages that could be gained may disappear. The government, therefore, should direct its efforts toward stopping this trend. A majority of the basic building material and a considerable amount of sophisticated materials were manufactured locally. Therefore, the government price control should not be difficult to exercise. However, if the local manufacturer, suppliers, and dealers try to raise the price by resorting to artificial storage, the government should import foreign-produced materials without restrictions. In addition, the industry associations and the professional associations should promote a greater utilization of local products. A closer interaction between the groups in the housing industry is essential in order to facilitate the development of new products in the building industry. Therefore, UDA should use its position to bring the groups together to tackle the present and future problems.

Finance/Government Incentives

The federal government should create and regulate monetary instruments and institutions to draw more capital to offset the shortfall in housing finance. There are several basic instruments that can be used. First, homeownership can be accelerated by the government through the provision of incentives. For example, home buyers should be given tax relief by the government. Such incentives can be seen in United Kingdom where the owner is given help through the mortgage - the taxable income is reduced by the amount he is paying as interest.

Second, a system of mortgage insurance would make home purchase more attractive to investors. Mortgage insurance serves two significant purposes which facilitates access to private capital markets by making the mortgage instrument more secure and therefore marketable and improving the terms of finance and longer amortization periods. The insurance obviously will help secure the acceptability of housing within the means of a larger number of families. Furthermore, a secondary mortgage market will enable original lenders to convert the whole or part of this loan portfolio to cash or other securities so that funds can be channelized to other areas.

In addition, subsidized tax concessions to encourage developer interest in low cost housing design and construction should be examined closely. Current profitability in the housing industry is believed to

fluctuate between 15 percent and 50 percent with a tax free incentive to those who build a certain number of units within a set price range and observing agreed upon building standards.

Lastly, a concept of property trust should be introduced. Under the property trust concept, a unit is created for investment in immovable property. These property trusts therefore enable investors, especially small investors to put their savings and instruments in real property for which they would not be able to do individually. In this way, property trust can pool funds from individual interested in property investment to partly fund new property development projects. At the same time, property trusts provide an equity feature to its contributors in that any profit or loss will be shared by each contributors.

Summary

This paper has focused on the problems of housing provision and housing policies in Malaysia, especially in Peninsular Malaysia. Some of the achievements of housing in Malaysia to date is attributable to the combined efforts of the public and private sectors. The government has tried to provide the necessary framework and has set policies which allows the optimal use of land. However, due to the

fluctuating economic conditions, the government objective of achieving full homeownership is still beyond reach. Since the beginning of the 1970s, home-ownership has been emphasized by the official policy. Coupled with the age structure of the population, this has generated tremendous demand for housing. The ensuing years saw extreme resilience in the housing and construction sectors. Even though private sector played an important role in the provision of houses, the demand outstripped supply which resulted in spiraling prices and other undesirable practices by unscrupulous developers. However, the 1980s saw a significant change in the housing industry. Instead of being a sellers' market, the condition change to that of a buyers' market. This change has caused the developers to reorientate their projects to fit into the affordable market segment. However, the housing price in Malaysia is still comparatively high by international standards. Therefore, the government should create a free enterprise system that is designed to encourage a large amount of low and medium cost housing. In this respect, the regulations should be reviewed and at the same time, the government should continue to introduce measures that will help the country solve any immediate problems and free itself from pressures and discontentment, allowing sufficient time to plan workable avenues of attaining full ownership.

The New Economic Policy will enter a concluding phase in 1990. The progress to date indicates that while some of

the objectives will be achieved, others have not. The government should continue to provide the support for the policy through the 1990s, while at the same time, consolidating its resources and programs. Since the introduction of the NEP in 1970, the accessibility of low income households, especially the poor peoples in both the urban and rural areas to basic services such as education, health, housing, water and electricity has increased. The greater accessibility of rural population to these facilities contributed to the improved living status of the people. At the same time, the quality of life of the urban poor continued to improve under the NEP, mainly through a range of infrastructural development activities undertaken to maintain and up grade urban standards. Urban Development Authority (UDA) squatter resettlement and area up grading programs should continue to be actively pursued in major urban areas. Previous squatter resettlement programs introduced by UDA have significantly reduced the number of squatter dwellings in urban areas. Despite the improvement in the quality of life, the government programs for poverty eradication continue to be of concern. The twenty years period of NEP set by the government was not enough to solve the problems. Furthermore, original plan allocation for overall poverty eradication programs was cut-back due to the global recession and slow economic growth. However, recent trend shows that the economy was on the path to recovery. Taking advantage of the economic recovery, the government

should continue to implement the NEP. With the easing of economic pressure, greater attention can be devoted in making the economy realize its potential for growth so as to raise income, create new jobs, and thereby facilitate the process of reducing the imbalances in the economy as envisaged under the NEP.

While initial progress towards providing better housing, education and basic infrastructure have been made, a wider impact could be expected with a healthy economy. Government agencies such as UDA should continue to operate and provide financial and physical facilities in order to generate new employment opportunities and promote greater bumiputra participation in economic related activities. In order to implement the restructuring of ownership in the cooperate sector, a large time span will be required. Under the better environment, restructuring through growth could be done more effectively and would not require much time.

The difficult economic environment of the late 1970s and early 1980s has interrupted the attainment of the NEP's objectives. Although the NEP's objectives could not be attained by 1990, efforts should continue to reduce the occurance of poverty and restructure the economic condition. The success of the NEP in the future depends on the self reliance, resoursefulness, and positive commitment among all Malaysians.

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