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Economic Development and Housing Policy In the Asian Pacific Rim: A Comparative Study of Hong Kong, Singapore, And Shenzhen Special Economic Zone

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And Shenzhen Special Economic Zone**

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PREFACE

PREFACE

At the origins of the research presented here lie a dramatic dilemma and a striking paradox.

The dilemma concerns the apparent contradiction between the use of resources to foster economic growth and the necessity to provide public expenses to cover elementary human needs. In most of the developing world, the housing situation has continued to deteriorate in the largest metropolitan areas. This has been true even when the areas were experiencing periods of sustained economic growth, as was the case for most of Asia, and for Latin America until the 1980s. The growing proportion of squatters among urban dwellers all over the world is evidence of this dilemma. Thus, housing appears to be a burden for development and a need almost impossible to satisfy for the majority of the population until much later stages of development, which may never be reached by a given country.

The paradox is that Singapore and Hong Kong, the two countries with the highest rate of economic growth of the last 25 years, are also the countries that have built the two largest public housing systems in the world during that period. Their public housing systems are the largest in terms of the proportion of the population housed by the government (in 1987, 46 percent for Hong Kong, 86 percent for Singapore). It may be argued that it is precisely their economic growth that has made it affordable for the government to spend so much for public goods. However, the public housing programs actually preceded the process of economic growth and went hand-in-hand with it throughout the period when the growth occurred. It can be reasonably proposed that there is a meaningful relationship -- and not just a historical coincidence -- between these two processes: namely, a high rate of economic growth and the building of a comprehensive public housing program. At least, such is the thesis that we put forward and that we will try to prove and to document in this monograph. To be sure, both countries are very specific. Both are city states and tiny in their physical dimension, but other developing countries have similar or smaller populations. For example, Hong Kong is more populated than all Central American countries with the exception of Guatemala. While size is an important factor, it does not determine the extent or even the form of a housing program: all the public housing estates of Singapore (which house 86 percent of the 2.6 million population) still occupy only less than 5 percent of the island's surface. However, we will not argue against the obvious specificity of the urban situations studied here. What we are concerned with are the economic, social, and political mechanisms that made possible these public housing programs and their positive interaction with the process of economic development. These mechanisms are what could be considered as potential elements for the formulation of housing policies in other contexts, not the actual forms and institutions of the public housing programs in the two city-states.

By way of contrast, we have studied the connection between housing policy and industrial development in Shenzhen, which lies across the border from Hong Kong and is the most important of the Chinese Special Economic Zones. These economic zones have been set up by a socialist

state, China, as a deliberate counterpoint to the successful Asian newly industrialized countries (three of them of primarily Chinese ethnic composition). In these zones, China is trying to reproduce the mechanism of participation in the international economy as the key for economic success. Interestingly enough, housing policy is the one element that the Chinese government has NOT replicated in Shenzhen. Instead, it has actually used housing as a profit-making mechanism whose benefits go to real estate companies, public or private, and through them, to the government revenues. Thus, in an approximate manner, we can shift the terms of our paradox (the connection between capitalist industrialization and nonprofit housing in Hong Kong and Singapore): Shenzhen provides us with the opportunity to analyze the effects of profit-making housing on socialist industrialization.

For our analysis, we conducted research over a period of four years, from 1983 to 1987, although with varying intensity during this time span. Manuel Castells conducted a pilot study in Hong Kong in 1983, supported by the Center of Urban Studies of the University of Hong Kong. Reginald Kwok started a study in 1985 of economic and spatial development in Shenzhen. Lee Goh combined professional work and reflection upon it as an architect at the Singapore Housing Development Board in 1979-82 and 1984-86. In 1986, the University of California's Pacific Rim Research Program, the Institute of International Studies, and the Institute of Urban and Regional Development at Berkeley provided their full financial and institutional support to the project. At this time the study became a full-fledged research program that engaged most of the time and the effort of the three researchers from the Fall of 1986 to the end of 1987. Activities during this period included additional field work research by Manuel Castells in Hong Kong, with the cooperation of Reginald Kwok and the research assistance of To Lap-kee; renewed field work research by Reginald Kwok and To Lap-kee in Shenzhen; and field work in Singapore by Manuel Castells and Lee Goh. Data analysis and elaboration of the research proceeded throughout the whole period in Hong Kong, Singapore, and Berkeley, with the researchers moving around the Pacific in a truly international cooperative venture.

The work relied on data collected by three different procedures: (1) Personal observation and acquaintance with the subject; (2) a systematic search of secondary sources, in terms of monographs, statistics, and documents (the theses materials produced and deposited in the Universities of Hong Kong and Singapore proved precious in that sense); (3) in-depth interviews of key actors of economic development, housing policy, and policy-making in general. The interviews provided the main materials for the analysis. We conducted interviews in Hong Kong, Singapore, and Shenzhen, and even in London, where Reginald Kwok had to go to meet Hong Kong's retired governor, Sir Murray MacLehose. In total, nearly 100 focused interviews were conducted, with written notes taken in all cases. Interviews lasted between 45 minutes and two hours, with an average time of one and one-quarter hours. In addition to the interviews, about 40 planned visits to housing estates, neighborhoods, offices, and factories were also performed. A list of interviews for each city is presented in appendices to the corresponding chapters.

The result of this data-gathering enterprise is an extraordinary documentation that could have easily overwhelmed the analytical purpose of our research. We have made an effort to be succinct and focused in our analysis, but the courageous reader may find it useful to skip through the pages of this monograph and focus on those themes and propositions that are really at the core of our endeavour: that economic growth and the quality of urban life not only are compatible aspects of the development process but that they can be synergistic in their contribution to such process.

PART ONE:

PUBLIC HOUSING AND ECONOMIC DEVELOPMENT IN HONG KONG

CHAPTER ONE -- THE PUBLIC HOUSING PROGRAM IN HONG KONG

Hong Kong: An Urban System Based on Public Housing

As everybody knows, with the possible exception of Mr. Milton Friedman, the free-market paradise of Hong Kong operates the second-largest public housing system of the capitalist world in terms of the percentage of the population living in housing units developed, built, and managed by the government: about 45 percent in 1986. The overwhelming majority of these housing units are rental, with 2,356,701 tenants living in 542,474 housing units in 163 housing estates, in 1986. Table 1 exhibits the distribution of population and of households by type of housing tenure and location in the Territory of Hong Kong. In recent years, the pace of construction has accelerated (see Table 2 and Figure 1), so that for the 1985-90 period about 40,000 public-housing and subsidized flats are being completed on average every year, with three-fourths of them being rental units. Rents are relatively low, on average about 15 percent of households' income. In the first housing estates, rents are even lower, at about 5 percent of households' income, although the conditions of such older estates are appalling. In 1979, 67.3 percent of the households in rental public housing were paying less than HK\$100 per month (in 1979, US\$1 = HK\$5).¹ However, in recent years there has been a substantial raise in rents in public housing, as we will report below. But overall, rents in public housing still represent about 20 percent of rents in the private sector for equivalent accommodation. While housing quality was very poor and facilities scarce in the early stages of the program, a substantial improvement was made in the housing estates built in the 1970s and 1980s, both in terms of construction quality and in provision of health, educational, commercial, and recreational facilities. During the 1980s a program of redevelopment of the old housing estates has been proceeding, relocating their tenants in newly-built estates, although not always in the same location. While housing quality has improved over the years, density is still the highest in the world: 35,000 persons per square kilometer in the urban areas in 1971, with one mixed-use block at Tai Kok Tsui Road recording 9,840 persons per acre.² Until 1972, standard living space in the flats was set at 2.2 square meters per adult (children counted as one-half). The major improvement measure of 1972, which raised the standard to 3.25 square meters per adult, still translated into densities per housing unit that would be unbearable in standard housing in Europe or the United States.

A decisive step toward raising housing standards was taken in 1972 by building self-contained flats, with kitchen, balcony, and toilets that, in addition to a single multipurpose room, compose the basic design of a public-housing flat of the 1970s and 1980s. Before 1972, the design included communal kitchens, washing areas, and toilets on each floor. Problems included the one David Drakakis-Smith reports, on the basis of a study by Lo,³ that "the theoretical ratio of one toilet per 18 residents was quickly halved in reality to one usable toilet for every 36 residents." (p. 45) Keith Hopkins, in his inaugural lecture, delivered from the chair of sociology on March 6, 1969, stated,

The multi-storey blocks twinkling with lights at night are all impressive sights, visible tokens of Government's

TABLE 1

**Number of Quarters and Estimated Persons Accommodated
as at March 31, 1986**

Number of Quarters

<i>Category</i>	<i>Hong Kong Island</i>	<i>Kowloon and New Kowloon</i>	<i>New Territories</i>	<i>Total</i>
Government quarters	7 600	7 200	7 800	22 600
Public housing				
Housing Authority estates	48 500	268 600	209 100	526 200
Housing Authority cottage areas	1 000	400	2 200	3 600
Housing Society estates	11 100	10 100	9 500	30 700
Home Ownership Scheme Blocks*	7 000	17 900	40 000	64 900
Sub-total	67 600	297 000	260 800	625 400
Private housing	247 900	291 400	222 800	762 100
Total permanent	323 100	595 600	491 400	1 410 100

Estimated Persons Accommodated

<i>Category</i>	<i>Hong Kong Island</i>	<i>Kowloon and New Kowloon</i>	<i>New Territories</i>	<i>Total</i>
Government quarters	24 700	20 000	20 500	65 200
Public housing				
Housing Authority estates	205 200	1 008 800	862 700	2 076 700
Housing Authority cottage areas	2 800	1 600	6 700	11 100
Housing Society estates	48 100	42 800	37 000	127 900
Home Ownership Scheme Blocks*	22 700	70 500	128 300	221 500
Sub-total	278 800	1 123 700	1 034 700	2 437 200
Private housing	842 400	1 090 000	644 700	2 577 100
Total permanent	1 145 900	2 233 700	1 699 900	5 079 500
Temporary				363 200
Marine				36 400
Total population				5 479 100

Note: * Includes private sector participation scheme and middle income housing.

Source: H.K. Annual Report 1986.

TABLE 2

Annual Production of Public Housing
1954/55 - 1982/83 (Housing Units)

Financial Year	R/E	FGLCH	FHA	NHA	HOS	PSPS	MIH	HS(Rental)	Total	+/- %
54/55	6 196								6 196	
55/56	5 424							242	5 666	- 9
56/57	8 853							541	9 394	+66
57/58	5 557		1 955					270	7 782	-17
58/59	6 988		638					968	8 594	+10
59/60	9 917							1 102	11 019	+28
60/61	11 285		2 845					898	15 028	+36
61/62	15 012		2 088					894	17 994	+20
62/63	15 063	1 246	3 953					1 600	21 862	+21
63/64	13 054	4 298	5 231					532	23 115	+ 6
64/65	23 106	4 984	4 505					3 826	36 421	+58
65/66	16 463	3 420	862					2 391	23 136	-36
66/67	25 904	800	448					1 615	28 767	+24
67/68	22 006	4 832	1 331					2 054	30 223	+ 5
68/69	14 856	5 680	3 514						24 050	-20
69/70	6 410	6 006	854					678	13 948	-42
70/71	12 724	4 656	5 171					1 171	23 722	+70
71/72	6 495	12 612	1 472					916	21 495	- 9
72/73	6 776	12 912							19 688	- 8
73/74	1 970	6 200						325	8 495	-57
74/75				9 200				586	9 786	+15
75/76				14 900				2 190	17 090	+75
76/77				9 620				486	10 106	-41
77/78				13 020				504	13 524	+34
78/79				14 130				1 220	15 350	+14
79/80				29 759	2 439			800	32 998	+115
80/81				26 769	8 674	1 500		618	37 561	+14
81/82				31 346	4 399			3 725	39 470	+ 5
82/83				27 879	7 508	760			36 147	- 8
83/84				28 564	7 877	---	2240	----	38 681	+ 7
84/85				26 354	10 168	1 408	---	354	38 284	- 1
85/86				29 386	6 688	11 902	---	116	48 092	+26
86/87				30 237	6 838	4 866	---	1 391	43 332	-10
1973-1983 (10 years programme)								220 527		

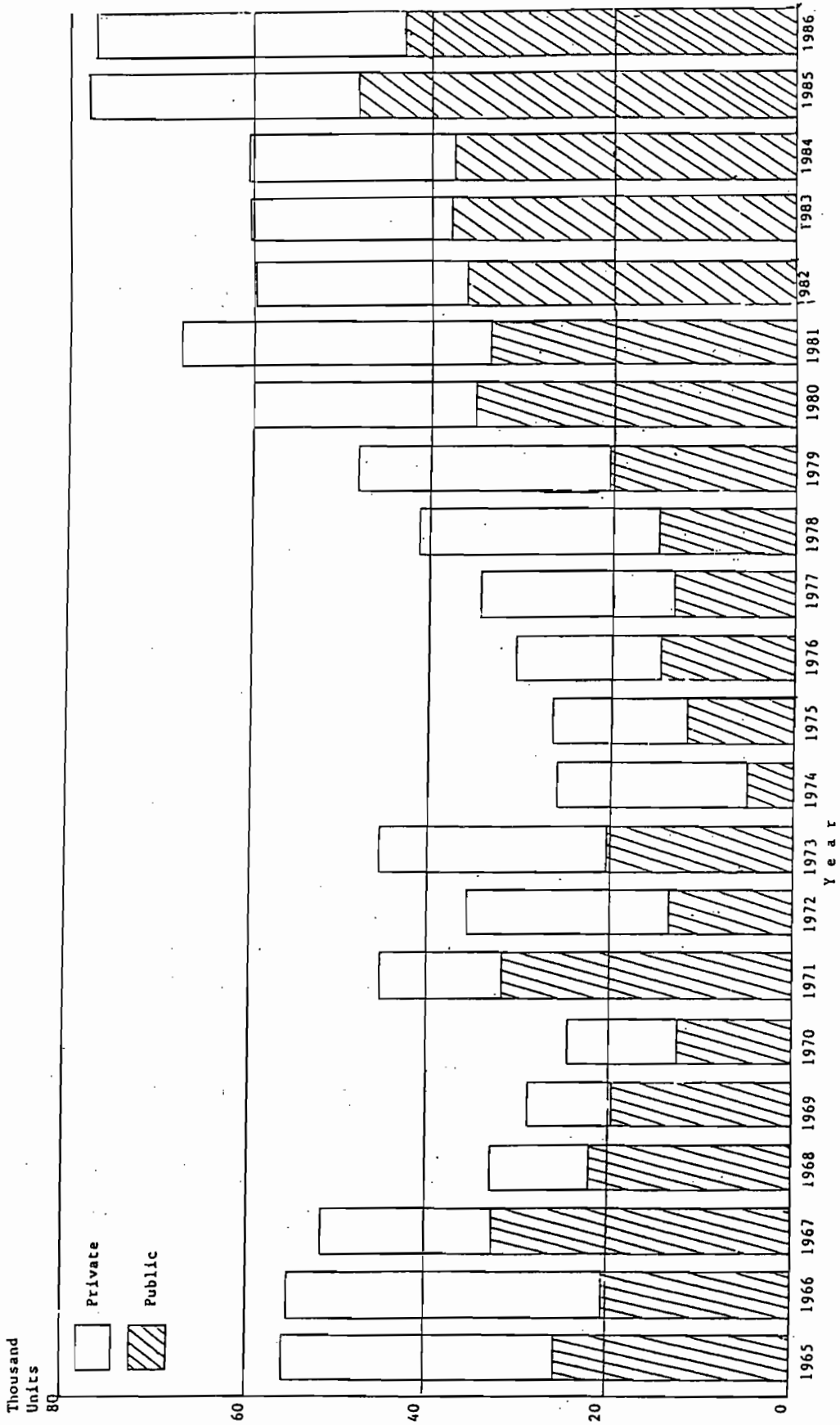
Note:

- R/E : Resettlement Estate
- FGLCH : Former Government Low Cost Housing
- FHA : Former Housing Authority
- NHA : New Housing Authority
- HOS : Home Ownership Scheme
- PSPS : Private Sector Participation Scheme
- MIH : Middle Income Housing
- HS (Rental) : Housing Society (Rental)

Source: Housing Authority, data directly provided to the author in March 1983. Housing Authority Annual Report, 86/87 budget speech, Financial Secretary

FIGURE 1

HOUSING PRODUCTION: ANNUAL PRODUCTION OF DOMESTIC UNITS



achievement, tangible evidence of the Government's concern for the poor. The well-ordered estates look better than the higgledy-piggledy ramshackle collection of squatter huts which they replace. But are squatters any better off in their new houses? What is it like to the seven persons (three adults and four children) in a room ten feet by twelve? Not just family on top of family. In all resettlement estates built between 1954 and 1964, with a current [1968] population of 550,000, cooking is done in the living space, or in the public passage. Water taps and wash-places are communal; the communal toilets have no doors.⁴

Besides, hygiene conditions were extremely hazardous in the early estates, particularly because of the deficient system of garbage disposal. Another factor was the uncontrolled hawkers' trade that came in to fill the absence of proper commercial facilities.⁵ The most extreme inadequacies of the early estates, including the absence of elevators, were corrected in the estates built in the 1970s, but at the price of increasingly distant location, in relationship to the urban areas. However, to dwell in 25 multistory blocks of heights ranging from eight to 24 stories along with another 65,000 people, as in Wah Fu (one of the best-designed estates, on the East Lamma Channel), could hardly be considered an ideal living condition. This is true despite the fact that evidence of the potential effects of crowding on people's health and behavior is inconclusive, contradictory, and ideologically biased.⁶

Nevertheless, housing conditions in the Hong Kong public estates cannot be compared to the American suburbs or to the British new towns. The Hong Kong estates have to be related to the squatter areas and slums in Hong Kong, to the situation in most cities of developing countries (including those with high rates of economic growth, such as Mexico), and, even more precisely, to the urban condition in which public-housing tenants in Hong Kong would find themselves if such a program had not existed.*

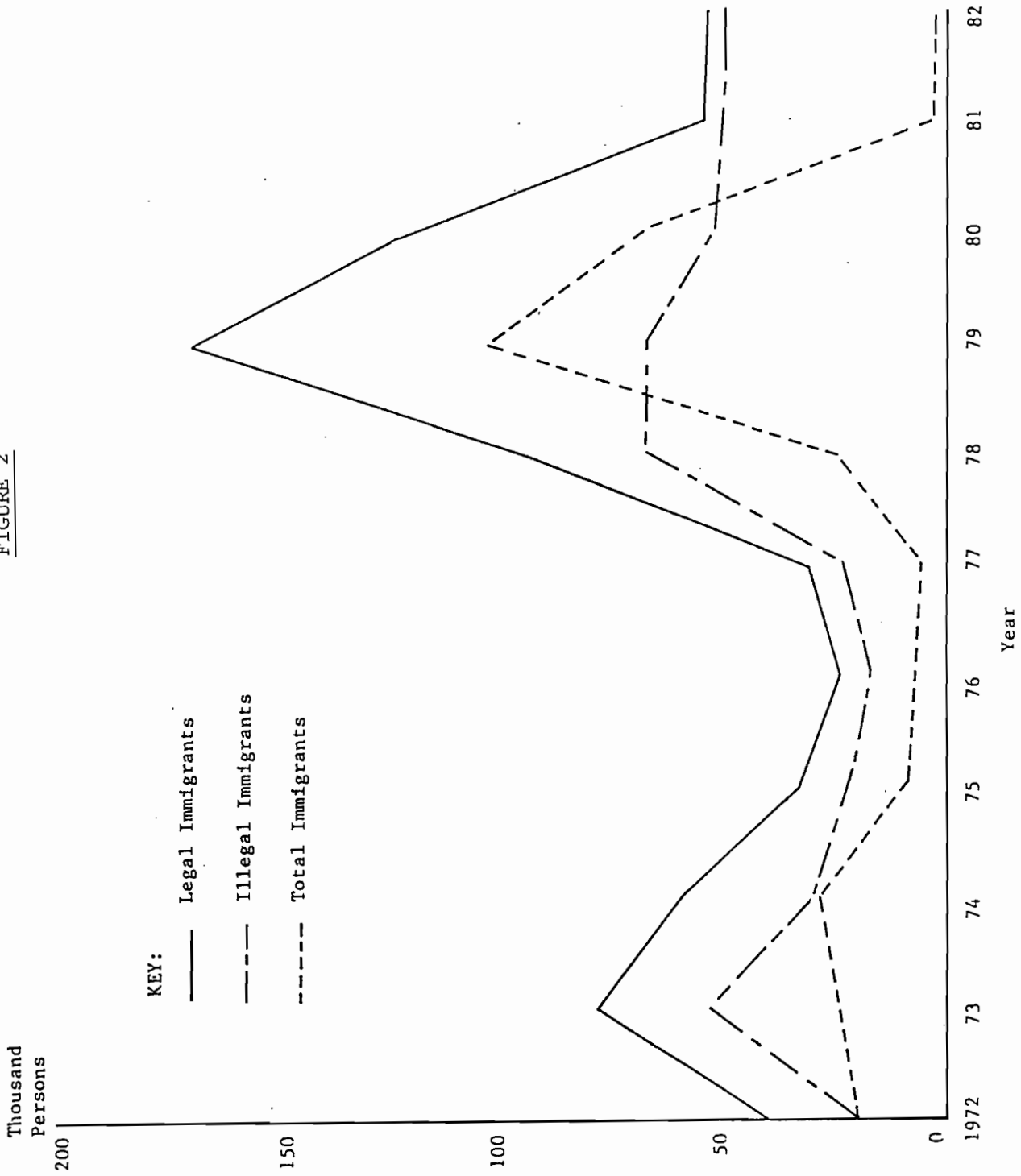
* Public rental housing can be roughly classified in four categories: (1) Mark I and Mark II resettlement blocks, which are of very low quality and are now redeveloped or undergoing redevelopment to be completed by the early 1990s; (2) blocks built by the former Housing Authority (i.e., before the restructuring in 1973), which are still of rather high quality by today's standard among public rental housing; (3) Mark III and Mark VI resettlement blocks and former Government Low-Cost Housing, both built by what was then the Public Works Department of the government; and (4) blocks built by the new Housing Authority after the restructuring of 1973. All these, including the first three categories, completed or committed before 1973, are now the responsibility and jurisdiction of the Housing Authority. Since the first category, Mark I and Mark II, has been redeveloped or is undergoing redevelopment, quality and maintenance have become less a problem. The most common discontents among tenants concern rehousing -- location, match of unit size with household size, tenantry of family

The achievements of Hong Kong's public-housing program are substantial, when seen in the light of the sudden, massive, and uncontrolled surges of immigration from China (see Figure 2 and Table 3). Between 1951 and 1987, Hong Kong has grown, roughly speaking, by about a million persons per decade, and it is projected to continue to do so (see Table 4). Most of this growth took place in spite of a substantial reduction of its rate of natural growth, from about 3.5 percent yearly in the 1950s to about 2 percent since the late 1960s and to 1.2 percent in the late 1970s.⁷ Yet, in accord with the variations of the political situation in China, immigration flows into Hong Kong can dramatically alter the size of its population, and therefore its housing needs, in a short span of time. Thus, for instance, the population rose from about 600,000 in 1945 to 2,360,000 in 1951, because of both the return of Hong Kong residents who fled the Japanese occupation or were deported (almost one million), and the population movements caused by the Chinese revolution. This massive postwar influx was the primary cause for the formation of very large squatter settlements, including rooftop huts and marine houseboats, as well as for the overcrowding of existing tenements that were profitably subdivided by the landlords and the main tenants. The housing program started to produce some relief for the housing conditions of the resident population in 1977, but then more than 400,000 new immigrants arrived from China between 1978 and 1981, taking advantage of the new liberal policies of the Chinese government. Subsequently, immigration controls were tightened, the "touch-base" residency policy was dropped,⁸ and agreements were made with China to repatriate illegal immigrants. Yet in the 1980s, immigration has stabilized at about 60,000

members who have been unauthorized dwellers in the units, etc. For the second category, there have been few problems because of the higher quality and level of management by the former Housing Authority. Most problems are occurring in the third category. The Housing Authority took over these blocks from the responsible departments in 1973. The design, provision of facilities, standards of living space, management, etc., are generally of low quality. In the 1980s, the Housing Authority carried out some improvements to the Mark IIIs and IVs, and allowed overcrowded households (below 22 square feet per person) to apply for larger units. Despite these efforts, the living environment in these estates is still often subject to adverse comments. In 1987, the Authority announced that it is planning for the redevelopment of these estates in the 1990s. Finally, the fourth category, new blocks after 1973, generally have fewer problems. Sometimes there may be some adverse comments on the design of the interiors.

For the ownership schemes, the quality equals the standards of those of other private development. However, there have been cases where some problems took place with these new buildings. These usually are associated with the contractors employed by the Housing Department. In some cases, the contractors failed to complete the buildings on time, which led to losses on the part of the successful applicants. The Authority, as a result of these events, later altered the timing of applying for the flats so that only flats nearing completion would be offered. In some other cases, successful applicants found defects in their flats after taking possession from the Authority.

FIGURE 2



ESTIMATES OF IMMIGRANTS FROM CHINA

TABLE 3

Immigrants from China		
year	legal	illegal
1977	--	6600
1978	--	28100
1979	--	107700
1980	--	69500 (Jan-Oct)
1981	--	--
1982	--	--
1983	27000	-
1984	27700	--
1985	27300	--
1986	27100	--

source: Hong Kong Annual Report, various years
-- not available

TABLE 4

Evolution of Hong Kong population

year	no. of people
1911	456 739
1921	625 166
1931	840 473
1961	3 129 648
1966	3 708 920
1971	3 936 630
1976	4 402 990
1981	4 986 560
1986	5 396 000

source : HK Annual Digest of Statistics 1985; Bi-census 1986

per year, putting additional stress on the housing shortage. No wonder that under these conditions squatter huts have proliferated in recent years, even in areas outside the tolerated zones, rising in 1987 (according to official estimates) to about 477,000. If we add 118,100 persons living in temporary housing areas organized by the government as provisional settlements, and another 13,200 living in so-called cottage areas, mainly in dangerous sites, we reach 608,300 people still waiting for proper housing in 1987. Representatives of tenants' organizations offer an even gloomier picture of the persistence of the housing crisis in Hong Kong. According to the estimate of the People's Council on Public Housing in its Annual General Meeting in 1987, almost two million people are still housed in substandard conditions in Hong Kong (see Table 5). Although government sources challenge the accuracy of such data, nobody denies the fact that after 30 years of a massive public housing program, there is still a dramatic housing crisis that affects at least 10 percent of the population. It goes without saying that the dimensions of this crisis would have become uncontrollable in the absence of the public-housing program.

The influx of millions of immigrants from China seems to be at the root of such a fast rise in housing demand. But it was precisely this endless inflow of labor, generally unexpensive and hardworking, in conditions related to its immigrant status, that constituted one of the bases for Hong Kong's rapid economic growth, as we will argue in the following chapter. However, while immigration and the benefits of labor supply explain the housing crisis to a large extent, it does not automatically follow that the government should have responded as it did by launching a major public-housing program, in an effort sustained and broadened over the years. This is in fact the original question underlying our research: Why such responsiveness from the government (and particularly from a colonial government) to the people's housing needs? What is the reason for such a massive, long-term public-housing commitment, whatever the limits of the program?

Certainly, human compassion is in the minds of government officials, but this is true of many public administrators around the world. Yet one finds very few examples of such a major public effort in building housing for people, particularly for a recent immigrant population, in most developing countries. After all, people could find shelter in squatter settlements or overcrowded tenements, as they do in Malaysia, the Philippines, Mexico, and Brazil, as well as in Hong Kong; and they still work and are productive, though certainly living in much harsher conditions. To be sure, land has been scarce in Hong Kong, and needed to be cleared of unproductive uses. But other forms of squatter resettlement could have been used and were actually envisioned, as shown by Alan Smart in his historical-anthropological research on the Diamond Hill area. Even accepting the importance of land clearance as a major motivation in triggering the program, it is hardly sufficient as an explanation for the boldness and determination of public-housing policy in Hong Kong. In other words, do the need for land and the human compassion of a benevolent colonial government tell the whole story? Or is there a deeper rationale underlying the development of Hong Kong's public housing program? What appears to be -- however more or less consciously -- behind the government's systematic intervention in the housing field?

TABLE 5

Outstanding Housing Demand in Hong Kong, as of 1987, by sources of the housing deficit. (Number of persons)

1. Temporary structures, including cottages, temporary housing areas, and transit centers.	771,000
2. Cottages and dangerous slopes (not included above)	35,000
3. Bed spaces (in shared accommodation)	4,000.
4. Overcrowding by tenants sharing housing units in private housing	753,000
5. Public Housing with structural problems due for redevelopment (Mark I, II, III, resettlement blocks)	358,000
6. Boat people and squatters on seashore	14,000
7. Street sleepers	13,000
Grand Total:	1,948,000.

Source: Report by Mr. K.L. Tsui, Chairman, to the Annual General Meeting of the People' Council on Public Housing, Hong Kong, July 1987.

Not only will a tentative answer to this question allow us to understand the dynamics of Hong Kong's urban system, it will also provide us with the criteria to evaluate the program on its own grounds and to determine the conditions for the feasibility of a similar program in other institutional and economic contexts. Such is the main theme of our analysis. But in order to properly deal with these questions -- namely, why the public-housing program in Hong Kong, and what has been its actual contribution to the economic development and social well-being of the territory -- we first need to recall the precise profile of the program, since it changed considerably at the different stages of its rather complicated history.

The Historical Development of the Public Housing Program

The Origins of the Program

The evolution of public housing in Hong Kong has been well-presented in the specialized literature, and it is reasonable to assume that the interested reader is acquainted with it. Nevertheless, it seems important to establish some qualitatively different stages in its chronological development so that we will be able to consider the potential links between the variations of housing policy and the transformation of the broader context of Hong Kong's economy and society. We will examine the program's three stages (1954-1964, 1964-1973, and 1973-1983), as they have been proposed by the major work on the subject, the research monograph by David Drakakis-Smith (1979).¹⁰ We will add fourth and fifth stages in view of more recent information collected during our field work in Hong Kong.

As the story goes, public housing in Hong Kong started as a Christmas tale.¹¹ On Christmas Eve, 1953, a fire devastated the Shek Kip Mei squatter settlement in North Kowloon. Overnight, 50,000 persons were homeless. The government reacted swiftly, in the midst of an emotional atmosphere that helped to catalyze the growing awareness that the housing situation was running out of control. Economic considerations, according to Drakakis-Smith (op. cit., p. 44), were important, since it was calculated that it was actually cheaper to build a six-story resettlement block (of very low standards) than to pay the relief fund to 50,000 people for two weeks. Podmore¹² mentions existing concern with fire and health hazards and potential problems of public order. And the Commissioner for Resettlement put it in clear terms (as quoted by Drakakis-Smith in his monograph [op. cit., p. 44]):

Squatters are not resettled simply because they need . . . or deserve, hygienic and fireproof houses; they are resettled because the community can no longer afford to carry the fire risk, health risk, and threat to public order and prestige which the squatter areas represent and because the community needs the land of which they are in illegal occupation. And the land is needed quickly. (Commissioner for Resettlement, Annual Report 1955, p. 46.)

Whatever the immediate reasons, the housing policy begun by the Shek Kip Mei fire went far beyond the initial purposes of the resettlement program. It has kept expanding up to the present, and shall continue to do so in the future. It went through the following distinctive stages:

1. The period of 1954-64 -- The building of resettlement estates by the Public Works Department.
2. The period of 1964-73 -- The continuation of the program at a lower pace, in spite of the recommendations of the 1964 White Paper produced by a "working party" (committee) appointed by the government, which aimed at recognizing all occupants of existing squatter structures as eligible for rehousing by the government. The paper set up a target of resettlement units for 1.9 million people to be completed by 1979 in order to absorb the squatter population.
3. The period of 1973-83 -- A major boost to the public-housing program was given by a new governor, Sir Murray MacLehose, appointed in 1971. A career diplomat with a strong personality, he shook up the entire Hong Kong establishment with a speech in October 1972 in which he announced the launching of a major ten-year public-housing program to provide "permanent self-contained accommodation, in a reasonable environment, for virtually everyone in Hong Kong." Quality and space standards were considerably raised, and a target of housing units for 1.8 million persons was fixed for 1983. The period was then revised and extended to 1985, to take into consideration the unfavorable evolution of the economy and the unexpected surge of new immigrants from China.
4. The period of 1972 to the present -- The concentration of public investment in low-income housing and the high price of land-leases for private development (to the advantage of government, since all land in Hong Kong is Crown Land, as we shall discuss in detail in the following pages) left many with little chance of finding adequate housing. The many included a substantial proportion of the middle class whose income was above the maximum level of eligibility for public housing but who could not afford the prices of the private market. concentrated on home-ownership production to avoid the inconveniences of rent control. Thus, in 1977 the Housing Authority adopted a Home Ownership Scheme for the benefit of the sector of the population that the imagination of Hong Kong officials has labeled as "the sandwich society."
5. The period 1984-2001 -- In 1984, a new situation was opened by negotiations with China and the September 1984 Sino-British agreement on the status of Hong Kong after 1997. These determined a substantial change in housing policy that also incorporated, to some extent, demands that had been put forward by increasingly militant grassroots groups in the 1980s. In 1987, a "Long Term Housing Strategy" was elaborated by the government to extend the Hong Kong housing policy beyond the end of the British

sovereignty until 2001. Although the new housing policy embraced several elements (including the integration of the home-ownership programs aimed at the lower middle class), a dominant theme appears to characterize it: the privatization of government's housing policy, with respect to both supply and demand, along the lines that we will analyze below in this chapter.

Each of these stages of housing policy has led to particular spatial forms, building designs, administrative procedures, management institutions, and, ultimately, social and urban issues, all of which we shall now summarize briefly.

The Resettlement Stage (1954-1964)

In 1954 the Resettlement Department was formed and put in charge of the task of building -- as quickly as possible and at the lowest possible cost -- housing estates that could relocate squatters to sites more suitable for government purposes, and under conditions more directly controlled. The target was set at relocating 50,000 persons per year in these estates. The design of these early estates (called Mark I and Mark II in the bureaucracy's terminology) was rather primitive, to put it mildly. It consisted of six-story H-shaped blocks without elevators or electricity, with communal facilities for cooking and washing and toilets on each floor. The spatial standard was set at 2.2 square meters per person, and the average room was 11 square meters. When families expanded, overcrowding became as bad as that existing in the squatter areas or slum tenements. The absence of any garbage disposal system led to the accumulation of waste in the little open spaces of the settlements. The lack of commercial facilities created the conditions for the expansion of hawkers' activities. Both situations led to consequent congestion of open space and deterioration of public hygiene. But rents were very low (about HK\$14 per month), the location of most settlements (in the vicinity of central Kowloon) was very convenient for the dwellers' activities, and, above all, admission into these estates was a guarantee of full integration into Hong Kong society, a fundamental issue for an immigrant population. The few studies and surveys conducted on the resettlement estate inhabitants' activities seem to indicate a general level of satisfaction with their current living conditions as compared to their previous conditions.¹³ In addition, housing conditions in Hong Kong were so poor that the resettlement estates were no worse than most of the slum tenements. A Hong Kong University survey of private housing in Hong Kong in 1957 revealed that 80 percent of households shared living facilities and 70 percent had less than 120 square feet.¹⁴ Thus, resettlement estates were the only solution for the low-income population evicted by redevelopment programs. They were also the only solution for immigrants living in squatter settlements and desiring to stabilize their existence in Hong Kong. Quantity prevailing over quality, the resettlement estates housed 607,673 persons between 1954 and 1965, with more than half of this figure resulting from efforts during the last years of the period (1961-1964).

In a parallel move, the government increased its support for a private charitable institution, the Housing Society, founded in 1951. The

government also established its own Housing Authority in 1954 to provide better public housing for people who were not squatters and who were in higher income brackets (over HK\$400 per month) than those in the resettlement estates. (It should be noticed that, in 1957, 56 percent of the population earned less than HK\$300 per month.) Flats provided by the Housing Society and the Housing Authority had much higher standards: space was 3.25 square meters per person and the units were self-contained, with kitchen, toilets, and balcony. Yet, since funding priority was being given to the Resettlement Program, the impact of the Housing Authority was much more limited; together with the Housing Society, they housed only about 60,000 persons by 1960.

In spite of these three programs, the 1961 census showed appalling housing conditions as the prevalent way of life in Hong Kong. Out of a total of 706,000 households, only 21 percent were living in self-contained flats, while 56 percent were in shared rooms, cubicles, and bed spaces, and 23 percent in squatter areas and boats. To tackle the problem, a new program was enacted in 1961, the Government Low Cost Housing (GLCH), under the administration of the Housing Authority, to build housing for families earning less than HK\$500 per month. Also, the resources of the Housing Authority were substantially increased. While until 1958 no public housing unit had been finished (the first estate, North Point, was occupied in January 1958), by March 1965 there were 127,571 public-housing units. Table 6 provides a statistical summary of the public-housing effort between 1955 and 1965.

And yet, with the continuing influx of immigrants (particularly in 1962) and the displacement of tenement dwellers by private redevelopment operators forcing demolitions in the older areas of the city, these two forces led actually to a worsening of the housing crisis in 1964 as compared to 1954. The number of squatters had actually increased, from 300,000 in 1953 to 550,000 in 1964, representing about 20 percent of the population.^{15*} The report on "Working Party on Squatters and Evicted Tenement Dwellers" estimated that in 1963 about 31 percent of the population (1.1 million persons) were living in temporary structures of different types (including squatter huts and boats), and that about 70 percent of the 1.6 million living in private housing had inadequate accommodation. At the same time, the boom of speculative building in the private sector (one of the major causes of increasing housing demand, due to the massive eviction of tenement dwellers to clear land to build on) was yielding so much at such a high level of prices and rents that it led to an oversupply of private flats: in 1966, 18 percent of the private housing units built during the previous 12 months was unoccupied.¹⁶ Clearly, in spite of the major effort accomplished over ten years, the poor quality of the resettlement estates, the destruction of the urban center by private redevelopment, and the increase in immigrants required as cheap labor by the burgeoning Hong Kong manufacturers -- all these led to the need for a reassessment of housing policies and for their reorganization in a more coordinated program.

* Drakakis-Smith cites the figure of 603,000 squatters for 1964 (op. cit., 1979, p. 53).

TABLE 6

Units of Accommodation Completed in
Public Housing 1955-1965

<u>Year Ending</u> <u>31st March</u>	<u>Resettlement</u> <u>Estates</u>	<u>Low-Cost</u> <u>Housing</u>	<u>Housing</u> <u>Authority</u>	<u>Housing</u> <u>Society</u>	<u>Total</u>
	(Cumulative Totals)				
1955	30,255	-	-	3,658	33,913
1956	91,672	-	-	8,820	100,492
1959	150,774	-	16,158	17,100	184,032
1961	258,246	-	38,488	30,030	326,764
1963	398,269	-	68,353	40,870	507,492
1965	607,673	49,655	127,571	63,710	848,609

Source: Unpublished data compiled by the Crown Lands and Survey Office, Public Works Department, Hong Kong. Cited by D.J. Dwyer "Housing Provision in Hong Kong" in D.W. Dwyer (editor) Asian Urbanization: A Hong-Kong Casebook, Hong Kong: Hong Kong University Press, 1971, page 33.

The Housing Board Period (1965-1973)

In 1964, the government appointed two committees to review the housing problems of the colony: the first to deal with slum clearance, the second to assess the policies aimed at squatter resettlement and provision of low-income housing. While the urban renewal policies recommended by the former were very limited in their scope and actually accelerated poor tenants' displacement,¹⁷ the White Paper produced by the second committee represented a turning point in Hong Kong's housing policy. The main contribution of the report was the recognition of the eligibility of squatters to be housed by the government, although this decision was qualified because it excluded from such eligibility squatters who would unlawfully occupy Crown land after 1964. Following this recommendation, squatters in "tolerated areas" (surveyed squatter areas prior to 1964) would receive a housing unit in a resettlement estate, while dwellers of "non-tolerated" structures (post-1964) would be allowed to move into licensed areas where the government would provide communal facilities and they would be able to build their own huts. Along with increased control of squatting and mandatory demolition of structures when necessary, this policy was intended to put an end to uncontrolled settlements, so that valuable land could be preserved and the immigrant population brought under government control. In this sense, it is important to emphasize that, in the words of Drakakis-Smith,

The Hong Kong Government retained the juridical power to evict the occupants of tolerated structures without any compensation or offer of rehousing -- a threat which could be employed to ensure that clearance programmes went as scheduled. Tolerated squatters were only rehoused at the government's pleasure and not as a right. (1979, p. 69)

Ironically enough, squatters were in fact in a relatively favorable position in relationship to the dwellers of slum tenements, who were generally older residents of the city, since resettlement squatters received more direct attention because of the two-fold purpose we have already mentioned (to clear land and to step up social control). The 1964 White Paper also proposed a new, comprehensive housing program and assigned quantitative targets to each of the different government agencies in charge of the three types of housing production. Table 7 recalls the targets for that period and compares them with the actual performance.

As can be observed, the program missed its target by a considerable margin, particularly concerning the resettlement estates. Yet the effort was still significant. Besides, standards of equality were upgraded in the resettlement estates, with the new Mark III and Mark IV design types being adopted from 1966 onward. While space was still maintained at the very low threshold of 2.2 square meters per person, the Mark III flats had electric lights and toilets shared between adjacent flats, and in the Mark IV type there were elevators. Part of the reason for such improvements was that experience had shown that the bad quality of the Mark I and Mark II estates (like the first one in Shek Kip Mei) was forcing their conversion, at high cost. Also, many families in the early resettlement estates whose living space had gone below 1.5 square meters per person had to be relocated. New communal facilities were provided and small shops

TABLE 7

1964-1974 10-year Building Programme

Category of Agency and Type of Housing Unit	<u>Target</u> (Persons to be Housed)	<u>Actual</u> <u>Production</u> (Persons)	<u>Actual</u> <u>Production</u> (Number of Flats)
Resettlement Estates (Standard: 2.2 sq.m. per person)	1,900,000	661,000	130,000
Government Low Cost Housing (standard: 3.25 sq.m. per person)	290,000	200,000	68,000
Housing Authority	85,000	105,000	18,000
[Housing Society]	(not a government agency)	74,000	13,000
<hr/>			
Total	2,275,000	1,040,000	229,000
Annual Average	220,000	100,000	23,000

Source : Housing Authority, data provided directly to the author, March 1983.

were licensed, making hawker clearance and control easier. At the same time, government management personnel were assigned to the estates; they had better training and comprehensive skills and responsibilities. Other types of public housing also expanded, and the planning of some very large new developments in the New Territories led to the proposal of the new-town concept, where public housing, private housing, industrial shops, and commercial facilities would intermix in a relatively self-contained area. Tsuen Wan, northwest of Kowloon, where textile mills had already located in the 1950s, became the first of these new towns (with a population of 240,842 in 1986, 43 percent in public housing), with several public-housing estates being built there in the late 1960s.

To coordinate all the public-housing programs, the Housing Board was established in 1965 as an advisory body to the government. While the Board certainly played a major role in the evolution from emergency measures to a housing policy, some of the policies adopted as a more deliberate strategy proved to be wrong. In particular, in order to improve the quality of the GLCH estates while keeping the cost relatively low, the new sites were located in more distant areas, areas to which a population generally working in the center of the metropolitan area was reluctant to move. Also, because of the housing depression in the private sector that followed the banking crisis of 1965, many middle-income families were unable to find desirable housing at a price they could afford.

Finally, the 1968 decision of the government that the Housing Authority and the Housing Society should be self-financing (which led to halting favorable loans and land subsidies)¹⁸ proved to be unrealistic. It led to a slowdown of the rate they were producing housing at, precisely the moment when the proportion of people with enough income to pay Housing Authority rents (and still eligible for public housing) grew dramatically. This timing inflated the waiting list by tens of thousands of applicants.

Thus, though the foundations of a wide-ranging housing policy had been laid down in the 1960s and the number of squatters had substantially decreased, the 1971 census showed that the housing crisis was far from solution. Nearly 50 percent of residents still lived in not-self-contained living quarters; 32 percent of the population was in urgent need of housing, either because they were sharing overcrowded flats or were living in huts or boats. While economic growth was reaching historic heights, the city was still unable to house its people. Industrial productivity and the expansion of international trade were increasing real wages, but the collective living conditions of Hong Kong were still on the edge of ecological catastrophe. Twenty years of a public-housing program had helped to control squatters and upgrade the standards of the housing units, but the population increase was still threatening the breakdown of the delicate social equilibrium reached in the colony, shaken by the 1966 and 1967 riots. The political will of the government to tackle the problem was going to be tested in one of the most ambitious housing programs ever conducted in a capitalist society.

The Restructuring of the Housing Program: Upgrading Public Housing, Building New Town, and Urbanizing the New Territories (1973-1983)

In 1971, Sir Murray MacLehose was appointed Governor of Hong Kong; he gave his policies on social reform a high priority, and public housing was the cornerstone of these policies. The new governor's housing policy aimed at providing adequate and affordable housing to the entire population. At his request, the Housing Board evaluated housing needs in April 1973, according to the estimates hereafter. The governor ordered all these housing needs to be satisfied by the public housing program within ten years.

At the same time, housing standards were raised to provide for 3.25 square meters per person in self-contained flats with kitchen, bathroom, balcony, water, electricity, and elevators. Public facilities were to be included in all new estates; commercial facilities and provisions were made for industrial shops, stores, and office space. All in all, the program was equivalent to the construction of 35,000 flats per year, on average, for the ten-year period.

To manage such an ambitious program, all existing housing agencies were unified in 1973 into a single institution, the Housing Authority, headed by the government's Secretary of Housing and ruled by a board of 17 members, 11 of whom were unofficial (including eight Urban Council* members) and six official. All members of the board were appointed by the governor. The Housing Department was organized as the executive branch of the Housing Authority. The Housing Ordinance of 1973 assigned to the Housing Authority the following functions:

- Plan and build public-housing estates for categories of people determined with the approval of the Governor;
- Manage public-housing estates throughout the territory (including cottage areas, temporary housing areas, and transit centers);
- Clear land for development;
- Control squatting;
- Since 1977, to plan, build, and manage flats provided under the Home Ownership Scheme;
- Build and manage multistory factories, which provide small factory units for displaced businesses operating industrial undertakings in land that was submitted to redevelopment.

Capital funding for the public-housing programs was provided through the government budget, which contained a four-year expenditure forecast projected forward annually. The Housing Authority was responsible for its own finances and management. Under revised financial arrangements drawn

* For the explanation of the structure and functions of the Urban Council, see below, Chapter 3.

up in 1977, the Housing Authority was no longer required to pay any premium for land granted by the government for public rental housing. Loans from the Development Loan Fund for new public rental housing estates were to be repaid over 40 years, with a nominal 5 percent interest shown in the Authority's balance sheet as a government contribution (land value was also written in the balance sheet in the same way). In spite of the public provision of land, the cost of the program was still phenomenal. The estimates of the Town Planning Office in 1973 were that the capital required for housing, public facilities, and engineering work was about HK\$10 billion for the ten years. An additional sum of HK\$1,004 million was programmed for the extension of the transportation system.

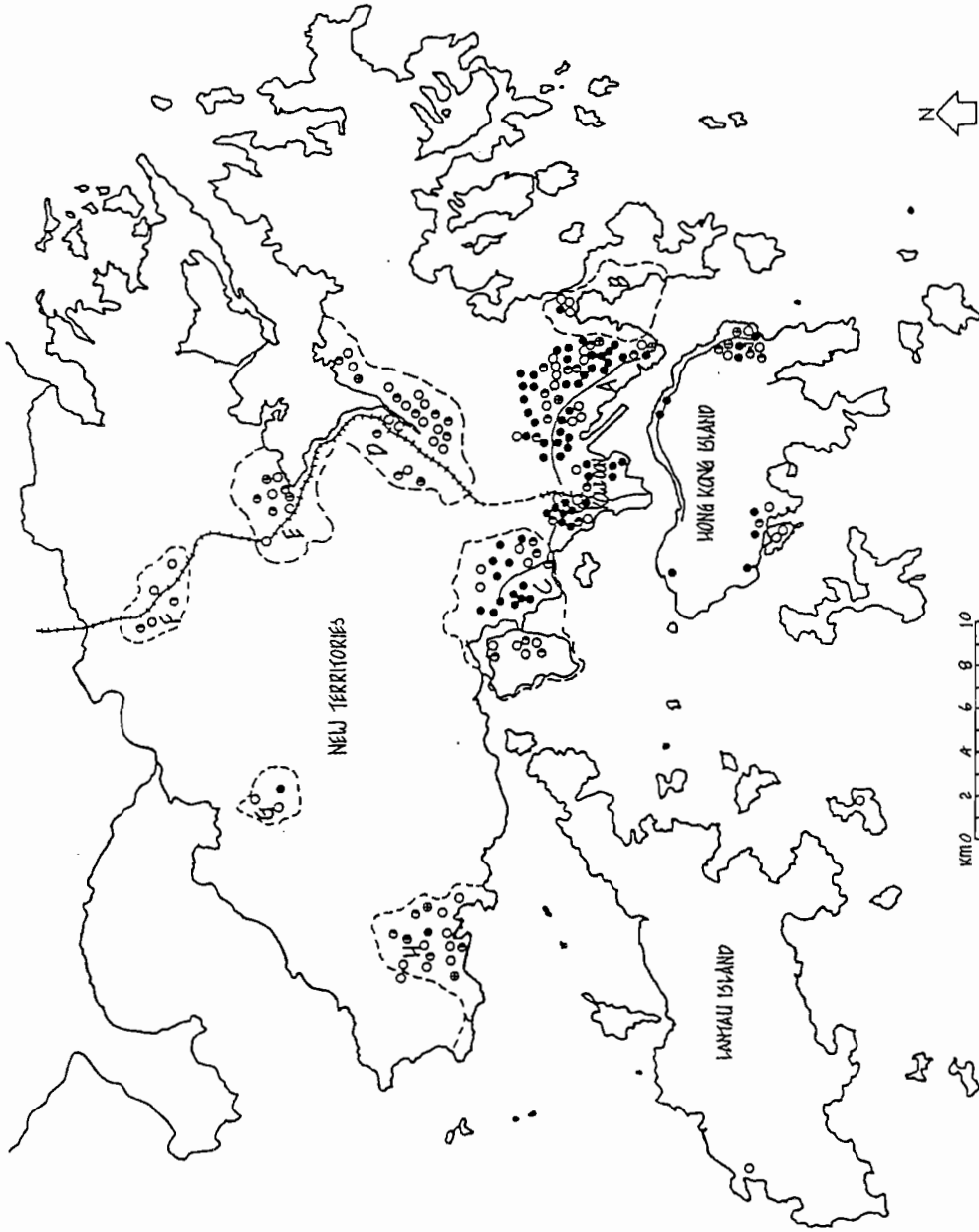
The price to pay for the development of a program of this dimension at such a pace was to locate the new housing estates in more distant sites, particularly in the New Territories that had remained until the 1970s as predominantly rural areas. Given the distance to the CBD of Hong Kong/Kowloon, an attempt was made to build new towns as self-contained as possible. Nevertheless, as in most international experiences of this kind, the new towns have not become self-contained and have remained as predominantly peripheral residential dormitories,¹⁹ with the partial exception of Tsuen Wan, which was an industrial site from the start. The first generation of new towns (see Map 1 and Table 8A) includes Tsuen Wan and Kwai Chung and Tsing Yi, which together house 654,000 people; Sha Tin, partially built on reclaimed land as an extension of an original village, currently houses 356,800 persons out of the planned 500,000; Tuen Mun, in the western end of the New Territories, was planned for about 400,000 people, with 284,500 living there in 1986.

The second generation of new towns, in the northern section of the New Territories, included the three new towns of Yuen Long, Tai Po, and Fanling-Sheung shue. Altogether, they are planned for about 580,000 dwellers. In 1986 they had 493,400 inhabitants, 27 percent of whom are in public housing. A third generation of new towns is in the planning stage to absorb the expected population growth, as Hong Kong, in spite of the 1997 deadline, raises its stature even more as the financial and industrial capital of Southeast Asia. However, this generation is limited to two new towns: Junk Bay, on the eastern seashore of the New Territories, which could house 300,000 people in the mid-1990s; and Tin Shin Wai, on the northwestern tip of the territory, whose development is mainly due to substantial real estate investment in the area by mainland China companies.

The upgrading of the quality of the public-housing units was required to combine mass production of low-cost housing with a better use of a limited space. To fulfill this goal, new designs were incorporated into the housing estates. To the H-shaped blocks of the 1950s and to the twin-tower blocks of the mid-1960s were added the cruciform blocks (freeing more space for recreation areas) and the "Trident Z" blocks, averaging 20 storeys and 816 flats for a population of about 4,000 persons per block. Improved technology made possible better-functioning elevators and, therefore, higher buildings. Also, a new design was presented by the Housing Authority in July 1976: the "double-H point blocks" (see Figure 4), with somewhat bigger kitchens, toilets, and balconies, improvements

MAP 1

- A. KWUN TONG INDUSTRIAL TOWN
- B. JUNK BAY NEW TOWN
- C. TSUEN WAN NEW TOWN
- D. SHATIN NEW TOWN
- E. TAI PO NEW TOWN
- F. FANLING AND SHEUNG SHUI NEW TOWN
- G. YUEN LONG NEW TOWN
- H. TUEN MUN NEW TOWN

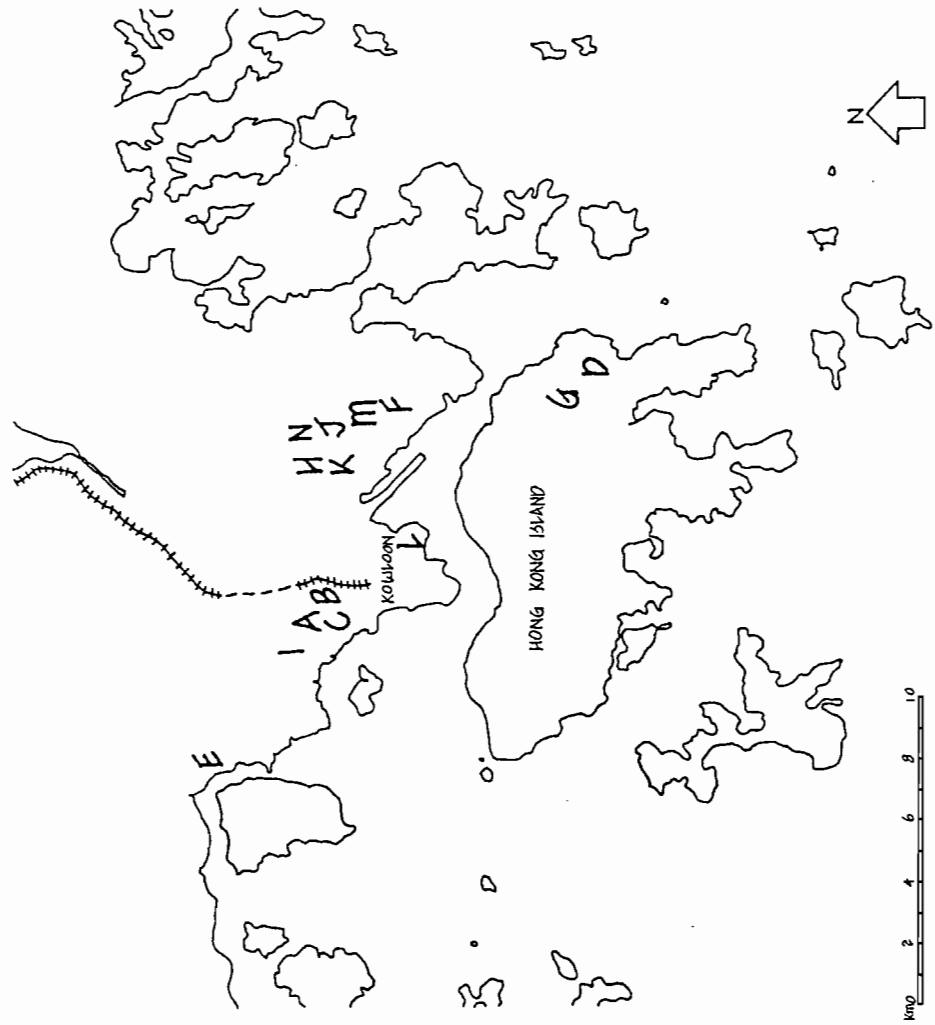


- ESTATES PLANNED/BUILT BEFORE 1975
- NEW HOUSING AUTHORITY RENTAL ESTATES COMPLETED AFTER 1975 (SOME STILL UNDER CONSTRUCTION)
- HOME OWNERSHIP SCHEME ESTATES (SOME STILL UNDER CONSTRUCTION)
- PRIVATE SECTOR PARTICIPATION SCHEME (HOME OWNERSHIP) (SOME STILL UNDER CONSTRUCTION)

SOURCE: ADAPTED FROM HOUSING AUTHORITY ANNUAL REPORT, VARIOUS YEAR, AND THE FIRST 2 MILLION

LOCATION OF HOUSING ESTATES UNDER MANAGEMENT OF HOUSING AUTHORITY

FIGURE 3



NAME	AS AT MARCH 1912 ORIGINAL NO. OF BLOCKS
A: SHEK KIP MEI	29
B: TAI HANG TUNG	14
C: NAM SHAN	*
D: CHAI WAN	21
E: TAI WO HAU	20
F: KWUN TONG	24
G: WAN TSUI	*
H: WANG TAU HOM	26
I: LEI CHENG LUK	19
J: LOWER WONG TAI SIN	33
K: TUNG TAU	23
L: HUNG HOM	4
M: JORDON VALLEY	16
N: LOK FU	23

* NOT MARK I, II ESTATES ; RECEPTANT
ESTATES BUILT TO REHOUSE NEARBY
M I, II RESIDENTS

TABLE 8A

New Town Data

Name	population(31.3.86)	public housing	pub hou/total
Tsuen Wan	240 842	103 558	43 %
Kwai Chung & Tsing Yi	413 308	312 858	75
Shatin	356 881	244 895	68
Tuen Mun	284 529	217 042	76
Tai Po	139 153	68 306	49
Fanling & Sheung Shui	144 879	47 985	33
Yuen Long	209 391	17 892	9

*population figures include those within the district boundary, not town boundary. i.e. population in rural areas surrounding the towns are included in the total population.

source : 86 bi-census

New towns under planning/construction

Name	status	target population
Junk Bay	1987 first batch of in-movers	300 000
Tin Shui Wai	site formation	140 000

*** if new town boundary is taken instead of district boundary, percentages in public housing will be even higher :

Name	new town population	public housing pop.	%
Tsuen Wan	131362	22463	17.1
Kwai/ Tsing	514241	393954	76.6
Tuen Mun	262458	217042	82.7
Shatin	355810	244895	68.8
Yuen Long	75740	17892	23.6
Sheung Shui/Fanling	87206	47985	55.0
Tai Po	119679	68303	57.1
	1546496	1012534	65.5

source : 1986 bi-census, Census and Statistics Department.

H-Block H型大廈

A new building design that set the pace for public housing standards in the future was announced by the Housing Authority in July 1976. The new H-shaped "point blocks" will give tenants more privacy, better light and ventilation as well as generate a sense of community.

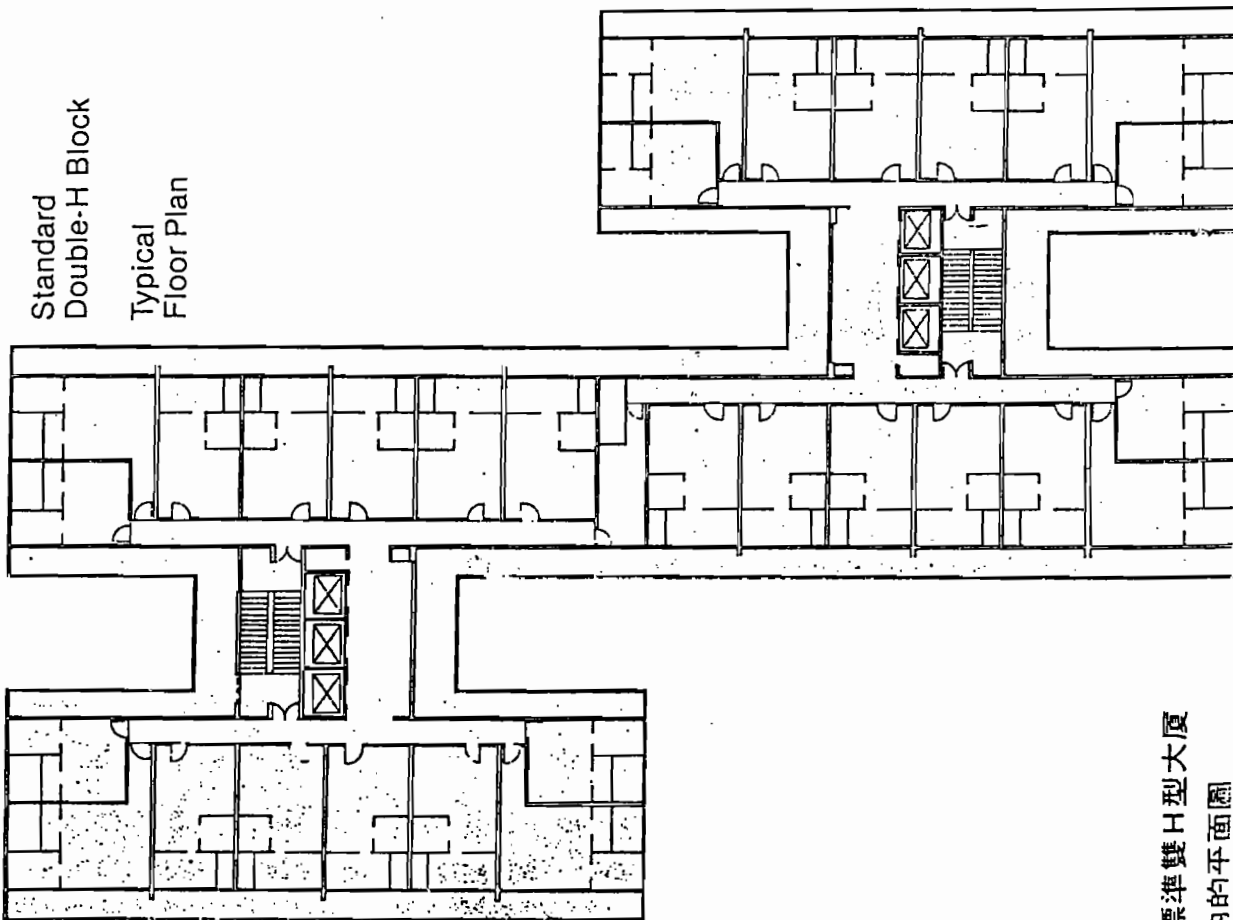
Flats in this new design have slightly bigger kitchens, toilets and balconies. There is also a better lift service to ensure a smooth flow of traffic and reduce the waiting time for tenants.

Besides incorporating improvements over the central corridor, balcony access and twin-tower designs, the new plan provides different size flats and fewer units on each floor — eight of about 35.3 square metres and four two-bedroom flats of 65.1 square metres.

Services such as lifts and staircases are confined to the central cross-bar of the blocks which rise 28 to 32 storeys. This new design gives architects more flexibility to plan various combinations giving estates more interesting and varied layouts. They also include substantial improvements over previous designs and will also enable rationalised methods of construction to be employed.

Double-H and even Triple-H blocks are now commonly included in the layouts of new estates where site conditions and other requirements permit.

FIGURE 4



標準雙H型大廈
內的平面圖

over the central corridor, and elevators and services concentrated in a central crossbar of the blocks, whose height vary between 28 and 32 stories. More significantly, the 1980s policy of housing design has been oriented toward a blend of different types of blocks within the same estate, thus providing not only for a slightly more diverse environment, but also for a variety of sizes of flats and a better integration of the specific characteristics of each site. In spite of all these improvements, design principles have been governed basically by economic efficiency and standardization of production, not leaving any room for other considerations such as the cultural values of the dwellers and the fitness of their patterns of behavior into the relatively rigid schemes of the Housing Authority. Nevertheless, in our visits and contacts with the housing estates and with grassroots groups, as well as in the existing documentation or in the local press, we did not find any evidence that cultural frictions actually do exist between the tenants' desires and the architects' designs. The main causes of dissatisfaction, as expressed for instance by the People's Council for Public Housing during the 1980s, concerned basically the resistance to rent increases, the lack of isothermic isolation in the buildings, the distance of the new developments from working places, the insufficiency of public facilities for such a large housing population, the right to keep the family's married sons and daughters in the flats, and the extension of the public housing program households of one or two persons. During the latest stage of the public-housing program, much more careful planning has been carried on in relation to the schools, recreational facilities, commercial areas, restaurants, and open-space zones, with a level of services and of urban vitality that largely exceeds, in our own experience, those of most French public-housing estates in the 1960s.*

In terms of the statistical results of the ten-year program launched in 1973, Table 8B provides the figures up to 1983. It can be seen that though the program missed its own target by 50 percent(!), and had some erratic variations in different years, nonetheless the achievements are at first sight rather impressive, at least on the quantitative side.

Who did the program benefit? What are the eligibility criteria, and how are these effectively applied?

Astonishingly enough, after 30 years of public housing, there are no public data on the social profiles of the beneficiaries. What we do know are the criteria for eligibility and the housing situation in which the applicants were, before being allocated public housing.

Concerning the criteria for eligibility, until 1984 any family of three people, or three unrelated elderly people, or a married couple, who were residents of Hong Kong, could register on the waiting list. Housing units were allocated according to the level of income, the family size, and the condition of the applicants' existing housing. The length of wait very much depended on the housing estate's location and characteristics

* For our analyses of the French Grandes Ensembles, see Manuel Castells, The City and the Grassroots, University of California Press, Berkeley, 1983.

TABLE 8B
Ten-Year Housing Target 1973-1983

(Prepared by estimates made in late 1972 by official members of the Housing Board, and announced by the governor in Legislative Council in October 1972. Based on component methods as of 1-4-73.)

A.	All occupants of squatter and licensed areas	320,000
B.	All occupants of cottage areas	60,000
C.	Occupants of resettlement estates involved in redevelopment schemes, and for relief of overcrowding	430,000
D.	The unsatisfactorily housed in the New Territories towns (Tuen Mun, Sha Tin, Yuen Long, Tai Po, Shek Wu Hui/Fanling)	80,000
E.	The marine population requiring rehousing ashore (including boat squatters)	50,000
F.	Special allowance	174,000
G.	An allowance for relief of overcrowding due to population growth in government housing estates	200,000
H.	An element for the expected shortfall in the private sector	148,000
I.	A safety margin to overcome expected delays in the building program, at 5 percent of total requirements	<u>73,000</u>
	TOTAL	1,535,000 (persons)

Source: Data provided by Mr. Bernard Williams, Director of the Housing Department, 1983.

the applicants were ready to accept: while a public-housing unit in remote Tuen Mun New Town could be obtained (in 1983) by waiting about four years, a unit in Kowloon could require about eight to ten years waiting, and the few Hong Kong vacancies would be allocated at an unpredictable date. For instance, between 1967 and 1983, about 500,000 families applied to the Housing Authority. Of those, 103,000 received a flat, 250,000 were found ineligible, and the remainder were still on the waiting list in 1983 (about 150,000 families). Careful screening of applications led to the elimination of those applicants who did not meet the criteria, particularly those whose income exceeded the ceiling established -- though not officially declared -- by the Housing Authority. Also, the family-size criterion, until 1984, eliminated many young married couples who in a few years would have had a family. The tenants' organizations repeatedly criticized the lack of smaller flats to be allocated to singles or to childless couples, as well as the relative secrecy of the public-housing allocations. The Housing Authority, after personal scrutiny of applicants, insisted that selection of applicants was made by the computer on the basis of objective criteria. The problem was, of course, the criteria on which the computer program was based. Table 9 shows the distribution of characteristics of beneficiaries for 1982-83, 1983-84, 1984-85, and 1985-86.

The crucial element to be noticed is the importance of development clearances, and of redevelopment -- conversion of Mark I/II blocks and of occupants of huts in relationship to the waiting-list applicants. This must be related to the direct information supplied to us by the Housing Authority: in the 1980s, of about 30,000 rental flats, an average of 12,000 were targeted for the waiting list, 8,000 for squatter huts and boat occupants, and 6,000 for relocation of Mark I/II estates occupants. What this has meant is that public housing units have continued the trend of being allocated to categories that have experienced some inconvenience as expressions of urban blight, rather than to individually considered cases. In other words, public housing is relief for the ill-housed only if it accomplishes its mission of re-establishing urban order, while making it possible to clear valuable land.

Along with the continuation of the rental public-housing program, the Housing Authority considerably expanded its sphere of intervention in the 1973-85 period. Most significantly, it aimed at a major redevelopment program to upgrade the housing conditions of the 340,000 dwellers of Mark I and Mark II resettlement estates produced between 1954 and 1966. The quality of these estates was so poor that they all had to be converted or demolished and rebuilt. The target was to achieve that aim by 1996. By 1981, 22 blocks had been demolished and 25 converted, with 250,000 people benefitting from improved housing. In 1983, there were 61 blocks being converted and redeveloped, with over 100,000 people affected. As we will see, the redevelopment program expanded its scope considerably in the fourth stage of housing policy, after 1984 (see Table 10).

The Housing Authority has also become an important commercial and industrial developer and landlord. Originally this type of activity originated as a spinoff from the housing program. When squatter areas were cleared, a number of small industrial factories and commercial stores, most of them highly productive, had to be relocated. Though the

TABLE 9

Distribution of Rental units among different categories

	83/84	84/85	85/86
Junior Civil Servants	1500	1500	1700
Waiting List Applicants	13481	13268	13200
Development Clearance	8000	7500	4700
Redevelopment/Conversion	6000	6061	8200
Transfer from Mk I, II	263	---	428
Relief of over-crowding	1009	1571	1207
Reuse of T. H. A.s	1345	2200	4400
Victims of Fires and N.D.s	279	250	297
Ex-tenants of dangerous bdg	98	123	98
Occupants of huts and.....	369	122	185
Compassionate Cases	800	820	910
Miscellaneous	665	556	720

total	33809	33541	36045

source : Housing Authority Annual Reports

TABLE 10

Redevelopment of Mark I-II Housing Estates (Number of Households)

	72/73	73/74	74/75	75/76	76/77	77/78	78/79	79/80	80/81	81/82	82/83	83/84	84/85	85/86
Shek Kip Mei					188	294	1312	1705	288	796	223			
Fai Hang Tung						939	638	675	566	274	735	1267	681	
Chai Wan					846	210	307	745	83		1218	556		
Tai Wo Hau					795			421	908	80		205	1843	284
Kwun Tong							48	354	26	21	875			710
Hang Tau Hom							49	269	521	86		820	1300	1152
Lei Cheng Uk									295	1345	8	42	1588	467
Lower Mong Tai Sin								78		123	634	1059	248	1703
Tung Tau						671				58	712	518	634	1374
Hung Hom											63	212	61	
Jordan Valley											369			
Lok Fu														
Unspecified/Vol- ⁺	891	1363	1229	1229	177	373						414	1593	403
untary transfer														
total	unclear	891	1363	1229	2006	1776	3025	4247	2687	2783	4837	5093	7948	6105

Redevelopment of Public Housing: MKI and MK II estates, number of households rehoused each year.
Source: Housing Authority Annual Reports. Various years.

+For years before '78/'79, rehoused households were not clearly listed in the reports by their origins.

"Voluntary transfer" means that some households in MK I and II applied for transfer to other type of public housing before theirs were due to be demolished. Since 1983/84, the reports put them into a separate category without giving the origin estate.

hawkers' activity was always seen with an unfavorable prejudice by the Housing Authority, the industrial shops were kept, as often as possible, and relocated in multistory factory buildings. In 1981, the Housing Authority managed about 5,000 private factories, located in 34 blocks and 4,500 cottages. But the total number of multistory factories built by the public sector was much larger, as shown in Table 11.

Concerning the commercial facilities, the Housing Authority realized the potential of leasing space in its estates to all kinds of stores and businesses, both in terms of providing facilities to the residents and as a profit-making activity for the Authority, given the captive market these estates represent for the commercial premises located there. So, by 1981, the Housing Authority was the owner of 13,750 shops, banks and restaurant tenancies, based on three-year agreements that were renewable by mutual consent. For anyone who has enjoyed the intensity of the giant public restaurants or shopping malls of the housing estates, it is clear that the experience is a social, functional, and economic success -- indeed, a very profitable one for the Housing Authority. So, in the 1980s, the Housing Authority became a commercial developer on its own. For instance, a big shopping center was built (to lease) at Lok Fu, at a cost of HK\$267 million, to serve the central Kowloon area.

Last but not least, since the early 1980s the Housing Authority stepped up its squatter-control program. The purpose has been to suppress no longer the squatter settlements. The continuous arrival of immigrants and the financial constraints of the 1980s, at a moment when the future of the territory was uncertain, has led to the government's abandoning Sir Murray MacLehose's dreams of eliminating the squatter problem. The point has been to control it and to upgrade, as much as limited possibilities will allow, the existing controlled settlements. As the 1981/82 Housing Authority Report stated:

Today, because of the tremendous pressure on housing, the policy is to clear only those areas required for permanent development, and to exercise strict control over the building of additional structures. The Housing Authority is now responsible for squatter control throughout the Territory.²⁰

The 1981 clearance program yielded 487 hectares of land for development, displacing 53,000 people, of whom 27,000 were allocated in permanent housing and the rest in temporary housing areas, such as the one in Fung Shoe Wo, at Kowloon's periphery. In 1986, there were 44 such areas in Hong Kong, with 118,100 people, to which must be added the approximately 13,200 persons temporarily housed by the Transit Centres. The Housing Authority has created a "Squatter Control Unit" (with a staff of 3,000 people), in conjunction with the police force, to arrest and prosecute squatters. During 1981, 44,000 huts or extensions were demolished, 716 people were arrested and charged with "illegal excavation of Crown land," and fines totalling HK\$975,450 were imposed. And yet, it was estimated that in 1987 427,000 people were still in squatter settlements. Therefore, after 34 years of public housing, squatters are

TABLE 11

Flatted Factories Built By the Public Sector

<u>year</u>	<u>no. of new buildings</u>	<u>no. of new units(1)</u>
1957(2)	1	470
1959	2	655
1960	2	531
1961	2	960
1962	3	840
1963	2	720
1965	4	1554
1966	6	2436
1973	2	756
1976	2	840
1979/80(3)	1	765
1980/81	2	1456
1982/83	3	5023
1984/85	2	1069

(1) each unit at 25sq.m.

(2) 1957-1973, designed and built by the former Resettlement Department, handed over to the Housing Authority in 1973 with the two blocks under construction (completed in 1976).

(3) since 1977, new blocks built by the Housing Authority.

source : 1976 and before : Pang, W.N. (1978) From Squatter Settlements to Industrial Estates Ph.D. Thesis, UCLA p.195; the rest : Housing Authority Annual Report, various years.

still there, and they are going to remain for a number of years. Does this mean that the public-housing program has failed? Certainly not! About 2,500,000 people have been housed in public-housing units at affordable rents and prices; housing standards have been improved; facilities have expanded; and social tensions largely contained within the institutional boundaries. The continuous flow of immigrants to Hong Kong that provided the basis of cheap labor for industrial growth could have generated an entire city of squatters if the public-housing program had not been there. The housing crisis has been aggravated by speculative development and displacement of tenement dwellers. If it is true that the number of squatters seems to have increased recently, this is because of the persisting structural causes of the inadequacy of the private sector to provide housing for the majority of the population. According to representatives of grassroots committees, the answer to such a crisis is not to license squatter areas and to upgrade them, but to expand the public-housing program even more. It remains to be seen if the economic and political conditions that made it possible are still prevalent. Yet, for people constructing their huts, their gesture is not the romantic reproduction of their villages; rather, it is an affirmation of their right to enter their names onto the Housing Authority's waiting list.

Providing Housing for the "Sandwich Society"

The skyrocketing prices and rents in the public sector between 1977 and 1982 left a significant proportion of middle-income families below the income levels necessary to obtain a flat in the private market while still not being eligible for public housing. To provide for this sector, as well as to improve the quality and the profitability of its housing stock, the Housing Authority designed in 1978 a Home Ownership Scheme for families whose 1080 income was between HK\$3,500 and HK\$5,000 per month. The income bracket was later revised to between HK\$5,000 and HK\$6,500. In addition to the families within this income bracket, all public-housing renters were also eligible for this scheme, regardless of their income or needs, on the condition that they renounce their current rental units. The obvious goal of the scheme was to move up from the rental public-housing units those families who could afford it (or wanted to afford it) and thereby to free some units for the waiting-list applicants. Under the scheme, beneficiaries receive flats of different sizes and locations, the most current models being 40, 60, and 80 square meters, with prices in the range of HK\$160,000 to HK\$220,000, far below the private market prices in 1979-81. Mortgages at favorable rates were provided up to 90 percent of the price, with a repayment period of 15 years. Strong restrictions on resale were imposed with different thresholds of tolerance for periods of five years, ten years, and beyond. Several penalties were established for fraudulent purchases, particularly for making a false declaration. The Home Ownership Scheme was an instant success. More than 50,000 flats had already been sold in 1986, half of them to previous occupants of rental public housing; and the government's target is to produce about 10,000 units per year in forthcoming years.

To push further toward the upper brackets of the housing market, the Housing Authority started another program, the Private Sector

Participation Scheme, for applicants subject to the same eligibility criteria of the Home Ownership Scheme. Developers are invited to tender bids for different housing estates that they sell to the families designated by the Housing Authority under the conditions specified by the government. About 15,000 flats have been sold since 1980, and the projected figure for the second half of the 1980s is 5,000 per annum.

It must be noted that the Authority is the manager of the Home Ownership Scheme housing estates, taking care of services, repairs, elevators, security, and maintenance functions, at a monthly fee per flat. The Authority also retains ownership of non-domestic premises to lease them and to manage the general facilities of the housing estate. Thus, the general scheme of urban development is still in the hands of the Housing Authority.

The Fifth Stage (1984 and Beyond): The Privatization of Housing Policy

Toward the end of the ten-year housing program launched by Governor MacLehose, economic and political conditions in Hong Kong had changed considerably, to the point of requiring a realignment of the priorities and instruments of housing policy. We will attempt, in the course of our analysis, to account for the processes that seem to have led to such changes. But first of all, it is important to describe the characteristics of the new housing policy that seems to have been introduced in about 1984 by a series of measures and programs that cumulatively led to an overall reassessment of housing policy in February 1987, as epitomized by the document Long Term Housing Strategy issued by the Housing Branch of the Government Secretariat. This document was stamped "confidential," but everybody in the housing field in Hong Kong seemed to have it in July 1987. Although this document summarized the main lines of housing policy actually in the process of being implemented in the second half of the 1980s, there were other policy orientations that also represented a change in policy and that developed simultaneously, constituting a rather complex set of seven policies. We will examine these policies before trying to show the coherence of their articulation.

The first change in housing policy since 1984 concerned a greater receptivity to demands from tenants, and more generally, a limited democratization of the policy of decision-making in the Housing Authority. In April 1984, the government document "A Review of Public Housing Allocation Policies" signalled a consultation with the public on a number of controversial issues that had been put forward by tenants' organizations. After consultation, the government accepted long-standing demands from the tenants. These demands were as follows: (1) to accept the eligibility of small households (singletons and doubletons) to be tenants of permanent public-housing units; (2) to include squatters from outside development zones in the rehousing programs; and (3) to authorize the spouse of one married child to stay as an additional tenant in the parents' flat. In the wake of the democratic election of representatives to districts boards in 1982 (see Chapter 3), the government accepted more frequent consultation with such boards, as well as with tenants'

organizations, on policy matters. This increased the populace's representation in government. It also appointed to the Management Committee of the Housing Authority several leaders of grassroots groups. One such leader was Mr. Kin Kee Fung of the militant People's Council on Public Housing Policy; Mr. Fung accepted his appointment with the consent and under the control of tenants' organizations, in a major breakthrough toward limiting the insulation of the Housing Authority vis-a-vis pressure groups. Other grassroots leaders appointed to the Management Committee were Ho On-Nei, Lee Chik-Yuet, and Pao Ping-Wing.

A second development in housing policy since 1984 concerned the deliberate effort to limit the public subsidy to tenants who had improved their economic condition and were still in the public housing estates. The government proposed measures to raise the rents of well-to-do tenants in several documents (the "Consultative Document" of 1984, the "Green Paper on Housing Subsidy to Tenants of Public Housing" in August 1985; the September 1986 "Report of the Committee on Housing Subsidy to Tenants of Public Housing"; and the September 1986 "Report of the Working Party to Review Public Housing Rental Policy"). The policy finally adopted consisted in doubling the original rent of well-to-do tenants; this was to be implemented in 1987-88. Households were considered well-to-do whose total income exceeded by 100 percent the income limit on the public housing waiting list. The obvious purpose of such a policy was to stop subsidizing well-to-do tenants and stimulate them either to buy their flat under the Home Ownership Scheme or to enter the private market with Government support, freeing their flat for a household in the waiting list. In addition, rents for public housing flats were more explicitly tied to the income level of the tenants and to the quality of the individual estate, with an adjustment of rent levels every two years.

A third policy orientation concerned the renewed emphasis on home ownership, through both the Home Ownership Scheme and PSPS programs, that were to receive greater funding and higher administrative priority. In addition, the Home Purchase Loan Scheme was introduced in 1987 to offer low-interest down-payment loans to public-housing tenants to encourage them to purchase private-sector flats.

Fourth, a major policy decision related to the extension of the redevelopment program to all public housing estates of the 1950s and 1960s -- that is, in the bureaucratic jargon of Hong Kong housing, the Mark I, II, III, IV, V, and VI resettlement estates that literally affected hundreds of thousands of people. Table 11 shows the acceleration of the redevelopment program over time, with indication of the estates affected by such redevelopment. But this table concerns only the earliest and most dilapidated estates. When Mark III through VI are added, 254,000 units in the public sector are targeted for demolition and their tenants for rehousing, in one of the most spectacular extensions of a public housing program ever. It will amount to a new round of public mobilization to house people who were already in public housing, to respond to the demand for higher quality, in accordance with the level of economic well-being reached by Hong Kong. As a matter of fact, the proposal by the government to redevelop all resettlement estates went beyond the expectations of the tenants' organizations, which had not included in their original demands the latest programs (Mark V and VI).

Fifth, at the same time, the decision to accept the existence of squatter settlements for a long period and to implement programs for improving sites and services. This represented de facto recognition that already-developed land in the urban area (targeted for redevelopment) had a higher priority than peripheral squatter areas.

Sixth, the government has put forward since 1986-87 an urban redevelopment program concerning the private housing sector aimed at eliminating some of the worst slums in the urban areas, while freeing valuable land and rehousing people in the new towns. The Land Development Corporation was being established in 1987 as an independent statutory body with government support, but it functioned as a private developer.

Seventh and finally, the dominant theme of the new government housing policy was the new emphasis on the role of the private sector. Provision of subsidized loans to help public housing tenants and newcomers in the market to buy private housing flats was slated to play an increasing role in Hong Kong's housing policy. Selling public housing flats to their tenants and using home-ownership schemes in the redevelopment programs should foster the expansion of the private sector in a society reputed to have an increasing proportion of well-to-do households, as the process of economic expansion continues unabated. Table 12 summarizes the projections of the evolving structure of the housing stock between 1986 and 2001 under different scenarios. The government's stated preference was for the scenario that the document labels as "Private Sector Priority Strategy." Taking the intermediate hypothesis of producing 30,000 housing units per year, the private sector would represent 54 percent of the housing stock in 2001, slightly over its current share. However, a major transformation would result from the shift from public rental housing to home ownership originated in the public sector. This last sector would increase from less than 5 percent of the total housing stock to 14 percent, while the rental sector would decline accordingly, from 42 percent to 32 percent. So, while the government would still have a direct responsibility for about one-third of Hong Kong's residents, the new housing policy aims at giving the future populace a stake in real estate property, either through home ownership or through reliance on a more efficient and more affordable rental housing market. From this perspective, the ultimate goal of the public housing program would thus be to ensure the transition from being a homeless immigrant to a homeownership citizen.

It is this double emphasis on economic privatization and political democratization that underlies and articulates the different measures included in the fifth stage of housing policy in Hong Kong. On the one hand, the public housing sector has had to accept opening up to an increasingly sophisticated civil society in Hong Kong. On the other hand, the prosperity of the territory has translated into a greater possibility for the population to afford better housing and urban conditions. This triggers a process of reallocation of land uses and redevelopment of the housing stock. Altogether, housing technocracy sees its role as leaving a heritage of improved environmental quality and revalued property assets. The last stage of Hong Kong's housing policy proclaims privatization as the superior goal of the public interest.

TABLE 12

Estimation of Housing Stock by Housing Type by 2001

	Existing Strategy		Rental-led Strategy		HOS/PSPS-led Strategy		Private Sector Priority Strategy (at 30,000 units p.a.)		Private Sector Priority Strategy (at 27,000 units p.a.)		Private Sector Priority Strategy (at 33,000 units p.a.)	
	demo- litton	new production	demo- litton	new production	demo- litton	new production	demo- litton	new production	demo- litton	new production	demo- litton	new production
Public Rental :												
self-contained	17,100	329,900	166,000	429,700	166,000	327,700	166,000	327,700	166,000	327,700	166,000	327,700
non-self-contained	88,400	-	88,400	-	88,400	-	88,400	-	88,400	-	88,400	-
Sub-total	796,800 (39%)	-	747,700 (37%)	-	645,700 (32%)	-	645,700 (32%)	-	645,700 (32%)	-	645,700 (32%)	-
HOS/PSPS/MIH :												
self-contained	-	155,000	-	155,000	-	307,700	-	232,800	-	277,800	-	187,800
non-self-contained	-	-	-	-	-	-	-	-	-	-	-	-
Sub-total	220,600 (43%)	-	220,600 (11%)	-	373,300 (18%)	-	298,400 (14%)	-	343,400 (17%)	-	253,400 (12%)	-
Private Sector												
self-contained	29,100	372,000	29,100	379,000	29,100	375,100	29,100	450,000	29,100	405,000	29,100	495,000
non-self-contained	52,000	-	52,000	-	52,000	-	52,000	-	52,000	-	52,000	-
Sub-total	1,026,800 (50%)	-	1,026,800 (52%)	-	1,072,900 (50%)	-	1,097,800 (54%)	-	1,052,800 (51%)	-	1,142,800 (56%)	-
Total	2,044,200	-	1,995,100	-	2,041,900	-	2,041,900	-	2,041,900	-	2,041,900	-

Source: Hong Kong Government, Housing Department, 1987.

The Evolution of Public Housing Policy: A Summary

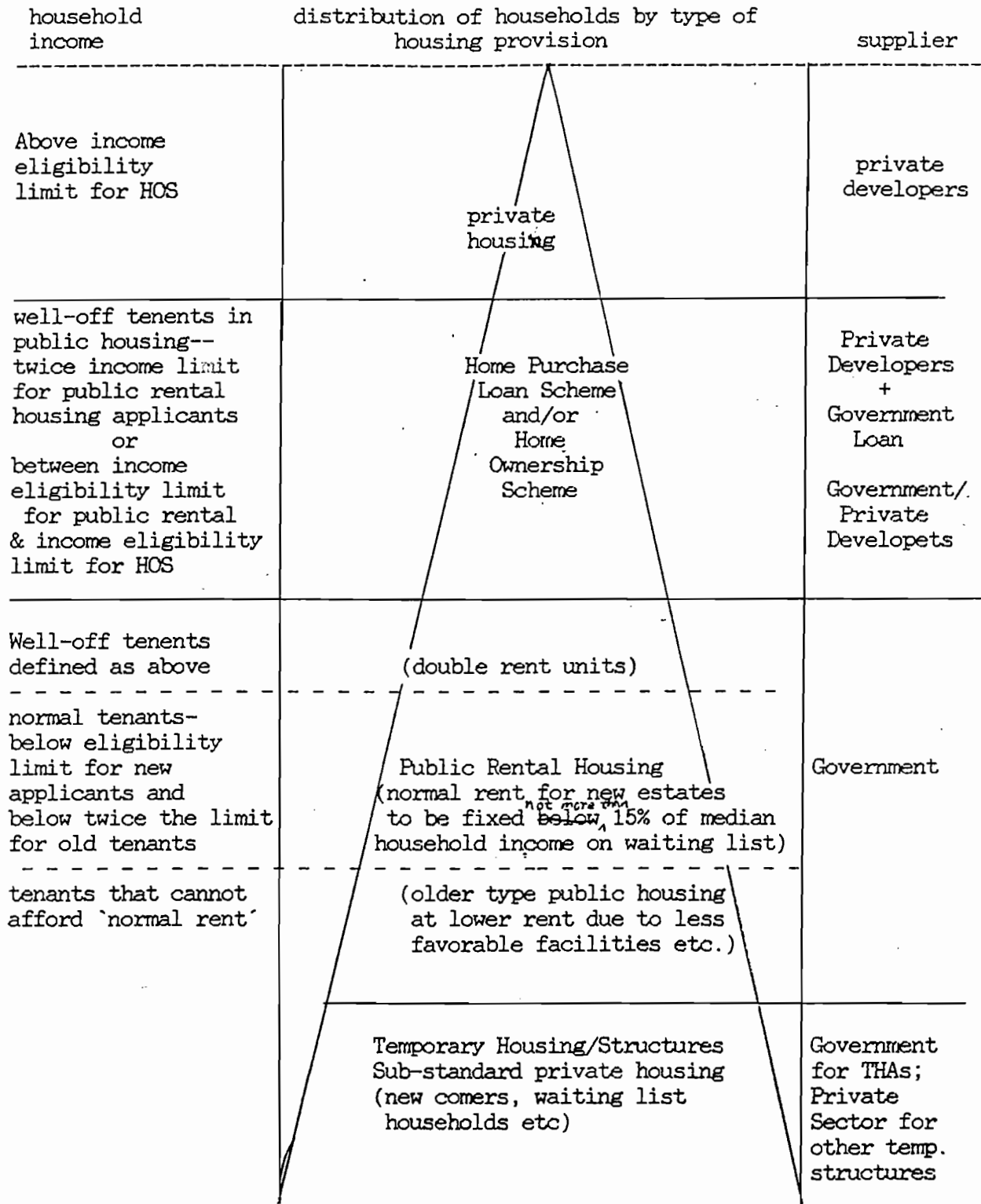
The theoretical model for provision of housing designed by a former director of the Housing Department, as presented in Figure 5, is the image of the Housing Authority in terms of its evolution from dealing with the base of the pyramid (under conditions of emergency), then moving up to take care of the upper levels of the market, while still maintaining its function of social relief for the most needy. Yet the evolution of the program has been more complex and accidental. Roughly speaking, in the first period (1954-1964) the logic was to massively produce resettlement units, without any consideration of quality or planning of facilities, to clear and control as many squatters as possible and to free valuable land. The increasing numbers of squatters and the many problems caused by the appalling quality of the Mark I and II housing estates led to a greater concern with design and construction quality during the second period, 1964-72. However, better quality translated into less quantity. From 1963 to 1972, capital expenditure in public housing as a percent of gross domestic product substantially declined every year. The inability of the program to keep up with the growing demand and the new social welfare orientation of the Government in 1972 led both to a substantial improvement of housing standards and a reorganization of the Housing Authority. This launched a major effort in public housing through massive estates and several new towns being built. A new period seems to have started in the early 1980s, with an orientation toward middle-class families, an emphasis on redevelopment of the resettlement estates, and a growing role for the private sector.

So, in terms of the overall evolution, the emphasis of the policy shifted from quantitative emergency relief and squatter-clearance to a more quality-oriented but limited program, then, in a third shift, to improved public housing and new-town development; and fourthly to a policy of middle-class housing estates, urban redevelopment, and privatization of public housing. The profile of such a historical evolution will be more precisely defined and its meaning more clearly exposed once we are able to relate the development of public-housing policy to the changing economic and political environment of Hong Kong in the last 30 years. Yet we must, before proceeding in this direction, take into consideration the organization and managerial dimensions of the housing program.

The Mechanisms Underlying the Development of the Public-Housing Program in Hong Kong

Before we analyze the structural reasons that led to the public-housing program in Hong Kong, let us investigate the specific mechanisms that made it possible for the program to develop in record time and scale, in spite of all its shortcomings in environmental quality. On the basis of our observation, we propose three fundamental mechanisms as being at the root of the organizational capacity of building such a program: (1) an active land policy, based on the public ownership of land; (2) the commitment of substantial public funds, as a result of the political priority given to the program; and (3) the managerial efficiency of the Housing Authority, as it had a great deal of bureaucratic autonomy and power to coordinate the different functions of the housing development

FIGURE 5



THEORETICAL MODEL FOR PROVISION OF HOUSING

source : Mr. Bernard Williams in 1983; adapted and updated with published housing policy reports.

process. Let us examine in detail each of these basic mechanisms of the public-housing policy.

Land Policy

The first important mechanism is an active land policy, based on the public property of land in Hong Kong.²⁰ After the British seizure of Hong Kong island in 1841, all land in the island was declared Crown land in 1844. Kowloon received the same status after its cession by the Convention of Beijing in 1860. The situation in the New Territories, leased by China in 1898 for a 99-year period, was somewhat more complicated, since there were about 100,000 people living in 423 villages. Nevertheless, after determining individual properties to issue individual leases for each lot, all land rights were also assumed by the Crown in 1902 for the duration of the lease from China.

With the government owning the property rights of all land, it proceeded (and still proceeds) to lease it for development by public auction to the highest bidder. Leases might include a number of conditions imposed by a building covenant in terms of the potential use of the land. So, although development has been largely done for private profit, it has had to submit to the conditions that the government wanted to impose at any given time. Besides, since every six months the government has published a list of lots to lease, indicating prices and condition, it actually exercises a major influence on the land market.²¹ In the oldest area, around Victoria Harbor, some of the original leases were for 99 years, but the great majority of the leases have been for a period of 75 years; so, periodically, the government recovers the rights over the land and is able to impose new conditions on the lessees. Besides, in the New Territories all leases necessarily expire three days before the lease with China does (1997) -- which makes a much shorter period overall for the exercise of private development rights.

Land for public housing and for all kinds of built structures considered to be public utilities is granted to the responsible public agency (in the case of housing, the Housing Authority) without any premium to be paid. For internal accounting purposes, the Government Lands Department is credited for its contribution, and so it appears in the budget of the Housing Authority; but it certainly does not require any public expenditure, though it could be considered a loss of potential public revenue. Therefore, one of the major components of the production of housing in a capitalist economy -- land -- is obtained at no cost by the government, with the exception of the compensation payments that had to be given to the original leaseholders in the villages of the New Territories. Yet, to avoid future expenditures, the government designed a very innovative entitlement system, the "Letter B" land-exchange system. Under this system, for each 5 square meters of agricultural land surrendered by the leaseholders, the government offered 2 square meters of built development (industrial or residential) at the time when land became available. In this system, a premium had to be paid based on the difference of the value between the agricultural land surrendered and the built land, as of the date of the surrender. Most interestingly, Letter B land could be sold to any person; thus, it has worked out as a source of

cash compensation for most leaseholders, since developers have tended to acquire and concentrate Letter B entitlements. Yet for the government, the net result was the acquisition of the land rights against the participation of private interests in the projects it wanted to develop, without having to pay compensation for resuming land rights. Because of the importance of the Letter B scheme for land policy until 1983, it is worthwhile to explain the mechanism in some detail.

The origins of the Letter B system relate to the occupation of the New Territories* Before the British takeover in 1898, land in the New Territories was mainly held by landlords under the Ching land system, whereby tenure was in perpetuity and without restrictions on the use of the land. Soon after the British takeover in 1898, the British administration began a land registration exercise in the New Territories. After a series of disputes and claims involving tenants, absentee landlords, and uncertainties in location and boundaries of plots, etc., the exercise was completed in 1903 when a total of 354,277 lots comprising 40,378 acres were confirmed to have been in private ownership before British rule. In 1905, the Block Crown leases were granted to legalize such tenure under the British rule. Prior to this, in 1980, all land in the New Territories was declared to be Crown property. Thus, with the Block Crown leases, the British administration in Hong Kong actually held all land outside the leased lots. However, these Crown lands were mainly on the hillsides, slopes, and hills unoccupied in the Ching Dynasty. The Dynasty. The new leases changed the Ching tenure system to non-perpetuous, and uses were specified and restricted. Initially the leases were granted for 75 years and were subsequently renewed for 24 additional years.

In Hong Kong, the Land Resumption Ordinance is involved when leased land is required by the government for "public purpose." While public purpose is loosely defined, it is not the main concern here. The main concern here is the provision for compensation. The value of the land expropriated should be calculated at its probable price in the open market but ignoring the compulsory nature of the acquisition, uses of the land which do not respect the lease conditions, and the expected value of the land. This means that compensation is made at the existing legal value of the land.

It was against this background that the government faced land resumption problems in the New Territories -- when needs arose after the Second World War, as rapid population and economic growth drove new development into the New Territories. The New Territories urban land exchange policy was thus devised. This first appeared in government documents in the early 1960s. Under the system, lessees whose land was subject to resumption notice were promised a future grant of land in return for land surrendered prior to its reversion to the Crown. The ratio of such exchange was as follows:

* See: Lee Hin. An Evaluation of Urban Land Acquisition Policy in the New Territories. University of Hong Kong, Hong Kong, Master in Urban Studies, 1985.

1. For every 5 square feet of agricultural land surrendered, the lessee would be granted 2 square feet of the new building land (i.e., 40 percent land compensation); and
2. For each square foot of building land surrendered, the lessee would be granted 1 square foot of the new building land (i.e., 100 percent land compensation).

Furthermore, the exchange certificates were transferable and could be grouped together. The ratio was fixed via the experience of early new town development (e.g., Tsuen Wan), where about 60 percent of the development area was used for government/institution/community uses and open space, and the remaining 40 percent for private development.

Upon re-grant of new building land, the grantee had to pay a premium representing the difference in value between the land surrendered and the land granted, both of which were assessed as of the date of surrender. This meant that the earlier the date of the exchange certificate, the less premium was paid. Also, in a tender exercise, holders of older certificates were given higher priority. Such certificates are generally referred to as Letter A (surrendered before the invoking of the Crown Lands Resumption Ordinance) and Letter B (after the Crown Lands Resumption Ordinance). During the 1960s and early 1970s, in order to encourage land holders to accept the exchange offer, the cash offer was set at a very low level. During this period, most land resumption in the New Territories was acquired in this way.

Problems caused by the exchange system gradually accumulated and became serious by the mid-1970s. First of all, with the mass public-housing program consuming most of the newly developed land, land in newly developed areas available for private developers especially for Letter B holders was far below 40 percent of the total layout. As a result, land debt of the government accumulated rapidly as the new town programs extended alongside the public-housing program. Most of the land in the New Territories available for Letter B holders was industrial land or low-density residential land, often on fringe sites. For profit reasons, these were less attractive to those developers who acquired large amounts of Letter B land as stock for speculation. For small holders, plots offered for tender were often too large for them. Thus, even the small amount offered for tender to Letter B holders were sometimes not taken up. By 1977, the outstanding exchanged commitment amounted to 7.2m square feet of building land, and this amount had accumulated mostly in the hands of big developers. At that time, resumptions were continuing at a rate of 10m square feet per year, creating an annual commitment of 4m square feet for exchange (40 percent of resumption land).

The accumulation of Letter B land and the long-unrevised cash compensation rate for agricultural land, which was set low (at HK\$1 per square foot up to the mid-1970s), caused discontent with landowners in the New Territories. A petition was sent to Britain. In Hong Kong, a group was set up by the government to review the situation. The group's recommendations, inter alia, that the land exchange rate should be lowered and alternative compensation rates be raised to a more realistic level, were accepted by the governor.

Despite this, the situation had not improved at the height of the boom in the new-town/public-housing development and property market, at the end of the 1970s and early 1980s. With the tender and premium system favoring the older exchange certificates, they became objects of speculation and hoarding. By the end of 1981, the outstanding exchange commitment stood at 36m square feet.

Two more causes eventually led to the total abolition of the land exchange system. The downturn of the property market in 1982 also led to the downturn of the Letter B speculation market. Second, the future of Hong Kong cast doubt on the validity of exchange certificates. New Territories landowners, as represented by the Heung Yee Kuk (a long-established body initiated by village leaders in the New Territories, later recognized by the government as a statutory consultative body on New Territories matters) pressed for the adjustment of cash compensation at a higher level, so that they could choose cash instead of exchange when their land was subjected to resumption. After much negotiation, in 1983 new compensation rates were settled amid the property market decline. These put forth that the government accede to a level acceptable to the Kuk at the then-prevailing land prices. At the same time, it was decided that no more exchange certificates would be issued,

In 1984, to clear up the Letter B land on the market, the government allowed it to be monetized. A formula was devised to determine the monetary value of each document, ranging from HK\$19 per square foot for a certificate issued in April 1983, to HK\$280.6 for one issued in January 1960, subject to half-yearly reviews. These values could be used in lieu of cash when bidding for tendered land. The government would specify which tendered plots were for Letter B currency. These plots were not limited to New Territories land; some were prime sites in the urban area. It was expected that it would take a number of years, involving a loss of revenue to the government of a few billion HK dollars to clear up all Letter B currency.

In February 1983, the Letter B system was cancelled and replaced by an entitlement to compensation that could only be used in land transactions, since most leaseholders were not accepting Letter B currency any more, given the uncertainty of land holdings in the future. Yet for many years it was this flexible land exchange system that had allowed the government to undertake the massive program of urban development in the New Territories at a very low cost.

Besides the Letter B system, there were five other ways in which land policy facilitated public housing development. Since land was entirely publicly owned, the government -- through the several forms of land control -- facilitated and subsidized public housing.

1. The most obvious and effective method is through planning. In planning for new development in the New Territories and reclaimed land, or for redevelopment of the existing urban areas, large tracts of land were reserved for public housing in the Outline Zoning Plans. Through this method, a continuous supply of urban land was guaranteed for the public-housing program. However, through land-use planning, public-housing development was

coordinated with associated facilities (such as social services and infrastructure) and separated from incompatible land or land uses (such as environmentally undesirable areas or industries).

2. Through planning, potential conflict of public-housing land and other land uses could be avoided. Public housing was zoned away from urban land more suitable for profitable development. Because of the large land tracts required for public-housing development, public-housing land leapfrogged over existing development and potential expansion areas. In the past, public-housing land was provided further away from the urban fringe where land was constantly under development pressure. In this way, land that generated revenue was reserved for sales in order to maximize land sale value, while public housing occupied low-value land. The rationalization of the sizeable demand for public-housing land made it possible to avoid competition with other land uses as well as to maximize governments revenue through land sales.
3. Government subsidized public-housing development in another indirect way. Among governmental departments, facilitating public-housing development and construction was tacitly accepted as a high priority. This acceptance was partially in response to the intensive demand for public housing. The public-housing program had to be on a tightly organized schedule. Because of the backlog of demand, any delay in the public-housing program caused much social dissatisfaction. Whenever the Housing Department (the executive branch of the Housing Authority) requested interdepartmental assistance, cooperation was normally given. The cooperation included not only land acquisition but also infrastructure and social services.
4. The formation of land for public housing -- including levelling sites and providing infrastructure and transportation routes -- was supplied by the Lands and Works Department. The cost of site formation was absorbed by that department and not by the Housing Department. This effectively reduced the expenditure in the Housing Department and indirectly decreased the public-housing cost to the tenants. Social services such as schools, hospitals, and public transportation were planned and scheduled in relationship to the public-housing program, so that as soon as the housing projects were completed, these services will be made available to the new residents.
5. As economic development showed a general pattern of growth (apart from periodic downturns), land (as a factor of production) was in constant demand. Because of the limited available land for development, land demand increased land value. Such a tendency was beneficial to government land sales and the real estate sector. If land was left entirely to the market, all housing rents would increase. Rent would take an increasing portion of the worker's expenditure. The demand elasticity of other goods and services decreased below unit as rent increases -- i.e., as workers paid a higher proportion of income to rent, their

expenditures on other goods and services would decrease in proportion to rent increases. If workers were unprotected against rent increases, demand on retail and services would be drastically reduced, thus negatively affecting the general economic growth. Workers may demand higher wages to compensate for rent increases, thus reducing the competitive edge in the international labor market. Through land policy, public housing absorbed all land costs from renters and stabilized rent increases, protecting the workers from the real-estate sector, allowing the workers to consume other goods and services, and maintaining competitive advantage in the international labor market.

Public Investment in Housing

The second major mechanism that favored the development of the public-housing program was the huge amount of public investment in housing, itself a function of the political decision to dedicate a substantial proportion of the budget to social needs. It was also a function of the very substantial revenues derived from Hong Kong's phenomenal economic growth, as well as from the substantial revenue resulting from land sales (see below, Chapter 2). Concerning the proportion of public-housing expenditures, Table 11 provides some estimates. At constant 1973 prices, per capita expenditure on public housing had climbed from 65.82 in 1967 to 161.43 in 1979, in a generally upward trend only counteracted (as we have already said) in the 1969-73 period.

From 1973 onwards, the increase of housing investment was sustained but uneven, including two short periods (1974-76 and 1984) of negative growth in government expense on housing. It must be noticed that the two periods are conjunctures of different kinds. The period of 1974-76 reflected the impact of the worldwide economic crisis on Hong Kong's vulnerable economy. The period of 1984 marked the moment of uncertainty during negotiation with China. In both cases, what is apparent is the direct dependence of housing expenditures on the government's evaluation of the future prospects of the Territory. However, excluding critical moments such as these, the 1973-87 period was marked by a continuous expansion of government expenditure in housing. In some years the increases were spectacular: in 1974, the increase was +98 percent; in 1978 it was +67 percent; in 1980 it was +56 percent. As a share of total government expenditure, housing expenses have moderately decreased during the 1980s, but this was due to the increase of Hong Kong's gross domestic product. So, dynamic economic growth, expanding public budget, and a major commitment to investment in public housing are the key elements in explaining the importance of the public funds invested in the housing program.

The Management of the Housing Authority

Finally, the third mechanism important to the implementation of the public-housing program in Hong Kong was the efficiency of the Housing

Authority after its reorganization in 1973. It is a large public agency, with over 11,000 employees in 1986, invested with considerable power and mostly insulated from the pressures of interest groups as well as from other government departments. It is chaired by the Secretary of Housing, and its decision-making body includes six official members and 13 unofficial members (eight of whom are urban councillors), all appointed by the governor. The Housing Authority has an executive branch, known as the Housing Department, a government department that implements the policy set by the Housing Authority. The Housing Department is structured in four branches: construction, operations, estate management, and administration and planning, whose relative strength, in terms of personnel, can be estimated from Table 14 and Figure 6. Since 1982, as we stated above, the Housing Department has allowed for some licensed representation of tenants and community groups in its management committee. However, the decision-making process has continued to be a top-down sequence, conceived and executed by the Housing Department civil service staff in terms of what their top members consider to be the most rational procedure.

What are the sources of such efficient management? We have tried to summarize what appeared to be the most likely positive features in the Housing Department's organizational structure:

- A. In 1973, the Housing Department was formed by integrating all functions in Public Housing into one department -- from policy formulation, financing, planning, design and construction of housing, and allocation and maintenance of housing stock, to management of the housing estate. Internally, all the different functions had built-in feedback processes. In particular, housing management not only was considered a function of dealing with the tenants and maintenance of the housing stock, but also had two other major functions, community building and providing major input to housing policy and design. It was an innovative approach which increased the importance of housing management, raising it to the policy and design level. These two additional functions of housing management changed the Housing Department from a housing provider (supplying physical shelter for the workers) into a department that maintained social and political stability for a large sector of the population.
- B. As the public-housing program progressed, the demand for housing managers increased proportionately. Because of the rapid expansion of public housing, the number of housing managers expanded rapidly. The Estate Management Branch became larger than all the rest of the other branches within the department combined. As a result, a new profession of housing managers emerged. Because of the social and political role within the government, housing management became an important profession which carried certain social purposes and prestige. The attractiveness and the functional diversity of housing managers made the profession an inviting career for bright and highly motivated students. The quality of housing managers improved.
- C. Because of this approach to housing management, housing managers became part of the housing policy team. They were in the

TABLE 13

Government Expenditure on Housing

<u>Year</u>	<u>Amount of Housing (in million)</u>	<u>% of Social Expenditure</u>	<u>% of Total Expenditure</u>
1960-61	106.5	32.6	11.9
1961-62	125.7	32.3	12.2
1962-63	145.6	32.2	12.3
1963-64	208.8	38.0	15.5
1964-65	213.1	36.0	14.1
1965-66	197.7	31.0	11.1
1966-67	201.6	29.8	11.2
1967-68	228.1	31.2	12.7
1968-69	194.1	24.9	10.2
1969-70	187.5	21.9	9.2
1970-71	210.8	20.6	8.8
1971-72	224.1	18.8	7.6
1972-73	253.7	17.6	5.8
1973-74	353.5	17.8	6.6
1974-75	681.9	25.3	10.2
1975-76	667.5	23.1	10.1
1976-77	217.5	8.2	3.3
1977-78	932.2	25.0	10.4
1978-79	1304.1	27.4	11.8
1979-80	1339.0	23.3	9.7
1980-81	2443.5	29.2	10.4
1981-82	2604.3	27.5	10.4
1982-83	2636.6	24.4	7.4
1983-84	2023.6	16.9	5.7
1984-85	1575.4	11.9	4.2
1985-86	1586.3	10.8	4.1

Source : Hong Kong Year Book, various issues.

TABLE 14

Current Strength of Staff, Housing Department.

<u>Administration and Planning Branch</u>		<u>Construction Branch</u>	
directorate	4	directorate	14
ad/exec/housing class	90	professionals	327
account/supplies	51	technical	1654
research & statistics	31	admin/exec/cler/sec	250
public relation	21	others	50
professionals	16	<u>SUB-TOTAL</u>	<u>2295</u>
technical	14		
clerical/secretarial	321	<u>Operation Branch</u>	
others	68	directorate	6
<u>SUB-TOTAL</u>	<u>616</u>	admin/exec/housing cl.	781
		clerical/secretarial	232
<u>Estate Management Branch</u>		others	1773
directorate	12	<u>SUB-TOTAL</u>	<u>2792</u>
professionals	18		
housing class	3196	<u>GRAND TOTAL</u>	<u>11564</u>
adm/exec/cler/sec.	716		
others	1918		
<u>SUB-TOTAL</u>	<u>5861</u>		

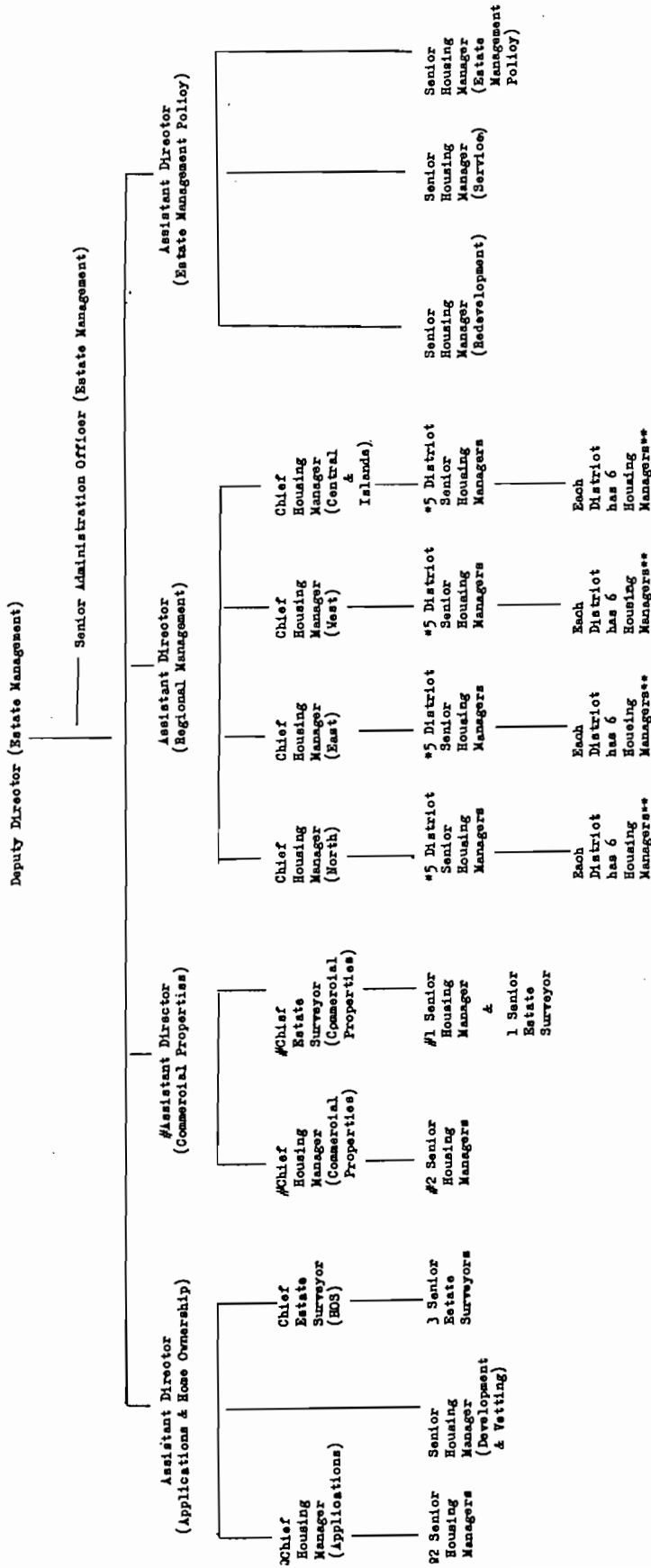
source : Housing Authority Annual Report, 86/87 pp.129

Analysis

1. Estate Management Branch is the biggest branch in the Housing Department, it takes a 51% share of the total strength in terms of number.
2. Of the 3000+ "housing class" employees in the various branches of the department, over 550 belongs to the "housing manager" grade. (i.e. Chief Housing Managers, Senior Housing Managers, Housing Managers and Assistant Housing Managers -- according to HK Government telephone directory) For all other professionals, including engineers, architects, surveyors etc., the total number is only 361. Even if research and statistical staff, accounting staff are added, the number is still around 450. Therefore it can be concluded that "Housing Managers" are the largest profession.

FIGURE 6

Organization Chart - Estate Management Branch



Headquarters Sub-Office in Ma Tau Yai

Headquarters Sub-Office in Oi Man

**Office at respective housing estates

**Regionalized with office at respective district, normally attached to an estate office

position of experimentation and were able to introduce and improvise new management techniques into the public-housing program. Public-housing management in Hong Kong acquired a good international reputation for innovation and effectiveness. This reputation enhances the motivation of housing managers, which in turn raised working efficiency.

- D. Because of the diversity of public-housing development, the Estate Management Branch within the Housing Department carried out a variety of functions, including home ownership, commercial properties, management policy, and day-to-day project management. The diversity of the housing manager's role allows the housing manager to operate at various levels, from policy to grassroots. Apart from providing a variety of jobs using different types of capabilities, the position also provided many different specializations and upward mobility. Both the diversity and the levels of operation created high morale and a sense of purpose in the housing managers.

The managerial effectiveness of the Hong Kong Housing Department has been acknowledged world-wide, to the point that it is used as a training center by international institutions in charge of technical advice to developing countries in the housing field. However, as with any generalization, some critics challenge such reputation, referring to some notorious cases of mismanagement, in particular the flawed construction of at least 26 blocks in the Kwai Fong Estate. This was the most serious case of mismanagement in Hong Kong public-housing history: 26 blocks had to be demolished in an HK\$869 billion scandal. The story started with three blocks in Kwai Fong Estate built during 1971-73 under the supervision of what was then the Public Works Department. As early as 1973, there were reports of water leakage and crumbling concrete in one of the blocks. Throughout the 1980s, repeated reports and complaints of cracks and falling concrete took place, followed by checkups and repairs. Finally in 1985, a little more than one decade after completion, three blocks of Kwai Fong Estate were scheduled to be demolished. Later, in November, the Housing Authority announced that as a result of a structural survey of the 1,032 blocks built more than five years previously, 577 were found to have problems in the strength of the concrete; of these, 26 were to be demolished. The extended redevelopment scheme would involve rehousing more than 17,000 families and expenses of over HK\$800 million. The Independent Commission Against Corruption was drawn in to investigate the possibility of identifying some of the parties responsible. Quick and strong response came from the press, community, pressure groups, grassroot groups, and district board members. Affected tenants demanded nearby rehousing that they had more choice in and a higher removal allowance. Being supported by various groups, they forced the Housing Authority to offer the higher allowance and better rehousing terms. The Housing Authority secured various sites in the inner city to build new blocks, and offered them high priority in making Home Ownership scheme applications. Amid these demands and negotiations, in January 1986 the Housing Authority issued a summary report on the structural safety of the blocks surveyed. It said that the Housing Department had started the investigations of the structural adequacy of the blocks in 1980, when the Kwai Fong Estate defects surfaced. At October 1985, the analysis of 577 blocks had been finished;

these blocks were placed in four classifications. The first class consisted of three blocks with an unreasonably low margin of safety which should be cleared and demolished as soon as possible; two blocks were in Kwai Fong, and one in nearby Kwai Hing. The second class consisted of 23 blocks thought capable of being repaired, but cost and inconvenience made it more reasonable to demolish them and redevelop the site. Class three consisted of 85 blocks needing repairs and localized strengthening, possibly, . Class four contained the remaining 466 blocks; no strengthening was required for these although some minor repairs might be needed, and therefore they might be judged as satisfactory. The department asserted that results on a few hundred more blocks were still pending, but that it was extremely unlikely that they would have problems. All the buildings in the first two classes were former resettlement blocks or government low-cost housing built in the 1960s and early 1970s. Class three was similar, except that one of the 85 blocks needing repairs was built after 1973, under the present Housing Authority.

Beyond this particular case of clear mismanagement, we tried to obtain some objective measure for effectiveness in the overall process of housing estate management. No direct indicator was available. However, according to statistics compiled by the Housing Department, during the period December 1985 to November 1986 (12 months) the estates' management staff received a total of 143,519 requests from tenants or their representatives. Of these, 77,980 (54 percent) were related to buildings' environments, such as building services and facilities. According to the department's report, all but two of the requests were resolved within three months (the two were related to transfer of flats). As for complaints, 12,064 were received during the period, out of which 8,075 (67 percent) were related to buildings' environment. Again, according to the report, most of the cases were resolved within three months. On average, among the 1,005 cases received each month, only 193 were still unresolved by the end of the month. These figures, however, were of limited use because there is no breakdown of the detailed nature of cases and of the number of days required for each. There was also no clear definition of resolved cases.

Thus, it would seem that, overall and in relative terms, programs were planned well in advance, carried out in record time, and kept in good condition and without excessive negligence by the field staff. A major mechanism for such competent management appeared to be the integration of all functions related to housing development and management into one single process, with the coordination and planning of all elements of the development proceeding from the initial stage. The planning of each housing estate was performed by a committee that brought together representatives of all branches of the Housing Department, including maintenance. This means, for instance, that problems that eventually would affect maintenance or social relations were discussed and decided upon in the planning stage, before land was even cleared for construction. While one could have objected to the absolute power of one small group of technicians over the spatial environment of thousands of people, from the point of view of the implementation process, it was clear that such unchallenged, fully-coordinated planning assured the efficient fulfillment of the organization's goals.

Furthermore, all stages of the production of residential space were directly controlled by the Housing Department: acquiring the land (actually transferred from the Lands Department); clearing it (sometimes reclaiming it); building urban infrastructure; designing of the buildings and in many instances a new town and/or large housing estate; contracting for and supervising the construction; planning and delivering facilities; allocating housing to the tenants; and managing, maintaining, and repairing of the housing estate. The most interesting organizational aspect of such a process was that while the initial conception and planning was highly centralized, with all key decision-makers involved in the operation, the actual implementation of each decision was highly decentralized and specific to each housing estate.

This flexible system of decentralized monitoring of the projects and of managing the housing estates explains the remarkable efficiency of this public bureaucracy, very much modelled upon the experience of the British new towns. For instance, a limited number of architects are responsible for projects of such a large scale -- and yet delays in the scheduled targets were minor (once the financial commitments were assured). These 35-story buildings did not depend upon prefabricated materials. The building technology was mainly labor-intensive, which was better-suited to conditions in Hong Kong (and as in most industrializing countries). Yet the size of the project and the standardization of the construction survived well the constraint of avoiding expensive imported materials. Thus, one of the lessons from public housing in Hong Kong was that we do not have to choose between labor-intensive construction and permanent high-rise buildings. A high rise of good quality can be labor-intensive in its production process.

Some of the efficiency in production and management of the housing estates might have arisen from the authoritarian environment in which the Housing Authority works. Invested with full powers by the governor, provided with financial autonomy, having considerable leverage with private developers and commercial and industrial lessees, the Housing Authority actually planned its own city with little constraints. For many years, the Mutual Aid Committees set up by the Housing Authority to represent the residents have been little more than an extension of the Authority's social work. A good indicator of the Housing Authority's freedom to maneuver was its system of door-to-door collection of rents, with a stunningly low 0.3 percent average of rent in arrears, a figure without repetition in international experience.

This situation changed in Hong Kong in the late 1970s, as tenants started to organize autonomously and press for their demands, as we will report below. Yet it has to be admitted that until recently and in a highly constrained situation, the Housing Authority had been able to define its own objectives and to keep them on targets except (again) concerning the quantity of housing units (which depends on the overall economic policy). It does not follow that authoritarianism equals efficiency. Rather, for any organization to achieve a specific goal without considering the adequacy of this goal in a broader context, the more it functions independently of conditions external to its own dynamics and the more easily it will attain adequate balance between program and implementation. In that sense, the extent of the Housing Authority's

power was an asset concerning the speed and scale of the housing program. While the price paid in terms of social, urban, and environmental impact of its nearly total autonomy has been quite high, nonetheless it remains true that efficient management of the program accounts also for the Housing Authority's achievements.

* * *

However, none of the organizational conditions we have enumerated can explain by itself the launching of the program in 1954, its continuation during the 1960s, and its dramatic acceleration in the 1970s and 1980s. Laying behind the whole effort was clearly a political will from the government to support public housing and to engage in a strategy of "deliberate urbanization."²² Sir Murray MacLehose's dramatic proclamation was probably the most spectacular example of such a policy. but the government showed a clear commitment to public housing and became substantially involved in a large-scale, multi-faceted program of urban development, with different emphases and speeds in each period of the housing history. Why is this so? A careful answer to such a question contains the secrets of Hong Kong's housing policy and the lessons we can learn from this experience. To advance some plausible hypotheses on the matter, we must undertake an analysis of the process of Hong Kong's economic development as it relates to the transformation of its social structure and of its power system.

ENDNOTES TO CHAPTER ONE

1. Data and information on housing have been basically obtained from the Housing Authority Annual Reports, as well as from figures directly provided by the Housing Department.
2. See David Drakakis-Smith, High Society. Housing Provision in Hong Kong, 1954 to 1979. A Jubilee Critique, University of Hong Kong, Hong Kong, Centre of Asian Studies, 1979, p. 45.
3. Keith Hopkins, Public Housing Policy in Hong Kong. An Inaugural Lecture from the Chair of Sociology, University of Hong Kong, Supplement to the Gazette, Vol. XVI, No. 5, 21 May 1969, p. 1.
4. T. G. McGee, Hawkers in Hong Kong, University of Hong Kong, Centre of Asian Studies, 1973.
5. See Rance P. Lee, "High-Density Effects in Urban Areas, What Do We Know and What Should We Do," in Ambrose Y. C. King and Rance P. Lee, eds., Social Life and Development in Hong Kong, The Chinese University Press, Hong Kong, 1981.
6. Victor F. S. Sit, "Post-War Population and its Spatial Dynamics," in Victor F. S. Sit, ed., Urban Hong Kong, Summerson, Hong Kong, 1981, pp. 2-25.
7. Until 1980 and with only brief exceptions (as in 1962), the usual policy of the Hong Kong government on immigration was that any Chinese immigrant able to escape from China and reach Hong Kong would be allowed to stay. Obviously, since this was a custom and not a right, all kinds of discretionary measures could follow the implementation of this policy.
8. See Alan Smart, "The Development of Diamond Hill from Village to Squatter Area: A Perspective on Public Housing," in Asian Journal of Public Administration, Vol. 8, No. 1, June 1986, pp. 43-63.
9. See David Drakakis-Smith, op. cit., 1979; also David Drakakis-Smith, Housing Needs and Policies for Cities in Developing Countries with Special Reference to Hong Kong, Unpublished Ph.D. thesis, University of Hong Kong, Department of Geography, 1975.
10. See the account of the origins of the housing program according to the Housing Authority, The First Two Million, The Housing Authority, Hong Kong, 1979.
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CHAPTER TWO -- THE HONG KONG MODEL OF ECONOMIC DEVELOPMENT

Introduction

Present-day Hong Kong has been shaped by the rapid economic growth that has characterized the territory since the mid-1950s.¹ Indeed, the record is impressive.² During the period 1960-80, gross domestic product grew in real terms at a rate of 9.68 percent per year, and gross domestic product per capita at 7.03 percent per year. Total exports grew, in real terms, at 11 percent per year, on the average. Employment in manufacturing increased by 7.44 percent per year, and real wages by 5.23 percent, also on an average annual basis. Banking deposits grew at 15.51 percent per year, and total bank loans at 20.11 percent. Total value of exports at current prices increased by a factor of 24 between 1960 and 1980, with a per capita value of exports (HK\$19,499 in 1980) equivalent to three times that of Japan and four times that of the U.S.³ In 1984, Hong Kong ranked fifteenth among exporting countries, in absolute terms, in spite of its small size and population.⁴ Table 1 compares Hong Kong's performance to that of other newly industrializing countries, the U.S.A., and Japan for the periods 1961-73 and 1973-1983. It shows that in the 1970s, Hong Kong's gross domestic product growth out-performed all the other Asian newly industrializing countries, more than doubling the Japanese growth rate and dwarfing the performance of the American economy. Although per capita income grew at a slightly slower pace than that of the other newly industrializing countries (but twice as fast as Japan) from 1973 to 1983, it was still third in Asia, after Japan and Singapore, standing at a level almost three times higher than South Korea, and 150 percent higher than Taiwan. Overall, the average annual rate of growth of the economy in real terms from 1947 to 1984 was 8.3 percent, while its gross domestic product per capita (measured at current prices and exchange rates) increased by 24 times from US\$243 in 1947, to US\$5,951 in 1984.⁵ In addition, this sustained process of high rate growth was achieved with a moderate inflation rate, with the exception of two short periods, in 1973-74 (linked to the world's inflationary surge), and in 1979-81 (as a result of the speculative real estate boom). (See Tables 2A and 2B.)

To be sure, this economic growth did not equally benefit all classes of Hong Kong society.⁶ Thus, although income inequality declined between 1966 and 1976 (the Gini coefficients were, respectively, 0.487 and 0.435), it increased again since 1976 (Gini coefficient = 0.481 in 1981, with all indicators pointing towards a continuation of the trend toward greater inequality in the 1980s). We also have to consider conditions for workers under which this process of rapid industrialization took place, namely long working days (over 10 hours) and full working weeks (seven days a week until the early 1970s), in extremely poor safety and environmental conditions.⁷ However, while Hong Kong's development was no exception to the historically high social cost of all rapid processes of industrialization, it did succeed in improving the living conditions for most of the population in absolute terms,⁸ particularly if we include public goods and services provided by the government,⁹ largely financed by the resources made available by economic growth.

Table 1.
Real Growth Performance of Asian NICs, Japan and U.S.A.

	Average annual growth rate (%)				Level (US\$)
	GDP		Per capita income		Per capita income 1983
	1961 - 73	1973 - 83	1961 - 73	1973 - 83	
Hong Kong	(8.51)	(7.29)	(6.17)	(5.07)	5,325.80
South Korea	(9.04)	(6.77)	(6.60)	(5.24)	1,923.15
Singapore	(9.30)	(7.09)	(7.13)	(5.81)	6,656.00
Taiwan	(9.83)	(6.58)	(8.11)	(5.56)	3,333.13
Japan	(9.23)	(3.37)	(7.99)	(2.53)	9,703.17
U.S.A.	(3.93)	(1.82)	(2.80)	(0.89)	13,886.99

Note : Average growth rates are calculated geometrically for the specific periods.
Sources: International Monetary Fund: International Financial Statistics 1984.
Census and Statistics Department, Hong Kong: Estimates of Gross Domestic Product, 1961-1975; 1966 to 1983.
Directorate-General of Budget, Accounting & Statistics: Executive Yuan, National Income of the Republic of China, 1983.

TABLE 2A

CHANGES IN THE CONSUMER PRICE INDEX¹
(July 1963-June 1964 = 100)

Year	Average Monthly Index	Percentage Increase over Previous Year
1965	102.0	-
1966	104.7	2.6
1967	111.2	6.2
1968	114.0	2.5
1969	118.1	3.6
1970	126.5	7.1
1971	130.8	3.4
1972	138.8	6.1
1973	164.0	18.2
1974	187.6	14.4
1975	190.0	1.3
1976	195.6	2.9

Note:

¹This index, the General Consumer Price Index, was based on the spending pattern of households whose monthly expenditure ranged from HK\$100 to HK\$1,999. It has now been discontinued and replaced by the New Price Indices which are based on the sample survey of consumer expenditures conducted during the period July 1973 to June 1974.

Sources: Hong Kong Annual Report, various years.

TABLE 2B

The Mean, Standard Deviation and Coefficient of Variation of
Annual Growth Rates (1962 - 83)

	1976	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
GDP deflator	4.0	9.1	3.2	7.6	18.1	12.7	10.1	9.8	5.9	9.2	8.8 ¹
Consumer Price Index (A)	0.5	3.4	5.8	5.9	11.6	15.5	15.4	10.6	9.9	8.2	3.0 ²
Consumer Price Index (B)	0.5	4.0	5.4	5.9	11.5	15.1	14.8	10.7	9.9	8.5	4.0 ²
Hang Seng CPI	1.0	4.2	5.1	5.6	12.6	14.8	14.5	11.7	10.4	9.0	4.0 ²

Sources: Hong Kong Annual Reports.

Department of Census & Statistics: Estimates of Gross Domestic Product 1966 to 1983.

Note 1: Estimate from ERC Model Forecast. See Lin Tzong-biau, "The Outlook of the Hong Kong Economy in 1985 — An ERC Model Forecast", *The Hong Kong Manage*, January 1985.

2: Estimates based on data released up to time of press.

This spectacular process of economic growth, taking place in a tiny colony with meagre natural resources (with the exception of its natural harbor), and with its traditional entrepot economy seriously undermined by the economic embargo imposed on China during the Korean War, has led to all kinds of ideological myths about the sources of growth in the world economy.¹⁰ In order to assess the role of housing policy in the process of economic development, we need to establish the actual historical profile of Hong Kong's economic development, as opposed to recasting once again the glittering media image of the "Hong Kong Model" as the quintessence of a laissez-faire economy, something hardly compatible with the massive public-housing program we have described. We will present systematically the elements that actually contributed to the successful process of economic growth in Hong Kong, starting with the analysis of the immediate sources of such growth, and then trying to explain, on the basis of available evidence, which were the factors that made possible the existence and positive development of these sources. Finally, since Hong Kong is undergoing a substantial transformation since the signing of the Sino-British Agreement of 1984, we will examine the process of economic restructuring of the territory during the 1980s as it relates to the new orientations of the government's urban policy.

The Sources of Economic Growth: An Export-Led Development Process

Econometric analyses of the sources of economic growth in the aggregate production function tradition¹¹ are useful in pinpointing some basic elements of the structure underlying the development process, although their findings must be interpreted in a broader framework, with a more dynamic, historical view of such a process. The classic study on the matter by Edward K. Y. Chen for the period 1955-1974 shows that the results obtained by Solow and Denison for the U.S., and by Denison for advanced capitalist economies, cannot be extrapolated to Hong Kong.¹² In particular, technological progress played a very small role in Hong Kong's productivity gains; and productivity gains as a result of intersectorial transfers are not applicable to Hong Kong, given its negligible proportion of agricultural employment at the beginning of the industrialization process. Capital and labor inputs played a greater role in Hong Kong than in the growth of advanced economies, while total factor productivity accounted for 46.5 percent of income growth for the period 1955-70. However, as Table 3 shows, the contribution of capital and labor varied widely from one period to another, with a tendency toward a decreasing role of labor input and an increasing role of capital, yet both movements are generally complementary (notice the compensatory movement of labor's contribution during the critical period 1966-70).

The findings of Chen's study also point toward the leading role of export and international trade in fostering Hong Kong's economic growth. This interpretation is fully confirmed by the careful statistical study by Tzong-biau Lin, Victor Mok, and Yin-Ping Ho of the relationship between manufactured exports and economic growth.¹³ They start from the observation of the steady increase in the role of exports in Hong Kong's economy, rising from 64 percent of gross domestic product in 1959 to 88 percent of gross domestic product in 1976. The overwhelming proportion of these exports is accounted for by manufacturing products, with the trend

TABLE 3

The Sources of Growth of Real National Income:
The Economy as a Whole
(percentage points with percentage distribution in brackets)

<i>Country</i>	<i>Period</i>	<i>Explanation of Sources of Growth</i>			<i>Rate of Growth of Income</i>
		<i>Capital Input</i>	<i>Labour Input</i>	<i>Total Factor Productivity</i>	
Hong Kong	1955-60	1.87 (22.7)	3.98 (48.2)	2.50 (29.1)	8.25
	1960-6	4.33 (41.0)	1.97 (18.6)	4.27 (40.4)	10.57
	1966-70	1.11 (16.1)	1.49 (21.6)	4.30 (62.3)	6.90
	1955-70	3.12 (33.5)	1.86 (20.0)	4.33 (46.5)	9.31

Source: Chen, 1979, p. 70

increasing over time, as shown by Table 4. Since the early sixties, over 90 percent of Hong Kong's exports have consisted of manufactured goods, and this figure reached the 97 percent mark in 1976. Four-fifths of these exports were destined, from the late sixties on, for advanced capitalist countries, with a major concentration in the U.S. market. In 1976, in terms of value added, export receipts accounted for about one-third of the gross domestic product. These earnings played a vital role in the economy, since they provided the foreign currency necessary to buy four-fifths of all basic commodities, as well as almost all raw materials and capital equipment.

Thus, it is clear, and generally accepted as a standard interpretation, that the key to Hong Kong's rapid economic growth is the spectacular performance of Hong Kong's exports of manufactured goods, with its induced effects in generating income and employment in business services, international trade, and retail commerce. However, what factors account for such performance? In other words, what has driven Hong Kong's manufacturing exports? In statistical terms, the study by Lin, Mok, and Ho provides some important clues to answer this question. First, they show that for the period 1961-73, there is a positive correlation between the level of economic development of Hong Kong and the degree of commodity concentration in its exports, while the correlation is significantly negative with the geographic concentration of exports.¹⁴ In other words, Hong Kong's exports have been most successful when concentrated on a few industries and in a few markets. Hong Kong's entrepreneurs targeted a few key industries in which they had or acquired some expertise (textiles, garment, footwear, wigs, plastics, toys, consumer electronics), and aimed their production at the U.S. and Western European markets, winning market shares on the basis of diversifying the products, improving the quality, and maintaining competitive prices over the years, gradually outselling most domestic manufacturers in advanced economies. The same study by Lin, Mok, and Ho also investigates the factors responsible for the expansion of Hong Kong's exports, accounting for about 98 percent of their variation between 1964 and 1974.¹⁵ The increase in world trade accounts for 42.1 percent of the increase in Hong Kong's exports. Thus, it is clear that Hong Kong has been the direct beneficiary of the formation of an interdependent world economy since the 1950s.

But the most important single factor accounting for the expansion of exports is the "change due to differential commodity composition" that accounts for 55.8 percent of the positive variation. This term indicates the changes taking place in the commodities exported, following markets' demand. As the authors write:

This means that Hong Kong has specialized in the commodities in which expansion of world demand has been very remarkable. The high commodity effects reflect the speed with which the Hong Kong economy has adjusted itself to changes in world demand. A high degree of flexibility has always been one of the most notable features of the Hong Kong economy.¹⁶

TABLE 4

Pattern of Hong Kong's Export Trade, 1959-76

Year	1959	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976
Value: in Current HK\$ Million																		
Total Exports (T)	3,277	3,937	3,930	4,387	4,991	5,784	6,530	7,563	8,781	10,570	13,197	15,239	17,164	19,399	25,999	30,035	29,832	41,557
Re-exports (X _r)	995	1,070	991	1,070	1,160	1,356	1,503	1,833	2,081	2,142	2,679	2,892	3,414	4,154	6,525	7,124	6,973	8,928
Domestic Exports (X _d)	2,282	2,867	2,939	3,317	3,831	4,428	5,027	5,730	6,700	8,428	10,518	12,347	13,750	15,245	19,474	22,911	22,859	32,629
N. America and W. Europe (X _d ¹)	1,226	1,636	1,585	2,030	2,398	2,956	3,490	4,133	4,830	6,240	7,897	9,156	10,408	11,723	14,068	15,799	16,431	24,142
Rest of the World (X _d ²)	1,056	1,231	1,354	1,287	1,433	1,472	1,537	1,597	1,870	2,188	2,621	3,191	3,342	3,522	5,406	7,112	6,428	8,487
Manufacture Exports (X _m) ¹	2,019	2,571	2,635	3,038	3,506	4,087	4,694	5,406	6,366	8,046	10,071	11,839	13,252	14,719	18,822	22,108	22,168	31,656
Total Imports (M)	4,949	5,864	5,970	6,657	7,412	8,551	8,965	10,097	10,449	12,472	14,893	17,607	20,256	21,764	29,005	34,120	33,472	43,293
Total Merchandise Trade (T+M)	8,227	9,801	9,900	11,044	12,403	14,335	15,495	17,660	19,230	23,042	28,090	32,846	37,420	41,163	55,004	64,156	63,304	84,850
Merchandise Trade Balance (T-M)	-1,672	-1,927	-2,040	-2,270	-2,421	-2,767	-2,435	-2,534	-1,668	-1,902	-1,696	-2,368	-3,092	-2,365	-3,006	-4,085	-3,640	-1,736
Value: in Current HK\$																		
Per Capita Exports ²	1,147	1,321	1,238	1,327	1,459	1,650	1,815	2,083	2,359	2,779	3,415	3,849	4,243	4,757	6,250	7,069	6,832	9,482
Proportion: in Percentages																		
X _r / T	30.36	27.18	25.22	24.39	23.24	23.44	23.02	24.24	23.70	20.26	20.30	18.98	19.89	21.41	25.10	23.72	23.37	21.48
X _d / T	69.64	72.82	74.78	75.61	76.76	76.56	76.98	75.76	76.30	79.74	79.70	81.02	80.11	78.59	74.90	76.28	76.63	78.52
X _m / X _d	88.48	89.68	89.66	91.59	91.52	92.30	93.38	94.35	95.01	95.47	95.75	95.89	96.38	96.55	96.65	96.50	96.98	97.02
X _d ¹ / X _d	53.72	57.06	53.93	61.20	62.59	66.76	69.43	72.13	72.09	74.04	75.08	74.16	75.69	76.90	72.24	68.96	71.88	73.99
X _d ² / X _d	46.28	42.94	46.07	38.80	37.41	33.24	30.57	27.87	27.91	25.96	24.92	25.84	24.31	23.10	27.76	31.04	28.12	26.01
T / GDP ³	-	-	64.96	63.75	62.43	65.03	62.10	68.19	70.75	79.14	83.57	81.62	81.83	80.31	84.90	85.20	79.70	88.21
M / GDP	-	-	98.68	96.73	92.72	96.14	85.25	91.04	84.19	93.38	94.31	94.31	96.57	90.10	94.72	96.79	89.43	91.89
(T+M) / GDP	-	-	163.64	160.48	155.15	161.17	147.35	159.23	154.94	172.52	177.88	175.93	178.40	170.41	179.62	181.99	169.13	180.10
(T-M) / T	-51.02	-48.95	-51.91	-51.74	-48.51	-47.84	-37.29	-33.51	-19.00	-17.99	-12.85	-15.54	-18.01	-12.19	-11.56	-13.60	-12.20	-4.18

Sources: For trade data: Census and Statistics Department (formerly by Commerce and Industry Department), *Hong Kong Trade Statistics: Exports and Re-exports and Hong Kong Trade Statistics: Country by Commodity—Exports and Re-exports* (Hong Kong: Government Printer, various December issues). For GDP data: Census and Statistics Department, *Estimates of Gross Domestic Product* (Hong Kong: Government Printer, 1976 and 1977 issues). For mid-year population data: Census and Statistics Department, *Hong Kong Statistics, 1947-1967* (Hong Kong: Government Printer, 1969); and *Hong Kong Monthly Digest of Statistics* (Hong Kong: Government Printer, selected July issues).

Notes: 1. "Manufacture Exports" refers to all commodities which fall into SITC 512 to SITC 899 of the United Nations' *Commodity Indexes for the Standard International Trade Classification (SITC, Revised)* (New York: United Nations Publications, 1964).

2. Obtained by dividing the mid-year population from the annual values of total exports.

3. GDP estimate for 1975 is provisional and that for 1976 is preliminary. The 1976 preliminary estimate is taken from *The 1977-78 Budget: Economic Background* (Hong Kong: Government Printer, January 1977), p. 3, Table 2.

This statement does not contradict the previous observation concerning the positive relationship between economic growth and commodity concentration. Exports are concentrated in a few industries. But these industries reflect and follow world demand; within these industries, products manufactured for export constantly evolve to adapt themselves to the characteristics of specific markets targeted for their size and potential demand. Flexibility of the industrial system, enabling the constant adaptation of Hong Kong's firms to the changing demand of the world market, seems to be the first major determinant of Hong Kong's exporting capacity and thus of Hong Kong's economic growth.

Edward K. Y. Chen, in another study published in 1980,¹⁷ has analyzed the sources of economic growth for the period 1961-76, and calculated the empirical values for a set of variables explaining 95 percent of the changes in manufacturing exports. His conclusion is that the growth of manufacturing exports is little related to capital accumulation and economies of scale, while the role of labor supply in explaining the variations is significant only at the .10 statistical threshold. According to his calculations, economic growth is led by exports, themselves basically determined by demand factors. The two most important demand factors, according to Chen's econometric analysis, are the level of income in the U.S. (determining the purchasing power of Hong Kong's main market), and the price differential between Hong Kong and the U.S. Summarizing his empirical findings, Chen writes:

The two demand factors [in the equation], level of income in the U.S./Hong Kong relative prices, seem to have determined the growth of manufacturing exports and therefore the overall economic growth in Hong Kong. The regression coefficients of both variables, U.S. income and relative prices, are statistically highly significant. Thus, the rapid economic growth of Hong Kong should largely be related to the ability of Hong Kong to keep prices rising at a much less rapid rate than other countries, and to the maintenance of a strong demand for its manufacturing exports by overseas markets.¹⁸

Therefore, flexibility of manufacturing and competitive prices in world markets, particularly in the U.S. market, are the basic factors that determine Hong Kong's exporting capacity, underlying its process of economic growth. But these "explanatory variables" are themselves processes to be explained by the industrial structure and institutional environment that characterize the economy of Hong Kong. We now turn to analyze such structure and institutions that contain, in the last analysis, the successful formula of the "Hong Kong Model."

Flexibility and the Competitive Edge: Small Business in a World Economy

At the core of Hong Kong's competitiveness in the world economy lies the flexibility of its manufacturing firms, itself a function of its

industrial structure. Let us examine in some detail this point of our argument, since it is central to understanding the Hong Kong experience.

First of all, let us discard a frequent misconception about the origins of the process of industrialization in Hong Kong, and in East Asia in general. In contrast with a simplistic vision of industrial decentralization by multinational corporations as being at the root of successful export-led growth in the Asian newly industrializing countries, foreign capital plays a minor role in Hong Kong manufacturing and, with the exception of electronic components, is a very small part of Hong Kong's industrial basis. In 1974, foreign companies represented only 9.8 percent of total manufacturing employment and just 10.9 percent of Hong Kong's manufacturing exports.¹⁹ Ten years later, in 1984, in spite of a significant increase in foreign investment in Hong Kong, foreign manufacturers accounted only for 0.88 percent of all establishments, 9.3 percent of manufacturing employment, and a mere 13.56 percent of total manufacturing exports.²⁰ Thus, between 85 percent and 90 percent of Hong Kong manufacturing exports, at the very core of Hong Kong's process of development, are originated by local companies. How have these companies, with little capital initially, few business connections, and low technological skills, been able to grow and export at unprecedented rates? It is our hypothesis, shared with a number of scholars, that the competitiveness of Hong Kong's manufacturing is related to its remarkable capacity to adapt to continuously changing conditions in the world market, and that such flexibility is embedded in an industrial structure characterized by the dynamic role of small business.²¹

If we examine the industrial structure of Hong Kong²² (see Tables 5 and 6), over 90 percent of all manufacturing establishments in 1981 were classified as small industrial enterprises, employing less than 50 workers, accounting for 40.48 percent of total manufacturing. Even more important (see Table 7), the share of small companies in manufacturing has been growing over time, with the rapid process of economic development, a fact illustrated by Figure 1. In fact, the average number of persons per establishment in manufacturing has decreased steadily from 52.5 in 1951, to 41.4 in 1961, to 25.7 in 1961, and to 20.0 in 1981. If we consider enterprises employing between 50 and 100 workers, 56.5 percent of manufacturing employment in Hong Kong occurred in firms of that size in 1981, and only 16.2 percent of manufacturing employment was in large industrial enterprises (500 workers or more). Even in terms of contribution to gross domestic product, large enterprises account for only 22.5 percent of manufacturing's contribution to the gross domestic product, while small companies represent 32.6 percent of the same total, and manufacturers with less than 100 workers account for 47.7 percent of it. There are no data on the direct contribution to exports by size of firm. However, since 90 percent of manufacturing production in Hong Kong is exported, it is clear that the role of small industries is critical also in that regard. Yet their contribution is not direct: most of them do not export directly. The relationship of Hong Kong's small business to the world market operates through two fundamental mechanisms that constitute the backbone of Hong Kong's industrial flexibility: subcontracting and networking.

TABLE 5

Distribution of Manufacturing Establishment

Persons Employed	No. of Establishments	1981 % of total	1978 % of total
1 - 9	30,272	62.64%	60.59%
10 - 19	7,732	16.00%	16.93%
20 - 49	6,271	12.98%	12.17%
SIE	44,275	91.62%	90.69%
50 - 99	2,335	4.83%	5.20%
100 - 199	1,048	2.17%	2.46%
200 - 499	497	1.03%	1.17%
MIE	3,880	8.03%	8.83%
500 - 999	119	0.21%	0.35%
1,000 - over	49	0.10%	0.13%
MIE	168	0.35%	0.48%
Total (No.)	48,324		(44,903)

Percentage Distribution of Manufacturing Establishment
1951-1981

Persons Employed	1951	1971	1977	1978	1981
1 - 9		51.9	66.1	61.6	62.6
10 - 19	57.0	19.1	14.9	16.9	16.0
20 - 49	26.7	15.5	11.1	12.2	13.0
SIE	83.7	86.5	92.1	90.7	91.6
MIE	19.0	12.6	7.5	8.8	8.0
LIE	1.4	0.7	0.3	0.5	0.4
Total (No.)	(1,778)	(17,115)	(37,568)	(44,903)	(48,324)

Source: 1981 (and other years) Survey of Industrial Production.

TABLE 6

Distribution of Manufacturing Employment

Persons Employed	Total Employment (1981)	% of Total (1981)	% of Total (1978)
1 - 9	115,273	11.57%	10.95%
10 - 19	101,759	10.22%	9.66%
20 - 49	186,129	18.69%	15.80%
SIE	403,161	40.48%	36.41%
50 - 99	154,357	15.50%	15.19%
100 - 199	138,424	13.90%	14.29%
200 - 499	138,087	13.86%	14.68%
MIE	430,868	43.26%	44.16%
500 - 999	81,273	8.16%	10.12%
1,000 - over	80,819	8.11%	9.31%
LIE	162,092	16.27%	19.43%
Total (No.)	(996,121)	100.00%	100.00%

Source: 1978, 1981 Survey of Industrial Productions.

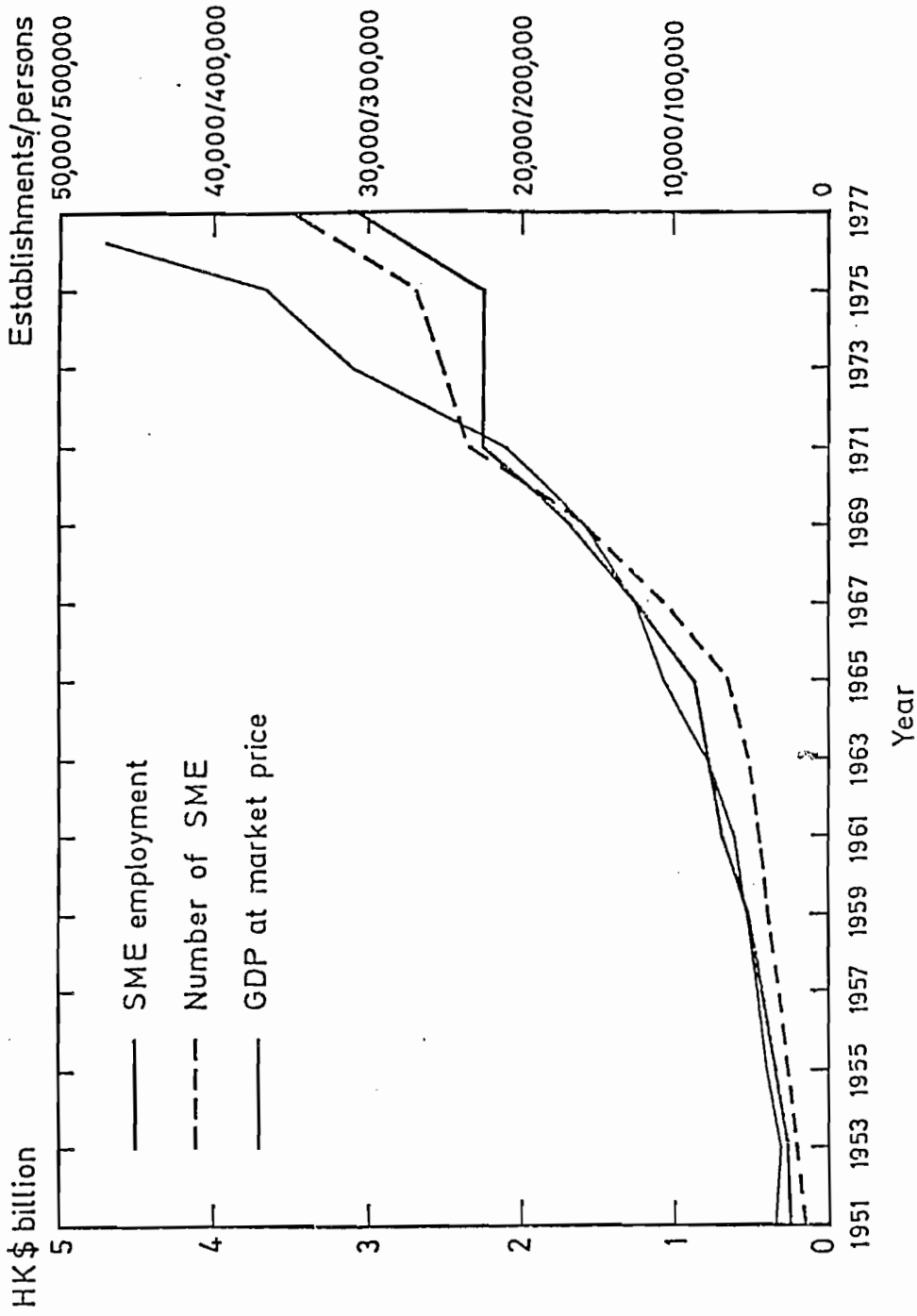
TABLE 7

Percentage Distribution of Manufacturing Employment
1951-1981

Persons Employed	1951	1971	1977	1978	1981
1 - 9		6.0	6.9	11.0	11.6
10 - 19	10.5	8.4	7.5	9.7	10.2
20 - 49	15.7	15.1	14.0	15.8	18.7
SIE	26.2	29.5	28.4	36.4	40.5
MIE	47.3	47.4	47.5	44.2	43.3
LIE	26.7	22.9	24.2	19.4	16.3
Total (No.)	(93,837)	(118,568)	(593,494)	(863,334)	(996,121)

FIGURE 1

TRENDS OF GROWTH OF GDP AND SMALL SCALE INDUSTRY, H.K. 1951-77



Source: T.Y. Cheng, *The Economy of Hong Kong*, Table 8.2. p.146.

Table 8 indicates the sources of orders for small industrial enterprises in the representative sample analyzed by Victor Sit, in the most complete study on the matter to date.²³ It is important to note that only 11.1 percent of establishments received their orders from overseas, and that import-export houses were solely responsible for 44.8 percent of the orders, and for an additional 12 percent in combination with other sources. In a more recent study on the same matter (by Peter Dicky Yip in 1984), local companies dramatically increased their share in source of orders, although import/export firms, alone (34.6 percent) or combined with local companies (8.1 percent), continue to play a major role. The role of these firms is even more important in manufacturing exports, about 75 percent of them being handled by such firms in 1977, according to Sit. The great majority of these import/export firms are themselves small businesses: there were 14,678 of them in Hong Kong in 1977! Very often, their connection to the world market relies on personal or family connections, and their orders are placed on the spot, as soon as they are received from an overseas customer. In 1987, our qualitative interviews seem to indicate that there is a decreasing role for such companies; given the quality of Hong Kong's manufacturing, such potential customers as European and American department stores have their own office representatives in Hong Kong to take advantage of the inexpensive, quality supplies that will put them ahead of their competition. Yet such development merely alters the nationality of capital without changing the basic mechanism: In Hong Kong, the presence of commercial intermediaries that place orders on the basis of the world market trends with several companies, most of them small, respond to the evolution of demand by shrinking, expanding, or shifting product lines in the shortest possible span of time. However, such subcontracting does not establish an exclusive tie between the firm giving the order and the manufacturer(s), as in Japan, for instance. Small and medium businesses, receiving orders from the world market through intermediaries, place their own orders with other companies for those operations of the production process that can be more profitably performed outside the companies themselves. Figure 2, established by Sit's sample of firms, illustrates well the networking process. Phyllis Li, in her excellent monograph on the clothing industry, has reconstructed the web of linkages among firms (see Figure 3) and has shown the relative autonomy of most small firms, although they become more dependent on outside firms as they decrease in size (see Table 9). In fact, in Victor Sit's sample, only 14.7 percent of small businesses considered themselves satellites of other firms. The majority of small firms do their own purchasing from wholesalers, with the exception of electronics, the only sector in Hong Kong that has a significant presence of multinational capital. For most manufacturing industries, even into the late 1980s, a complex pattern of linkages accounts for the multiplication of small businesses. Very often this subcontracting process takes place physically within the firm placing the order, so that operatives actually working in one premise may be under contract or arrangement with different companies. In the garment industry, for instance, ironing is frequently subcontracted to other "firms" (sometimes an individual and his family) who will do the work in the subcontracting firm's facility, at a piece-rate pay. In another mechanism typical of this industrial mode of operation, workers of a given firm, witnessing the reception of a subcontracting order from a commercial intermediary, will try to outbid their own company vis-a-vis the same intermediary.

TABLE 8

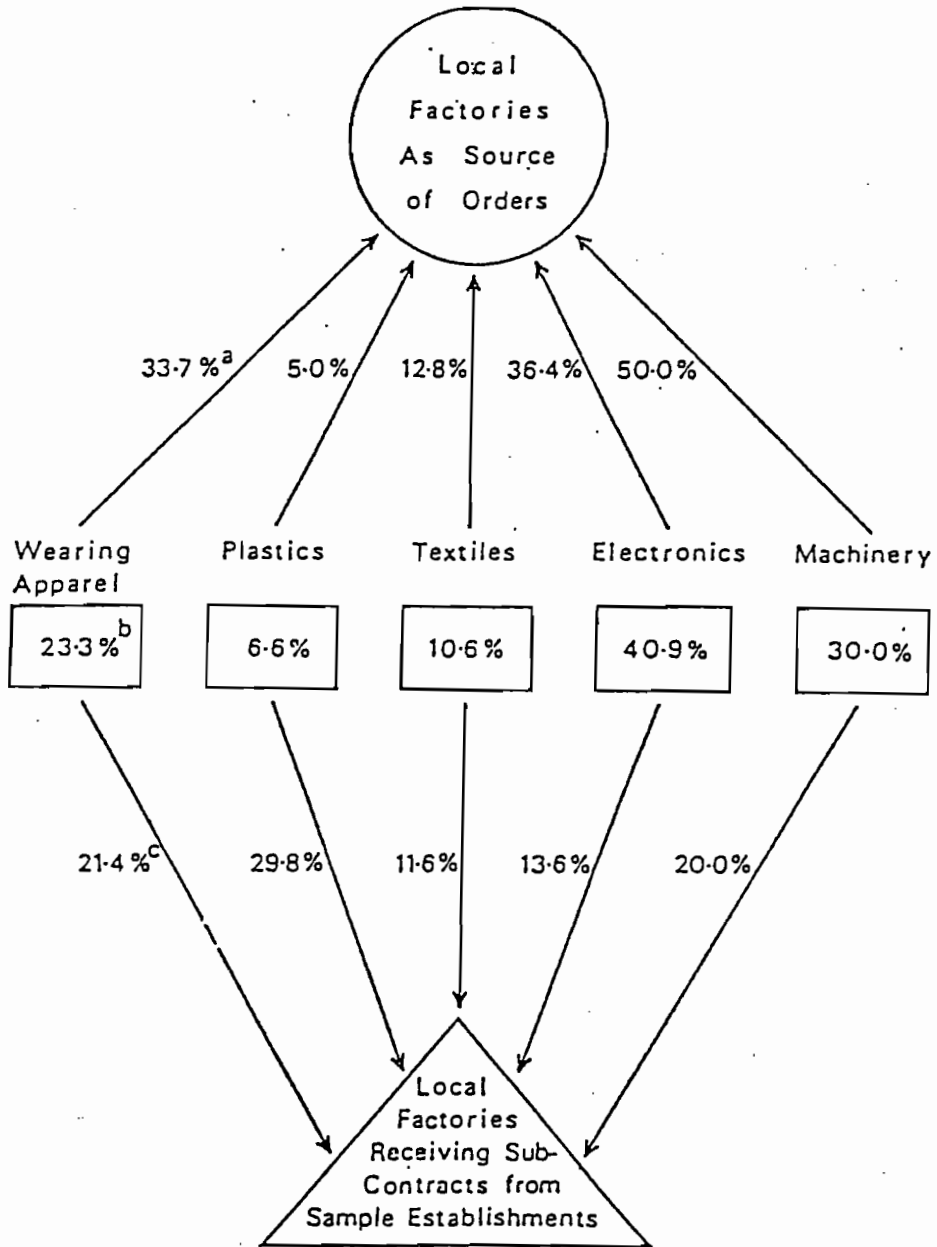
Sources of Orders for SME

	No. of Establishments	% of total
Import-export houses (1)	186	44.8
Local factories (2)	99	23.9
Direct overseas orders (3)	46	11.1
Wholesalers & retailers (4)	18	4.3
Direct sales to consumers (5)	14	3.4
Import-export houses with an element of (2), (3), (4) or (5)	50	12.0
Other combination	1	0.2
Don't know	1	0.2
Total	415	100.1

Source: Victor Sit, Sample Survey, 1978.

FIGURE 2

LINKAGES BETWEEN SAMPLE ESTABLISHMENTS WITH LOCAL FACTORIES



- a. Percentage of establishments solely dependent on local factories as source of orders.
- b. Percentage of establishments producing parts and semi-finished products.
- c. Percentage of establishments giving out subcontracts to local factories.

FIGURE 3

The Web of Industrial Linkage of a Sample Establishment

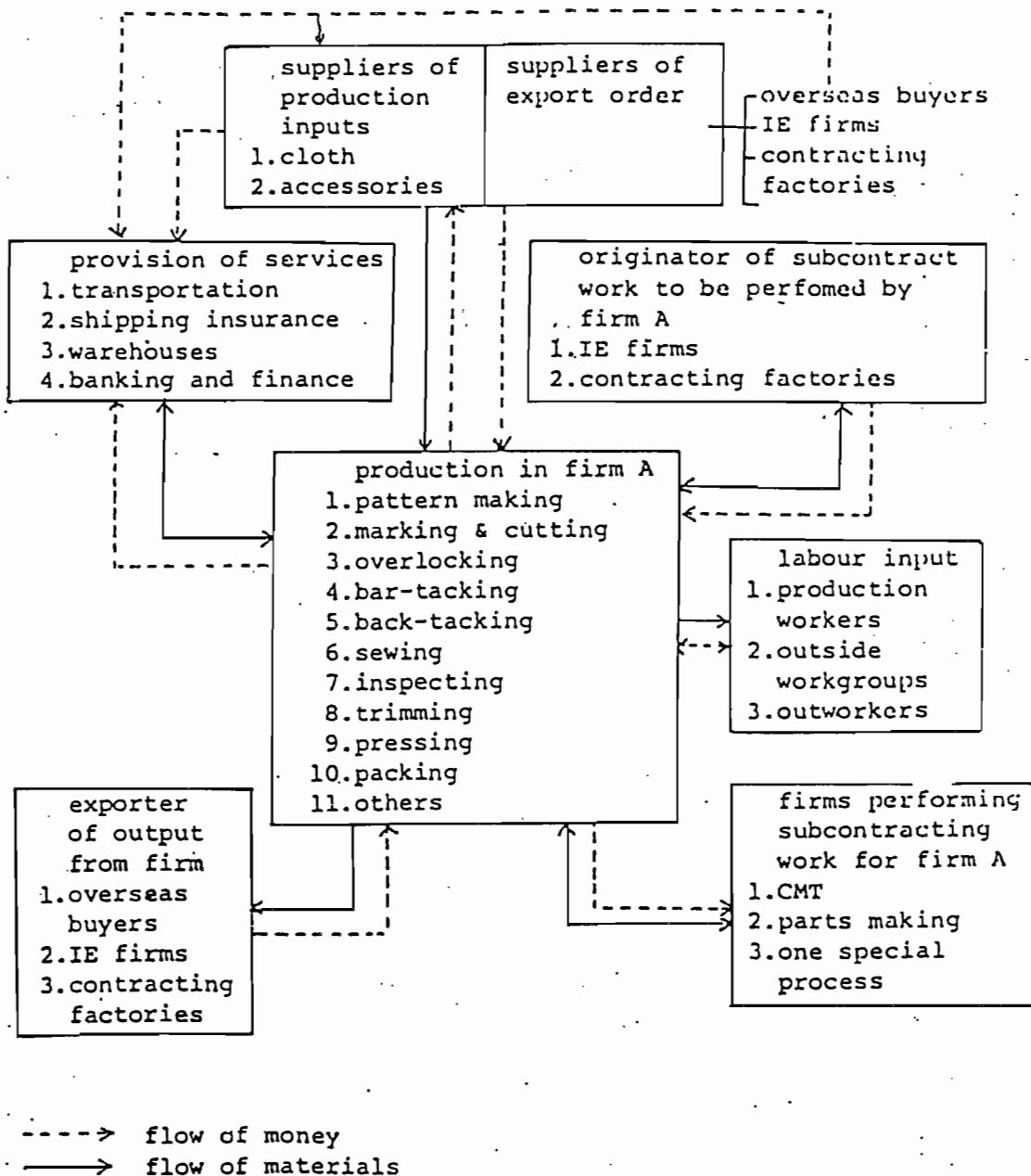


TABLE 9

Percentage Distribution of Sample Establishments with Varying Degree of Dependence on Local Industrial Linkage In Each Size Group

Employment Size Group	*A Firm	B Firm	C Firm	D Firm	E Firm	F Firm	Total in Each Group
0-49	50.00	12.50	20.84	12.50	4.16	0.00	100.00
50-199	15.09	9.44	22.64	20.75	22.64	9.44	100.00
200-499	0.00	0.00	0.00	7.69	61.54	30.77	100.00
% of total	22.22	8.89	18.99	16.67	23.33	10.00	100.00

- *A Firm – Virtually completely dependent upon other local firms for source of order, raw materials, accessories and sales of products.
- B firm – 50% or more of the firm's work done for other firms.
- C firm – 25-50% of the firm's work done for other firms.
- D firm – Less than 25% of the firm's work done for other firms.
- E firm – Only dependent on other firms for sales.
- F firm – Virtually completely dependent with respect to source of order, supply of raw material and accessories, and sales of products.

Source: Phyllis Li, Fieldwork, Hong Kong, 1980.

Sometimes the firm placing the order will give the new, would-be entrepreneur a try by subcontracting to him/her a small fraction of the total order, naturally at a much lower rate of pay, in order to diversify and to reduce prices of goods. Success or failure of the operation will dictate future behavior within the network. It is easy to imagine how such networks expand, shrink, and change product lines according to the variations of the world market demand, literally overnight. One of the most notorious examples of such flexibility took place during the pre-Christmas shopping hysteria of the "cabbage patch dolls" in the United States in 1983. When demand dramatically outpaced production capacity in U.S. factories, Hong Kong manufacturers obtained the contract to produce the hundreds of thousands of dolls sold in a few weeks before Christmas.

Where do these companies come from? Who are these entrepreneurs?²⁴ We must distinguish here between the historical origins and the contemporary structure of small firms. Historically at the root of Hong Kong's manufacturing industry were the Shanghainese industrialists who fled the Chinese Revolution in 1949, with their skills, limited capital, spinners, and weavers, and some of the machines which reportedly had been rerouted on the high seas from their original destination of Shanghai to the safe haven of Hong Kong. The five original textile industrialist families developed into 21 families that by the late 1950s had been able to re-establish their textile production they had originally set up in Shanghai. Taking advantage of their membership in the Commonwealth, and in the sterling zone until 1971, Hong Kong manufacturers started to penetrate the world markets initially through Great Britain. Very soon they entered the United States market. The Hong Kong government ignored protectionist threats from Britain but had to concede to the quota imposed, with British support, by the successive Multi-Fibre Agreements. Exports evolved from textiles to clothing; and when protectionism intensified, Hong Kong manufacturers shifted their production to higher quality products, thus enhancing the value of exports while reducing their volume. In 1973 Hong Kong overtook Italy and became the world's foremost exporter of wearing apparel. Today, Hong Kong is a major fashion design center, at competitive prices.²⁵ Similar processes occurred in the manufacturing of plastics, in which plastic toys replaced plastic flowers and domestic utensils, and in electronics, where Hong Kong went from assembling televisions to producing VCRs, microcomputers, and digital watches. In the early 1980s, Hong Kong began designing simple integrated circuits.

With the maturing of Hong Kong's industry, original firms expanded, although they kept much of their production outside their own companies by using subcontracting networks. Thousands of new firms came into existence, fueled by a bounty of cheap labor and would-be entrepreneurs immigrating from China. The overwhelming majority of these small firms started out from family savings (87.7 percent of the total in the 1984 sample), with an additional 6.1 percent receiving their capital from friends or relatives. Traditionally, initial capital available was small: 49 percent of the 1984 sample started with less than 50,000 Hong Kong dollars (an average of about US\$10,000 in the 1970s). The main resource was human. The level of education of these small entrepreneurs was high for an industrializing country: 65 percent of them had completed secondary education, an additional 4 percent technical college, and an

additional 4 percent held university degrees. Interestingly enough, 64 percent of the starting entrepreneurs had been working in the same industry before starting their own firms, about 45 percent of them as operatives.²⁶

These firms also develop flexible relationships with their environment and their own labor forces. Because of the high cost of land in Hong Kong, a few thousand of them (about 4,000) benefitted from public housing in which they located their multistory factories. However, a much greater proportion (about 40 percent in the late 1970s) operated from domestic premises, taking advantage of rent control, and of the government's implicit tolerance, in spite of environmental and safety ordinances.²⁷ Also, labor has entered into quite flexible relationships with these entrepreneurs. Some of this labor is provided by relatives. But, contrary to a traditional cliché, family members do not account for a significant portion of Hong Kong's small-business labor force. Employees of these firms do not appear to have wages significantly lower than those in medium and large manufacturing firms.²⁸ However, they generally earn less because they work fewer hours. In other words, the flexibility of the production system makes their work schedules (and thus their earnings) vary with demand. While the workers would, of course, prefer higher, more stable pay, the flexibility and the relatively personalized relationship with the entrepreneur seem to be positive factors in the otherwise harsh working conditions in small firms. A. Wei Djao, a sociologist sympathetic to the workers' cause, on the basis of his observation of small factory workers, writes,

What appeals most to the workers who prefer the small workshop is the amiable relation a worker has with the employer and coworkers at these workshops, and the flexibility in work schedule. Generally speaking, good relations with coworkers is an important consideration in workers' evaluation of their job. The congenial atmosphere in the contemporary small factory, to the extent that is observable, is real enough. . . . When orders have to be rushed, within the time limits allowed by the credit, the benevolent employer could then reasonably and legitimately ask the workers to report to work punctually, to cut short lunch breaks and to put in extra time.²⁹

Does this flexibility translate into productivity? In fact, there is a mixed pattern that illustrates the complexity of the productivity debate. On the one hand, as Tables 10 and 11 show, both for the 1978 and 1984 studies, labor productivity decreases with the size of the company. In this sense, and in spite of the fact that many small firms do have advanced machinery, capital-intensive operations continue to be more productive than labor-intensive operations in terms of output per worker. However, what matters to a firm is not so much productivity as profitability. And in this sense, for the firms in the 1978 sample, the return on capital is 13 percent higher in the small firms than in the large ones, with the difference being 25 percent in favor of small firms

vis-a-vis medium companies (see Table 10). In his 1984 study, Edward Chen reports that

the labour productivity of small industries, using different indices, is significantly lower than the average for enterprises of all sizes. But in terms of small industries' net profit on sales, small industries' 9.24 percent is slightly higher than the overall average of 9.03 percent in 1981.³⁰

Although there seems to have been a decline in profitability for small firms in the 1978-81 period (probably due to the overheating of the economy by financial and real estate investment, which actually hurt manufacturing, as we will see below), it still remains that, against the traditional image associating higher rates of return to large-scale industries, Hong Kong's small businesses do show higher rates of profit in spite of lower labor productivity. Since they are less capital-intensive, and certainly less advanced technologically, their superior profitability can only be attributed to their organizational characteristics, which supports their modus operandi, but particularly their flexibility, as the source of their competitiveness.

Nevertheless, in spite of the entrepreneurial energy and favorable business environment surrounding Hong Kong's small businesses, their remoteness from the world market, dependence on subcontracting arrangements, lack of capital, relatively low technological basis should make it extremely difficult for them to produce and export. How do they manage to overcome such obstacles? In one sense, that they do not. In the 1984 sample study it was found that 57.1 percent of all firms had been in operation for less than four years, and only 22 percent had been active for more than ten years.³¹ Although there are no systematic data on the business mortality rate, it is generally acknowledged that it is very high, most likely representing the majority of start-up firms. In fact, it is very common to see workers of different skill levels invest their entire savings trying repeatedly to launch firms, returning to their former occupations (although not always their former jobs) at each failure, until they succeed or give up. This is why the existence of a safety net, in the form of a unique welfare state in Hong Kong, is indispensable to encourage entrepreneurial behavior. Strong family ties and basic provision of services by the government, not the least being permanent shelter in the form of public housing, are the launching platform from which entrepreneurial ventures can be attempted, often with the ultimate goal of buying their way out of Hong Kong and into the world. This is an aspect that we will have to analyze carefully in studying the interaction between the state, the economy, and the social dynamics of Hong Kong.

The other element in answering this question is that small firms (or, for that matter, bigger firms) are not left to themselves by the Hong Kong Government. A whole array of services aimed at fostering productivity and improving penetration into world markets have been in place for a long time by a not-so-laissez-faire government, as we will see in the following section.

TABLE 10

Comparative Performance of Size Sectors, 1973-1976

(1973 Figures in brackets)

Size Sector	Contribution to total industrial establishment	Contribution to total industrial employment	Contribution to total census value added	Contribution to GDP	Labour Cost	Labour Productivity	Return on capital
(%)	(%)	(%)	(%)	(%)	(index: LME = 100)	(index: LME = 100)	(index: LME = 100)
SME	92.1	40.2	29.2 (25.2)	10.5 (8.9)	87 (46)	79 (85)	113 (N.A.)
MME	7.5	53.1	46.5 (44.6)	16.8 (15.7)	98 (57)	86 (89)	88 (N.A.)
LME	0.3	16.7	24.3 (30.2)	8.9 (10.6)	100	100	100

Source: Computed from 1973 Census of Industrial Production and 1976 Census of Industry

TABLE 11

Indices to Measure Performance of
Manufactory Industry 1981

Employment Size	Productivity					Efficiency
	GDP Contribution			Labour Cost		Net Profit On Sales
	Per Capital	Per 1,000 Man-Hour	Per \$1,000 Labour Cost	Per Capita	Per Man-Hour	
SIE	64	57	67	88	89	53
MIE	85	76	74	100	100	58
LIE	100	100	100	100	100	100
Overall	82	71	77	96	95	66

i.a.

While small business provides the entrepreneurial source of energy for Hong Kong's manufacturing exports, state intervention in the economy appears to be a decisive factor in Hong Kong's growth, although in such form as to confound analysis and nourish ideological fantasies. However, before we proceed with the analysis of the forms and characteristics of state intervention in the economy, we must study the second element that, together with the flexibility of the industrial structure, accounts for the performance of Hong Kong's manufacturing exports: competitiveness of prices of manufactured goods as a result of low production costs and domestic price stability.

The Conditions of Competitiveness: Low Production Costs and Price Stability

Hong Kong's manufacturing established its competitiveness in the world market on the basis of low production costs (including relatively low wages), reasonable labor productivity, low inflation, and monetary stability. This allowed Hong Kong firms to constantly raise profit margins while increasing real wages in the long run, and to maintain competitive prices in the international markets.³² We will review here some of the explanations for such a rare combination of economic factors, focusing on two major elements determining the structure of costs and prices: the determinants of labor costs and the conditions for price stability. In fact, as we will see, the factors accounting for both elements are intimately connected.

The Factors Determining Low Labor Costs

Low labor costs were made possible, in direct terms, by the combination of relatively low wages and rapid gains in labor productivity. Labor productivity, calculated on the basis of an index of 100 in 1971, increased from a level of 58 in 1961, to 82 in 1966, and to 128 in 1976.³³ Wages increased significantly in real terms from 1964 to 1976, as shown in Table 12, continued to progress until 1982, and stagnated thereafter. However, they were still way below manufacturing wages in industrialized countries (while topping all other Asian countries but Japan) in 1975, the time that is most relevant for our analysis (Table 13). What does account for such difference in real wages, that is, for Hong Kong's ability to moderate wage increases in spite of rapid economic growth and a tight labor market?

First, we must reject the usual explanation that relates wage moderation to the absence of labor unions, an argument often advanced by both neoconservative and radical economists. As Tables 14 and 15 show, during the 1970s there was a significant upward trend in the rate of unionization in Hong Kong, and the overall 1976 level compares well with that of the U.S. or even France.³⁴ To be sure, the rate of unionization in the public sector biases the observation (as it also does in the Western economies), and one should look at specific industries to understand the real dynamics (for instance, in electronics, mainstream union membership is negligible, although in recent years militant groups have started organizing women electronics workers).³⁵ Yet in 1976, 40

TABLE 12

AVERAGE DAILY WAGES IN MANUFACTURING
INDUSTRY¹

Year (March)	Nominal Wage	Nominal Wage Index	Real Wage Index ²
1964	8.60	100	100
1965	9.50	110	109
1966	10.20	118	113
1967	10.90	127	119
1968	11.50	134	117
1969	12.20	142	122
1970	14.20	165	134
1971	16.70	194	146
1972	18.40	214	157
1973	20.80	241	160
1974	22.50	261	141
1975	22.90	266	135
1976	26.49	308	152
1977	29.50	343	160

Notes:

¹excluding fringe benefits.

²nominal wage index deflated by modified consumer price index.

Sources: Labour Department, *Wage Statistics*, various issues.

TABLE 13

EARNINGS IN MANUFACTURING IN 1975:
SELECTED COUNTRIES

Country	Monthly Earnings (US\$)
U.S.A.	812
Australia	737
West Germany	641
Japan	537
France	525
U.K.	407
Hong Kong	149
Singapore	141
Taiwan	115
South Korea	79
Sri Lanka	57
Philippines	45

Source: International Labour Office, *1976 Yearbook of Labour Statistics*.

TABLE 14
DEGREE OF UNIONIZATION

Year (at 31 Dec.)	All Employees*	Union Membership as % of All Employees
1968	1,254,000	13.5
1969	1,283,000	13.7
1970	1,263,000	15.5
1971	1,273,976	17.0
1972	1,350,000	18.5
1973	1,397,000	20.7
1974	1,443,000	22.0
1975	1,513,000	23.9
1976	1,540,518	25.2

*All employees refers to salaried employees and wage earners, and includes all persons aged 15 and above who are either permanent in-workers, or casual or seasonal in-workers and apprentices, trainees or learners. It does not include self-employed, outworkers, employers, unpaid family workers, etc. If all such economically active persons had been included, the 1976 total would have reached 1.91 million.

Sources: Registrar of Trade Unions, *Annual Reports, 1967/68-1976/77*. Figures for 1971 and 1976 salaried employees and wage earners are based on the 1971 Population Census and the 1976 Population By-Census and those for the other years are projected figures, rounded off to the nearest thousand. The figures in this column are supplied by the Census and Statistics Department.

Source: Lethbridge, 1980, in Lethbridge (editor) 1980™

TABLE 15

DENSITY OF UNIONSIM BY SELECTED MANUFACTURING INDUSTRIES, 1976

Manufacturing Industry	No. of Employees	No. of Declared Union Members	Percentage who are Union Members*
Tobacco	783	720	92 (60)
Shipbuilding & Repairing	7,492	6,191	82 (43)
Medicine	1,244	982	79 (88)
Manufacture of Transport Equipment	10,864	7,506	69 (NR)
Furniture	6,135	2,963	48 (58)
Printing	19,124	8,144	43 (23)
Wood & Wood/Cork Products	5,012	2,031	41 (36)
Textile Spinning, Weaving & Finishing	73,613	29,717	40 (18)
Machinery except Electrical	9,814	2,287	23 (NR)
Food	13,498	2,457	18 (17)
Plastics	81,476	10,120	12 (NR)
Garments	177,310	9,056	6 (2)
Electronics	62,083	602	1 (NR)
Manufacture of Electrical Machinery, Apparatus & Appliances & Supplies	76,327	602	0.5 (NR)
Knitting	22,920	83	0.4 (NR)
Wigs	198	—	0 (NR)

*The figures in brackets indicate the roughly comparable percentages for 1971 (as compiled by Joe England and John Rear, *Chinese Labour under British Rule*, Table 11, p. 89).

NR = Not Recorded

Sources: Registrar of Trade Unions, *Annual Departmental Report, 1976-77*, Table 2; Commissioner for Labour, *Annual Departmental Report, 1976*, Table 1B.

percent of textile workers (the most export-oriented industry) were unionized, as well as 42 percent of printing workers; that is, two industries representative of labor-intensive manufacturing. Unionization declined in the early 1980s,³⁶ as in the rest of the world, reaching the 18.1 percent level for all industries in 1984, partly reflecting the structural shift to services, partly as a consequence of the broader restructuring process we will analyze below. Yet unions do exist in Hong Kong and, moreover, they were relatively strong, in numbers, in the 1970s, in the midst of the process that established Hong Kong's industrial competitiveness in the world market. However, it is undeniable that the level of union militancy is low, and that strike activity is insignificant.³⁷

The explanation has to be found not so much in the absence of unions but in the conditions of the labor market and in the orientations of the unions themselves. The labor market is heavily dependent on implicit regulation of labor supply by the government through immigration policy. Given the continuing flow of immigrants from China, it is the degree of permissiveness of immigration authorities that actually determines the size of the labor market, thus potentially deterring attempts to collectively bargain the level of wages outside the public sector. On the other hand, the over-politicization of both labor unions leads them to give priority to their relationship with the government, particularly in terms of their representation in various advisory committees. This is not to say that Hong Kong unions are ideologically submissive. In fact, the largest union organization (the Federation of Trade Unions) is ideologically linked to the Chinese Communist Party, while the smaller union (the TUC) is led by the Kuomintang. The net result is that the unions play more a political and civic function than that of a militant labor force. In our interviews with the Federation of Trade Unions, it became clear that its leaders preferred bargaining to confrontation and were hopeful that their contacts with the government could better advance their cause in the long run than organizing work stoppages, which could hardly be honored by workers in the fragmented organization of Hong Kong's small manufacturing industries.

However, without the presence of other factors, these factors would not have been able to preclude the development of a more militant labor movement, such as exist in other industrializing countries (Brazil or Korea, for example). Other fundamental elements seem to have concurred in the easing of industrial relations in Hong Kong, thus enhancing both the flexibility and the profitability of the manufacturing firms that were relatively free from workers' or labor unions' collective pressures.

A first element in the stability of management-labor relations has been the situation of quasi-full employment that Hong Kong enjoyed for a long time, allowing workers to adjust their situations individually by changing jobs for higher wages or better conditions whenever they were dissatisfied.³⁸ A second factor to be considered is the background of the Hong Kong working class, who can compare favorably their present situation to their former experience in rural China.³⁹ This feeling of relative content is reinforced by their condition as territory-locked immigrants, with little chance to be accepted anywhere else. However, while this seems to have accounted in part for the acceptance of

prevailing conditions at the work place, the situation is rapidly changing, with a new generation of Hong Kong-born workers who are aware of their rights and striving for democracy inside and outside the work place, a process that we will analyze in the following chapter.

Yet what seems to have been crucial for improving living conditions and maintaining social peace, in spite of relatively low wages and harsh working conditions, is the large subsidy provided to workers by the government in terms of services and goods, in what amounts to a substantial social wage, including coverage of health, education, social services, subsidized foodstuffs, and, above all, housing.

In one of the most insightful economic analyses of Hong Kong, in our opinion, Jonathan Schiffer⁴⁰ has calculated the impact of non-market forces on blue-collar household expenditures in 1973-74. His summary findings are reported in Table 16. First, Hong Kong has imported, since the early 1950s, 80 percent of its foodstuffs from the People's Republic of China, at prices determined by negotiations between the People's Republic and the Hong Kong government, thus submitted to administrative regulation. In addition, in 1955 the Hong Kong government established a "Rice Control Scheme" that has guaranteed the supply of rice at low prices, administered by the government, through a cartel of wholesalers. Also, the government is decisive in the organization and distribution of the production of two out of the three fundamental staples locally produced, vegetables and marine and freshwater fish, with only poultry production escaping government intervention. We have also observed the fundamental role of government in housing, and we will provide some facts below concerning the importance of public expenditures in health, education, and social services. Add price controls in public transportation and utilities, and we reach the 50.2 percent subsidy to blue-collar household expenditure provided to Hong Kong workers in 1973-74 by non-market forces (including Hong Kong government subsidies and government-regulated exports of foodstuffs and clothing from the People's Republic of China).

Thus, relatively inexpensive labor of good quality and stable industrial relations are not the consequence of the supposedly submissive nature of hardworking Chinese (an argument that seems to us to be purely racist), but of a combination of an actual increase in real wages, made possible by the high rate of economic growth, with a sustained effort of social wage provision by the government built around the public-housing program (as we will document more precisely below). The reasons for the abovementioned situation can be expanded also to a number of social services and economic transfers that, in spite of their level, are still insufficient for the needs of Hong Kong workers. However, these benefits that compare advantageously with the social benefits received by the majority of the population of industrializing countries, and in some items (health care, public housing, subsidized foodstuffs) even with the benefits provided by the government to workers in the United States.

TABLE 16

The impact of non-market forces on blue collar household expenditure, 1973/74^a

(1) Group of Commodity/Service	(2) Weight		(3) Non-market agent		(4) Degree of Intervention(%)	(5) Role of NMF ^b (2) x (4)
	Over- all	Sub- group	PRC	HK govt		
<u>I Foodstuffs</u>	60.8		x	x	ca. 50.0 ^c	26.50
Rice		8.0				
Fresh salt fish		2.6				
Fresh pond fish		2.8				
Live pigs		5.8				
Live cattle		1.5				
Meat and meat preparations		4.1				
Live poultry		1.8				
Fresh vegetables		5.7				
Fresh fruit		2.9				
Peanut oil		1.5				
Eggs		1.4				
Meals bought away from home		13.8				
<u>II Housing</u>	11.8			x	100.0 ^d	11.80
<u>III Fuel & Light</u>	3.6					
Electricity		1.8		x	100.0	1.80
<u>IV Alcohol & Tobacco</u>	2.8					
Chinese wines		0.5	x		100.0	0.50
<u>V Clothing & Footwear</u>	3.6					
Clothing		2.5	x		45.0 ^e	1.10
Footwear		0.7	x		40.0 ^e	0.30
<u>VI Durable goods</u>	0.9					
Furniture		0.1	x		65.0 ^e	0.07
Pottery		0.1	x		75.0 ^e	0.08
Travel, sports		0.2	x		23.0 ^e	0.05
<u>VII Miscellaneous</u>	4.1					
Medicine		1.4	x		14.0 ^e	0.20
Soaps		0.4	x		15.0 ^e	0.06
<u>VIII Transport & Vehicles</u>	4.3					
Public transport		4.0		x	100.0	4.00
<u>IX Services</u>	8.0					
School fees		2.2		x	70.0 ^f	1.50
Other ed.		1.0		x	70.0 ^f	0.70
Medical		1.6		x	9.3 ^g	0.10
Post, telephone, telegram		1.4		x	100.0	1.40
TOTAL	100.0	81.6				

Stability of Economic Prices

Relative stability of domestic prices has been the second crucial element in sustaining Hong Kong's competitiveness in the world market, particularly in the U.S. market. This is a particularly remarkable achievement, considering the openness of the Hong Kong economy and its sensitivity to price increases of imported goods and services that account for the largest share of domestic consumption. We have seen, in Jonathan Schiffer's analysis,⁴¹ that since the 1950s the government has devised a number of regulatory schemes aimed at regulating and stabilizing prices of basic foodstuffs (particularly rice), housing, and public amenities. In addition, another important factor in moderating price increases in Hong Kong was the massive importation from China of foodstuffs, raw materials, basic manufactured goods, water, and fuel, at moderate prices, lower than those in the world market, particularly during the dangerous inflationary period between 1972 and 1979. Table 16 shows Hong Kong's dependence on food supply from China, and Table 17 indicates the role of Chinese imports in essential consumer goods during the 1970s. Tables 18 and 19, elaborated by Hong Kong's Hang Seng Bank,⁴² compare prices for selected items and years, generally showing the underpricing of Chinese products in relationship to the world market. According to the main analysis on this matter by Chau⁴³ for the 1972-79 period, import prices from China went up 91 percent, compared with a 131 percent price increase in world food exports, and a 166 percent price increase in food exports from developing countries. If prices of food imported from China had increased at the same rate as world prices in the 1970s, in 1979 foodstuffs from China would have been 29 percent more expensive than they actually were. Of course, such generosity was motivated by Chinese interests at stake in Hong Kong. Besides the fact of securing an important market for its exports, China has consistently been interested in contributing to the economic prosperity and social stability of the territory. Not only did China receive, during the 1970s (before the Open Door Policy), about 40 percent of its foreign currency through Hong Kong, but the Hong Kong connection was actually crucial for China's access to Western technology, international trade, and financial deals. The Bank of China is one of the major investors in Hong Kong, and Chinese investments in real estate are considerable. Thus China always shared Hong Kong's economic interests, even before the 1984 Agreement. As a result of such strategy, China's exports to the territory constituted a significant element of price stability. Chau, while playing down the overall importance of such factors in the process of economic development in Hong Kong, nevertheless estimates that, during the 1970s, "without the benefit of its 'special China connection,' Hong Kong's inflation rate of foodstuffs and some wage goods could easily have been 3 percent more."⁴⁴ The reaction in terms of demands for higher wages, to compensate for price increase in low-elasticity consumption items, could have fueled an inflationary spiral precisely at the moment of worldwide inflationary pressures, when Hong Kong had to struggle to preserve its competitiveness.

Another moderating effect of low prices for raw materials imported from the People's Republic of China appears in the cost of industrial raw materials, such as textiles and fuel, helping to reduce production costs for some of the most export-oriented, small enterprise-dominated industrial sectors. Thus, while the subsidization of Hong Kong's economic

TABLE 17

China's Percentage Share of Hong Kong's Total Food Imports

	1968	1969	1970	1971	1972	1973	1974
Rice	35	30	34	38	43	54	53
Fruit	46	42	39	35	35	33	35
Vegetables	34	68	33	31	32	25	33
Bovine cattle	33	33	24	25	25	25	42
Swine	99	97	95	97	99	95	98
Meat & meat preparations	65	63	56	58	56	52	56
Milk, butter, cheese & eggs	51	49	51	50	49	49	52
Fish & fish preparations	60	61	52	53	47	44	45
Wheat & flour	0.3	0.5	0.5	0.4	0.5	0.7	0.5
Sugar	49	46	41	40	40	36	30
Tea & coffee	27	14	16	30	40	30	25
Soya bean oil, peanut oil & lard	42	38	16	16	27	21	24
Others	34	37	41	41	47	45	45
TOTAL	47	46	45	47	49	47	49

Source: Census and Statistics Department

TABLE 18-A

Import Cost Comparison Between Chinese Goods and Goods from Other Sources

Section 1: Food and Live Animals

	<u>No. of Items</u>	<u>Estimated Extra Expense (-) or Saving (+) (HK\$Mn.)</u>
Section total	293	
Items under which Chinese goods:		
Account for a fair share	140	
Can hardly be replaced	12	
Relatively more expensive	30	(-) 98
Relatively cheaper	98	(+)783
Net Balance		<u>(+)685</u> =====

Section 2: Beverages and Tobacco

	<u>No. of Items</u>	<u>Estimated Extra Expense (-) or Saving (+) (HK\$Mn.)</u>
Section total	33	
Items under which Chinese goods:		
Account for a fair share	6	
Can hardly be replaced	0	
Relatively more expensive	1	(-) 7
Relatively cheaper	5	(+)27
Net Balance		<u>(+)20</u> =====

Section 3: Crude Materials, Inedible, Except Fuels

	<u>No. of Items</u>	<u>Estimated Extra Expense (-) or Saving (+) (HK\$Mn.)</u>
Section total	224	
Items under which Chinese goods:		
Account for a fair share	34	
Can hardly be replaced	3	
Relatively more expensive	14	(-)56
Relatively cheaper	17	(+)39
Net Balance		<u>(-)17</u> =====

TABLE 18-B

Section 4: Mineral Fuels, Lubricants and Related Materials

	<u>No. of Items</u>	<u>Estimated Extra Expense (-) or Saving (+) (HK\$Mn.)</u>
Section total	32	
Items under which Chinese goods:		
Account for a fair share	8	
Can hardly be replaced	0	
Relatively more expensive	1	(-) 1
Relatively cheaper	7	(+13
		<u> </u>
Net Balance		(+12 =====

Section 5: Animal and Vegetable Oils and Fats

	<u>No. of Items</u>	<u>Estimated Extra Expense (-) or Saving (+) (HK\$Mn.)</u>
Section total	32	
Items under which Chinese goods:		
Account for a fair share	5	
Can hardly be replaced	1	
Relatively more expensive	4	(-)22
Relatively cheaper	0	0
		<u> </u>
Net Balance		(-)22 =====

Section 6: Chemicals

	<u>No. of Items</u>	<u>Estimated Extra Expense (-) or Saving (+) (HK\$Mn.)</u>
Section total	433	
Items under which Chinese goods:		
Account for a fair share	47	
Can hardly be replaced	0	
Relatively more expensive	17	(-) 7
Relatively cheaper	30	(+61
		<u> </u>
Net Balance		(+54 =====

TABLE 18-C

Section 7: Manufactured Goods Classified Chiefly by Materials

	<u>No. of Items</u>	<u>Estimated Extra Expense (-) or Saving (+) (HK\$Mn.)</u>
Section total	670	
Items under which Chinese goods:		
Account for a fair share	153	
Can hardly be replaced	1	
Relatively more expensive	52	(-) 105
Relatively cheaper	100	(+) 559
Net Balance		(+) 454 =====

Section 8: Machinery and Transport Equipment

	<u>No. of Items</u>	<u>Estimated Extra Expense (-) or Saving (+) (HK\$Mn.)</u>
Section total	383	
Items under which Chinese goods:		
Account for a fair share	58	
Can hardly be replaced	1	
Relatively more expensive	20	(-) 6
Relatively cheaper	37	(+) 100
Net Balance		(+) 94 =====

Section 9: Miscellaneous Manufactured Articles

	<u>No. of Items</u>	<u>Estimated Extra Expense (-) or Saving (+) (HK\$Mn.)</u>
Section total	508	
Items under which Chinese goods:		
Account for a fair share	141	
Can hardly be replaced	1	
Relatively more expensive	21	(-) 7
Relatively cheaper	119	(+) 786
Net Balance		(+) 779 =====

Estimated Net Saving made by Hong Kong through trading with China
(The aggregate of net balance in the various sections): HK\$2,059 million
=====

TABLE 19

Price Comparison of Selected Items of "More Essential" Consumer Goods in the Hong Kong Market

Types of Goods (Unit in brackets)	China		H.K.		Japan		U.S.A.	
	74	75	74	75	74	75	74	75
<u>CLOTHING</u>								
Shirts, Dacron/cotton, unicolor, long sleeves, men's wear (\$/piece Retail)	16.5	15.5	27.6	26.6	22.8	20.0	51.6	57.6
Slacks, Dacron/cotton, boy's wear (\$/pair Retail)	22.0	17.0	34.7	36.8	N.A.	N.A.	33.0	41.7
Carcoats, men's wear (\$/piece Retail)	39.5	39.5	106.7	122.5	N.A.	N.A.	126.8	148.3
Under garments, cotton, men's wear (\$/piece Retail)	4.3	3.3	7.5	7.6	N.A.	N.A.	9.6	10.5
<u>TEXTILE MADE-UP ARTICLES</u>								
Bedspreads, double bed (\$/piece Retail)	23.9	21.2	25.0	25.0	N.A.	N.A.	27.5	31.5
Towels, cotton, not embroidered (\$/Doz. c.i.f.)	12.6	12.2	N.A.	N.A.	N.A.	N.A.	54.5	76.3
<u>FOOTWEAR</u>								
Leather upper, plastic sole men's (\$/pair Retail)	26.1	26.9	39.8	40.6	N.A.	N.A.	139.7	170.0
<u>FURNITURE</u>								
Chairs of metal (\$/piece c.i.f.)	34.8	35.3	N.A.	N.A.	109.5	133.4	152.8	135.3
Chairs of wood (\$/piece c.i.f.)	10.8	11.4	N.A.	N.A.	139.5	115.5	524.6	44.0
<u>DOMESTIC ELECTRICAL APPLIANCES</u>								
Refrigerators (\$/unit c.i.f.)	445.9	372.2	N.A.	N.A.	661.9	693.2	2018.5	2183.0
Electric fans (\$/unit c.i.f.)	89.8	85.6	N.A.	N.A.	116.1	110.7	133.8	74.8

N.B. Retail prices represent prices as at the end of the year while c.i.f. prices represent the average prices of January - December for 1974 and January - August for 1975. Retail price figures are based on data supplied by the Consumer Price Index Section of the Government Census & Statistics Department and the Statistics Section of our Research Department.

growth by the People's Republic seems to have been exaggerated, the fact remains that such a special relationship has been an important factor in contributing to price stability, thus enhancing competitiveness.

Another key element of relative price stability in Hong Kong has been the government's monetary and fiscal policy, characterized by a very conservative yet clearly interventionist approach based on the principle of budgetary balance.⁴⁵ As we will see in our next section, the Hong Kong government budget ran systematic surpluses until the 1980s. On the basis of these surpluses, the government built a reserve of non-fixed assets⁴⁶ that provides the main resources for an Exchange Fund that the government used to stabilize the currency, generally curbing appreciation to maintain the competitiveness of exports. Before 1974, stability of the currency was backed by a Currency Board System provided with sterling reserves. After 1974, when the Hong Kong dollar was allowed to float, government intervention through the Exchange Fund was the main mechanism used to stabilize currency value, shielding Hong Kong's price structure from the price fluctuations in the world economy, with the notable exception of the 1973-74 period.⁴⁷ How the Hong Kong government has been able to build up surpluses and asset reserves while financing extensive intervention in social wage and industrial infrastructure is one of the key elements of the real Hong Kong model of economic development, an element that we will analyze in the following section.

Concerning price stability, Schiffer summarizes well the different mechanisms contributing to it when he writes:

Non-market forces intervene significantly in all factor markets, having the combined effect of lowering production costs for small-scale industry, the backbone of Hong Kong's export-led growth. In the labour market: the prices of transport, rice, and utilities are regulated; a large percentage of foodstuffs are produced in a centrally-planned economy [PRC] and traded to Hong Kong at administered prices; health, education, and shelter are subsidized; the labour supply is partly determined by the policies of the Hong Kong government, the largest employer; the wage itself, aside from the subsidizing effect of the above factors, is also partly determined by governmental rates, which set the lead for the private sector. . . . Non-market forces are also active in the raw materials and capital markets: in the former, the PRC is the main supplier (again at administered prices) of the major input of the key manufacturing industry: textiles; in the latter, the success of small-scale industry has rested partly in its ability to avoid capital markets through utilization of family savings.⁴⁸

Thus, the main factors accounting for the competitiveness of Hong Kong manufacturers (low production costs and moderate, stable prices), seem to have been engineered by government intervention through a number of mechanisms, policies, and institutions. We must now undertake more

systematically the analysis of the government's central role in the process of economic development in Hong Kong.

Hong Kong: A Government-Supported Process of Economic Growth

It is a central argument of our analysis that a number of fundamental factors underlying Hong Kong's manufacturing competitiveness are largely the result of deliberate government policies in providing industrial infrastructure, land, housing, social services, and subsidized foodstuffs and raw materials. Furthermore, since the late 1960s, and with an officially stated determination since 1977, the Hong Kong government has undertaken a series of developmental initiatives that constitute, in fact, a comprehensive industrial policy, while formally respecting, in the words of a high-ranking Hong Kong government official, "the limits of the unfortunately worded concept of positive non-interventionism,"⁴⁹ the official economic ideology of the government. Although most unbiased observers with first-hand knowledge of the Hong Kong scene would agree with our characterization of Hong Kong's economic policy, it could come as a surprise to the reader familiar with the media images of Hong Kong as a government-less economy. Yet a number of economic analyses, among others those by Ho,⁵⁰ Youngson,⁵¹ Sung,⁵² and Schiffer,⁵³ have shown the lack of empirical support for such an ideologically flawed interpretation. To be sure, the Hong Kong government defined its own policy for many years (until the main economic ideologue, Sir Philip Haddock-Caven, Financial Secretary, retired) as one informed by "positive non-interventionism."⁵⁴ And indeed, a number of elements fit the midsummernight dreams of neoconservative economists: absence of a central bank; negligible public debt; flat low income tax (15 percent of total income); no tax on capital gains; free movements of capital, currency, and commodities; a generally balanced budget; very limited regulation of working conditions, no minimum wage, no unemployment insurance, and absence of mandatory retirement pension.⁵⁵

However, while all these elements are important in enhancing business flexibility and profitability, they have to be understood in a much broader economic framework, characterized by the quantitative and qualitative importance of government intervention. Thus, Table 20 and Figure 4 show the significant size of government expenditure as a proportion of the gross domestic product. For instance, if we exclude defense expenditure (not comparable given the great variation among countries), the relative size of public expenditure in Hong Kong in 1981 was bigger than the same figure for the U.S. in 1965 (19.6 percent), at the heyday of America's economic growth.⁵⁶ More importantly, the role of government, as measured by this indicator, grew over time, from 8.2 percent of the gross domestic product in 1949-50 to 22.9 percent in 1981-82, although it decreased and then stabilized at around 16 percent in the 1980s. The acceleration of public expenditure in the crucial 1955-65 period was particularly remarkable at the moment of the formation of Hong Kong's manufacturing basis to compete in the world market. If we exclude, for the moment, the analysis of the 1980s (which requires the introduction of some additional explanation, since government intervention, while becoming more pronounced, was qualitative rather than quantitative), we observe that between 1949 and 1980, while real gross domestic product grew

TABLE 20

Size of Public Sector

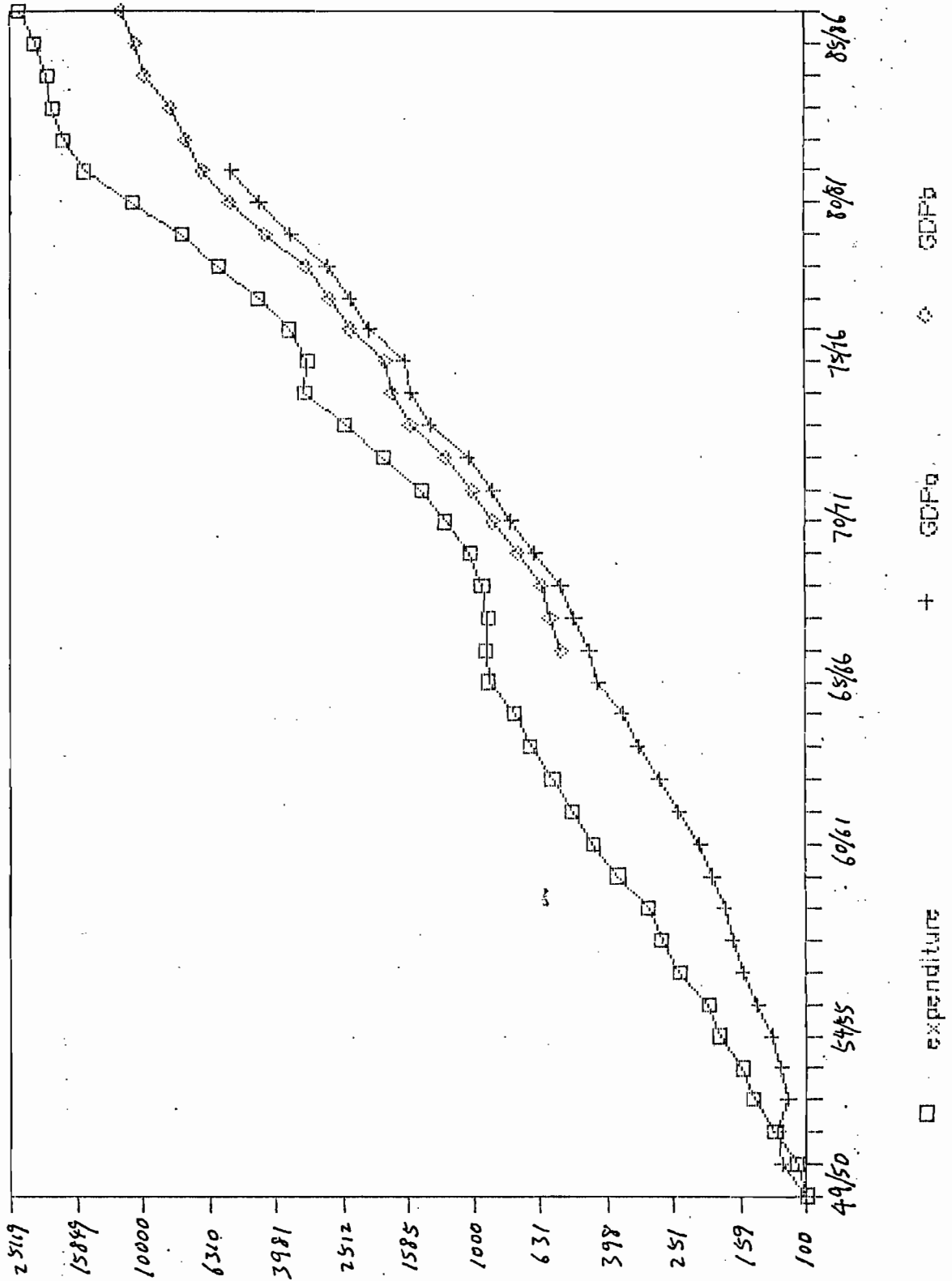
Current Prices

fiscal year	consolidated expenditure \$m	GDP \$m	calendar year	GDP \$m a.	GDP \$m b.	Relative size of the Public Sector %	index expenditure	index GDP	
1949/50	204	2489				8.2%	100	100	
1950/51	218	2968				7.3%	107	119	
1951/52	255	3053				8.4%	125	123	
1952/53	296	2841				10.4%	145	114	
1953/54	322	2979				10.8%	158	120	
1954/55	375	3198				11.7%	184	128	
1955/56	405	3516				11.5%	199	141	
1956/57	496	3875				12.8%	243	156	
1957/58	560	4165				13.4%	275	167	
1958/59	612	4419				13.8%	300	178	
1959/60	753	4813				15.6%	369	193	
1960/61	898	5246				17.1%	440	211	
1961/62	1028		1961	6037		17.0%	504	243	
1962/63	1186		1962	6887		17.2%	581	277	
1963/64	1381		1963	8019		17.2%	677	322	
1964/65	1529		1964	8950		17.1%	750	360	
1965/66	1834		1965	10606		17.3%	899	426	
1966/67	1867		1966	11219	13640	16.6%	13.7%	915	451
1967/68	1849		1967	12519	14724	14.8%	12.6%	906	503
1968/69	1934		1968	13669	15658	14.1%	12.4%	948	549
1969/70	2105		1969	16274	18379	12.9%	11.5%	1032	654
1970/71	2510		1970	19214	21879	13.1%	11.5%	1230	772
1971/72	2967		1971	21873	25178	13.6%	11.8%	1454	879
1972/73	4385		1972	25854	30382	17.0%	14.4%	2150	1039
1973/74	5388		1973	33964	39101	15.9%	13.8%	2641	1365
1974/75	6704		1974	38786	44578	17.3%	15.0%	3286	1558
1975/76	6585		1975	40574	46464	16.2%	14.2%	3228	1630
1976/77	7355		1976	51973	59339	14.2%	12.4%	3605	2088
1977/78	9168		1977	59615	68905	15.4%	13.3%	4494	2395
1978/79	12122		1978	69557	81163	17.4%	14.9%	5942	2795
1979/80	15619		1979	89473	107047	17.5%	14.6%	7656	3595
1980/81	22056		1980	111114	137081	19.8%	16.1%	10812	4464
1981/82	30938		1981	135346	164973	22.9%	18.8%	15166	5438
1982/83	35684		1982		186328		19.2%	17492	7486
1983/84	38596		1983		207562		18.6%	18920	8339
1984/85	39882		1984		248728		16.0%	19550	9993
1985/86	43444		1985		263579		16.5%	21296	10590
1986/87 (est)	48462		1986		291897		16.6%	23756	11727

Sources: Expenditure figures: 49/50-69/70 C.Y.Ho. Fiscal System of H.K.
 70/71-86/87 Budget Speech. H.K. Govt, various years.
 GDP figures: 49/50-60/61 C.Y. Ho
 "a" Series: Census and Statistics Department, estimation 1982.
 "b" Series: Census and Statistics Department, revised
 estimation 1987.

FIGURE 4

Indices of Expenditure and GDP



by 13 times, real government expenditure grew by 26 times!⁵⁷ However, the pattern of government expenditure varied considerably in different periods. In 1949-65, government expenditure grew faster and fluctuated less than gross domestic product, providing the infrastructural and institutional basis for the industrialization process. Yet, in the period 1966-69, Hong Kong was struck by a banking crisis (1965), and two waves of riots (1966, 1967), leaving the government unsure of the soundness of continuing the British commitment toward Hong Kong: public expenditure sharply declined in proportion to the gross domestic product. Then, during the 1970s, we observe an irregular pattern in the variation of public expenditures: in the first half of the decade, government expenditure outpaced gross domestic product growth again; in 1975, following the world recession, government reduced spending to curb inflation. Then, suddenly, in the late 1970s, to catch up with a number of delayed projects, and taking advantage of the land price bonanza that increased public revenues, government expenditure jumped from 14.3 percent of the gross domestic product in 1976 to 20.3 percent in 1980. These oscillations reveal the changing orientations of the government in economic policy and will have to figure in our analysis, in the following chapter, of the political evolution of Hong Kong.

Another important aspect of government expenditure, as an indicator of economic policy, is that there are major differences in the evolution of spending among different items of the budget⁵⁸ (see Table 21). Concentrating on the 1949-80 period, it is crucial to note that while the gross domestic product grew by 13 times, government expenditure in social services (education, health, housing, and social welfare) increased by 72 times! This figure destroys the myth about the nonexistence of a welfare state in Hong Kong. In fact, there is a comprehensive hospital-based health system that provides care to everybody for a nominal fee. Education until the age of 15 is mandatory, universal, and free in the public schools.⁵⁹ And there is a system of social services, including public assistance in case of need,⁵⁹ that has grown over time, in a combined network of government institutions and government-supported voluntary agencies, although care for the elderly still remains primarily a family responsibility. In the 1980s, the portion of social services expenditures within government expenditures has continued to grow, reaching 45 percent of total public expenditures in 1987.

Also of importance in the government budget are "community services" (transportation, land reclamation, and water supply), which increased 37 times in real terms between 1949 and 1980. "General Services" (administration, police, defense) increased by 32 times, basically because of the size and sophisticated equipment of the Royal Hong Kong Police Force, which is bigger than that of New York City. Expenditure on "economic services" (agriculture, airport, harbor, commerce and industry, communications, railways, town planning, etc.) increased by only 14 times, about the same pace as the gross domestic product.⁶¹ Thus, not only have public expenditures increased dramatically in the Hong Kong economy over time, but they have increased fundamentally in those budget items apparently less directly connected with economic growth and more associated with the welfare of the population and the functioning of the city. This is again confirmed by Table 22 and Figure 5, which show government capital formation by function between 1966 and 1985, with

TABLE 21

Functional Classification of Government Expenditure						
\$ million	general	economic	community	social	others	total
current price	services	services	services	services		
1949/50	31	28	31	34	80	204
1950/51	49	31	29	39	70	218
1951/52	58	30	37	50	80	255
1952/53	85	37	50	61	63	296
1953/54	87	38	54	87	56	322
1954/55	88	43	57	114	73	375
1955/56	84	64	71	123	63	405
1956/57	94	74	85	160	83	496
1957/58	104	88	95	175	98	560
1958/59	112	84	118	226	72	612
1959/60	140	77	155	272	109	753
1960/61	169	86	234	327	82	898
1961/62	185	99	282	389	93	1028
1962/63	180	107	336	452	111	1186
1963/64	197	102	404	550	128	1381
1964/65	230	119	448	592	140	1529
1965/66	317	157	559	637	164	1834
1966/67	293	168	515	676	215	1867
1967/68	334	163	421	730	201	1849
1968/69	379	187	389	779	200	1934
1969/70	409	239	380	856	221	2105
1970/71	456	283	475	1021	275	2510
1971/72	527	327	640	1194	279	2967
1972/73	637	373	1473	1442	460	4385
1973/74	772	452	1723	1987	454	5388
1974/75	950	535	1887	2698	634	6704
1975/76	987	554	1567	2895	582	6585
1976/77	1303	570	1744	3085	646	7348
1977/78	1635	645	2191	3861	834	9166
1978/79	2164	781	2935	5192	996	12068
**	general	economic	community	social	security	
1979/80	2186	811	3812	6856	1954	15619
1980/81	2446	966	5493	9827	3325	22057
1981/82	3274	1396	9366	11544	3803	29383
1982/83	4800	1357	10225	14494	4808	35684
1983/84	5438	1268	10498	16371	5021	38596
1984/85	5922	1361	9563	17913	5123	39882
1985/86	6797	1500	10085	19449	5613	43444
1986/87 est.	7133	1770	11245	21877	6266	48291

**since 1982/3, items originally appeared under 'others' are regrouped under 'general services' and subitem 'security' originally under 'general services' is taken out as an independent item.

source : 1975/76 and before : Castells' working paper p.78
 1976/77 and after : Budget speech, Financial Secretary, Hong Kong Government various years

TABLE 22

Government and total capital formation

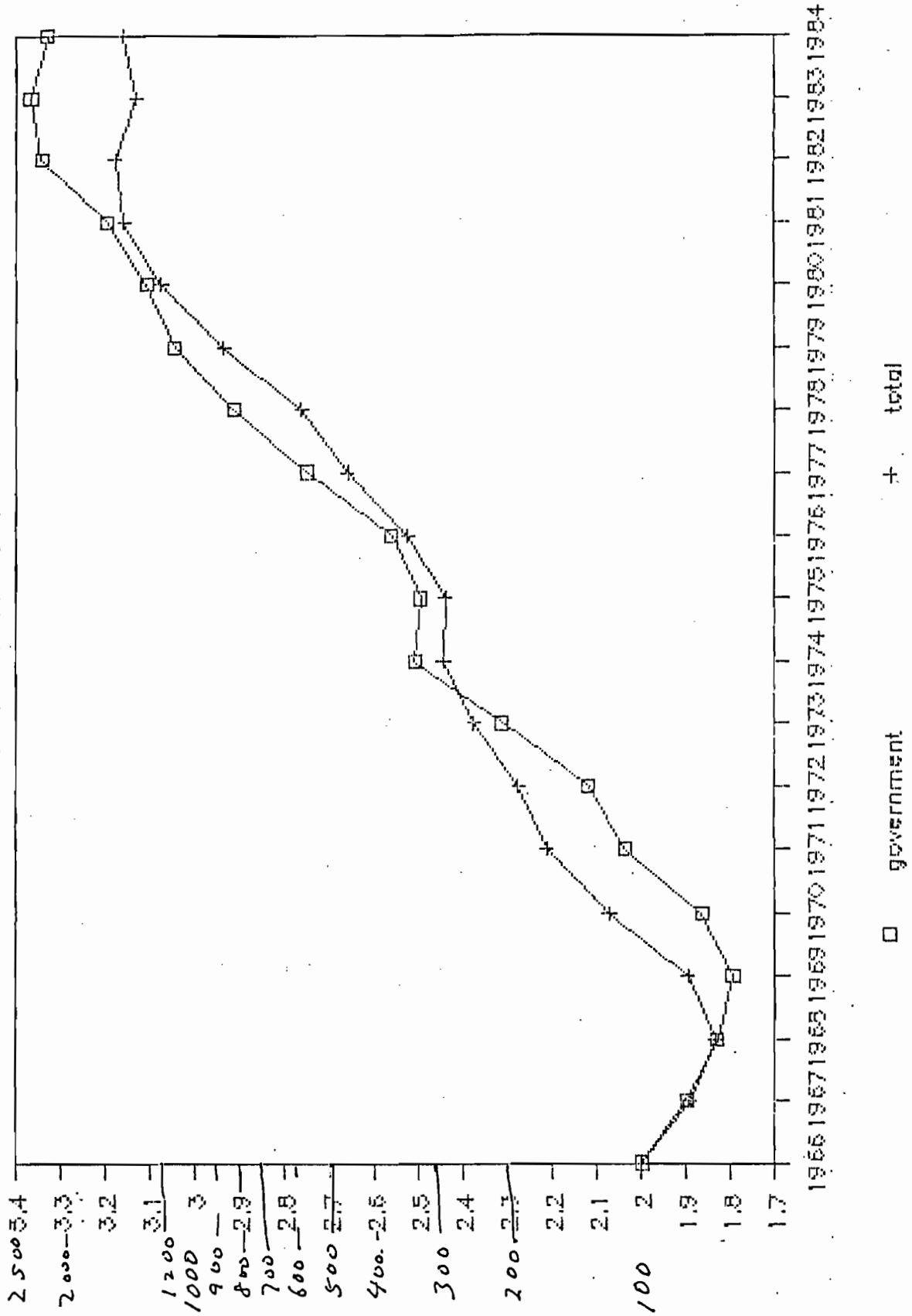
<u>year</u>	<u>government</u>	<u>total</u>	<u>govt/total %</u>
1985	8690	54706	15.9
1984	11181	55578	20.1
1983	12149	51868	23.4
1982	11506	57858	19.9
1981	8202	55407	14.8
1980	6723	45548	14.7
1979	5815	33185	17.5
1978	4307	22285	19.3
1977	2949	17555	16.8
1976	1907	12828	14.8
1975	1636	10528	15.5
1974	1687	10648	15.5
1973	1069	9077	11.8
1972	686	7245	9.5
1971	569	6256	9.1
1970	383	4512	9.3
1969	325	3015	10.8
1968	353	2615	13.5
1967	413	2977	13.9
1966	519	3804	13.6

source : Estimates of Gross Domestic Product 1966-1986

FIGURE 5

Indices of Capital Formation

Government and Total



community services and social services generally ahead of economic services. In fact, Hong Kong has the highest proportion of social expenditures over government expenditures of any Asian capitalist country, including Japan.⁶² However, the implications of these data are not that economic growth has secondary importance in the government's policy, but rather that a major contribution by government to economic growth has been to foster conditions for a stable and relatively well-maintained labor force by providing social services, actually mirroring the productive functions of the welfare state in some European economies. As H.C.Y. Ho writes:

Social expenditure, which shows the highest rate of growth [of government expenditure] has a direct effect on income distribution, but its effect on economic development is increasingly recognized. Government provision of low-cost housing and subsidized medical care and education, either directly or indirectly, has a stabilizing influence on the cost of living and represents investment in human capital.⁶³

After all, Hong Kong appears to be more traditionally British, in the great tradition of the British welfare state, than new-look British economic conservatives wish to admit. It is in fact the combination of the safety net provided by a system of relatively developed social services (including housing) and a flexible industrial structure relying on small and medium businesses that appears to be Hong Kong's winning formula.

But government intervention also extends to the industrial system itself through a series of mechanisms that enable Hong Kong enterprises to take on the world economy.⁶⁴ In fact, the lower proportion of government expenditures allocated to "economic services" in comparison with other budget items is misleading, in terms of the real scope of government support to the industry. The government of Hong Kong, according to some of its key figures, always had an industrial policy, starting with its active role in the negotiation of different trade agreements in the late 1950s, and particularly the successive Multi-Fibre Agreements that distributed export quotas per country for each market area. Hong Kong was favored in the first of such agreements, partly because of its early industrial start, but also because of the special privileges of its Commonwealth membership (that were later surrendered in the new trade system, at a price), for which Hong Kong government representatives fought hard at the bargaining table. Within Hong Kong, the Industry Department took care of setting up, in consultation with the industrialists, the production quota for each textile firm, so that the global quota would be respected and at the same time shared equitably and productively among the different industrial groups, basically the 21 Shanghainese industrialists who were at the origin of Hong Kong's textile manufacturing. Such distribution was at the basis of the formation of subcontracting networks, since access to authorized quota was a precondition for export. This evidence further discredits the notion that Hong Kong operates in an uncontrolled market economy.

Until the late 1970s, the government did not formulate specific plans for industrial development nor target industries for special benefits. However, it developed a pragmatic, effective system of permanent consultation with business representatives through the four major formal associations: the Hong Kong General Chamber of Commerce, the Chinese General Chamber of Commerce, the Federation of Hong Kong Industries, and the Chinese Manufacturers Association of Hong Kong. Members of these associations sit in government committees in which key decisions about industrial infrastructure, taxation, trade policy, and manpower training are formulated in terms of recommendations. Very often, distinguished civil servants retire from government service to take up leadership positions in the business associations, as in the cases of one of the key actors of Hong Kong's industrial development, Mr. J. D. McGregor, Director of Industry of the Government, who retired to become the Director of the General Chamber of Commerce, and another high-ranking civil servant, Mr. Lawrence Mills, today Director General of the Federation of Hong Kong Industries. However, it must be clear that such close relationship does not indicate that government is not dominated by interest groups. In fact, it has been the other way around. With a few notorious exceptions (the old trading companies), Hong Kong industrialists and merchants have not exerted much influence over the government, and they rarely organized themselves as a coherent pressure group. It was the colonial government that organized business groups and formulated ad hoc industrial policy decisions on the basis of this very elaborate system of day-to-day consultations and information-gathering.

In a more formalized procedure, the government established a series of public agencies to directly help industry, particularly in terms of information, personnel training, and business services. Foremost among these organizations is the Hong Kong Tourist Association, created in 1957, that helped a very primitive tourist industry reorganize itself and transform Hong Kong into the major world tourism hub that it is today. The Hong Kong Trade Development Council was organized in 1966 to support export efforts and to attract investors and buyers to Hong Kong. The Trade Development Council is a statutory board financed by a percentage of all import and export income retained by the government. It has a network of information offices around the world, and a central data bank accessible by telephone to local companies. It also has a network of outposts in Hong Kong's industrial estates to facilitate free information to the firms. It focuses on small and medium enterprises to which it provides information about markets, technologies, and legal procedures that small businesses cannot obtain by themselves. Another agency set up by the government in the 1960s to promote exports is the Hong Kong Export Credit Insurance Corporation, which provides government insurance for Hong Kong-based firms for all sorts of risks that are not usually covered by private insurance. Finally, the most significant of these industry-supporting agencies is the Hong Kong Productivity Council, founded in 1967, whose activities (detailed in Figure 6 for the 1970s, before the expansion of its role in the 1980s) have been crucial to the enhancement of the productivity of small and medium firms through training programs, consulting and technology services, and the diffusion of critical industrial and commercial information.

FIGURE 6

SUMMARY OF SERVICES OF THE PRODUCTIVITY CENTRE

Manpower Development Services	Technology Services	Industrial Consultancy Services	Computer Services	Research Services	Industrial Development Services
.Management training programmes in production, marketing, financial and personnel management techniques	.Low cost automation (LCA) for improved mechanization of production	.General Management Industrial Diagnoses, Feasibility Studies, Management Information and Control and O & M	.Strategic Studies to determine the financial and technical viability of the project and to select the optimal combination of computing facilities	.Market surveys to assess the size, characteristics and trends of markets	.Stock projects of an innovative development nature carefully chosen to be of use to Hong Kong which might help industry to solve problems likely to occur in the near future.
.Technology training programmes in product technology, technical engineering and chemical engineering	.Industrial chemistry services in surface treatment, metal finishing and process control services	.Production Management, Methods Study, Work Measurement, Materials Handling, Factory Layout, Production Planning and Control, Quality Control and Process Improvement	.System Methodology and Project Management for computerizing management functions	.Project feasibility studies to determine the soundness and profitability of industrial projects.	
.Electronic Data Processing Training programmes in system analysis and design, and Computer Programming, Data Preparation and operations	.Machine design for improved processing			.Industry surveys	
.Supervisory training programmes	.Technical assistance	.Financial Management: Profit Planning, Budgetary Control and Costings	.Technical Advice in Computer operations audit, Selection and recruitment of DP staff, Software packages evaluation, and documentation.	.Statistical services	
.In-company training programmes tailored to meet individual company's requirements	.Exhibition services for industrial machinery and materials	.Personnel Management: Recruitment Service, Job Classification and Evaluation and Merit Rating Systems		.Technical Information Services (TIS)	
.Audio-visual facilities		.Marketing Management		.Technical publications	
				.Study missions	

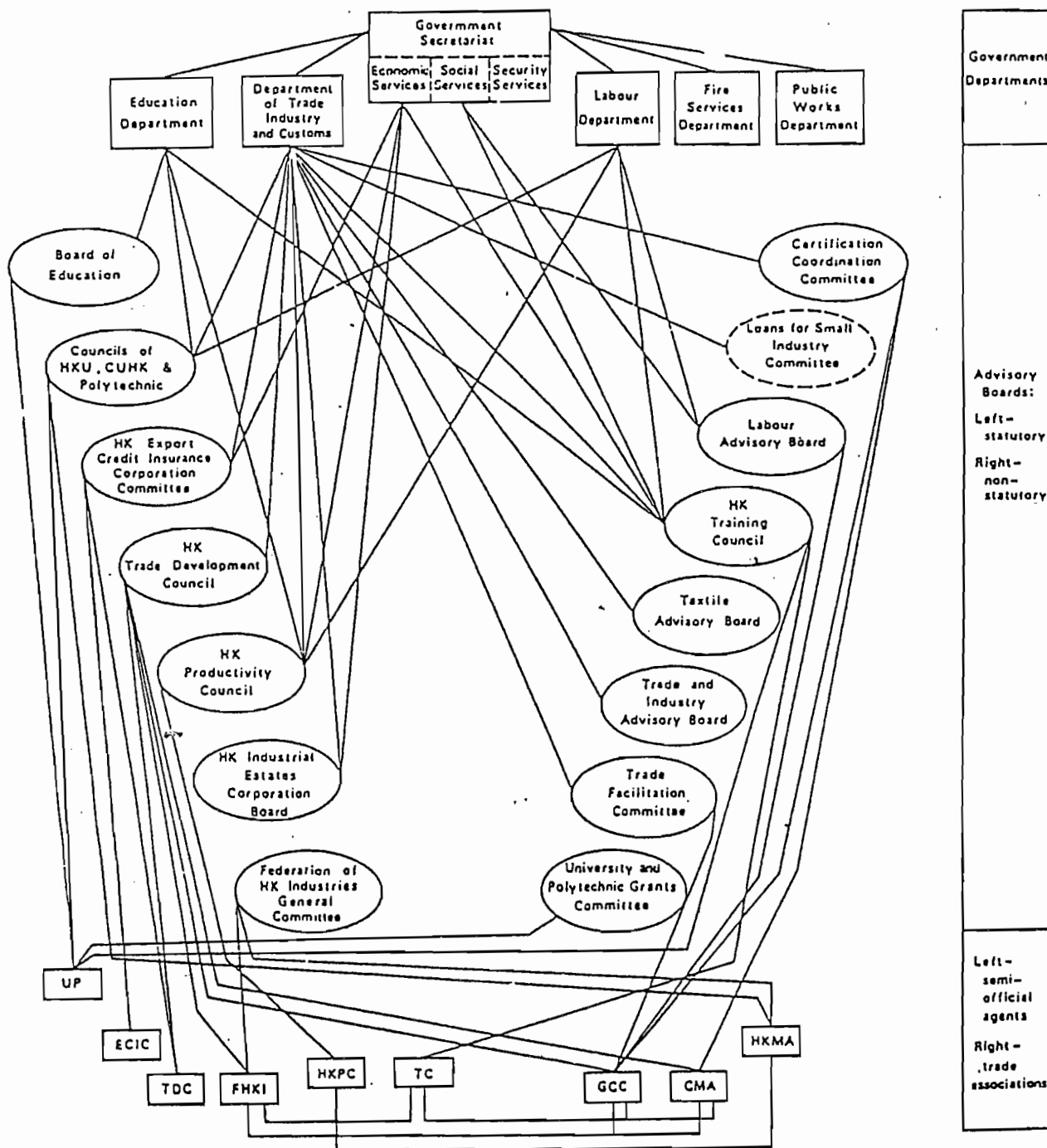
Overall, since the late 1960s the government of Hong Kong has established a series of specialized agencies, coordinating committees, and consultative institutions connecting key government departments with the industrial world, and with the organizations whose support is needed, such as universities and training centers. Figure 7, elaborated by Victor Sit on the basis of data collected in 1978,⁶⁵ describes the system of governmental support to the Hong Kong process of industrialization and international trade.

The implicit industrial policy of the Hong Kong government became explicit in 1979 with the publication of the report of the advisory committee on diversification appointed under the instruction of the Governor, Sir Murray MacLehose, concerned with the potential consequences of protectionism after the new, more restrictive Multi-Fibre Agreement of 1977. For the first time, while paying lip service to the principle of "positive non-intervention," the government set up a high-level advisory committee to advise, in the Governor's official words, "whether the process of diversification of the economy, with particular reference to the manufacturing sector, can be facilitated by the modification of existing policies or the introduction of new policies."⁶⁶ After two years of work, the Committee formulated 47 recommendations that amounted to a comprehensive overhauling of Hong Kong's industrial structure, with emphasis on the need for the government to facilitate the technological upgrading and the manpower training necessary for Hong Kong's industry to adjust to new conditions of the world economy, taking into consideration the increase of labor costs in Hong Kong in comparison with its direct competitors. An Industrial Development Board was established to meet regularly under the chairmanship of the powerful Finance Secretary, to oversee the elaboration and application of policies aimed at strengthening Hong Kong's manufacturing basis. However, the period of political uncertainty of the early 1980s slowed down the application of such recommendations. But after the Sino-British Agreement of 1984, Hong Kong undertook a process of fundamental restructuring of its economy in which the government played a major role, actually putting into practice most of the recommendations of the report. As a sign of the new directions, the Secretary of the Committee on Industrial Diversification, Mr. K. Y. Yeung, was appointed Director of Industry in 1986 and took personal responsibility for the implementation of the industrial policy elaborated by the Committee. These new industrial policies must be understood in the broader context of the restructuring process that is transforming at a fundamental level the organization and dynamics of the Hong Kong economy. In order to analyze such a restructuring process, we must first introduce into our interpretative framework another fundamental dimension of the Hong Kong economy, basically developed during the 1970s, that we have not yet mentioned here (for the sake of clarity): the transformation of Hong Kong into a major international business and finance center.

Before proceeding toward the following steps of our analysis of the Hong Kong process of economic development, we must reiterate the fundamental conclusion of the discussion presented in this section: government intervention has played a major role in the development process, both through the provision of social services enhancing the quality, yet reducing the direct cost, of labor, and through the support to manufacturing and trade by a number of agencies and programs aimed at

FIGURE 7

Organization Link of Various Components of the Hong Kong System



Note: Besides representations from semi-official agents, trade associations and government departments all the advisory boards and committees, with the exception of Certification Coordination Committee and Labour Advisory Board, are also sat by influential individuals.

--- Loans for Small Industry Committee ceased operation in 1976.

Source: Victor Sit, 1979.

spurring competitiveness without sacrificing flexibility. Now the question is how such widespread government intervention has taken place without excessive taxation and without inflationary fiscal policies.

The Financing of Government Intervention

Hong Kong was able to increase government expenditures faster than its high rate of economic growth while maintaining a balanced budget, indeed with customary surpluses, until the 1980s. The direct explanation for such accomplishment is the obvious fact that, for most of the period of the economic takeoff, government revenue rose faster than total gross domestic product and per capita gross domestic product, increasing from 10.6 percent of the gross domestic product in 1949-50 to 17.6 percent in 1975-76.⁶⁷ Two factors seem to account for the non-inflationary growth of government revenue:

1. Revenue increased simply as a consequence of the general prosperity of the economy, demonstrating that an economic policy able to generate growth also provides the resources necessary to finance government support of economic growth.
2. However, note that revenue increased also as a portion of the gross domestic product, so we must account for the government's increasing capacity to generate revenue without indebting itself. Thus, the second factor responsible for increasing revenue, specific to Hong Kong's public finance, concerns the composition of government revenue, as presented in Table 23. In general terms it is equally divided among direct taxes, indirect taxes, and non-tax revenue. The particular and important feature of Hong Kong's budget is the importance of the proportion of non-tax revenue. Non-tax revenues have accounted, on average, for over one-third of total revenue, and reached 46 percent of total revenue in the late 1970s, also contributing to the dramatic increase in the absolute amount of public revenue. Non-tax revenue includes income from licenses and fees, loan repayments, fines and forfeitures, and, most importantly, land leases and all kinds of government property. Land sales are in fact the most important item of such non-tax revenues, and they yielded astronomical gains to the government during the real estate boom of 1979-81. As shown in Table 24, elaborated by C. L. Wu,⁶⁸ recurrent and capital revenue from land and buildings reached the staggering proportion of 44.8 percent of all government revenue in 1980-81, although it declined afterwards with the collapse of the real estate market in 1982-84, yet rebounded in 1986-87 with a new bullish property market following the renewal of economic confidence provided by the Sino-British Agreement.

However, beyond the dramatic variations of the land market, what is significant for our purpose is the fact that, with the exception of 1983, land and building revenues have consistently accounted for over 20 percent of total government revenue since 1955. Thus, public ownership of land, and planned release of vacant and reclaimed land, allowed the government

TABLE 23

Composition of Government Revenue

	Direct taxes			Indirect taxes			Non-tax revenue		
	\$ million	% of revenue	% of GDP	\$ million	% of revenue	% of GDP	\$ million	% of revenue	% of GDP
1975/6	2,299	32.9	5.8	2,498	35.7	6.2	2,193	31.3	5.5
1974/5	2,186	35.0	6.1	2,028	32.5	5.6	2,025	32.4	5.7
1973/4	1,730	31.4	5.4	2,041	37.0	6.4	1,747	31.6	5.5
1972/3	1,123	22.3	4.4	1,900	37.8	7.4	2,008	39.9	7.8
1971/2	956	26.3	4.4	1,286	35.3	5.9	1,398	38.4	6.4
1970/71	802	25.4	4.2	1,108	35.1	5.8	1,245	39.5	6.5
1969/70	637	24.9	3.9	998	39.0	6.0	923	36.1	5.6
1968/9	551	25.7	3.9	885	41.2	6.3	712	33.1	5.1
1967/8	508	25.9	4.0	826	42.1	6.5	626	31.9	5.0
1966/7	465	24.8	4.1	794	42.4	7.0	615	32.8	5.4
1965/6	391	23.2	3.7	698	41.4	6.5	597	35.4	5.6
1964/5	344	20.0	3.7	652	37.9	7.0	723	42.1	7.8
1963/4	291	20.3	3.5	564	39.2	6.9	582	40.5	7.1
1962/3	240	18.9	3.4	493	38.8	6.9	539	42.4	7.5
1961/2	216	20.7	3.5	447	42.8	7.1	382	36.6	6.1
1960/61	166	19.1	3.2	390	44.8	7.4	314	36.1	6.0
1959/60	135	19.7	2.8	313	45.6	6.5	239	34.8	5.0
1958/9	138	21.7	3.1	284	44.6	6.4	215	33.8	4.9
1957/8	128	21.4	3.1	265	44.2	6.4	206	34.4	4.9
1956/7	114	22.2	2.9	240	46.8	6.2	159	31.0	4.1
1955/6	104	22.7	3.0	216	47.2	6.1	138	30.1	3.9
1954/5	120	27.4	3.8	195	44.5	6.1	123	28.1	3.8
1953/4	119	29.5	4.0	179	44.4	6.0	105	26.1	3.5
1952/3	118	29.4	4.2	171	42.5	6.0	113	28.1	4.0
1951/2	62	16.8	2.0	168	45.5	5.5	139	37.7	4.6
1950/51	54	18.5	1.8	148	50.7	5.0	90	30.8	3.0
1949/50	42	15.9	1.7	134	50.8	5.4	88	33.3	3.5

Note: Direct taxes include earnings and profits tax and estate duty. Indirect taxes include import and excise duties, bets and sweeps tax, entertainments tax, stamp duty, hotel accommodation tax, royalties and concessions, motor vehicle tax and rates. Non-tax revenue includes income from property and entrepreneurship, loan repayments, fines and forfeitures, licences and fees, etc.

Source: Accountant General, *Annual Departmental Report* (Government Printer, Hong Kong), various years.

TABLE 24

Recurrent and Capital Revenue from Land and Buildings
(In current HK\$ million)

	Recurrent		Capital		(b) + (d) %
	\$m (a)	As % of TGR (b)	\$m (c)	As % of TGR (d)	
1947-48	15.7	9.6	9.1	5.5	15.1
1948-49	23.2	11.9	5.9	3.0	14.9
1949-50	30.6	11.6	4.8	1.8	13.4
1950-51	43.3	14.8	6.0	2.1	16.9
1951-52	48.2	15.6	4.6	1.5	17.1
1952-53	53.4	13.9	11.1	2.9	16.8
1953-54	59.6	15.0	11.7	2.9	17.9
1954-55	62.6	14.4	20.7	4.8	19.2
1955-56	76.2	16.8	24.8	5.5	22.3
1956-57	85.4	16.8	24.9	4.9	21.7
1957-58	97.3	16.7	40.3	6.9	23.6
1958-59	102.5	16.3	42.4	6.7	23.0
1959-60	114.8	17.3	34.9	5.3	22.6
1960-61	140.0	16.3	83.5	9.7	26.0
1961-62	176.3	17.1	120.7	11.7	28.8
1962-63	187.0	14.9	238.5	19.0	33.9
1963-64	212.9	15.3	230.5	16.5	31.8
1964-65	240.3	15.8	175.2	11.5	27.3
1965-66	317.1	19.4	107.4	6.6	26.0
1966-67	347.1	19.1	82.0	4.5	23.6
1967-68	382.8	20.2	65.4	3.4	23.6
1968-69	397.5	19.1	67.2	3.2	22.3
1969-70	420.6	17.0	152.5	6.1	23.1
1970-71	450.8	14.7	320.6	10.4	25.1
1971-72	498.0	14.1	328.2	9.3	23.4
1972-73	534.6	10.8	788.1	16.0	26.8
1973-74	782.7	14.7	453.7	8.5	23.2
1974-75	884.5	14.9	372.7	6.3	21.2
1975-76	1,051.7	15.5	478.5	7.0	22.5
1976-77	1,254.8	16.1	760.1	9.8	25.9
1977-78	1,459.5	13.7	2,111.8	19.9	33.6
1978-79	1,599.5	12.3	2,492.9	19.2	31.5
1979-80	1,816.0	10.5	3,429.2	19.8	30.3
1980-81	2,034.7	6.6	11,773.6	38.2	44.8
1981-82	2,647.4	7.6	10,995.8	31.5	39.1
1982-83	2,746.3	8.5	5,885.9	18.3	26.8
1983-84	3,194.6	10.1	2,871.4	9.1	19.2
1984-85	3,661.5	9.7	4,836.0	12.8	22.5

Notes: TGR: Total government revenue (consisting of total revenue in the General Revenue Account and revenue of the Urban Council, with transactions between the two eliminated; the various funds, such as the Development Loan Fund, are not included).

Recurrent revenue consists of rates, the Property Tax, Crown rent, and a few minor items such as rents for use of bathing beaches and temporary use of Crown land.

Capital revenue consists mainly of revenue from land sales, modifications of lease conditions, and to a small extent stamp duty on conveyances of land or land and buildings.

Sources: Director of Accounting Services, Annual Reports.
Commissioner of Inland Revenue, Annual Reports.
Commissioner of Rating and Valuation, Annual Reports.
Urban Council, Annual Reports.

to generate considerable money that was used to finance the number of programs and policies we have pointed out as being at the basis of economic growth.⁶⁹ Since the highest real estate prices were paid to the government by large corporations, private developers, and international business firms, while public housing and industrial estates received subsidized land, we can consider that land policy in Hong Kong has actually played a redistributive role, becoming in fact a form of taxation for the upper tier of businesses and for the middle class living in private housing, and providing a substantial share of the funds used for social programs and industrial infrastructure. While low income tax and the absence of taxes on capital gains make Hong Kong attractive for capital investment, the price corporations and the professional class have to pay for locating in Hong Kong, through an inflated real estate market, provides the government with the necessary revenue without having to resort to budget deficits that could destabilize manufacturing prices, undermining the competitiveness of Hong Kong's firms. It is this original mechanism of government's appropriation of a substantial share of the wealth generated in Hong Kong through its control of a major production factor (land) that explains to a great extent the apparent mystery of a balanced budget financing increasing government expenditures while keeping taxes low. And one of the elements that have revalued land to the point of dramatically increased government revenue has been the transformation of Hong Kong into a major international financial and business center during the 1970s.

The Second Stage: Hong Kong as an International Finance and Business Center

The second stage of Hong Kong's economic development started around 1969-70 with its gradual transformation into a major international financial center, today the fourth largest in the world, after New York, London, and Tokyo.⁷⁰ The volume of financial trade has reached phenomenal proportions in the 1980s. Although there are no official statistics, given the level of secrecy that characterizes banking in Hong Kong, the leading scholar on Hong Kong's finance, Y. C. Jao, estimates that average turnover per working day of spot deals in 1982 was about US\$2 billion.⁷¹ Table 25 shows the spectacular increase in banks' liabilities and assets between 1970 and 1982. The contribution of the financial services sector (including finance, insurance, real estate and business services) to gross domestic product increased from 14.9 percent in 1970 to 25.9 percent in 1980, while employment in the sector increased its share from 3.3 percent in 1976 to 6.4 percent in 1986.. The major reason for such spectacular development is the total flexibility, indeed absolute lack of control for many years, of Hong Kong's financial markets. In an interdependent and unstable world economy, it is crucial to have a place where financial institutions are able to process capital flows instantly and without control at the global level. Hong Kong is such a place.

However, success in this particular kind of business comes at a price. The growth of the financial sector in Hong Kong has been disorderly and, to a large extent, disruptive. In 1970, only two merchant international banks started operations in Hong Kong, both to work on its

TABLE 25

Consolidated Balance Sheet of Licensed Banks for Selected Years*
(HK\$ million)

	1970	1973	1976	1979	1982
Liabilities:					
Deposits	14,955	26,191	44,030	88,014	190,259
Amount due to banks abroad	2,212	8,911	27,598	73,685	232,854
Other liabilities	2,818	5,148	8,170	24,159	173,475
Total	19,985	40,250	79,798	185,858	596,588
Assets:					
Cash	256	574	794	1,495	2,474
Amount due from banks abroad	7,099	10,201	25,749	66,435	195,644
Loans and advances:					
within Hong Kong	9,271	21,578	29,480	73,690	163,940
outside Hong Kong	399	1,685	13,255	20,778	44,760
Other assets	2,860	6,212	7,520	23,460	189,770
Total	19,985	40,250	79,798	185,858	596,588

*at year end

Source: Hong Kong Monthly Digest of Statistics
compiled by Jao, 1983.

profitable stock market and to use it as a basis for the Pacific Region. By 1973 there were 2,000 merchant banks and finance companies competing in the stock market. After the collapse of the stock market in 1973-74, under the combined effect of the world crisis and of speculative maneuvering, the government passed in 1976 a Deposit Taking Companies Ordinance to regulate the activities of all financial institutions that were not licensed banks. The ordinance established a three-tier system, with a distinction between licensed banks, licensed Deposit Taking Companies, and registered Deposit Taking Companies, that limited the amount of operations available to the latter. In fact, the system gave the licensed banks the control of the market, since they can operate through Deposit Taking Companies under their control. It became clear that banks, and not just Deposit Taking Companies, were operating with highly speculative goals. Hong Kong's financial system actually seems to be built around risky speculative operations, either international or local, that cannot be easily undertaken in other contexts.

Basically, two trends appear to underlie Hong Kong's financial instability:

1. The main role of Hong Kong as a financial center has been its specialization in off-shore banking, taking advantage of the absence of exchange control and of the excellent global communications network available. Most foreign banks use their Hong Kong branches to place loans they receive from their headquarters in short-term profitable investments, mainly in the Euro-dollar and Asian-dollar markets.
2. Bank loans in Hong Kong were diverted from the late 1970s onwards, from productive industrial and commercial investments to speculative investment, particularly in real estate, to take advantage of the property boom, as Table 26 shows. Thus, while manufacturing accounted for 19.2 percent of all bank loans in 1970, its share went down to 10.5 percent in 1982, while the equivalent proportions for building and construction increased from 6.7 percent to 26.4 percent. Similar trends can be observed for Deposit Taking Companies' Loans and Advances, with an increasing role of construction and building, as well as of loans to individuals.⁷²

Several negative consequences for the Hong Kong economy follow from such developments. On the one hand, the overheating of the economy under the stress of such monetary and financial inflow, as well as under the effect of the real estate boom triggered by speculative investment, contributed considerably to a high rate of inflation, destabilizing for the first time the price basis of Hong Kong's competitiveness in manufacturing exports. The inflation rate jumped from 5.8 percent in 1978 to 11.9 percent in 1979, 15.1 percent in 1980, and 14.9 percent in 1981, to be reduced in 1982 to 10.6 percent under the effects of an economic recession that lowered the rate of growth to 2.4 percent.⁷³

Second, the increasing deficit in the current balance, high inflation, a government deficit in 1983, and the instability of the stock market undermined the credibility of the Hong Kong dollar, which

TABLE 26

Bank Loans and Advances by Sectors For Selected Years* (HK\$ Million)

Sectors	1970	1973	1976	1979	1982
Manufacturing	1,860 (19.2)	2,423 (10.4)	3,769 (12.8)	8,540 (13.7)	14,439 (10.5)
Agriculture and Fisheries	16 (0.2)	10 (0)	23 (0)	58 (0)	119 (0.1)
Transport and Transport Equipment	1,136 (11.7)	3,035 (13.0)	2,092 (7.1)	5,112 (8.2)	10,509 (7.7)
Electricity, Gas and Telephone	100 (1.0)	273 (1.2)	71 (0.2)	311 (0.5)	2,242 (1.6)
Building and Construction	649 (6.7)	1,572 (6.8)	2,275 (7.7)	7,299 (11.7)	36,192 (26.4)
General Commerce	3,474 (35.9)	6,957 (29.9)	10,338 (35.1)	19,695 (31.7)	17,711 (12.9)
Mining and Quarrying	1 (0)	21 (0)	8 (0)	87 (0.1)	211 (0.2)
Miscellaneous					
a. Hotels and Catering	106 (1.1)	346 (1.5)	440 (1.5)	450 (0.7)	1,198 (0.9)
b. Financial Concerns	374 (3.9)	1,359 (5.8)	2,579 (8.7)	2,239 (3.6)	8,975 (6.5)
c. Stockbrokers	143 (1.5)	503 (2.2)	550 (1.9)	692 (1.1)	1,893 (1.4)
d. Individuals	1,367 (14.1)	4,320 (18.6)	5,318 (18.0)	12,872 (20.7)	25,754 (18.8)
e. Others	443 (4.6)	2,444 (10.5)	2,017 (6.8)	4,872 (7.8)	17,876 (13.0)
Total	9,670	23,263	29,480	62,227	137,118

: At year end

Source: Hong Kong Monthly Digest of Statistics
compiled by Jao, 1983.

depreciated by about 20 percent against a pool of foreign currencies between 1978 and 1982.⁷⁴ Although such depreciation improved the competitiveness of exports in the short run, it threatened confidence in the stability of the currency, therefore jeopardizing non-speculative investment prospects in the Territory.

Third, and most importantly, the instability of the financial system triggered a series of financial crises in the 1980s that threatened the credibility of Hong Kong's financial institutions.⁷⁵ The first of such crises appeared to have been triggered by political uncertainty in the relationships with China in the 1982-83 negotiating period. Thus, in September 1983, the government, through its Exchange Fund, was compelled to nationalize the Hang Lung Bank, which had run out of liquidity, partly as a consequence of its failing investments in the real estate market collapse. One month later, the government had to arrange the rescue of another bank, the Sun Hung Kai Bank, by an injection of funds from Paribas and Merrill Lynch. However, the proof that financial instability was not the direct result of political uncertainty came when, in the middle of the euphoria after the Sino-British Agreement, the government had to nationalize another bank. At the same time, the Overseas Trust Bank declared itself insolvent in June 1985 after unsuccessful speculative maneuvering. Also in 1985, the Bank of China, under solicitation from the Hong Kong government, came to the rescue of still another major bank in trouble, the Kah Wah Bank.

The events of 1982-85 showed the fragility of Hong Kong's uncontrolled financial markets and their threat to monetary stability (the Hong Kong dollar collapsed on Black Saturday, September 24, 1983). In an attempt to restore confidence, the government stepped in with two major regulatory measures: it linked the Hong Kong dollar to the U.S. dollar at a fixed rate (US\$1= HK\$7.8) in October 1983, with a currency stabilization program that included systematic intervention of the Exchange Fund in support of the HK dollar. After the financial crash of the Ka Wah Bank in 1985, the government issued a new Banking Ordinance in 1986, regulating banking operations in Hong Kong under stricter conditions (see below).

However, observers still doubt that the new regulatory environment will be able to solve what appears to be the basic contradiction of Hong Kong's financial system. This system prospers on the basis of almost unrestricted movements of capital, escaping the regulations that are necessary in other major financial markets dependent on much heavier institutional and political constraints. If Hong Kong becomes as regulated as such markets, it loses its competitive advantage. On the other hand, the lack of regulation in an open economy without exchange control generates a highly speculative environment that is extremely vulnerable to crises. A middle point between the two extremes is the optimum position, a thin line that the Hong Kong government has been trying to walk for years. But given the lack of information and controls, it is easier to formulate such policy than to implement it.

The most potentially damaging consequence of such financial instability for the Hong Kong economy is that in the last decade, some of the basic conditions that made possible Hong Kong's competitiveness in manufacturing exports have eroded: price stability, productive

investment, abundant supply of labor, reliability of the currency, and availability of land and urban services. Financial and business services now account for more than a quarter of Hong Kong's gross domestic product, while providing only 6.4 percent of the jobs, increasingly disassociating capital and labor in terms of the economic structure of the Territory. The growing contradiction between the international financial role and the export-oriented manufacturing function of Hong Kong is one of the major elements underlying the process of fundamental economic restructuring that Hong Kong is undergoing at the present time.

The Third Stage: The Economic Restructuring of Hong Kong in the 1980s

In the early 1980s Hong Kong's economy entered a period of major uncertainty, actually jeopardizing the future of the territory.⁷⁶ Several interrelated factors altogether generated a structural crisis of the Hong Kong model.

First, manufacturing exports were threatened as a result of both external and domestic factors. Internationally, the calls for protectionism in OECD countries, and subsequent restrictive trade legislation clearly required a new export policy, based more on value than on volume, and aimed at diversification in the product lines. At the same time, Korea, Taiwan, and Singapore were overtaking Hong Kong in some markets in terms of quality as well as price. Hong Kong's cost structure, which we showed to be one of the bases for its competitiveness, was deteriorating as a cumulative result of rising labor costs, skyrocketing real estate prices, and the ensuing inflationary process, with its peak in the 1979-81 period. Manufacturers needed to respond to such challenges by increasing their productivity and enhancing the quality of their products, but both objectives required more skilled labor and technical personnel, a crucial element in the new stage of international competition. But Hong Kong had not invested in education, vocational training, and R&D to the same extent as South Korea and Taiwan, thus undermining its capacity to reach a higher industrial level, while losing its advantage in the low end of manufacturing because of rising costs.

Second, financial and real estate speculation triggered inflation, destabilizing the Hong Kong dollar, which dropped to HK\$8 per US\$1 in 1983, at the worst moment of the crisis, forcing the government to intervene to stabilize the currency. One of the key elements of the stability required for continuing investment in manufacturing was being eroded. Speculative movements in real estate led to a collapse of real estate prices in 1982, reducing government revenues from land sales, and forcing government budgets into deficit for the first time, in 1983-85. Thus, as Yao suggests in his analysis, there were three different but closely connected crises in the early 1980s: a financial crisis, a fiscal crisis, and a currency crisis.⁷⁷ To which we add the beginning of a crisis in exports' competitiveness, partly a consequence of the price instability generated by the movements of financial capital.

Third, this economic crisis took place against a background of political uncertainty that clearly contributed to exacerbate instability, particularly in the capital markets, and made the implementation of

corrective policies by the government difficult in a context where the key political equation, Hong Kong's institutional future, was unsolved.⁷⁸ Statements by the Chinese leadership in 1982 concerning the possibility that China could assume its sovereignty over Hong Kong before 1997 created an atmosphere of potential crisis that had repercussions in Hong Kong's sensitive economic scene. It became clear that the 1997 issue had to be reckoned with, long before the deadline, if Hong Kong was to reach beyond its fragile status as "a borrowed place, a borrowed time."⁷⁹

On the positive side, the Open Door Policy practiced by China since 1979 quickly restored and enhanced Hong Kong's traditional role as an entrepot economy. Re-exports to and from China boomed: China became the first trade partner for Hong Kong, most of the capital flows and technology transfer from the West to China went through Hong Kong, and Hong Kong investment accounted for over two-thirds of total foreign investment in China in the 1979-85 period. In addition, Chinese investment in Hong Kong reached unprecedented levels in all sectors of economic activity,⁸⁰ giving Beijing a major interest in ensuring the prosperity of the Territory. Nonetheless, this new entrepot economy, a potential source of dramatic economic growth could only blossom on the condition of a political settlement with the Beijing government about the future status of Hong Kong, a condition that takes us full circle to the direct connection between the processes of political negotiation and economic restructuring of Hong Kong in the 1980s.

The combination of these critical factors provoked a situation of near panic in Hong Kong's business circles, particularly in 1983, with a series of banking failures, the most noticeable of which we mentioned in our preceding section. Although official data are unavailable, given financial secrecy in Hong Kong, it appears that there was significant capital flight from the colony. Some major corporations relocated their headquarters outside Hong Kong, the most spectacular move being that of the legendary trading company Jardine Matheson to the Bahamas, while still maintaining its investments in Hong Kong. A great number of entrepreneurs and professionals made provisions to leave Hong Kong or actually left with their families. It is estimated that between 1980 and 1985 about 100,000 households (the overwhelming majority of which are of upper-income level) have left Hong Kong, and many thousands more have acquired residence outside Hong Kong. Table 27 shows the negative impact of political and financial instability on the performance of the economy, with a sluggish growth rate (by Hong Kong standards) in 1982 and 1983, and even a negative variation in gross domestic product per capita in 1985 (-0.5 percent), although in the latter year the decline of the activity in the core economies was also a factor in the slump.

However, if anything, the crisis of the early 1980s proved the resilience of the Hong Kong economy and revealed the extent and decisive role of government intervention in the economy. With its very existence as an international industrial and business center at stake, Hong Kong embarked on a bold process of economic restructuring and political reform, spearheaded by the government in close consultation with business circles.

The Sino-British Agreement of September 1984 set up the basis for a new institutional environment concerning the future of Hong Kong. The

TABLE 27

Expenditure on the Gross Domestic Product

	<i>At current market prices</i>				<i>At constant (1980) market prices</i>			
	<i>Total GDP</i>		<i>Per capita GDP</i>		<i>Total GDP</i>		<i>Per capita GDP</i>	
	<i>\$ million</i>	<i>% change on previous year</i>	<i>\$</i>	<i>% change on previous year</i>	<i>\$ million</i>	<i>% change on previous year</i>	<i>\$</i>	<i>% change on previous year</i>
1980	137,081	28.1	27,075	23.4	137,081	10.9	27,075	6.8
1981	164,973	20.3	31,827	17.6	149,987	9.4	28,936	6.9
1982	186,328	12.9	35,393	11.2	154,512	3.0	29,350	1.4
1983	207,562	11.4	38,832	9.7	164,550	6.5	30,785	4.9
1984	248,728	19.8	46,079	18.7	180,149	9.5	33,374	8.4
1985*	263,579	6.0	48,308	4.8	181,200	0.6	33,210	-0.5
1986†	291,897	10.7	52,759	9.2	196,984	8.7	35,604	7.2
Average annual growth rate 1980-86		13.4		11.8		6.2		4.7

* provisional estimates

† preliminary estimates

autonomous status assured to the territory for 50 years after 1997, with the preservation of its capitalist economic system, and the recognition of its right to political-administrative autonomy within the national boundaries of the Chinese State, provided the framework for long-term investment plans and the development of new economic strategies. Confidence among major investors was quickly restored, even if entrepreneurs, as individuals, took measures to assure themselves the possibility of leaving Hong Kong if future events turned the situation sour. It must be said that much of the confidence, indeed business euphoria, that followed the Agreement (surprising most international observers) came less from the formality of the Agreement itself than from the positive judgment about political evolution in China. The determination with which modernization policy was implemented, and the coincidence of both reformers and conservatives in the international economic dimension of the Open Door Policy, seemed to indicate that the role of Hong Kong would be crucial in the new development strategy of China. Furthermore, respect to the Agreement would be a major test for the credibility of China as a partner in the world economy, thus assuring a reasonable degree of stability for a period of time long enough to realize substantial profits from/in Hong Kong.

This process of restructuring was undertaken by both the government and the private sector, with other important initiatives originating from the Chinese government and from multinational capital. Together, these forces have transformed Hong Kong, again, into the most dynamic economy in the world, with 11 percent real gross domestic product growth in 1986, a projected 12 percent growth rate in 1987, 7 percent real increase in manufacturing wages in 1986-87, and full employment. Foremost among the sources of new economic policies have been a series of related government policies, on at least four different fronts: industrial policy, financial and monetary regulation, investment in economic infrastructure, and a renewed, deeper commitment to social programs.⁸¹

The new industrial policy, put into practice as of 1984, basically contained most of the recommendations of the Report on Industrial Diversification elaborated in 1979. It focused on providing the conditions for renewed competitiveness for the manufacturing industries with emphasis on industrial development services, manpower training, and public support to R&D and high technology development.⁸² The resources of the Hong Kong Productivity Council have been vastly expanded to provide services for technological development and productivity enhancement to manufacturers, particularly in the area of CAD/CAM and precision machining. The new services include an industrial extension program to reach out to small companies in the industrial areas. To help upgrade manufacturing quality, the government also established laboratory accreditation services in the Industry Department and provided information and equipment for quality control at international standards. Two Industrial Estates were developed in the New Towns to provide cheap land and basic facilities to manufacturing companies, and a third was in the planning stage in 1987. A series of targeted programs of manpower training were launched, under a newly established Vocational Training Council. In the words of Hong Kong's governor, Sir David Wilson, in 1987:

A number of new initiatives are being taken to assist industry through the valuable work of the Industry Development Board. These result from careful and detailed studies of the needs of particular industries which cannot be filled by the industry itself.⁸³

Particular emphasis has been given to industrial R&D, and to the development of Hong Kong's university system, with the creation of a new University of Science and Technology and the financing by the government of a number of industrial R&D centers, particularly in the Hong Kong Polytechnic. Also, in 1987, the government appointed a Committee on Science and Technology to advise and plan the industrial application of technological know-how. In the Governor's terms: "A great deal is now being done to help our industry meet the growing challenge of competition in overseas markets."⁸⁴

Nevertheless, enhancing industrial competitiveness cannot be effective in a context of potential inflation and financial instability. This is why, after the series of financial scandals and speculative movements that we have described in the preceding section, the government stepped into the financial markets, both in terms of specific interventions and of tightening the regulatory framework. The new Banking Ordinance was approved in May 1986 by the Legislative Council, after extensive consultation with the financial community. It considerably reinforced the powers of the Commissioner of Banking, particularly requiring his approval for anyone to acquire more than 10 percent of voting rights in an authorized financial institution. Also, all institutions are required to maintain a minimum capital adequacy ratio on their risk assets at a minimum level of 5 percent that can be raised by the commissioner, at his discretion, to 8 percent for banks and 10 percent for Deposit Taking Companies. In addition, in June 1987 the government, in a major and significant regulatory move in the Hong Kong environment, published a draft bill for consultation on disclosure of share holdings, requiring public knowledge of shareholdings in listed companies, in order to prevent or to trace speculative maneuvers. Legislation to punish insider dealing was also in the process of elaboration. Thus, while trying to keep Hong Kong's financial structure as flexible as possible, the government seems to have set the limits of such flexibility at a threshold considered to be damaging to the overall economic equilibrium.

Concerning industrial and business infrastructure, the government has embarked on an ambitious program, going beyond 1997, that includes the expansion of the container port; the building of a new airport, probably on an island across the harbor, which implies the building of a major bridge or tunnel; the construction of a new, third industrial estate; the development of a new transportation network, both in the urban areas and in the New Territories; the building of a light rail transit system in the New Territories; the construction of new transport linkages with China via railways, highway, and ferry; and a new, massive land reclamation program in the urban area, particularly in Victoria Harbour, to provide land for the expansion of the Central Business District. Altogether, this gigantic program amounts to the rebuilding of the productive infrastructure of Hong Kong, in line with the strategy of upgrading the technological level of

its industry and the directional capacity of its business offices, while pumping a tremendous influx of investment and capital formation into the local economy.

Last, but not least, the Hong Kong government appears to be maintaining and even increasing commitment to social programs, as can be observed from the evolution of its expenditures, shown in Table 21. Some of these investments are part of the overall strategy concerning the reskilling of human capital, particularly in the educational field, in which in 1987 there was 100 percent provision of free places up to "Form 3," namely up to the age of 15. A major extension of technical education, industrial training, and university enrollment was on its way during the late 1980s. Health, social services, and housing budgets were also expanded, and seem related to the purpose of ensuring social peace and reinforcing political legitimacy during a transition period characterized by the gradual democratization of Hong Kong and by the growing role of public opinion in shaping government's policy, as we will analyze in the next chapter.

The financing of such a bold new developmental process was carried on in the traditional manner: by taking advantage of the high growth rates and of renewed land sales at high prices, particularly from reclaimed land, linked to the new flow of international capital pouring into Hong Kong after the stabilization of the situation and the opening up of the China connection. A number of excise duties, mainly connected to travel and trade, also were significantly increased. The reserves accumulated in the Exchange Fund were also called to the rescue when the budget came into deficit in 1982-85, and, although its amount is kept secret, it is believed that they are substantial, thus enabling the Hong Kong government some leeway in terms of investments considered of absolute priority, such as that concerning the container port. In sum, it seems that there is a sufficient fiscal basis to sustain a major process of government-led restructuring aimed at restoring Hong Kong's industrial competitiveness at a higher level of technological and economic power, while reclaiming its traditional role as an entrepot economy with China and embracing all dimensions of the linkages between China and the world economy. The government's industrial, regulatory, and social policy seem to be at the roots of Hong Kong's new economic vitality.

However, as one could expect, Hong Kong's industrialists did not wait for the government's new industrial policy to undertake their own restructuring. The two processes reinforce each other, resulting in a major transformation of the economy for years to come.

Hong Kong's manufacturers made three major moves in the 1980s:

1. They introduced new machinery, particularly automated equipment, and upgraded the product quality. The trend was particularly clear in the garment industry, but it also reached electronics. For instance, in 1987 there were six locally-owned semiconductor firms in Hong Kong, and two of them (Elcap and RCL) have wafer manufacturing capabilities. Another firm, Hua Ko, owned by PRC capital, also has chip design capability.⁸⁵ Foreign-owned electronics firms, particularly U.S. firms, also upgraded their

Hong Kong branches, so that Hong Kong was becoming one of the medium-level technological centers in East Asia, decentralizing unskilled production to cheaper locations (Philippines, Malaysia, Thailand, and, increasingly, China). With renewed investment by the Hong Kong government in engineering training and R&D programs, it is clear that Hong Kong's industry has embarked on a policy of upgrading both its processes and its products.

However, this is not taking place outside the five major industrial sectors that have traditionally constituted Hong Kong's exporting structure: textile, garment, plastics, toys, and electronics. Instead, change is taking place within the existing industrial sectors. For instance, in the garment industry, Hong Kong has invested heavily in design; it has now become an international fashion center with exhibits in Paris, Tokyo, and New York. This new industrial strategy requires a substantial reskilling of the labor force, and in this sense government-induced programs, as described, are a must for the success of the overall process.

2. The second major trend that has been emerging in the 1980s is increasing direct investment by Hong Kong firms in other countries, both in the East Asian region and in the OECD countries. It is difficult to estimate the proportions of the phenomenon, since there is no control of capital outflow in Hong Kong, and therefore no official statistics on the matter. However, Edward Chen has been able to provide an approximate estimate for the level of Hong Kong's Foreign Direct Investment in 1981.⁸⁶ It amounted to US\$1,820 million, with the following breakdown (in millions): 400 in Indonesia; 130 in Malaysia; 280 in Taiwan; 280 in China; 230 in Singapore; and 500 in "others," mainly the U.K., U.S.A., Switzerland, Canada, India, Pakistan, Sri Lanka, the Philippines, and Thailand. Most of the investment is in manufacturing, although banking, construction, tourism, and trade are also present. Most of the manufacturing investment seems to have taken place in the textile and garment industries. The main reason for such a move on the part of Hong Kong firms does not seem related to fears about the future of the Territory, but to strategies to bypass protectionist measures. Thus, by diversifying investment among different developing countries, they take advantage of different export quotas, and also make the closing of core markets politically more difficult, since any effective measure would have to affect all countries, and not just the Asian newly industrializing countries. Thus, it appears that by the mid-1980s Hong Kong's industrialists had become the dominant force in textile and garment throughout Southeast Asia, through a number of subsidiaries and joint ventures.

In addition, a number of direct investments were aimed at the United States, Canada, and Western Europe. Although precise data are scarce on the matter, in our interviews in Hong Kong in 1987, the fact appeared repeatedly that major textile firms in Hong Kong have taken a strong foothold in the EEC, particularly in Portugal, Ireland, and England, reviving ailing textile

industries in these countries, in order to penetrate markets that could be threatened by protectionist measures in the near future.

3. The response by Hong Kong industrialists to rising labor costs has been to massively decentralize production across the border to China, mainly in the Pearl River Delta region. According to a Hang Seng Bank Report of April 1987,⁸⁷ there were in the Guangdong Province alone about 2,000 manufacturing establishments with Hong Kong interests, either of equity or cooperative joint ventures, or wholly-owned enterprises. In addition, 8,300 factories had to that date concluded 60,000 subcontracting and processing arrangements with Hong Kong firms. Total employment, direct and indirect, generated in Guangdong Province by manufacturing subcontracting from Hong Kong is estimated to reach about one million workers. The system operates as follows: Hong Kong companies receive the orders for final products; then they send the molds, the raw materials, and manufacturing instructions for production to their China subsidiaries. Finished or semifinished products are transported back to Hong Kong by truck for re-exporting or final processing. As an expression of this subcontracting process, domestic exports of raw materials from Hong Kong to China reached HK\$5.3 billion in 1986, a figure 97 times higher than in 1978. Total tonnage of commercial cargoes by road between Hong Kong and China increased by an average annual rate of 52 percent between 1980 and 1986, while all other modes of transport for commercial trade increased at only 12 percent per year. Although textile and clothing subcontracting is substantial, the same trend appears to be developing in electronics, watches and clocks, handbags and shoes, toys, and plastics. Thus, by developing their original subcontracting and networking system on a gigantic scale, Hong Kong manufacturing firms are tapping an unlimited pool of cheap labor, thus potentially outperforming their competitors in the world market through a combination of quality work in Hong Kong, low production costs in China, and exporting networks worldwide, the whole system working in a flexible manner through variable contracting arrangements. In the process, however, Hong Kong's original manufacturing basis is being transformed.

Along with government policy and manufacturers' initiatives, a third major factor is contributing to the restructuring of Hong Kong's economy in the 1980s. This is the dramatic intensification of commercial, financial, and industrial exchanges with China leading to the re-emergence of Hong Kong as an entrepot economy at the very precise moment that China is opening to the West and when companies and capital from all over the world are pouring into China, positioning themselves in the potential one-billion-people market of the future. Most of this process takes place through Hong Kong. In addition to the explosion of re-exports, linked to processing arrangements, annual average growth for domestic exports from Hong Kong to China between 1978 and 1986 was a staggering 96 percent, with retained imports from China growing at 20 percent per year. Also, 30 percent of China's exports are being transhipped through the Hong Kong port. Hong Kong also benefits from invisible earnings through financial

services, tourism, and money transfers. In addition, Hong Kong's direct investment in China is by far the most important foreign investment in that country, accounting, in 1987, for 6,600 out of 7,800 foreign companies located in China, for a total equivalent to US\$4.8 billion, equal to about 65 percent of all foreign investment in China.⁸⁸

China also invested heavily in Hong Kong during the last decade, being currently the third largest investor in the territory after the U.S. and Japan. The Bank of China group in Hong Kong has posted growth rates of 42 percent in assets and 51 percent in deposits in 1986, far above Hong Kong's financial sector increases in what was considered a very good year. China has also invested in manufacturing, with 35 plants fully owned, with a total value of HK\$2.4 billion. Through these plants, as well as through a number of industrial participations, China assures itself valuable technology transfer and industrial supplies for the Mainland factories. China is also a major presence in the construction and public works sector, as well as in real estate.⁸⁹ As a matter of fact, the last New Town being built in Hong Kong (Tin Sui Wai) owes its existence to the desire of the Hong Kong government to protect the investment made by a PRC consortium that risked failure unless the government went ahead with a project that otherwise did not make much sense in terms of the development process.

The revival of the entrepot economy at a higher level, and the interest companies around the world took in establishing economic relationships with China were the main factors behind the massive inflow of foreign capital to Hong Kong in 1986 and 1987. Ironically, the announcement of the end of British sovereignty over Hong Kong has been highly beneficial for the interest of international business in Hong Kong. Betting on the possibility of entering China with Hong Kong, or finding a better business environment in Hong Kong from which operations in China can be gradually organized, American, Japanese, and European companies were considerably reinforcing their Hong Kong presence in the late 1980s, particularly in the finance, business services, and corporate branch sectors. A renewed boom in the real estate market followed that prompted the government to get back into the profitable business of land development by initiating reclamation projects around the Harbour area.⁹⁰

Government industrial policies, Hong Kong entrepreneurs' daring strategies, the booming new entrepot economy, and the attraction of such movements for international business led during the second half of the 1980s to a fundamental restructuring of the Hong Kong economy. This restructuring posted new dramatic rates of growth in a more diversified economic structure, although it risked triggering inflation and had to cope with the uncertainty related to the shaky state of the world economy.

Hong Kong's economic vitality seems to have succeeded in transforming again the "barren island" into an engine of growth, taking a new position in the world economy. Yet, it is a different Hong Kong that is emerging from the restructuring process, increasingly less centered on manufacturing (Table 28), and gradually aiming at reinforcing its role as an industrial, technological, and financial service center, and at becoming the international hub for the new, fundamental connection between

provision of foodstuffs and raw materials was an important factor for keeping prices and wages down.

However, government intervention in the economy appears to have been decisive in contributing to industrial competitiveness, monetary stability, social peace, and low production costs. Main government instruments to achieve these objectives were a comprehensive system of social wage, with education and housing being its foremost components; industrial policy geared toward supporting small and medium businesses; and a balanced, yet expansionary, budget, based on revenues obtained in a high proportion from non-tax sources, of which land sales, using government's monopoly of land, were the most important element. An elaborate system of partnership institutions between government and business assured the steering of the process on a day-to-day basis, allying pragmatic decision-making and government leadership in an open system whose rapid expansion increased the positive feedback effects on revenue generation and improved provision of industrial and social infrastructure. Figure 8 schematically represents the main relationships between the elements of the model.

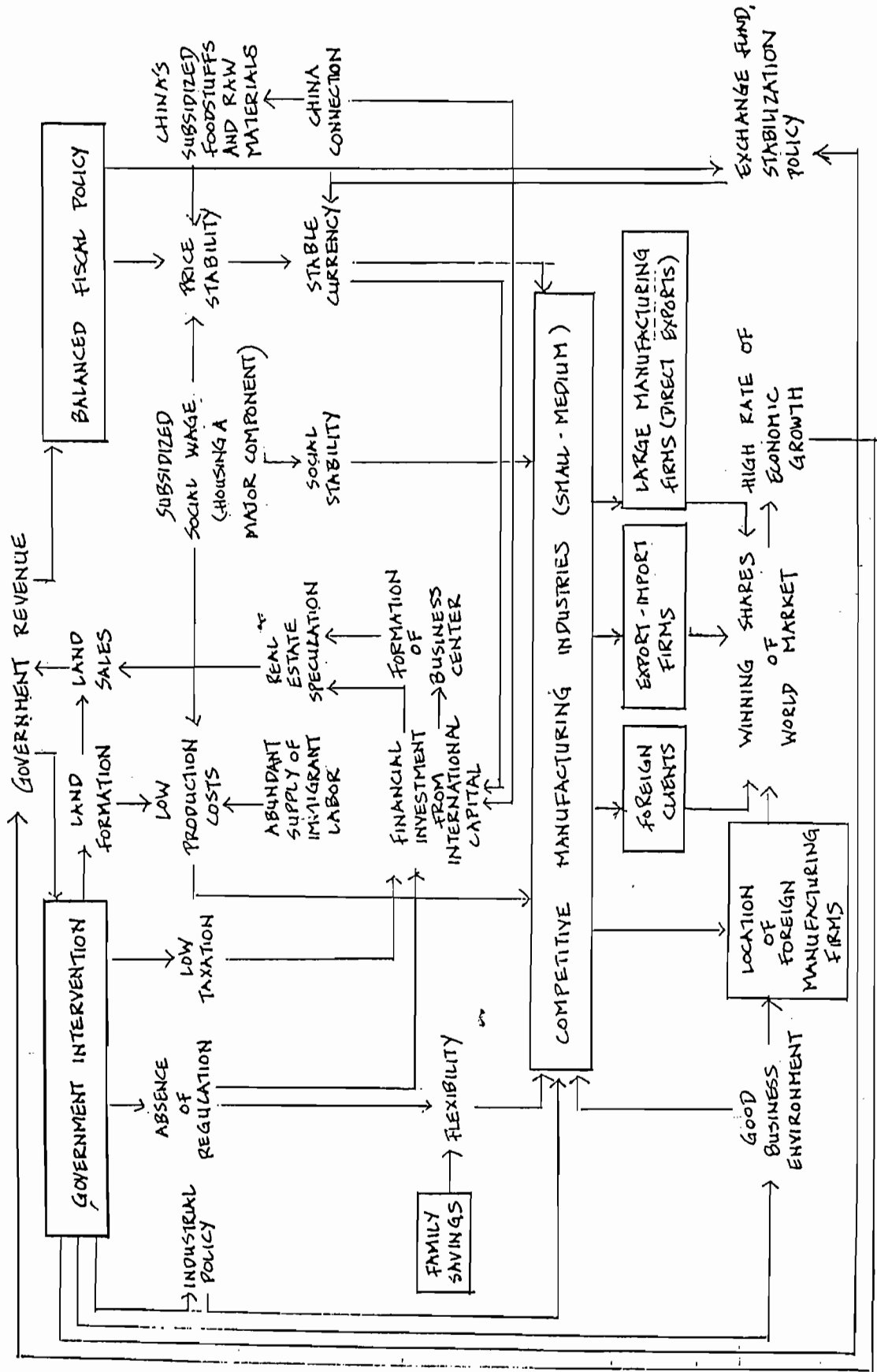
Combining our findings on the evolution of housing policy and on the process of economic growth, as presented in Chapters I and II of this section, we can now suggest the role played by housing policy in the Hong Kong model of economic development.

Interestingly enough it does not seem that housing policy has been used in Hong Kong as a regulatory, anti-cyclical device to stimulate the economy during a slump, unlike the experience in most advanced capitalist economies (slumps have been rare events in Hong Kong). In any case, the key to the relationship between housing policy and economic growth in Hong Kong has to be looked for in the production sphere, rather than in the circulation process.

The first major effect of the public housing program could in fact be considered to be part of an industrial policy, since it consisted of clearing land from squatter settlements to provide room for manufacturing development. At its origins, the public-housing program was more geared towards land clearance than towards the provision of housing for the needy. The effect of such housing-based land policy on small and medium manufacturing industries can be observed at different levels: (1) in terms of the availability of cleared land for industrial location, particularly in the urban areas where small business prefers to locate; (2) in terms of the relocation of small businesses which existed in the squatter settlements that were cleared, and in multistory factory programs built and managed, at subsidized rents, by the Housing Authority (although the program only concerned displaced firms, and was terminated in 1983 because of insufficient demand). Throughout its life, between 1957 and 1983, it provided 18,100 factory units, of which 9,000, rented to 3,406 operators, were already in existence in 1977;⁹¹ and (3) a third effect concerns the indirect impact of the housing program on prices and rents of land and built premises in the urban areas. By increasing available land, and by decreasing the pressure in the housing markets, public land clearance and public housing released to some extent the potential level of rents for manufacturing business in the private market, particularly in the old housing stock that was under rent control, enabling many small

FIGURE 8

THE STRUCTURE AND PROCESS OF ECONOMIC DEVELOPMENT IN HONG KONG



businesses to survive the shocks of the real estate market, particularly during the critical 1970s.

Land clearance was also economically important because it provided the government with the capacity to control the real estate market, and ultimately generate substantial revenue, as we have seen, out of land sales. However, most of the revenue, and the most profitable leases, came from land reclamation in the downtown area.⁹² Thus, the impact of land clearance on the government budget must be seen, first of all, as a subsidy to its public development programs, and as a regulatory instrument for its overall land policy.

However, the main structural economic effect of the public housing program has been its role on the reproduction of labor power, and through it, in lowering production costs and contributing to price stability. Here also we must differentiate several effects:

- A. In the early stages of industrialization, the public-housing program was the only way, short of allowing squatter settlements to sprawl, to provide housing for workers close to the manufacturing concentrations in the urban areas, a major concern at a moment when the transportation system could hardly carry and move the labor force around the territory. Such concern, together with the availability of cleared land, explains the location of public-housing estates during the 1950s and 1960s.
- B. The massive program of construction and public works provided the training ground for the masses of Chinese rural immigrants pouring into Hong Kong, assuring the transition between their rural background and their condition as an industrial labor force, both in terms of their skills and their social behavior.
- C. The most direct and widely recognized effect of public housing on labor and labor costs is the subsidy it represents to the industrial workers, actually making housing policy the fundamental component of social wage in Hong Kong. Leung estimated that the amount of the subsidy from government to tenants of a public-housing unit in 1973-74 was HK\$105 per month.⁹³ Since monthly earnings in manufacturing in 1975 were HK\$149, such a subsidy represented an increase of 70 percent for manufacturing workers. A more recent and more sophisticated econometric study on the matter by Fu-Lai Yu and Si-Ming Li⁹⁴ estimated a transfer-in-kind for the average household equivalent to 70 percent of the household's income (referring to the tenant population in general, and not just to manufacturing workers). The study calculated also that public housing subsidies increased the housing consumption of its beneficiaries by 120 percent and their non-housing consumption by 17.5 percent. This was all at a welfare cost of 25 percent of the public expenditure, significantly lower than similar calculations for public housing in the U.S. (See Table 29.) Thus, public housing enabled Hong Kong workers to receive low wages for their long, hard-working hours, without putting excessive pressure on the firms (most of them very small, unable to increase their operating costs),

TABLE 29

FU-LAI YU AND SI-MING LI

The net Tenant Benefit of Housing Authority Estate Tenants: Space Standard 3.25 square meters Per Adult and Total Monthly Expenditure: \$1,000-\$3,499, 1979

Total Monthly Expenditure (\$)	Household Size	Price Elasticity Coefficient								
		-0.5		-0.7		-1.0		-1.5		
		NB	EI(%)	NB	EI(%)	NB	EI(%)	NB	EI(%)	
1500	4	414	69.9	445	74.9	485	81.6	512	96.2	
	5	397	53.5	448	60.4	511	68.9	569	76.7	
	6	400	44.8	466	52.3	558	62.9	633	71.0	
	7	275	26.4	355	39.8	480	46.1	592	66.4	
			48.7		56.9		64.9		75.0	61.4
2000	4	515.5	86.8	531	89.4	550	92.9	562	94.6	
	5	526.3	70.9	564	76.0	604	81.4	644	86.8	
	6	547.6	61.4	602	67.6	672	75.4	725	81.4	
	7	415.4	39.9	494	38.3	607	58.4	702	55.1	
			64.74		68.0		77.0		79.5	72.3
3000	4	594	99.9	594	100.0	594	100.0	594	100.0	
	5	693	93.4	704	94.9	715	96.0	723	97.4	
	6	763	85.6	789	88.8	818	91.8	837	94.2	
	7	654	62.9	716	68.8	795	76.4	856	82.3	
			85.4		88.0		91.0		93.5	89.4
Overall Grand Average			66.3		70.9		77.6		82.7	74.4

Note: NB: Net Tenant Benefit

$$EI: \text{Efficiency Index} = \frac{\text{Net Benefit}}{\text{Nominal Subsidy}} \times 100$$

enhancing the firms' profitability. Also, low housing costs, and moderate wage increases partly derived from them, greatly contributed, with the other elements we have examined, to price stability during the process of rapid growth. We have here a clear demonstration of the productive impact of the supposedly unproductive public welfare sector.

In addition, given the life tenure accorded to public-housing tenants, public housing created a fundamental safety net for both workers and small entrepreneurs in an economy without unemployment insurance and without non-contributory retirement pensions. Given the very low rents and the availability of social services in case of distress, public housing became the base from which workers and small entrepreneurs (often one person with interchangeable roles) could take risks in the rewarding yet risky trails of Hong Kong's moving economy, depending particularly on the strong support provided by family solidarity and a communal household economy. This is why, although the average mortality rate of new businesses in Hong Kong seems to be very high, people keep trying, assured as they are of a home (whatever its quality), of a supportive family, and of government provision of basic services.

Last, but not least, Hong Kong's public housing has been crucial in ensuring social stability and in providing the material expression of citizenship to a largely immigrant working population, particularly after the social crisis revealed by the 1966 and 1967 riots. Although we will develop this analysis in our next chapter, it is important to emphasize here the economic effects of such social stability. It means basically a stable system of industrial relations that allows for the flexibility and reliability of Hong Kong manufacturing as a supplier in the world economy, and for the continuity of production, under conditions generally favorable for business profitability. In the absence of widespread violent political repression, and barring a racist explanation in terms of the submissive nature of Chinese labor, it is clear that the social stability and industrial peace that Hong Kong (a city that was one of the original centers of the rebellious Chinese labor movement) has enjoyed since 1967 is directly related to the combined benefits of economic growth and of social wage provision, with housing being the most important component and the most tangible expression of such social wage. We will try to show, in the next chapter, the specific relationship between housing policy and social stability, while insisting here on its fundamental role in the social relationships of production, and therefore on the very basis of any given model of development, which is the implicit acceptance by the social actors of the structural social relationships embedded in the model.⁹⁵

Thus, we have assessed here the structural effects of housing policy on Hong Kong's process of economic growth, and, we believe, demonstrated the importance of its role as an essential part of the broader government intervention, in the specific model of development that underlies economic growth. However, the existence of an objective structural effect does not imply the consciousness and the purpose of the production of such effect by the actor of a given policy, in this case the Hong Kong government. As a matter of fact, our hypothesis is not that the government of Hong Kong

conceived and conducted its public-housing program to systematically contribute to economic development in the different ways we have shown. Rather, the formulation of housing policy resulted from a series of interactive elements, of which the pursuit of economic benefits was only one, and not necessarily the most important during the 1970s. Housing policy also responded to a series of demands and pressures from the local society to which the government reacted through decisions largely shaped by its own history, structure, and interests. It is in the interaction between society and the state, riding the crest of a process of accelerated economic growth, that we will find the reasons for the formation of the public-housing program, distinct from but not independent of its role in the model of economic development. The fact remains that, beyond the intentions and the consciousness of its actors, the experience of public housing in Hong Kong shows the historical possibility of increasing both the profitability of capital and the overall wage of labor through the dynamic intervention of the welfare state.

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CHAPTER THREE -- THE STATE, SOCIETY, AND HOUSING POLICY IN HONG KONG

Introduction

We have shown the important, positive role played by housing policy in the economic development of Hong Kong. However, there are other dimensions in society besides the economy to which housing policy has also contributed to a great extent -- in particular, social stability, social reform, political legitimacy, and political democratization. Furthermore, in trying to understand the causes and characteristics of a government policy and, ultimately, the reasons for its existence, we cannot limit the scope of our analysis to examining the policy's structural effects on the economy and society. We must also establish why and how the policy was formulated and implemented by its social actor, namely (in this case) the state of Hong Kong. Once a policy is implemented, its eventual positive effects for some groups and actors in the society will reinforce the development of the policy by mobilizing support for it, when the positive effects become manifest through experience. The report may be directed to the policy in its original form or some modified version, according to the specific interests of the supporting constituency. Therefore, it is crucial to analyze the social origins of the policy. Such analysis will reveal not only the policy's *raison d'etre*, but also because the origins mark the government actions with a particular imprint that will affect the future relationship established between State and society through the specific policy under consideration.

Thus, we must undertake here the analysis of the social origins of housing policy in Hong Kong by focusing on the specific interests of the State in putting forward such a policy. Since the major development of the public-housing program occurred from 1972 onwards, a major objective of our study will be to determine the subjective reasons for the Hong Kong government to embark on such a program and the effect of such motivations on future developments. The theoretical perspective we assume here is one that recognizes the specificity of the State in relationship to the economy and society. The perspective tries to find the social logic of political and policy decisions in the realm of interests of the State's apparatus, as defined and self-identified by the power-holders.¹ Of course, such interests and the final outcome of the policy will be largely influenced by broader social processes in which, in a capitalist society, economic factors play a major role. However, the influence of such economic and social interests within the logic of the State has to be shown at work in the process of making policy, and cannot be assumed as a structural necessity. The starting point of our analysis is the externality of the State, the economy, and society. These three elements are in a complex interaction that will converge toward or diverge from clusters of interests and social behavior, according to the historical context. Characteristics of the historical context have to be introduced in the analysis as being properly considered explanatory elements.² This is a particularly important consideration when trying to study a state as autonomous as that of Hong Kong, however paradoxical such a statement may seem in studying a colony (a category only rarely associated with "autonomy").³

We cannot, in this context, attempt an overall analysis of the Hong Kong State as it relates to the local society, any more than we can its relationships to the two political systems that through time have always conditioned its existence, the U.K. and China. It will also be unnecessary to describe its formal structure and the workings of its government, since Miners,⁴ Harris,⁵ Scott,⁶ Lau,⁷ and other authors⁸ have provided careful, well-crafted monographs that can instruct the reader on a fascinating political reality. Our purpose here is more limited and more focused: We seek to understand the link that housing policy establishes between State and civil society⁹ in Hong Kong, while explaining why the Hong Kong State decided to formulate and implement such policy when it did and in the way it did. This brings us to the task of formulating general hypotheses on the characteristics of the Hong Kong State and its evolving relationship with the local society. We will focus on the key period of our analysis, from 1949 until the opening of negotiations with China in 1982, although later developments will be considered when analyzing current government policies.

The Hong Kong State: A Bureaucratic Polity Dominated by an Administrative Class

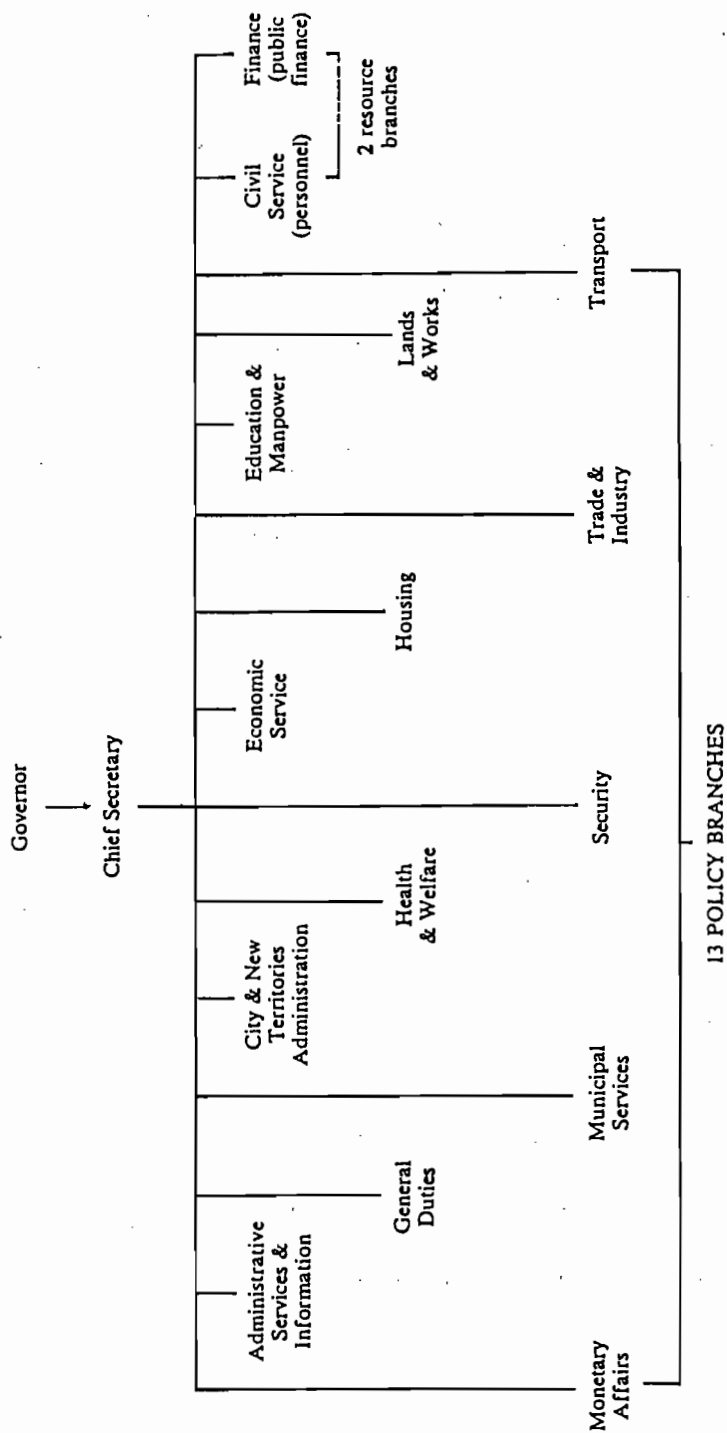
In its policymaking, the Hong Kong State is largely autonomous vis-a-vis the local society. This is also true, to a large extent, of its relations with other states. At the same time, it does have major constraints, notably in foreign policy and defense, which are directly assumed by the U.K. Hong Kong also needs to relate to civil society in a way that assures stability and fulfills the overarching goal of economic prosperity. It is in fact a showcase of the relative autonomy of the State.¹⁰ Let us consider first its autonomy; then we will analyze the precise meaning of the notion of relative autonomy.

The political autonomy of the Hong Kong State manifests itself at two levels. On the one hand, it shows in the structure of the government, which is entirely organized around the extensive powers of a colonial governor appointed by London. On the other hand, the autonomy manifests itself in the social group that fully controls the government and through it, most political power and much social influence in Hong Kong. A handful of administrative officers of the Hong Kong civil service form this social group.

The structure of the government is very simple (see Figure 1), although its very simplicity raises complex questions about where the power lies and how it is actually exercised. On paper, the governor has unchallenged power during the time of his tenure, with the exception of challenges arising from the Judiciary. He is chief of government and chief of state at the same time, as representative of the Queen of England. He is appointed by the Queen on the advice of the Secretary of State for Foreign and Commonwealth Affairs in London, for a renewable term of five years. Once appointed himself, he then makes all key appointments in Hong Kong, and governs assisted by the Executive Council. The Executive Council is entirely appointed by the governor, although it has four ex-officio members: the commander of the British forces, the chief secretary, the financial secretary, and the attorney general (the latter

FIGURE 1

Structure of the Government Secretariat (as at 1.8. 1985)

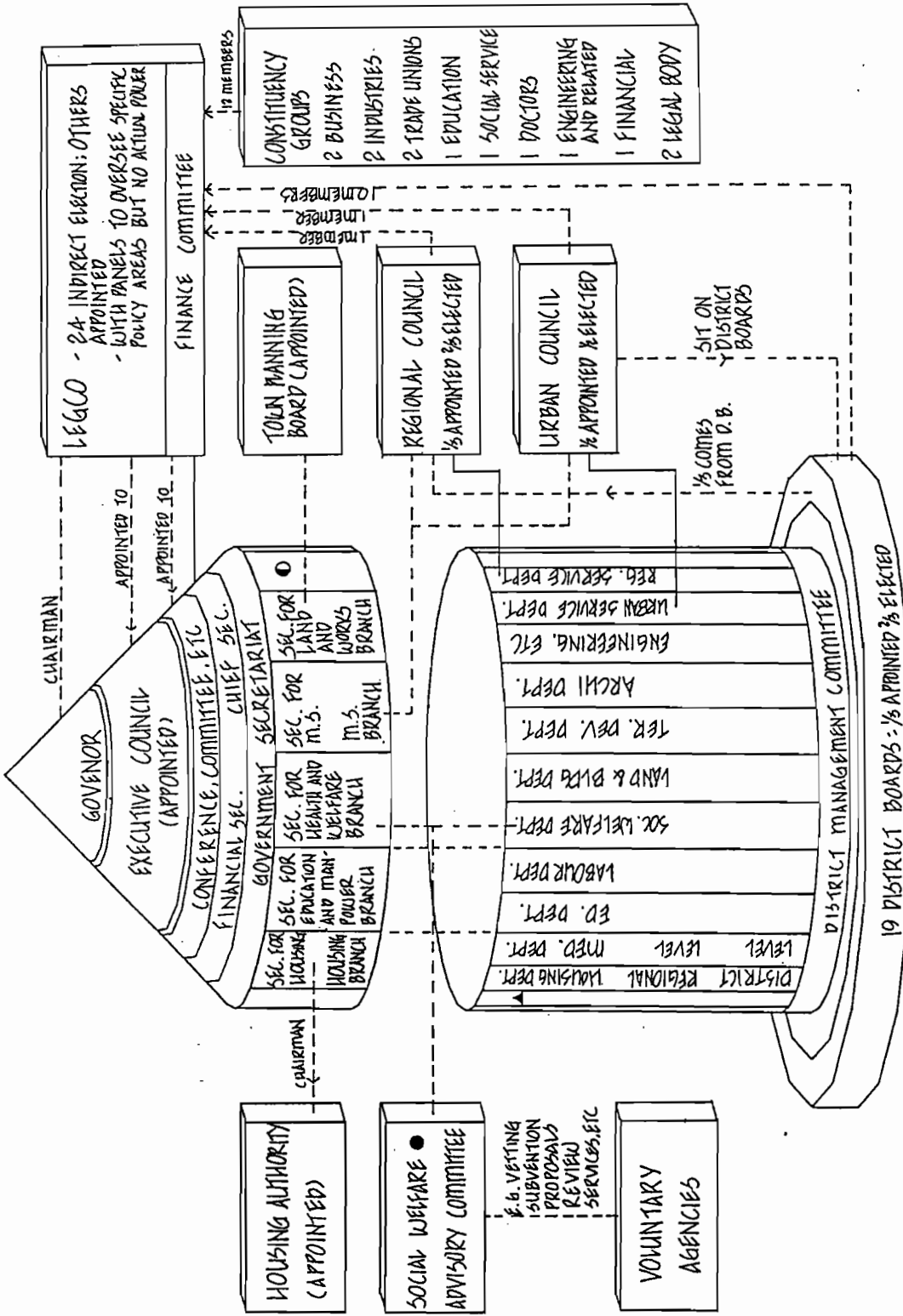


three being appointed by the governor to their posts). There is the Legislative Council that until 1985 did not have elected members; until that date, its role had been purely symbolic, rubber-stamping the laws and decrees submitted to it by the Executive Council without debate. (See Charts 1 and 2 for the structure of the government.) Thus, within the limits established by constitutional conventions (basically, the Letters Patent, the Royal Instructions, and the Colonial Regulations), the governor centralizes political decision and directs all administrative power. It would seem that, given his appointment by the U.K., power lies in London. However, such has not been the case in the last quarter of a century. Only in foreign policy matters is the governor required to consult with London. In all day-to-day matters, decisions are being made locally. Since 1958, Hong Kong sets its own budget without sending it for approval to the secretary of state. Since 1975, Hong Kong has been free to place its foreign reserves in whatever foreign currency or stocks it likes, although it is generally thought that British stocks are favored in investment decisions, this being one of the last patriotic gestures of the colony turned major financial center. Thus, the link with the U.K. is much more subtle, more of an ideological than an administrative nature.

However, the governor has no absolute power, due to an ad hoc system of checks and balances that has been built within the administrative structure itself. The key element of such system is the Government Secretariat, the core of the Hong Kong State apparatus, led by the chief secretary. Since the reform of 1973, the Government Secretariat has had 13 policy branches and two resource branches. The Secretariat supervises the work of 59 government departments that implement government policy and administrate Hong Kong (see Charts 1 and 2). Thus, in practice, the workings of the Government Secretariat are as important as the governor's decisions in making and implementing policy in Hong Kong. Theoretically, since the governor also appoints the high-ranking officials who constitute the Government Secretariat, this institution should remain by and large the governor's instrument. However, as we will see below, this is only true to the extent that the governor is tuned into the culture, interests, and self-organization of the social group that throughout Hong Kong's history has controlled the Government Secretariat and, through it, the Hong Kong Government: the administrative officers. It is the combination of the governor's political power with the administrative officers' administrative power, institutionalized in the Government Secretariat, that constitutes an independent, omnipotent bureaucracy as the fundamental structure of the state of Hong Kong. Under it, an increasingly numerous and well-trained civil service (180,000 civil servants in 1986) carries on the decisions of this selected group of public administrators, which several authors have likened to the traditional Chinese imperial bureaucracies.¹¹

While the relationships with the local society are established in several subtle ways (as we will examine below), the institutional links between the government and the Hong Kong society take two main forms, both of which did not involve direct representation until the 1982-85 period. On the one hand, local notables, generally drawn from the business elite, are appointed to the Legislative Council and to the Executive Council; on the other hand, the bulk of institutional connections with the populace was traditionally devoted to the local administration. This local

CHART 1



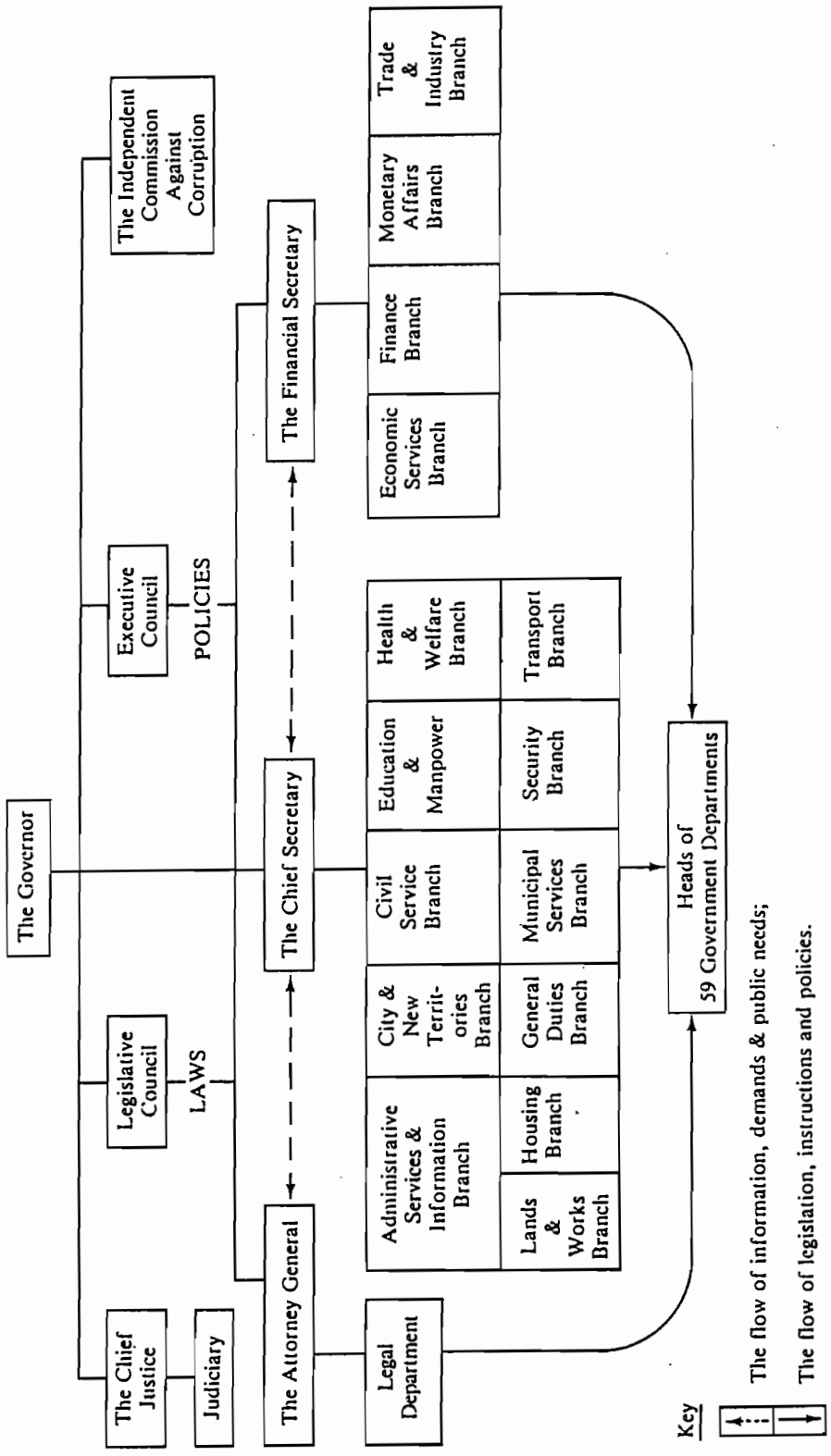
- THERE ARE ALL TOGETHER 455 SUCH BOARDS/ADVISORY COMMITTEES
- THERE ARE ALL TOGETHER 15 SUCH BRANCHES
- ▲ THERE ARE ALL TOGETHER 59 SUCH DEPARTMENTS

NOTE ON CHART 1: HONG KONG GOVERNMENT STRUCTURE

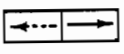
1. The administration (central column in the diagram) is mainly composed of civil servants (officials). Non-officials can be appointed into the Executive Council and some conferences and committees at the top level with top civil servants by[[??]] the government. These are the highest policy-making bodies, being supported by the secretariat and branch levels. Departments are the executive branches and reach down to regional and district levels. The district management committee in each district is the coordinating body of various departments at the district level, chaired by a district officer. A senior housing manager of the Housing Department, for example, is in charge of a number of housing estates and is a member of one such committee.
2. Statutory bodies are legally equipped with the power to make policy and decisions on specified jurisdiction (functions and/or areas). Final veto still in the Executive Council. Members may be officials, non-officials, or both, and are appointed or elected. The following are examples.
 - The Urban Council governs public hygiene and leisure provisions in urban areas; its members are all non-officials; half are appointed, half are elected in district elections.
 - The Regional Council is the counterpart of the Urban Council in the New Territories (including new towns); its members all non-officials; one-third are appointed, one third are elected in district elections, and one-third are district board members who were elected by other board members.
 - The Housing Authority presides over housing in whole territory; of its members, some are officials and some are non-officials, but all are appointed by government.
 - The Town Planning Board rules on statutory land-use matters; its members are officials and non-officials, but all are appointed.
3. Legislative Council approves bills and budgets from the administration. By constitution, it is still advisory to the governor. Ten of its members are officials and the rest are non-officials, of which some are appointed and 24 are from "direct election" (12 from "functional constituencies," 12 from district boards and Urban and/or Regional Council).
4. Advisory/consultative committees and boards, etc. Altogether, there are more than 400 of these, each with specific functions. Their significance is wide-ranging; some are very important and government follows their opinions; while some meet infrequently and are little-known or have very narrow concerns. They are given agendas and official information from government and are under its control. Examples are: social welfare advisory committee with representatives from government and voluntary welfare agencies; or a transport advisory committee with members appointed. In recent years, Legislative Council members have been appointed to important committees, and some have become chairpersons.
5. District Boards are consultative bodies at district levels, with their non-official members being one-third appointed and two-thirds elected.
6. Policies are formulated in the branches, which consult the relevant committees and/or boards (or, if necessary, the wider public), and then go to Exco, LegCo, or one of the statutory bodies for approval of important decisions.

CHART 2

The Structure of the Hong Kong Government (as at 1.8.1985)



Key



The flow of information, demands & public needs;

The flow of legislation, instructions and policies.

administration evolved over time under the pressure of the Hong Kong people, with a new institution being created each time discontent reached a dangerous threshold. Such was the case of the Urban Council, set up in 1936 on the basis of the Sanitary Board created in 1887 to take care of the appalling sanitary conditions of the colony. Although in the 1970s the Urban Council functions were dignified to assume environmental health protection, recreation and amenities, and cultural services, in the neighborhoods of Hong Kong, people continued to nickname it the "Garbage Council," since such is apparently the main effective power it held until 1983. Since 1982, the development of elected district boards at the local level has added a new dimension to the representativeness of local administration in Hong Kong, a dimension that was completely missing during its entire history (see Chart 3).

Thus, as Lau Siu-Kai writes,

In the political landscape of Hong Kong [until 1982], there is no division of power, no checks and balances, no independent local government, no viable political parties, no independent parliament, and no judiciary capable of curbing executive power.¹²

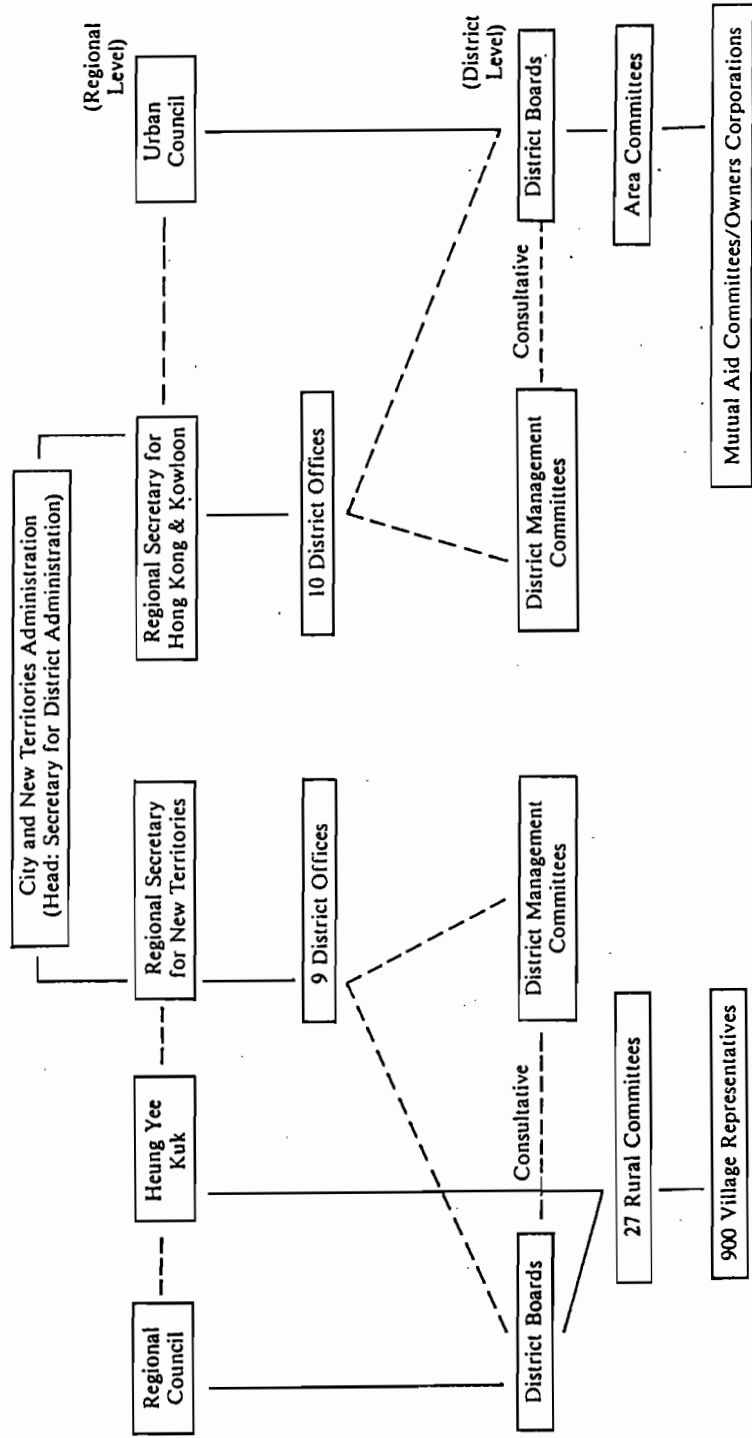
While such overwhelming power lies institutionally in the hands of the governor, it is actually taken on and exercised by a social group that Miron Mushkat calls the Hong Kong administrative class.¹³

The term Hong Kong administrative class refers to the top-level category of the Hong Kong civil service. On strict legal grounds, it belongs to the broader category of "general grades," as opposed to the group of civil servants who are assigned to specific government departments. Within the general grades, the major distinction is between administrative officers and executive officers. While they often have similar formal qualifications, according to Mushkat, their tasks are substantially different: Executive officers assume routine management operations and supervision of administrative work; administrative officers are generalists, who quickly shift in their career from management control to strategic planning and policy-making. Administrative officers rotate between departments and government units, and actually ensuring the coherence and continuity of the overall government policy. As Mushkat has pointed out, their role is without equivalent in Britain or in most democratic states (perhaps, we say, with the exception of France¹⁴). They are the equivalent of professional politicians in a context where policy and administration are fully integrated because of the lack of political competition outside the State.

Two factors must be emphasized concerning the power held by the administrative officers in the Hong Kong State. On the one hand is the structure of control, based upon a network of connections in the entire governmental structure. The structure has its center in the Government Secretariat, the core of the administrative apparatus, which is almost entirely staffed with administrative officers in the senior positions. On the other hand is the astoundingly low number of such administrative officers, a fact that gives support to their being characterized as a

CHART 3

The Structure of Local Administration in Hong Kong (1985)



• District Boards were originally known as District Advisory Boards in the New Territories and as City District Committees in the urban areas.

selected elite. Table 1 provides the figures. Remarkably, as late as 1969 only about 100 administrative officers were responsible for the running of the entire colony. After the dramatic increase in civil service employment in the last two decades, when government intervention went into full speed, their number also increased, but by 1983 there were still only 398, accounting for only 0.002 percent of the 166,569 civil servants.

We still have to explain the use of the term class to designate a bureaucratic category. It is a term proposed by Mushkat and that we find appropriate. It certainly does not have the Marxist meaning concerning relationships of production, nor, we believe, the social-stratification meaning in terms of social status. It must be understood in the Weberian sense, relating to its position of authority in what amounts to the central institution of the Hong Kong society. But it also relates to the formation of a specific cultural identity in the group of administrative officers throughout the 140 years of Hong Kong's history. This small group of high-level bureaucrats has also developed a set of specific interests, both in their careers and in the fulfillment of their ideology. And last but not least, the system of recruitment and training has assured the self-reproduction of the administrative class. Nonetheless, their membership opened to include local Chinese when the civil service had to expand in the 1970s, when 1997's change of government started to loom on the near horizon.

Knowing the historic origin of this administrative class is important to understanding its behavior and policy-making practices, even in the contemporary period. The "cadets" of the Hong Kong Colonial civil service, as they were called until 1960, have been studied by Henry Lethbridge in a remarkable monograph.¹⁵ Only 85 cadets were appointed to Hong Kong during the whole period 1862-41, since its inception as a civil service category. But at any given time, a much smaller number of cadets were present in Hong Kong, always concentrating all the power and administration of the colony: only seven in 1880, 13 in 1900, 31 in 1920, and 37 in 1941, just before the Japanese invasion. Of the 85, three became governors of Hong Kong, five became governors of other colonies, and four others reached the position of colonial secretary in Hong Kong (equivalent to today's chief secretary). Most of them were recruited directly from some of the best British universities, particularly from Oxford and Cambridge, while a minority came from positions in the colonial civil service in other territories. Besides being trained in the Cantonese language and Chinese culture prior to their arrival, they also underwent an intensive training period upon their arrival in the Far East, training that included substantial knowledge of the language, always Cantonese but sometimes also Mandarin, and acquaintance with the society, customs, traditions, and rules, under the guidance of a Chinese tutor. Part of this training program was undertaken in Guandong Province, and sometimes in Beijing. At the end of such training, which could take between one and two years, they would then be trained in the specifics of Hong Kong administration, through a tour of apprenticeship duty in different departments. When ready for service, they were supposed to be able to handle any task that the government would need to assign to them. Their careers were meteoric. If they survived in the unhealthy conditions

TABLE 1

Table 5.1 The Number of Administrative Officers and Civil Servants in Hong Kong, 1960-83

Year	No. of Administrative Officers	Total No. of Civil Servants	Administrative Officers as a % of All Civil Servants
1960	72	43,742	0.0016
1961	75	51,271	0.0015
1962	79	49,902	0.0016
1963	81	52,955	0.0015
1964	79	57,779	0.0014
1965	91	60,181	0.0015
1966	91	65,172	0.0014
1967	100	69,150	0.0014
1968	95	72,936	0.0013
1969	102	75,444	0.0014
1970	113	77,975	0.0014
1971	112	81,511	0.0014
1972	116	84,565	0.0014
1973	125	90,026	0.0014
1974	157	95,467	0.0016
1975	173	104,291	0.0017
1976	185	104,157	0.0018
1977	182	108,385	0.0017
1978	205	115,671	0.0018
1979	226	122,838	0.0018
1980	226	129,217	0.0021
1981	305	139,252	0.0022
1982	383	154,034	0.0024
1983	398	166,569	0.0023

Sources: Government Secretariat, *A Report on the Civil Service 1960-1978* (Hong Kong, Government Printer); and Government Secretariat, *Civil Service Personnel Statistics 1960-1983* (Hong Kong, Civil Service Branch, 1983).

of the South China Sea area, at their retirement (usually at the age of 50), they were all in high-ranking civil service posts.

Who were these officers? Lethbridge summarizes very succinctly the findings of his research on that matter:

Cadets appointed to the Hong Kong Civil Service, or transferred from other colonial territories in Asia, had much in common. All were British subjects of pure European descent, and all entered the colonial Service at approximately the same age. They were educated at fee-paying schools, but most had their schooling at minor and obscure private schools . . . The majority proceeded to the universities of Oxford and Cambridge, but a substantial contingent, over 30 percent, came from universities in Scotland and Ireland; only a handful -- nine in all -- were from London or from English provincial universities. A few had outstanding academic records; yet even the rest were above average in academic performance, and a significant number excelled at sport. The fathers of the cadets were in most cases members of the older professions, law, medicine, and especially the church, although two, for example, were MPs. Few, if any, of the fathers were businessmen or shopkeepers, and none could be regarded as aristocratic. In sum, the typical cadet came from a solid, though not rich, upper middle-class family, went to a private school, but not to the most prestigious, and then went up to one of the older universities, where he read classics or history and was noted for his application to study and interest in healthy recreation. . . . Two things should be noted about the curriculum vitae of the typical cadet. First, it fitted him for the type of job he was expected to carry out as a colonial civil servant in Hong Kong: the need to apply himself with diligence and intelligence to a series of prosaic tasks, and to sustain interest in the minutiae of bureaucratic life; and secondly, the common social background and education of the cadets helped to create an esprit de corps, a class and caste feeling, and an intuitive understanding of other cadets, which helped maintain morale and discipline within an hierarchical service. Cadets, it may be surmised, understood one another without the need for excessive interpretation of motive. Given this common background, training, and the fraternity of class, cadets came to the field with many shared assumptions about, and attitudes towards, the people they governed in the colonial territories.¹⁶

Two elements must be emphasized in this precise report of the cadets as a social group. First, they constituted (and still do, today) a meritocracy, rather than an aristocracy. They were educated at established, generally elite universities, were recruited through a demanding examination to enter the colonial civil service, then provided

with extensive, focused training. Second, they appear to have a common social background, often the clergy, that introduced some missionary, idealistic, service-oriented ideology into their value system, although in the form of paternalism rather than in the advocacy version. Lethbridge compares their profile to the model prefect at the English public school, but other observers -- more significant here -- have likened the cadets to the traditional Chinese bureaucracy, both being recruited through examinations, aloof in their power, and paternalistic in their relationship to their subjects.

Significantly enough, many of the characteristics described above have persisted throughout history. One of the top officials of the Hong Kong government, interviewed for our research, when asked about his background, answered in terms strikingly close to those of cadets analyzed by Lethbridge for an earlier historic period: an administrative officer from the colonial service, recruited to Hong Kong from another colony, the son of a pastor, and the holder of an academic geography degree from a good, though not among the older, English university. The main difference between the early period and the contemporary situation is, of course, the opening of the administrative class to the Hong Kong Chinese, a move known as the "localization policy." By 1983, 53.1 percent of the 375 administrative officers were local, most of them graduates from the University of Hong Kong and, to a lesser extent, from the Chinese University. But men continue to dominate overwhelmingly.¹⁷ And the recruitment system is still largely the same, although nowadays three different ways are possible: (1) direct recruitment of young graduates (still the bulk of the recruits); (2) officers from other classes in the Hong Kong civil service; and (3) administrative officers from other present or former British colonies. In all cases, the candidates must pass a written examination that is prepared and judged by administrative officers. It is in this fundamental sense that the administrative class reproduces itself through a procedure that combines merit and cultural empathy. The training also follows the same fundamental principles as those traditionally established, although there is now a cross-pattern of expatriates being socialized in Hong Kong, with local recruits being sent to Oxford and Cambridge to attend courses that would complement their general knowledge.

It is this administrative class, with strong social and ideological cohesion and shared professional interests and cultural values, that holds power in Hong Kong. They exercise this power while keeping in mind the interests of the business elite, but only to the extent that business assures the economic prosperity of Hong Kong on which the power, income, prestige, and, ultimately, ideological self-legitimation of the administrative class depends. This means that the administrative officers will proceed to impose policy measures that hurt the interests of particular business groups if the policies promote the well-being of the colony as they understand it. Regarding the representation of the common people's interests, the prevailing culture of the administrative class can be properly labeled as paternalistic, i.e., serving the people (without their participation as citizens) in the terms the officers understand to be the best, without entering too much in contact with the local society. Altogether, the classical characterization of "enlightened despotism" seems to best fit the Hong Kong model of state power.

The most delicate problem for the administrative class is the establishment of a balance of power with the titular holder of such power, namely the governor. Each new appointment of a governor brings into action the mechanisms of social and political control to show the new governor, from the very beginning, that only an effective cooperation with the administrative class will ensure the success of his policies, whatever they are. This arrangement also gives significant opportunity to the administrative class to determine the content of the policies. Because this is the most hidden aspect of Hong Kong politics, it is difficult to speculate on this crucial relationship. However, it is likely that some of the difficulties experienced by governor MacLehose in the 1970s in implementing his policies were due to the resistance of the leading faction of the administrative class to the interventionist approach of the government, particularly in the area of social programs and housing policy.

It is fair to say that there is no monopoly of power in Hong Kong, even as centralized and undemocratic as it is. The essential dynamics of competition politics are encapsulated within the State's apparatus itself and concentrated in its core, where the governor and the administrative class are the main actors, both having specific interests and values as they proceed to make policy.¹⁸

And yet, the autonomy of this government is only relative. It still has to relate to the U.K., China, the world economy, and, through a variety of complex channels, to the dynamics of the local society. We cannot examine here such a complex web of relationships, given the specific focus of our study. However, we must as a minimum indicate the main links between the State and the civil society, in order to understand the importance of housing policy in such a relationship.

In a colonial society, the first distinction concerning the civil society is not by class but by ethnic or national heritage. Thus, in Hong Kong, we must distinguish between the relationship of the State and Western bourgeoisie and the State's its relationship with Chinese society.

Until recently, the main relationship between the State and the capitalist class in Hong Kong concerned the "hongs" -- that is, the large, traditional trading companies formed during the mid-nineteenth century on the basis of the opium trade, such as Jardine Matheson or the Swire Group, as well as the large banks, the Hong Kong and Shanghai Bank and the Chartered Bank. The Hong Kong traditional bourgeoisie includes, of course, the spin-offs of such hongs and is connected historically to the Chinese bourgeoisie through their role as a comprador class. In the last two decades, multinational companies and financial institutions from all over the world have also set up shop in Hong Kong. Their executive managers could be considered technically to be part of the economically dominant class of Hong Kong. However, they were never truly integrated into the old British elite, even when the new taipan is an American financial manager, as is the case with Jardine Matheson now. This British elite has clearly lost most of its economic power in recent years both to multinational corporations and to a new and thriving Hong Kong Chinese capitalist class. But even at the peak of its economic ascendance, it did not exercise political power. One of the greatest myths about Hong Kong is the widely held belief that the colony was run from the capitalist

circles of the Jockey Club. Such a statement was true to the extent that the Jockey Club joined in a social network the political elite and the economic bourgeoisie -- but the economic bourgeoisie was under the clear supremacy of the political elite. In the case of the non-Chinese society, the mechanism of relationship between the State and society was simply that the political and business elites were socially articulated under the leadership of the cadets, provided that business went well, and the government would help to preserve a good business environment. The expatriate population was working for the two elites, so they were integrated through their organizations, namely, the civil service and the British companies and, later, the multinationals. Issues were of course more complex with the Chinese population; that is, with the population of Hong Kong.

Lau Siu-Kai, in his study on society and politics in Hong Kong,¹⁹ points to a system of linkages between the bureaucratic polity and the Chinese society organized around three main channels:

1. The co-optation of the Chinese elite comprised mainly by businessmen, who played the intermediary role that the gentry used to play traditionally in China. This co-optation worked mainly through appointments to a number of government committees, from the top level (Executive Council, Legislative Council, Urban Council) to a variety of governmental and para-governmental organizations. These organizations provided opportunity for a presence and some influence for those who, by their economic and social prominence, were supposed to be the natural leaders of the Chinese society. However, Lau argues that such representation was far from assured, and that the contacts between the notables and the common Chinese were extremely rare, making their presence more of a token symbol than an actual channel of communication between the government and the Chinese people.
2. Intermediate organizations (mainly those with benevolent goals) such as the traditional Tung Wah Hospital or the Po Leung Kuk, established since the turn of the century.²⁰ The chairpersons and committee members of these associations were considered the most prominent figures in the Chinese community, not because they were businessmen but because of their benevolent contribution to the well-being of the community. Lower on the ladder of prestige, more widespread and thereby essential, were the kaifong associations (neighborhood associations) that prospered mainly after World War Two. Formed on the basis of local initiatives at the grassroots level, but still led by petty local notables, they provided a wide range of welfare services at a time when the government would not provide the resources for the masses of immigrants arriving into the territory. According to the study by Aline K. Wong,²¹ the only serious source on the matter, kaifong membership rose from 26,230 in 1950 to 853,627 in 1967, about 25 percent of the population at that date. The work of these associations ranged from schools, medical services, recreation, family arbitration, and employment recommendations to representation in government on local public affairs. Their role in society was recognized in the 1960s by both the populace and

the government. In a 1967 survey, when local residents were asked to name some of the most influential Chinese leaders in Hong Kong, they gave a list consisting of the leaders of the above-mentioned organizations: Chinese unofficial members of the government councils, the Tung Wah and Po Leung Kuk chairpersons, and the kaifong leaders.²² On the other hand, the government viewed these associations as the most important communication link with the Chinese community. The contacts with the government were channeled through the Secretariat of Chinese Affairs, to which the kaifong made representations on behalf of the population. The number of these representations rose from 32 in 1950 to 2,458 in 1967. These numbers probably indicate their success, judging from the results of Aline Wong's survey, which showed that 73 percent of those interviewed believed that the kaifongs were the most effective means of communication between the government and the populace. Who were the leaders of these kaifongs? Aline Wong identified a core of 150 to 180 active leaders who typically were middle-aged, male, owners of small- to middle-size businesses who could afford the money and time to devote themselves to benevolent activities (thereby increasing their social prestige). When the size of this leadership is related to the declared membership of 850,000, one can have some reasonable doubts about the quality of representation. This will be a major factor in determining the inability of the kaifongs to expand social movements beyond the realm of social services delivery.

3. Official organizations were the third channel of communication with Chinese society. These were such organizations as the offices of the Secretary of Information (purely a public relations operation, according to Lau), the city district offices, or the ward offices set up by the Urban Council or UMELCO (the Legislative and Executive Councils) to reach out to a population whose claims and aspirations were usually ignored in the strictest sense. These organizations only worked if they were connected to representative grassroots movements able to voice effectively the concerns of a given community.

All in all, the relationship between the State and the Chinese society was characterized throughout the history of Hong Kong by externality, distrust, and distance. The administrative class, aware of the potential dangers of such externality, tried to bridge it over through a paternalistic attitude that included a serious effort by some of its most enlightened members to understand the Chinese culture. But between the Chinese culture and the daily lives of Cantonese laborers there was a gap that these capable elite bureaucrats could not bridge by themselves. They devised some benevolent policies inspired by the chin-min (close-to-people) attitude characteristic of the Chinese traditional bureaucracy.²³ However, their paternalism stopped short until the 1960s of a major redistribution program that could enhance the well-being of the Chinese population beyond the benefits from the charitable work by the benevolent associations generated from among the Chinese themselves.

The obvious question that has been asked repeatedly by many scholars is, how and why was the social stability of Hong Kong preserved? The first answer to such an ideologically biased question is that stability was not preserved. The 1884 shipyard strike, the 1920 mechanics' strike, the 1922 seamen's strike, and the 1925 Canton-Hong Kong general strike (which lasted 16 months and appears to be one of the longest and bitterest social conflicts in the history of the labor movement)²⁴ are enough indications to destroy the apparent mystery of a social stability that never existed, unless the persistence of colonial domination is equated to stability. These events also serve to shatter the myth about the submissiveness of the Hong Kong Chinese. Lau's analysis²⁵ of utilitarianistic familism as a cultural pattern that facilitates withdrawal from the public domain by the Chinese families is an illuminating hypothesis to explain why social tensions did not reach even higher levels. However, all evidence -- including the number and intensity of industrial strikes in the 1950s and 1960s (see Table 2) -- points to the conclusion that at the very moment Hong Kong was taking off in its development process, there was much potential for social conflict, and even for disruption and violence. This was shown by the violent riots in Kowloon in October 1956 (probably instigated by the pro-Taiwan Triads in the resettlement areas) that necessitated the intervention of the British army after the police were overwhelmed.²⁶

A more serious question is why the Chinese revolutionary movement did not spread into Hong Kong in the 1950s. Two complementary answers seem plausible: Most of the population of Hong Kong had avoided living in China, commonly for economic reasons but also for political ones as well. The Chinese government was fundamentally interested in keeping peace by leaving Hong Kong as its only window to the Western world, even after the Korean war embargo. This explains the relative moderation of the Hong Kong labor movement, whose main component was ideologically close to the Chinese Communist Party.²⁷ Thus, much of the social stability of Hong Kong depended on a macro-political factor: the existence of China, either as a deterrent to disruption or a brake on mobilization. When the situation became blurred by too many unknowns in 1966 and 1967, Hong Kong's social stability disintegrated with the five-cent rise in a ferry fare. This opened a new era in the relationship between State and society in Hong Kong: the MacLehose era, a name given with some justification to the era of government intervention.

The Hong Kong cadets built a monument to the British Empire (and to themselves, coincidentally) and laid the groundwork for the trade of the hongks and the manufacturing of the Shanghainese industrialists. But they never penetrated the society they wanted to protect with their colonial benevolence. As a result, each time Hong Kong mobilized, even when it consisted of the work of a minority, the State could only resort to British troops. In the late 1960s it became evident that the continuation of Hong Kong as a place to live, work, and make money was going to depend equally on the accommodation with China and the State's ability to establish a new and more direct connection with that part of the local society composed of uprooted migrants with some money, increasing education, and lots of ambition. Housing policy would play a major role in the establishment of such new connection as a true foundation for social stability.

TABLE 2

Work Stoppages in Hong Kong (1961 - 1985)

<u>Year</u>	<u>No. of Lock-outs & Strikes</u>	<u>Working Days Lost</u>
1961	10	38,559
1962	8	11,831
1963	19	87,199
1964	15	46,581
1965	8	62,249
1966	12	24,355
1967	13	22,525
1968	24	8,432
1969	27	40,726
1970	47	47,243
1971	42	25,600
1972	46	41,834
1973	54	56,691
1974	19	10,708
1975	17	17,600
1976	15	4,751
1977	38	10,814
1978	51	30,927
1979	46	39,743
1980	37	21,069
1981	49	15,319
1982	34	17,960
1983	11	2,530
1984	11	3,393
1985	3	1,160

Source : Commissioner for Labour, Departmental Annual Reports, Census & Statistics Department, Monthly Digest of Statistics.

Building the Foundations of Social Stability: The Riots of the 1960s and the MacLehose Era of Social Reform in the 1970s

The Turning Point

We have shown in the first chapter of this study that although the public-housing program originated in 1954 from the ashes of the Shik Kip Mei fire, its development and qualitative expansion took place during the ten-year program put forward by governor MacLehose in the 1972-82 period. While the economic benefits of public housing should by now be evident to our readers, it is our hypothesis that the Hong Kong government, as spearheaded by a new and strong governor, had the stabilization of Hong Kong as the main motivation of its work to advance the public-housing program. The Hong Kong public-housing program was itself the keystone of a broader effort at social reform in the colony. Hong Kong had been shattered by powerful riots in 1966 and 1967 which, with the Cultural Revolution simultaneously unfolding in China, reverberated to trigger uncertainty in Hong Kong.

To be sure, the two riots were quite different, both in their intensity and in their ideological underpinnings. The 1967 disturbances lasted for several months with explicit instigation by revolutionary communists and (for a time) the support of the pro-People's Republic of China labor movement. The April 1966 riot originated as a protest against the five-cent rise in the Star Ferry fare, it did not externalize any ideological statement, and lasted only a few days.²⁸

However, coming one after the other in about one year, they clearly expressed the internal tensions being repressed in Hong Kong. The fact that the politically motivated movement occurred after the spontaneous urban protest seemed to indicate that social discontent actually preceded political agitation, thus making it easier for the Maoist militants to use their slogans to mobilize that fraction of the population ready to revolt.

There are no systematic sociological studies of the real causes of the riots, since the reports of the Commission of Inquiry (existing only for the 1966 riot) were full of facts and recommendations, but provided little insight into the deeper roots of the conflict.²⁹ However, it is certain that the riots' effect shook up very foundations of the colony, to the point of calling into question its economic and institutional future.

It is against this background that a new governor was appointed, and a new government policy (in which housing was to play a major role) was designed. This is why it is important to recall, first, the depth and fury of the social revolts.

The 1966 Riots and the Report of the Commission of Inquiry

In October 1965, the Star Ferry Company applied for a fare increase. Very soon, the society hotly debated the issue. Prominent community figures voiced their objections and were echoed by the local press. However, the government in general believed the fare increase was reasonable. Petitions and a signature campaign were launched. The

debates lasted into 1966. From April 4 to 6, 1966, there were continuous demonstrations at the Star Ferry Pier on the Kowloon side. In the evening of April 6, riots broke out in the busy, densely populated areas along Nathan Road north and south of Mong Kok District. The riots lasted for three nights. According to official sources,³⁰ ten police officers suffered minor injuries, while four citizens were shot by police, with one dead. Thirteen others were injured. Altogether, 1,465 were arrested; among these, 381 were sentenced to jail or other institutions.

The Commission of Inquiry was set up to investigate the events and their causes. The report devoted 40 pages to the discussion of causes. As for immediate causes, the report concluded that public emotion had built up due to "a partial failure of communications over the Star Ferry application." As for underlying problems, the report stated that "there is evidence of a growing interest in Hong Kong on the part of youth and a tendency to protest at a situation which their parents might tacitly accept," and that "the degree of misunderstanding of government's aims exposed by our inquiry emphasizes the importance of ensuring that its policies and problems are clearly explained and the public's cooperation in their implementation actively pursued."³¹ To meet this, the report recommended "a greater degree of decentralization of administration to provide a range of simple services at the local level in order to build up local community spirit and improve the public's access to government, and to develop local representation and advisory, consultative or executive bodies at a local level."³²

Concerning the role played by economic factors, the report mentioned that "working conditions still leave room for improvement and that long hours spent at unrewarding jobs can be a powerful stimulus in a quest for excitement which often leads to anti-social behavior." These sources of internal unrest were seen as possibly hampering stability and thus economic growth.³³

Regarding the influence of social conditions, though the report did not openly state that major social services such as housing, environment, and education were direct causes of the disturbances, it went on to write:

It is clear that [the housing] problem still remains a large one with the need to rehouse great numbers from squatter areas and deterioration of old buildings as well as to reduce overcrowding in the existing estates and to plan for urban renewal in the older areas such as Yau Ma Tei.³⁴

We would strongly endorse any proposals, such as the development of new communities, designed to reduce population stress in the central areas of Hong Kong and Kowloon.³⁵

Furthermore, community development and youth services were emphasized. The final comment of the report reads,

We do not believe that political, economic, and social frustrations were the direct cause of the 1966 riots, but within the economic and social fields there are factors, to which we have drawn attention and that need to be watched, lest they provide inflammable material which could erupt into disturbances should opportunity arise in the future.³⁶

The opportunity came the following year, hardly allowing any time for the government to take positive action based on the 1966 lesson.

The 1967 Riots

There was no official published report on this period of disturbance, which lasted much longer and caused greater damage than the previous one. Actually, this still is the most serious social unrest in the postwar history of Hong Kong. It lasted from May 1967 to January 1968. Cases received by the Compensation Board alone³⁷ amounted to 39 deaths and 205 injured. The latter figure must be very small compared with the actual number. The disturbances started with labor disputes in a plastic flower factory and a cement factory around April and May 1967.³⁸ Unlike other labor disputes in the past few years which ended one way or another, this time they were led by leftists echoing the Cultural Revolution in China, who very quickly shifted from labor disputes to political issues: ideological (communist vs. imperialist) and nationalistic (Chinese vs. British) causes. Pro-People's Republic unions and organizations first supported the workers in the dispute and soon took the lead in subsequent events. Violence first broke out in the San Po Kan areas near the plastic flower factory, where a large number of resettlement estates were situated, and then spread to other parts of the colony. Mass demonstrations and strikes mobilized by leftists followed the first violence. Violence ensued when these were confronted by police force. The struggle lasted the entire summer; when police finally gained control in the autumn, the rebels adopted terrorist bombing strategies instead of direct confrontation. Bomb terrorism lasted throughout the year and died down only with the advent of 1968.

At the outset of the disturbance, Sir David Trench, Hong Kong's governor at that time, told an interviewer that "trouble can flare up over any minor matter -- a football match or anything else -- and it would be foolish to pretend otherwise."³⁹ It was obvious that with the experience of the 1966 events, the government was more aware of its position. Furthermore, the general public, while indifferent or even resentful of the leftist mobilization, showed little active support of the colonial government. While community leaders such as those from the kaifong associations, charity organizations, business groups, etc., openly pledged loyalty to the government, this made limited obvious social impacts. After the very early period, disturbances faded away consequent to the heavy use of firearms and troops when indications were that the communists in Hong Kong had only lukewarm support from Chinese authorities.

Perhaps there was no need for an elaborate report such as the one in 1966 to make recommendations for changes that could help to reduce future chances of social unrest. However, actions for change had to come. The criticism of the government (and governor) both from inside and outside the colony after the riots further added a push. Cooper summarized such criticism as an aftermath of the riots.⁴⁰ He wrote:

In the [British] House of Lords' debate on the colony in November, Lord Rhodes, a Labour peer who had recently visited Hong Kong, said the greatest danger Hong Kong faced was the old, dead hand of an outdated administration. . . . he called for a better communication between Government and people . . . [and stated] that revision of the labour laws had now become imperative. . . . the present governor should be followed by a political governor who understands the moods and motives of the people.

He also reported mounting criticism from within the colony:

the Far Eastern Economic Review . . . maintained that Government had not given the people a sense of belonging. . . . there was no feeling of participation between people and Government. . . . the governor had failed to reach the targets which he had set himself at the beginning of his tenure of office -- reforms in education, medical and health services, housing an administration in general. . . . the requirement for a governor was a political administrator not a bureaucrat.⁴¹

Thus, by 1968 the government realized the level of popular discontent, and faced great pressure to adopt major reforms both in the administration's structure and style and in intervention that could enhance the economic and social well-being of the populace. It was with this background that Sir Murray MacLehose came to Hong Kong in 1971 as the first governor with diplomatic experience.

The MacLehose Era

The appointment of Sir Murray MacLehose as governor of Hong Kong in 1971 was destined to be a major factor in the social and political evolution of the colony, particularly in the field of housing policy. All observers converge in the opinion that the strong personal support of Governor MacLehose for his Ten Year Public Housing Program was the decisive element in the performance and orientation of housing policy in Hong Kong. In his first speech to the Legislative Council in October 1972,⁴² MacLehose devoted 80 percent of his speech to social policy, with particular emphasis on housing. He declared that,

It is my conclusion that the inadequacy and scarcity of housing and all that this implies, and the harsh situation that results from it, is one of the major and most constant sources of friction and unhappiness between the government and the population. It offends alike our humanity, our civic pride and our political good sense.⁴³

He conceived housing policy as a key element of a broader social policy aimed at substantially increasing the well-being of the local population, as he confirmed to us when we interviewed him in the summer of 1987 in London, where he is now a peer in the House of Lords. Consequently, the new housing policy was conceived to provide greater quality -- and not just quantity -- and included planning for a better integration of the population in pre-planned communities, the new towns to be built in the New Territories. These were to include urban services, facilities, and a network of social organizations, the mutual aid committees, to both control and channel the residents' demands.

This deliberate effort at social reform met resistance from the local elites, particularly from the civil service and from the administrative class. The powerful finance secretary, Sir Philip Haddon-Caven, actually undermined the policy by blocking or delaying budgetary allocations to the housing program, convinced as he was that such policy would lead to financial suicide. The Housing Department was not able for several years to respond to the pressure brought by the ambitious objectives of the governor's policy. And MacLehose's drive against corruption, which materialized with the creation of the Independent Committee Against Corruption,⁴⁴ triggered a police mutiny in the fall of 1977 that forced a retrospective amnesty on corruption crimes.

However, in the long term the governor had his way, demonstrating the limits of power of the administrative class when confronted with a forceful governor in the centralized, authoritarian structure of the Hong Kong government. While information on the matter is scarce, we can speculate that, in order to prevail, MacLehose made some alliances with those segments of the administrative class who were more interventionist, more technocratic, and more inclined to lead Hong Kong's development. These tendencies formed a trend that actually became manifest in the leadership of the government after MacLehose left the territory in 1982.

Yet such alliances and realignments, which represented a de facto split of the administrative class, relied on avoiding public debate and open confrontation, an approach that imposes on the social researcher the limits of confining our proposition to a speculative hypothesis. In any case, through a combination of forceful decisions and shrewd alliances, MacLehose's social reform was slowed down but not halted. A number of policy papers were issued by the government between 1973 and 1981, and most of their recommendations were subsequently implemented. In 1972, the

Ten Year Housing Program was announced, and the Housing Authority was restructured. In 1973 the government published "Social Welfare in Hong Kong, The Way Ahead"; in 1974, "The Further Development of Medical and Health Services in Hong Kong" and "Secondary Education in Hong Kong over the Next Decade". In 1977, the government published "Integrating the Disabled into the Community, a United Effort," "A Programme of Social Security Development in Hong Kong," "Services for the Elderly," and "Development of Personal Social Work Among Young People in Hong Kong", while in 1978, "The Development of Senior Secondary and Tertiary Education" appeared. In 1979, "Social Welfare into the 1980s" made its appearance, followed in 1981 by "Primary Education and Pre-Primary Services."

The policies formulated in these documents provided the background for the dramatic expansion of social services and public goods that were reported in the preceding chapter.⁴⁵ All in all, during the ten MacLehose years, the proportion of government expense over gross domestic product grew dramatically to reach 23 percent of gross domestic product, while still ensuring a high rate of economic growth and a balanced budget, refuting in practice the Financial Secretary's fiscal conservatism. The civil service was reformed, brought under tighter control, rationalized with the technical advice of an American management consulting firm (McKinsey), and increasingly localized (that is, expanding the recruitment of Hong Kong Chinese into the civil service). It also dramatically expanded its size, almost doubling the number of civil servants from 81,511 in 1971 to 154,034 in 1982.⁴⁶ Under MacLehose's tenure, Hong Kong became a welfare state, within the limits and constraints of a colonial situation and the straightjacket of a non-interventionist ideology, increasingly refuted in the practice of government.⁴⁷

At the same time, along with social reform, MacLehose took several important steps towards political reform. As pointed out above, the communication channels between the government and the Chinese society had been weakened by the decline of the representativeness of the kaifong associations. The riots made evident the absence of effective communication channels, and such was one of the main themes of the Report of the 1966 Commission of Inquiry. In direct relationship with the recommendations of the commission, prior to MacLehose's appointment, the government had acted by instituting in 1968 the City District Officers Scheme. The urban area was divided into ten districts, each one with a city district officer appointed by the government. These city district officers were supposed to bridge the gap between government and people, explaining government policies, collecting public opinions, coordinating government programs at the local level, promoting community activities, and the like. MacLehose expanded this city district officers scheme in order to increase local participation and defuse social tensions.

In 1972, city district committees and area committees were organized as consultative bodies to the district officers. In 1973, the

community-based structure expanded its reach with the development of mutual aid committees at the block level. Between 1973 and 1980, the number of mutual aid committees increased from 1,214 to 3,132, theoretically reaching a population of two and a half million people. This effort at community organizing, entirely led and controlled by the government, bypassed the moribund kaifong associations, considered unable to represent the new immigrant population, as well as the younger generation of workers born in Hong Kong. The ecological and organizational basis of these new community organizations was provided by the public housing program and by the housing estates in the new towns. Most often, the mutual aid committees were initiated by the social workers of the Housing Authority as a way to both voice the residents' concerns and channel their demands in an orderly manner.

On the basis of these new communication channels of community-based organizations, in the last years of MacLehose's tenure the government proceeded to open up for the first time the political system to limited forms of political representation, by proposing in June 1980 the District Administration Scheme as an extension of the existing district offices. Under this proposal, district boards with mainly advisory functions were established in ten city districts and in eight New Territories districts. These district boards were formed under the new legislation by local government officials, appointed unofficial members, and -- this was the major novelty -- elected unofficial members, on average seven per board. The scheme was implemented in April 1981, and the first elections, held in September 1982, registered a significant degree of voter participation for the first time in Hong Kong. More than 900,000 persons were registered voters, and the effective turnout was 37.9 percent of the registered electorate, in sharp contrast with preceding experiences concerning elections to the powerless Urban Council. This reform of the district boards set the stage for the process of significant democratization that took place in Hong Kong throughout the 1980s. The coupling of social reform and limited citizen participation underscored the clear strategy of the MacLehose government to mend Hong Kong's tattered social fabric.

Thus, the significance of MacLehose's personal intervention in the Hong Kong government demonstrates the importance of personality factors in policy-making and, through policy outcomes, in the dynamics of society. What explains his success, and even more, the orientations of his policy as formulated? After all, he was not a social reformer but a career diplomat, whose appointment was probably linked to the effort to restore a good relationship with China after the difficult period of the late 1960s and the threatening development of the Cultural Revolution. A Scots aristocrat, MacLehose was the first Hong Kong governor who was not a member of the administrative class, as we have defined it. Appointed by a Labour Party government, he was considered a liberal, socially minded public officer; as such, his appointment was considered initially with apprehension by the highly conservative Hong Kong elite, Chinese and

expatriates alike. He was supposed to concentrate on his specifically political endeavor, oriented toward China rather than toward Hong Kong. Thus his emphasis on social programs and particularly on housing came as a surprise, indeed as a shock, for most of Hong Kong's civil service. To explain such a policy orientation, which became a decisive factor in the development of Hong Kong's public housing program, we must recall a critical fact and introduce a major hypothesis.

The critical fact accounting for the effectiveness of the social reform in the long run is the absolute political power of the governor in Hong Kong's political system. Although he (or, though unlikely, she) has to consider a variety of elements and interests in policy formulation and guidance, once a decision is made, the only potential obstacle to its implementation is bureaucratic resistance. MacLehose did meet with such resistance, as indicated earlier, but given his persistence in the effort, it was just a matter of time before his policies would come through. This brings us to the real question: why such emphasis on social reform, and particularly on housing?

It is our hypothesis that MacLehose identified social reform as one of the criteria; elements to fulfilling his fundamental political assignment -- to pacify and stabilize the colony after the 1966-67 riots. While relationship with China was probably his first task, he realized (during the 12 months he took before formulating a new policy), that Hong Kong society had deeply changed, and that, in line with the recommendations of the Commission of Inquiry on the 1966 riots, the grievances of an uprooted, recently immigrated population had to be taken into consideration in order to actually achieve social stability. He did not accept the easy yet superficial explanation of outside agitators as the source of discontent. He tried to create a solid basis for negotiating with China by building up local political legitimacy on the basis of social programs and limited democratization.

Social stability was important on three different fronts: to lay the foundations of steady economic development; to negotiate with China the political future of the colony; and to obviate potential criticism from London, in particular from the Labour government in power during the early 1970s. With the goal of social stability in mind, MacLehose drew on the British tradition of social welfarism with which he was most acquainted, and identified the delivery of public goods and services with the contentment of the populace. He also received strong advice in favor of such a policy orientation from a number of Hong Kong civil servants involved in the area of social policy and public programs, most significantly in the case of Housing, from Donald Liao, a noted Chinese architect and high-ranking officer in the Housing Department.

The interesting paradox as we will argue below, is that while stabilizing the political scene in Hong Kong, social programs actually triggered a series of social movements aimed at collective consumption.

Throughout the 1970s, these movements grew to the point of furthering the policy of social reform during the 1980s and paved the way for political movements calling for democracy. Thus, we cannot equate social stability and social passivity. Hong Kong's urban masses became socially active without being disruptive. Social peace prevailed at the workplace, while neighborhood mobilizations and local political pressures channeled the demands of an increasingly conscious and active population. However, the central point remains that the acceleration of the public-housing program was directly related to an effort at social integration in the aftermath of the riots of the late 1960s and of the student movements of 1971.

MacLehose's political strategy translated into social policies that made several gains; they improved the living conditions of the urban masses and stimulated their mobilization within the social boundaries of the Hong Kong system. By demonstrating the positive economic effects of social programs to the business and administrative elites, they also ended up receiving the elites' approval in the form of a continuation of such social policies after MacLehose's retirement in 1982.

Urban Mobilization, Institutional Democratization, and the Politics of Collective Consumption

The Interplay Between Urban Struggles and Local Democracy

The social and political reforms of the MacLehose era did fulfill its goal of stabilizing Hong Kong society, but not by quieting it down. Instead, the development of collective consumption led to increased social mobilization on urban issues, while the process of democratization stimulated political participation. The two processes reinforced each other, opening up to some extent the local political system and putting grassroots pressure on the process of policy-making, particularly in the realm of housing.

At first sight, it would appear paradoxical that the new priority given to the public housing program during the 1970s could trigger a higher level of urban protest particularly focusing on housing issues. However, this corresponds to the findings of sociological research in other contexts.⁴⁸ The shortcomings of the actual housing program conflicted with the high level of expectations raised by the stated goal of social reform. More significant was that the socialization of the consumption process (through government management of goods and services) determined the socialization of the struggles and the focusing of social demands. This took place in a context wherein community organization was encouraged both by the new openness of the system and by the effort to create new channels of people's representation, particularly in the housing estates. Social workers and church organizations were crucial in leading a process of grassroots organization and empowerment which

consolidated into a full-fledged urban social movement in Hong Kong in the 1980s.

In his remarkable thesis on urban neighborhoods mobilizations in Hong Kong,⁴⁹ Stephen Ma has provided systematic evidence about the development of demand movements oriented to urban issues in Hong Kong during the 1970s and early 1980s. Table 3 summarizes the trend with some level of quantification, given all of our awareness of how arbitrary such quantification can be. What is significant is the upward trend that emerges when the events are put on a comparative basis. The origins of such forms of mobilization, relatively new in the Hong Kong scene, goes back to the early 1970s with the pioneer work of the Society for Community Organization, which was formed in 1971 to take advantage of the favorable government attitude toward citizen participation. This effort was joined shortly afterwards by several voluntary agencies, including Caritas, the Neighbourhood Action Advice Council, and the Tsuen Wan Ecumenical Social Service Centre.⁵⁰ They employed full-time community workers to mobilize people around common issues such as the lack of urban facilities in the housing estates or the opposition to forced relocation in the settlement areas. Very often, the struggle led to the formation of a community organization that subsequently became an actor in mobilizing for newly arising issues.

Responding to the pressures, but also trying to institutionalize the protest, by 1977 the government's Social Welfare Department began to subsidize community development projects operated by voluntary associations. These projects were instituted in the most physically dilapidated areas, such as squatter areas, temporary housing areas, and Mark I and II housing estates. These community development organizations laid the ground for some of the most active mobilizations in the 1980s. Furthermore, the fact that the government would recognize autonomous community organizations and even subsidize them, legitimized their work in the eyes of the public opinion and allowed for the expansion of their influence as representatives of well-grounded claims on behalf of the residents. In a parallel movement, the mutual aid committees, jockeying for their own representation, became increasingly autonomous vis-a-vis the sponsoring government agency (the Social Welfare Department). They were often led by militant social workers, ended up, in many housing estates, being additional sources of mobilization and demand.

The development of an urban movement was an important element in furthering institutional democratization in the 1980s, particularly at the local level. On the other hand, the process of political reform was accelerated by the government after the beginning of negotiations with China in September 1982 as a way to prepare Hong Kong for greater political autonomy. The reforms reinforced community-based organizations and gave them a greater stake in using institutional channels to express their demands. Stephen Ma has compared institutional and non-institutional means of action in housing struggles (see Table 4), and

TABLE 3

The Development of Neighbourhood Mobilization, 1966-85

<u>Year</u>	<u>Neighbourhood Mobilization In General No. of Event</u>	<u>Mobilization Related to Housing No. of Event</u>	<u>Average No. of Action Taken in the Mobilization</u>
1966	5	1	1.0
1967	1	1	1.0
1968	6	-	-
1969	16	6	1.2
1970	12	8	1.8
1971	8	8	1.5
1972	14	7	1.4
1973	11	3	1.0
1974	20	10	1.2
1975	15	7	1.9
1976	20	11	2.5
1977	30	18	1.8
1978	37	18	2.1
1979	21	5	3.8 *
1980	35	12	6.5 *
1981	30	10	1.6
1982	28	14	1.3
1983	37	15	1.8
1984	30	17	2.8
1985	29	12	6.1 @

Note : * These figures are so large because of the prolonged pavement sleep-in organized by the Machaihang Fire victims.

@ This figure is biased by the neighbourhood mobilizations against the Green Paper on public housing subsidy.

Source : Enumeration based on Wah Kiu Yat Pao.

Table 4

The Development of Institutional & Non-institutional Means
of Mobilization Action Related to Housing, 1966-85

<u>Year</u>	<u>Form of Mobilization</u>	
	<u>Institutional Means</u>	<u>Non-institutional Means</u>
1966	-	1
1967	-	1
1968	-	-
1969	4	3
1970	6	8
1971	6	6
1972	7	3
1973	1	2
1974	5	7
1975	5	8
1976	18	9
1977	18	14
1978	9	17
1979	7	16
1980	16	12
1981	16	152 *
1982	12	7
1983	26	12
1984	36	19
1985	53	92 @

Note : * This figure is so large because of the prolonged pavement sleep-in organized by the Machihang Fire victims.

@ This figure is biased by the neighbourhood mobilizations against the Green Paper on public housing subsidy.

Source : Enumeration based on Wah Kiu Yat Pao.

shown the dramatic increase in the use of institutional means in the 1980s. It does not follow that urban mobilization has been co-opted. As a matter of fact, such mobilization has become more effective in recent years in terms of its impact not only on housing policy but also on the political system as a whole. The interaction between social struggle and governmental adaptation to a changing environment formed the basis of institutional reform that showcased the containment of influence within the limits of the institutions.

Reciprocally, while urban struggles have been to a large extent institutionalized, government institutions have been increasingly penetrated by themes, interests, and people originating in the world of community mobilization. Thus, in 1985 and 1986, three major elections were held that ensured for the first time citizen representation in the government legislative bodies: elections to the reformed Urban Council and to the new Regional Council instituted in the New Territories; elections to the Legislative Council; and elections to the district boards throughout the territory. With a significant registration rate and acceptable levels of voter participation, the election results signaled the transformation of Hong Kong's political landscape, particularly at the local level. While the election to the Legislative Council legitimized the role of dominant public personalities, primarily representative of the business world, election to the district boards evidenced a significant success for candidates supported by grassroots groups, particularly those engaged in urban mobilization and collective consumption demands. Candidates representing the traditional kaifongs or other conservative associations (such as the Reform Club) had a much lower rate of success than the new, younger generation formed in the militant urban movements. Overall, Ma estimated that about 30 percent of the successful candidates in the 1985 district boards election were backed by grassroots militant groups. The proportion seems to be much higher, according to our own observation, in the district boards representing large public-housing estates, particularly in the new towns.

The winning combination of widespread community-based groups with political participation in reformed semi-representative institutions gave much greater political clout to social movements aimed at housing demands. The combination actually introduced a new element in the formulation and orientation of housing policy. Because of the importance of such a development for our specific research interest, we have focused our analysis on it as a limited case study. Our focus, then, is on the housing demand actions of the most important demand-oriented urban organization in the Hong Kong scene in the mid-1980s, namely the People's Council on Public Housing Policy. In order to summarize our observations in the most succinct manner, we have adopted a telegraphic style to retrace the main actions and policy outcomes of the grassroots group that seemed to be representative of the new social trends behind the changes of housing policy since the turning point of the 1982 district board elections.

The New Actors in Housing Policy: The People's Council on Public Housing Policy

By the second half of the 1970s, some social workers and residents' groups started to be concerned with public-housing issues and policies. In 1977, in response to a rental increase, the Action Committee on Public Housing Rental Policy was formed.

In early 1979, the committee registered as the People's Council on Public Housing Policy.

Members included two different types: individuals and groups. Individuals were those concerned about public housing -- social workers, student researchers, etc. Groups included residents' groups and social action groups. With funding from overseas church organizations, they employed their first full-time staff in late 1982, namely, its leader, K. K. Fung.

Generally speaking, the activities of the People's Council on Public Housing Policy developed along two lines. First, they pooled the manpower from residents' groups, social workers, academics, etc., to study housing-related policies and issues so as to advocate alternatives. Second, the People's Council on Public Housing Policy performed the role of an organizer that assisted residents' groups in each individual estate to form coalitions to react to housing policies and management issues. These coalitions also advocated and pressed for alternatives proposed by the People's Council on Public Housing Policy. More recently, a third line of activities has evolved and linked up with the above two. With some of its members, staff, and supporters elected or appointed to bodies such as the district boards, Urban Council and/or Region Council, Housing Authority, and even the Legislative Council, political lobbying and inside-the-system lobbying have become this third line. These three lines of operation were by no means totally independent of one another. What was desired and actually happened was that they were coordinated. A simplified hypothetical model may be as follows:

- o Official information and policy direction are obtained by insiders.
- o These are studied by certain policy committees under the People's Council on Public Housing Policy.
- o Conclusions are passed down to residents' groups through their representatives in the People's Council on Public Housing Policy for approval.
- o The People's Council on Public Housing Policy voices their views in public while residents' groups echo.

- o Evidence is put forward to support the stand, while at the same time various forms of collective actions are adopted to generate pressure. The media is one important element.
- o Meetings and lobbying are conducted with officials and board, council, and committee members.

It can be seen that, for collective social actions, the residents' groups from different estates were the most important force. To mobilize them, the People's Council on Public Housing Policy set up a number of joint committees, each on specific policy or issue areas, and in these joint committees were the residents' representatives themselves. Very often, non-member residents' groups were co-opted to participate in these joint committees on an ad hoc basis. These committees acted as a crucial link between policy advocacy and grassroots mobilization.

In order to assess the practice of the People's Council on Public Housing Policy, we consider it important to review in detail some of its main actions and demand-oriented campaigns. We have adopted a form of presentation that records the main elements of the action in a systematic way:

ISSUE: ROOFTOP HEAD OF TOP-FLOOR TENANTS 1980-83
ACTOR: JOINT COMMITTEE ON TOP-FLOOR INSULATION
COURSE: Since 1977 there have been complaints from top-floor tenants about rooftop heat. No improvement had been made by the Housing Department when the People's Council on Public Housing Policy set up the above joint committee in 1980. Some 24 estates were involved. Actions included petitions, sign-ups, sleep-outs, a one-dollar campaign, and a public forum at a park with 2,000 participants. In late 1980, the Housing Department promised to carry out experimental insulation measures. Results came in mid-1981; the Housing Department promised to finish the work in four years. Since then, a monitoring group was set up to see that the promise was fulfilled properly.

ISSUE: REDEVELOPMENT OF MARK I AND MARK II ESTATES 1980-1990s
ACTOR: JOINT ACTION COMMITTEE ON THE EARLY REDEVELOPMENT OF THE ESTATES
COURSE: In 1972, MacLehose said that redevelopment of Mark I and Mark II estates should be finished by 1987. In 1980, the Housing Authority announced that the redevelopment work would only be finished in the 1990s. The above committee was then set up under the People's Council on Public Housing Policy. In 1980, nearly 7,850 families signed up to urge early redevelopment; this was followed by petitions. In March 1981, the Housing Department announced improvement work to be carried out for 140 blocks. Subsequently, the committee (through collective actions and discussions with officials) worked on issues such as moving allowances, married sons or daughters, quality, location, and rental of new housing.

ISSUE: TEMPORARY HOUSING AREAS 1981-
ACTOR: JOINT COMMITTEE OF TEMPORARY-HOUSING-AREA RESIDENTS
COURSE: In 1980, the Housing Department increased the rent of temporary housing areas, which was objected to by temporary housing area residents. In 1981, the above committee was set up under the People's Council on Public Housing Policy. Throughout 1981 and 1982, the committee fought with the Housing Department on environmental safety quality and public facilities in temporary housing areas and the rehousing speed, location, and the criteria for allocation of housing. As a result, they got the 15-year rehousing criteria stepped down to ten years, improvement in facilities and fire safety, and a rehousing program for the 27 older temporary housing areas. The emphasis turned in 1983 to the singletons and two-member households. Under the policy at that time, these persons were not eligible for permanent public housing. So, in the rehousing program of temporary housing areas, they were either moved from one temporary housing area to another or to hostels for singletons. Petitions, sit-ins, and sleep-outs outside the Housing Department headquarters were launched. Wide support from the public was gained. The Housing Authority stood firm. The debate went on and off until a 1984 policy review, when these groups became eligible. Details of the policy were still causing controversy until 1986, when newly married singletons were allowed to have their spouses added to the singleton housing unit to wait for allocation to family housing units. Meanwhile, other issues emerged, such as the quest for higher voltage for air-conditioners, relocation of units due to overcrowding, etc.

ISSUE: MONITORING OF HOUSING ESTATE MANAGEMENT, 1983-
ACTOR: JOINT COMMITTEE ON HOUSING MANAGEMENT
COURSE: Formed in 1983 to discuss management issues in public housing with Housing Department officials. Achieved the promise to have housing managers of individual estates have meetings with respective residents' groups in the estates over management problems in the estates.

ISSUE: REVIEW OF HOUSING POLICY, DEC 1982-1984
ACTOR: JOINT COMMITTEE ON HOUSING POLICY
COURSE: Since the Housing Department has never issued a policy statement for public comment, the four joint committees under the People's Council on Public Housing Policy joined with the people's Council on Squatter Policy to review the housing policy. They issued a green paper (which reviewed the government policy and advocated their own; see later note for content), and discussed it with 189 professionals, government officials, and residents. During July 1983, the residents' groups organized discussions, forums and exhibitions in their estates. Some 3,000 residents were directly involved. In September 1983 they issued a draft white paper and further discussed it with relevant parties. In February 1984 they issued their formal statement, "Housing Problems in the '80s -- A Challenge," two months before the Housing

Authority was able to publish their first document for public consultation, "A Review of Public Housing Allocation Policies," in April 1984.

ISSUE: RENTAL INCREASE 1983-87
ACTOR: JOINT COMMITTEE ON PUBLIC-HOUSING RENTAL
COURSE: In the early 1980s, the Housing Authority increased the rents of public-housing estates by percentages that aroused objections from residents. There have been sporadic but unsuccessful actions. (The rent increase affected a few estates at one time and not all in one batch.) In 1983, the committee was set up to study the rent policy and relevant information and data. In August 1984, a rent increase (25 to 48 percent) that affected 38 estates aroused quick reactions from residents. The committee joined with non-member residents' groups to form a larger coalition, and launched a series of actions and petitions. In September a rent strike (where tenants paid only the old rent) was launched following a mass forum supported by 144 residents' groups from 32 estates, and participated in by 3,500 residents. A few thousand households joined the rent strike, but the Housing Department stood firm. Mutual aid committees that supported the rent strike threatened to resign in protest against the Housing Authority's response. The coalition tried to pacify the mutual aid committees and called off the rent strike under the threat that supporting residents might lose their tenure. The issue cooled down in November 1984 when the Housing Authority announced that the next batch of estates due for rent increase would have a lower increase percentage (less than 25 percent), the increases would be announced earlier before they were to take place, and the overall rent policy would be reviewed. While waiting for the review, the committee organized its own review and collected opinions from residents during 1985. In 1986, the committee voiced its results and demanded that the Housing Authority publish it. (K. K. Fung was co-opted into the Housing Authority review committee, had put forward the People's Council on Public Housing Policy standpoint, and knew they were not accepted.) Finally, the Housing Authority review committee published the report in October 1986, and the committee took action -- petitions, forums, marches, etc. -- but were unsuccessful.

ISSUE: THE "WELL-OFF" TENANTS, 1984-JANUARY 1987
ACTOR: JOINT COMMITTEE ON THE "WELL-OFF" TENANTS ISSUE
COURSE: In the 1984 document, "A Review of Public Housing Allocation Policies," the Housing Authority suggested reducing or getting rid of the housing subsidy to well-off tenants. This led to doubts over the definition and assessment of well-off, and the measures applicable to them. The Housing Authority subsequently set up a committee to further pursue the issue. The People's Council on Public Housing Policy also set up a committee to monitor and prepare for the further development. A green paper was published in August 1985 by the Housing Authority committee, suggesting a double-rent treatment for those who had been tenants for more than ten years and whose household income exceeding 1.5 times the application criteria income. The committee organized a

series of forums and actions against the proposal. Up to October 31, 1985, they collected signatures of 9,600 households and 100,000 individuals, and handed these in to the Housing Authority. The Housing Authority set up another committee to further study the issue, and published a final report in September 1986. The proposal was retained with minor amendments. Further actions were launched but with no results.

ISSUE: STRUCTURAL PROBLEMS IN 26 PUBLIC-HOUSING BLOCKS.
NOVEMBER 1985-1986

ACTOR: JOINT COMMITTEE ON PUBLIC HOUSING

COURSE: In November 1985, the Housing Department announced that due to structural problems, 26 public-housing blocks would have to be torn down and residents rehoused. The People's Council on Public Housing Policy met officials and demanded proper rehousing for affected tenants, preventive measures to avoid future similar cases, and the tracing of legal responsibility in this case. It also participated in the above committee, set up by the Society for Community Organization. After a series of collective actions, the Housing Authority promised to increase the removal allowance, increase the choice in rehousing, sue the contractor, report rehousing progress to affected tenants, and direct meetings between housing managers and affected tenants.

Other Involvements:

Other than housing policies and issues, the People's Council on Public Housing Policy also participates in coalitions related to democratic political reform.

Overall, residents' actions before the formation of the People's Council on Public Housing Policy have been sporadic and reactive. The earlier years of the People's Council on Public Housing Policy were still reactive but much more organized, putting the Housing Department in a difficult position. Later on, the People's Council on Public Housing Policy coupled reactions with advocacy, which challenged the higher-level policies. These, under the context of the opening up of the political system from 1982 onward, led the Housing Authority and the Housing Department to put on a more enlightened image. This included publishing a policy statement for public discussion, and allowing some policy changes in favor of residents' demands. To this new reformist attitude, the government responded by allowing limited representation of the Council in the government policy-making bodies, including appointment of the Council's leader, K. K. Fung, to the Housing Authority Management Committee. Such an appointment was accepted as a challenge by the Council, which established a system of delegation of power under which Mr. Fong presented to the Management Committee what the Council had decided in its own autonomous meetings; and he reported back to the Council the results of the deliberations. The tension between participation and protest, as experienced by the People's Council on Public Housing Policy,

well illustrates both the power and dilemmas of Hong Kong's mature urban social movement.

A Dynamic Social Stability

Hong Kong in the 1980s, particularly after the 1984 Sino-British Agreement, is indeed a far more stable society than it was 20 years earlier. However, such stability is not the result of the passivity of its population nor the outcome of the government's quelling of social protest. It appears to derive from the combined effect of social reform, improving living conditions, and political liberalization, opening up channels of citizen participation. In both instances, the MacLehose reforms created the conditions for such an outcome but were not by any means the only factor contributing to it. By socializing consumption, social policy stimulated the formation of urban social movements. By reforming local institutions, political democratization allowed the formation and enhanced the influence of grassroots-based political groups. In turn, the impact of such urban movements and political pressures deepened the scale of social policy, particularly in the housing field, and connected, to some extent, the grassroots to the political system. In so doing, they institutionalized protest, they reformed the institutions, and they achieved some social demands. The overall outcome was a more stable but also more democratic and more socially just Hong Kong. The great lesson of the MacLehose era and its surprising aftermath was that societies do not draw their solid foundations from lethargic dullness, but from dynamic innovation.

Housing Policy as a Sociopolitical Strategy

We are now in a position to assess the sociopolitical dimension of housing policy in Hong Kong. However, we must distinguish between the political motivation behind the launching of the ten-year housing program in 1972 and the political outcome of housing policy itself. In addition, we must also consider the effects that the political process had on the reformulation of housing policy in the 1980s.

It seems historically indisputable that a major motivation for the priority given to the public-housing program in the 1970s was to achieve social stability in the aftermath of the 1960s riots. To be sure, housing policy was not the only instrument contemplated, since it went along with a much broader program of social reform as well as with gradual political reform. However, housing per se was a fundamental element in the government's policy, and the one that crystallized the opposition of a sector of the administrative class to the governor's grand design of reforming Hong Kong. In fact, the new approach to the public-housing program clearly departed from the policy implemented in the 1950s and 1960s. In its political dimension (which, we will argue below, was the less important one in the 1950s), the policy as inspired by the Shek Kip

Mei fire was an expression of the social paternalism of the administrative class: to take care of the needy, within the limits of the budgetary priorities geared toward law and order, bureaucratic efficiency, and economic growth. By contrast, the 1970s policy, which aimed at achieving social stability and political legitimacy, was more directly inspired by the British social welfare tradition, and this at three fundamental levels that explain the characteristics of the housing program: (1) the improvement of the quality of public housing; (2) the provision of urban services under the form of socialized consumption represented by planned new towns as a new and healthier form of life which was also directly inspired by the British approach to social reform through the reshaping of the residential space; and (3) the organization of a network of community agencies run by professional social workers as an integrative device for the populace. In direct ideological continuity with a town-planning tradition that viewed the control of space and the improvement of the environment as a way to tame the "classes dangereuses,"⁵¹ the Public Housing-New Towns Program of the Hong Kong government aimed at more than just providing shelter. It deliberately attempted to give a stake in Hong Kong to an immigrant population escaping from misery and hoping for successful overseas migration on the basis of potential savings, in a strict individualistic approach to daily survival. In fact, being placed on the public housing waiting list became the real declaration of a Hong Kong citizenship. But for this entitlement to be a social stabilizer, the living conditions at the end of the waiting line should be decent enough -- and affordable enough -- to justify the effort. Thus, the gradual improvement in the quality of the environment and the quantitative expansion of the program. As a result, regardless of the correspondence between the ideological representation of the environmental path toward social stability and the actual dynamics of the society, the political strategy underlying the housing program does explain its very existence, to a large extent.

As we have shown, housing policy did contribute to social stability, but through unintended and unsuspected detours. Instead of calming down social protest, it stimulated demands, fostered community organizations, and politically enfranchised the residents at the local level. This done, violent protest receded, but it was exchanged for a greater say by the people in the running of local affairs and in the formulation of housing policy. A stable conflictual system appears to be the final political outcome, contributing to the restructure of the overall dynamics of Hong Kong society.

Last, the existence of a higher level of social mobilization and political representation transformed the housing policy itself during the 1980s. Rules of eligibility for public housing were relaxed. Quality of the new estates was improved. A massive program of rehabilitation of the old housing estates was launched. Some mechanisms of participatory management were introduced in the formerly secluded Housing Authority. The example of residents' mobilization motivated the middle class to ask for its share of the program, and reinforced the government's design of

extending the policy of subsidized housing to include more affluent segments of the Hong Kong population. And a policy of environmental quality substituted for strictly quantitative goals of production of housing units.

Thus we come full circle in the relationship between political strategies and housing policy. The search for social stability and political legitimation furthered the scope of housing policy. The socialization of consumption contributed to urban mobilization and political democratization; the combined effect promoted a stable system of institutionalization of conflict. And the new politics of collective consumption restructured housing policy, enhancing the quality of the living quarters, and reforming the institutions of management of everyday life.

This analysis does not imply, by any means, that housing policy was solely the result of political strategy. But such was a fundamental dimension of its formulation as well as a major component of its social outcome. However, the political current underlying the public housing program must be articulated to the program's economic and social dimensions, as we have presented in the preceding chapters of this study. It is in the articulation between these different dimensions, in a complex process of interaction in each stage of its development, that lies the ultimate explanation of the social logic of Hong Kong's housing policy. The attempt to integrate in that perspective the different findings of our research will conclude our study.

ENDNOTES FOR CHAPTER THREE

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4. N. J. Miners, "The Government and Politics of Hong Kong," Oxford University Press, Hong Kong, 1975 (Update edition, 1986).
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14. See the analysis of the social continuity between the Gaullist cabinets and the socialist cabinet in France in 1981, in Monique Dagnaud and Dominique Mehl, "L'elite rose," Fayard, Paris, 1982.
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17. See John P. Burns and Ian Scott, "A Profile of the Civil Service," in Scott and Burns, op. cit., 1986, pp. 17-35.
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45. See "Hong Kong: Issues in Social Policy," Special Issue of The Asian Journal of Public Administration, Volume 8, Number 2, December 1986; also Nelson W. S. Chow, "A Review of Social Policies in Hong Kong," in Kwan and Chan, eds., op. cit., 1986, pp. 137-154.
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CONCLUSION

In our analysis of the public-housing program in Hong Kong, we have shown its considerable structural effects on the process of economic development. We have also indicated that the resources generated by such economic development made possible the expansion and continuous upgrading of the housing program. A close reciprocal relationship exists between economic development and housing policy, each process reinforcing the other. However, our study also shows that the origins, evolution, and characteristics of the housing program have to be found in the specific dynamics of the State. Despite the mythology created around it by economic ideologues, Hong Kong State is very interventionist, although its modes of intervention pertain more to the sphere of collective consumption and public infrastructure than to the realm of production or capital circulation. Housing in Hong Kong has been one of the main targets, and instruments, of State intervention in the economy and society. The analytical difficulty arises because there is no direct correspondance between the intentions of the policy and its structural effects. Furthermore, the actual effects produced by housing policy induced new issues that led to modifications in the housing policy, under the two-fold impact of the new problems arising in practice and the evolution of the State itself. A summary review of the causes and effects of the housing policies since the 1950s, as presented in this study, will illustrate our analytical conclusion.

In the 1950s, the beginning of the public housing program had two clear objectives: clearing land for industrial development and helping to restore public order and hygiene in a city that was quickly becoming entirely made up of slums and squatter settlements. The charitable intentions of the program were clearly second to the functional needs that were pursued. Provision of housing as a welfare right was clearly not on the top of the agenda of the administrative class, concentrated as it was on controlling the flow of immigrants and helping to reconvert the economy from entrepot to manufacturing.

In the 1960s, the lack of commitment of public resources, the social and political uncertainty in Hong Kong and on the mainland, and the continuation of the waves of immigrants made the public housing program fall behind its minimum targets, adding to the social tensions in the territory.

In the 1970s, the State reassessed its own policy by concentrating on the conditions necessary to reach social stability, both by negotiating with China, and by improving residents' conditions of living, within the limits of a balanced budget. To do so, a new, forceful governor had to reverse the aloofness of the administrative class and set up an alliance with its technocratic, interventionist segment. The result was a comprehensive program of social reform, whose core was the revamped public-housing program. More and better living quarters, new planned towns, and a system of social work support and community organizations helped to integrate the new immigrants, if not as citizens, at least as tenants and dwellers.

A P P E N D I X

TO PART ONE

LIST OF INTERVIEWS CONDUCTED IN HONG KONG*

IN 1983 AND IN 1987

* All interviews were conducted by Manuel Castells, with the cooperation of Reginald Kwok and of Toh Lep Kee.

1983

Mr. D.P.H. LIAO
Secretary for Housing

Mr. Bernard WILLIAMS
Director, Housing Authority

Staff Members
Housing Authority (several group meetings)

Mr. Fung Hing WANG
Senior Statistician, Housing Department

Mr. Chamson CHAN
Principal Government Town Planner,
Lands Department, Town Planning

Mr. TODD
Director, Lands Department

Dr. K.S. PUN
Town Planning Division,
Public Works Department

Dr. Simon VICKERS
Civil Service Branch
Government Secretariat

Mr. Carlos H.K. CHEUNG
Civil Engineer, T.Y. Ling Consulting Engineers

Mr. MCFABZEAN
Manager, The Hong Kong Land Company

Mr. Frank WONG
Assistant Manager,
The Hong Kong Land Company

Mr. N.J. REEVES
Manager, Property Department
The Hong Kong and Shanghai Bank

Mr. James K. LEE
Economist, The Chartered Bank

Mr. Y.G. LIM
Chairman, The Institute of Housing,
Hong Kong Branch

Dr. Stephen L.W. TANG
Department of Sociology,
The Chinese University of Hong Kong

Dr. Y.C. JAO
Department of Economics,
University of Hong Kong

Dr. Victor SIT
Department of Geography
University of Hong Kong

Ms. Maria Wai-Chu TAM
Member, Urban Council

Ms. Elsie ELLIOTT
Member, Urban Council

Ms. Elizabeth TANG YIN NGOR
Hong Kong Christian Industrial Committee

Mr. Jack CLANCY
Coordinator
Center for the Progress of Peoples

Mr. Kin Ke FUNG
Director
People's Council on Public Housing Policy

Mr. Hoi Wah MAK
Coordinator
The Neighborhood Advice Action Council

Members and Leaders of the Hong Kong Social Workers General Union

1987

Miss Khor Ming Wai, Social Worker
Miss Wang Kwai Wan, Member
Mr. Tsui Ming Hung, Member
Tai Hang Tung and Nam Shan Estates Residents' Association

Mr. Chan Hon Ying, Elected District Board Member
Shatin District Board

Chairman, Mutual Aid Committee, Sha Kok Estate, Shatin

Mr. K. Y. Tang, Acting Deputy Secretary
Economic Services Branch
Government Secretariat
Hong Kong Government

Mr. Fung Tung, Deputy Director (management)
Housing Department
Hong Kong Government

Mr. D. Chan, Deputy Chief Secretary, and
Mr. M. F. Wong, Secretary
The Chinese General Chamber of Commerce, Hong Kong

Mr. K. K. Fung, Director
Hong Kong People's Council on Public Housing Policy;
Elected Urban Councillor
Co-opted Member, Management Committee, Housing Authority

Mr. John Todd, Secretary for Housing
Housing Branch, Government Secretariat
Hong Kong Government

Mr. Charles Fung, Secretary
Miss Rhoda Lai, Assistant Secretary
Chinese Manufacturers' Association of Hong Kong

Mr. Lawrence Mills, Director General
The Federation of Hong Kong Industries

Mr. J. D. McGregor, Director
The Hong Kong General Chamber of Commerce

Dr. M. Mushkat, Senior Lecturer, and
Dr. David Clerk, Lecturer
Department of Political Science
Hong Kong University

Mr. J. F. Yaxley, Deputy Financial Secretary
Finance Branch, Government Secretariat
Hong Kong Government

Mr. Leung Hon Hoi, Deputy Chief Secretary
Mr. Wong Hung, Secretary
Miss Wong, Assistant Secretary
The Hong Kong Federation of Trade Unions

Manager of Tektronix Corporation, Hong Kong

Mr. Granham Barnes, Secretary for Lands and Works
Government Secretariat
Hong Kong Government

Manager of Motorola Corporation, Hong Kong.

Mr. C. K. So, Executive Director
HK Trade Development Council

Mr. K. Y. Yeung
Acting Secretary for Trade and Industry, and
Director for Industry
Industry Department

Mr. Donald Liao, Secretary for District Administration
City and New Territories Administration

In addition, Reginald Kwok interviewed Sir Murray MacLehose in London,
July 1987.

PART TWO

HOUSING POLICY AND ECONOMIC DEVELOPMENT IN SINGAPORE:

THE BUILDING OF A NATION IN THE LION CITY

CHAPTER ONE -- THE PROCESS OF ECONOMIC DEVELOPMENT

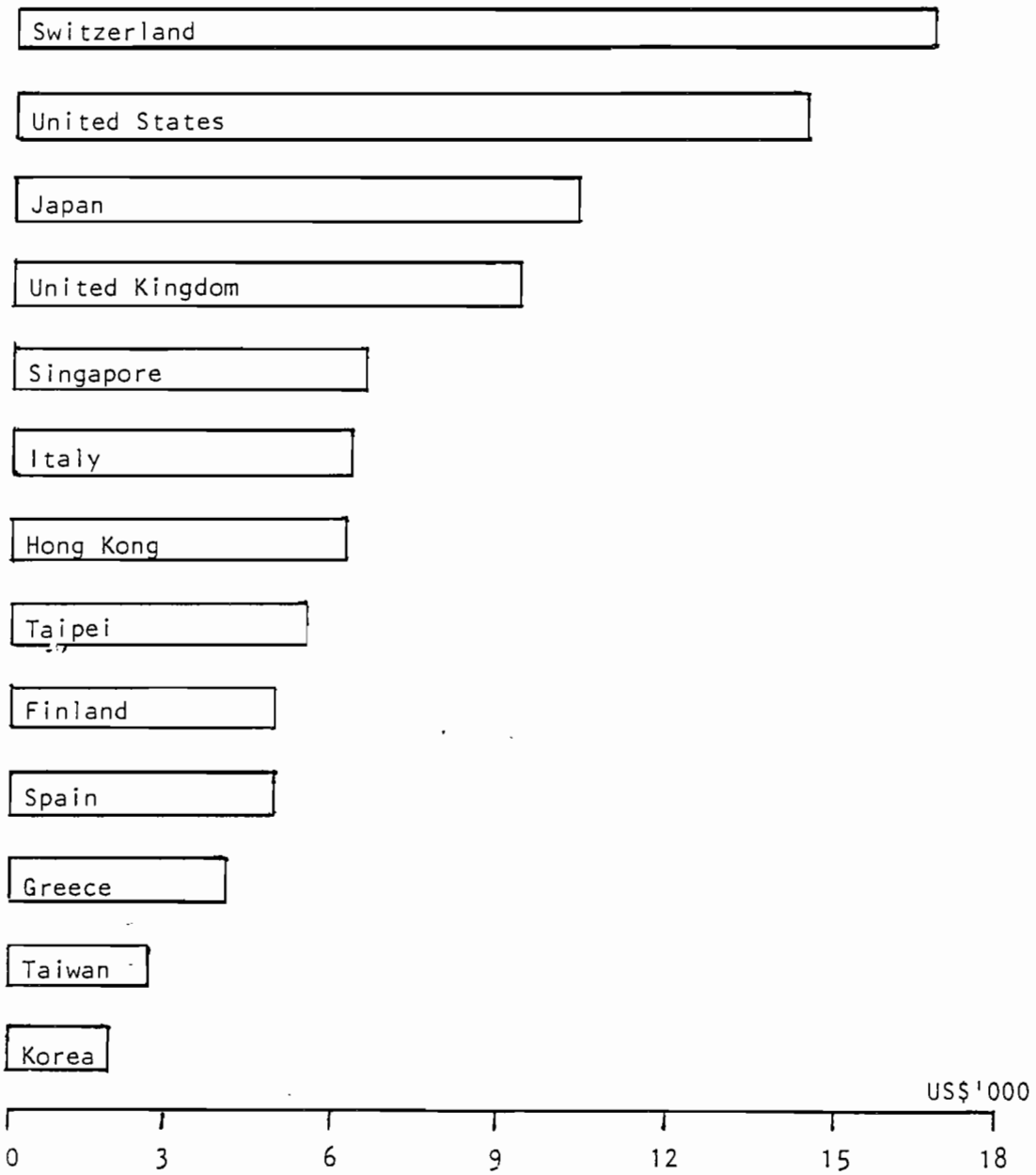
Introduction

By any standards, Singapore's economic performance during the two decades after its independence (1965-1986) is nothing short of extraordinary. Indeed, during that period, Singapore achieved the highest average rate of gross domestic product growth in the world: between 8 percent and 10 percent per year in real terms for the entire period, although there was some variation between sub-periods. 1965-73 witnessed an annual average growth of 12.7 percent that slowed down to 8.7 percent per year in 1973-79, and to 8.6 percent per year in 1979-84, thus maintaining very high rates of growth in spite of two oil crises and the world recession of 1980-82. Singapore's rate of growth outperformed that of all other Asian newly industrialized countries, with the exception of the period 1973-79 for Korea and Hong Kong. By 1983 Singapore's gross national per capita had jumped to over US\$6,500, more than twice that of South Korea and Taiwan, surpassing several EEC countries (Greece, Ireland, Spain, Portugal, and even Italy!). (See Chart 1.) Such phenomenal growth was achieved while maintaining low inflation rates (Consumer's Price Index of 3.7 percent in 1965-73, 5.9 percent in 1973-79, and 4.9 percent in 1979-84), and with very little borrowing from external financial sources (Singapore's foreign debt amounts only to about 1 percent of its gross national product).¹ Although wages grew at a slower pace than productivity for the period as a whole, standards of living for the population of Singapore dramatically improved. Unemployment, which was at double-digit levels in the early 1960s, declined to the 3-4 percent range in the early 1980s. Real earnings for all industries increased at an average annual rate of 2 percent in the 1970s. Workers' remuneration in manufacturing grew at an annual nominal rate of 21.5 percent between 1967 and 1971 and 19.3 percent in 1971-81.

Real income inequality is estimated to have declined by 7 percent during 1966-75, although it appears to have increased again in the 1980s.² Indeed, its current level in Singapore is very high, much more so than in the other newly industrialized countries.³ While there is no unemployment allowance in Singapore, there is a form of Welfare State: 85 percent of the population is housed in government flats, 70 percent of them in home-ownership status. Primary education is universal and free, while secondary education is also generally provided by the government, although for a smaller fraction of the population.⁴ Health care is very cheap for the low-income groups.⁵ The infant mortality rate for 1981 was 11 percent, a level lower than that of the U.S. in 1978 (13 percent) or Germany (15 percent). Life expectancy at birth in 1981 was 72 years, similar to that of the U.S. and Western Europe. There is a mandatory retirement pension system that can be activated at the age of 55, although the system is individualized, non-redistributive, and fully funded through the mandatory contributions of each worker and his/her employers. Public services are inexpensive and generally efficient. Overall, using traditional economic standards, Singapore has achieved rapid growth that has filtered down to the great majority of the population, although with the structural unevenness typical of any class society.

CHART 1

PER CAPITA GNP OF SELECTED COUNTRIES, 1983



Source: World Bank Atlas

These achievements are particularly impressive in regard to the total lack of natural resources of Singapore (excepting its geographical location in the straits that connect the Pacific and Indian Oceans), its small size (618 square kilometers, 2.6 million people in 1987), and its political instability and international isolation at the moment of independence (1965). Although the political means through which this process of development has been achieved are controversial (a point to which we will return in this paper), any serious attempt at understanding the lessons that Singapore has to offer to development theory must start with the recognition of these achievements, and with a rigorous, unbiased appraisal of the empirical factors that account for such developmental dynamics. At the same time, the analysis should also pinpoint the limits of this model of growth, as revealed by the very serious economic downturn experienced by Singapore in 1985-1986, since the causes of such crises seem to go deeper than the cyclical factors related to the world's economic conjuncture.

Truly, Singapore represents such a specific situation -- being a small city-state, without an agricultural sector, entirely open to the international economy -- that its experience can hardly be extrapolated to other countries.⁶ However, this openness provides the opportunity to examine the working of the new international economy as it interacts with a strong, developmental state fighting for survival.⁷ By identifying some key mechanisms underlying one of the world's most successful processes of growth of the last two decades, we may be able to shed some light on the broader trends that constitute the new, emerging international order.

The Sources of Singapore's Economic Growth

Before undertaking the analysis of the structural determinants and economic policies responsible for Singapore's economic performance, we must identify empirically the immediate factors contributing to it in the 1965-84 period. The most recent, rigorous econometric analysis, that of Tsao Yuan,⁸ shows that capital was the main contributing factor to growth, with labor also a positive factor, while total factor productivity had a negligible or negative contribution, in a pattern quite different from that of advanced industrial economies. (See Table 1.)

Let us start with labor, since the matter is relatively simple.⁹ In 1966, when Singapore had a 9 percent unemployment rate, with a 42.3 percent labor force participation rate and an average population growth rate of 3.3 percent per year (1957-1966), priority was given to lowering this population growth rate so as to avoid a dramatic worsening of the employment situation. Almost two decades later, in 1983, the unemployment rate had gone down to 3.2 percent (mainly structural), the rate of labor force participation had reached 63.8 percent (thanks to a whopping increase of women's rate of participation from 19.8 percent to 54.3 percent), and the number of jobs had been multiplied by a factor of 2.25 (up to a total of 1,168,000). At this point Singapore needed to appeal to foreign workers, who represented about 10 percent of the labor force in the early 1980s. Thus, a significant share of the economic growth

TABLE 1 -- SOURCES OF GROWTH OF AGGREGATE VALUE ADDED
(percent)

<u>Year</u>	<u>Rates of Growth</u>			<u>Contributions to Growth</u>		
	<u>Capital</u>	<u>Labor</u>	<u>GDP</u>	<u>Capital</u>	<u>Labor</u>	<u>TFP</u>
1972-73	18.5	10.9	11.2	11.9	3.9	-4.6
1973-74	13.8	9.1	7.4	9.0	3.2	-1.9
1974-75	11.6	2.5	4.1	7.3	0.9	-4.2
1975-76	8.9	6.5	7.1	5.4	2.6	-0.9
1976-77	9.3	5.3	7.3	5.5	2.1	-0.4
1977-78	7.7	3.2	8.1	4.6	1.3	2.2
1978-79	8.4	7.7	8.9	5.1	3.1	0.7
1979-80	9.1	7.2	10.0	5.4	2.9	1.7
Average 1966-72	16.7	6.0	12.5	9.3	2.7	0.6
Average 1972-80	10.9	5.5	8.0	6.8	2.1	-0.9

Sources: YBSS and ESS.

achieved was the result of rapid incorporation of labor (and particularly of women's labor) into the productive system.

Yet such sudden input of productive labor was only possible because capital was ready for investment at an even faster pace than that of labor growth. Singapore's growth has been primarily due to massive efficient capital investment. Thus, given the leading role of capital investment, two key questions must be answered to understand the basic structure of Singapore's growth: (1) Which were the sources of capital, and (2) which were the origins of the pre-existing solvent demand that was supposed to offer a market for investments made in Singapore?

Concerning the first question, Table 2 offers an indication of the answer. In fact, we must distinguish several aspects: Singapore's economy displays an impressive level and rate of growth of gross domestic capital formation, reaching over 45 percent of gross domestic product in the early 1980s. In this sense, it is a showcase for standard economic theory, with investment being the fundamental engine of growth. This investment had two major sources:¹⁰ (1) an exceptional rate of growth of gross national savings, reaching over 42 percent of gross domestic product in the mid-1980s -- indeed, Singapore has the highest savings rate in the world; and (2) net capital inflow, mainly from direct foreign investment, that oscillated between 10 and 20 percent of gross domestic product between 1970 and 1980.

For the overall period 1966-85, gross national savings amounted to 74.1 percent of total gross domestic capital formation, with net capital inflow accounting for the remaining 25.9 percent. Much of domestic savings is generated by the public sector (45.6 percent of gross national savings on average for 1974-85), as shown in Table 3, particularly because of the contribution of the government's controlled Central Provident Fund, a sort of Social Security scheme whose key role in the Singapore economy will be discussed later.

However, the predominance of the public sector in the savings process is reversed when it comes to investment. As Table 4 shows, the private sector (both foreign and domestic) accounts for about three-fourths of investment, on average, for the period 1974-85. This is because, although the share of government investment has grown over time, its share of savings has increased much faster. Some of these savings are invested in Singapore, both in public infrastructure (particularly public housing and transportation), and in private corporations participated in by the government. Another part is invested abroad by the government of Singapore, to decrease the vulnerability of its resources vis-a-vis potential downturns of the Singapore economy. And a substantial surplus (as much as 24 percent of total government revenue in 1986, for instance) is reserved in a Development Fund to stabilize the economy and allow for strategic development expenditures. Thus, the government's role as an intermediary between savings and investment gives to it a major leverage over the direction of the economy. Yet the actual dynamism of investment is left to private capital, and particularly to foreign investment, whose flows are probably underestimated in the recorded statistics. Tables 5 and 6 illustrate the important and growing role of foreign investment and

TABLE 2 -- CAPITAL FORMATION, SAVING, AND CAPITAL INFLOW
(at current market prices)

	<u>Gross Domestic Capital Formation</u>		<u>Gross National Saving</u>		<u>Net Capital Inflow</u>	
	<u>\$M</u>	<u>% of GDP</u>	<u>\$M</u>	<u>% of GDP</u>	<u>\$M</u>	<u>% of GDP</u>
1960	244.5	11.4	-52.3	-2.4	296.8	13.8
1965	647.7	21.9	497.6	16.8	150.1	5.1
1970	2,244.5	38.7	1,129.7	19.5	1,114.8	19.2
1975	5,034.6	37.7	3,406.3	25.5	1,628.3	12.2
1980	10,991.1	45.3	7,641.8	31.5	3,349.3	13.8
1983	15,865.9	45.1	13,846.8	39.4	2,019.1	5.7

Sources: YBSS and ESS.

TABLE 3

Savings by Public and Private Sectors, 1974-85
(In S\$ millions)

Year	Public-sector Saving ^a		Private-sector Saving			CPF		Share of Public-sector Saving in GNS GDS	
	GNS	GDS	Local ^b (1)	Local + Foreign ^c (2)	S\$m (3)	(3)/(1) (per cent)	(3)/(2) (per cent)	GNS	GDS
1974	3102	3548	2366	2812	643	27.2	22.9	23.7	20.7
1975	3851	3820	2489	2458	821	33.0	33.4	35.4	35.7
1976	4441	4644	2971	3174	831	28.0	26.2	33.1	31.7
1977	4904	5200	2883	3179	888	30.8	27.9	41.2	38.9
1978	5649	5780	3419	3550	1027	30.0	28.9	39.5	38.6
1979	6946	7102	4146	4301	1534	37.0	35.7	40.3	39.4
1980	7642	8880	4235	5473	2036	48.1	37.2	44.6	38.4
1981	9906	11576	5645	7315	2599	46.0	35.5	43.0	36.8
1982	11508	13750	5572	7814	3506	62.9	44.9	51.6	43.2
1983	14020	16282	5371	7633	3849	71.7	50.4	61.7	53.1
1984	17645	18267	6354	6976	3166	49.8	45.4	64.0	61.8
1985*	15954	15771	4902	4719	4159	84.8	88.1	69.3	70.1
Average 1974-85						45.8	39.7	45.6	42.4

* preliminary.

^a current surplus in consolidated accounts of the public sector (government plus statutory boards).

^b GNS minus Public-sector Saving

^c GDS minus Public-sector Saving.

Source: Department of Statistics, Yearbook of Statistics, various years; and Ministry of Trade and Industry, Economic Survey of Singapore, various years.

TABLE 4

Gross Domestic Capital Formation by Private and Public Sectors
at 1968 Market Prices, 1960-85

Year	Gross Domestic Fixed Capital Formation (\$mil)	Percentage Shares of	
		Public Sector	Private Sector
1960	219.9	29.8	70.2
1965	639.5	31.0	69.0
1970	1,712.0	19.2	80.8
1974	2,953.8	18.4	81.6
1975	2,902.2	23.5	76.5
1976	2,908.6	29.3	70.7
1977	2,945.8	30.3	69.7
1978	3,270.5	29.4	70.6
1979	3,601.2	21.6	78.4
1980	4,289.0	21.9	78.1
1981	5,204.0	21.0	79.0
1982	6,415.8	24.3	75.5
1983	6,963.6	27.5	72.5
1984	7,575.1	27.6	72.4
1985*	6,588.5	30.7	69.3
Average 1974-85		25.5	74.5

* preliminary

Source: Wong (1986), Table 3.3; Department of Statistics, *Yearbook of Statistics*, various years; and Ministry of Trade and Industry, *Economic Survey of Singapore*, various years.

TABLE 5

Selected Indicators of Foreigners' Role in Singapore, 1966-85

	1966-73	1973-79	1979-84	1985 ^P
Share of Resident Foreigners and Resident Foreign Companies in GDP as % of GDP at current market prices	15.7	23.6	28.1	25.9
Ratio of Resident Foreigners and Resident Foreign Companies in GDP to Indigenous GNP	18.0	29.8	36.1	31.4
Net Factor Income from abroad as % of GDP	1.0	-0.9	-2.2	1.5
Net Transfers from abroad as % of GDP	-0.1	-0.5	-0.7	-1.0
Net Factor Payment to Foreigners as % of GDP*	5.1	4.2	8.5	7.0
Net Borrowing from abroad as % of Gross Domestic Capital Formation	35.2	24.8	17.5	3.4
Non-Residents' Consumption Expenditure Locally as % of GDP at current market prices	16.7	18.3	25.4	23.5
Indigenous GNP as % of GDP	89.1	78.9	78.1	82.5
Gross National Savings as % of Gross Domestic Capital Formation	64.8	75.2	82.5	96.6
Net Factor Receipts of Singaporeans from Rest of the World as % of GDP	4.7	4.7	6.2	8.5
Residents' Consumption Expenditure Abroad as % of GDP at current market prices	2.8	4.3	5.1	6.4

* Net factor receipts of Singaporeans from rest of the world minus net factor income from abroad, divided by GDP at current market prices.

SOURCES: Department of Statistics, Singapore, *Economic and Social Statistics of Singapore, 1960-82* (Singapore National Printers, 1983); and Department of Statistics, Singapore, *Yearbook of Statistics 1985/86* (Singapore National Printers).

TABLE 6

Contribution of Foreign Capital* to Singapore's
Manufacturing Sector, 1975-84

Year	<i>Percentage Share of Foreign Firms in terms of</i>					
	<i>Number of Establishments</i>	<i>Number of Workers</i>	<i>Output</i>	<i>Value Added</i>	<i>Direct Exports</i>	<i>Capital Expenditure</i>
1975	22.0	52.0	71.3	62.7	84.1	64.6
1976	22.0	53.9	73.1	64.1	84.7	66.6
1977	22.8	54.5	73.4	65.2	84.5	67.4
1978	21.7	52.5	71.5	63.5	83.7	69.8
1979	23.9	57.2	73.3	67.3	85.2	73.1
1980	24.9	58.4	73.7	67.4	84.7	74.6
1981	26.1	58.5	76.0	67.7	86.3	71.8
1982	25.4	55.4	73.7	66.6	83.6	63.6
1983	21.0	50.8	71.5	63.2	82.9	58.5
1984	21.0	52.8	70.9	63.0	82.0	61.8
<i>Average 1975-84</i>	<i>23.1</i>	<i>54.6</i>	<i>72.9</i>	<i>65.1</i>	<i>84.2</i>	<i>67.2</i>

* more than 50% foreign-owned.

SOURCE: Department of Statistics, Singapore. *Census of Industrial Production*, various years.

foreign firms in the Singapore economy, most notably in export-oriented manufacturing.¹¹

Thus, inducement for foreign capital inflows and government-controlled large domestic savings are the key sources for the very high rate of investment that appears to be the most powerful factor underlying Singapore's economic growth. The key point to be examined is the following: Where are the potential markets for such investments to be realized in anticipation of profitable returns? Given the small size of the Singapore economy, its lack of integration in any broader market area, and the low level of income of its population in the mid-1960s, it is obvious that the dynamism of the development process derives from the tight connection between Singapore and an increasingly internationalized world economy. It is on the basis of an expanding external sector that the Government of Singapore was able to extract enough revenues to generate domestic demand. And on the basis of both government-induced activities and multinational capital investments, a domestic private sector can thrive, mainly in services, linked to the old and new entrepot activities (from commerce to financial and business services). Indeed, in 1982, the sum of merchandise exports plus imports (excluding re-exports) in Singapore amounted to 390 percent of its gross domestic product, a higher figure than anywhere else in the world, reflecting the importance of intermediate inputs in the economy.¹² Thus, investment and growth in Singapore are highly dependent upon the performance of the world economy in the long term, particularly of the Organization for Economic Cooperation and Development area (see Table 7). However, the robust performance of Singapore in the aftermath of the 1974 and 1980 U.S. recessions shows the resilience of its economy and its growing diversification in terms of sectors of activity and international markets, a point that we will develop below.

In summary, the main source of Singapore's growth results from a high rate of investment for a long, sustained period of time. This abundance of capital was made possible by Singapore's ability to attract foreign investment. Revenue generated by the process of growth triggered by such foreign investment was captured by government and invested according to a strategic program, in a behavior that appears to be typical of a developmental state. Foreign investment, as well as the government's strategic investment, is geared toward the international markets, particularly in the Organization for Economic Cooperation and Development area, with a main focus on the Pacific Basin. Singapore's take-off occurred in the 1966-72 period, during the last hurrah of the world economy, and from then on Singapore was able to position itself in the redeployment of capital and markets that took place in the restructuring of the international economy. The ability to attract capital in Singapore in order to produce, trade, or invest vis-a-vis the world markets was the result of two major characteristics of the Singapore economy: (A) its competitiveness, and (B) its gradual diversification.

A. Competitiveness results from five different sets of factors:

1. Conditions conducive to a favorable business environment, including labor costs and government regulations. These

TABLE 7

Correlation Coefficients of Real GDP Growth Rates between
Singapore and Major Groups of Countries, 1966-84

	1966-73	1973-79	1979-84	1966-84
OECD {PB 5} ^a	0.33 (0.41)	0.52 (0.71)	0.27 (0.44)	0.46 (0.50)
Asian NICs ^b	-0.33	0.84	-0.35	0.15
ASEAN 4 ^c	-0.42	0.27	0.42	-0.23

^a USA, Japan, Canada, Australia and New Zealand, frequently called the Pacific Five (or PB 5).

^b Hong Kong, South Korea, and Taiwan.

^c Indonesia, Malaysia, Philippines, and Thailand.

SOURCES: International Monetary Fund (IMF), *International Financial Statistics*, various years; Council for Economic Planning and Development, Republic of China, *Taiwan Statistical Data Book 1985*; and Asian Development Bank, *Key Indicators of Developing Member Countries of ADB*, various years.

conditions, mainly created by the Singapore government , are discussed in the following section.

2. Industrial, business, transportation, and communications infrastructure that integrates a somewhat distant location in the actual space of production and management of the main areas of the world economy. In this sense Singapore has greatly benefited from the simultaneity of its process of development and of the revolution in information technologies. Without the miniaturization of electronic devices, the breakthroughs in telecommunications and online information systems, and the progress in air transportation, today's Singapore would be unthinkable. This is a good example of the chances for development offered by new technologies, when the economic conditions suit the opportunities and government policies seize such opportunities.
 3. An advantageous inflation differential vis-a-vis the main world markets, so that the price structure favors location of investment over other areas, including the main target markets. Singapore has enjoyed a structurally low inflation rate (with the exception of 1974) as a result of free trade policy (which cheapens imports), government control over wages, and non-inflationary public finance, based on budget surpluses and a tight monetary policy and organized around the intervention of the Monetary Authority of Singapore in the foreign exchange market. The Singapore dollar fluctuates against a basket of currencies of major trade partners, but the weight of each currency in the fluctuation is kept secret. In recent years it has generally followed the U.S. dollar.
 4. Stable fiscal policy and institutional environment that enhance predictability and safety of investment. Singapore's political stability since 1965, together with a more than cautious fiscal policy, fully meets these conditions.
 5. Flexibility of government regulations and economic institutions, able to adapt to the variations of the world economy. Singapore's small size, its interpenetration with the global economic processes, and total government control over the institutions of the society facilitate quick reactions to world economic trends.
- B. The diversification of Singapore's economy, in a pragmatic adaptation to the changing conditions of the world market, is another major source of growth.¹³ While its role as a major port originally emphasized the shipbuilding and repairing industries, along with steel mills linked to its position in the waterways, the emphasis quickly shifted to electronics and machinery. The Vietnam War provided a golden, though sinister, opportunity for Singapore to become the world's third-largest oil refining center, thus thriving in the oil crisis of the 1970s,

during which Singapore, as a major refining and shipment location for the main oil corporations, behaved more as an oil exporter. Connected to such a major role in the oil industry, Singapore also became a major manufacturer of oil rigs.¹⁴ Although the role of petroleum trade, refining, and related industries naturally declined in the 1980s, in 1981 petroleum still accounted for 38.4 percent of total manufacturing output and 18.4 percent of value-added in the sector, and 23.4 percent of total net exports, although down from the 34-43 percent levels of the previous decade. In 1987, Singapore's refineries were recovering from the crisis, since technological modernization enabled them to diversify and customize production. Table 8 also shows the diversity of the manufacturing structure, particularly in terms of employment, although the main industrial sector continues to be the machinery and appliances sector, with its core in electronics.

Nevertheless, the major diversification of Singapore's economy has taken place outside the manufacturing sector. As shown in Table 9, the share of manufacturing and construction in the gross domestic product has been overtaken by services, in spite of manufacturing's robust performance in the 1969-79 period (20.6 percent average annual growth in nominal terms). Particularly impressive are the performances of financial and business services and of transport and communications sectors. In terms of employment, Kuo and Chen¹⁵ have estimated that 34.1 percent of Singapore's labor force in 1980 was engaged in information-processing activities. Whatever the possible arbitrariness of such definitions, the rapid transformation of Singapore's occupational structure, as shown in comparative terms by Chart 2, is quite impressive.

A similar diversification has taken place in the external sector, with exports of services (business, tourism, transportation) playing an increasing role in the balance of payments. In fact, contrary to the image of Singapore as a manufacturing export platform, its trade balance has been consistently negative, since most of the manufactured goods are intermediate products that have to be imported to be processed and then exported. Thus, the services component of the external sector is crucial to reducing the deficit of the trade balance. But even with their positive contribution, the current account balance still remains negative (except for the 1985-86 recession). It is only when the capital account balance is taken into consideration that the overall balance of payments shows a steady surplus, leading to an abundance of official foreign reserves (estimated in 1986 at about US\$14 billion, or about six months of potential financing for merchandise imports). What takes us full circle to the central proposition of this section is the ability of Singapore to attract capital and to invest it productively in a diversity of sectors that ensures both the equilibrium and the dynamism of its economy.

TABLE 8

Principal Sectors of Manufacturing Industry^a 1981

	% of total			Value added per worker (S\$'000)
	Output	Value added	Employment	
Petroleum	38.4	18.4	1.3	505.5
Machinery & appliances ^b	25.0	32.3	37.6	29.6
Transport equipment	7.1	13.8	10.5	45.6
Food/beverages	5.9	4.5	5.0	30.7
Fabricated metal products	3.6	4.6	6.4	24.8
Chemical products	2.9	4.8	2.3	71.7
Paper products/printing	2.8	4.7	6.1	26.5
Wearing apparel	2.6	2.9	10.8	9.4
Non-metallic minerals	2.2	2.6	1.7	54.2
Wood products	1.9	1.9	3.6	16.9
Rubber/plastics products	1.8	2.4	4.0	21.1
Basic metals	1.4	1.5	0.8	65.2
Textiles	1.3	1.7	3.1	18.9
Precision equipment	0.8	1.4	1.9	26.3
Furniture	0.7	1.0	2.3	15.5
Other products	1.6	1.5	2.6	20.5
Total	100.0	100.0	100.0	34.6
Total, excl petroleum	-	-	-	28.6

a Excluding rubber processing. b Including electrical/electronics.

Source: Economic Survey of Singapore, Yearbook of Statistics.

TABLE 9

GROSS DOMESTIC PRODUCT BY INDUSTRY, 1960, 1970, 1980 AND 1984-1986

Industry	1960	1970	1980	1984	1985	1986p	1969-1979	1984	1985	1986
	Million Dollars						Annual Percentage Change			
At Current Factor Cost										
TOTAL	1,985.3	5,319.9	23,271.9	36,551.7	35,217.0	35,180.5	15.2	8.4	-3.7	-0.1
Agriculture & Fishing	74.9	133.3	314.5	335.5	295.3	250.0	8.6	1.9	-12.0	-15.3
Quarrying	6.1	19.6	80.3	125.3	104.9	80.1	9.2	-3.3	-16.3	-23.6
Manufacturing	235.5	1,047.9	7,088.4	9,362.9	8,683.2	9,558.0	20.6	9.4	-7.3	10.1
Utilities	49.7	148.1	529.0	730.7	750.8	800.7	12.1	9.7	2.8	6.6
Construction	71.7	386.1	1,594.9	4,690.1	4,015.4	2,999.5	15.6	16.7	-14.4	-25.3
Commerce	712.5	1,608.3	5,532.4	7,091.8	6,752.4	6,706.2	12.9	2.2	-4.8	-3.7
Transport & Communications	282.8	595.0	3,415.0	5,102.0	5,134.8	5,530.6	18.3	6.1	0.6	7.7
Financial & Business Services	224.5	757.4	3,855.3	7,796.2	8,134.6	8,143.1	16.3	13.9	4.3	0.1
Other Services	360.6	734.4	2,273.0	4,144.6	4,542.1	4,441.4	11.5	11.5	9.6	-2.2
Less: Imputed Bank Service Charge	33.1	110.2	1,410.9	2,827.4	3,196.5	3,329.1	na	na	na	na

Source: Department of Statistics

GROSS DOMESTIC PRODUCT BY INDUSTRY, 1960, 1970, 1980 AND 1984-1986 (Cont'd)

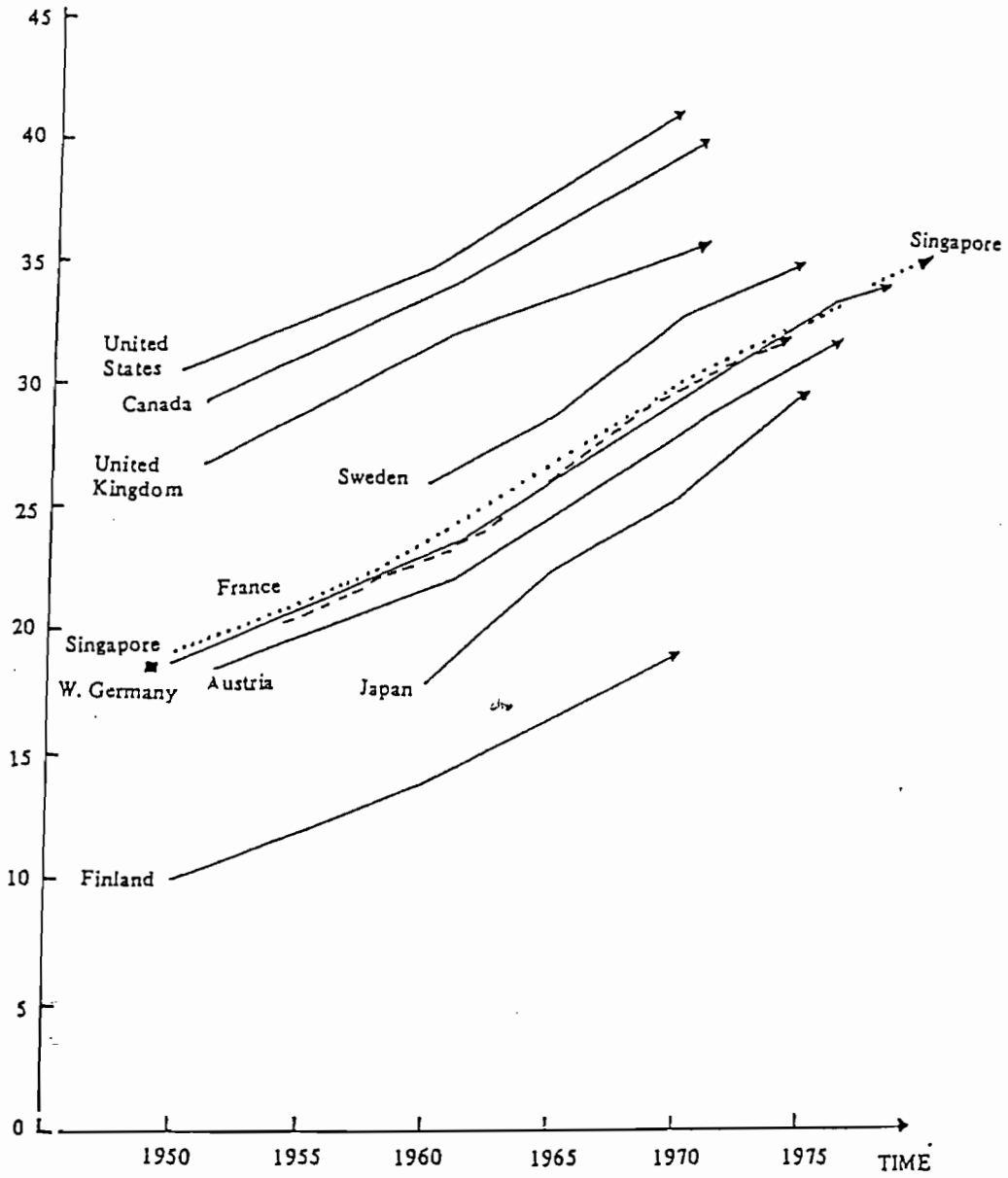
Industry	1960	1970	1980	1984	1985	1986p	1969-1979	1984	1985	1986
	Million Dollars						Annual Percentage Change			
At 1968 Factor Cost										
TOTAL	2,122.3	5,107.0	12,160.5	16,603.8	16,309.9	16,611.7	9.4	8.2	-1.8	1.9
Agriculture & Fishing	87.7	128.5	159.1	153.5	137.5	121.9	2.2	4.1	-10.4	-11.3
Quarrying	7.5	19.2	43.7	85.0	78.6	66.8	9.1	-1.6	-7.5	-15.0
Manufacturing	279.7	1,007.0	2,909.6	3,344.9	3,099.1	3,357.9	12.1	8.8	-7.3	8.4
Utilities	53.4	144.9	357.0	472.2	494.0	522.5	10.1	7.9	4.6	5.8
Construction	79.3	343.0	611.1	1,462.7	1,258.9	940.4	6.3	15.5	-13.9	-25.3
Commerce	713.4	1,538.1	3,139.2	3,879.7	3,815.6	3,805.6	7.6	5.8	-1.7	-0.3
Transport & Communications	297.5	593.1	2,234.8	3,531.6	3,649.7	3,984.5	14.8	9.8	3.3	9.2
Financial & Business Services	247.5	716.4	2,162.7	3,665.1	4,070.1	4,211.5	11.0	14.5	10.4	3.5
Other Services	391.9	723.6	1,336.8	1,766.3	1,336.8	1,920.5	6.7	4.6	4.0	4.6
Less: Imputed Bank Service Charge	35.7	106.8	893.6	1,777.2	2,130.4	2,320.0	na	na	na	na

Source: Department of Statistics

CHART 2

Figure 1 IN CHANGES IN THE SHARE OF INFORMATION OCCUPATIONS.
ALL ECONOMICALLY ACTIVE POPULATION, 1950 - 1975

INFORMATION OCCUPATIONS AS % OF ECONOMICALLY ACTIVE PERSONS



Source: Adapted from OECD, 1981 : 25.

Such capacity, which is the basic source of growth, is not randomly produced. It results from a number of very specific conditions, most of them derived from deliberate government policies, which we will now examine.

Creating Competitive Advantage: Singapore's Conditions for Investment and Growth

A number of conditions appear to have been responsible for attracting capital investment to Singapore, for allowing a high rate of domestic savings, and for fostering competitiveness and diversification in the economy, in a series of interactions that constitute a complex, virtual circle. Let us present such conditions in a somewhat schematic way, one after the other, before examining their relationships and tracing back the process of their formation.

- A. The first condition, at the very basis of everything else, is the social and political stability since 1965.¹⁶ After the separation from Malaysia and the end of the confrontation with Indonesia, Singapore has managed to maintain stable international relations, by virtue of several factors: the workings of the Association of Southeast Asian Nations, a strong connection to the West, particularly the Commonwealth, and the existence of strong, well-trained armed forces, originally organized with technical advice from Israel.¹⁷ In spite of Singapore's role as a support-base for U.S. forces during the Vietnam War, it has been playing a mediating role in the Cambodian conflict, trying to mobilize Association of Southeast Asian Nations support to obtain a negotiated settlement that would enhance stability in the region. Also, in spite of a strong anti-communist stance, Singapore has managed to establish increasingly close ties with the People's Republic of China, with whom she has developed a growing number of technical and economic joint ventures.¹⁸

On the domestic front the People's Action Party (PAP) has won all the elections since 1959, the date Singapore obtained the granting of self-government from the United Kingdom.¹⁹ The leader and founder of the party, Mr. Lee Kuan Yew, an Oxford-educated lawyer, is clearly Singapore's national leader, and his charisma and capacity are widely recognized, even by his critics.²⁰ Furthermore, a small core group of political leaders have kept the key positions of power during these twenty years, ensuring continuity and control. The Singapore government is a strong, authoritarian government with little tolerance for opposition. Yet, at the same time, most observers consider that the People's Action Party has enjoyed genuine support from a majority of the population for more than 20 years.

We will return below to a consideration of the specifics of Singapore's politics. At this point, what is important for our analytical purpose is that social and political stability have indeed been achieved, unlike the experiences of most authoritarian governments in the world and in Asia in particular.

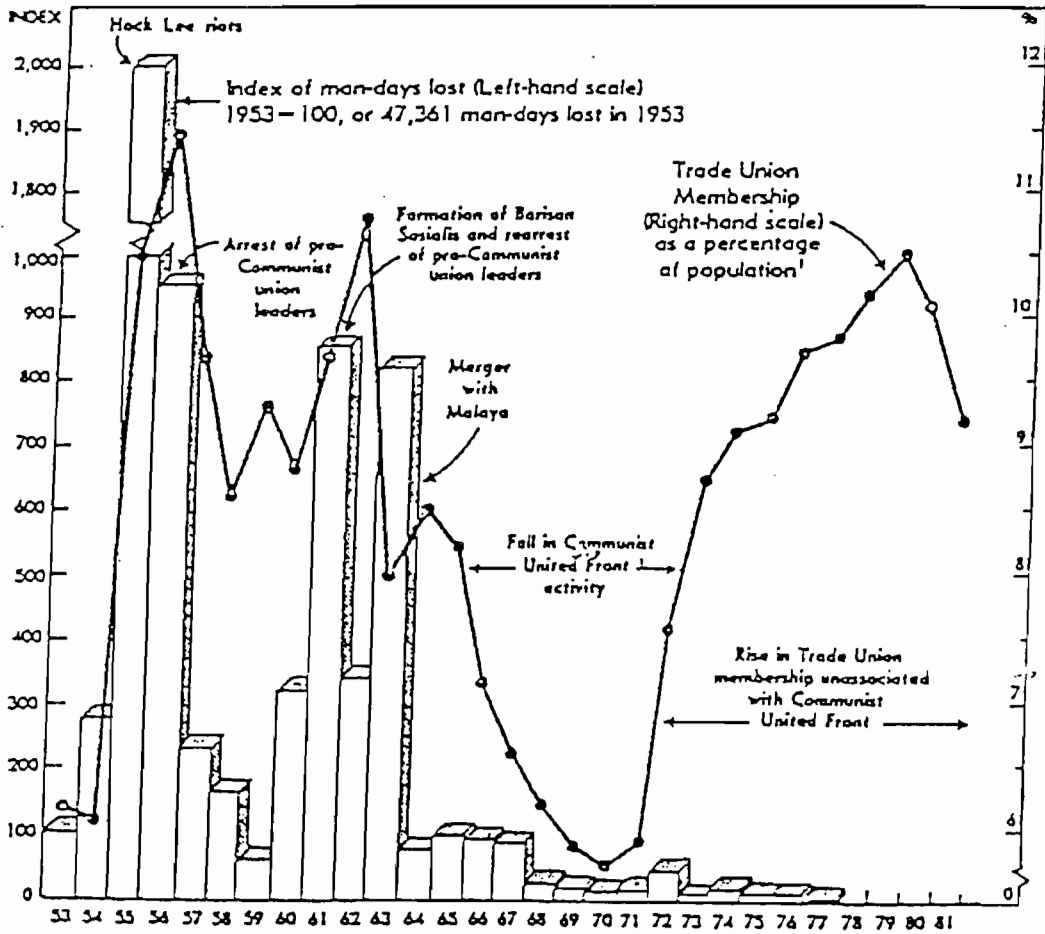
In other words, authoritarianism is not the discriminatory variable in explaining social stability -- otherwise, the Philippines or South Korea would have been able, and even more likely, to be as stable as Singapore. Five elements seem to have founded social and political stability on more solid grounds than sheer repression:

1. The prestige of the People's Action Party as a leading force in the anti-colonialist movement.²¹
2. The practice of efficient, clear, non-corrupt government, modeled after a strong civil service tradition.²² Although not exempt from faulty behavior, Singapore clearly stands in contrast to other countries in the region, as a result of a systematic policy to control corruption, which clearly is not a part of the system, although probably existing at the same "normal" levels as in the Western democracies.
3. The repression of left-wing and pro-communist political leaders in the 1960s, and the dismantlement of left-wing labor unions (the Singapore Trade Unions Council) in 1964.²³
4. The organization of a new labor movement (the National Trade Union Congress), under the control of the People's Action Party, partly on the basis of the militant tradition of some People's Action Party labor leaders during the anti-colonial struggles. National Trade Union Congress policies went beyond submissiveness to the government, actually providing services to the workers and representing their choices within the broader parameters of government policy, along lines similar to those of unions linked to populist governments in Third World countries (for instance Mexico's CTM, or Tunisia's UGTT).
5. Social policies of the government, aimed at improving living conditions for the population as a whole, while exercising social control over people by the same mechanisms that provide the services. Public housing, and its organization in clean, efficient, well-equipped, well-controlled new towns, played a paramount role in creating social stability.²⁴

As an indicator of such stability directly related to economic growth, we can observe the evolution of industrial strikes. Chart 3 shows the spectacular decline of strikes after 1964, in line with the shift from left-wing Singapore Trade Unions Council influences to People's Action Party-National Trade Union Congress organization of unionized workers. Since 1978 there has not been a single industrial stoppage in Singapore! In this sense, Singapore fits the traditional radical image of paradise for multinational capital (much as Switzerland does). But it would be simplistic to associate decline of labor militancy with government tactics without considering the overall pattern of development, social reform, and

CHART 3

Communist United Front influence over Singapore's industrial strikes and membership of Trade Unions 1953-81



1. The ratio would normally have been calculated in relation to total work force but this was not available for the 1950s.

Source: Computed from Colony of Singapore Annual Reports; Singapore's Yearbook of Statistics and International Monetary Fund Statistics.

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Artwork by Neng Sulaman

social control that explains why Singapore achieved the stability that so many dictatorships pursued in vain through more violent methods of coercion. We will examine this point later, in a more analytical vein. In the case of Singapore, the net result of this political process was to provide the safest possible haven for capital investment in one of the most promising, yet most turbulent, regions of the world.

- B. The second major favorable condition for investment is the quality and cost of labor, particularly in manufacturing. Singapore could offer a relatively educated, and to a large extent English-speaking, pool of labor at wages much lower than those of any industrialized country (in 1978, 73 percent of all manufacturing workers earned less than US\$200 a month²⁵; in electronics wages are lower, about 80 percent of the average manufacturing wage, because of the overwhelming proportion of low-paid women workers.²⁶) In addition, with the exception of pollution control, government regulations concerning working conditions are kept to a minimum, something that has necessarily damaging consequences for the health and safety of workers²⁷, but which helps in reducing overall production costs. However, labor costs alone do not seem to have been the overriding factor for multinational investment in Singapore, since neighboring countries could offer even cheaper labor. Furthermore, if we compute into the labor costs the employers' contribution to the Central Provident Fund (equivalent to 25 percent of wages in 1984), as well as other special contributions, total labor costs were not as competitive as generally claimed. The competitive advantage of Singapore's labor for international corporations seems to derive from two factors: (a) the ratio of quality to cost; (b) the predictability of industrial relations and wage determination.

Concerning the first factor, the cost, or even workers' motivation counts less than their relatively high educational level and internalized social discipline.

Even more important seems to be the second factor, the institutional conditions organizing industrial relations in Singapore. The 1968 Employment Act provided very strict limits to negotiable benefits for workers and enhanced the powers of management. The Industrial Relations (Amendment) Act excluded issues such as recruitment, retrenchment, and dismissal from collective bargaining. Detailed procedures for arbitration of labor conflicts were established, so that in practice strikes are legally impossible without the tacit consent of the government. The entire legislative environment was explicitly aimed at creating a favorable environment for business to operate in Singapore. The National Wages Council was established in 1971, with tripartite representation from government, trade unions, and employees, to set up guidelines for wage increases at the national level. Its recommendations are only indicative, as a ground for bilateral negotiations at the company level. However, the public sector has strictly followed the National Wages Council's targets, and the private sector is highly influenced by

its guidelines.²⁸ Nonetheless, labor markets have some autonomy; they exceed or do not reach the set wage level, depending upon the tight demand or oversupply of labor in regard to broader economic conditions. In any case, the stability and predictability of labor conditions and wage settlements in Singapore far exceed those of any other capitalist country, closely resembling in fact those of the most stable socialist countries. The net result was a much faster increase in output than in real wages up to 1980. Real earnings for production workers grew at only 1 percent per year during the 1960s. Average real earnings for all industries rose by 2 percent per year in the 1970s, although increase in the manufacturing sector proceeded at a slower pace.²⁹ On the other hand, real-value-added per worker grew at an average of 55 percent a year over the period 1961-1979, although the second half of the 1970s saw a slowdown in productivity growth, particularly in manufacturing. Nonetheless, overall, productivity seems to have grown between three and four times faster than real wages, accounting for a high rate of profit, thus attracting investment and spurring capital formation. The story from 1979 to 1985 is a different one and requires careful consideration in a subsequent section.

- C. A third important condition attractive for capital investment stems from a series of fiscal incentives and financial support schemes offered by the government of Singapore to industries that are targeted as deserving support in terms of the overall development strategy.³⁰ It must be noted that in the early 1960s any foreign investor was to be welcomed with special conditions in Singapore, provided it brought in capital and jobs. But in the late 1970s incentives were more selective and targeted to specific development purposes. Peter S. J. Chen has usefully summarized the set of financial incentives for capital in Singapore:

An increase in foreign investment in Singapore's industrialization is needed, because Singapore can hardly hope to generate enough capital within its own national boundaries to industrialize. In order to attract foreign investment, the Singapore government provided the following fiscal incentives in the 1960s:

1. The Pioneer Industries Ordinance (1959) gave pioneer industries exemption from company income tax for five years;
2. The Industrial Expansion Ordinance (1959) allowed tax exemptions on a sliding scale, varying progressively with capital invested, for existing enterprises whose investment expansion was approved.;
3. The Economic Expansion Incentives (1967), whereby profits of approved manufacturing goods and additions to exports were to be taxed at only 4 per cent instead of the usual 40 per cent company tax for a period of ten to fifteen years.

These incentives were subsequently revised and more schemes have been introduced to provide a broader basis to promote industrialization. At present, the following incentive schemes are available:

1. The Pioneer Status -- provides for zero tax on company profits for five to ten years, depending on the merits of the project, e.g. type of product, investment level, skills and technology, etc.

2. The Export Incentive Scheme -- provides for 4 percent tax on export profits instead of the normal 40 percent on company profits for a period of five to fifteen years. It is used to encourage exports for cases where it would be unjustified to award pioneer status because of existing local manufacture.

3. Investment Allowance -- available as an alternative to pioneer status and export incentives for manufacturing and related servicing projects. Under this scheme, tax-exempt profits are limited to a specified percentage (up to 50 per cent) of actual fixed investment on factory buildings and productive equipment for an approved project.

4. Small Industries Finance Scheme -- introduced by the Economic Development Board in December 1976, and jointly operated by the Economic Development Board and the approved financial institutions. The Small Industries Finance Scheme is essentially a loan scheme, with low interest, aimed at encouraging the further development and technical upgrading of the operations of small industries. Small industries are so defined that their fixed productive assets, inclusive of the amount applied for, should not be more than S\$2 million.

5. Capital Assistance Scheme -- established by the Economic Development Board in 1975 with a budget of S\$100 million to provide financial assistance to companies with specialized projects of unique economic and technological benefit to Singapore. Under this scheme, an industrial investor can obtain equity and/or loan capital.

6. Product Development Assistance Scheme -- set up by the government in recognition of the need to develop local applied research and product development capability and to build up indigenous technology. The scheme, administered by the Economic Development Board, is to encourage local companies to develop new, or improve existing, products/ processes related to their manufacturing activities.

7. Warehousing and Servicing Incentives -- intended to encourage the warehousing/servicing of desirable engineering products either as a new or expanded activity, especially if there is some degree of repair or other technical services involved. Under this scheme, five years' company tax reduction,

from the normal rate of 40 per cent to 20 per cent, will be given on profits derived from export services.

8. International Consultancy Services Initiative -- specifically for encouraging "brain" services in overseas projects involving plant and civil construction and related activities. Approved projects will be given five years' company tax reduction on export profits, from the normal rate of 40 per cent to 20 per cent.

9. International Trade Incentives -- meant for trading companies which export Singapore-manufactured products or domestic produce, or which trade in non-traditional commodities. Under this scheme, qualified trading companies can apply for five years' concessionary company tax at 20 percent on export profits, instead of the normal company tax rate of 40 percent.

10. Investment Guarantee -- Singapore has signed investment guarantee agreements with the following countries: the United States (1966), Canada (1971), The Netherlands (1972), Federal Republic of Germany (1973), United Kingdom (1975), France (1975), Switzerland (1978), Belgo-Luxemburg Economic Union (1978), and Sri Lanka (1979). Under these agreements, the investment by nationals of companies of both contracting parties in each other's respective country is protected for a specified period, usually fifteen years, against war and non-commercial risks of expropriation.

11. The Skills Development Fund -- set up by an Act of Parliament in 1979 to finance the upgrading of skill in the restructuring process. The Fund is managed by the Skills Development Council, a tripartite body consisting of representatives from the government, the employers' organizations, and the trade unions. The fund is used to support employee training programs, ranging from 30 percent to 70 percent of the training costs.

The above incentive schemes are very successful not only in attracting foreign investment, but also in promoting local industries. The success of the industrialization policies made it possible for Singapore to launch the second industrialization program in 1979, to shift the economic structure towards high-technology industries.³¹

In addition, there is total freedom for repatriation of profits, as well as of movement of capital, machinery, and personnel, for companies located in Singapore.

It is undeniable that these measures have contributed to the business climate, thus attracting investment to Singapore. However, several remarks must be made in this regard for an adequate understanding of the process. Many other Third World countries have similar incentive schemes that do not achieve equally successful results. In our personal

conversations with managers of multinational companies in Singapore, we came to the conclusion that these incentives were an important, but not an overriding, consideration for their locational choice. Given the general movement to lure multinationals into countries throughout the world, these incentives seem to have become necessary, but are not in themselves sufficient to lure investment. In the case of Singapore, four additional factors seem to account for its competitive edge: (1) the already mentioned institutional and labor-related conditions; (2) the provision of adequate industrial, communications, and business infrastructure, as we will show below; (3) certain locational advantages for some industries (maritime position in the marine industries, time zone for financial transactions, geographic situation for penetration of Southeast Asian markets); (4) and a very important subjective condition: the active entrepreneurial role of the Singapore government in prospecting foreign investors and actually attracting them to Singapore. A key actor in this process was the Economic Development Board, established by the government in 1961 with the purpose of stimulating growth through a variety of policies and incentives. The Economic Development Board has offices throughout the world that have been actively contacting top companies in key industries, to "sell Singapore" as an advantageous location.³² So, between the structural conditions favorable to investment and the actual decision to locate precisely in Singapore, the institutional mediation provided by the Economic Development Board's initiative and efficiency has actually been an indispensable element in the process of capital formation.

- D. Another major condition for investment and growth is the existence of adequate infrastructure for industrial and business activities. Some of the elements of such infrastructure were linked to the history of Singapore as a major port and a military base, a nodal point in maritime communications. But most of the improvements came from the 1960s onwards. The Jurong Town Corporation, a government corporation originally part of the Economic Development Board, took care of providing industrial sites suitable for production, adapting its facilities and types of buildings to different requirements of each industry, from oil refineries and shipyards to rental multistory factories for electronic firms. In 1986, the corporation managed 19 industrial sites, housing 2,700 companies that employ a total of 210,000 workers on the island. 1,400 of these factories, with a total of 180,000 workers, are located in Jurong Town, a totally planned industrial estate at the western tip of the island, in an industrial zone that is one of the fastest-growing pre-programmed developments in recent economic history. About two-thirds of the companies served by the Jurong Town Corporation are foreign. The Jurong Town Corporation also manages an Industrial Port and provides facilities for the offshore oil industry at the Jurong Marine Base. Factories are leased for fixed terms, and leases are renewed under negotiated conditions. Thus, investors locating in Singapore need not bother with any construction requirements, once they have settled the financial conditions. This has a decisive effect on the flexibility and rapidity of implementation for investment conditions, once the decision is taken, since the Jurong Town Corporation has sites and factories

built and ready before companies are contacted, on the basis of its market provisions.

Other basic facilities have also been developed and provided by the government: a major port (the second busiest in the world), fully containerized; an international airport with excellent connections, spearheaded by a large and efficient government-owned airline; good urban infrastructure and public transportation, further improved by the construction of a rapid transit system (MRT) to be in service in late 1987; abundant, modern, fully equipped office space; and, above all, excellent telecommunications infrastructure, which played a major role in the development of Singapore as a world financial center in the 1970s. (Singapore is likely to become the first country in the world to have all its lines converted to optic fiber, admittedly an easier move in this city-state than in the U.S.) Singapore's good telecommunications infrastructure reinforces its model position in the world of international flows of decision-making. For instance, most of the management decisions of American companies in Southeast Asia are communicated via Singapore, regardless of the relative hierarchy of their Singapore branch, given the direct satellite link-up between the U.S. and Singapore. A similar pattern seems to operate for European companies.

Thus, it is the conjunction of these four sets of conditions that seems to account for the exceptional rate of foreign capital investment in Singapore. Underlying most of the processes leading to the emergence of these conditions, we find the key role of the state as a developmental force. This role is as evident in the second major factor responsible for capital formation in Singapore, namely the high level of domestic savings and their productive investment.

E. Singapore's capital abundance is only partly due to attractive conditions for foreign investment. As we stated, most of the savings, as well as of the investment, come from Singapore itself, although official statistics probably underestimate capital inflows, and in any case do not render full justice to the driving role of foreign capital in the overall process of growth. Nonetheless, local savings (both private and public) are substantial and provide a major source for capital formation. Throughout the 1970s and 1980s, the state has played the central role in the process of accumulating domestic savings.³³ (See Table 3.) The state has operated directly through the public-sector savings, and indirectly through the Central Provident Fund, which in the 1974-1984 decade accounted for between 27 percent and 71 percent of local private sector savings, for an average share of 45.8 percent in the 1974-1985 period.³⁴ Thus, the basic condition for domestic savings to thrive, making investment and growth possible, is the widespread control of the state over the economy and society of Singapore.³⁵ Individuals' contributions to the Central Provident Fund, until 1985, could not be used before retirement age (55 years) for anything but the acquisition of a public-housing flat. Consequently, the Central Provident Fund has been a major source of capital accumulation in Singapore. In

fact, it would seem that the main reason for the substantial increase in contributions to the Central Provident Fund during the 1970s (both from employees and employers, up to a combined 50 percent of all wages) was to fulfill the government target of increasing home ownership.³⁶ But even with massive investments in public housing and urban infrastructure mainly financed from Central Provident Fund contributions, the Central Provident Fund still had a large surplus that, by law, was required to be held, for the majority of funds, in government securities.³⁷ As Yuan writes,

what happens therefore is that advance deposits are placed with the Monetary Authority of Singapore [Singapore's equivalent to a central bank without currency issuance powers] for subscription to future issues of government securities. This constitutes a withdrawal of money supply from the system, which results in an excess demand for money and in an incipient rise in domestic interest rates. This causes, among other things, banks to borrow money from the offshore market or abroad. The incipient appreciation of the Singapore dollar causes the Monetary Authority of Singapore to intervene by supplying Singapore dollars to meet the excess demand. The advance deposits at the Monetary Authority of Singapore are therefore translated into foreign exchange holdings, which are then managed by the Government of Singapore Investment Corporation (GIC).³⁸

Overall, there is a withdrawal of liquidity from the domestic economy as a result of the government's role of intermediation between savings and investment. This certainly keeps inflation down, and provides the government with great financial room to maneuver in the international scene, as well as in the domestic economy. However, such a thrifty policy is carried out at the expense of the immediate consumption capacity of Singaporeans, and threatens to cool off the economy, which, some observers argue, happened in 1985.

Government finance in Singapore combines, in fact, four different sectors, interlinked through a highly centralized decision-making process at the top governmental level:³⁹

1. The government budget.
2. The statutory boards, semi-autonomous institutions with their own accounting procedures and financial policies, such as the Post Office Savings Bank, the Port of Singapore, the Housing Development Board, the Telecommunications Authority, etc.
3. The government's foreign investments, managed by the Government of Singapore Investment Corporation.

4. Government investments in Singapore companies (in about 490 different firms), most of them managed by three government-controlled holding companies (Temasek, the Ministry of National Development, and Sheng-Li Holdings).

Thus, the Singapore government's budget, illustrated by Charts 4 and 5, relative to the 1986 budget, is most atypical. On the revenue side, taxes only account for 40 percent, while funds income, derived from former surpluses, and interests and dividends from government investments, play a significant role. On the expenditures side, only half of the budget is destined to cover current expenditures, while 26 percent goes to development expenditures (mainly public housing and public works), and 24 percent is simply accumulated as surplus. Over the last decade, as Table 10 shows, Singapore's public sector has registered a systematic current surplus, and, in 5 out of 11 years, an overall surplus even after discounting for major development expenditures.

The second major set of conditions for investment and growth in the Singapore economy boils down to a simple and fundamental mechanism: the state seizes directly and indirectly a substantial share of the value produced and allocates it for investment or savings along carefully defined economic, social, and political objectives. It is indeed a process of politically determined primitive accumulation of capital, a process underlying all major developmental experiences in history.

This conclusion requires that we undertake the analysis of the role of government in the process of economic development in Singapore in a more systematic way. Such analysis cannot avoid a brief examination of the political foundations of the government's actions and policies.

The State and the Economy in Singapore: The Building of a National Polity in an International Economy

By now, it should be clear the decisive role that the government played, and continues to play, in the development process of Singapore. We will here systematically review the basic functions performed by government policies. However, our analytical purpose goes beyond the mere description of the mechanisms involved. The basic thesis we would like to put forward is that government intervention in the economy, in Singapore as elsewhere, is fundamentally a political process, aimed at implementing a political strategy toward the fulfillment of some overriding political goals, in the broader meaning of "political" -- that is, the exercise of power to act upon society.⁴⁰ This is an apparently obvious statement used to pinpoint the close relationship between government, politics, and policies. However, most of the economic literature treats government policies either as exogenous variables or as corrective mechanisms that are only considered in terms of their role within the parameters created by the market. We take exception with this traditional economic view.⁴¹ In contemporary economic experience, states are major actors in the determination of the development process. And the orientations and dynamics of states' economic policies are themselves the result of the politics underlying the formation and management of a given state in its

CHART 4

FINANCING OF GOVERNMENT EXPENDITURE, 1986
A. SOURCES OF FUND : \$12,630 MILLION

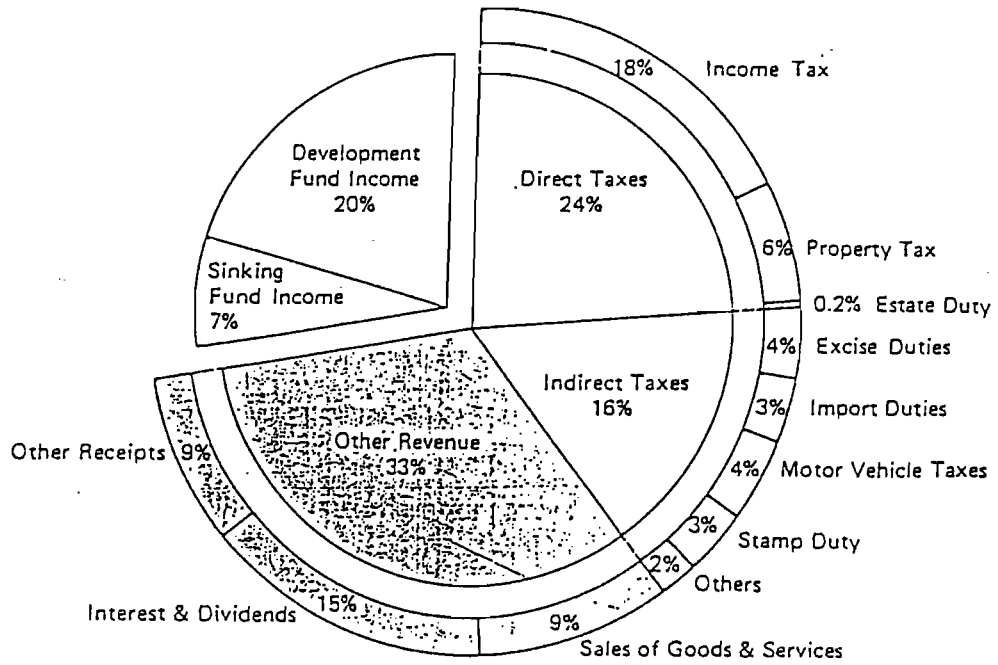


CHART 5

FINANCING OF GOVERNMENT EXPENDITURE, 1986
B. USES OF FUND : \$12,630 MILLION

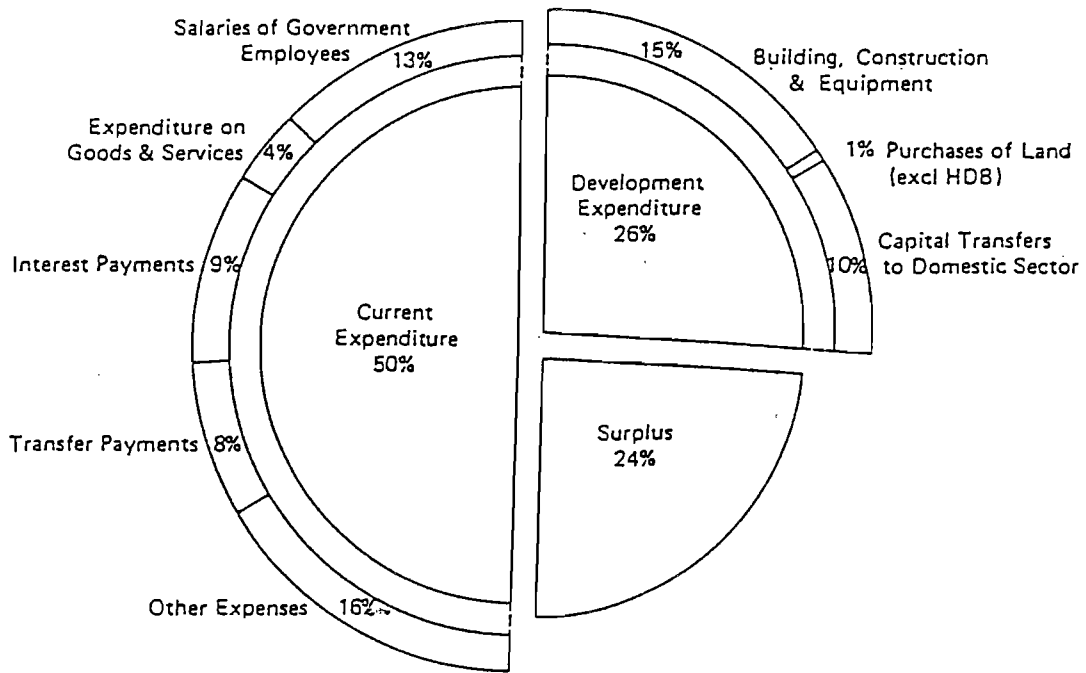


TABLE 10

Public Sector Revenue and Expenditure
(In S\$ millions)

	Revenue	Government Expenditure			Current Surplus	Overall Surplus
		Total	Current	Development		
1975	3392	2652	2302	350	1090	740
1976	3483	3295	2738	557	745	188
1977	3886	3408	2700	708	1186	478
1978	4310	4050	3293	757	1017	260
1979	4908	4279	3383	896	1525	629
1980	6223	5910	4638	1272	1585	313
1981	7888	7582	5829	1753	2059	306
1982	9926	8419	6637	1782	3289	1507
1983	11867	7795	5726	2069	6141	4072
1984	11702	8283	6034	2249	5668	3419
1985P	12124	10597	6678	3919	5446	1527

	Revenue	Statutory Boards Expenditure			Current Surplus	Overall Surplus
		Total	Current	Development		
1975	1215	2282	943	1339	272	-1067
1976	1982	2864	1257	1607	725	-882
1977	2254	3157	1419	1738	835	-903
1978	2841	3147	1628	1519	1213	-306
1979	3203	3453	1927	1526	1276	-250
1980	4369	4646	2547	2099	1822	-277
1981	5252	6032	3050	2982	2202	-780
1982	6185	8245	3538	4707	2647	-2060
1983	6393	9024	3885	5139	2508	-2631
1984	10025	9571	4402	5269	5623	354
1985P	10531	9634	4925	4709	6606	897

	Revenue	Public Sector Expenditure			Current Surplus	Overall Surplus
		Total	Current	Development		
1975	4607	4934	3245	1689	1362	-327
1976	5465	6159	3995	2164	1470	-694
1977	6140	6565	4119	2446	2021	-425
1978	7151	7197	4921	2276	2230	-46
1979	8111	7732	5310	2422	2801	379
1980	10592	10556	7185	3371	3407	36
1981	13140	13614	8879	4735	4261	-474
1982	16111	16664	10175	6489	5936	-553
1983	18260	16819	9611	7208	8649	1441
1984	21727	17954	10436	7518	11291	3773
1985P	22655	20231	11603	8628	11052	2424

SOURCE: Ministry of Trade and Industry, *Economic Survey of Singapore, 1985*.

relationship to society.⁴² In other words, for most developmental states (and Singapore is no exception), their relationship to the international economy is, above all, an instrument to shape their national polity.⁴³

In line with this research perspective, we will first underline the main areas of economic intervention of the Singaporean state. Then we will introduce a brief analysis of the political origins of this state, with emphasis on the basic issues that a nation-building process had to tackle. Finally, we will try to show the connection between nation-building, problem-solving, and economic policies on the basis of the social and political interests at stake in the process.

The forms of state intervention in the economy

On the surface, the role of the public sector in the Singaporean economy does not appear to be overwhelming.⁴⁴ Table 11 provides some indication. The share of the public-sector expenditure in the gross national product is a moderate 20.8 percent, and the number of public employees, although important, is not staggering: 19.5 percent of the workforce. However, public-sector revenue and budget surpluses account for 43.5 percent of gross national product, much higher than in other newly industrialized countries.

But the real influence of government in Singapore's economy manifests itself more importantly in other ways, creating and shaping the conditions for development, and ultimately guiding it, promoting it, and harnessing it.⁴⁵ For the sake of clarity, at the risk of being schematic, we can distinguish seven main modes of government intervention in Singapore's economy:

1. First, the provision of industrial and business infrastructure: industrial estates, reclaimed land, port and air transportation facilities, telecommunications, auxiliary services for business transactions, and the like, as we have already pointed out in this paper. The competitive price of these facilities has to be emphasized, as well as the effectiveness of their maintenance and of their management. Without the provision of such infrastructure, entirely built, financed, and managed by the government and its statutory boards, Singapore's economy simply would not exist.
2. Second, the government has actively intervened in creating favorable conditions for private investment, on fiscal, regulatory, and industrial relations grounds, along the lines already analyzed in the previous section.
3. Third, government's fiscal policy, through the combination of a surplus budget, the Central Provident Fund's intermediation role, and the Monetary Authority of Singapore's regulatory actions on the foreign exchange rate, has actually subordinated the entire working of public finance to the principle of monetary stability and low inflation, thus providing the basic ground for

TABLE 11

Measurements of the Role of Government in the
Economy of Singapore, Korea and Taiwan in 1984
(Current prices, in per cent)

<i>Classification</i>	<i>Singapore</i>	<i>South Korea</i>	<i>Taiwan</i>
1. Government revenue plus current surpluses of government enterprises/GNP	43.5 ^a	18.4	22.9
2. Government revenue/GNP	29.4	17.1	18.0
3. Government expenditure/GNP	20.8	17.3 ^b	22.7
4. Current government expenditures/GNP	15.2	10.0	16.6
5. Government development expenditures/GNP	5.6	7.3	6.1
6. Public sector gross saving/gross national saving	64.0 ^c	28.8	12.7
7. Public gross domestic fixed capital formation/total gross domestic fixed capital formation	33.4 ^d	17.6	42.7
8. Government consumption/total consumption	19.9	14.8	24.4

^a Government revenues plus current surpluses of seven major statutory boards, but excludes undistributed profits of public enterprises.

^b Excludes other special accounts separately funded, which amounted to 3.7% of GNP in 1984.

^c Current surplus of government plus current surpluses of seven major statutory boards, but excludes undistributed profits of public enterprises.

^d If measured in 1968 prices it would be 22.6%.

SOURCES: Ministry of Trade and Industry, *Economic Survey of Singapore 1985*; Major Statistics of Korean Economy 1985; and *Taiwan Statistical Data Book 1985*.

predictable investment patterns.⁴⁵ Of course, monetary and fiscal policies are major instruments of macroeconomic management for all governments in the world, and in this sense there is nothing special about Singapore. Yet, what is significant is that the overarching principles guiding fiscal and monetary policies directly reflect government's strategic decisions about developmental goals, e.g. low inflation to allow for foreign capital inflows; use of Central Provident Fund contributions limited to government's priority on public housing and home ownership, etc. In addition, the government has systematically used development expenditures as countercyclical stimulants to pump the economy out of recessions (e.g. in 1974-75), generally through public-housing construction and works in urban infrastructure.⁴⁶ In this sense, traditional Keynesianism has combined with policies aimed at fostering international competitiveness in the Singapore government's economic policies.⁴⁷

4. Fourth, the government is also actively engaged in direct productive investment, both on the international and on the domestic fronts.⁴⁸ Internationally, the Government of Singapore Investment Corporation invests a sizable share of government surpluses in a diversity of stocks in several sectors and in many countries. Although specific information on those investments is not public, they are believed to be very large and strategically targeted around two basic criteria: access to privileged knowledge and contacts in the international financial networks; and safe investments with satisfactory levels of return. Although the arguments on this matter are necessarily a bit speculative, it is significant to notice that, apparently, the criteria for investment are more strategic than strictly profit-making, although money-losing operations are certainly not allowed. The main reason for these investments abroad is the government's feeling about the vulnerability of the Singapore economy. Only by diversifying its assets and further interpenetrating Singapore with the core financial and industrial networks of the advanced economies can the government expect to overcome the catastrophic consequences of a dramatic shrinkage of world trade and internationalized production that could damage Singapore's nodal role in an open economy. Thus, the Government of Singapore Investment Corporation's investments are an insurance policy aiming at building up Singapore's financial power as the future "Switzerland of Asia."

Besides GIC's foreign ventures, the government has also invested heavily in about 490 private companies in Singapore. Some of the investments result from original industrial projects that were intended to bring to life certain sectors of the economy. Others were the consequence of profitable investment opportunities seen in Singapore. And still others are related to strategic imperatives of a different kind. This is the case of the quite important defense industries, of the maritime communications (Neptune Orient Lines), and of air transportation (Singapore Airlines). These investments are managed by the three

government-controlled holdings that we cited, Temasek Holdings Private Ltd. being by far the most important. Chart 6 details the extent and importance of Temasek-managed private investments in Singapore. However, decisions about investment policy are hardly in the hands of Temasek's management, which seems to be mainly a coordinating administrative body. In terms of the overall investment policy, it is the top level of government that decides. In terms of each company, decisions are generally left to the management of each firm, so that they are not reserved, in general, if they fail to make profits. For instance, a major paper mill company owned by the government was allowed to go bankrupt. Thus, Singapore has avoided, by and large, bearing the burden of an unprofitable public industrial sector, while still being able to greatly influence the economy through a dynamic presence of public investment in the marketplace.

5. A fifth series of measures through which the government guides and stimulates the economy consists of a number of institutions and programs aimed at stimulating economic productivity, technological development, and manpower training to be able to provide Singapore with a competitive edge. Although some of these institutions were set up fifteen years ago, their role has been emphasized recently, aided by the push provided by the launching of the Productivity Movement in 1981, a policy that we will examine below within the framework of the restructuring process of the Singapore economy. The overall institutional network covering all aspects of productivity and development is so complex and wide-ranging that the description of the system's workings would require a separate report.

Let us simply state the main areas and institutions involved in the process, as an illustration of the government's determination to upgrade the basis for economic development. The National Productivity Board coordinates different programs within what is called a "total approach to productivity." Chart 7, although naive in its graphics and labels, expresses quite well the underlying philosophy, subsequently implemented through financial schemes, training programs, social campaigns, management guidance, and legal incentives for companies engaged in training personnel and upgrading their equipment. One of the key programs of the National Productivity Board is focused on the retraining of at least a portion of the unskilled workforce (two-thirds of Singapore's labor) so that it can meet the new technological requirements of an upgraded economy. Thus, the Skills Development Fund operates training centers catering to the needs of the industries, and provides financial incentives for companies willing to retrain their workers. Japanese participation in these programs is to be noticed (as a matter of fact, a grant from Japan helped to construct the new high-rise NPB building).

Concerning the shift to high technology, there is a variety of efforts, some carried on by semi-autonomous statutory boards, some directed by the Ministry of Trade and Industry (MTI) and its strong development policy arm, the Economic Development Board.

TIMESCOPE

ON Saturday, the government will offer for sale some of its shares in Singapore Airlines. In the coming months, more companies are expected to be privatised. Here we look at some companies wholly or partly owned by the state.

Graphics by
PATRICK OUA
Research by
VALERIE LEE and
LOONG SWEE YIN

AVIATION/TRANSPORTATION

SINGAPORE AIRLINES (SI)
The national carrier

Gov't's share	94.35
Price	\$114.14 pd
Size	14,177

FINANCIAL SERVICES

DBS BANK LTD
Provides commercial banking and financial services

Gov't's share	42.35
Price	\$57.2 pd
Size	1,276

EXPORT CREDIT INSURANCE CORPORATION OF SINGAPORE LTD
Provides insurance coverage for local exporters, i.e. to cover their credit risks of manufacturers and traders who sell overseas

Gov't's share	94.5
Price	\$7.1 pd
Size	55

GOVERNMENT OF SINGAPORE INVESTMENT CORPORATION PTE LTD
A fund management company for the Singapore Government

Gov't's share	100.5
Price	\$44,000
Size	45

SINGAPORE AIRCRAFT INDUSTRIES (SIAI) LTD
Involved in the maintenance and refurbishment of aircraft, manufacturing of aircraft equipment, parts and components

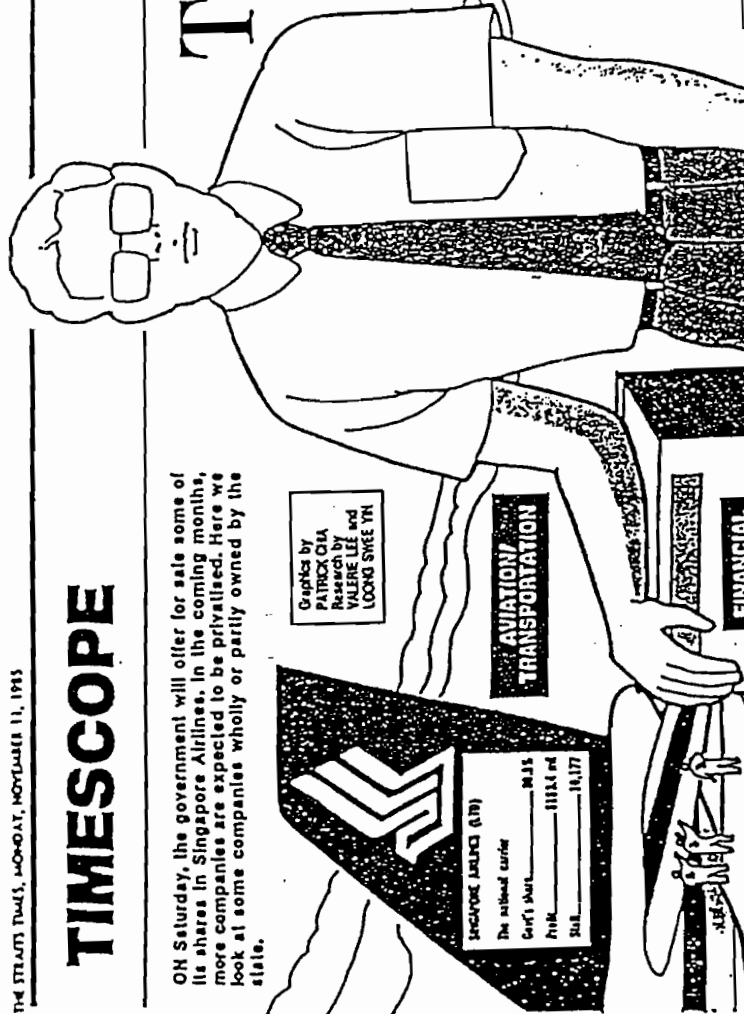
Gov't's share	100.5
Price	\$11.6 pd
Size	2,000

FARMING

PRIMAAT INDUSTRIES ENTERPRISES (PIE) LTD
Involved in pig farming and related activities. Also provides managerial consultancy and has joint ventures in gum trading, meat processing, etc.

Gov't's share	100.5
Price	\$4.0 pd
Size	211

The government's giant hand in business



The 450 companies owned or backed by the government are held by three holding companies, Transit Holdings Pte Ltd, Shuang Li Holdings Co Pte Ltd and MKO Holdings Pte Ltd. All in, the government has fixed assets worth \$10 billion in these companies which employ some 58,000 workers (1984 figures).

TRADING

INTEGRAL LTD
An international trading company with interests in investment, manufacturing, services and high tech areas.

Gov't's share	24.25
Price	\$12,000
Size	200

NATIONAL OILMAN DEVELOPER LTD
Provides services in the bulk handling and storage of kerosene, diesel and lubricants

Gov't's share	37.5
Price	\$12,000
Size	7

PASTANG SINGAPORE FINANCIAL (PFI) LTD
Involved in the storage of petroleum and transacting services

Gov't's share	12.5
Price	\$174,000
Size	7

LAKE ENTERTAINMENT (PTE) LTD
Sells consumer items like toys, books and stationery to schools, libraries and other educational institutions.

Gov't's share	100.5
Price	\$11.5 pd
Size	200

SINGAPORE AIRPORT DEVELOPMENT (SAD) LTD
Sole developer, owner and operator of the airport

Gov't's share	100.5
Price	\$11.1 pd
Size	311

THE SINGAPORE TRADING (SIT) PTE LTD
Involved in the handling and storage of petroleum

Gov't's share	100.5
Price	\$11.1 pd
Size	311

SINGAPORE FOOD INDUSTRIES LTD
Sells frozen food, ice cream and other products to retail outlets.

Gov't's share	100.5
Price	\$11.5 pd
Size	140

SINGAPORE NATIONAL OIL COMPANY (SINO) PTE LTD
Involved in petroleum and petroleum-based products. (The trading of the business)

Gov't's share	100.5
Price	\$114,000
Size	1

TOURISM/RECREATION

SINGAPORE TOUROLOGICAL ENTERPRISES (STE) LTD
A new set up as a tourist attraction which is more than popular with the public.

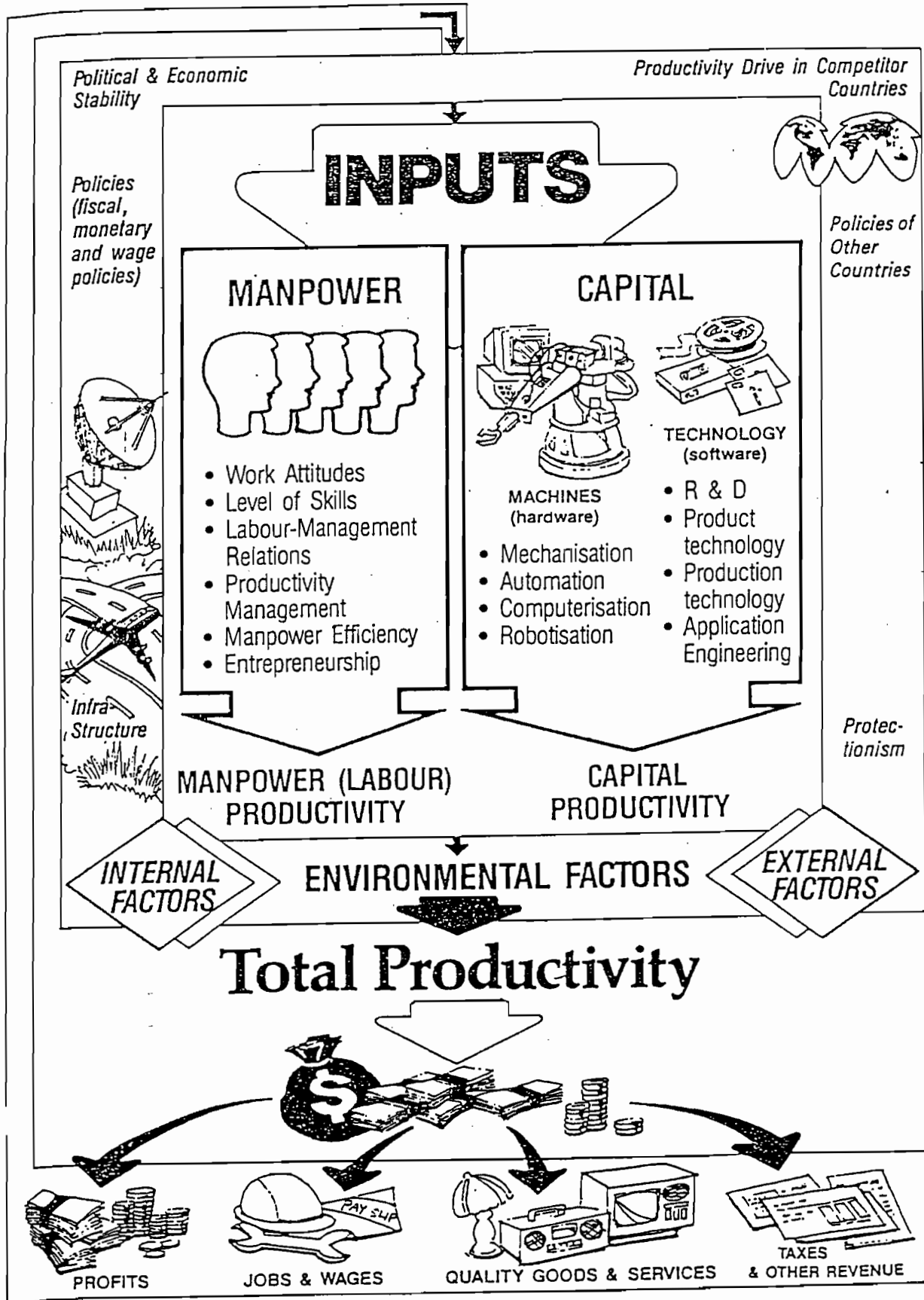
Gov't's share	100.5
Price	\$472,000
Size	140

HOTEL/RECREATION

HOTEL PRODUCE (PTE) LTD
A hotel set up as a tourist attraction.

Gov't's share	100.5
Price	\$472,000
Size	140

CHART 7



Thus, the Singapore Institute of Standards and Industrial Research deals with enhancing the technological basis of industrial productivity. The National Computer Board specializes in training and research in information technology. The Science Council is responsible for stimulating industrial- and commercial-directed R&D activities, in connection with the National University of Singapore and the Nanyang Technological Institute, as well as some major international corporations. For instance, an Institute of Systems Science was established in 1981 at the National University of Singapore, in a partnership with IBM, focusing first on education and training in computer sciences, and, in a second stage, on designing systems for public administration, office automation, and Chinese-language software.

Another Information Technology Institute is being set up by the National Computer Board. The Science Council has created a Science Park to house R&D institutions and R&D centers of private companies, which includes a Software Technology Center and an Institute of Molecular Biology. Another interesting scheme concerns joint ventures between the Singapore government and foreign governments and companies to set up training institutes that provide skilled workers and middle-level technicians.

There are three major vocational training institutes co-funded and co-managed by Singapore and foreign governments: the German Singapore Institute, specializing in mechanical engineering; the French Singapore Institute, specializing in electronics; and the Japan Singapore Institute, specializing in training electronics maintenance personnel, with particular emphasis on "mechatronics". In addition, other training institutes were established since 1972 in cooperation with Tata and with Philips. The interesting point is that none of these institutes caters exclusively to companies of the sponsoring country. Although they have privileged access to the technology and commercial networks of these countries (indeed, the students learn each country's language), the institutes' graduates go into Singapore's general labor pool, thus upgrading the overall skills level of labor. About 5,000 skilled workers and technicians have already graduated from these two- to three-year programs, and the current production level is about 800 per year. These institutes also house special cooperative advanced training programs with particular companies, a scheme in which several U.S. companies actively participate. Thus, Hewlett-Packard and Computer Vision have set up CAD/CAM (Computer-Assisted Design/Computer-Assisted Manufacture) training centers in the German Singapore Institute, and Mentor Graphics runs an integrated circuit design training program in the French Singapore Institute. The institutes also offer application courses for university engineering students to familiarize them with actual production tools. Emphasis in the programs is heavily on industrial automation, robotics, and "mechatronics."

Finally, in the more recent period, a new effort has been made by the Economic Development Board to support small businesses in Singapore, for reasons that we will discuss below. As a result, a Small Enterprise Bureau was set up in 1986 to provide financial support, information, and

training programs for companies with less than fifty employees, in cooperation with other government institutions. Much of the program is geared toward improving the quality and efficiency of manufacturing firms subcontracting from the multinational corporations, and some of the schemes are actually administered jointly with the multinational corporations, for instance ATT or Hewlett-Packard. The goals are to upgrade the quality of suppliers, thus facilitating the transfer of some of the operations performed by multinational companies in Singapore to the local companies, to nurture the development of a local manufacturing basis along the lines of production in which Singapore-based exports are already established. American companies appear to be keen on these arrangements, which allow the introduction of "just-in-time" production management methods.

Thus, government initiative, translated into a constellation of programs and institutions, is the driving force behind the deliberate effort to speed Singapore through stages of development.⁴⁹

6. Besides economic regulation and government intervention on the supply side of economic development, Singapore also has a significant "sui generis" welfare state. There are no welfare payments, and no unemployment insurance, although there is low unemployment, and the high rate of labor force participation and persistence of strong family ties enables the family structure to provide for most of the victims of economic recessions. Retirement at the age of 55 is made possible by mandatory contributions from employees and employers, but there are some doubts about the ability of a fully funded, individualized system to provide for the real needs of low-income retirees. In fact, the government is also counting on family ties to absorb the shock of a rapidly aging population.

The real extent of the welfare state in Singapore includes housing, health, and education. Primary education is almost universal and paid for at a low nominal fee. Secondary education is also free and expanding rapidly. However, its provision is restricted to those children able to pass an examination at the end of primary school, a procedure that epitomizes Singapore's meritocratic system. University education (of superior quality at the undergraduate level) remains the domain of a meritocratic elite, clearly modeled after the "Oxbridge" pattern. Health care is of moderate-to-good quality and provided almost free for "class C" people (low-income). Classes "B" and "A" have to pay higher fees, although since 1985 they can use their Central Provident Fund contributions to pay for hospitalization costs. However, people can decide that they are "class C" and pay a nominal fee, without control of their income, provided that they accept the standard conditions of public health care, certainly lower than the technological level of Singapore. Yet the system clearly exceeds any other in the Association of Southeast Asian Nations region and in most of Asia in quality and affordability. In terms of housing, 85 percent of the population lives in public housing (70 percent in home-owned flats) at affordable prices. Although these are high-density, high-rise living quarters, they

are well-equipped with facilities, organized on the basis of self-sustained New Towns.⁵⁰ Housing units are provided at a cost estimated to be as much as 40 percent lower than equivalent accommodation in the private sector (although comparison is difficult). This is mainly due to the basis of the low cost of land purchased by the Housing Development Board, and the economies of scale achieved by a comprehensive program that clears land, designs buildings, produces its own construction materials, contracts and supervises the builders, and manages and maintains the housing estates. The Housing and Development Board is actually the manager of Singapore's everyday life.

Government provision of collective consumption goods and services also includes open-air activities, cultural and recreational facilities, and institutional support for social life through the community centers that exist in most neighborhoods and particularly in the new towns.⁵¹

By decisively intervening in the process of social consumption, the government provides the material basis for raising the standard of living in spite of low direct wages for the majority of the population (about 70 percent of Singaporean workers still earn less than US\$400 per month). In so doing, the state also shapes the pattern of social life and exercises its control and guidance vis-a-vis the people, a matter with considerable policy implications.⁵²

7. As important as all the forms and spheres of economic intervention by the government may be, the most significant action is its ability and its determination to set the goals of development for Singapore, and to go after such goals with a deliberate set of implementation policies, in one of the most stunning showcases of strategic planning in recent history.⁵³ However, it must be clear from the onset that economic development was but an instrument, albeit the most important one, of nation-building. And the successive models of development pursued by the government of Singapore, as well as the stages through which different policies evolved, were largely determined by adaptive reactions of the People's Action Party government to changing circumstances in the international environment as well as in domestic politics. Because of the inseparable intertwining between politics, policies, and economic development in Singapore, we must now proceed to a summary discussion of the political origins of the Singaporean state, as well as of the process through which it confronted a series of particular challenges on the road to national development. The actual characteristics of Singapore's economic model can only be understood as the multidimensional result of this political and social process.

The Political Foundations of Economic Development in Singapore

There are a number of fundamental clues without which it is impossible to understand the Singapore experience, both in terms of its historical specificity and in terms of the broader lessons it can offer for development theory.⁵⁵

The first of these basic facts is that the Singaporean state emerged as the outcome of a very powerful, very militant, and very popular anti-colonialist movement. This movement, through a variety of tactics fought for the independence of Malaysia (including Singapore) as early as the mid-1940s, in the wake of the decolonization movement after World War II.⁵⁶ The Chinese-speaking students of Singapore, who admired the national achievements of the Chinese communists, and the trade unions were the main social forces of the independence movement, backed from behind the scenes by the Malaysian Communist Party and its powerful militia, formed during the anti-Japanese resistance.⁵⁷ The anti-colonial movement had three main political components: the Labour Front, the Left within the British system, elected to the colonial government in 1954; the Communists, originally the strongest and best-organized force, but fundamentally handicapped by the difficulty of expressing their policies openly, given the geopolitical conditions, their repression by the British forces, and their subsequent choice of pursuing armed struggle in line with the Chinese example; and a "third way," represented by the People's Action Party, founded by Lee Kuan Yew in 1954, shortly after his return from his law studies at Oxford. The People's Action Party defined itself as a democratic socialist party and practiced a de facto alliance for many years with the communists, outside the party, and with left-wing militants within the People's Action Party itself.⁵⁸ The People's Action Party, at least in its origins, was clearly a left-wing party, self-declared socialist, that gradually assumed the leadership of a national movement to become a populist-nationalist party always looking for grassroots support and, simultaneously, like all populist parties, trying to create institutions able to preserve its control over the popular masses.⁵⁹ This is a fact too often overlooked by contemporary critics of the Singapore government, who tend to identify it as a typical dictatorship without considering its popular and anti-colonial origins. Such origins are particularly important in explaining the current state and the process of economic development, because the same leadership, the same persons, still operate the system -- since we are referring to events that are as recent as the mid-1950s.⁶⁰ As a matter of fact, Lee Kuan Yew made his first political reputation as a lawyer defending labor unions in collective bargaining, and student activists repressed by the colonial government. In the electoral campaign that led to the election of a People's Action Party government with Lee Kuan Yew as Prime Minister in 1959, it appears that its Labour Front opponents received financial support from U.S. sources and from the anti-communist Kuomintang[[??] circles, fearful of the left-wing inclinations of the People's Action Party.⁶¹ Shortly after the People's Action Party's electoral victory, a major power struggle took place within the party between its "democratic socialist" and "pro-communist" wings, focusing on the issue of the merger with Malaysia, which was supported by Lee Kuan Yew. With the government under his control, Lee Kuan Yew succeeded in expelling the "pro-communists" from the People's Action Party, after which the left wing

of the party formed a new political party, the Barisan Socialis. The struggle shifted then to the labor movement, with serious confrontations between the government and the left-wing Singapore Trade Unions Council, eventually leading to the detention of labor leaders and the de-registration of the entire Singapore Trade Unions Council.

Thus, in spite of the repression of the Left in the 1960s, the popular origins of the People's Action Party, its socialist ideology, and its political legitimacy as the spearhead of the national liberation movement are key elements to understanding the characteristics of the Singaporean state and of its development policies. People's Action Party leadership always felt mandated with the historical mission of building Singapore as a nation, and to do it for the well-being of its people, whatever the distortions and social differences that grew up during the complex process of implementing this national design. In this sense, to understand Singapore it is indispensable to consider it as a showcase of a national liberation movement institutionalized in a nationalistic strong state that believes it cannot afford to make any concessions to either external or internal enemies in its struggle for survival in a merciless world.⁶² While this has been the approach of many Third World nationalist governments to the issues of development, the Singapore case stands in a class by itself on two grounds: its pragmatic adaptation to a changing environment⁶³ and its success in the implementation of its development policies.⁶⁴ Let us consider these two elements.

A. "Survival" is a word that appears again and again both in the texts of the Singapore leaders and in conversations with officials when they refer to the origins of their policies during the 1960s. In their view (and one has to concede a great degree of realism to their perception), by the mid-1960s it was not clear at all that Singapore could survive as a viable social, economic, and political entity. Three major traumas that can all be traced back to the period of the early 1960s explain the shape and orientation of the Singaporean state and of its developmental policies:

1. The first trauma concerns the national identity of Singapore. People's Action Party's policy always presupposed that only a merger with the Federation of Malaysia could make the island a viable economic entity. The difficulties encountered in the process until the merger in 1963, the political and ethnic crises in 1964, and the subsequent expulsion of Singapore from the Federation left the small island nation, at the moment of its independence in August 1965, with a fundamental doubt about its chances of survival, cut off from resources and surrounded by hostility.⁶⁵ Furthermore, the hostility of Indonesia to the Federation of Malaysia between 1963 and 1966 interrupted trade with Singapore and wrecked much of its entrepot economy (in a similar process to the crisis of the trade economy in Hong Kong after the Chinese revolution). To make things worse, Britain's closure of its major military installations in Singapore in 1968-71 undermined the economy (they represented 20 percent of gross domestic product and 6 percent of

employment) and increased the feeling of insecurity of the new-born republic, threatened by its much-more-populated neighbors in a Southeast Asian region shaken by the war in Indochina.

2. The second major trauma relates to the social viability of Singapore as a multi-ethnic society. The racial riots between Chinese and Malays, and the threatening attitude of Malaysia and Indonesia toward their Chinese minorities had clearly shown the possibility of the disintegration of Singapore under the tensions between its significant Malay and Indian (mainly Tamil) minorities. Recent events in Sri Lanka show the reality of the Singaporean fears of the potential for racial disruption. The government was faced with the task of integrating different ethnic groups under the majority rule of the Chinese population (about 75 percent of the total).⁶⁶ Furthermore, the Chinese themselves were fragmented in a variety of dialect, clan, and family groups, based upon their provincial and regional origins in China, and consolidated in Singapore through business associations and social organizations, generally localized in territorially specific areas.⁶⁷ To create a society collectively mobilized for development was a formidable task which the government had to confront.

3. Finally, the People's Action Party also went through a major political trauma: its relationship with the communists and the pro-communist political militants.⁶⁸ This very close relationship made a major impact on the People's Action Party's own structure, organization, and tactics. Its leaders were convinced that there was a serious possibility of Singapore (rather than Malaysia) being taken over by a communist movement that could link up with the strong communist influence in Indochina, in the shadow of the Chinese Communist Party, which many Singaporean political militants admired. People's Action Party leadership learned its policies side-by-side with the pro-communists and admired their commitment and effectiveness, yet diverged in goals and international alignments; so they decided to fight communism with the same determination they would expect their adversaries to fight them with if given the chance.

Thus the Republic of Singapore came reluctantly into existence in 1965, unsure of its national identity, skeptical of its economic viability, fearful of destructive ethnic communalism, and obsessed with the political threat of communism and social unrest. To tackle simultaneously all these issues resulting from the traumas of its short, turbulent history, the People's Action Party built a strong state and put it to work through the implementation of a number of policies, of which economic development was the pivotal force.⁶⁹

The main instruments for the implementation of these policies can be summarized as follows:

- A. A solid, effective, strong state apparatus that presents three salient features:⁷⁰
- Tight control and deliberate guidance exercised at the top by a small group of proven, trusted political leaders, with strong internal cohesion, long-term personal relationships, and shared acceptance of the undisputed national leadership of Prime Minister Lee Kuan Yew.⁷¹
 - Establishment of a powerful and professional public service, modeled after the British Malaysian Foreign Civil Service, but with much tighter control on corruption and unruly practices.⁷² A special anti-corruption unit with extensive powers was attached to the Prime Minister's Office, and is credited with having set Singapore in a class by itself in the developing world with regard to "clean government" practices. Furthermore, meritocracy was established as the basic logic for recruitment, promotion, and rewards, so that government service in Singapore attracts and selects the best of the society, and rewards them so highly that both their effectiveness and their loyalty are ensured. It follows that any action considered disloyal provokes hefty explicit and implicit sanctions.
 - Relentless effort of police surveillance and repression against communism or any activities judged to be "subversive" by the government. Some of the repressive instruments include remnants of the British colonial system, including the Internal Security Act, still used in 1987, under which persons suspected of "subversive activities" can be detained indefinitely without trial.⁷³
- B. Establishment of a series of mechanisms ensuring political legitimacy, social integration, and social control in the relationship between people and the party-state, constructing what some analysts have labelled a hegemonic state.⁷⁴

The important characteristic of these mechanisms is that they articulate social reform, social organization, and social control to achieve political legitimation and political domination at the same time. In other words, the state actually delivers cherished goods and services to the people, organizes them, and channels and represents their demands, while keeping specific interest groups and individuals under the overall guidance of policy decisions to which the government gives national priority.

These are the mechanisms that explain Singapore's political stability, expressed in the fact that the People's Action Party has won all elections since 1959 without having to resort to electoral fraud. Only in 1981 was the opposition party (the Workers' Party) able to win one seat, which became three in the 1984 election.

Key elements of these integrative social policies seem to be:

- The public-housing program, basically organized in the form of new towns, and aimed at promoting home-ownership. It addressed the terrible housing conditions in which Singaporeans were living in the 1960s promptly and effectively, and was given high political priority. Singapore's public-housing program,⁷⁵ which in 25 years built 500,000 housing units to house 85 percent of the population and constructed 15 fully equipped new towns, is the most successful housing program in the world, in spite of its shortcomings in urban quality and the criticisms addressed to the bureaucratization of its management.

- A network of community-based organizations and supporting public facilities, directly run from the Prime Minister's office: People's Associations linked to the People's Action Party; Residents' Committees representing residents of the housing estates; Citizens' Consultative Committees, organizing citizen participation; and Community Centers, providing facilities and organized activities, while controlling and guiding such activities.⁷⁶

- A number of programs and campaigns, some of which are often labelled in Singapore as "social engineering," aimed at transforming the culture, habits, and social practices of the population for the general well-being and the achievement of national development.⁷⁷ Examples are the birth control campaign and subsequent incentive for educated women to have children; the campaign to speak Mandarin, in order to unify the Chinese culture above all dialects while opening up potential markets in information services in relationship to China; the "National Productivity Movement," launched in 1981; and the recent promotion by the Housing Development Board of priority for nearby flats for members of the same family, to preserve the extended family structure, thereby ensuring care for the elderly (given the serious problem posed for Singapore by its rapidly aging population). The overall line of policy guidance is that the process of development is a multidimensional one and that society can and must be remodeled by the state to gear up toward the achievement of superior standards of living and better forms of social relationships.

Still, the decisive tool for social improvement, and the fundamental basis for Singapore to exist as a viable, indeed thriving, entity, was (and is) fast economic development. Ultimately, that was the main challenge undertaken by the People's Action Party on the basis of political stability and social integration achieved through the instruments we have described. Yet, for such a small, resourceless country, it was not an easy path to take.

The Process of Economic Development

Economic development in Singapore was initiated by a false start: the first (and only) Development Plan of 1961. This plan, on the basis of the foreseen merger with Malaysia, established a traditional import-

substitution policy to set up the basis for industrialization, the tool of development that was selected by the socialist ideology of the People's Action Party, against the traditional entrepot economy, dependent upon external sources and organized around business networks that were difficult to control.⁷⁸

In 1965 the drive toward industrialization seemed to be an impossible dream, with no domestic market, without natural resources, and with little capital. Thus, the only option left to Singapore was to sell herself as a convenient, productive location for international capital. The industries responding to this appeal represented a mix of sunset and sunrise: steel mills, shipyards, oil refineries, electronics. But in fact, in the first stage of development they were not selected by Singapore. Given the desperate situation, the government would eagerly welcome any investor able to create jobs and foster the industrialization process. The incentives and conditions we have described in some detail provided the ground for the multinationalization of Singapore on the basis of the overall trends of the world economy. Thus, for instance, electronics located in Singapore because the mid-1960s was the moment of acceleration in the expansion of the semiconductor industry, an industry characterized by its propensity for a spatial division of labor between its different stages of production, with low-skilled, assembly operations being offshored very early by most American companies.⁷⁹ Singapore's business environment and its good transportation and communication facilities gave it an advantage over other locations. The process of industrialization got a robust start: between 1968 (date of the location of the first electronics company, National Semiconductors) and 1972, manufacturing output, exports, and employment all grew at an average annual rate of about 23 percent.

Once basic growth was underway, economic strategy started to play a role, basically along four lines:⁸⁰

1. A deliberate effort to diversify the economy to make it less vulnerable to international downturns. The main decision on this level was to support Singapore's potential as an international business center, both by creating basic infrastructure (telecommunications, business services, office space, air transportation) and by designing and promoting a number of financial instruments (including the Asian dollar market).
2. Management of the recessions of 1974-75 and the crises of different industries, particularly in shipbuilding and oil, moving into ship repair activities and investing in specialty oil refining capabilities.
3. Targeting and selecting industries and companies around the world, particularly in electronics and finance, and luring them to Singapore, so that their presence would add credibility to Singapore as a location for other companies.
4. Finally, by the end of the 1970s the government of Singapore decided that the time had come to undertake a new strategy leading to a higher stage of development, characterized by

capital-intensive rather than labor-intensive industries and increasing competitiveness in high-value-added goods and services.⁸¹ To accomplish this, Singapore should enhance the quality of its labor and reach by 1990 the per capita gross domestic product that Japan had in the late 1970s, achieving the status of a truly developed country at last. Barely over ten years after its independence, Singapore was already striving to surpass Britain's level of development. One could not find a better expression of the relationship between political nationalism and economic development. From this perspective, the multinationals were (and are) one of the instruments of achieving Singapore's national interests, at least as the People's Action Party views them. But by 1979 the government envisaged the need to accelerate the pace of growth and to raise the level of expectation beyond the role that multinational capital had assigned to Singapore in the world economy. The developmental state was no longer benefiting from a subordinate position in the new international division of labor, but felt strong enough to attempt modifying its position, or at least to considerably improve it. As experience was about to show, that was not an easy task even for a most determined and well-organized economic policy-making machine. Nation-building in an international economy is, above all, a political process, but a process that must cope with the limits of economic realities.

Singapore's Great Leap Forward and Its Aftermath: From Restructuring to Crisis, to Restructuring?

In 1979, after two decades of rapid, sustained economic growth, Singapore, confident of its healthy financial status and counting on social and political stability, felt ready to move forward into the next stage of development. In a bold decision, exemplary of a state-guided economy, a 10-year Economic Development Plan for the Eighties was formulated, with the mobilizing goal of achieving by 1990 a per capita gross national product of about US\$8,000 (at 1978 current prices), which is the same standard of living that Japan was enjoying at the moment of the elaboration of the plan in 1978.⁸² But the interesting aspect of the Plan was the strategy through which this ambitious goal was to be achieved: a drastic restructuring of the productive sector to improve Singapore's position in the international division of labor. Three main explicit economic targets were set up:⁸³

1. A substantially higher rate of growth of economic productivity, at around 6-8 percent per year in the 1980s, up from the 3 percent annual growth of the late 1970s.
2. An upgrading of the manufacturing sector, moving from low-skilled, low-value production to high-valued products and industries, with a more skilled, better-paid labor force.
3. A reinforcement of the role of advanced services in the economy, particularly in business services, transportation, and

communications, enhancing Singapore's role as an international services headquarters.

In order to achieve these economic objectives, a number of policies were devised and implemented. The most spectacular was a substantial rise in wages, sponsored by the National Wages Council, amounting to a 20 percent increase across the board in three years (1979-81), while keeping inflation low (thus effectively increasing living standards), and encouraging companies to move away from low-wage, low-skill jobs into higher-value products. A National Productivity Movement was launched in 1981 with emphasis on psychological motivation, cultural change, and management-labor cooperation during the first stage of the program.⁸⁴ Information technologies were to be supported both in terms of training and research and fiscal and institutional incentives for companies producing and using these technologies. A more selective, targeted policy to attract investment to Singapore emphasized the government's preference for information-intensive industries.

Another major goal was to accelerate Singapore's shift from manufacturing to advanced services, partly because of the need to diversify the economy, and partly to enhance productivity. Indeed, business services had the highest proportion of educated labor force, and productivity was substantially lower than that of other sectors, including commerce. To achieve this structural shift, particular attention was given to telecommunications and transportation infrastructure, as well as to the building of new facilities and office space. Furthermore, from 1982 on, after a boom in property prices in 1979-81, there was a more discrete but determined effort to bring down office rentals and to control real estate speculation, which was taking a toll on the profitability of advanced services organizations locating in Singapore. New financial instruments were created, and flexibility was added to an already substantially free business environment.

Along with the new technological and economic frontiers to be reached, public policy remained committed to maintaining the traditional objectives of social peace, political security, and monetary stability. Thus, the public housing program was to be accelerated, and the latest new towns would receive greater attention than the first ones in terms of their environmental quality. To provide for this expanded program, Central Provident Fund contributions were to be raised to their maximum level of 50 percent of wages (25 percent for employees, 25 percent for employers) in 1984. Construction expenditures were also to continue playing their countercyclical role in keeping the economy afloat in case of a world-induced recession, and they actually did so quite effectively during the slowdown of 1982-83. Defense expenditures had also to be kept at their high level. Yet all these public expenditures in construction, defense, education, and research were to respect the traditional limits of low inflation, equilibrium (or surplus) of the public budget, and substantial foreign currency reserves. Thus, priority targets put aside, the government would increase its share of domestic savings without reintroducing them into the economy, to avoid inflationary pressures, a particularly delicate matter at the very moment when wages were increasing.

How well did the new strategy work? The performance of the economy in 1980-84 provides a tentative, although quite complex, answer.⁸⁵ First of all, real gross domestic product growth accelerated at an average of 8.5 percent per year, within the target bracket; productivity substantially increased its pace of growth, from 3.2 percent per annum in 1975-79 to an average 4.9 percent in 1980-84. This growth performance is particularly impressive considering sluggish demand in the U.S. in 1980-82 and in Europe for the whole 1980-84 period. However, a higher than usual share of growth during that period (about 40 percent, against 28 percent in the preceding years) was contributed by domestic demand, particularly by the construction sector, which grew at 24 percent per annum in 1981-84 (a staggering 47 percent per annum for residential construction) and raised its share of gross domestic product to 29 percent, up from 14 percent in 1978. In 1984, US\$6.5 billion or 63 percent of total capital formation was in construction, mainly residential and commercial buildings. Thus, although productivity did grow substantially, its impact on overall growth would have been negligible, except for construction-induced investment, given the slowdown of growth exports to 5 percent per annum in 1980-84 (way below the 11 percent per annum average of the other Asian newly industrialized countries in the same period).

Real wages did rise substantially, in line with productivity, as expected in 1979-81; they rose much faster, unexpectedly doubling productivity growth, in 1982-84. (See Table 12.) Given the sharp increase of Central Provident Fund contributions, and other employers' contributions (Skills Development Fund in particular), total labor costs grew at over three times the rate of productivity growth, undermining profitability. Overall, unit labor costs increased by 40 percent in the 1979-84 period, exceeding the benefits of increased productivity. Labor share of gross domestic product increased from 40 percent in 1979 to 46 percent in 1984. Thus, Singapore lost competitiveness vis-a-vis other Asian newly industrialized countries; its competitive position deteriorated in 1979-84 by 50 percent against Hong Kong, 15 percent against Taiwan, and 35 percent against Korea. Only the penetration of the U.S. market saved Singapore's performance during the early 1980s, while its exports to the European Community went down from a 26 percent per annum rate of growth in 1976-80 to a meager 1 percent in 1981-84.

Thus, the immediate test of the new economic strategy offered very mixed results. While productivity increased, wages and labor costs did so at a faster pace, undercutting profitability. Sectoral diversification could not absorb the changing patterns of demand in the world economy, and export growth fell far behind past performance as well as behind Singapore's most direct competitors. On the other hand, foreign capital inflows kept the balance of payments afloat, and the strong growth in output and productivity of the advanced services sector (see Table 13) helped the economy to resist the 1980-82 world recession. However, it was the construction sector that pumped the economy artificially in 1981-84. When it became obvious that a major property glut had been created, Singapore entered the major economic crisis of its short life as an independent nation.

In 1985, after 20 years of rapid growth, Singapore's real gross domestic product declined by 1.7 percent. Unemployment reached 6.5

TABLE 12
Wages, Total Labour Costs and Productivity, 1973-1985

	Average Monthly Earnings		Total Labour Costs		Real Productivity Growth
	Nominal	Real ¹	Nominal	Real	
Av 1973-78	9.7	1.7	9.1	1.2	2.7
Av 1979-81	11.9	4.7	14.4	7.4	4.8
Av 1982-84	11.2	8.3	12.5	12.8	4.3
1985	3.0	2.5	-0.2	-0.5	3.0

Notes: ¹ CPI is used as the deflator.

² A separate deflator that measures the product price of each sector is used.

Source: Department of Statistics
Ministry of Labour

TABLE 13

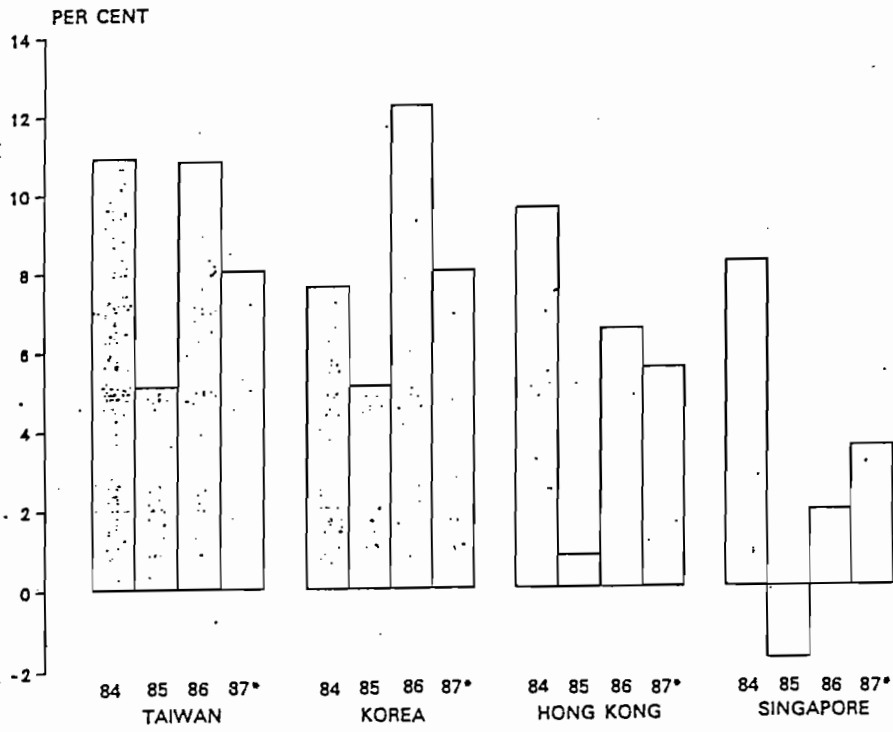
Sectoral Performance

	Value-added Per Worker At 1968 Factor Cost (\$)			Productivity Growth At 1968 Factor Cost (%)	
	1975	1980	1984	Average 1975-1979	Average 1980-1984
Financial & Business Services	26,800	24,700	30,100	-0.5	6.5
Transport & Communication	11,900	20,600	30,300	9.3	10.2
Manufacturing	7,600	9,000	11,200	4.3	5.9
Commerce	12,000	11,400	12,500	-1.7	2.8
Construction	n.a.	6,500	8,200	n.a.	6.1

Source: Department of Statistics

CHART 8

CHANGES IN REAL GDP/GNP OF ASIAN NICs



* Forecast

percent, and only eased to about 5 percent because of the repatriation of foreign workers. Domestic non-oil exports declined by 3 percent, industrial output by 8 percent, and domestic demand by 3 percent, mainly as a consequence of the necessary slowdown in construction activity. The recession lasted well into 1986 (with a 1.9 percent overall growth rate for the year), and only recovered in 1987, when a 6 percent rate of gross domestic product growth was expected. (See Chart E.S. 1986, p. 3.) The 1985-86 recession came as a shock to a government that had overcome the stage of struggle for survival to embark Singapore on the fulfillment of its promised destiny as one of the centers of the new international economy. A stern reassessment of the 1980s performance, as well as of the strategy behind the new economic policies, was conducted by an Economic Committee appointed by the Ministry of Trade and Industry in cooperation with the entire cabinet and representatives of the public and private sectors of the economy. The Committee produced a report published in 1986, which quite remarkably examines the position of Singapore vis-a-vis the world economy and bluntly states the limits of government policies as well as the new directions necessary to guide the country out of the crisis.⁸⁶ The crisis was recognized as the symptom of structural imbalance requiring a new process of restructuring that would adjust and rectify the policies of the 1979-81 period. Although our analysis strongly relates to the Economic Committee's report, we prefer to weave the document's assessments into our own reading and analysis of the situation, to avoid tedious repetitions.

A number of factors causing the recession have been identified by the government as well as by outside experts. They generally distinguish between external and internal factors. Given the openness and vulnerability of Singapore's economy, it is normal to consider external factors as key sources of economic slumps.

Slower rates of growth in the U.S. in 1985, together with a moderate performance in Europe, had a negative effect on newly industrialized countries' markets. However, this must be qualified, since the U.S. economy actually was in worse shape in 1980-82, still affecting Singapore's performance to a lesser extent than in 1985. The real matter is the slump in U.S. electronics in 1984-85, which hurt the main manufacturing sector in Singapore. Similarly, the other major international factor, the decline in oil-related and marine industries with the collapse of oil prices in 1985, also affected Singapore through its peculiar manufacturing structure. Finally, the slump in the Association of Southeast Asian Nations region, also linked to lower oil prices, undercut some of the commerce and service activity in Singapore, as well as its exports to the region. The basic point remains that the Singapore economy, being more internationalized than any other industrialized economy, links its dynamism to the overall pattern of growth of the world economy. Thus, in 1981-82 the economy should have gone into a slump, together with its main export markets and capital sources. Trying to escape the recession and to keep the high rate of growth, the government's high-productivity strategy only delayed, then deepened, the crisis. So, ultimately, the domestic factors seem to be mainly responsible for the severity of the 1985 economic shock, as is indicated by the fact that the other three Asian newly industrialized

countries suffered a much less serious slowdown in 1985 and rebounded out of it much faster (see Chart 9).

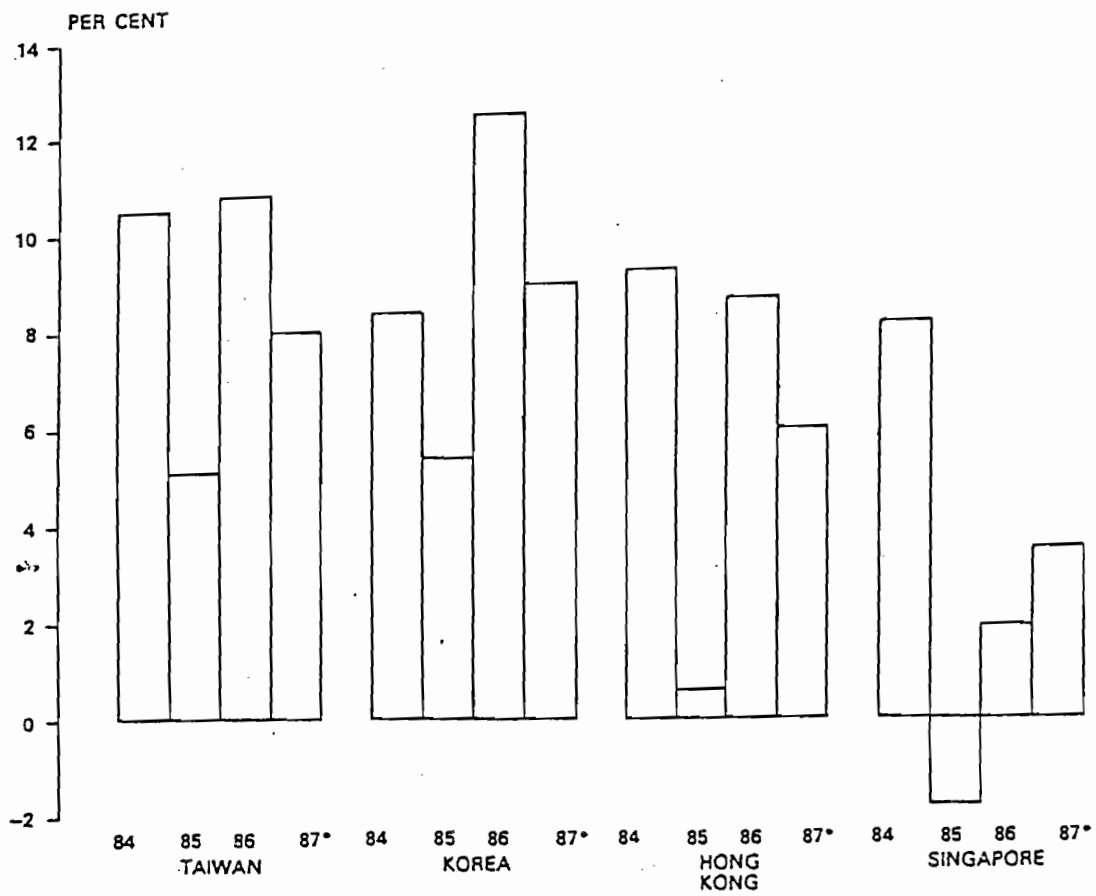
There seem to be three main domestic factors underlying the 1985 crisis. First, it seems undeniable that the rapid increase in labor costs, by far exceeding productivity growth, cut down profitability and undermined competitiveness vis-a-vis other newly industrialized countries. The rate of return on capital in the private sector declined from 22 percent in 1980 to 18 percent in 1984. This decline was particularly severe in manufacturing, from 33 percent in 1980 to 16.5 percent in 1984, which was only slightly higher than the Organization for Economic Cooperation and Development average of 16 percent. However, the rise of labor costs and its differential rate with productivity growth has to be understood in a more disaggregated analysis. Contributions to the Central Provident Fund and other government funds accounted for 21.5 percent of the increase in remunerations in 1980-84. Central Provident Fund contributions were on the one hand accumulated, and on the other hand used for housing purchases. So government macro-policy in these two key areas is directly responsible for over 21.5 percent of the increase in wages. Since productivity growth would have allowed for about a 25 percent increase in real wages over five years (to keep the same pace in both trends), it follows that about 46 percent of increases in labor costs can be accounted for without referring to excessive wage increase.

Furthermore, Lee (Tsao) Yuan has put forward what we believe is a very strong argument: to calculate the evolution of relative unit labor costs vis-a-vis the international economy in which Singapore operates, we have to adjust for exchange rates. Only then can we measure relative competitiveness, and not by comparing rates of wage increase in percentage terms between countries. When calculated in domestic currencies, unit labor costs in Singapore rose at a lower rate than in Hong Kong, Korea, and Taiwan in 1981-84 (see Table 14). Yet the linkage of the Singapore dollar with the U.S. dollar appreciated its currency against those of the other newly industrialized countries, moving Singapore's dollar upward and making its wages less competitive. Thus, a substantial part of the loss in competitiveness and profitability relates to the government's fiscal and monetary policies, a point that we will consider below. In addition, the expansion of labor-intensive construction industry tightened up labor markets, pushing up wages for unskilled workers beyond the guidelines of the National Wages Council.

Finally, a fundamental element in the mismatch between growth of productivity and increase in wages relates to the relatively slow diffusion of productivity in some sectors. (See Table 15.) In other words, most of the productivity performance came from the business services, transportation, and communications sectors, while construction did much worse, and manufacturing did not substantially alter its historical level except for 1984. Much of the problem seems to lie in the fact that the new productivity policies seem to start from the assumption that the basic increase in productivity would come as a result of the structural transformation of the economy toward higher-value sectors. However, as Chart 10 shows, when we break down productivity growth into its two components, shift effect and productivity effect, it is the latter (namely productivity improvement within the sectors) that is responsible

CHART 9

ECONOMIC GROWTH IN SELECTED NICs



*FORECAST

TABLE 14

Relative Unit Labour Cost and Exchange Rate Changes,
Singapore vis-à-vis the Other Asian NICs
(In per cent)

RATES OF CHANGE IN:

RELATIVE UNIT LABOUR COSTS IN DOMESTIC CURRENCIES

	<i>S'pore/Hong Kong</i>		<i>S'pore/Korea</i>		<i>S'pore/Taiwan</i>	
1978	-12.6		-16.4		2.7	
1979	-2.2		-12.8		-8.7	
1980	-0.9		-10.6		-8.4	
1981	2.2	2.5	2.2	2.5	-9.0	-8.8
1982	14.0	12.0	8.0	6.1	10.7	8.8
1983	1.1	4.6	7.7	11.5	6.4	10.2
1984	-1.1	1.2	8.5	10.9	-1.6	0.6
Average 1981-84	4.1	5.1	6.6	7.7	1.6	2.7

EXCHANGE RATES

	<i>HK\$/S\$</i>	<i>100won/S\$</i>	<i>Taiwan\$/S\$</i>
1978	7.9	7.3	4.6
1979	11.5	4.6	1.7
1980	1.2	27.5	1.5
1981	13.7	13.6	3.7
1982	7.2	6.0	4.8
1983	21.2	7.4	3.7
1984	6.6	3.0	-2.1
Average 1981-84	12.2	7.5	2.5

TABLE 15

Table 2.1 — Real GDP Per Worker (at 1968 factor cost)

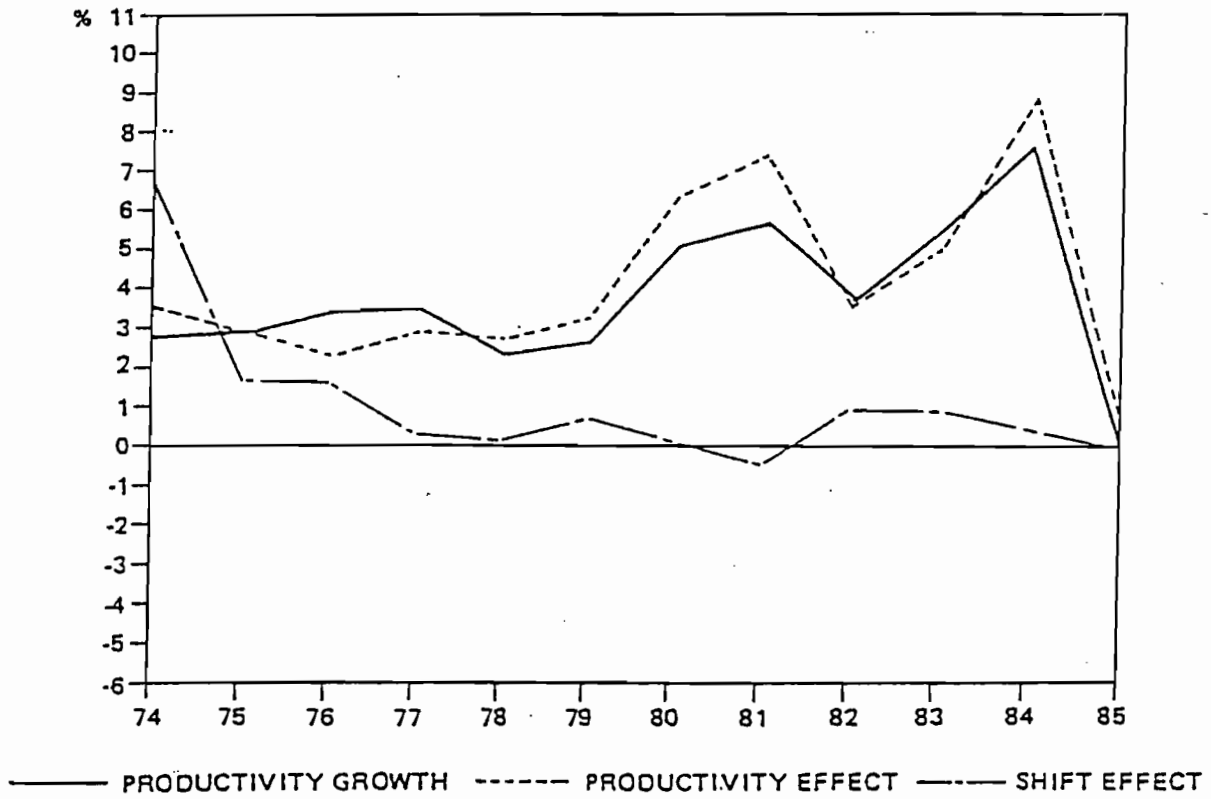
Sector	1975	1980	1983	1984	1985	1st Half 86*
	Real GDP per Worker (\$)					
Overall Economy	9,650	11,376	13,136	14,133	14,123	See Note 2
Manufacturing	7,631	9,307	9,474	10,382	10,555	
Construction	13,073	10,511	15,074	14,658	12,200	
Commerce	12,009	12,829	13,837	14,660	14,093	
Transport & Communications	11,884	19,072	24,374	28,851	31,098	
Financial & Business Services	26,770	27,353	33,864	36,479	37,510	
Others	6,072	7,527	8,826	9,338	9,450	
	Annual Growth Rate (%)					
	Overall Economy	2.8	5.0	5.4	7.6	-0.1
Manufacturing	5.3	4.9	5.7	9.6	1.7	9.3
Construction	26.0	3.6	10.7	-2.8	-16.8	2.1
Commerce	-9.2	3.6	-0.1	5.9	-3.9	4.4
Transport & Communications	9.2	10.6	6.3	18.4	7.8	11.8
Financial & Business Services	3.4	11.4	6.6	7.7	2.8	7.4
Others	5.0	2.2	5.6	5.8	1.2	N.A.

Sources: Department of Statistics, *Monthly Digest of Statistics*, various issues
 Ministry of Labour, *Singapore Yearbook of Labour Statistics*, various issues
 Ministry of Trade and Industry

Note: 1 Others include Other Services; Agriculture and Fishing; Mining and Quarrying; and Utilities
 2 1st Half 86 employment figures were not available from any published source. The growth rates for 1st Half 86, compared to 1st Half 85, were obtained from the Ministry of Trade and Industry
 3 N.A. = Not Available
 4 * preliminary

CHART 10

Figure 2.5 — Annual Productivity Growth, Productivity Effect and Shift Effect



Source: Department of Statistics, Monthly Digest of Statistics, various issues

for almost all productivity increase, and actually leads the trend. But working on the productivity effect implies, fundamentally, a re-skilling of the manufacturing labor force, something that could not be the mechanical result of higher wages or of a productivity attitude. Instead, it is the result of the supply of skilled workers and the readiness of the multinational companies to upgrade their production lines to provide the demand for such skilled labor. Higher wages can only be the result of the upscaling of the economy, not its determining factor.

This is where the shortcomings of Singapore's educational system and R&D expenditures contradict the expectations of its government, while the backwardness of the domestic sectors in manufacturing and commerce limit the spreading of productivity outside the multinationalized sector. As a result, investment in new machinery did not follow, and the limited increase in productivity was in fact remarkable, given the low level of capital improvement and the lack of workers' training.

The second immediate cause of the crisis relates to the construction slump, which, after overbuilding in 1980-84, came to a halt in 1985, contracting by 13.9 percent in 1985 and by an additional 25.3 percent in 1986. Thus, real output fell in 1987 to 64 percent of its rate in 1984. Although most of the recession is attributable to the private sector, it seems that overbuilding by the public sector, not only in residential space but in commercial space as well, has been the major trigger of the crisis, a crisis that clearly points to the continuous expansion of the public-housing program at its historical rates.

How could such overbuilding have happened? We can speculate on three major factors behind Singapore's recent building follies: (1) the use of the public-housing programs as a countercyclical device, in a most traditional Keynesian approach; (2) the government interest in pursuing the policy of social integration through home ownership in well-organized new towns, as a major element of social engineering to create the new Singaporean identity; and (3) the autonomous logic of the Housing and Development Board, a remarkably efficient machine that became too powerful and too insulated from the economy and from the society, so that it was unable to deviate from its own building plans, regardless of the business cycle.⁸⁷ The flexibility required in the public sector by the new economic policies never reached some statutory boards, thus creating contradictions of policies and management within the system of public bureaucracies.

These contradictions appear also to be at the roots of the third internal factor that is often identified as having contributed to the 1985 crisis: the liquidity squeeze. Without entering into an excessively technical discussion, let us simply say that, while the construction slump and the contraction in exports seemed to have demanded a more relaxed monetary policy to stimulate the economy, the government did not react to it, keeping its conservative fiscal policy focused on maintaining the exchange rate, thus further depressing the economy. However, what has been pointed out as a mistake of macro-policy management seems to us to be the almost necessary consequence of some basic premises of the overall economic policy. On the one hand, liquidity withdrawal from the economy, in the form of higher Central Provident Fund contributions, seemed to be

necessary to: (a) finance in a non-inflationary way statutory boards' development expenditures, particularly in construction and urban infrastructure (e.g., the new rapid transit system, Mass Rapid Transit, built in the 1980s at a cost of US\$2.5 billion); (b) continue to finance government's investments overseas, as the positioning of public finance in the international economy was stepped up.⁸⁸

On the other hand, in terms of investment, any sudden reinjection of the government's surpluses into the domestic economy could have ignited inflation and depreciated the Singapore dollar. In fact, the systematic intervention of the government of Singapore in the financial markets to sustain the exchange rate on a parity with the U.S. dollar is the basis of all monetary policy in Singapore. This is not significantly related to an export strategy, since recently it has made Singapore's products more expensive in its European and Japanese markets, which together account for a larger share of its exports than does the U.S. The main reason for the obsession with the stability of the exchange rate relates precisely to the strategy of making Singapore a major headquarters organized around a core of financial and commercial services, a strategy that requires stability of currency and of financial flows. Thus, the strategy emphasizing development of advanced services contradicts the strategy of winning world shares of commodity markets through a dynamic, sometimes unstable, industrial economy. The Singapore dollar is meeting the same contradiction that brought the U.S. dollar to its crisis after being used simultaneously for many years as an instrument of international exchange (requiring stability) and as an instrument of accumulation (requiring flexibility).

The convergence of these domestic factors, aggravating the fluctuations of the world economy, shook up the foundations of the buoyant Singapore economy and revealed the structural limits of the newly industrialized countries' experience.

What are these limits, as revealed by the initial failure of Singapore's Great Leap Forward?

First, economies fundamentally dependent upon their external sector remain highly vulnerable to the fluctuations of the world economy, most of which are beyond the control of individual economies' policies and efforts. The spectre of protectionism rising in such a context could definitely ruin the newly industrialized countries' drive toward the international economy, particularly for Singapore, which is substantially more dependent than others upon its external sector. The policies of sectoral diversification and diversification of export markets in order to prevent excessive vulnerability proved to be of only limited effect in the 1985 crisis, due to the linkages between sectors and the trend toward simultaneous fluctuations in different regions of the world economy. It follows that there are serious limits in the export-driven strategy, reinforcing the role of domestic markets in the accumulation process as the economies mature. Singapore's insistence on maintaining an exceptionally high savings rate at the expense of domestic consumption increases dependency on the world economy, therefore enhancing its vulnerability. Here again, the source of strength for the economy (high savings, allowing for high investment and high growth) also decreases its

flexibility, betting everything on the struggle for world market shares for a long period of time.

Second, the technological upgrading of the local productive basis is not a simple process, even for such a determined government as Singapore's. It meets strong external obstacles because of the increasing reluctance of foreign companies to proceed along the lines of technology transfer, or technological training, which can feed the competition down the line. Also, productivity increases do not result mainly from productivity campaigns, but require major investments in education, manpower training, and research and development, all areas in which Singapore, until now, falls far behind the Organization for Economic Cooperation and Development countries and the other Asian newly industrialized countries (see, for instance, Chart 11). A key question is why this developmental state neglected such a fundamental area. A tentative answer could be that it was precisely the model of development adopted, namely relying entirely on foreign multinationals for development, that contributed to the lower technological level of Singapore vis-a-vis its newly-industrialized competitors. This would indicate a negative role of multinationals in fostering technological development. However, this is not entirely true, since other countries with less presence of multinationals (e.g., Indonesia, Malaysia) exhibit a much lower technological level. The point remains that to upgrade from low-skilled labor to higher value-added products is not an easy road, and is one that demands much higher investment efforts as well as compensations offered to the multinationals to participate in such efforts.

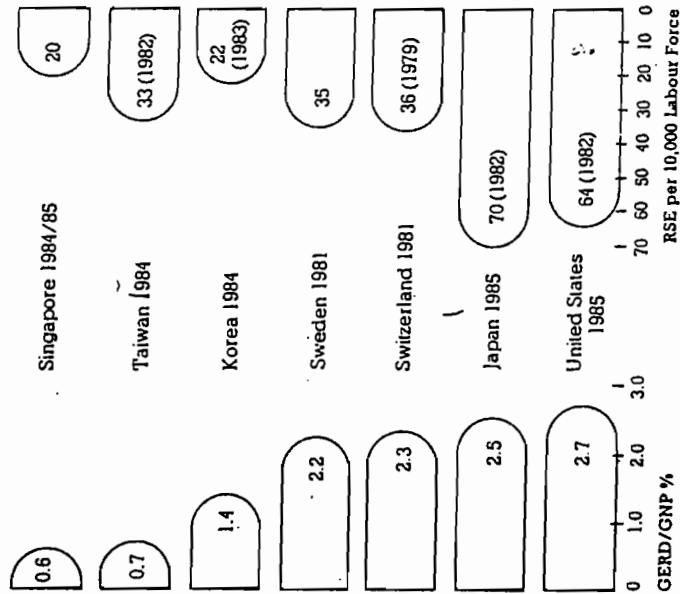
Since the early 1980s Singapore has been moving fast in upgrading its educational and research potential. Some achievements have taken place. SGS started wafer diffusion production for the first time in Southeast Asia. AMD established in 1984 an advanced testing factory, fully computerized, and is negotiating to create a Design Center. Hewlett-Packard is definitely establishing an R&D center. IBM supports a Systems Research Institute. ATT has agreed to train Singaporean engineers in advanced technology in the U.S. The Japanese, German, and French Joint Institutes with the Singaporean government are upgrading their training programs. Thus there is an upward movement underway, but not necessarily on the scale and with the speed that would clearly place Singapore on an equal footing with, at least, South Korea.

The third limit found by the process of development in Singapore was the contradiction between different requirements, and the policies designed to implement them. We already cited the problem represented by a monetary policy focused on the stability of the exchange rate, which made the government unable to use it as an instrument of stimulation. Furthermore, the link between the Singapore dollar and the U.S. dollar, partly due to the need to preserve the stability of the Asian dollar market, provoked the Singapore dollar to follow the U.S. dollar in its erratic course, actually undermining competitiveness in the 1984-85 period (although the fall of the dollar is now helping Singapore, in a bizarre turn of events, linking Reagan's deficits to Singapore's electronics exports to Europe).

HIGHLIGHTS

INTERNATIONAL COMPARISONS

Fig. 9



The scientific and technological performance of a country can be viewed through a set of indicators. Some of the commonly used indicators are the GERD to GNP ratio; RSE per 10,000 labour force; patenting activity; number of scientific papers/authors, and the technological balance of payments. Substantive conclusions cannot be drawn from any single indicator. However, when examined together, such data can reveal the general level of scientific and technological performance of a country. Fig 9 compares the GERD to GNP ratio and RSE per 10,000 labour force.

Singapore's GERD to GNP ratio of 0.6% is lower than other newly industrialising countries like Taiwan (1984 estimate: 0.7%) and the

Republic of Korea (1984 estimate: 1.4%). The medium R&D performing countries such as Sweden and Switzerland have ratios of 2.2% (1981) and 2.3% (1981) respectively. For the large R&D performing countries such as Japan and the United States, the estimated ratios for 1985 are 2.5% and 2.7% respectively.

Singapore's current ratio of RSE per 10,000 labour force is 20. This is fairly close to the Republic of Korea which has 22 RSE per 10,000 labour force (1983 figures). Taiwan has a ratio of 33 (1982 figures). Japan and the United States have ratios of 70 and 64 respectively, based on 1982 figures.

Other policy contradictions stem from the mixing of different management styles and historical timing within the Singapore government. While the government insists on the role of education and skills in the development process, Central Provident Fund contributions can be used for housing but not for education, clearly a remainder from the period of primitive accumulation in the 1960s, contradicting a situation in which 85 percent of the population is in public housing and the property market has collapsed. An element to consider is that countercyclical policies require investment in non-productive sectors, such as housing, while human capital investments tend to have a longer period to yield. While the government embarked on a longer-term vision of the development strategy, many of its policies still maintained the pragmatic, short-term approach of the survival stage.

A fourth limit revealed by the crisis appears to relate to the institutions themselves. Public bureaucracies endowed with almost unchecked power have become quasi-autonomous entities amassing considerable resources and expertise, and actually accomplishing so much that they have generated their own legitimation system. Yet a certain division of labor within the government has structurally conditioned a divergent evolution within the government institutions. Those agencies that had to deal with the external system (basically with the world economy and the multinational corporations) became flexible and adaptive, increasingly responsive to the changing conditions. Those bureaucracies dealing with the internal system, and ultimately geared toward the local population, stressed performance of their own plans over responsiveness to changing demands and values of a society undergoing a drastic process of cultural change. As a result, not only did they become insulated from the overall social evolution of Singapore, but they increasingly entered into contradiction with the agencies managing the modernization process. Behind the inadequacies and contradictions revealed by the mismatching of policies during the 1980s lies a more basic conflict between technocracy and bureaucracy.

As a result of the processes presented here, and on the basis of the 1986 report of the Economic Committee, the government of Singapore engaged in a new major process of economic restructuring that was picking up steam in 1987 at the moment of our research. These policies are another proof of the deliberate nature of the Singapore government and of its unbreakable will to foster economic development, and to succeed in the international scene at any cost. The main elements of this restructuring process, which we will simply enumerate without entering into their analysis or evaluation, are the following:

1. A cost-cutting strategy, primarily aimed at reducing labor costs and enhancing profitability. Central Provident Fund contribution for employers have been reduced from 25 percent to 10 percent of the wages (not so for employees), wages have been frozen for two years, and further wage increases will be on a flexible, decentralized basis dependent upon productivity on a company-by-company basis.
2. Corporate taxes have been reduced and fiscal incentives for capital investment have been increased.

3. The drive toward high-technology industries and advanced services has been intensified. R&D expenditures have been increased by 50 percent, and new targets for enrollment in engineering, computer sciences, and business school aim at a 40 percent increase in graduates in five years. However, while trying to achieve a higher technological level, Singapore wants to maintain its competitive edge as a low-cost country, sacrificing if necessary some of its potential standard of living to international competitiveness. Since such an attitude is truly representative of the essence of the developmental state, its explicit formulation deserves quotation:

Singapore's future position in the global economy, therefore, is to be as economically developed as the West, and yet more competitive.... While aspiring to become a developed economy, we cannot pay higher wages than an OECD country. In the pursuit of higher-wage, higher-skill industries, we will be constrained by several benchmarks -- we have to price ourselves below the developed nations and not too far ahead of our competitors, such as South Korea and Taiwan.⁸⁹

4. Target new potential foreign investors on the basis of selected lines of products and technology.
5. Promote local business, particularly as subcontractors in the manufacturing sector.
6. Drastically slow down construction activities, probably changing allocation of government-controlled savings.
7. Divest government's shares of most public companies, and privatize a number of these companies. Singaporeans will be able to use their Central Provident Fund funds to buy shares, thus stimulating domestic investment.
8. Expand the labor force, in order to lower wages while increasing domestic demand through multiple wage-earners in each household. This could be achieved by increasing women's participation rate in the labor force beyond their current 52 percent rate, maintaining foreign workers for some time, and raising retirement age above the current level of 55 years.
9. Expand the realm of service activities toward the provision of high-value services, e.g., financial consulting, tourism development, city planning, aviation repair and maintenance, etc. Singapore sees herself, in addition to being an international headquarters city, as the provider of information-intensive services at a competitive price around the Asian region.

10. Open up new markets, particularly in China, through joint ventures with the PRC, so that Singapore can assume the role of intermediary between international capital and knowhow and the Chinese market. Promoting Mandarin-speaking capabilities is a tool of such a far-reaching strategy.

Thus, to some extent, Singapore seems to have accepted a less rapid improvement of its relative position in the international division of labor that it foresaw a few years ago. Standards of living will remain lower than hoped for. Public works and services will be scaled down. And a more systematic step-by-step approach is being taken to enhance education and research capabilities, based on the realization that technology transfer cannot happen on the basis of the multinational companies' good will or as an instant result of the productivity propaganda. A more modest, cautious attitude prevails in the circles of the Singapore government in 1987. The shock of 1985 was a rude awakening to the realities of the world economy that were so invisible in the 1960s. Thus Singapore withdrew, retracted, rethought, restructured itself. But it is clear that the great design of development has not been abandoned. In the moving international division of labor, what seems to be unmovable is Singapore's determination to break out of the mold.

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CHAPTER TWO - THE PUBLIC HOUSING PROGRAM AND THE PLANNING OF SINGAPORE

Introduction

Singapore is a small island nation with few natural resources, but it is the third most prosperous country in the Asian Pacific Rim, after Japan and Brunei. Singapore's public-housing program has been a critical factor in this prosperity. Here we seek to analyze specifically why and how the public-housing program was implemented to achieve these ends. Within this arena, we will trace the evolutionary developments of the republic's enormous public-housing program, and then discuss the factors that explain why the state has given such priority to the program.

The island republic of Singapore measures only approximately 618 sq. km (about 240 square miles) in size.¹ It has virtually no resources except for its strategic geographic location and a population of 2.6 million people. Yet Singapore represents one of the most opportune investment locales and fastest-growing business and financial centers in the developing world, particularly in the Asian Pacific Rim. Without doubt, it is one of the most prosperous states in the region. For more than two decades, the population of Singapore has enjoyed rising standards of living with high rates of economic growth and full employment.

To a large extent, economic prosperity in this tiny city-state can be attributed to its ability to adapt itself rapidly to the dynamics of the changing international economy by quickly transforming its economy from its traditional base in entrepot trade to its current base in export-oriented manufacturing and international services.² However, such transformations would not have been possible without deliberate intervention by the state, which has adopted the strategy of integrating social, economic, political, and spatial visions through the overarching process of planning.

In the past, the traditional urban settlement pattern in the free port of Singapore had created severe problems of overcrowding, housing shortage, social and ethnic segregation,³ and civil unrest based on racial and ideological differences. Thus, when the nationalistic Peoples' Action Party (PAP) government came into power in 1959, Singapore was on the verge of a severe socioeconomic crisis, with high unemployment (about 10 percent), labor strikes (the unions had strong communist influence), civil riots, etc. The new government decided to adopt a more interventionist approach.

A Planned City: The Urban Planning Concept and the Spatial Structure

The main island is mostly lower than 30 m above mean sea level, and it stretches for a mere 22.5 km from north to south and 41.8 km from east to west. The central city covers an area of about 110 sq. km in the southeastern quadrant of the island. In such a tiny island state, with very scarce land and hardly any natural resources, it seems most prudent that all planning functions and control are centralized and integrated.

Physical infrastructure and land-use planning in Singapore form part of the overall national planning and development process. Singapore's modern urban structure has not developed by accident or by the free action of the market. Although some of the infrastructure is attributable to its historical development as an entrepot center, most of it has been developed and constructed according to goals and plans specified and drawn by the People's Action Party government.

Today, Singapore boasts of having the second busiest port in the world. Its international financial center is third only to Japan and Hong Kong in the Asian region. Its Changi International Airport and the national airline, Singapore Airlines, are among the most highly rated in the world. This well developed urban infrastructure is further enhanced by its good public-transportation system (which will be further improved with the completion of the mass rapid transit system in late 1987), its abundant modern commercial and industrial spaces, and excellent telecommunications network.

Some observers have attributed the accomplishment of these achievements within such a short span of time to the smallness and compactness of the island. Singapore's limited land area has imposed many physical constraints that left projections simpler and alternatives few. But the implementation of these public projects on such a scale and speed was made possible only through the control and coordination of these numerous projects by a centralized planning machinery.

History and Growth of the City

Before we discuss the planning of the modern city of Singapore, let us first understand briefly how the city began and then developed before the People's Action Party government took control. Urban planning in Singapore began simultaneous with the city's founding by Sir Stamford Raffles in 1819. Although Singapore was not ceded to Great Britain until 1824, Raffles had already set out the basic elements for the settlement's development in his edict of November 4, 1822. The main principles may be summarized as follows:

1. [T]here should be the utmost freedom of trade and equal rights for all, with protection of property and person.
2. [T]he advantages of Singapore should be available for all who are competent to avail themselves of them in proportion to their relative importance and claims to consideration.
3. [I]n allocating lands, first preference should be given to merchants, second to artisans, and third to farmers.
4. [T]he separate nationalities and provincial groups should inhabit distinct areas of the town.

5. [T]he sea front and other commanding sites should be reserved for Government, in particular the Padang, Empress Place, and Fort Canning.

6. [T]he planning of the town should take into account the future increase of population and the nature and occupation of the inhabitants. ([British] Authority 1955)

A formal plan for the settlement was drawn, with the town extending approximately 3 km along the seafront and 1 to 2 km inland. It included a gridiron road system with street frontages arcaded to provide covered footways, centrally located markets, and reserved land for burial grounds. Land on the south bank of Singapore River, near its mouth, was designated for commercial activities. A small hill was leveled to form Commercial Square, which is today Raffles Place. The earth was used to fill the swampy banks of the river, creating a boat quay. The two segments of the town divided by the river were linked with a bridge.

Distinct residential districts were marked out for different ethnic groups of settlers. Raffles intended that the Europeans occupy the heart of the town and that their interests be served first in the proposed layout of the community, although they formed a very small proportion of the population (Humphrey 1985). The residences of the Europeans were therefore located together with the administrative offices and cantonment on the plain north of the Singapore River, next to the Temenggong's village. (The Temenggong's village was later moved to a site several kilometers west of the town, clearing an important site in the heart of the town for other uses.) To the northeast of the town center and surrounding the sultan's precinct and the mosque were quarters for the Bugis and Arab traders. The area south of the Singapore River was reserved for the Chinese and Indians. The large Chinese sector was subdivided into smaller enclaves among the various Chinese dialect groups. The Malays, being mainly fishermen and farmers, were settled outside the urban area. Since Raffles' interest in Singapore was trade and not territory, his plans paid no heed to the rest of the island.

Under Raffles' direction, the population of the town grew at a considerable pace, from an estimated 10,000 persons in 1823 to some 35,000 by 1840. The growth and development of the city was accompanied by changes in the pattern of settlement in relation both to ethnicity and occupation. Economic prosperity attracted an increasing flow of immigrants into the city. Congestion in the city pushed European inhabitants and a few wealthy Chinese and Arab-Malay elites to the outskirts of the city, in the areas of Tanglin-Claymore, Pasir Panjang, and Katong. The Tanglin district quickly became the most fashionable residential area on the island. The distinct ethnic and provincial groupings decided by Raffles could hardly withstand the pressure of overcrowding, so that the segregated social structure started to disintegrate to some extent and became more complex. But, because of the need for constant contact in a trading community, barriers of ethnicity and language tended to subside. "Chinatown" grew and expanded, with the rapid influx of Chinese immigrants, crowding out some of the Malay enclaves in the town. (By 1836, the Chinese had already displaced the

Malays as the dominant ethnic group in the settlement.) The Indians, who were mostly moneychangers, chettiar or moneylenders, shopkeepers, doormen, guards in banks and other commercial buildings, and textile and jewelry traders, were more successful in resisting the ubiquitous expansion of the Chinese populace in town.

Singapore did not become a separate crown colony until the end of World War II. Before that, the British settlement was for the most part administered and governed remotely from India. Local administration was unable to cope with the rapid changes and growth in the city, both of which resulted in a piecemeal land tenure pattern and the deterioration of the urban housing and building stock. Land was held under freehold grants (free of quit rent), statutory grants (subject to surrender on partition and to reassessment of quit rent every 30 years), leases with terms of 999 or 99 years, or other conditions.

In the central and older part of the city, land was mostly held in small lots under freehold grants, statutory grants, and 999-year leases. In the early 1900s, rising land values and the continuous flood of immigrants caused these lots to be subdivided and to progressively diminish in size. Another strategy immigrants used to increase housing was to build additional units on top of existing ones. When the load-bearing masonry walls of the urban structures could no longer carry additional "cubicles," many families started erecting temporary structures of timber planks, zinc sheets, and attap leaves (a type of tree leaves) on any vacant land in and around the city.

Planning of Modern Singapore

When Singapore attained self-government in 1959, it inherited a fragmented post-war society with socioeconomic problems of the greatest magnitude. There were problems of rising unemployment, exploding population growth, ethnic and ideological conflicts among the highly segregated population, declining entrepot trade, deteriorating urban infrastructure and environment, and acute housing shortages.

The new government set about formulating priorities and national goals for the development of the new nation. These goals were based on the five fundamental and ideological principles of multi-ethnicity, multiculturalism, multilingualism, meritocracy, and self-reliance (Chen 1983). A four-year development plan was proposed for 1961-65. Aimed principally at increasing employment opportunities, the main priorities of the government were reflected in the physical and development programs to provide or enhance industrial development, public housing and urban renewal, defense, and education.

One of the immediate strategies of the PAP government was to create a number of statutory boards to look into the problems of economic and urban development. The two most important statutory boards were created in 1960: the Economic Development Board (EDB), to promote economic and industrial developments; and the HDB, to undertake the comprehensive task of clearing land, redeveloping the urban area, and building and managing public housing. The EDB sought to promote industrial development while

the HDB sought to provide low-cost public housing for the working population. Both agencies were given great autonomy in implementing policies and targets set by the government. The HDB was to undertake to build 50,000 housing units in the first five years, 75,000 units in its second five-year program, and 100,000 in its third five-year program. The Economic Development Board was to be responsible for diversifying the economic base of Singapore and expanding employment opportunities through the promotion of industrialization.

Although no formal national development plans have been prepared since 1965, economic planning and developmental activities continue to be implemented vigorously through the Public Works Department, HDB, Economic Development Board, Jurong Town Corporation, and other new statutory boards. In 1968, for example, when the British announced their intention to withdraw their military presence from Singapore by the end of 1971, the Singapore government quickly embarked on a counter-recession strategy of massive increases in public-sector spending. To absorb the 30,000 workers dependent on the British bases for their jobs, major labor-intensive projects in roads, land reclamation, drainage, sewerage, public housing, and urban renewal originally planned for the late 1970s were brought forward. Private development construction activities were also encouraged through tax and other incentives. Here, we begin to see that the planning and the rate of development of the physical urban infrastructure of the city are interrelated with the national economic policies.

The Planning Mechanism

The highest level of central decision-making in Singapore is the Cabinet, which gives approval of projects to be included in the state development budget. Planning and implementation, however, are carried out (on a top-down basis) at the discretion of the various ministries and statutory boards in accordance with the long-term national development priorities and goals. The Development Planning Committee serves as the working committee of the cabinet. Chaired by the prime minister himself, the Development Planning Committee consists of the Minister for Finance, the Minister for National Development, and the minister for the ministry or department submitting the project proposal for approval. Before these project proposals are submitted to the Development Planning Committee for deliberation, the Development Division in the Ministry of Finance, which serves as the secretariat of the Development Planning Committee, screens the submissions to ensure that the proposals conform with national development priorities.

Physical Planning and Development Control

All developmental activities related to land-use planning and land allocation are administered and coordinated by a centralized authority, the Singapore Planning Department, to optimize land distribution among competitive uses. Under the Planning Act (1970), statutory planning and development control powers are vested in the chief planner of the Planning Department and the deputy director of the Development and Building Control Division (D&BCD). The act also empowered the minister of national

development to make rules on procedures or matters related to the control of development. The Planning Department is responsible for the development of the public-sector development proposals, while the D&BCD, a division of the Public Works Department, controls the private-sector development. The Development Control Committee deliberates on all major private development projects. It is chaired by the deputy director of D&BCD, and also has representatives from the Institute of Architects, Institute of Planners, and various government departments. The Planning Department is also represented in the Development Control Committee to ensure that private-sector projects do not conflict with long-term public projects and policies.

The Planning Department is, therefore, the government's central planning authority, responsible for the physical planning and improvement of Singapore. The Department was set up in 1960 following the enactment of the 1959 Planning Ordinance. The main functions of the Planning Department include the following:

1. Administering the Planning Act (1970) and its subsidiary rules;
2. Revising the Master Plan every five years, according to the Planning Act (Chapter 279); and at any other time considered propitious for the minister's approval;
3. Preparing detailed interpretation plans of the broad proposals shown in the Master Plan;
4. Controlling land-use and development by government departments and statutory boards under the Planning Act;
5. Controlling and coordinating all land allocation and development proposals by government and statutory authorities through the Master Plan Committee;
6. Periodically reviewing the long-term Concept Plan with regards to changing socioeconomic needs and infrastructural and transportation requirements;
7. Conducting periodic surveys and planning research studies as inputs to formulate planning policies and guidelines for strategic planning purposes;
8. Preparing microzoning and height control plans and other land-use guide plans for development proposals;
9. Giving planning advice on matters relating to planning requirements such as development standards, policies, guidelines; and
10. Developing and maintaining a comprehensive land-use information system. (Planning Department 1985)

Given the scale of public-sector development in Singapore, the most significant role of the chief planner is as chair of the Master Plan Committee. The Master Plan Committee consists of nine other members representing the major public-development authorities, namely the Ministry of National Development, Economic Development Board, Jurong Town Corporation, Land Office, Public Works Department (Roads Division), HDB, Urban Redevelopment Authority, D&BCD, and Mindef. The Master Plan Committee meets twice every month to attempt to resolve their competing claims for land. Proposals and recommendations are put forward to the Minister for National Development for the final decision. The chief planner's role in the Master Plan Committee is to coordinate and advise on all the development proposals of the members. The chief planner has to ensure that the proposals are in line with national policies on urban growth, transportation, and infrastructural investments and that they conform with the provisions of the Master Plan and the long-term objectives of the island-wide Concept Plan.

The Master Plan

Before the Second World War, regulation of building and land subdivision by private developers and owners was done through the General Improvement Plan administered by the Singapore Improvement Trust. This was the only form of planning and development control in Singapore at the time. There was no land-use control then, which resulted in the haphazard growth of buildings and developments. During the Japanese occupation between 1942 and 1945, no building or subdivision controls were enforced. After the war, the situation was aggravated by the rapid formation of urban slums and squatter colonies, which was a response to the post-war high birth rate of about 45 births per thousand and an influx of rural-urban migration.

The Colonial government responded to this acute situation by accelerating its public-housing program. At the same time, the Singapore Improvement Trust was given the responsibility of preparing a Statutory Master Plan to legislate town planning in the colony. Generally, British town-planning criteria and standards had been adopted, providing regulation of land-use through zoning and controls on density and plot ratio as well as reservation of land for public purposes. Prepared as early as 1951, the Statutory Master Plan was approved by the colonial government in 1958. It was a comprehensive physical land-use plan for the whole island during the 20-year period from 1953 to 1972, when the island's population was projected to be nearly 2 million. It was a decentralization plan whereby urban growth was to be dispersed in three self-contained new towns some distance away from the central city. The existing central city was to be decongested and its growth limited by a green belt. Changes in the plan could be made through a legal process of public advertisement and inquiry. (According to the 1959 Planning Ordinance administered by the Planning Department of the Ministry of National Development, the Master Plan was to be reviewed periodically.) To date (1988), the Master Plan has undergone five revisions, each taking into account the changing socioeconomic compositions of the republic.

The Master Plan showed its shortcomings when faced with the rapid urbanization and great changes in social and economic policies that came after Singapore gained independence. Of the three new towns proposed,

only one was developed substantially. Overcrowding and congestion in the city worsened as growth cluttered the areas in and around the city. The new government had established the HDB and the Economic Development Board to solve the major social economic problems of housing and employment. The ambitious development plans of these agencies required departures from density and locational standards stipulated by the Master Plan. Consequently, public development overwhelmed the legal restrictions of the Master Plan, and was left to the discretion of the technical officers of the various government departments and public development agencies.

With the limitations of the Master Plan and the multidepartmental committees in dealing with increasingly complex and large-scale developments, there was a need for a more effective instrument to facilitate long-term planning and coordination. In 1967, the long-term Concept Plan was drawn with the assistance of the United Nations, to provide an integrated spatial and urban policy framework for all planning and public investment. It was a master policy plan that was comprised of policies on industrialization, housing and urban development, port and marine activities, and defense. Subject to systematic review, this plan set out broad guidelines for long-term physical development strategies and provided the framework for the constant review and revision of the Master Plan.

The Concept Plan

Singapore first received United Nations assistance in urban planning in 1962, when E. E. Lorange made recommendations for an immediate action program in relation to the problems of the central city. Lorange recommended that the problems of the central area must be viewed in the context of the development of the entire island. He particularly emphasized that the functional structure of an urban center be designed together with a transportation system, since land-use patterns determine the distribution of population and employment and, hence, travel demands.

In 1963, a second United Nations team, consisting of Otto Koenigsberger, Charles Abrams, and Susume Kobe, again stressed the need for an integrated approach to housing, urban renewal, industrial development, and transport. They also thought that current programs and projects should not be delayed while long-term solutions were being investigated. Therefore, the long-term plan should be action-oriented and should accept and facilitate current action programs.

In 1965, a formal request was made to the United Nations for assistance in preparing a comprehensive long-range plan along the lines proposed by the team. The team's report provided the basis for the project specification, the plan of operation (the agreement between the Singapore government and the United Nations concerning the project), and the contract between the United Nations and the consultants. The objectives of the project can be summarized as follows:

1. Prepare both (a) a long-range, comprehensive land-use and transport plan to guide the future physical development of

Singapore, and (b) a program for the implementation of this plan. Establish the machinery for continuous review and updating of the plan.

2. Prepare a policy and program for urban renewal in the old areas of the city.
3. Make recommendations regarding the type of mass transit system appropriate for the island.
4. Assist in preparing plans and specifications for projects to be implemented within the framework of the comprehensive plan.
5. Develop skills and experience in the Singapore government staff sufficient for them to become a fully operational planning agency, capable of refining, reviewing, and developing the plans prepared during the project period. (Wardlaw 1971)

These objectives were to be achieved between mid-1967 and mid-1971, at a cost of over US\$5 million, nearly one-third of which was to be contributed by the United Nations in the form of expert services, overseas training fellowships for the local staff, and imported equipment.

As for the Singapore government, an ad hoc organization called State and City Planning was created within what was then the Ministry of Law and National Development. State and City Planning was staffed by personnel from the Planning Department, the Public Works Department, and the HDB, and by staff especially recruited for the project. A directorate consisting of the United Nations project manager, the planning coordinator (the head of the Singapore government team), and the project director (the head of the consultant team) was responsible for the executive control of the project. Formal liaison with the government was through the Permanent Secretary of the Ministry of National Development.

The United Nations Development Program project produced several types of plans. The Concept Plan was a long-range strategic plan that established the framework for all further planning. The plan would be implemented in different stages to eventually accommodate all the requirements of a population of 4 million, the level expected to be reached early in the next century. A shorter-range version of the Concept Plan -- the 1992 Plan -- was designed to accommodate a population of 3.4 million by 1992. An even shorter-term plan -- the 1982 Plan -- was prepared to accommodate a population of 2.7 million and to guide public-investment decisions in the more immediate future. A large number of possible areas suitable for early development were examined, with the selection of the areas for the period up to 1982 determined largely by the need to minimize public expenditures on the provision of land, roads, and services, a policy consistent with meeting the requirements for growth. In addition to these plans, a series of action plans for important and strategic areas were prepared to facilitate public-investment decisions on urban growth and development. Since the public agencies were to be

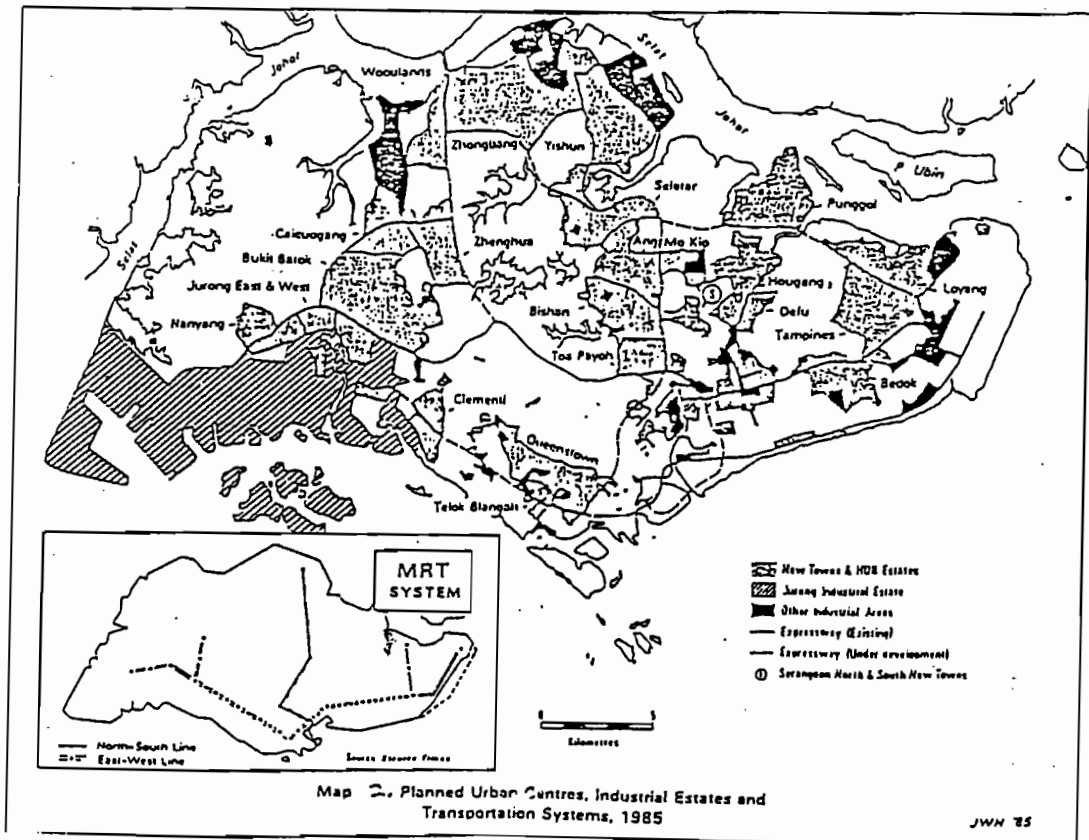
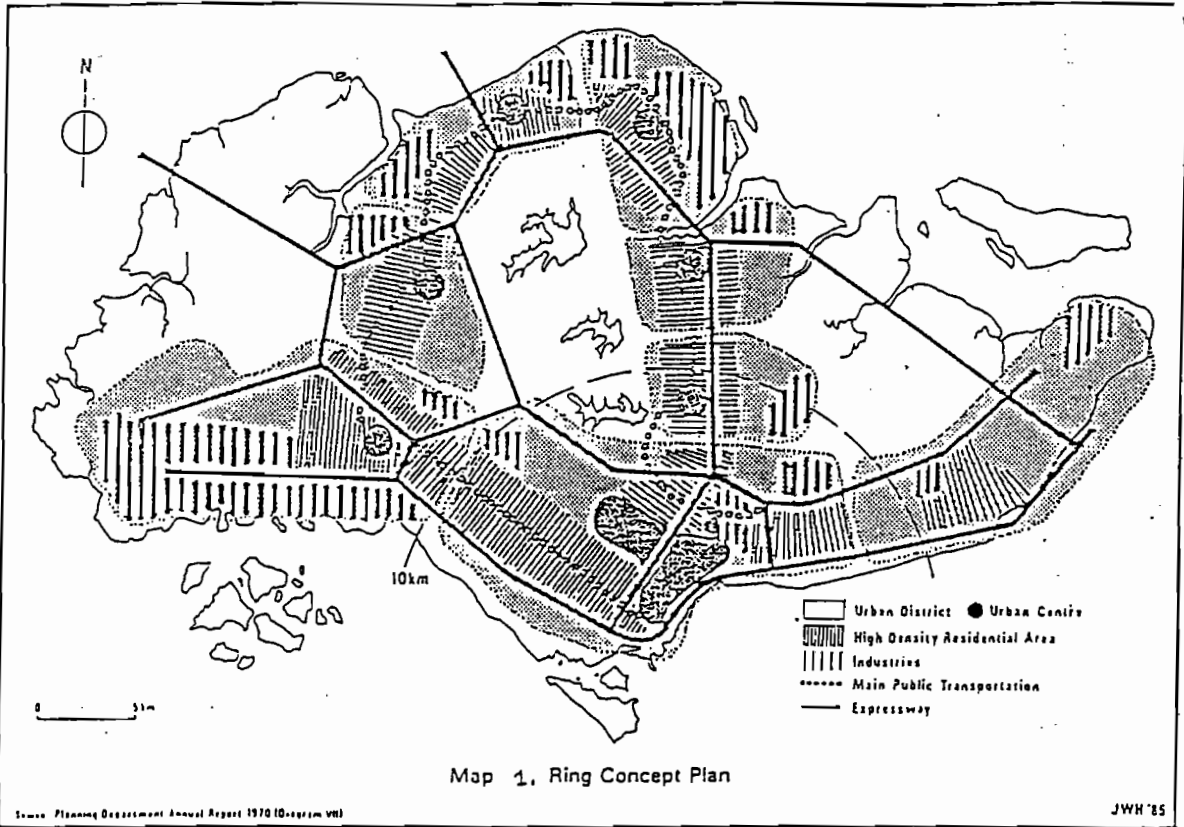
responsible for their implementation, these plans were prepared in close consultation with them.

In the Ring Concept Plan, so named because of the shape of the proposed developments, future urban growth would continue in the existing urban area, with extensions to Changi in the east and Jurong in the west, forming a heavy belt of urban development along the southern coastline. This strategy took into account both the fairly extensive development that was already underway and also the opportunities for development presented by the availability of land occupied by the British military bases. Further urban growth was planned in two corridors extending northwards from the city and joining in the north to form a ring development around the central water catchment area which gives breathing space ("the Lungs," planners call it) to the island republic. These corridors would create a spine of high-density satellite towns with lower-density housing on either side. Each new town would be separated by open spaces and national parks. It was projected that a housing stock of about 670,000 units would be needed by 1992. An island-wide system of expressways would link these population centers to the main employment areas in the central city, the industrial town of Jurong, and the Changi Airport. In addition, a mass rapid transit system would connect the new towns to the city center and Jurong's industry. The plan was later revised to include the lines for the mass rapid transit system.) The plan also provided for the distribution of employment, with heavy industries in Jurong and Sembawang, light industries dispersed in the new towns, and commercial activities in the central city and new town centers.

The plans produced by the United Nations Development Project, however, do not have legal force for control of private development. Thus, to regulate private development, the statutory Master Plan would be reviewed and amended every five years within the framework of the Concept Plan. Together, the plans provide a relatively flexible framework to facilitate the growth of Singapore as a seaport larger than most others in the world; a regional and international center of trade, commerce and finance, air transportation, and telecommunications; a tourist attraction center; and a manufacturing and industrial base.

Today, Singapore's total urban sociospatial infrastructure has been developed according to the Concept Plan (compare maps in Figure 1). Urban growth was initially concentrated along the southern coastline, extending from Changi, Loyang, and Bedok in the east to Jurong in the west. (Numerous new towns, including Ang Mo Kio, Yishun, Woodlands, Clementi, and Queenstown, have been developed, while numerous others such as Hougang, Bukit Batok, and Zhenghua are in the process of being developed.) Other implemented proposals include recreation parks and major infrastructural facilities such as the Senoko Power Station, the Bedok and Seletar sewage treatment plants, and the network of expressways. Newly reclaimed land along the southeastern foreshore are ready for more recreational and tourist-oriented developments. As planned, the island-wide system of expressways was constructed, linking the population centers, Changi International Airport, and main employment centers in the central city and Jurong. The Mass Rapid Transit system is partially completed and has begun operation. The central city and the city as a whole is continuously being renewed and redeveloped.

FIGURE 1



As it happened, the key instrument expediting the realization of the Concept Plan was none other than the republic's massive public-housing program. Since its inception, the public-housing program has been the main determinant of the pace at which the transportation systems, the commercial and industrial facilities, and all other infrastructural constructions were developed. For example, the HDB played a major role in providing the sites and land reserves for the lines, stations, and terminals for the bus and Mass Rapid Transit systems. It also set the pace for laying almost the entire network of expressways, and water, power, telecommunication, and sewerage lines. Thus, the public-housing program under the HDB was an important element that contributed to the rapid development of the republic's sociospatial structure, and hence, to its economic prosperity and political stability.

Before moving on to discussing the public housing program itself, let us discuss briefly some of the roles of the other statutory boards that contributed to the development of the spatial structure of Singapore.

The Statutory Boards

The government exercises tremendous influence over the pace and direction of urban growth through its network of statutory authorities and public agencies. Given the significant role of statutory boards in the overall development of Singapore, it is important to understand their organization and functions.

Statutory boards are autonomous government agencies created through special legislations by the Singapore Parliament to perform specific functions. They are not entitled to the legal privileges and immunities of the government departments, but they enjoy greater autonomy and flexibility in their operations. They are financially independent in the sense that they are expected to generate their own revenues for their expenditure. However, their annual budgetary estimates must still be approved by the ministers in charge, and their accounts are audited by the Auditor-General or by auditors nominated by the ministers. Any surplus generated by the statutory boards can be invested and credited to a reserve or capital fund, while deficits may be covered through low-interest government loans and sometimes through government subsidies.

Statutory boards have existed in Singapore since the colonial period. For example, the Board of Commissioners of the Currency was established in 1899. In 1905, the Tanjong Pagar Dock Board was set up to modernize Singapore's port facilities. It was replaced by the Singapore Harbor Board in 1913. The Singapore Improvement Trust was established in 1927 to see to the general upgrading of the urban infrastructure and environment through the implementation of improvement schemes and new building projects. The Singapore Telephone Board was instituted in 1955 to operate the island's telephone system. In the same year, the Central Provident Fund Board was created to administer social security funds for the working population.

However, the People's Action Party government created a much larger number of statutory boards specifically for the purpose of promoting

national development. According to the 1981 Singapore Government Directory there were 86 statutory boards in Singapore, and many more have been created since then. Thus, while the Singapore Civil Service is entrusted with performing regulatory and routine functions, these statutory boards are expected to expedite the implementation of socioeconomic development programs. Some of the statutory boards involved with the infrastructural development in Singapore are discussed briefly to provide an idea of the specialization of developmental functions among the statutory boards.

The Jurong Town Corporation

The Jurong Town Corporation was set up in 1968 to help the Economic Development Board out in its huge task of promoting physical industrial estate development. It was to be responsible for preparing suitable industrial sites, particularly for foreign investors, and managing the industrial port and other facilities in Jurong. (At the western tip of Singapore island, Jurong offered a long waterfront with water deep enough for marine activities such as shipbuilding. At the same time, pollutive industries such as petrochemical and petroleum plants could be and were located on the little nearby islands.) Hence, the facilities to be provided ranged from multistory factories, to refineries and shipyards, to housing for the workers. (In 1982, the Jurong Town Corporation's housing was taken over by the HDB.)

By 1986, Jurong had grown and developed into a large comprehensively planned town that accommodated a large range of industrial activities. In 1986, the Jurong Town Corporation managed 19 industrial estates. The estates accommodated a total of 2,700 companies (two-thirds of which are foreign) and 210,000 workers. Of these, 1,400 factories employing 180,000 workers were located in Jurong Town. (Jurong Town Corporation factories are leased for fixed terms, usually of 30 years, with the leases being renewable through negotiations. Thus, foreign investors locating in Singapore can choose from ready-built factories and need not bother constructing their own buildings.)

The Urban Redevelopment Authority

The Urban Redevelopment Authority was incorporated in 1974 as a result of the expansion of the Urban Renewal Department of the HDB. It became the national authority for urban renewal and development. It has designed and built several commercial complexes, in direct competition with the private sector developers. It also controls car-parking in the city (outside the HDB jurisdiction). In the process of urban redevelopment, the Urban Redevelopment Authority is also responsible for identifying and recommending potential conservation projects to the government to ensure that Singapore's historical architecture is not completely bulldozed. For example, the Urban Redevelopment Authority has preserved a row of Malacca-style terrace houses at Emerald Hill Road, off the intensely commercialized Orchard Road corridor. These houses make up a mixed residential and commercial development that is also a center of a tourist attraction.

Through the Urban Redevelopment Authority's Sale of Sites program, the government has been able to assemble fragmented parcels of land at very low cost, and then to sell them to the highest bidder among private developers. The selling prices have been very high. The first Sale of Sites was launched in June 1967, under the administration of the HDB. By 1985, ten more sales had been held whereby 143 private residential, commercial, entertainment, and industrial developments were undertaken, generating investments amounting to over S\$8 billion.

On a contrasting scale, the Urban Redevelopment Authority has been responsible for a number of projects such as the coordination and preparation of the land-use plan for the new city at Marina South, which comprises some 266 hectares of reclaimed land next to the existing commercial core of the city.

The Singapore Tourist Promotion Board

An interesting example of a statutory board created for the purpose of exploiting the strong traditional tourist-based economy of Singapore is the Singapore Tourist Promotion Board, established in 1964 to develop and promote tourism and its related facilities and services in Singapore. As an indicator of the significance of the role of the Singapore Tourist Promotion Board, tourist arrivals in Singapore exceeded 3 million in 1985. Foreign exchange earnings from tourism amounted to S\$2,173 million, with total earnings estimated at S\$3,859.2 million. In addition, the tourism industry contributed 5.3 percent to the gross domestic product (Singapore Tourist Promotion Board Annual Report 1985/86).

The Singapore Tourist Promotion Board is also responsible for promoting Singapore as a venue for conventions, exhibitions, and travel groups. Hence, it has to cooperate closely with other developmental agencies and statutory boards in their programs for development of infrastructure and services. For example, the Tourism Product Development Plan was prepared jointly in 1986 by the Singapore Tourist Promotion Board and the Ministry of Trade and Industry, in cooperation with the Ministries of Community Development, Environment, Finance, Home Affairs, and National Development; Land Office; Planning Department; Port of Singapore Authority; Sentosa Development Corporation; and Urban Redevelopment Authority. One of the important contributions of this plan to the rapid spatial development of Singapore will be the conservation and revitalization of many historical areas, particularly around and within the central city.

The Development of the Public-Housing Program

Under the People's Action Party government, public housing was produced at a rate targeted at between 50,000 and 160,000 units per five-year building program, with the rate increasing through time (Table 1). Since the establishment of the HDB in 1960, five building programs have been completed, with the sixth underway. Today, Singapore operates the largest public-housing program among all the urban systems in

TABLE 1 -- BUILDING TARGETS AND PERFORMANCE
OF THE HDB

<u>Building Program</u>	<u>Target (flats)</u>	<u>Completed flats (cumulative)^a</u>	<u>% Population housed in public flats</u>
1961-1965	50,000	70,000	23
1966-1970	60,000	118,000	35
1971-1975	100,000	216,000	50
1976-1980	125,000	375,000	69
1981-1985	155,000	530,000	85
1986-1990	160,000	(NA)	(NA)

Source: HDB, published in Business Times, Aug. 23, 1985.

^a Figures do not include flats demolished to clear ground for redevelopment

the capitalist world, in terms of the proportion of population living in public housing. By 1986, 85 percent of the population of Singapore lived in over 585,000 units of mostly high-rise, high-density public housing in satellite towns and estates built and managed by the HDB. These residents are mostly owner-occupiers (66 percent of the population).

Singapore's public-housing program was planned and implemented in stages, first to meet the housing needs and demands of the population, then to facilitate the achievement of national development goals. Systematically, immediate shortages were met first, at the sacrifice of quality and relative standards. Once shortages were overcome, standards were upgraded gradually and constantly to enhance the living conditions of the population. And when the proportion of the population dependent on public-housing services reached a clear majority, reforms were introduced to induce social and political changes more quickly and effectively.

The Housing Problem (Before 1960)

Singapore's housing problem began during its colonial era. What follows is a historical account of the housing situation and problems of Singapore; this account precedes our discussion of various phases of development.

As early as the beginning of the 1900s, Singapore was faced with severe overcrowding and housing shortage problems. The rate of building had lagged far behind the net rate of in-migration and population growth. This was aggravated in the mid-1900s by the standstill of construction as well as by the neglect and damage of buildings during the war.⁴ The rapid flood of rural-urban migration immediately after the end of the Japanese Occupation resulted in 70 percent of the population crowding into the city. At the same time, the migrant population in Singapore was beginning to lose its immigrant character and becoming more permanently settled. These trends created a great burden on the total urban infrastructure, particularly on urban housing. With the immense pressure

for more permanent housing, the value of houses and urban land skyrocketed, leading subsequently to exploitative and speculative activities by both landlords and tenants, who would let or sublet any possible living space for some "tea-money." In the central city, particularly in Chinatown, two- and three-story shophouses were partitioned and repartitioned into smaller and smaller cubicles. Each cubicle, which housed one or more families, averaged only about 10 square meters. By 1947, two-fifths of the population in the Singapore municipal area were living in houses accommodating 21 persons or more; half of them lived in houses with 17 or more occupants. (Humphrey 1985)

A housing committee was appointed by the colonial government to investigate the housing problem. The committee reported that in 1947, one-third of the population was living in the heart of the city, with an average density of 300 persons per acre. In some parts of the city, density was more than 1,000 persons per acre! There were at least 100,000 people living in huts made of attap, old boxes, rusty corrugated metal sheets, with no sanitation, water supply, or any basic health requirements within the municipal area. (Humphrey 1985) Squatter colonies mushroomed wherever there was vacant land in and around the periphery of the city as the housing stock in the central city became overcrowded and completely exhausted. Makeshift structures were even erected in the air wells and backlanes, and on the rooftops of the shophouses.

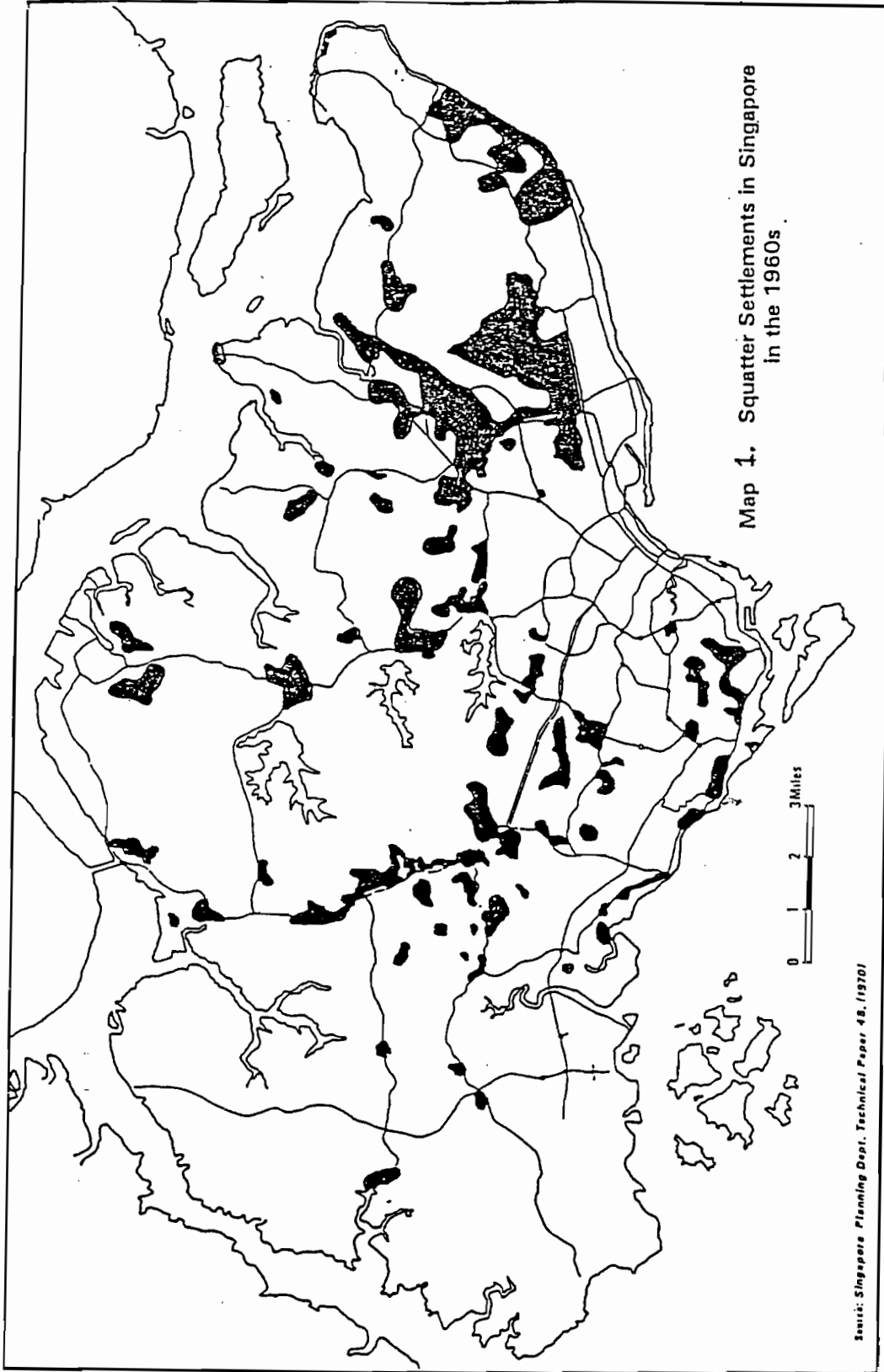
The Housing Committee pressed for the immediate establishment of a master development plan to decentralize the population. However, the Master Plan was not completed until 1955; it received final approval and was adopted in 1958. Meanwhile, expanding families and new households continued to erect their own shelters in the less densely populated suburban and outlying districts, forming squatter communities in the areas of Geylang, Eunos, Upper Paya Lebar, Tampines, Tiong Bahru, Radin Mas, and Bukit Merah (Figure 2). Some settled in isolated pockets in the outskirts of villages and rural areas. This movement of settlers decreased the proportion of population living in the city from 72.4 percent in 1947 to 63.1 percent in 1957. (Humphrey 1985) But with the increase in the total population from 938,144 to 1,445,929 during the same period, there was in fact a net increase of more than 200,000 people living in the city. (Table 2).

TABLE 2 -- POPULATION IN THE CITY AND RURAL AREAS

Year	City		Rural		Total	
	No.	(%)	No.	(%)	No.	(%)
1931	445,719	(79.9)	112,026	(20.1)	557,745	(100)
1947	679,659	(72.4)	258,485	(27.6)	938,144	(100)
1957	912,343	(63.1)	533,586	(36.9)	1,445,929	(100)
1970	1,247,064	(60.1)	827,443	(39.9)	2,074,507	(100)

Sources: Report on the Census of Population, 1970, Singapore, Vol. I, p. 231, reproduced in John W. Humphrey, Geographic Analysis of Singapore's Population, Census Monograph No. 5, Department of Statistics Singapore, 1985, p. 11.

FIGURE 2



Although the initial attitude of the colonial administration towards housing provision was laissez-faire, there was an attempt to respond to the acute housing problem when it became evident to the authorities that the market forces were not meeting the housing needs. Thus, as early as 1927, the Singapore Improvement Trust was established to provide modern housing and upgrade the deteriorating urban environment.

Most of the Singapore Improvement Trust's pre-war activities consisted of modest efforts to improve the deteriorating city area. Improvement projects included the laying-out of roads and open spaces, condemning dilapidated buildings unfit for human habitation, opening up backlanes to improve sanitation and ventilation, and developing living quarters to house those affected by these projects. Between 1930 and the onset of the war, the Trust built only 2,103 dwellings and shops, mostly in the form of flats. In 1947, the first year of resumption of building after the war, the Trust built 224 dwellings and shops. In 1953, greater efforts increased the annual output to 2,041. The total number of dwelling units built by the Trust and the private sector between 1947 and 1959 approximated 40,000 units, while the increase in population within the same period was about 600,000 people. (Table 3). This means that only one unit was built for an average of 15 additional persons.

TABLE 3 -- FLATS CONSTRUCTED BY THE SINGAPORE IMPROVEMENT TRUST,
COMPARED WITH TOTAL POPULATION

<u>Year</u>	<u>Cumulative Number of Flats</u>	<u>Total Population</u>	<u>Proportion of Population in Public Housing^a</u>
1947	224	938,144	1.5%
1950	2,754	1,022,100	2.8%
1955	12,836	1,305,500	6.9%
1959	20,907	1,587,200	8.8%

Sources: Humphrey 1985, p. 21.

^a Yeh 1975, p. 5.

Development of Public Housing (After 1960)

When Singapore attained self-rule, the new government inherited an extremely overcrowded city, with about 250,000 people living in degenerated slums and another 300,000 in squatter areas, all urgently in need of housing. The new government dissolved the Singapore Improvement Trust and established the HDB on February 1, 1960, to be responsible for the comprehensive planning and production of low-cost public housing and urban renewal.

In our analyses, we identified four cumulative stages in the evolution of the public-housing program of Singapore:

Stage 1. Low-cost housing as an immediate solution to the urban housing crisis (1960-present)

With the attainment of self-rule in 1959, the new government placed the highest priority on improving the housing situation. Under the Housing and Development Act, the HDB received funds and legal powers -- considerably more than its predecessor -- to deal with public-housing construction and management, urban renewal, and related problems.

Soon after its inception, the HDB conducted a survey and projected that 150,000 housing units were required for the next decade to relieve overcrowding in the central area, accommodate new households, and house those affected by urban renewal and slum clearance projects. It was anticipated that 40,000 units would be built by the private sector for the middle- and upper-income groups, and the rest would have to be constructed by the HDB, at the rate of 50,000 units in the first five-year building program (1960-1965) and 60,000 units in the second five-year program (1966-1970). The HDB met its ambitious targets and completed 117,000 units in the first decade. By 1965, the HDB had exceeded its first five-year building target and completed 54,000 flats. By 1963, 18 percent of the population were renting public housing.

Since the main objective of the public-housing program at this stage was to find an immediate solution to the critical urban housing crisis inherited from the British colonial administration, one-, two-, and three-room self-contained "emergency" and "standard" flats (Figure 3) designed to meet very basic housing needs were constructed as quickly and as cheaply as possible to house as many people as possible. They were let with subsidized rents. There were three prototypes of flats, each with at least a kitchen, a bathroom with flush toilet, and a living room. Total floor area of a one-room flat was 23.5 square meters; a two-room flat was 42.0 square meters; and a three-room flat was 53.0 square meters.

During this early period, flats were built where jobs were more easily available, near the central business district (CBD). This strategy enabled the HDB to concentrate on building flats quickly without having to consider the provision of new employment opportunities in its housing estates. Between 1960 and 1963, the HDB constructed over 30,000 units of flats in the first satellite town in Queenstown and in isolated estates in the urban fringe. Queenstown, being the first new town, had a very high average density of over 500 persons per hectare. The HDB also started developing other public-housing estates, which included 6,700 units in Bukit Ho Swee, 5,200 units in St. Michael's Estate, 2,100 units in MacPherson Estate, 2,000 units at Tanjong Rhu/Fort Road, and 4,300 units at Kallang. (Humphrey 1985)

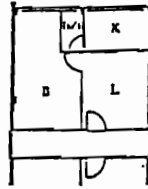
These flats were mostly allocated for the resettlement of fire victims, squatters, and farmers dislocated by the HDB's compulsory land acquisition programs. However, residents who met the income ceiling and family size eligibility rules of the HDB could also rent these flats. Thus, a family of five or more persons with a total monthly income not exceeding S\$800, and with no family member earning more than S\$500 per month, qualified to rent HDB flats. In 1962, this qualification was

FIGURE 3

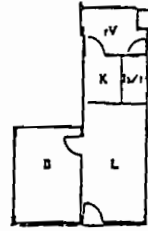
- R Room
- L Living room
- B Bedroom
- K Kitchen
- D Dining room
- S Store
- rV Rear balcony
- b Bath
- t W.C.



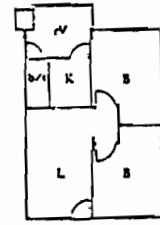
1-Room Emergency
Area: 23 m²



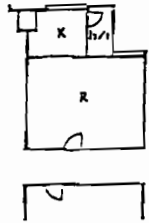
2-Room Emergency
Area: 37 m²



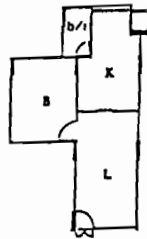
2-Room Standard
Area: 41 m²



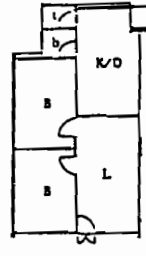
3-Room Standard
Area: 54 m²



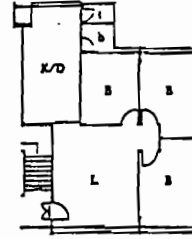
1-Room Improved
Area: 33 m²



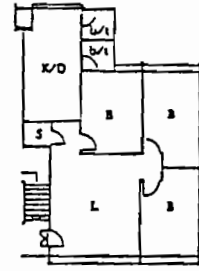
2-Room Improved
Area: 45 m²



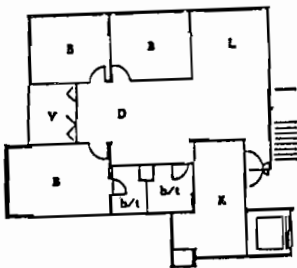
3-Room Improved
Area: 60 m²



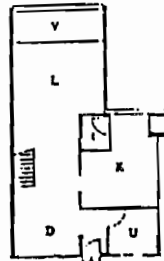
4-Room Improved
Area: 83 m²



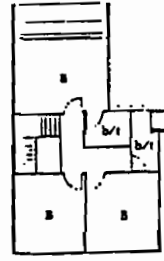
4-Room New Generation
Area: 93 m²



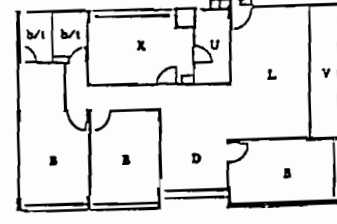
5-Room Standard
Area: 120 m²



Lower Floor Plan
Executive Maisonette Area: 145 m²



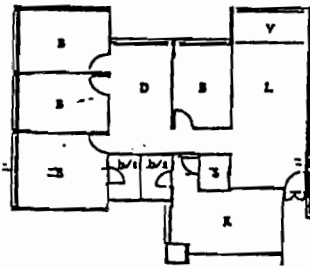
Upper Floor Plan



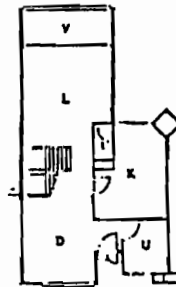
HUDC Apartment
Area: 162 m²



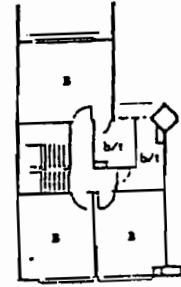
5-Room Improved
Area: 123 m²



Executive Apartment
Area: 145 m²



Lower Floor Plan
HUDC Maisonette Area: 156 m²



Upper Floor Plan

FIGURE 4

TYPES OF FLATS BY YEAR BUILDING COMMENCED AND BY SIZES

Prototype	Ave Flr Area (m ²)	Room Schedule	Year																																	
			1960	61	62	63	64	65	66	67	68	69	70	71	72	73	74	75	76	77	78	79	80	81	82	83	84									
1-Room	Emergency Standard	23 26	R. K, b/t, rV																																	
	Improved	33	R. K, b/t																																	
2-Room	Emergency Standard	37 41	L, B, K, b/t, rV																																	
	Improved	45	L, B, K/D, b/t																																	
3-Room	Emergency Standard	50 55	L, 2B, K, b/t, rV																																	
	Improved	60	L, 2B, K/D, b, t																																	
	New Model 'A'	69																																		
	Simplified	75 65	L, 2B, K/D, S, 2b/t																																	
4-Room	Emergency Standard	73 73	L, 3B, K, b/t, rV																																	
	Improved	83	L, 3B, K/D, b, t																																	
	New Model 'A'	93																																		
	Simplified	105 85	L, 3B, K/D, S, 2b/t																																	
5-Room	Standard	121	L, 3B, K, D, V, 2b/t																																	
	Improved Model 'A'	123 135	L, 3B, K, D, S, V, 2b/t																																	
	Improved	123	L, 4B, K, D, S, V, 2b/t																																	
Exec.	Maisonette	145	L, 3B, K, D, U, V, 2b/t, t L, 4B, K, D, S, V, 2b/t, t																																	
	Apartement	145	L, 3B, K, D, U, V, 2b/t L, 4B, K, D, S, V, 2b/t																																	
HUDC	Maisonette	155	L, 3B, K, D, U, V, 2b/t, t																																	
	Apartement	170	L, 3B, K, D, U, V, 2b/t																																	

R Room K Kitchen U Utility Room b Bath
 L Living Room D Dining room V Balcony t W.C.
 B Bedroom S Store rV Rear balcony

partially relaxed to a minimum family size of three and a family income ceiling of S\$250 for those who applied for the smaller one-room flats.

Most of the early HDB estates were developed on land taken over from squatters, small-scale farmers, and residents of dilapidated buildings. In several instances, such as in Bukit Ho Swee, the early estates were literally born out of fires. It is commonly whispered among private circles that some of these fires were in fact started by the statutory authorities of the People's Action Party government in their eager attempts to clear the slums and squatter settlements.

As early as the 1930s, Bukit Ho Swee was the most densely packed squatter settlement, providing shelter for the poorest segment of the population of hawkers, laborers, secret-society gangsters, and the unemployed. In 1934, a big fire swept through Bukit Ho Swee and the adjoining villages of Tiong Bahru and Havelock, leaving the three kampongs in ruins and up to 5,000 people homeless. After the fire, squatter huts again sprang up on the same site, since there were no alternatives available to most of the fire victims. In the 1950s, the Singapore Improvement Trust built some flats, factories, schools, markets, and shophouses to provide some modern housing and public facilities in the Bukit Ho Swee area, but the squatter problem was not alleviated.

On May 25, 1961, a "Hari Raya Inferno" again broke out near the previous fire site, destroying an area of 24.3 hectares and leaving 16,000 people homeless. (Straits Times, May 26, 1961) The prime minister visited the devastated site personally, and promised public housing for the fire victims. Most of the fire victims were rehoused immediately in newly completed HDB flats in Queenstown, St. Michael's Estate, MacPherson Road, and Kallang Airport. The government acquired the razed land, and plans were drawn to construct 12,000 units of flats and shops on the site. Six weeks after the fire, the debris was cleared and the earthworks for the emergency flats finished. At the end of the year, 768 flats were near completion at the fire site. By the end of 1962, 3,228 units of flats were completed at the fire site, with another 2,000 under construction (The Emergence of Bukit Ho Swee, from desolation to progress, p. 71).

On November 24, 1968, a similar fire destroyed almost every hut in the three-acre settlement, wiping out whatever remained of the squatter settlement at Bukit Ho Swee. A 50-member team of government officials was stationed in a nearby school to assist with the registration for HDB flats for the estimated 3,000 fire victims. The Member of Parliament for Bukit Ho Swee took the opportunity to appeal to all squatters and people living in other slum areas to apply for HDB flats. He was quoted as saying that ". . . this fire should be a lesson to them. The government's offer of flats to them is still open and they should seize this opportunity before a fire breaks out in their squatter colony and causes them more hardship." (Straits Times, Nov. 25, 1968)

Resettlement benefits have no legal standing in Singapore and are regarded as ex-gratia, which implies that compensation is given on compassionate grounds only. In the early 1960s, resettlement was carried out in accordance with the policy outlined in the 1956 Report of Land

Clearance and Resettlement. When sites were cleared, displaced persons were usually resettled in new public-housing estates near their original homes, in order to minimize economic dislocations. However, farmers and special industrial cases were often resettled to outlying areas. Resettled farmers were allocated free standard basic houses in agricultural settlements, and received ex-gratia compensations for their improvements. (In 1964, this indiscriminate practice of land allocation was discontinued. A higher scale of replacement rates and a replacement grant of S\$1,000 per acre of cultivated land were introduced to encourage farmers to take up HDB accommodations or to find their own. (While farmers preferred land to cash compensations, more non-farmers opted for HDB flats.) Displaced residential or non-farming squatters were not offered compensations for any improvement made to their structures, but they had the alternatives of either settling in agricultural settlements with basic standard houses, free of charge, or of opting for HDB accommodation. Most chose land allocations in agricultural settlements. Those who rejected the HDB's alternatives mostly moved to other more distant squatter settlements for economic survival reasons. They were usually engaged in informal economic activities such as hawking, which can be more easily sustained in squatter settlements where costs of living were minimal and environmental regulations less stringently enforced. Between 1961 and 1964, 5,935 resettlement cases were cleared. This initial success paved the way for future massive clearances and resettlements.

Stage 2. Home ownership through public housing (1964-present)

The Home Ownership for the People Scheme marked the second stage of the public-housing program. It was introduced in 1964, ". . .to encourage a property-owning democracy in Singapore, and to enable Singapore citizens in the lower middle income group to own their own homes." (HDB 1964) The emphasis on home ownership⁵ was also aimed at minimizing the problems of estate management in the long run. It was believed that if people bought their own home, "they have an investment in it and they look after it." (Senior Principal Architect, HDB, 1984) Initial response to the home-ownership program, however, was unenthusiastic. Of the 2,068 two- and three-room flats made available for sale in Queenstown in April 1964, only a few more than 1,600 were sold by the end of the year. (HDB Annual 1964) Between 1964 and 1967, fewer than 6,000 units were sold (Table 5). In April 1968, the Sale of Flat Feasibility Survey was carried out by the government on a random sample of 2,452 (3.3 percent) of the households renting HDB flats to determine the income and employment patterns of the residents, the balances of their Central Provident Fund, and whether they had any intention of buying instead of renting HDB flats. (The Central Provident Fund is the mandatory social security savings of individual employees, kept in trust by the government.) Forty-nine percent of the 2,377 respondents expressed intention to buy HDB flats; 10 percent were uncertain, and 41 percent had no wish to buy HDB flats. And of the 1,149 households that wished to buy HDB flats, 25 percent had no Central Provident Fund savings, and 21 percent had less than \$500 in their Central Provident Fund balances. Forty-eight percent of the income earners of households that wished to buy HDB flats were not Central Provident Fund contributors. (Yeh 1975)

Following the survey, in September 1968 a most innovative public-housing financing scheme was introduced as part of the Home Ownership for the People Scheme, to enable more people to own homes. Citizens eligible to buy public housing were permitted to use a portion of their Central Provident Fund savings to pay for the downpayment and monthly installment payments of their HDB flats. Before the introduction of this policy, Central Provident Fund members could not withdraw their social security savings for any purpose until they reached retirement age or if they become permanently disabled. To ensure that these people had sufficient funds in their Central Provident Fund to buy HDB flats, the government increased the rate of contribution to the Central Provident Fund by both employers and employees from a total of 10 percent to 13 percent of monthly wages. (At the time of survey, the standard rate of Central Provident Fund contribution payable by both employers and employees was a total of 10 percent of monthly wage, subject to a maximum contribution of \$50 per month.) Existing HDB tenants were also given the option to purchase their present flats without having to pay downpayments or meet the income eligibility rules for which other buyers had to qualify. Almost overnight, this Central Provident Fund financing scheme created a significant demand to buy low-cost public housing. While the number of applications to rent public housing dropped from 15,562 in 1967 to 9,501 the following year, applications to buy HDB flats tripled from 2,384 to 7,407! (Table 4)

The introduction of flats for sale was naturally matched by a shift in emphasis from providing basic housing needs to providing better amenities, housing standards, and greater job opportunities. The Design and Research Unit was established in 1966 within the Building Department of the HDB, to study ways of improving the designs and plans of HDB flats and housing estates. In August 1968, the Statistical and Research Unit was established within the Secretariat for the purpose of collating and analyzing basic socioeconomic and demographic data on HDB tenants and obtaining useful feedback to assist the Design and Research Unit in formulating future standards and plans.

Bigger four-room flats were constructed, and some of the older one- and three-room flats were replaced with improved models. Deliberate efforts were made to provide wider roads, more parking areas, open spaces, playgrounds, recreational facilities, etc. The Queenstown Sports Complex, for example, was added to provide a source of recreation for HDB flat dwellers. In order to encourage people to live in the suburban new towns, 10 to 15 percent of the land was allocated for the development of light labor-intensive industries such as electronics and textiles factories. Population density standards were thereby effectively reduced from 300 persons per acre to 250 persons per acre. (In 1967, the minimum household size was reduced to two, in keeping with the government's policy of encouraging family planning and enabling young married couples to own their homes. This change in policy had the effect of decreasing the density within each HDB flat, as well as throughout the estates.)

The HDB's decision to provide hawkers' centers for licensed food sellers in the public housing estates also generated employment opportunities close to the homes of residents. Hawkers' centers were first provided in 1967 to control the prolific illegal and unsanitary

TABLE 4 -- STATISTICS ON PUBLIC HOUSING
MANAGED BY THE HDB

<u>Year</u>	<u>Total No. of Flats Managed By the HDB (Cumulative)</u>	<u>% Population Living in Public Flats</u>	<u>No. of Applications for HDB Flats</u>		<u>No. of Flats Sold</u>
			<u>(Rent)</u>	<u>(Buy)</u>	
1960	21,968 ^a	9.0	2,627	-	-
1961	26,168	11.4	3,381	-	-
1962	37,374	15.3	13,177	-	-
1963	43,889	18.3	11,895	-	-
1964	54,312	22.0	9,928	1,451	1,451
1965	69,660	23.0	11,400	1,516	1,516
1966	80,915	24.0	17,313	1,576	1,320
1967	84,684	26.0	15,562	2,384	1,499
1968	98,289	29.6	9,501	7,407	8,504
1969	111,539	32.6	11,305	8,048	9,897
1970	123,124	35.9	12,324	20,598	6,967
1971	132,286	38.1	10,671	20,305	6,062
1972	147,636	43.7	11,888	24,644	9,142
1973/74	178,505	45.1	13,685	45,999	21,189
1974/75	207,572	50.0	10,480	16,588	18,693
1975/76	234,438	54.8	10,310	15,677	22,189
1976/77	264,698	60.2	9,209	16,498	35,121
1977/78	304,459	64.7	9,704	21,870	42,248
1978/79	337,247	69.0	8,851	29,577	31,583
1979/80	362,949	71.9	9,099	35,561	42,900
1980/81	375,514	74.1	11,095	37,924	32,267
1981/82	384,557	74.1	12,370	38,232	25,489
1982/83	400,656	75.0	8,791	32,869	22,620
1983/84	430,169 ^b	77.0 ^b	6,632	39,037	34,013 ^b
1984/85	506,340 ^b	81.0 ^b	5,570	49,459	81,823 ^b
1985/86	551,767 ^b	84.0 ^b	5,265	45,905	34,856 ^b
1986/87	585,445 ^b	85.0 ^b	(Not Available)		30,575 ^b

Sources: Economic and Social Statistics, Singapore, 1960-1982, pp. 117-118; HDB Annual Report, 1985/86, p. 89. (1973/74 refers to financial year January 1, 1973, to March 31, 1974, after which financial years refer to April 1 to March 31 periods.)

^a Most of these flats were built by the Singapore Improvement Trust under the British administration.

^b Figures taken from Yearbook of Statistics, Singapore, 1986, p. 18, for calendar years 1983 to 1986. (Figures include units constructed and sold by Jurong Town Corporation and Housing and Urban Development Company. From 1982, all public flats were managed by the HDB.)

hawking that had begun to line and congest the streets and parking areas of the estates. By the end of 1970, the problem of illegal hawking was under control, with the number of hawker stalls provided by the HDB in its estates amounting to 5,437. The providing of hawkers' centers and the licensing of hawkers have, on one hand, created new jobs for some residents, and on the other, kept the problems of illegal street-hawking and unsanitary food-handling under control. Since families could eat out in these environments conveniently and quite cheaply, some women were freed from cooking chores and have begun working in the nearby light industries. Eating out at hawkers' centers has since become the way of life for Singaporeans.

These improved design and planning standards were first tested out in 1965, with the commencement of construction of the Toa Payoh New Town (Figure 5 and Table 5). A target population of 180,000 was conceived for the Toa Payoh New Town, with a town center, a range of amenities, light industries, and improved pedestrian and vehicular accesses. Toa Payoh New Town was practically completed by 1977, although infill development and improvements continued thereafter. By the end of 1970, five years after the start of construction, 23,934 flats and shops were completed in the Toa Payoh New Town. (HDB Annual 1970) By 1985, there were 36,758 dwelling units over the 373-hectare new town, with a gross new-town density of 99 dwelling units per hectare.⁶ Compared to later developments, however, both Queenstown and Toa Payoh consisted mainly of smaller and cheaper flats with a net residential density⁷ of between 200 and 500 dwelling units per hectare. As in 1985, one- and two-room flats constituted 46 percent of the total number of flats in Toa Payoh, with 42 percent three-room flats.

Apart from Toa Payoh, the HDB also built some flats during this phase of development, in Jurong and Upper Changi Road Estate. Construction activities also continued in the earlier estates in Queenstown, Bukit Ho Swee, MacPherson, Kallang Basin, etc. At the same time, the HDB initiated redevelopment schemes in some estates, which included Bukit Merah, Henderson Road, and Upper Aljunied Road.

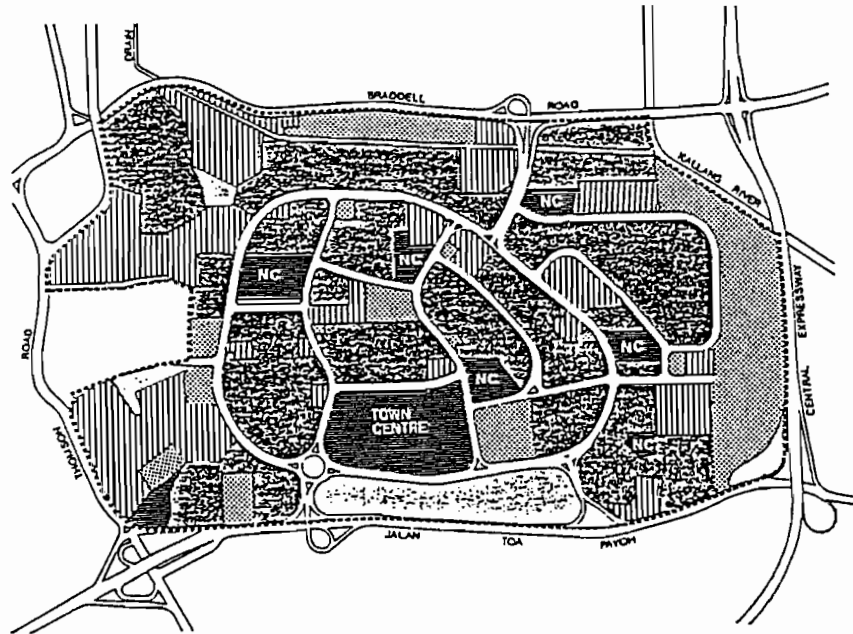
By 1970, 35.9 percent of the population in Singapore was living in public flats, with about 9 percent of the population living in owner-occupied HDB flats. The use of the Central Provident Fund for the purchase of public housing had popularized public housing and enabled some of the lower- and lower-middle-income families in Singapore to own their own homes. While the Central Provident Fund Board was converted into a sort of real estate financial institution, the HDB became the leading and most prominent real estate developing corporation in the country. Most significant of all, public housing in Singapore was converted from a public good into a commodity.









Stage 3. Commercialization of public housing (1970-present)

In the third stage of the program, public housing as a commodity was popularized through commercialization and partial privatization. It was a significant period in which the supply was expanded and upgraded, and demand was manipulated and encouraged. By 1979, this marketing strategy

FIGURE 5

MAP 4 LAND USE PLAN TOA PAYOH NEW TOWN



Legend	Land Area (ha)	Percentage
 Residential	150	40
 Commercial	34	9
 Industrial	47	13
 Open Space.		
 Sports & Recreational	24	6
 School & Institutional	69	19
 Roads & Others	49	13
 Town Boundary		
Total	373	100

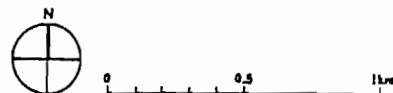


TABLE 5 -- COMPARATIVE LAND-USE DISTRIBUTION AND GROSS DENSITIES

New Towns No. of Dwelling Units Construction Period	Toa Payoh		Ang Mo Kio		Prototype	
	<u>1965-1977</u>		<u>1973-1982</u>		<u>Post-1982</u>	
<u>Land Use</u>	<u>Area (ha)</u>	<u>%</u>	<u>Area (ha)</u>	<u>%</u>	<u>Area (ha)</u>	<u>%</u>
Commercial	33.5	9.0	54.0	7.6	86	13.7
Residential	150.4	40.3	248.2 ^a	34.8	207	33.1
Schools	49.8 ^b	13.4	58.6	8.2	73	11.7
Open Space	12.7	3.4	42.2	5.9	23	3.7
Sports Complexes	11.3	3.0	11.7	1.7	13	2.1
Institutions	19.0	5.1	32.3	4.5	23	3.7
Industry	47.0	12.6	128.5	18.0	120	19.2
Major Roads	44.5	11.9	116.7	16.4	75	12.0
Utilities & Others	<u>4.8</u>	<u>1.3</u>	<u>20.9</u>	<u>2.9</u>	<u>5</u>	<u>0.8</u>
Total	373.0	100.0	713.1	100.0	625	100.0
Gross New-Town Density (du/ha)	99		69		64	

Source: HDB, Housing a Nation.

^a Excludes five private housing estates that fall within the new-town boundary.

^b Within new-town boundary, but not provided by Housing and Development Board.

was so successful that 61 percent of the 337,247 units of the HDB flats were owner-occupied.

With the full support of the government, the HDB confidently set its sights on constructing 100,000 units in its Third Building Program (1971-1975) and 125,000 units in its fourth Building Program (1976-1980). By the end of the decade, the HDB exceeded its target and had completed about 250,000 units! In order to meet its ambitious building programs, the HDB set about rationalizing its production process even before the end of the 1970s. The following are some of the measures taken to ensure that the supply would meet the anticipated demand:

- o In the organization of its resources and supplies, the HDB acquired its third granite quarry in 1969, in addition to the granite quarries acquired in 1962 at Bukit Timah and Pulau Ubin. (By 1976, the HDB owned the largest granite quarry plant in Singapore and possibly in the region.) In 1972, the HDB started producing its own bricks. In 1976, it developed a large sand quarry at Bedok. Between 1978 and 1981, the HDB operated its own tile-production plant. Besides the establishment of these

plants, the HDB arranged for the bulk purchase and stockpile of building materials such as cement, sanitary wares, ceramic tiles, and steel, all at competitive prices.

- o To ensure an adequate supply of qualified professional and technical staff, the HDB started recruiting more architects and engineers from outside Singapore. A comprehensive promotion exercise was conducted to reward and motivate deserving officers. Apprenticeship schemes were set up to train both architects and construction workers. Those with primary-school education and those who had completed their national service were encouraged to enter the building industry and to learn construction skills such as carpentry and plastering. The HDB also started exploring the possibility of mechanizing the various building processes to reduce the excessive demand for labor resources and to expedite building construction.
- o To ensure the marketability of its public housing, the HDB continued to improve the design and materials used for public housing. A variety of improved flat designs was introduced throughout the 1970s: the five-room "standard" flat in 1970; "new" flats with larger, more efficient rooms, better ventilation and new fixtures in 1974; "Model A" flats with a further 10- to 20-percent increase in floor area in 1978; and "executive" flats for a higher-income category, in 1979 (Figure 3).
- o As soon as the Concept Plan was finalized, planning standards for a prototype new-town model were developed by the HDB to achieve the "ring" and "garden city" concepts of the Plan. The prototype model provided both for substantial increases in open space and institutional uses such as schools, religious buildings, and community centers, and for better environmental and urban design standards, with greater emphasis on new-town identity and architecture. These standards were constantly adjusted according to perceived needs and demands. (Table 5).

With the building materials and resources secured and organized, and the new-town prototype model established, public housing could be developed simultaneously in several new towns, instead of concentrating efforts in a single new town at a time such as prevailed in earlier developments in Queenstown and Toa Payoh. Thus, construction activities began in Woodlands New Town in 1971, Telok Blangah in 1972, Bedok and Ang Mo Kio in 1973, Clementi in 1974, Yishun in 1976, and Hougang, Jurong East, and Jurong West in 1979 (Table 6). These new towns were located in population centers proposed in the state Concept Plan. The new town of Ang Mo Kio, for example, was developed on the basis of the prototype model. Compared to Toa Payoh, Ang Mo Kio consisted of a large distribution of three- and four-room flats (54 percent and 23 percent, respectively, in 1985). This large number of bigger flats has contributed to a much lower net residential density of between 170 and 250 dwelling units per hectare, and a gross new-town density of 69 dwelling units per hectare. Only 35 percent of the land in Toa Payoh was planned for residential purposes, compared to 40 percent in Ang Mo Kio. This has

TABLE 6 -- HDB NEW TOWNS
(as at March 1985)^a

<u>New Town</u>	<u>Year of Construction</u>	<u>Area^b</u> <u>(ha)</u>	<u>Public-Housing Units</u>	
			<u>Projected</u>	<u>Completed/Under Construction</u>
Queenstown	1952	285	28,000	28,000
Toa Payoh	1965	375 ^c	39,000	37,700
Woodlands	1971	1260	66,000	22,600
Telok Blangah	1972	365	13,200	13,200
Bedok	1973	770	49,000	49,000
Ang Mo Kio	1973	740	50,000	49,500
Clementi	1974	425	25,000	24,100
Yishun	1976	920	60,000	32,100
Hougang	1979	520	25,500	24,900
Jurong East ^d	1979	300	21,000	19,500
Jurong West ^d	1979	380	33,000	32,700
Tampines	1980	925	56,000	29,900
Bukit Batok	1981	750	26,000	26,300
Serangoon ^e	1983	600	18,000	13,100
Bishan ^e	1984	700	25,000	9,200
Zhenghua	1984	475	30,000	1,900

Source: Housing A Nation, p. 99

Notes:

- ^a Table does not include public-housing units in the smaller estates.
- ^b The area of each new town was as defined for planning purposes. Therefore, it includes existing developments, such as private housing estates, institutions, etc., found within the boundaries of each new town.
- ^c Area does not include the hospital at Thomson Road in the western end of the new town.
- ^d Includes Jurong Town Corporation flats taken over by the HDB.
- ^e Area includes a large number of existing low-rise, low-density private housing.

freed considerably more land for a better standard and wider range of facilities in Ang Mo Kio. Besides Ang Mo Kio and the numerous new towns, the HDB also started housing estates in Marine Parade, Farrer Road, and Tampines, and continued to develop Queenstown, Toa Payoh, Kallang Basin, Balestier Road, Upper Changi Road, etc.

In order to meet the ambitious building programs of the HDB in the 1970s, vast amounts of encumbrance-free land had to be made available. So, to facilitate land clearance and increase land supply quickly, a number of incentives and increases in compensations were introduced in 1971 and again in 1975 for resettlement and relocation cases. In 1971, while compensations to residential squatters for their improvements were increased by 50 percent, the downpayments for their purchase of HDB flats

were reduced from 20 percent to S\$100 per application. Compensations for farmers increased by 100 percent, and they were given a free three-room "improved" flat in a new town or, in lieu of the flat, a cash grant equivalent to the selling price of the flat. Shopkeepers in rent-controlled premises in the central area were for the first time offered a cash grant equivalent to eight years' rental of the affected shop premises instead of alternative accommodation. This cash grant was raised and fixed at S\$15,000 in 1974. Most shopkeepers, however, preferred the scarce alternative premises.

In 1975, compensation rates were increased by an average of 50 percent over the 1971 rates for both farmers and residential squatters. The cash grant for farmers, in lieu of a free three-room flat, was adjusted to S\$11,800 per farmer. The cash grant for a central area shopkeeper was increased from S\$15,000 to S\$30,000 per business premise. Since the HDB was unable to provide alternative suitable accommodations in strategic locations within the central area and at rentals compatible with the old rents of rent-controlled premises, this cash-grant increase served as an incentive for small and less-competitive businesses to retire. The number of businesses that opted for the cash grant increased from 20 percent in 1974 to 40 percent in 1978. Between 1975 and 1978, the HDB cleared a total of more than 49,000 cases and paid up to almost S\$160 million in compensations! (Table 7)

On the demand side, besides the continuous demand generated through the resettlement of squatters, farmers, etc., dislocated by the HDB's compulsory acquisitions, a number of housing policies were introduced and adjusted to induce a huge captive demand market for HDB flats:

- o By constantly adjusting and increasing the family monthly income ceiling eligibility rules to match the rising incomes of home buyers, a minimum market size was always ensured. In January 1970, the family income ceiling for HDB flat buyers was increased from S\$1,000 to S\$1,200. In 1971, with the introduction of the larger five-room flat, another category of family income ceiling of S\$1,500 was added. In 1974, middle-income Housing and Urban Development Corporation (HUDC) flats (although not completely owned by the HDB at that time) were made available for families earning up to S\$4,000. And, in 1979, while the income ceiling eligibility remained the same for HUDC applicants, the family income ceilings for applicants of three- and four-room flats were raised from S\$1,200 to S\$1,500, and for applicants of five-room flats, from S\$1,500 to S\$2,000. At the same time, yet another income ceiling category of S\$2,500 was introduced for applicants of the new executive flats (Table 8).

Corresponding to the adjustment of income eligibility rules were increases on Central Provident Fund contribution rates, imposed by the state. Except for 1975 and 1976, Central Provident Fund rates were increased annually throughout the 1970 decade. In 1970, the rate of Central Provident Fund contribution was increased to 16 percent of wages, subject to a maximum of \$300 per month. They were increased to 20 percent in 1971, and 24 percent in 1972. The amount of Central Provident Fund savings

TABLE 7 -- RESETTLEMENT CLEARANCE AND COMPENSATION PAID

<u>Year</u>	<u>Cases Cleared</u>	<u>Compensation Paid</u> <u>(S\$Million)</u>
1961	294	0.3
1962	817	0.9
1963	1,181	1.7
1964	3,643	3.2
1965	6,510	5.5
1966	6,018	5.1
1967	5,984	4.1
1968	5,863	3.1
1969	6,519	4.8
1970	6,125	4.1
1971	3,882	5.5
1972	4,060	9.2
1973/74	12,067	18.5
1974/75	10,980	20.8
1975/76	12,011	43.9
1976/77	11,015	40.7
1977/78	15,018	54.2
1978/79	16,443	52.8
1979/80	18,052	94.9
1980/81	15,033	79.6
1981/82	12,665	102.7
1982/83	14,855	144.2
1983/84	17,868	200.8
1984/85	21,985	278.7

Source: Resettlement Department statistics, HDB, Housing a Nation.

TABLE 8 -- INCOME CEILINGS FOR THE PURCHASE OF PUBLIC FLATS

<u>Year</u>	<u>Flat Type</u>	<u>Combined Family Income Ceiling</u>
1964	3-Room	S\$1,000
1970	3- & 4-Room	S\$1,200
1971	3- & 4-Room	S\$1,200
	5-Room	S\$1,500
1974	3- & 4-Room	S\$1,200
	5-Room	S\$1,500
	HUDC	S\$4,000
1979	3- & 4-Room	S\$1,500
	5-Room	S\$2,000
	Executive	S\$2,500
	HUDC	S\$4,000
1980	3- & 4-Room	S\$1,500
	5-Room	S\$2,000
	Executive	S\$2,500
	HUDC	S\$6,000
1981	3-Room	S\$1,500
	4-, 5-Room & Executive	S\$3,500
	HUDC	S\$6,000
1985	3-, 4-, 5-Room & Executive	S\$4,000
	HUDC	S\$6,000

Source: HDB, Housing A Nation.

withdrawn for public housing doubled from S\$25.1 million in 1972 to S\$50.6 million in 1973. By 1979, total Central Provident Fund contributions by the employers (20.5 percent) and employees (16.5 percent) reached 37 percent of monthly wages! In July 1984, Central Provident Fund contributions were increased up to a total of 50 percent of wages: 25 percent from employer and 25 percent from employee! These adjustments effectively increased the propensity to demand and consume public housing (Tables 9 and 10).

- o In March 1971, another innovative housing policy allowed HDB home owners who had lived in their flats for at least three years to sell them to those eligible for public housing at open-market prices! This was with the condition that the sellers would be debarred, for one year, from applying for another HDB flat. (Before, HDB flats could only be sold back to the HDB at their original prices.)

Inevitably, these policies increased the demand for HDB flats, so much so that the HDB had problem coping with meeting the demands. The number of applications to buy HDB flats jumped from 8,048 in 1969 to 20,598, 20,305, and 24,644 in the following years, respectively. The Minister for Law and National Development, Mr. E. W. Barker told Parliament in 1971 that the HDB was unable ". . .to build enough flats to cope with the unprecedented demand for such accommodation at the moment." (Straits Times, Mar. 24, 1971)

Many people started buying HDB flats as an investment, even if they had neither genuine need for the flats nor intention to occupy them. Illegal subletting became so rampant that the HDB repeatedly warned tenants and flat owners that subletting their HDB flats illegally would result in eviction and debarment from future application. (Straits Times, Jul. 21, 1977) Debarment was an attempt to discourage such speculation, but it proved to be an insufficient control. Hence, the commercialization strategy by the HDB was such a success that it caused widespread public speculation and profiteering in a communally funded commodity.

The active reselling of HDB flats also generated a new housing market catering to HDB flat sellers, who would either be upgrading to private housing, or temporarily rent homes, until they could qualify for another HDB flat after the expiration of the debarment period. Thus, the policy to allow resale of HDB flats at open market rates provided a sharp boost to the then-existing property boom. It was a cause for the increased real estate speculation throughout the island and the sharp rise in development costs.

On January 1, 1974, the price of HDB flats had to be increased for the first time. In part, this price increase could be explained by the rising costs of construction. But it was also because the demand for HDB flats in 1973 had doubled to nearly 46,000 applicants, compared to the demand in the previous three years (Table 4). If this demand had continued to increase, it would have been more than the HDB could cope with: In 1972, the HDB could only produce a little more than 20,000

TABLE 9 -- CENTRAL PROVIDENT FUND: RATES OF CONTRIBUTION
(Percent of Gross Wages)

<u>Starting</u>	<u>By Employer</u>	<u>By Employee</u>	<u>Total</u>	<u>Credited to Ordinary Account^a</u>
July 1955	5.0%	5.0%	10.0%	
Sept 1968	6.5	6.5	13.0	
Jan 1970	8.0	8.0	16.0	
Jan 1971	10.0	10.0	20.0	
July 1972	14.0	10.0	24.0	
July 1973	15.0	11.0	26.0	
July 1974	15.0	15.0	30.0	
July 1977	15.5	15.5	31.0	30.0
July 1978	16.5	16.5	33.0	30.0
July 1979	20.5	16.5	37.0	30.0
July 1980	20.5	18.0	38.5	32.0
July 1981	20.5	22.0	42.5	38.5
July 1982	22.0	23.0	45.0	40.0
July 1983	23.0	23.0	46.0	40.0
July 1984	25.0	25.0	50.0	40.0

Sources: The Singapore Economic Review, Vol. XXXI, No. 1, April 1986
Special Issue: Report of the Central Provident Fund Study
Group, Department of Economics and Statistics, National
University of Singapore, p. 6.

^a In 1977, Central Provident Fund contributions were credited into two separate accounts, the ordinary account and the special account. Savings in the ordinary account can be withdrawn for the purchase of residential properties and some government-approved shares. Savings in the special account can only be withdrawn when the member attains the age of 55 years or for special contingencies. In 1984, Medisave Accounts were started where savings can only be withdrawn for certain hospitalization expenses.

TABLE 10 -- CENTRAL PROVIDENT FUND WITHDRAWALS
FOR THE PURCHASE OF PUBLIC FLATS

<u>Year</u>	<u>HDB/JTC Flats</u>		<u>HUDC Flats</u>	
	<u>No. of New Withdrawals (Persons)</u>	<u>Amount Withdrawn (\$Million)</u>	<u>No. of New Withdrawals (Persons)</u>	<u>Amount Withdrawn (\$Million)</u>
1968	2,906	6.3	-	-
1969	7,779	21.8	-	-
1970	6,836	22.9	-	-
1971	5,607	23.2	-	-
1972	5,026	25.1	-	-
1973	11,809	50.6	-	-
1974	16,488	92.8	(The HUDC was formed in 1974)	
1975	19,226	129.6	959	5.2
1976	38,470	244.6	1,838	30.6
1977	47,918	358.4	219	21.2
1978	48,355	468.4	222	18.3
1979	42,369	402.6	1,046	34.8
1980	47,133	493.0	72	26.9
1981	47,509	534.5	5,401	116.2
1982	30,211	538.8	(wef from May 1982, HUDC came under HDB)	
1983	39,997	724.7	-	-
1984	81,390	2,152.2	-	-
Total	449,029	6,289.4	9,757	253.2

Source: The Singapore Economic Review, Vol. XXXI, No. 1, April 1986
Special Issue: Report of the Central Provident Fund Study Group,
Department of Economics and Statistics, National University of
Singapore, p. 57.

Note: Amount withdrawn includes amount withdrawn by members who are
still paying installments on the properties.

units. The 1974 price increase had the desired effect of cutting down the number of applications to an average of between 15,000 and 16,000 in the three years that followed. But it also encouraged more profiteering sales by home owners who had bought their flats before the price increase and who then sold their flats in a market where even higher prices prevailed.

Thus, remedial policies had to be implemented following these policies. In 1973, a new policy required HDB flat owners to live in their flats for five years -- instead of three -- before selling in the open market. Another policy was enforced to extend the debarment period for those who sold their flats at open market prices from one year to two and one-half years. These corrective policies and a temporary freeze on Central Provident Fund increases (1975 and 1976) significantly reduced the demand to buy public flats. Applications to buy HDB flats dropped from 45,999 in 1973-74 to 16,588 in 1974-75, 15,677 in 1975-76, and 16,498 in 1976-77 (Table 4).

While the opportunity to buy and sell HDB flats was opened to a large majority of the population, there was an unhappy minority in the upper-middle-income group, similar to Hong Kong's "sandwich society," who found themselves priced out of the private property market on one hand and whose incomes were a little too high to qualify for HDB flats on the other. "The repeated calls by this 'homeless' group of people for government assistance. . . ." (Straits Times, Oct. 6, 1976) led to the incorporation of the government-owned Housing and Urban Development Co. Pte. Ltd. in 1974. In this corporation, the HDB, Urban Redevelopment Authority, and Primary Industries Enterprise each held 500,000 shares. The corporation aimed to provide better-quality flats in more exclusive areas for those upper-middle-income families earning between S\$1,500 and S\$4,000 per month. (The HUDC was later merged into the HDB in 1982 because it had encouraged the development of a distinctively segregated community of upper-middle class persons.) Since the quality of HUDC flats were comparable to the private housing market and also less expensive at the beginning, and since Central Provident Fund savings could be used only for HDB or HUDC housing but not private flats at that time, public housing began to be in direct competition with the private housing market.

What was the rationale behind such great efforts to popularize and commercialize the public-housing program in the 1970s? These are the possible explanations:

- o The People's Action Party government was (and still is) determined to realize its vision of a 100-percent home-ownership democracy before the turn of the century.
- o The benefits of rapid industrialization in the late 1960s clearly were translated into the rising affluence and aspirations of the population. Singapore's economic performance in the late 1960s was remarkable, due to the success of industrialization. Between 1965 and 1971, the volume of gross domestic product rose at an annual average rate of 13.4 percent. Industry's share of gross domestic product rose from 13.6 percent in 1965 to 21.1 percent in 1971. Between 1967 and 1971, employment rose at an annual average rate of 5.7 percent, compared with an increase in labor

force of only 4.8 percent. The rate of unemployment dropped from 12.3 percent in 1965 down to 4.8 percent by 1971, with the creation of a total of 140,000 new jobs. The thriving economy of the late 1960s had significantly increased the affluence of the population in general, expanding their propensity and ability to consume.

- o Hence, the new housing demands of the 1970s were a call for higher quality housing and better services for which people were willing and able to pay, and this represented a change from the character of housing needs of the previous decade, which were geared more to quantity and minimum housing conditions than quality.
- o Finally, the adopted model of self-contained "garden cities" could function well only if there were enough residents to make up each satellite town. So, unless a minimum level of occupancy was maintained in each neighborhood and new town, it would not be feasible for the HDB to provide the minimum levels of infrastructural services and "cradle-to-grave" facilities in these suburban new towns. Also, the process of public-housing production, from the initial planning of a new town to the completion of the first few blocks and units in the town, takes a total of about six years. Unless demand at the end of the six years is stable or, better still, assured, it could mean a great waste of time and resources spent on planning "ghost towns". Therefore, a lack of demand for public housing would have been a crippling threat to the workability of the state's Concept Plan.

Stage 4. Sociopolitical reforms through public housing (Late 1970s-)

By the late 1970s, business was booming for the HDB, and the problem of supply and demand of HDB flats was well-taken-care-of. Up to this day, the government has been trying to encourage those households renting public housing to buy them. But with the great majority of the population (about 72 percent) housed in HDB flats by the end of the 1970 decade, the HDB could now concentrate its efforts on inducing and controlling socio-political and even economic changes. Hence, the last stage of the public-housing program saw a series of explicit reforms introduced through the HDB, to encourage desirable social values, internalize social control, support general economic policies, and maintain the People's Action Party's political dominance. Some of these reforms are, briefly, as follows:

- o To avoid the undesired state of old folks being cared for in state-financed senior citizen welfare homes in the future, the HDB started promoting the socially desirable traditional Asian "extended family" system. (An "extended family" refers to a household where married children continue to live with their parents after marriage. Between 1968 and 1981, the proportion of "extended families" in Singapore's household structure dropped by 10 percent. The People's Action Party government saw this as "an indication that the younger generation would be less willing and

less able to care for their elderly parents in the way the Asian extended family was traditionally known to care for the elderly".) Since 1978, the HDB introduced several incentive and design schemes to enable and encourage parents and their married children to live together, or as neighbors.

In 1978, the Joint Balloting Scheme was introduced to enable parents and married children who registered separately to live as neighbors through joint allocation within the same ballot exercise. The Reside Near Parents/Married Children Scheme was introduced in the following year, to enable applicants and renting tenants to live close to their parents or children. In 1981, the Mutual Exchange of Flats Scheme allowed any HDB lessee who has occupied his flat for at least one year to exchange his flat with another HDB lessee. Again, the purpose of this policy was to enable parents and married children to exchange their existing flats with others so that they can live closer to each other. The 1982 Multi-Tier Family Housing Scheme was an incentive scheme for parents and married children to live within the same dwelling unit. Eligible multi-tier families were, among other concessions, given a three-year headstart in the allocation of flats.

According to the HDB, these schemes, however, achieved only limited success. Between 1978 and 1985, these schemes together made it possible for 25,600 families to live together in one way or another, representing only 11 percent of the 225,400 flats sold during that period. Thus, the pattern of family nuclearization continued to be the trend.

- o The HDB's first-come, first-served policy and allocation of flats by public balloting succeeded in ensuring that Singaporeans from different ethnic, religious, and cultural backgrounds would live in the same community as neighbors. However, such a policy could not guarantee social interaction and communal integration. To promote community development, the HDB started "shifting from the stereotype blocks of the past to more individualized estates" (Straits Times, May 30, 1980). Greater attention was paid to environmental and urban design to facilitate social integration and the sense of community in public-housing estates. With simultaneous construction, all the new towns started to appear identical, so that deliberate attempts had to be made to create an identity for each new town.

The "precinct" concept was introduced, first in Tampines New Town and then in all subsequent developments, with the intention to catalyze social interaction and community spirit. (A precinct in an HDB estate consists of a cluster of blocks arranged around a central focal space with communal facilities. Each precinct provides a local communal identity focus for 400 to 800 flats within the larger neighborhood. Neighborhoods in Toa Payoh, Ang Mo Kio, and earlier housing estates were found to be too large to create a sense of community.)

In the late 1970s, the HDB was faced with another conflict. On one hand, there was an increasing demand for larger flats, and on the other hand, an increasingly larger amount of land was required for non-residential uses in the new towns. To meet the projected demands, the HDB adopted a gross new-town density of about 64 dwelling units per hectare and a net residential density of about 200 dwelling units per hectare as the new prototype standard for planning new towns and housing estates in the 1980s. The proportion of land used for non-residential purposes was further increased from 65 percent to 67 percent. (For example, school sites and town centers were assigned larger sites.) At the same time, to meet the increased net residential density, spacing between buildings was reduced by about 15 percent.

Older public-housing estates built in the 1960s were upgraded and redeveloped to meet new standards. For example, 22 blocks of low-rise blocks at Guillemard Road/Kallang Airport, comprising 1,042 units of one- and three-room flats, were demolished and replaced by 13 blocks of high-rises comprising 1,629 units of three-, four-, and five-room flats, with additional facilities that included seven shops, two eating houses, one kiosk, one community center, one communal hall, two kindergartens, one neighborhood police post, and a hard court for ball games. As of March 31, 1985, demolition reached a total of 291 blocks of flats containing 21,482 units of mainly one-room flats. (Yeh and Wong 1985, p. 101).

The 1980s also saw the commencement of several consolidated new towns such as Serangoon and Bishan, where a number of existing low-density private-housing estates were filled with high-density public-housing developments and amenities. It was announced in 1982 that the HDB would concentrate on building flats in the outer suburban zone, such as in Hougang, Jurong, Bukit Batok, and Tampines, and stop building flats in the central core area after 1985, to free expensive land for better commercial use. It was expected that the new Mass Rapid Transit system would be ready and would provide good transportation linkages to the suburban areas and throughout the island. The strategy to build population centers outside the central city in the 1980s was consistent with the schedule of the Ring Concept Plan.

By 1985, the HDB had cumulatively constructed about 530,000 flats. The chairman of the HDB announced that it would shift from meeting its building targets to placing greater emphasis on higher quality workmanship and finishing, better planning and site layout, and better recreational facilities (Straits Times, Oct. 28, 1985). This drive for better quality will be reflected in the Pasir Ris New Town, where the first residents are expected to move in by late 1988 or early 1989.

One of the goals of national development in Singapore is to build a socially integrated and egalitarian society. This objective was contradicted with the establishment by the HUDC of exclusive housing for middle-class persons. Since its very beginning in 1974, HUDC housing estates were designed as exclusive enclaves, segregated from the rest of public-housing estates and new towns. In 1980, the People's Action Party government decided that the emergence of the HUDC elite communities should not be continued. Since then, HUDC housing had been incorporated into HDB new towns and housing estates. In March 1982, a bill was passed in

Parliament to establish the HDB as the only national housing authority, empowering the HDB to take over the housing estates and interests of the HUDC and the Jurong Town Corporation. According to the late Minister Teh Cheang Wan,

Under a single housing authority, it will be easier to achieve the government's objective of creating integrated communities with a good mix of different income levels in the new towns and housing estates. (Straits Times, Mar. 27, 1982)

Of course, the HDB also continued to adjust its policies during this phase of development to increase the proportion of the population owning homes. With the production and supply of flats under better control, the HDB adjusted its policy in 1979 to allow flat owners who had lived in their flats for at least five years to sell their flats at market prices without being debarred from applying for another HDB flat. In fact, sellers could apply for second flats after having lived in their present flats for three years. However, these sales were subject to giving the HDB the first option to either buy the flat or to recommend a buyer from its waiting list and a levy by the HDB of a transfer fee of 5 percent of the selling price. According to the HDB, this relaxation of the policy would help families to get a larger flat without being unduly penalized, enhance the mobility of the population, and extend the HDB home ownership scheme to more people (Straits Times, Aug. 6, 8, 1979).

In effect, this policy again injected speculative and profiteering interests among the population, so that in 1981 the HDB had to consider increasing the transfer fee and the five-year occupation period again, "...to check those wanting to profit from resale of publicly subsidized housing." (Straits Times, Aug. 3, 1981) Hence, as of September 1982, HDB lessees were permitted to resell only their first flats to a buyer of their choice after five years of occupation. Subsequent flats had to be resold to the HDB at the currently posted prices. The transfer fees were increased to ten percent of resale price for a three-room flat, 15 percent for a four-room flat, and 20 percent for a five-room flat. The HDB claimed that these resale levies were imposed "to skim off profits from reselling HDB or HUDC flats..." and to prevent HDB and HUDC homeowners from making excessive profits on the resale of low-cost public housing (Straits Times, Jul. 2, 3, 1985). The transfer fees from the resale transactions became a substantial added source of revenue to the HDB. At the peak of the resale market in 1984, as many as 900 flats were sold per month, giving the HDB an extra monthly income of up to \$5 million (Straits Times, Jul. 2, 1985).

Apparently only in the early 1980s did it become clear to the HDB that there were flat-owners openly flouting HDB rules by subletting their flats without HDB permission. The subletting of flats suggested that for whatever reason, the owners did not need their flats. (Straits Times, Nov. 30, 1981) What seemed unclear to the HDB was that even among the 100,000 people on the waiting list to buy flats (which the HDB continues to use as an indicator for the demand and need for public housing), there may be speculators who do not need the flats as their own accommodations. Also

on the waiting list may be citizens who simply do not want to leave their Central Provident Funds idling when they can use them to acquire property.

Between 1979 and 1984, the HDB increased the prices of their flats at unprecedented rates. In July 1979, flat prices were increased by 15 percent; in July 1980, by 20 percent; and in June 1981, by another 38 percent. Further increases continued more moderately in subsequent years -- by 5 percent in 1982, another 5 percent in 1983, and 2.5 percent in 1984. These increases corresponded with a series of large wage increases between 1979 and 1981: 19 percent in 1979, 20 percent in 1980, and 14 to 18 percent in 1981. These increases were recommended by the National Wages Council of Singapore to force out labor-intensive and less efficient activities and to encourage industries with high value-added components.

According to the HDB, these price hikes in HDB flats were necessary to help meet the costs of the new, better finished, and varied-design units that the HDB had planned for its estates; the improved maintenance and landscaping of the surrounding grounds; and the great cost of prefabrication, estimated at S\$400 million to S\$500 million. [The late National Development Minister "...called on Singaporeans to forget about the good old days of cheap housing and be prepared to spend more of their incomes on housing..." because of the rise in development costs (Straits Times, Jun. 16, 1981), although he conceded that the 1981 increase of 38 percent was too steep.] But it is not unreasonable to deduce that there are other justifications for such astronomical increases. The price increases introduced by the HDB could be explained as a direct economic policy to control the inevitable inflationary trends expected as a result of large wage increases. With the significant wage increases between 1979 and 1981, the inflation rate jumped to an unusually high level of 8.5 percent in 1980 and 8.2 percent in 1981. In 1982, the inflation rate fell significantly to 3.9 percent. In 1983, it further stabilized at a low 1.2 percent. While it is not entirely clear that these results were directly related to the HDB's price-increase policies, with such a huge and active market for public housing, it is very likely that the price increases of HDB flats kept inflation under control.

It was clearer that a large proportion of lower- and middle-income population affected adversely by the price increases was very unhappy. The HDB was accused in Parliament of "...bringing frustrations, disappointment, and anxiety to many Singaporeans..." (Straits Times, Jun. 16, 1981). Since the small private sector had been limited to catering to the higher-income groups, those waiting for their HDB flats really had no alternative but to pay the increased rates for their flats. The problem was that not all of these potential flat buyers -- and particularly not all of the small-time self-employed populace -- received the corresponding wage increases recommended by the National Wages Council. Increases in wages of the lower-level jobs were also relatively smaller compared to the price increases. On the other hand, some HDB flat owners took advantage of the price increases and sold their flats at higher profit margins. For example, in 1981 at the height of the property speculation, it was common for flat-owners to rake in as much as \$100,000 on a flat (Straits Times, Aug. 5, 1981). Some of these sellers were receiving large wage increases at the same time.

Despite the hefty increases in the prices, there was a flood tide of applicants for HDB flats because the applicants were afraid that the HDB might increase flat prices again. (Straits Times, Apr. 3, 1981) In 1979, the number of applicants for HDB flats reached almost 30,000 compared to an average of less than 20,000 per year over the previous five years. Applications further increased to over 35,000 in 1980 and about 38,000 in 1981. The sudden increase in demand for flats in 1981 was "a panic reaction" (Straits Times, Jun. 8, 1981) after the Minister for Communications and Labor, Ong Teng Cheong made a public statement that a three-room flat, priced at S\$21,000 might cost S\$80,000 four years later, in view of the rapidly rising labor and construction costs.

Another significant impact of the price increases was the effective reduction in the rejection rates. Fewer applicants were turning down the flats offered to them. In a short period of six months, between June and December 1981, the rejection rate dropped by 24 percent. In 1978 and 1979, the rejection rates were 55.1 percent and 53.6 percent, respectively (Straits Times, Jan. 6, 1982). These rejection rates could serve to indicate a few important points: first, that there really was no urgent demand for HDB flats; second, that for some reason or another, the applicants were highly dissatisfied with the flats allocated to them; and finally, that some of the applicants may have rejected the flats because they were not willing or able to pay for the flats they would have liked to own at the time of allocation.

The impacts of the price-increase policies during the peak of the commercialization of the HDB flats are complex and had variable consequences affecting a cross-section of the entire populace. These impacts interacted intricately with other social, economic, and political factors and eventually contributed to recent, significant economic and political changes. The People's Action Party received a jolt at the end of 1981 when an opposition candidate, J. B. Jeyaratnam of the Worker's Party, defeated the People's Action Party nominee at the Anson by-election. In the general elections of 1984, the People's Action Party lost three seats in Parliament to opposition parties. The People's Action Party government recognized these as protest votes from the people.

In 1985, for the first time in its dynamic economic history, Singapore was hit hard by a serious recession. Singapore was losing its competitiveness to other newly industrializing and developing countries such as Hong Kong, Taiwan, and South Korea. Both the multinational companies and the local companies were affected by the high operating costs created by the large wage increases and high costs of housing in Singapore. Real gross domestic product/gross national product plunged between -3 percent and -5 percent in 1985/86. Besides other internal and external global factors, one of the main causes of the recession was linked to the excessive investment of resources in the construction industry.

In 1984, S\$11 billion, or 63 percent of total domestic capital formation in Singapore, was in construction, particularly in residential and commercial buildings. There was an overcommitment of resources by both the private and public sectors during the building boom in the early 1980s to building empty industrial, commercial, and residential blocks

The committee also recognized that the social life of a new town had to be built up slowly and that, for some time, it would lack the cohesion of a long-established community. Institutions would have to be created to help build the sense of stability and security, and hence the sense of belonging and responsibility, for the new town dwellers. The committee recommended that a community center be established in Queenstown near the town center, as part of a larger program of building community centers by the Department of Social Welfare. The community center should have a playing field of four acres and should provide for a wide range of activities, including lectures, meetings, indoor games, movies, youth club activities, adult education classes, and child welfare. Smaller centers were to be organized and established in other neighborhood centers. The joint use of school and community premises was encouraged.

It was also recognized that religious organizations could play an important role in forming the moral and ethical standards of a community. Thus, it was recommended that sites be reserved for places of worship for diverse religious organizations. The committee recommended that a social study be conducted jointly by the Social Welfare Department, the University of Malaya, and the Singapore Improvement Trust to get important feedback on the social implications of resettlement. This was to provide further ideas on the appropriate type of accommodation and communal facilities to be constructed.

The provision of sewerage, water, electricity, gas, telephone services, etc., was to be coordinated with the Public Works Department and relevant departments. The committee also emphasized the importance of the coordinating and controlling the overall architecture and urban design of the town. Finally, the committee recommended that the town plan should be reviewed from time to time to accommodate and reflect changes in needs, requirements, standards, and techniques.

By 1985, the HDB had ten new towns completed or near completion; six were under construction and several others were being planned. Although detailed standards have changed occasionally, it is important to note that these new towns basically followed every recommendation and principle set out by the Singapore Improvement Trust, including the recommendation to construct flats for sale and to integrate a mix of different socioeconomic groups in the new towns.

Today, each new town, with its centrally located town center and hierarchical network of neighborhood and precinct centers, provides cradle-to-grave services for about 125,000 to 250,000 people housed in 25,000 to 50,000 dwelling units. With a gross new town density of about 64 dwelling units per hectare and a high net residential density of 200 dwelling units per hectare, most flats are stacked in slab blocks of nine to 13 stories. The HDB has decided that, in order to house every citizen decently (that is, to meet the criteria both of high standards of living conditions and affordability of space at the same time), it was necessary to build high-rise and high-density apartment blocks. Among these slab blocks, some four-story slab and 20- to 25-story point blocks are inserted to serve as landmarks and to break the scale and monotony of the regular slab blocks. All these blocks are grouped around neighborhood service centers to form neighborhoods of 4,000 to 6,000 dwelling units. Each

neighborhood is further divided into smaller groups of precincts, each containing 500 to 1000 dwelling units.

This hierarchical physical arrangement (Figure 5) of dwellings and facilities means that public services, activity centers, and employment are all easily accessible to residents within each new town at the precinct, neighborhood, and town levels. (Table 13 shows the extent of services and facilities in HDB new towns and housing estates.) This concept for planning new towns is similar in principle to the Central Place theories. Consumer items and services required daily are available within short walking distances at the kiosks in the ground-floor elevator lobbies, precinct shops, or neighborhood market centers. Primary and secondary schools are also within walking distance in each neighborhood. Large supermarkets, department stores, restaurants, movie theaters, multiservice clinics, libraries, junior colleges, the town garden, and other major recreational facilities are located in the hub of the new towns. Practically all these facilities are designed by and built under the supervision of the HDB architects and engineers. Schools are built by the Public Works Department, while churches, temples, and some community centers are designed and constructed by the private sector.

In the preparation of the master plans for the new towns and housing estates, roads, sewers, drains, and other service lines are mapped out in consultation with the other public authorities such as the Public Works Department, Ministry of Environment, Public Utilities Board, and Telecommunications Authority of Singapore. Early consultation allows for the development of a well-coordinated network of infrastructure and ensures the timely construction and completion of the required services. All public-housing residents enjoy direct supplies of electricity, gas, and water in their homes. A central antennae for televisions in each block of flats provide all homes with good television reception.

Major service lines are constructed before building construction commences, while the construction of internal roads and parking areas and the installation of electrical and mechanical services are usually scheduled for completion near the end of construction contracts. As soon as residents start moving into their flats and neighborhoods, other supporting, road-related facilities such as pedestrian bridges and bus shelters are constructed.

The hierarchical network of roads and road-related facilities and a rationalized bus system provide easy mobility for private-car owners as well as public-transport commuters. Expressways run from new town to new town and to the central city and other parts of the island. These expressways are built by the Public Works Department. The HDB only builds the roads and parking areas within its new towns and housing estates. Open parking areas are provided between blocks of flats for residents' and visitors' cars at stipulated charges. As car ownership and the population of cars increase in Singapore (and, therefore, also increase in HDB estates) multistory garages are added to supplement the existing open parking areas in the estates. In each new town, a private shuttle bus service operates to bring residents from one precinct or neighborhood to another. It also ties various parts of the town to the central bus terminal in the town center, where connecting buses to the city and other

FIGURE 5 a
Model of a New Town

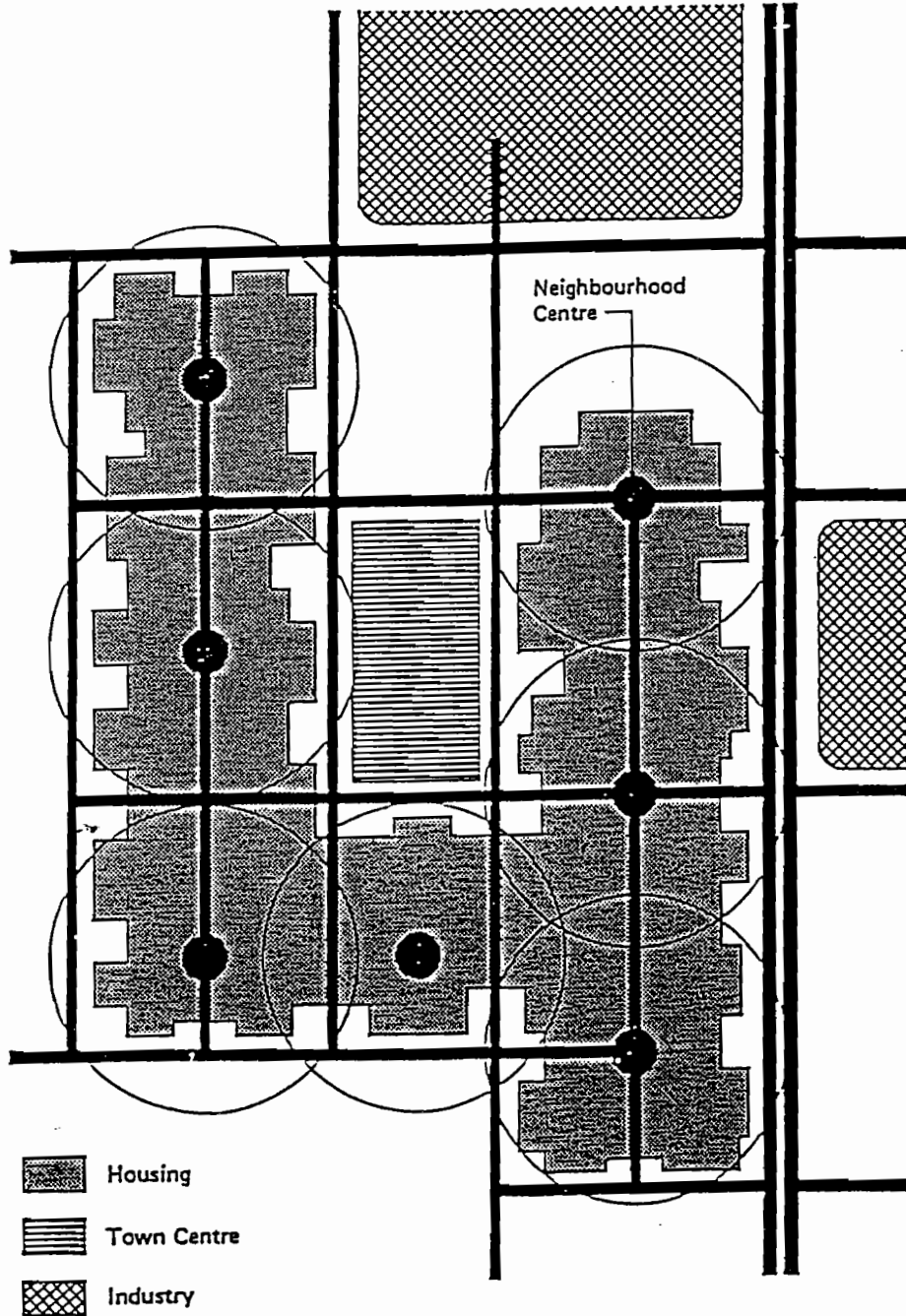
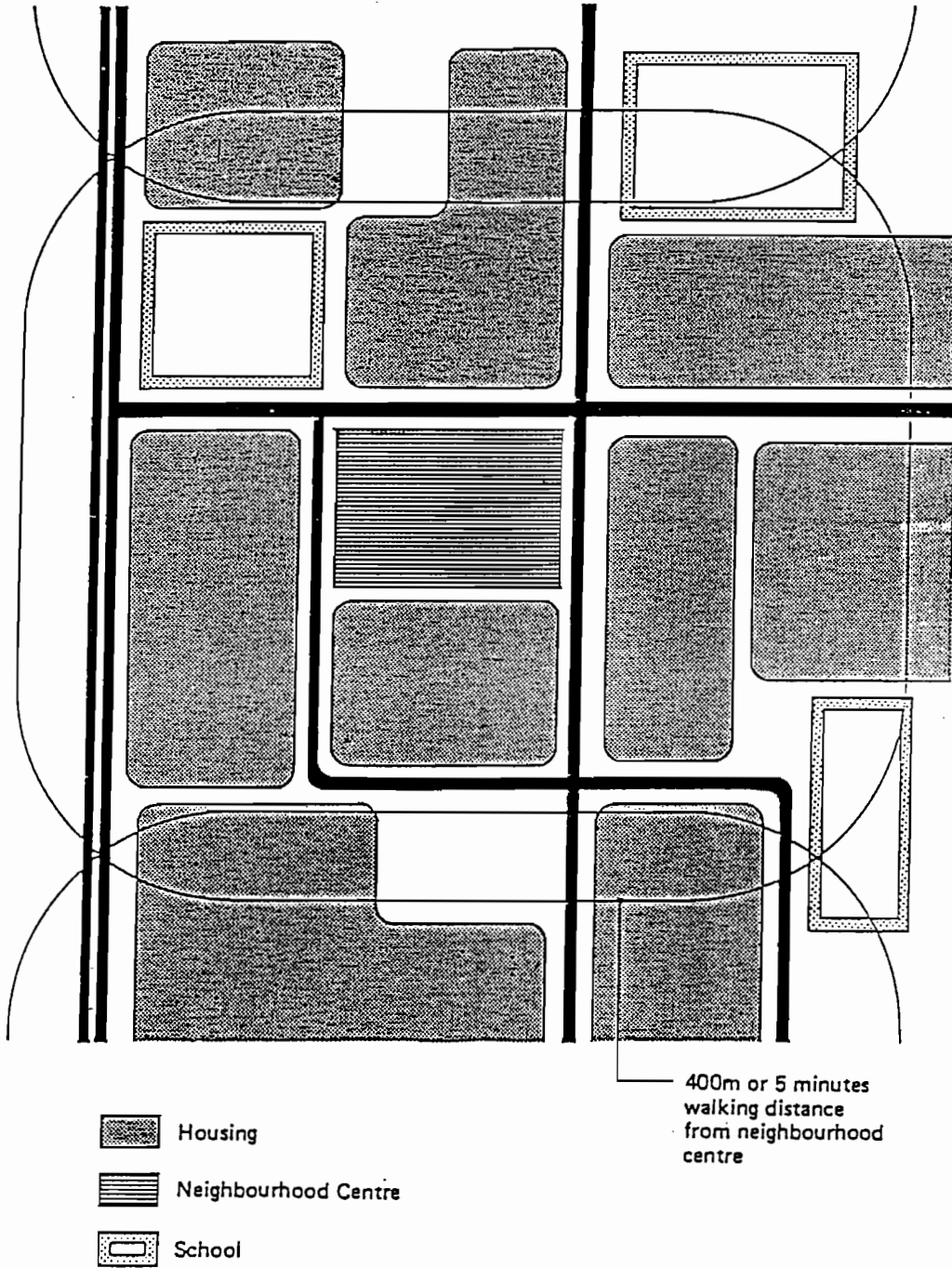


FIGURE 5b

Model of a Neighbourhood



the earlier phases, HUDC flats were developed on prime sites separate from HDB new towns or housing estates.

While these design and planning standards were clearly intended by the HDB planners to attract the middle- and upper-middle-income groups into the HDB housing market, they were not part of any deliberate national policy. As lamented by the Prime Minister Lee Kuan Yew, "We've made serious mistakes, not intentionally, but nevertheless mistakes that we will avoid in future," (Straits Times, Feb. 9, 1981). The HDB quickly responded that future building programs would pay more attention to social integration. The reduction of the number of income ceiling categories in the eligibility rules in 1981 and again in 1985 should correct and reduce the tendency towards the segregated socioeconomic pattern in public-housing estates. In 1985, all households qualifying for the purchase of HDB flats could choose either a three-, four-, five-room, or Executive flat. HUDC flats, however, remained an exclusive class within the public-housing system.

At a lower level, however, the HDB hopes to encourage neighborliness and integration within blocks by creating common areas and spaces and linking them horizontally by corridors. These "courtyards in the sky" are linked vertically by staircases and also by elevators for buildings above four to six stories. This concept of encouraging interaction through physical design has always been in conflict with the desire to provide greater privacy for residents. As a result, a variety of designs has been developed over the years in search of an optimum solution. In support of a national attempt to encourage civic consciousness and social integration in recent years, the HDB provides lounge areas on the ground floor of selected blocks for the meeting and the activities of the Residents' Committees. Besides the stairways, vertical movement in the high-rise blocks are facilitated by elevators. Elevators serve HUDC residents on every floor. Those serving Executive flats are accessible on alternate floors, while the standard for the other flats is to provide an elevator-landing lobby for every three to four floors. This is characteristic of housing as a commodity. Those who are able and willing to pay get better housing services than those who can afford less!

Mechanisms of the Public-HDB Program

The Singapore public housing model is built upon some basic policies and planning principles that laid the foundations for its implementation over the past decades. Some of the most important cornerstones of the program were, in fact, laid by the Singapore Improvement Trust, whose contributions to the public housing program tend to be forgotten in comparison with the HDB. This section of the paper will examine the basic mechanisms used by the HDB and the Singapore government that created a unique public housing system in Singapore. An analysis of these mechanisms by which the system operates might shed some light on the success and shortcomings of the program.

Initially, public housing was built for the rental market only. But as soon as the initial acute housing crisis eased, home ownership was encouraged over rental housing. The public housing program in Singapore,

and the home ownership scheme in particular, has been given such top political priority and commitment that direct government subsidies and legislative support have been given to the HDB whenever they were requested or required.

With political backing, the HDB has, to a great extent, been able to influence the demand of public housing through the support of policies such as those related to pricing, financing, income brackets, and other eligibility rules. These mechanisms have enabled the HDB to control its supply through the efficient organization of available resources for mass production. The empowerment of the development corporation to use eminent domain to acquire land across the country at below-market rates, for example, has assured the HDB that an adequate supply of large tracts of land is made available quickly and cheaply for its development programs. The government's support to allow the use of the Central Provident Fund for the purchase of public housing, as another example, has provided the massive capital financing required for the development of such a comprehensive public housing program.

The process of public housing production, from the initial planning of a new town or estate to the completion of the first few blocks and units in this new town or estate, takes a total of about six years. Unless demand at the end of the six years meets the supply, the tremendous amounts of time and money spent by the development corporation would be a great waste. Thus, long-term comprehensive planning is simply not conceivable nor feasible without the state's intervention and innovation of instruments and public policies to create a relatively stable public housing market.

Let us now examine in greater detail some of the mechanisms largely responsible for the success and achievements of the public housing program in Singapore: the land policy, the housing finance system, and the HDB technocracy.

Land Policy -- The Development of Land Acquisition Policies

The most important factor that facilitated the creation of the massive and comprehensive public housing program in Singapore was the effective implementation and enforcement of the compulsory land acquisition policies, based on eminent domain. This stringent land policy of compulsory land acquisition has limited land speculation during a period of tremendous economic growth, kept public development costs low, and made possible comprehensive developments of sizable and more efficient satellite towns and housing estates. It has also contributed to the creation of a "captive" demand market. (Since public housing has been offered as a resettlement benefit, and since private housing has not been easily available or affordable to most people in need of alternative housing, especially in the earlier days, these people are encouraged to "demand" public housing.) Between 1961 and 1985, the HDB managed to clear almost 230,000 resettlement cases, with compensations amounting to almost S\$1,200 million (Table 7). This provides an idea of the extent of the "captive" nature of the demand market.

The land acquisition policy has served to redistribute wealth and resources in Singapore. Acquisitions made at the expense of private land owners have enabled the government to assemble land for the development of the massive public housing program, providing the opportunity for homeownership to almost the entire citizenry. Besides, "unless government assists in acquisition, clearance, resubdivision of land and planning, the private sector on its own will have great difficulty in obtaining choice sites for proper development, thereby giving indirect rise to urban sprawl." (Head, Urban and Renewal Department, HDB, in Straits Times, Apr. 18, 1967.)

The Land Acquisition Ordinance was first passed in 1920 to empower the British Governor of Singapore to acquire private land for public purposes. It was amended in 1946 and again in 1955 to give the government greater power to negotiate more comprehensive land acquisitions. These amendments helped to stabilize land prices and made possible the improvement of roads and the development of public housing and other public improvement projects.

In 1961, another amendment introduced a "fire-site provision" after the Bukit Ho Swee fire of May 21, 1961, where 16,000 people were made homeless. This amendment provided for land devastated by fire or any act of God to be acquired at not more than one-third the vacant site value unless otherwise specified by the Minister. This provision was based on the fact that it was impossible to know how many squatter huts there were before the disaster. It was also reasoned that the landlords should not profit or benefit from the appreciated value of their lands, which became free from encumbrances, while the government had to bear the expenses and responsibility of rehousing the families affected by the disasters.

In 1964, the amendment of the Foreshores Act enabled projects of land reclamation to be carried out without large compensations. This amendment excluded compensation for damages to owners who lost their sea frontage due to reclamation. About one-third of all reclamation projects in Singapore were undertaken by the HDB on behalf of the government. By 1985, total land reclaimed by the HDB, including the seven phases under the East Coast Reclamation Scheme, amounted to 1,800 hectares, or 3 percent of the total territorial size of Singapore in 1960. At the same time, land was still being reclaimed at Punggol and the North Eastern Coast, which would add 276 and 685 hectares of land for the development of new towns and seaside recreational facilities.

The provision in the Constitution of Malaysia prohibiting government from acquiring private property without offering owners adequate compensation was deliberately excluded from the Constitution of the Republic of Singapore when Singapore became fully independent in 1965. This paved the way for the Land Acquisition Act of 1966, which repealed the old Ordinance of 1920. This Act has empowered many public authorities to acquire land compulsorily and independently, in accordance with the provisions of the Act. It has empowered the HDB to acquire and make available suitable land as required for its building, urban renewal, and related programs at very low cost. It has authorized the HDB to acquire compulsorily any private land for its development programs, for the purpose of controlling speculation in the property market, and for resale

as urban renewal sites. (Under the sales of sites in 1967, 1968, and 1969, a total of 50 urban renewal sites totalling 29.8 hectares were sold, generating a record investment of S\$500 million.)

When a piece of land is declared under acquisition, a collector will issue notices to the landowners concerned and offer them compensations based on the market value at the date of public notification. Land owners who are dissatisfied with the compensation awards can appeal to the Appeals Board within 14 days of the date of receipt of the award, after depositing one-third of the amount of the award or S\$5,000, whichever is less, with the Accountant-General. The decision of the Land Acquisition Appeals Board is final. Further appeals can be made to the Appellate Court (where procedures are similar to the civil court), provided they are related to the question of law or the award determined by the Appeals Board exceeds S\$5,000.

An amendment to the Act in 1973 states that compensations for acquired land shall be based on the market value of the land as at November 30, 1973, or the date of public notification, whichever is lower. Market value is determined on the basis of existing land use or zoning, whichever is lower. Potential values are not considered. To enable owners to obtain alternative private housing in the skyrocketing property market, owner-occupiers of residential property advertised for acquisition on or after January 1, 1981, shall be paid up to market value as of the date of public notification or S\$600,000, whichever is less.

Although the Land Acquisition Act provides for compensation at "market value," it also states that "when the value of land has been increased by reason of development in the neighborhood by the provision of roads, drains, electricity, water, gas or sewerage, or social, educational facilities by any public or statutory authority at its expense within seven years from the date of declaration of acquisition, the amount of such increase shall not be taken into account" in assessing the compensation award when the land is subsequently acquired. In cases where the owners have declared a value for official purposes, for example, through the payment of tax or duty, within two years preceding its acquisition, the value declared and accepted shall be the market value of the land for compensation awards. In general, prices paid by the HDB for acquired lands are usually much lower than market prices. According to a random analysis of appeals reported in the press, awards made for private land compulsorily acquired in 1979 and 1980 by the government were less than 20 percent of the values claimed by the owners and assessed by chartered land valuers (Motha 1981). "The People's Action Party government has in its early days broken the law to break the back of the housing problem" (Straits Times, Mar. 2, 1985). As Prime Minister Lee Kuan Yew himself said in Parliament on March 21, 1985:

When we were confronted with an enormous problem of bad housing, no development, overcrowding, we decided that unless drastic measures were taken to break the law, break the rules, we would never solve it. We, therefore, took overriding powers to acquire land at low cost, which was in breach of one of the fundamentals of British constitutional law -- the sanctity of property. But that

had to be overcome because the sanctity of the society seeking to preserve itself was greater. So we acquired at sub-economic rates. When fires took place, to get rid of squatters, to stop fires and prevent owners from profiting from accidental fires, we passed a special provision -- which I did personally in this House in 1961 after the Bukit Ho Swee fire -- so we could acquire the land as if it had been squattered and so the state would pay for the land that was unencumbered as if it were encumbered.

Such land policies were seen by the People's Action Party leaders as a powerful redistributive mechanism, aimed at minimizing differentials in the distribution of limited resources and achieving a fair standard of living for the entire population. The Prime Minister described his land acquisition law as part of a "Robin Hood adventure" to facilitate the redistribution of land with the primary aim of creating a 100 percent home-owning population.

Between 1959 and 1984, the People's Action Party government acquired a total of 43,713 acres (17,690 ha) of land, which equals almost one-third of the total area of Singapore. Of the 43,713 acres, 20,502 acres were allocated for housing, the single biggest user of land in Singapore. As of March 1984, the HDB had a land bank of 4,940 hectares, equivalent to the total areas of Queenstown, Ang Mo Kio, Bedok, Bishan, Bukit Batok, Clementi, Jurong East, Jurong West, and Serangoon (new towns) combined (Straits Times, Oct. 18, 1986). This land bank was turned over to the government in 1985 with the adoption of the new HDB accounting system.

Complaints became more and more frequent from 1980 onwards about the wide gap between market prices and the 1973-based rates of compensation for land acquired by the government. With 70 percent of Singaporeans owning homes and with sufficient land acquired in reserve for the remaining 30 percent, the Prime Minister disclosed in October 1986 that Singapore would begin to move away from the existing land acquisition law, so that future compensations for land acquired by the government would be based on market rates (Straits Times, Oct. 17, 1986). He also stated that little or no land would be acquired for transportation uses, as all major expressways had already been built or were being constructed, and enough land had been reserved for the Mass Rapid Transit stations and tracks. Singapore's physical infrastructure was by that time more or less complete, including schools, hospitals, defence installations, tourist attractions, and public parks. The Land Acquisition Act has proven to be the most powerful instrument in the transformation of Singapore into a master-planned garden city.

Housing Finance and The Central Provident Fund Financing Scheme

Next in importance to the stringent land policy was the use of the Central Provident Fund savings for the purchase of public housing⁹. Under the Central Provident Fund housing financing scheme begun in September 1968, members were allowed to withdraw up to 80 percent of their

total Central Provident Fund savings to buy their homes. The rate of contribution to the Central Provident Fund as a proportion of the gross salary of each employee was increased from 10 percent in 1955 to 50 percent in 1984. The ceiling imposed on the total maximum contribution per month was also raised periodically, from S\$300 in 1971 to S\$2,500 in 1984. For the past two decades, these huge sums of savings have been contributing a very substantial amount of capital to finance development and, at the same time, enable home buyers to meet their mortgage payments (see Table 10 for the amounts of Central Provident Fund withdrawals for public housing) by means of forced savings and investment security.

Almost the entire reserve of Central Provident Fund savings has been invested in government securities. A large proportion has been invested overseas by the state to build up its foreign exchange reserves. The rest of the money has been used to finance public-development projects. Thus, for the past two decades, huge sums of forced savings have provided substantial funds to enable home buyers to meet their initial and mortgage payments (with little chance of default) on one hand, and to finance the enormous capital expenditure of public developments, particularly public housing developments, on the other.

As a statutory board under the responsibility of the Minister for National Development, the HDB is financially autonomous. The Housing and Development Act, Chapter 271, provides that the HDB succeeds to all property, rights, interests, liabilities, and obligations of the Singapore Improvement Trust. The HDB submits its budget annually to the Minister for approval. It may also, at any time, prepare a supplemental budget to provide for unforeseen or urgently required expenditure, for the Minister's approval.

The government provides two types of loans to the HDB for its capital expenditure on construction. The 60-year loan at 7.75 percent interest provides for the construction of rental housing, and the 10-year loan at 6 percent interest finances the construction of flats for sale. Since the public housing program is part of the general management of the Singapore economy, government loans for the capital expenditure of the HDB are, under normal circumstances, limited by the development estimates in the state budget. Between 1975 and 1985, the HDB's budgeted expenditure amounted to between 30 and 43 percent of the government's development estimates. The funding is financed mainly through internal savings within the Republic.

In addition to government loans, the HDB receives an annual housing subsidy from the government to make up for deficits in its revenue accounts. Since 1960, the HDB has been receiving subsidies ranging from S\$2 million to S\$120 million a year from the government (Table 16). The HDB has claimed that subsidies are intended to benefit, progressively, the lower-income groups, so that smaller flats are subsidized more than larger flats. It was reported in the Straits Times, May 30, 1980, that the HDB was subsidizing each three-room flat by 44 percent (S\$14,600), each four-room unit by 33 percent, and each five-room unit by 27 percent. Later, in May 1981, the Minister for National Development announced that the average subsidy per flat was S\$30,000. (The HDB had arrived at this figure by computing land costs at half the market price.) In fact, the

Due to the constant pressure in Parliament, particularly of late from MPs of the opposition parties, the HDB finally introduced a new accounting system in 1985 to account for the future costing of flats and land. Under this new accounting system, the HDB has returned all its undeveloped land to the government and continues to acquire land compulsorily on behalf of the government and then alienate all lands required for development from the government "at current market value for similar private residential land" (Straits Times, Mar. 21, 1985). According to the late Minister, this system "will fully reflect the true economic cost of flats" (Straits Times, Mar. 8, 1986). But, unless this "market value" is consistent with the market value at which land is acquired, the cost of land that will be reflected in the new accounting system will not reflect the actual cost of development.

Home Ownership

Related to the Central Provident Fund housing finance scheme is the Home Ownership Scheme introduced in 1964. The late Minister Teh Cheang Wan repeatedly stressed that "the cornerstone of the government's public housing policy is home ownership" (Straits Times, Mar. 16, 1984). The Home Ownership Scheme was introduced to help the People's Action Party government achieve its goal of "a 100 percent property-owning democracy." This goal has continued to be part of "the Government's Vision for 1999" (Straits Times, Jan. 5, 1986) -- that is, by the end of the century.

It is appropriate, at this point, to explain more specifically a limitation pertaining to home ownership of public housing in Singapore. A striking feature of the existing land tenure in Singapore is the prevalence of the leasehold as a method of land-holding. The State Lands Rules, 1968, provides that, in exercising its powers of land alienation under the State Land Act, the title to be issued shall ordinarily be a lease for a term not exceeding 99 years. With the considerable acquisition of land by the state, it means that a large proportion of the land in Singapore is held on relatively short leases, with the government as the immediate landlord.

This method of leasehold may have significant implications for the concept of home ownership in public housing and also some private housing developments under similar leasehold conditions. Owners of HDB flats are in fact tenants entitled to the legal and exclusive possession (subject to a long list of rules and regulations stipulated by the HDB) of their flats for a specific period of 99 years only. While land values are likely to appreciate in the long run, the values of building structures will probably depreciate. Thus, it seems that the values of HDB flats are more likely to fall in the long run, particularly with the ambition of the HDB to continue its supply of better-designed flats in the future, of up to and over 30,000 units a year. According to the Minister of State (Trade and Industry), Dr. Wong Kwei Cheong, the value of these homes will also depend on how stable the country is. He believes that home owners (and not renting tenants) "have an interest to ensure that the value of their properties does not collapse" (Straits Times, Aug. 22, 1985).

When the home ownership scheme was first introduced, HDB flats were sold, on a 99-year leasehold, to eligible applicants with a household of at least five members, an individual monthly income not exceeding S\$800, and a monthly combined family income not exceeding S\$1,000. A 20 percent downpayment was required, and the balance was repayable over a 15-year period through a mortgage loan from the HDB at a fixed interest rate of 6.25 percent. Some of these terms and conditions have been changed on several occasions in order to remain consistent with the social goals of the government, to encourage more people to buy homes, to help home owners affected by economic downturns meet their mortgage payments, etc. (see section on development of the public housing program).

Pricing

Also related to the HDB financing system is the pricing of HDB flats. However, the way prices and rentals of these flats are fixed is just as unclear as the way the HDB accounts are kept. It is not explicit what criteria and measures are used in the pricing of HDB flats. But it does seem as though the HDB sets the rentals and prices of its flats according to the ability of the tenants and potential buyers to pay.

The HDB claims that HDB rental flats are heavily subsidized to ensure that public housing is kept within the means of low-income earners. The monthly rental, including service and conservancy charges, for a one-room flat was about S\$30 in 1966 (Table 17). Sixteen years later, the rent was increased by only about 30 percent, to S\$40. During this period, rentals for private apartments have increased between five and ten times (Straits Times, Jan. 15, 1983), although public rental housing cannot really be compared to private rental housing because of the vast differences in the quality of the structures, living spaces, and surrounding environment.

According to the late Minister Teh Cheang Wan, "the policy of the government is to fix the selling price of flats within the means of most applicants" (Straits Times, Sep. 23, 1982). HDB flat prices remained the same for the first ten years of the home ownership program. The first price increase for HDB sale flats was in 1974, when almost 40 percent of the public housing stock was already owner-occupied. Price increases were proportional to the size of the flats. Subsequent increases were consecutive, at 15 percent in 1979, 20 percent in 1980, and a high average of 38 percent in 1981. When pressed to justify the price increases in 1981, the late Minister was reported to say that 87.5 percent of the applicants for three-room, new-generation flats could afford the increased prices. An HDB study showed that more than 75 percent of the applicants could afford to buy HDB flats at the 38 percent increase in prices, since they had enough savings in their Central Provident Fund to pay for their flats over a 20-year period (Straits Times, May 25, 1981). A year later, the Minister reiterated that more than 90 percent of the 102,550 people waiting to buy HDB flats had enough savings in their Central Provident Fund to meet the higher prices. Following a series of public queries on the reasons and justifications for such rapid and significant increases in what is claimed to be heavily subsidized low-cost housing, price increases in the years after were relatively moderate, at 5 percent in 1982 and another 5 percent in 1983, and 2.5 percent in 1984. In July 1985, with

the traumatic experience of the republic's first economic crisis and the oversupply of residential, commercial, and industrial buildings, a temporary price freeze was imposed.

Generally, HDB flat prices vary not only according to prototypes, but also floor areas within each prototype, and zonal differentials that generally refer to the distance from the central city (Tables 17, 18, and 19). The 1984 average selling prices of three- and four-room flats in new towns were S\$36.80 per square feet and S\$45.20 per square feet, respectively. Corresponding prices were S\$40.80 and S\$49.60 per square feet for outer suburban zones. A cheap private flat, by comparison, would have sold at not less than \$140 per square feet at that time (Teh, Straits Times, Dec. 21, 1984).

HUDC flat prices are not uniform, since they vary in design, size, and location. In 1984, for example, HUDC flats in Bedok New Town were priced between S\$199,300 to S\$242,100. In Hougang, prices ranged from S\$189,400 to S\$247,000, and in Jurong, between S\$180,300 and S\$229,100. In more exclusive locations such as Pine Grove and Gillman Heights, prices were much higher, ranging from \$205,700 for a 113 sq.m, two-bedroom apartment to S\$347,000 for a 161 sq.m maisonette (Straits Times, Jul. 7, 1984). On the average, not including expenses on renovations, 37 percent of gross family monthly income is spent on buying and maintaining a home (Straits Times, Nov. 15, 1985).

Eligibility and Allocation System

To have a more complete understanding of the financing and home-ownership schemes, it is important to discuss the flat-allocation system and eligibility rules of the HDB. Under the Singapore Improvement Trust, the allocation of public housing was based on a point system. Priority was given to those with the highest points, and points were awarded to applicants depending on the "degree of housing need" (Yeh and Wong, p. 247). But since the awarding of points depended on the appraisals of the inspectors, the system was labor-intensive and time-consuming. Since inspectors had to rely on their own judgment and on whatever information the applicants disclosed, decisions might be arbitrary and subjective. On the other hand, it was felt that the real urgency of housing needs might be differentiated through a more humanized and personalized service. The HDB introduced the first-come, first-served principle, which has been in use to date. Priority in allocation is based simply on the sequential registration numbers given to the applicants, at the time of registration.

The HDB started with a single register. Separate registers for specific locations were later introduced in 1962, but with the same centralized registration numbers, to facilitate the choice of desired locations by the applicants. In 1964, with the introduction of the Home Ownership Scheme, separate individual registers with another set of centralized registration numbers were set up for the sale flats. But as public housing became more popular and the HDB's building programs expanded across the island, up to 90 individual sales registers had to be maintained! Consequently, in 1974, the registration system was

TABLE 17 -- MONTHLY RENTS OF HDB FLATS IN 1975 (S\$)

<u>Flat Type</u>	<u>Suburban</u>		<u>Urban</u>	
	<u>Basic Rent</u>	<u>Service & Conser. Charges</u>	<u>Basic Rent</u>	<u>Service & Conser. Charges</u>
1-Rm Emergency	15.00	5.00	-	-
1-Rm Standard	20.00	6.00	-	-
1-Rm Improved	23.50	6.50	30.00	6.50
2-Rm Standard	40.00	6.50	60.00	6.50
2-Rm Improved	-	-	60.00	6.50
3-Rm Standard	60.00	6.50	90.00	6.50
3-Rm Improved	75.00	6.50	90.00	6.50
3-Rm Corner	85.00	6.50	-	-
4-Rm Standard	80.00	6.50	-	-
4-Rm Improved	-	-	120.00	6.50

Source: public housing in Singapore, 1975, p. 194.

Note: Average weekly wages for all industries in 1975 was S\$111.10
(Economic and Social Statistics, Singapore, 1960-1982, p. 39).

TABLE 18 -- SELLING PRICES OF HDB FLATS IN 1975 (S\$)

<u>Flat Type</u>	<u>Estate</u>	<u>Price</u>	<u>Initial Payment</u>	<u>Monthly Service & Conservancy Charges</u>
3-Rm Standard	New Town	10,200	2,000	20.00
	Suburban	11,800	2,400	20.00
	Urban	16,500	3,300	20.00
3-Rm Improved (Corridor)	New Town	11,800	2,400	20.00
	Suburban	13,500	2,700	20.00
	Urban	17,500	3,500	20.00
3-Rm Improved (Corner)	New Town	12,800	3,400	20.00
	Suburban	15,000	3,700	20.00
	Urban	18,500	4,500	20.00
4-Rm Improved	New Town	18,500	3,700	25.00
	Suburban	21,500	4,300	25.00
	Urban	26,000	5,200	25.00
5-Rm Improved (Point Block)	New Town	30,000	6,000	30.00
	Suburban	35,500	7,100	30.00
	Urban	41,000	8,200	30.00

Source: Public Housing in Singapore, 1975, p. 199.

TABLE 19 -- SALE PRICES OF HDB FLATS IN 1985 (S\$)

<u>Price Zones</u>	<u>3-room</u>	<u>4-room</u>	<u>5-room</u>	<u>Executive</u>
New Town	\$ 37,300	\$42,700(S) \$57,300	\$ 82,400	\$103,700
Outer Suburban	\$ 40,800	\$46,900(S) \$63,100	\$ 90,700	\$114,000
Inner Suburban	\$ 45,800	\$52,300(S) \$70,500	\$101,600	\$127,700
Outer Urban	\$ 52,200	\$59,600(S) \$80,500	\$115,700	\$145,600
Inner Urban	\$ 59,500	\$67,700(S) \$91,700	\$132,000	\$166,000

Source: HDB, Housing a Nation, 1985.

Note: (S) refers to "Simplified" flats.

rationalized, whereby the individual locational registers were replaced by zonal registers covering all locations grouped under five main geographical zones.

Until recently, allocation of public flats was by ballot only. Balloting was officiated by the MP of the political constituency in which the flats were located. The MP drew an applicant's registration number from one ballot box and matched it with a house number from another ballot box. If the applicant did not like the flat allocated to him, he could reject it and select from among the flats rejected by others in the same ballot exercise. He could also try to negotiate a mutual exchange with someone else in the same ballot for a flat he liked, or wait for the next ballot exercise. But if he rejected the flats balloted to him for three ballot exercises, he had to reapply for a new registration number.

In 1983 the balloting system was replaced by the selection system, to reduce the number of rejected flats and to expedite allocation. In a selection exercise, applicants who are due for allocation can select flats of their choice from a list of all available flats in their zone, which includes all previously rejected flats from the balloting exercises. Under the selection system, if applicants do not like any of the flats available, they can reselect any number of times. Ballot exercises continue to be held occasionally, at the request of MPs.

While waiting for their flats, applicants may change their minds about their choice of flat types and locations for various reasons, including change in employment, family income, and household size. They can transfer their application for one zone to another or from a larger flat to a smaller one without losing their position in the waiting list. This policy allows an applicant whose job has been relocated, or whose family income or household size has been reduced, to be allocated a flat

without being penalized. Except under special schemes, applicants who wish to transfer their applications for smaller flats to larger ones will be given new registration numbers. This policy deters applicants from applying for smaller flats which require smaller amounts of down payments, and then changing to bigger flats just when they are due for ballot or selection. It also ensures that the production of flat types, based on projected demands of the applicants, will not be affected by last-minute changes in demands.

Almost every Singaporean citizen is eligible in one way or another for public housing in Singapore. This is consistent with the HDB's objective of housing at least 80 percent of the population in public housing (Straits Times, Feb. 23, 1985). Qualifying income brackets have been increased and adjusted over the years to account for inflation and wage increases. As in 1985, families earning a combined monthly income of S\$800 or less can rent one-room or two-room flats from the HDB. For those who wish to own their homes, a monthly family income not exceeding S\$4,000 qualifies them for the purchase of three-room, four-room, five-room, or executive flats. Upper-middle-income families earning between S\$4,001 and S\$6,000 a month are eligible for the purchase of HUDC flats (Table 8). However, regardless of their income, private home owners are not eligible for public housing. Except on "compassionate" grounds, those who give up their private homes are subject to a waiting period of at least a year before they can register for public flats.

The applicant for public housing must be a citizen, while the other occupants may be residents. At the beginning of the public housing program, each application for a HDB flat had to comprise a household of at least five persons. With the encouragement of family planning by the government, the minimum household size eligible for public housing has been reduced to two. Each household unit applying for HDB flats must be a family nucleus. Exceptions to these eligibility conditions are provided for in special cases, such as the Senior Citizen's Scheme and the Orphan's Scheme. Under the Senior Citizen's Scheme, any single female citizen over 40 years old or male citizen over 50 years old is eligible to rent or purchase a HDB flat without having to form a family nucleus, by sharing a flat with another adult Singaporean. Any orphan above age 21 can rent or purchase a HDB flat by finding another unmarried orphan or friend of the same sex to share the flat.

There are three eligibility rules that are different for applicants of the middle-income public housing (HUDC flats), compared with applicants of the lower-income HDB flats. First, professionals or skilled workers who are not citizens but permanent residents are eligible to purchase HUDC flats, upon the approval of the Professional Information and Placement Services of the Ministry of Finance. However, they have to wait two years longer than the citizen applicant; they have to purchase at 10 percent higher than the usual price; and they can only resell their flats to the HDB. This provision offers an opportunity for this group of highly skilled non-citizen residents to own their own homes without having to compete in the limited private market and, at the same time, encourage them to take up citizenship in order to receive the same privileges as Singaporeans. Second, single individuals can apply for HUDC flats, but will be allocated a unit only when they reach the age of 40 or when they form a family

nucleus. (As urbanization and development gather speed, more individuals are less concerned with the traditional values of family formation and find the independent lifestyle an attractive alternative. The HDB, however, claims that the government simply does not have the land to provide public housing for all singles. The private sector has responded to this trend by including small studios and apartments in their development of condominiums, packaged with recreational facilities such as swimming pools and tennis and squash courts.) Third, financing for HUDC flats is serviced by the Post Office Savings Bank instead of the HDB, and at market lending rates, so that the higher-income HUDC flat applicants cannot compete with the lower-income HDB flat applicants for low-interest loans.

Effective Technocracy

Another important mechanism that has facilitated the relatively successful execution of Singapore's public housing program is the effectiveness of the HDB technocracy. The organization of the HDB bureaucracy deserves a separate section of its own, and will be discussed later in greater detail. However, this is not to suggest that the HDB bureaucracy has been much more efficient than the other public organizations in Singapore. In fact, over the years, the HDB had evolved, ironically, from one of the most respected organizations to "one of the most bureaucratic, most inefficient, most difficult to deal with and most profitable organizations" in the country¹⁰. It had amassed so much power and grown so huge that it became insulated from the needs of the population as well as other government agencies.

Yet it cannot be denied that, within the relatively short span of 25 years, the HDB had been able to produce significantly improved standards of living and new housing (albeit the quality of workmanship is not good) for almost the entire population. While continuously adding new stocks, it has also conscientiously ensured that the old housing stocks did not degenerate from poor maintenance and neglect, as is the case in most public housing projects in other parts of the world.

The Singapore government generally maintains a force of highly qualified personnel and professionals in its civil service, including the HDB. Civil servants holding professional and high-level positions are particularly well-rewarded in remunerations and other benefits, compared to their counterparts in the private sector. This is in keeping with the People's Action Party government's earnest efforts to attract the most capable people into the public service, discourage any corruption, and maintain an impeccably clean and efficient administration.

The Prime Minister himself set up the Corrupt Practice Investigation Bureau under the purview of his office, to identify and weed out any corrupt practice that might taint his government. In addition to recruiting the best and rewarding the deserving, the People's Action Party government believes that an uncorrupted and efficient public organization can only be achieved "by being tough" and "getting rid of those who smelt of wrongdoing and dropping those who did not measure up to exacting standards"¹¹. Any corruption in the civil service is, therefore, severely

punished, with no exceptions. The investigation of National Development Minister Teh Cheang Wan's case attests to this, particularly when Teh was a highly trusted and respected colleague and aide of the Prime Minister.

Hence, although the temptations of bribery are commonly known to be particularly widespread in the building and construction industries all over the world, the HDB has been generally well-known for its uncorrupted and effective technocracy. Except for the recent major scandal involving Teh under investigation for two cases of graft (each S\$400,000), corruption cases involving HDB officers have been very few and on a small scale. Teh took his own life because he could not face the consequences of the charges.

The HDB Bureaucracy

We have seen how the public housing program in Singapore has evolved over time. In this chapter, we shall study the operation and development of the institutional organization that grew with the program. The HDB was created as the statutory public housing development corporation on February 1, 1960, empowered with tremendous authority and resources to plan and develop comprehensively, as well as to manage, public housing and its related amenities for most of the population. As of December 31, 1960, the HDB had 363 monthly and 719 daily employees. A decade later, the number of employees had grown to a total of 4,369. By March 31, 1986, the HDB had 9,370 monthly and 5,104 daily employees, providing a staff strength of 14,474 (HDB Annual, 1985/86).

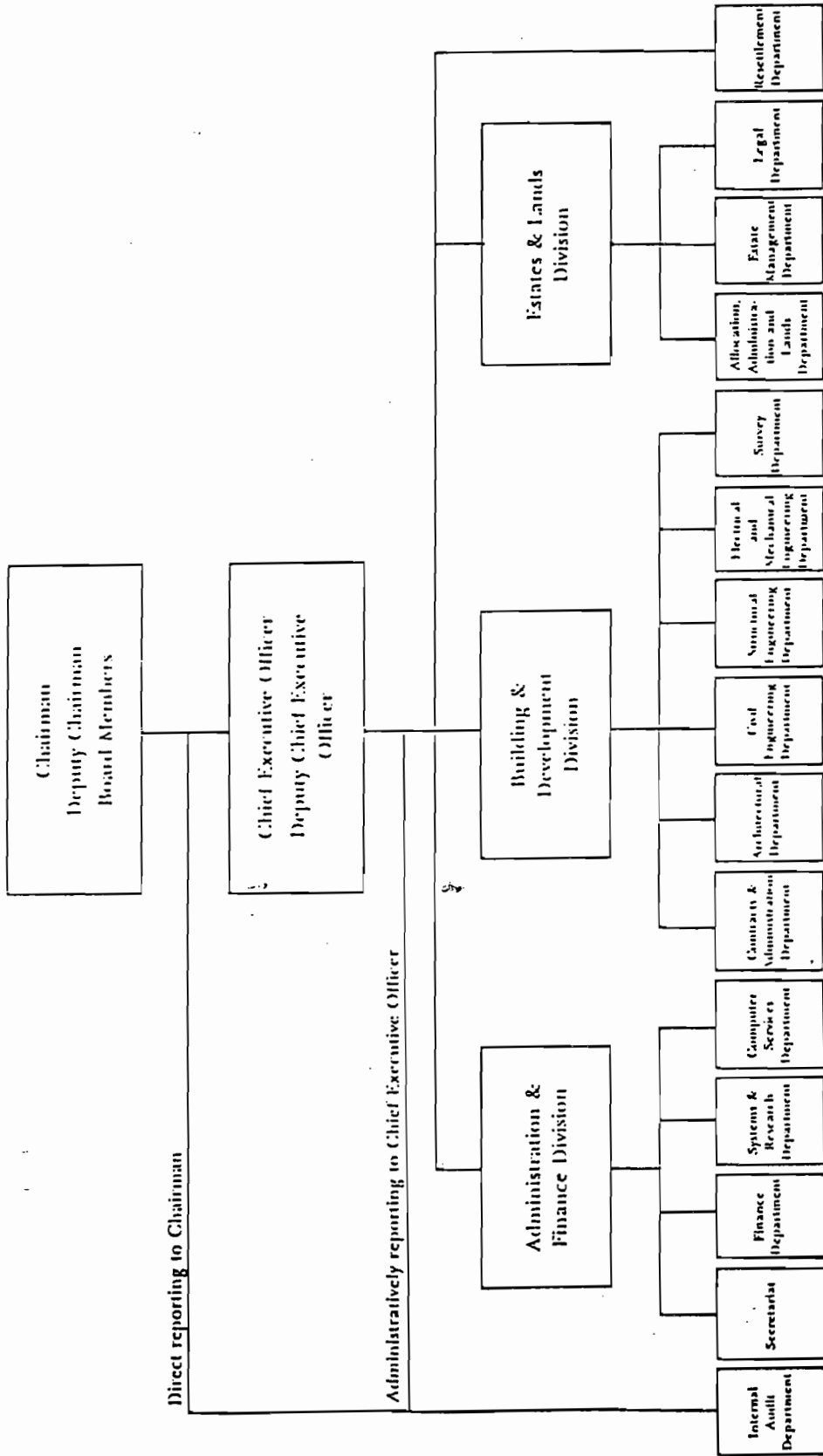
The HDB was initially organized around seven departments -- the Secretariat, and Finance, Statistics and Research, Building, Estates, Urban Renewal, and Resettlement Departments -- under the management of the Chief Executive Officer. The Chief Executive Officer is accountable to the board, comprising the Chairman, Deputy Chairman, and three to five members, all of whom are appointed by the Minister for National Development. In 1973-74 the organization was restructured, and the various departments were regrouped under three functional divisions: Administration and Finance, Building and Development, and Estates and Lands. Since then, new departments have been added to the Divisions, and the sections within each Division have been expanded. As of 1985 there were a total of 15 departments (Figure 6).

The Administration and Finance Division

The Administration and Finance Division contains the Finance Department, the Secretariat, the Statistics and Research Department, and the Computer Services Department. It coordinates and provides administrative and resource management services and support to all the various departments in the organization. Financial policies and the budget are controlled by the Finance Department. Computer Services, a relatively new department, was set up to assist in the automation and computerization of the HDB, and to provide computer services for the operational systems developed in the various departments.

FIGURE 6

ORGANISATION CHART OF HDB



The Systems and Research Department initiates or carries out, on request, social research projects, usually through field surveys or case studies, to collect useful socio-economic information and feedback from the HDB residents. It conducted its first island-wide sample household survey of HDB residents in 1968 and, thereafter, at intervals of four to five years. The Systems and Research officers have also conducted many smaller research projects and studies that have assisted the planners and architects in formulating planning and design standards. The Management Services Section was added to the department to provide management services to all the other various departments.

The Secretariat serves as the official channel of communication between the Chief Executive Officer and the various departments. Departmental problems that require the board's decision are transmitted to the Chief Executive Officer through the Secretariat. Board decisions are then sent to the departments for implementation through the Secretariat. Personnel-related matters such as manpower planning, selection and recruitment, career development and training, and staff welfare are administered by the Secretariat. Junior and subordinate staff members are recruited by a selection board where board members rotate participation. Senior officers and professionals are usually selected by the relevant hiring departments, and sometimes with the assistance of the Public Service Commission.

Various forms of training schemes have been organized for staff training and development, as well as for specific job performances. In the earlier years, traineeship was provided for clerks, estate officers, quantity surveyors, and land surveyors to overcome the shortage of technical and professional personnel. As more trained professionals and technicians were recruited from local and overseas universities and technical institutions, other external training, in-house training, and training attachments were organized regularly for their career development. In 1979, for example, the HDB Scholarship Awards Scheme was introduced for the career development of "calibre staff who show potential for further advancement" (Yeh and Wong, p. 33). Between 1982 and 1986, the HDB spent from S\$500,000 to S\$1 million a year providing local and overseas training for its senior and junior technical and non-technical officers. In the 1982/83, 1983/84, 1984/85, and 1985/86 financial years, the board spent S\$997,000, S\$499,000, S\$661,000, and S\$785,000, respectively, on its staff training programs (HDB Annuals, 1984/85 and 1985/86).

Building and Development Division

The Building and Development Division comprises the Architectural, Civil Engineering, Structural Engineering, Electrical and Mechanical Engineering, Contracts and Administration, and Survey Departments. In this Division, planners, architects, engineers, surveyors, and contract officers from their respective departments work closely together, from the moment plans and designs are initiated in the Architectural Department, to the award of contracts by the Contracts Section and the construction of buildings and services on site.

The Building and Development Division, in effect, forms the core of the HDB. The HDB's business depends mainly on the quality and quantity of residential, commercial, and industrial spaces and other facilities initiated and churned out by this division. The architects are the key officers responsible for the timely completion of master plans, site plans, and building designs. They are also the main coordinators and supervisors of most of the HDB's building and development projects. Hence, the Chief Executive Officer spends a fairly large proportion of his time working closely with the architects and guiding them in their plans and designs. In fact, no projects can proceed unless the plans and designs have been approved by the Chief Executive Officer. For many years, particularly since the late 1970s, no draftsperson would start any drafting until the architect assigned to the project had obtained the Chief Executive Officer's signature on his or her sketch plans. Thus, weekly Master Plan Reviews and Design Reviews are held for planners and architects to obtain the Chief Executive Officer's approval. Engineers, researchers, and officers from other departments are occasionally summoned to these reviews to explain and justify their proposals that affect or are related to the plans and designs of the planners and architects. Once the plans and designs are approved, drawings are prepared for bid solicitation by the contract officers, for the construction of the projects.

In planning for public housing, the HDB planners have first to determine where and how big each estate or new town will be, and the layout of the main arterial roads and other infrastructure. These issues are presented and discussed during the Master Plan Reviews with the Chief Executive Officer. They have to decide on the boundaries of the new housing estate. This is basically guided by existing and future physical and land-use commitments of the island, the suitability of the site for residential purposes, the availability or possibility of installing services such as sewer, telephone, and power systems, and the constraints set by the long-range Concept Plan. When the Chief Executive Officer and the planners are satisfied with the general plans for the new estates, other agencies such as the Public Works Department and Public Utilities Board will be informed so that they can also plan for the required services. All these plans will be examined by the Master Plan Committee, chaired by the chief planner of the state's Planning Department.

When approved by the Master Plan Committee, the general plans will be sent to the Minister, the Estates and Land Department will initiate proceedings to acquire the land earmarked for HDB developments, and the Resettlement Department will plan for the relocation and resettlement of affected homes and businesses. Since land acquisition can be a very sensitive issue politically, plans for future land use must be presented to the Cabinet for approval, and these intentions must be made clear to affected parties before any land can be acquired.

While the general plans are being circulated for comments and approval, the HDB architects will be working on detailed layouts of the estates and new towns. These layouts and details will be critiqued and approved by the Chief Executive Officer during the Design Reviews. The HDB architects, planners, and civil engineers need to liaise with the other government service agencies to detail the service infrastructure layouts.

Construction usually begins only after two to three years of planning and preparation. Once the first few units are constructed, the entire new town or estate may take another two or more years to complete, depending on the size of the town or estate and on the building target of the HDB¹². When the flats are finally near completion, registered applicants who are at the top of the waiting list or who have priorities under resettlement or other incentive schemes will be directed by the estates officers to ballot or select their flats.

Estates and Lands Division

There are three departments in the Estates and Lands Division. The Allocation, Administration, and Lands Department administers all application, registration, and allocation of flats and other premises, while the Estate Management Department manages and maintains all properties and estates under the control of the HDB. The Legal Department handles all legal transactions between the HDB and the public, and advises the HDB on all legal matters.

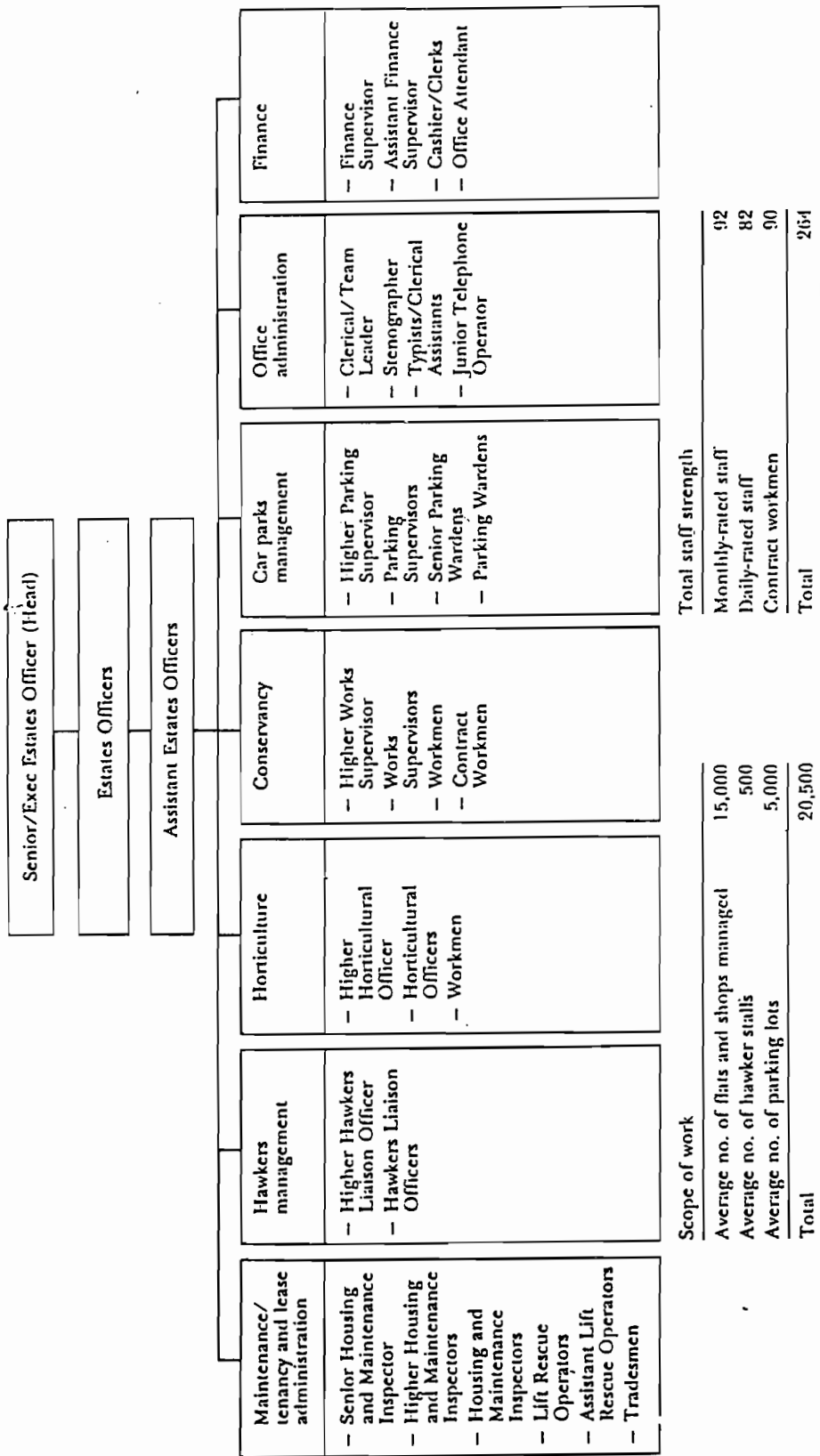
The management of the board's estates is decentralized through its network of area offices. Each estate is run by its own HDB area office, which oversees routine cleaning, collects rents and mortgage payments, handles complaints, and acts as the agent in resale of flats. (See Figure 7 for the structure of an area office.) As of March 1985, there were 36 area offices located throughout the island of Singapore. Each area office manages about 15,000 units of flats and the ancillary facilities within its geographical and administrative boundaries, in accordance with policies and guidelines of the department's central administration body. Since the area offices merely implement policies set by the central administration, which are applied uniformly, they have very little decision-making power.

The maintenance of HDB housing estates and new towns in Singapore is most commendable, with the exceptional cleanliness and well-maintained greeneries in the estates. Refuse is collected daily, and refuse chutes are washed twice weekly. In addition to daily cleaning and repairs as required, the HDB maintains a "repair and redecoration" (R & R) program whereby buildings are repainted and repaired every five years. As an indicator, the HDB spent S\$18 million in 1984 for the repair and redecoration of 15 percent of its total housing stock, which comprised about 75,000 units of flats (HDB Annual, reported in Business Times, Oct. 28, 1985). No housing system can claim to be successful unless it has kept its stock from deteriorating and degenerating over time. One of the key foundations of the Singapore public housing system has been its ability to maintain the physical quality of the building stock and the surrounding environment.

The government had spent a great deal of time, thought, energy and money in clearing the slums and rehousing the population and therefore high-rise buildings should not be allowed to become slums due to lack of maintenance. It will make life in a small country like Singapore

FIGURE 7

FIGURE 1 ORGANIZATION STRUCTURE OF AN AREA OFFICE



unbearable. (Lim Kim San, former Ministry of National Development Minister, Straits Times, Oct. 23, 1977)

In fact, one of the reasons that the home-ownership scheme has been given such emphasis by the government and the HDB seems to be to minimize the problems of estate management in the long run. As one senior principal architect of the HDB said, "If people have bought their own home, they have an investment in it and they look after it. It's not in their interest to allow vandalism or bad behavior in their block" (Straits Times, Feb. 26, 1984).

Estates management and maintenance have always represented a major challenge to the HDB, as it has recognized from the beginning that maintaining the housing stock is as important as erecting it. This challenge is beginning to prove increasingly difficult, with rising standards of living and expectations. Problems associated with estates management will increase in complexity and size. The standard of living of almost the entire populace depends on how well the housing stock and environment are managed and maintained now and in the future.

The main difficulties in estates management have increasingly centered around the shortage of manpower (Straits Times, Jan. 15, 1983). Since over 80 percent of the HDB's cleaning workforce is usually deployed for refuse collection and general cleaning, the HDB has identified mechanization of cleaning operations as one of the ways to save manpower and increase productivity. The HDB has also been considering the reintroduction of communal refuse chutes instead of providing individual chutes.

Resettlement Department

The Resettlement Department is responsible for clearing all land required for public housing and other public developments, including the exhumation of graves from cemetery lands earmarked for public developments. Originally an independent government department, it was permanently incorporated into the HDB organization in 1963. When the HDB was restructured into three divisions, the Resettlement Department remained a separate and autonomous department, directly responsible to the Chief Executive Officer.

The HDB Management and the Staff

The majority of architects and engineers who planned and implemented the housing program during the 1960s and early 1970s had been trained in Australia. Today, the upper echelons of the HDB's staff as well as many senior positions in the public and private sectors of Singapore are held by Australian-trained professionals. (Straits Times, Jun. 15, 1982)

This was disclosed by the late Minister Teh, who was himself a graduate of Sydney University's School of Architecture. The former Chief Executive Officer of the HDB, Teh stood for election in 1978. The board's number-two man, Liu Thai Ker (formerly the Chief Architect and then Deputy Chief Executive Officer), succeeded Teh as the Chief Executive Officer. Liu also had his architectural education in Australia and received his graduate degree in city planning and urban design from Yale. Liu enjoyed the late Minister's ardent support, respect, and patronage throughout his career in the HDB. With each other's support, Teh and Liu were able to amass tremendous power, resources, and influence and to use the island of Singapore as their urban laboratory, to implement what essentially was their masterpiece of urban design through the HDB and also the Urban Redevelopment Authority. Symbolic of rising power and status are their private homes, one newly built and the other extensively renovated recently. Both private and personal projects were designed and constructed using professional and technical resources of the HDB.

Even as the Chief Executive Officer, Liu insisted on keeping his role as the chief architect, hence spending much time and effort in determining the architectural standards and quality of the planning and design projects. As a manager, Liu was compared to Robert Moses of New York City. Always quick to reward those who stood by and supported him, officers in his favor were quickly promoted and empowered to carry out his orders and instructions. These officers immediately adopted the style of the Chief Executive Officer and became the "CEO's men." At the same time, Liu would not hesitate to insult and humiliate anyone who dared defy him or whom he simply disliked. It became common for officers to carry out instructions just to please the Chief Executive Officer, rather than risk his displeasure by expressing their opinions, particularly when they conflicted. It also became known within the organization that the HDB was an "OMO," (one-man-operated) bureaucracy. Such management style inevitably encouraged a great deal of vicious politicking among officers competing for Liu's favors. It also encouraged managers in the Architecture Department, privately known among the subordinate officers as "the Gang of Four," to employ such unpleasant and unfair tactics as instructing some supervising officers to change and downgrade the performance evaluation of their subordinates to humiliate the disfavored officers. As a result of such authoritarian control, some senior officers, including a number who served the HDB for many years, suffered great humiliation under their management. Some were eventually ousted or forced to resign.

Although official statistics are not available, to indicate poor staff morale, unofficial but reliable information shows an extremely high level of turnover and dissatisfaction among senior officers in recent years. In the late 1970s, for example, a handful of architects who could not tolerate the HDB management style decided to quit the board together. Parallel to the height of bureaucratization, within a period of about 12 months in 1986/87 and despite the worst building slump and economic recession in the history of Singapore, at least 12 to 15 senior officers quit their well-paid positions in the Architecture Department and the HDB for the uncertainties of the private sector and other lesser alternatives. This high turnover did not seem to concern the management, who were content to hire new graduates to replace more senior employees.

The qualifications of the staff and the effective production of a large quantity of housing units alone are in themselves insufficient evidence to conclude that the HDB management is efficient. The efficiency of any management must be further measured and inferred through the satisfaction and morale of the staff, particularly the professional and senior officers, which can be indicated through the annual turnovers, the number and type of complaints by colleagues and members of the public, and the frequency and extent of corrupt practices. It would be most interesting to make a systematic study to make these observations, to study the relationship between the HDB management and its staff, and to evaluate the evolutionary performance of the HDB management in relation to its achievements in producing HDB flats; however, it is beyond the scope of this research.

One incident in particular attests to the situation in the Architecture Department and has left a lasting imprint in the history of the HDB administration as well as the public administration system in Singapore. On the evening of July 24, 1986, a fire broke out on the 17th story of the National Development Building, which was occupied by part of the Architecture Department of the HDB. The fire was initially assumed by firemen to have been caused by a short circuit. It started in the locked office of one of the "Gang of Four" and spread to the office of another member of the Gang and other neighboring offices. The offices that were badly burned contained some important documents. On September 3, about six weeks after the first fire, another fire struck, on the 19th story, outside the room where plans and drawings of the Architecture Department were stored. This time it was established that it was a case of arson, as a box of cloth and kerosene were found at the site of the fire. About one month later, on the evening of October 7, yet another fire struck in another corner of the same floor on the 19th story. Again, the firemen believed that the fire was started with tracing paper (Straits Times, Oct. 9, 1986). Two days after the third fire, a senior principal architect, one of the Gang of Four, was hit on the head with an iron rod by a research assistant in the department. The assailant did not attempt to escape from the bloody scene and was heard to have mumbled that he could not tolerate his treatment (by the superior officer) anymore. He was later charged with the above offenses. He was also alleged to have attempted running down the same superior officer with his car.

As in all public organizations in Singapore, HDB officers are subject to various rules and regulations in accordance with their positions in the organization. In accordance with the HDB's "Rules and Regulations, Terms and Conditions of Service," officers are required to maintain good conduct and discipline in performing their duties, especially when dealing with the public. All senior appointments to the HDB have to be screened and cleared by the Internal Security Department, the Corrupt Practices Investigation Bureau, and the Criminal Record Office before letters of appointment can be issued to successful candidates of the HDB (Quah 1975). This is to prevent those with internal security risks, criminals, or previous records of corrupt practices from entering the HDB or any other government agency.

The People's Action Party government has seriously established and maintained a clean and corruption-free public administration system. The

Corrupt Practices Investigation Bureau, which is under the purview of the Prime Minister's Office, keeps a very close watch over all civil servants, planting strategic undercover agents in various government departments (Quah 1975). According to the Prevention of Corruption Act of 1960, "a person found guilty of bribing a public servant to gain advantage in a government tender for goods or services is liable to be jailed for a maximum of 7 years and fined up to S\$10,000." In July 1973, the Ministry of Finance instructed all government departments to step up measures to prevent corruption among its officers, and to minimize opportunities for civil servants to engage in corrupt practices (Quah).

With such stringent measures in force, there have been very few cases of corruption detected and reported. On April 17, 1973, for example, a probationary resettlement officer was fined S\$1,000 or sentenced to six months' jail after pleading guilty to submitting false mileage claims for the months of March and April 1972 (Quah, Straits Times, Apr. 17, 1973). In another case, an architect in the Urban Renewal Department was found guilty of accepting a S\$5,000 bribe from the managing director of a construction company for the Robinson Road landscaping project between January 5 and March 14, 1973 (Quah, Straits Times, Jan. 26, 31, Feb. 1, Jun. 18, 1974). Five subordinate officers were charged on June 4, 1974 with accepting bribes from two construction companies to be lenient in their supervision of works carried out by these companies at the construction sites (Quah, Straits Times, Jun. 5, 1974). However, these were all minor cases involving small sums of money.

History was changed recently when the top man at the HDB, the late National Development Minister Teh Cheang Wan himself, was accused of graft by the Corrupt Practices Investigation Bureau, following investigations they made after receiving complaints. Teh was the most senior People's Action Party politician ever to be investigated. Never in the history of modern Singapore was any full cabinet minister ever implicated in such forbidden activities. The case involved at least two charges of bribery against Teh, each amounting to S\$400,000 (Business Times, Jan. 21, 1987). In one allegation, Teh was accused of accepting S\$400,000 for helping a developer retain land earmarked for acquisition. In another, he was accused of having accepted S\$400,000 for helping another developer buy a piece of state land for private development. The investigations led to the Minister's suicide on December 14, 1986. Before he was driven to suicide, Teh had attempted to bargain for immunity from prosecution when threatened with charges. It was testified by the director of the Corrupt Practices Investigation Bureau, in a courtroom, that Teh had offered to pay back S\$800,000 in exchange for guarantees that he would not be prosecuted (Straits Times, Jan. 21, 1987). Yet Teh maintained to the very end that he was innocent.

Singapore has always prided itself on its clean and efficient government. Any threat to that image can be expected to be severely punished, with no exceptions. The investigation of Teh, and his subsequent suicide, attest to this. The Prime Minister had often reminded Singaporeans of the seriousness of the People's Action Party government in eradicating corruption and maintaining the principles of good government. In a speech to Parliament in March 1985, he again reminded the people that

his government had remained "spotless and untainted through 26 years in power" by being tough on corruption.

This episode proved to be the culmination of the autonomy of the HDB, a supposedly remarkable, efficient, and honest professional machine that became too powerful and too insulated from the economy and society, and came to represent the evils of extreme bureaucratization.

The HDB and the Other Government Bodies

The HDB had become so powerful that it started to exert its influence in its dealings with other government bodies. For example, it was well recognized that the HDB would be likely to win in any competition among the various government agencies for the allocation of land. The HDB would always get away with whatever land-use or planning proposals it submitted for approval, even if the proposals inconvenienced the plans of other government bodies, because of its track record in getting things done and the political support and favor it had been receiving from the late Minister. Besides, a number of the representatives in the Master Plan Committee, including its chair, the Chief Planner were formerly HDB officers who were promoted and seconded to the other bureaucracies with the recommendation of the HDB's Chief Executive Officer and the late Minister Teh. They therefore form a cohesive coalition of power within the Master Plan Committee, making the approval of the HDB's proposals much easier and faster.

Apparently, this situation did not slip by the notice of S. Dhanabalan, the current Minister of Foreign Affairs who succeeded Teh as the new national development minister.. In March 1987, he disclosed that the government was considering taking the Planning Department out of the ambit of the National Development Ministry (Straits Times, Mar. 18, 1987). He said that it was not "good management practice to have the largest user of land also in charge of allocating the land." He added that it would be ideal to have the Planning Department "in another ministry so that all the various ministries which need land for various purposes will have to satisfy this independent ministry that theirs is the best use of land." He suggested that "maybe it can be in the Prime Minister's Office." The implications are very clear. There is a need to have a better checks-and-balance system to ensure that scarce resources are allocated appropriately.

An obvious case of conflict between the HDB and another public development corporation was detected and reported by the Business Times on April 23, 1980, under the headline of "HDB and JTC at Loggerheads." It was reported that the HDB's increased development of factory and industrial sites in recent years had brought it into direct confrontation with Singapore's pioneer Industrial estates developer, the Jurong Town Corporation. The impasse, which resulted in heavy negotiating among top executives, came about when both statutory boards were separately involved in factory and site development in new towns such as Ang Mo Kio. It was the HDB's plan to move beyond its jurisdiction, and develop special industries outside the HDB's residential estates, which upset the Jurong Town Corporation. The HDB had decided that "special industries with

pollution problems or requiring relatively cheap and extensive land have to be located far away from the residential areas," and for that purpose, "industrial lands at Bukit Batok, Teck Hock and Woodlands were identified and being developed" by the HDB (HDB Annual, 1978/79; Business Times, Apr. 23, 1980).

The Business Times subtly spoke out on behalf of the Jurong Town Corporation when it reported that it was entirely within the scope of the HDB to reserve, develop, and manage a portion of its housing estates for mini-industries, either to provide jobs for estate residents or to resettle industries affected by the HDB's land acquisition programs. Similarly, the Jurong Town Corporation had, in the past, undertaken the building and management of its own housing estates in Jurong as an important provision for workers who would otherwise waste unnecessary amounts of time and money travelling to and from work. The report added that it was hard, however, "to see how residents of the HDB's housing estates would benefit greatly from the Board's venture into pollution-causing industries located far away from the housing estates."

The message that such competition between the HDB and other government organizations was unusual and unacceptable in Singapore, which is renowned for its efficient public-resource management, was clear in the report:

In a resource-scarce country like Singapore it becomes imperative that whatever resources there are be marshalled and utilized in the most economic and productive manner. This is a basic principle which has long dominated Singaporean thinking and planning. It comes as some surprise, therefore, to hear that two statutory boards may be guilty of the cardinal sin of duplication of effort.

Inspired by the increasing power conferred upon it, the HDB bureaucracy had amassed tremendous resources and expertise so that it functioned as a quasi-autonomous entity and was also able to create its own system of legitimation. The HDB's own plans and projects became more important to the bureaucracy than its responsiveness to the changing demands and values of a society undergoing dramatic change. As a result, not only did it become insulated from the overall social evolution of the Singaporean population, but it also became increasingly hostile to and in contradiction with other agencies managing national development and modernization in the nation.

The HDB and the Residents

Since the institution of the HDB in February 1960, public housing has become the key planning instrument of the state in the building of the new nation and in the socio-economic, political, and spatial reconstruction of the island republic's urban system. The HDB has been a pillar of socio-economic and political stability, and inevitably a relationship of interdependency has developed between the ruling political machine of the

People's Action Party and the HDB bureaucracy. At the same time, public housing service becomes an object of political patronage. This has great implications for the development of the relationship between the HDB and its residents.

While the general population recognizes the commendable achievements of the HDB in producing decent housing for the people, they are wary of its role as an overwhelmingly insensitive landlord and as an extremely powerful social control agent of the People's Action Party government. Thus, the relationship between the HDB and the residents can be described as one of distrust and immense tension. The fact that there are few, if any, alternative housing options for the people, however, subjects them to all the Draconian practices, rules and regulations of the HDB.

The best way to illustrate the anxiety and skepticism of the residents towards the HDB is through an account of a series of anecdotes reported in the press. Only a few significant of many such incidents are discussed here to illustrate the point. To start with, it was reported that the HDB "had triggered so much ill feeling by such mindless practices as slapping notices on the front doors of residents and chaining cars in HDB lots" (Straits Times, Sep. 12, 1976). In another incident reported on the same day, the HDB threatened to cancel the applications of those who applied for a new model of HDB flats and who had failed to participate in a HDB general information survey. While the newspapers are usually very sparing on any criticisms of the government or any government organization, the overwhelming arrogance and heavy-handedness of the HDB invited a good rebuff from the press. The Straits Times reported that "the threat suggests that the HDB treats the bulk of the applicants as a group who will respond only to the big stick." "The HDB seems convinced that the best way to get a message across to its residents and those who hope to be residents is to use threats." "It has once again shown what can only be described as the unacceptable face of bureaucracy . . . by threatening to cancel the applications of those waiting to buy its flats if they do not respond to a survey." The Housing Board was justifiably criticized for being so "high-handed and unjust," "unfair, hasty and totally undiplomatic." The applicants felt that carrying out what the HDB itself claimed was a "mere survey," "should not entitle the HDB to act in such an authoritarian manner." The public complained that it was "the height of bureaucratic short-sightedness not to devise more tactful ways of getting a response for the survey" (Straits Times, Sep. 8, 1986). When contacted by the newspapers, the HDB declined comment.

In the mid-1970s, complaints about shoddy workmanship in HDB flats were increasing at a disturbing rate (Straits Times, Feb. 14, 1976). When the rejection rates of HDB flats increased correspondingly, the HDB simply accused the applicants of being choosy. Some angry residents retaliated that they had every right to be fussy and reject the flats with shoddy workmanship, because they had gone through a lot of trouble and had invested almost their entire life savings in their long-awaited "dream flats" (Straits Times, Jun. 17, 1977). The HDB had been attacked for poor finishing work on its flats not only by the flat dwellers but also by the MPs and even the Prime Minister himself. They called on the HDB "to stop shrugging off persistent complaints of poor quality construction, and

slipshod and shoddy finish to its flats." But the board "greeted all criticisms with silence" (Straits Times, Feb. 16, 1976).

When the HDB finally broke the silence, it claimed that a high standard of workmanship could be expected only if the "building program is substantially reduced and the cost of construction raised," because the standard of workmanship had been affected by the serious shortage of building workers. A National Development Ministry statement threatened that better workmanship would mean "higher rentals and selling prices and a delay in the allocation of flats to the large number of people on the waiting list" (Straits Times, Feb. 22, 1976). In other words, the people had no choice but to accept the poor quality of their homes. Effectively, this amounted to blackmailing the population and the government, using public housing as a political ransom. Instead of finding more satisfactory solutions to the problem, the late Minister continued to warn "choosy HDB applicants that the longer they delayed moving into newly-balloted flats, the more they would have to pay" (Straits Times, May 30, 1980).

In another incident reported in the Straits Times on July 9, 1985, a resident complained that when his flat was flooded with sewage when the sewerage pipes of the 12-story block choked, the HDB refused to be responsible because it felt that the blockage was not due to the failure of the sewerage system provided by the HDB, but to the "irresponsible" acts of the upper-floor neighbors. It was no consolation to the resident, since the problem was not caused by his own doing.

Another report by the Straits Times, on October 2, 1986, indicates how the HDB evicts its tenants. As reported, "Children's Day was a joyless one for four brothers and sisters. While they and their mother, Madam Soh Gek Eng, 37, were still soundly asleep in bed, a team of HDB inspectors and policemen came and woke them up. Before they realized what was going on, they found their old furniture and other household items being carted away. Next moment they were locked out." The family was evicted because they had not paid rent "for a long time."

As a social control organization, the HDB has to work closely with other government-sponsored community organizations, such as the Residents' Committees, the Citizens' Consultative Committee, and the Management Committees of Community Centers in dealing with the social habits and consciousness of the residents. It was reported in 1976 that about 24 families got transferred each year for various reasons, including the inability to get along with others (Straits Times, Aug. 7, 1976). HDB tenants can be evicted if they prove to be an "incorrigible nuisance" to their neighbors. When a complaint is received, the HDB first tries to persuade both parties to try to get along. If this fails, the HDB asks the Citizens' Consultative Committee to help, and if that also fails and the HDB is convinced that one party is the culprit, the innocent party may be advised to lodge a police report.

When it finally became apparent to the HDB that its relationship with the residents was deteriorating, the HDB decided to hold, beginning in October 1985, an annual Residents and HDB Area Office Day to create greater community awareness among HDB residents and foster closer links

between the HDB area office staff and residents. The HDB urged the Residents' Committees and other grassroots organizations to encourage residents to take part in activities.

In a speech appealing to grassroots organizations to work hand in hand with the HDB to control the new Singapore society (Straits Times, Jan. 15, 1983), the late Minister Teh proclaimed that:

In the past, communities lived in separate enclaves. . . . These enclaves have all but disappeared. Today, residents of HDB estates belong to various ethnic groups, and they come from all walks of life. This conglomerate of different social groups must be quickly welded into a cohesive community if we are to avoid turning our public housing estates into soulless monstrosities. In this connection the CCCs and RCs play a crucial role.

He added that public housing has completely restructured the social community of Singapore in the last 20 years, and "the last great challenge" to him was "the forging of community spirit in HDB estates". Ironically, this challenge was "to instill social discipline in the people". He said that "We -- the government and the grassroots organizations -- have to demonstrate the link, educate and persuade people to cultivate desirable social habits, such as the habit to stop vandalizing public property, to make proper use of rubbish chutes."

In another attempt to improve the relationship between the bureaucracy and the residents, the HDB decided to assume a more paternal role. The late Minister announced, in July 1986, that HDB residents with financial and domestic problems can turn to their area offices for help (Straits Times, Jul. 30, 1986). But the area offices would only act as an intermediary agent and refer these households to the relevant ministries or voluntary social agencies for follow-up action. Families needing financial help would be referred to the Ministry of Community Development for public assistance. Family wage-earners who lost their jobs would be referred to the Employment Services Department of the Ministry of Labor. Domestic problems would be referred to the Community Development Ministry. By appointing itself as official referee between the people and the other government bodies, the HDB has in effect increased its own power.

Over the years, the HDB has continued to seek more powers for itself, both as a national landlord and as a social control agent. The Housing and Development (Amendment) Bill of 1986 sought to give the HDB the power to fine "errant" residents and to impose penalties for late payment of rents, license fees, or maintenance charges. The Bill would empower the HDB to strike off from its queue for flats and other properties those applicants found to have lied to the board. Thus, any applicants who made any misrepresentation of a material fact, or any false statement whether innocently or otherwise, would be punished. Under the proposed law, the board could also change its rents, license fees, or maintenance charges by publishing the changes in the newspaper. It could also vary the terms and

conditions of any application for a flat before or after the Bill becomes law. If an applicant refused to accept the changes, the HDB could cancel his application and refund the deposit and administrative fee, and no legal proceedings could be instituted against the board.

What stirred a great debate in Parliament was that the proposed amendments also sought to empower the HDB to evict families of any authorized HDB flat occupier above 14 years old convicted for a "killer-litter" offence (see below). Those in violation of immigration laws, such as harboring people who remain in Singapore illegally, would also face the same fate. The proposed amendments were meant to give the HDB the "legal muscle" to tackle problems such as "killer litter" and the abuse of its subsidized housing. The HDB also wanted to have the legal power to cancel the applications of people who, while on the queue for flats, committed such offenses; as of August 1986, in fact, the HDB had already debarred 337 persons from applying for HDB flats, 23 of them because they harbored illegal immigrants (Straits Times, Aug. 2, 1986).

The "killer-litter" problem hit the headlines in Singapore in 1984, when several people walking by HDB estates were seriously injured by objects like iron pipes, choppers, cupboards, dumbbells, and bicycle wheels thrown down from HDB flats. A pregnant woman died in a hospital two days after she was hit by a broken bicycle thrown from the sixth floor. The problem became so serious that the late Minister Teh Cheang Wan announced that deterrent measures such as eviction would be used to combat the menace. The number of reported "killer-litter" cases has since dropped from 36 in 1984 to 14 in 1985, and only three in 1986 as of August (Straits Times, Aug. 1, 1986). Teh felt that the new laws would be a further deterrent.

The strongest protest against the passage of such a Bill came from Toh Chin Chye, the MP for Rochore and an old guard of the People's Action Party (Straits Times, Aug. 2, 1986). Calling it a "ludicrous piece of legislation," he protested that it was wrong to punish a person twice to help the HDB in its job of ensuring safe high-rise living. He said that by empowering itself with so many Acts, the HDB had been "acting like an enormous landlord, taking us back to the feudalistic days when landlords were in charge of fiefs and tenants had to bow to their wishes."

Opposition member Chiam See Tong opined that the debarment and eviction of residents would defeat the government's aim to achieve 100 percent home ownership (Straits Times, Aug. 1, 1986). He felt that the board should emphasize educating its high-rise residents instead. Aline Wong, a new-generation People's Action Party member, asserted that the new laws would have serious implications for the family, society, and the law. She felt that the penalty would effectively prevent the family of a culprit from being able to own a flat (Business Times, Aug. 2, 1986). Another People's Action Party MP, Vasoo, warned that by providing further discretionary powers to the HDB officers in interpreting and implementing the law, the strain between the HDB and the residents might get worse (Business Times, Aug. 2, 1986). When the late Minister Teh argued that "any person aggrieved by a decision of the board to acquire his flat can appeal to him as the Minister-in-charge," thereby empowering himself, opposition member Jeyaratnam protested, and suggested that a tribunal

should be set up to make such discretionary judgment openly, and that the HDB "can appeal to the tribunal if it wants to exercise its powers."

Despite the unusually loud vocal protests, even from the People's Action Party MPs, the Housing and Development (Amendment) Bill was passed. The two opposition party members voted against the Bill. Toh Chin Chye abstained, against an important principle of parliamentary democracy, whereby members of a political party must vote according to party line unless such restriction (the whip) is lifted. The People's Action Party later decided not to take any disciplinary action against Toh since he was one of the founding members of the party and since it was felt that "he did not have any ulterior motive" in his decision to abstain from voting (Business Times, Aug. 18, 1986).

Following the passing of the Bill, the HDB stopped its usual practice of repurchasing HUDC flats, simply because of the dwindling waiting list for HUDC flats. The board had not been able to sell most of the HUDC flats it already had in its books. Between 1982 and 1986, a total of 1,907 applicants had withdrawn from the HUDC waiting list, for several reasons (Business Times, Jul. 5, 1986). Some had opted out because of new restrictions imposed by the HDB, some because of the higher prices for HUDC units, and others because the drop in private residential property prices had made such properties affordable. This trend had left the HDB with 1,170 unoccupied flats and a waiting list of only 260. The HDB realized that demand in those years had dropped so much that any HUDC flat taken back at that stage was likely to remain vacant.

Until then, it had been a practice for the HDB to repurchase HUDC flats at the original prices, plus improvements made to the flats. Just before the proposal of the Bill, 40 HUDC flat owners resold their under-five-year-old flats to the HDB. (Under the terms and conditions of sale, HUDC flat owners who wish to sell their flats must resell them to the HDB. This condition was meant to prevent flat owners from profiteering from a higher resale price in the open market.) In addition to the 40 units, the board had committed itself to buy back 26 more. When the HDB realized that it could not afford to buy back more HUDC flats when there were already so many vacant ones in its stock, it decided to reject all future buy-back applications, as well as the 148 applications that were already submitted.

This decision potentially affected some 4,100 HUDC flat owners in ten estates who had bought their flats after 1983. However, since the new laws empowered the HDB to change its terms and conditions as and when the board saw fit, protests from HUDC flat owners had no legal bearing. Many HUDC homeowners found themselves in a difficult position because they had committed themselves to private properties on the assumption that the HDB would repurchase their flats. The only recourse for these "rejected" owners was to sell their flats in the open market, mostly at lower-than-cost prices (Business Times, Jul. 5, 1986).

The HDB, however, denied that it was ever obliged to repurchase HUDC flats. It claimed that, in the past, the HDB had repurchased HUDC flats to prevent speculation and profiteering during the property boom, and only as a favor to the sellers, as long as there was a substantial waiting list

for HUDC flats (Business Times, Jul. 5, 1986). A HDB spokesman told the Business Times that most of the HUDC flat owners had wrongly assumed that the HDB, which took over the sale of HUDC flats in May 1982, was contractually bound to buy back the flats at either the sales price or market price. He claimed that the decision to stop buying back flats was merely a change of practice and not policy. The HDB also indicated that it would waive the 30 per cent resale levy for those who had to sell their flats at below-cost prices.

The opposition Singapore Democratic Party criticized such a move by the HDB as a "breach of faith" (Straits Times, Jul. 6, 1986). In a statement, the opposition party said,

It is wrong of the HDB to assume that HUDC flat owners purchase their flats with a view to make a profit or for a short term only . . . many flat-owners had to sell back their flats to the board either because they had lost their jobs and therefore could not afford the monthly installments, or because they wanted to buy private flats which might cost less.

Affected HUDC flat owners, of course, felt misled and disappointed (Straits Times, Jul. 5, 1986). Some had wanted to move from their HUDC flats "to cut costs" and not profiteer. One resident, for example, said that when he bought his flat, he had thought that he "would continue to get salary increments and that the economy would continue to grow." He was mistaken. All agreed that the HDB "should not confuse and mislead people" and that the HDB "should let people know from the beginning what to expect. . . . People would then go in with their eyes open." They felt that it was "very unfair to set a precedent of buying back when times are good and then, when times are bad, just stop."

Finally, in a letter to the Straits Times on July 19, 1986, entitled "HDB, I trusted you," the resident argued that existing lessees should not be made "to bear the full burden of HDB/HUDC's miscalculation." The rest of the letter is reproduced here, since it expresses very well the general frustrations with the HDB's frequent change in policies and practice:

Many of us had believed that the HDB would take back our flats at the original price whenever we wanted to give them up within the stipulated period (first 5 years of occupancy).

Those wanting to surrender their flats may be seen as opportunists taking advantage of HDB practice to buy private property because the prices of the latter are depressed. I don't see anything wrong with trying to maximize the use of one's CPF savings and to protect their value.

If the HDB had miscalculated, it must assume some responsibility for the miscalculation. The burden should not be totally passed on to the lessees.

Moreover, wasn't there to be one set of rules when HUDC came under the HDB?

Many of us had been on the HUDC list since 1978 and were allocated flats after six years in late 1984. Do HDB applicants have to wait that long?

Since then we have seen many changes in the eligibility rules. We had to comply or be dropped.

At the time of my application, the flats were priced at around \$80,000. Those who were single were then asked to form family units or be dropped from the list. Some hurriedly got married while others formed such units. We were then asked to show that we were committed to buying the flats, and we did so with downpayments of \$18,000.

Those who were single and who wanted to marry part owners of property were also dropped. I suspect there were those who had to rethink their marriages due to this rule. Since we married, my wife and I had to decide between a divorce or my wife giving up her rights to her share of the property. We did the later so that we could have our own home.

Until this time, we neither had an idea of the final price of the flats nor whether we would be allocated one. The prices were finally announced around April 1983.

Those in our position would not have been able to do anything else, especially when life had to be spent in flats rented on very short term leases at premium rentals. Some squatted with friends and relatives for over six years. The pressure to get a proper home was greater for those who got married and had children.

It appears the HDB does not know the hardship HUDC applicants had to go through for their flats.

Most of us had no alternative but to accept the flats, at whatever prices HDB posted. We could not have been opportunists -- we were just caught in the system, first of the HUDC and later the HDB.

There are reasons why we are angry over the double standards that have been practised. Have we not been penalized enough already? If we had been allowed to apply for HDB flats in 1978, we would have made very nice immediate capital gains by now. It seems as if the HDB applicants of 1978 were a more fortunate lot in the sense that they can readily upgrade without any hindrances today.

Our moves to surrender our flats to the HDB are not aimed at making a profit. We merely want to protect our CPF savings, for our children and our old age.

Is the reason that there are no ready buyers for the flats just cause to penalize these owners? Where is the fair play?

Decentralization and Town Councils

Although it is undeniable that the HDB has done a most remarkable job of implementing the largest and probably most successful public housing program in the world, it is also evident that the national housing authority expanded with so much power and autocracy that it had become an inefficient and unpopular "bureaucratic monster." Thus, it was no surprise that the results of a survey conducted by the research firm Survey Research Singapore, in 1986, rated the HDB as "one of the most bureaucratic, most inefficient, most difficult to deal with and most profitable organizations."

A Straits Times report (February 14, 1985) announced that "HDB residents who have been lamenting for years that they live under the shadow of a huge and, to some, insensitive bureaucracy may have an opportunity to put things right. A group of MPs have mooted the concept of town councils to run HDB estates." The report added that, "to be effective, the town council should have as much autonomy as

possible. . . . This means that the HDB must be prepared to give up a large portion of its powers, on estate management as well as control over fiscal matters."

The People's Action Party leaders finally got the message from the people in the 1984 general elections, when two opposition party members were elected to Parliament for the first time since Singapore attained independence. It was suspected that those who voted for the opposition did so in protest of some of the policies of the government, including HDB policies, and also the way decisions and policies were handed down to the people without any consultation. The HDB bureaucracy, being so influential in the population's everyday life, had become synonymous with the government of Singapore. And if the people remain dissatisfied with the existing role and operations of the HDB bureaucracy, they are likely to express their protests against the ruling party again in the next general elections.

The People's Action Party government realized that some form of political restructuring was necessary to reduce certain impacts of the HDB on the people, and to minimize protest votes in the next general elections. Hence, a plan was implemented to gradually devolve and decentralize the HDB authority without detracting from its past achievements, by subtly introducing localized public administration to take over some of the management functions of the HDB. The People's Action Party decided to test the idea of local town councils, which would involve the MPs' and the Residents' Committees' participation in the management of their constituencies.

During a meeting with community leaders, First Deputy Prime Minister Goh Chok Tong, in response to criticism that the HDB wielded too much authority, suggested decentralization and possible formation of town councils (Business Times, Feb. 13, 1985). He explained that "although the HDB had done a good job in providing housing," it had also grown so huge that decision-making could sometimes take a long time. He expressed that the government would like to decentralize the management of HDB estates and would like to see RC members and MPs more involved in their management. Local management should resolve problems more quickly and, at the same time, give the people some sense of self-determination, allow community leaders to play a direct role in managing the estates where they live, and also give the people a chance to see the other side of the issue, referring to the problems and views of HDB officers (Straits Times, Feb. 13, 1985).

As part of a pilot project, three town councils were set up in September 1986 for a six-month trial period, each serving three constituencies, in the Ang Mo Kio New Town. The trial period was later extended for another six months, after which time the People's Action Party government was to seriously consider extending the town council concept to other constituencies. In an interview with 30 residents at the end of the first six-month trial period, the Straits Times found that all residents, except three, wanted the town councils to continue managing their estates (Straits Times, Feb. 10, 1987). Several stated, however, that the objective of increasing citizen participation through the creation of town councils was not achieved, since decisions were made by a

body of councillors and MPs with no significant community involvement. Some suggested that representatives from among the residents should be elected to sit on these councils. In an evaluation of the exercise, some of the councillors involved in the experiment complained that the functions delegated to them were "mundane" (Straits Times, Apr. 10, 1987). One councillor questioned the HDB's sincerity in wanting to make the project work, in view of the resistance detected on the part of the HDB in the face of devolution of authority. The HDB was accused of keeping the "goodies" (referring particularly to some income-generating services such as carpark management and collection of various bills) to itself and leaving the less imaginative areas to the councils.

Near the end of the trial period, in January 1987, Lim Boon Heng, the People's Action Party MP for Kebun Baru and the chairman of the Ang Mo Kio West Town Council, made a radical proposal, which if implemented has great implications for political change in Singapore. Lim said that he would like to see the town councils structured as political rather than mere administrative units (Straits Times, Feb. 10, 1987). He suggested that three adjacent parliamentary constituencies be grouped to form a town which would be run by a council. According to his proposal, residents of a council town would vote for a team of three MPs who must be members of the same political party to run the council.

The introduction of such a new local government system would require major constitutional changes. In view of the coming general elections in 1988, the People's Action Party leaders are more careful about getting feedback from the public before pushing ideas further. Debates on such possible political changes have been generated among MPs, academicians, professionals, and communities to encourage a more participatory decision-making process. Responses to the proposal were mixed, since the proposal was still very vague and lacking in important details, particularly financial and budgetary implications. The People's Action Party government felt that such a localized government system would encourage the people to vote responsibly, as they would have to live with their choice of town councillors, good or bad, for a number of years. The opposition leaders, however, felt that the proposal merely represented another ploy of the People's Action Party to change the ground rules for the coming election, to "neutralize" anti-People's Action Party constituencies, and to ensure a 100 percent People's Action Party win (Straits Times, Feb. 12, 1987). Opposition MP Chiam felt that, contrary to impressions given by the government, the proposed system would not result in a series of autonomous local governments (Straits Times, Mar. 19, 1987).

After about a month of discussions and debates, the First Deputy Prime Minister announced over television that the government would like to introduce, at the next general elections, a new system to allow political candidates to stand either as a team or as an individual (Straits Times, Feb. 28, 1987). He said that the government was working on the necessary legislation regarding town councils; when it is passed, constituencies can group themselves, on a voluntary basis, into town councils, before the next general election. According to him, this was a combination of the French and Japanese systems: French National Assemblymen also function as mayors of major towns, and Japanese constituencies are run by teams of

politicians rather than individuals. He was cautious to add, however, that if most people (70 or 80 percent) opposed the idea, then the People's Action Party government would take a little more time to persuade them that the system would benefit them.

This experiment in creating some form of local government suggests that the People's Action Party leaders recognized that the HDB had already served its socio-economic and political functions well, as a state intervention instrument in helping to build a politically stable and socially integrated multi-ethnic, almost 100-percent-homeownership society. However, they had also come to realize that the HDB had become so highly bureaucratized and unpopular among the public that, instead of being a source of further political legitimation and domination for the People's Action Party ruling government, it could only hinder the political future of the People's Action Party. Thus, it was timely, before the next general elections, to restructure the HDB and reduce the organization to its normal function as a mere development corporation of public housing. In future, the HDB could still be a state enterprise and compete with private companies to provide professional management and maintenance services in HDB estates, but under the direction of the town councils rather than the Chief Executive Officer of the HDB.

The HDB had become so highly politicized that some form of decentralization of the political structure was necessary and inevitable. If the objective of the People's Action Party government was merely to improve the efficiency of the HDB, then it would have been adequate to have town councils functioning merely as decentralized and autonomous administrative units. Or it might have been more efficient to simply provide greater administrative autonomy to the existing HDB area offices. However, it does appear that an objective of the proposal for team MPs to run the town councils might have been to depoliticize the HDB, even at the risk of having some opposition teams running some town councils (albeit a very low risk, given the minimal opposition power). Speaking for the town council idea at a political workshop on the National Agenda at the Teck Ghee constituency, MP Lee Hsien Loong, who is the Minister of Trade and Industry, the Second Minister for Defence (Services), and also the Prime Minister's son, said that, contrary to what was commonly believed, town councils could work to the advantage of opposition MPs by giving them a chance to show their competence in governing and building a power base. As reported by the Business Times, he had in fact likened the Chief Executive Officer of the HDB to a "chief minister of Singapore" in this respect (Business Times, Mar. 30, 1987).

The People's Action Party is becoming aware that it cannot afford to continue to rule the nation in an authoritarian manner, and it must allow some form of decentralized but controlled political participation, through the appointment or election of representative town councillors from among the residents to the town council management. Besides, community development has always been one of the final stages in the overall grand plan of nation-building in independent Singapore. Thus, the People's Action Party government has realized that the new nation of Singapore has matured, and that they must enhance the democratic processes through greater citizen participation. As the new National Development Minister said in Parliament (Straits Times, Mar. 18, 1987), "You can build

beautiful buildings, lay out nice parks but a community is more than a conglomerate of buildings and parks. It's people interacting, learning to live together, learning to make decisions for themselves." He explained that the basic aim of setting up town councils in HDB estates was to allow residents to manage their own surroundings.

Given the sour relationship between the residents and their HDB landlord, one would have expected the people to greet the decentralization plan readily with joy and enthusiasm. Ironically, instead of grasping the opportunity to manage their own surroundings and everyday life, some residents and MPs (who, in the past, had been used to leaving such decisions to the government and the HDB) started getting cold feet. Generally, there was the fear that "criticisms now borne by the HDB would later be directed at the town council, which might end up as whipping boys for a population with growing expectations" (Straits Times, Apr. 7, 1987). Some MPs were doubtful whether the town councils could do a better job than the HDB, since even despite the economies of scale it enjoyed, the HDB had been operating with huge deficits and government subsidies. They were also afraid of becoming convenient scapegoats to take the blame if things went wrong.

They were probably right, in a sense. One of the reasons to involve the MPs and the residents in the management of their own estates was explicitly to "relieve the HDB of a large part of its burden." The HDB had been the principle mechanism for the social controls and economic policies of the People's Action Party government. When results were good for two decades, the People's Action Party gave the HDB resources, power, and authority to exert tremendous control over Singapore society and was dependent on the HDB for its political legitimation. But when the HDB started making mistakes and miscalculations as it grew larger and larger, it became a political liability rather than an asset. The People's Action Party could no longer rely on the HDB for its political domination, so that new plans and schemes such as town councils and team MPs had to be tried out. At the same time, the remarkable past achievements of the HDB, representing the achievements of the People's Action Party government, must not be forgotten. The social function of the HDB and the People's Action Party government to provide public housing must be preserved and must continue. But the management of the homes and the environment must be the responsibility of the people and those directly chosen by the people through political processes to manage and govern them.

ENDNOTES FOR CHAPTER TWO

1. Continuous reclamation works have gradually increased the land area of Singapore. Based on 1982 figures, the total land area stood at approximately 61,810 ha.
2. As a percent of the gross domestic product, manufacturing increased from 15 percent in 1965, to 24 percent in 1983, and to about 27 percent in 1986. By 1986, international services (transportation, communications, banking, finance, and business services) accounted for 33 percent of the gross domestic product.
3. In the early 1900s, immigrants were settled in areas designated by the British administration according to their ethnic dialect origins.
4. To give an idea of the rate of building and development, the total number of assessed buildings in the Municipal area, including dwellings, godowns, offices, factories, and workshops, was 38,437 in 1947, compared to 37,000 in 1931, representing an increase of barely 4 percent over a period of 16 years. During this same period, the population in the Municipal area alone increased by 52.5 percent from 445,719 to 679,953 (Low, Jacob, unpublished thesis).
5. Ownership of public housing (as in many private housing projects) in Singapore refers to a 99-year leasehold. The State Lands Rules, 1968, provides that in exercising its powers of land alienation under the State Land Act, the title to be issued shall ordinarily be a lease for a term not exceeding 99 years.
6.
$$\text{Gross New Town Density} = \frac{\text{Total number of dwelling units in a new town}}{\text{Total land area of a new town}}$$
7.
$$\text{Net Residential Density} = \frac{\text{Number of dwelling units on a site}}{\text{Net site area, including driveways, carparks, etc.}}$$

Net residential density refers to the number of persons or dwelling units per area of land to be actually developed for housing, which includes the sites of the buildings and their curtilages, small open spaces within the housing area, half the width of the estate roads, and about 18 feet of the principal traffic routes adjoining the housing sites.
8. See Report of Economic Committee, pp. 6, 30.
9. The success of using Central Provident Fund savings for HDB flats led to a more liberal use of the savings for the purpose of housing. The scheme was later extended to cover Jurong Town Corporation flats (1970), HUDC flats (1975), flats built by the Ministry of Defence (1977), and approved private residential properties (1981).

10. This was according to a survey conducted in 1986 by Survey Research Singapore, referred to by the Chief Executive Officer of the HDB himself (reported in the Straits Times, June 12, 1987).
11. In a speech made by the Prime Minister in March 1985, in Parliament, cited by The Far Eastern Economic Review, January 29, 1987, p. 14.
12. The size of a new town usually ranges between 30,000 and 60,000 dwelling units, so that it is feasible for the HDB to provide larger-scale public facilities such as sports and swimming complexes.

CHAPTER THREE -- SOCIAL AND POLITICAL GOALS OF HOUSING POLICY

State and Society in Singapore

By now it should be clear that the public-housing program in Singapore is more than a social welfare program aimed at improving the living conditions of the population and providing shelter for those left unserved by the private market. From its very inception, the logic of using a public-housing program to achieve "a 100 percent property-owning democracy" has been the logic of a strong, nationalistic, developmental state fighting for survival. The government of this state has tried "to get a unique society set up out of extraordinary circumstances, of near despair." (Lee Kuan Yew, in Parliament, March 21, 1985.)

The People's Action Party government has always believed that society can and must be remodeled by the state in order to achieve superior standards of living and better forms of social relationship. The public-housing program has been identified as an instrument to sculpt the form of the new society that the People's Action Party leaders have envisioned. It is a mechanism of the state to reform and reorganize the Singapore society. By controlling the supply and demand for public-housing as a commodity and for other vital housing-related services, the People's Action Party government has been able to sustain the economic viability of the tiny republic. It has also been able to engineer and alter the social habits and relations of the multiracial and ethnic Singaporeans, suppress communist threats, and sustain the ruling party's political legitimation and domination. The public-housing program is a national development strategy by which socioeconomic change and political control are exercised through the delivery of housing and related services to the majority of the population.

It must be emphasized at this point that without the support of strong political will and institutional commitments, it would not have been possible for the HDB to implement and manage such a large-scale public-housing program, no matter how efficient the organization was. The political priority of public housing has been translated into the allocation of massive financial and other resources for public-housing development, and the conferring of supporting legislative powers upon the HDB. The People's Action Party government saw public housing as much more than a social welfare program to provide decent shelters for the poorer segment of the population: It saw public housing as an instrument of nation-building, to promote economic development, expedite social integration, and maintain political legitimation and domination. Let us now examine each of these factors.

Social Integration in Public Housing

The social structure that existed in the traditional trading post of Singapore was extremely fragmented and unstable. Despite its strategic position as an international trading center and the unifying force of nationalist movements, subsequent modernization and development were hampered by the significant ethnic and intra-ethnic cultural divergences that manifested themselves in social as well as in economic activities.

The earlier generations of the Singapore population comprised a complexity of segregated communities, each from different parts of the world and with diverse and competing interests within and among them. To make matters worse, the British administration had further encouraged racial communalism through locational concentration. They consisted of a small group of Malay rural settlers and a larger, diverse group of fortune-seekers and opportunists, who had traveled long distances in search of wealth and peace. These migrant populations had planned to return to their motherlands as soon as they struck it rich or when unrest in their homelands died down. Until recently, many of the older folks in Singapore still dreamed of returning to their homelands.

Push factors such as pressure on the land, political upheavals, unemployment, and poor living conditions in the countries of origin accounted for most of the early influx of migrants. But, with the rapid growth of Singapore's entrepot trade, pull factors also played a major role. Particularly attractive were new opportunities for small businesses, employment, and access to the tin and developing plantation industries in the Malayan Peninsula. Most of the population was male, transient, and frequently indebted because of the passage expenses. These factors produced a society that was demographically, economically, and socially unstable.

With the influx of immigrants, the composition of the population evolved from several hundred Malay fishermen to one that was predominantly Chinese with small proportions of Malays and Indian-Pakistanis. By 1957, there were 1,090,596 Chinese, 197,059 Malays, and 124,084 Indian-Pakistanis, comprising 75.4 percent, 13.6 percent, and 8.6 percent, respectively, of the total population of 1,445,929 (Figure 1 and Table 1). This simple division of the population into three major ethnic groups, however, tended to obscure its highly heterogeneous character. There were, in fact, at least five main communities within the Chinese population, the three largest each outnumbering the Malay. The Indian-Pakistani group was also just as fragmented and divided by its differences in language, religion, and custom. Even within the classification of the Malay group, the most homogeneous of all, were included several specific communities of Javanese, Boyanese, and Bugis (Figure 2). In addition, smaller communities of Jews, Nepalese, Filipinos, Koreans, Japanese, and other Asian peoples further contributed to the cosmopolitan and pluralistic character of Singapore society.

The commercial interests of the Chinese resulted in their concentration near the Singapore River, in Chinatown, and in the Rochore area. The Hokkiens located in Old Chinatown on Telok Ayer Street; the Teochews occupied the banks of the Singapore River and were mainly in control of the trades in gambier, pepper, sundry goods, and textiles; and the Cantonese lived further inland, since they were mainly artisans and did not have to live near the waterfronts.

The Malays were heavily concentrated in the Paya Lebar-Geylang Serai district, where land was specifically reserved for them outside the administrative city limits, and in the southern islands, where they earned a living mainly by fishing. The Indian-Pakistani population consisted primarily of dock and railway workers who lived near the Tanjong Pagar

FIGURE 1 -- SINGAPORE

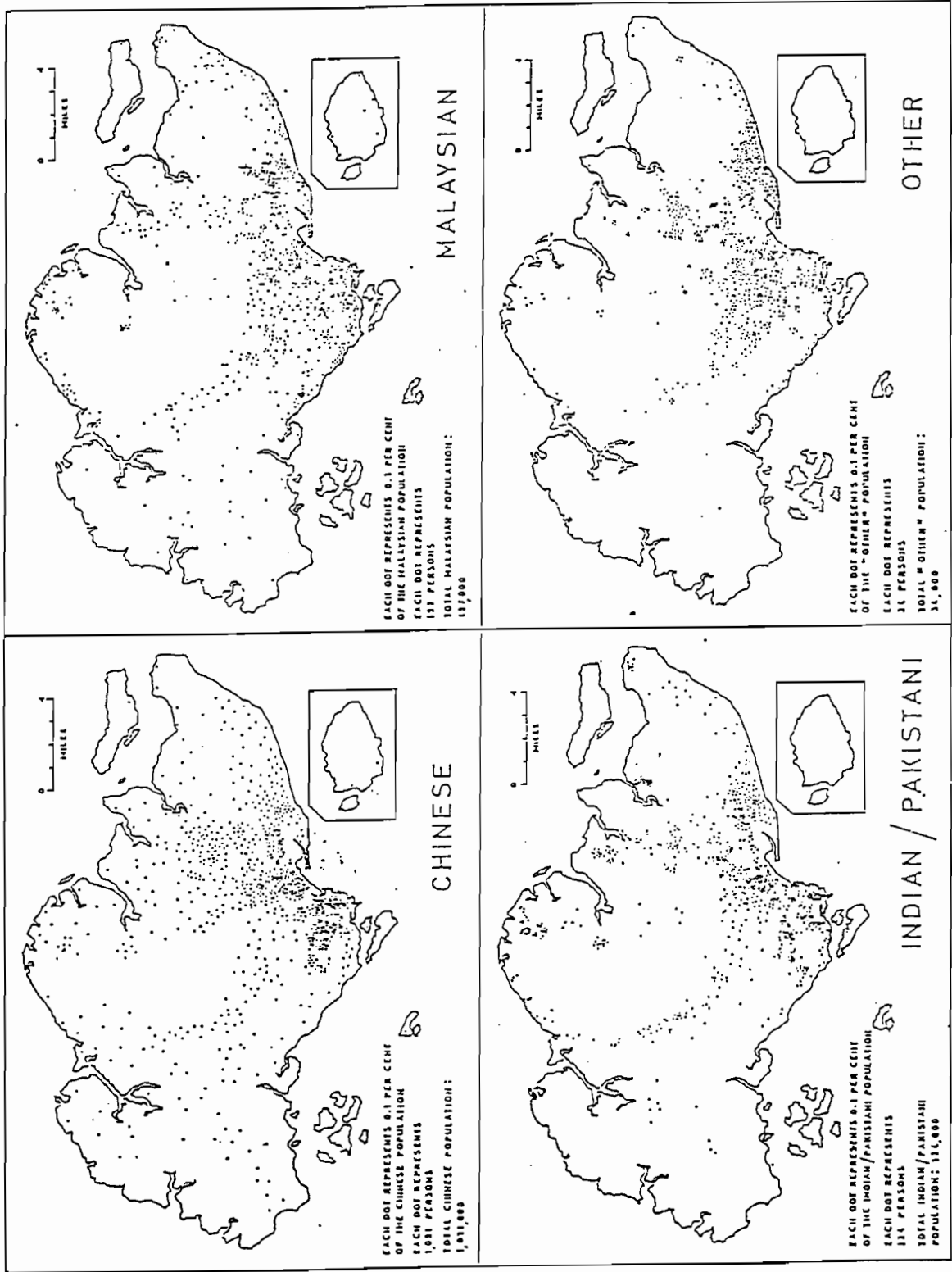


FIG. 7. Areal distribution of the main ethnic groups, 1957.

TABLE 1 -- PERCENTAGE DISTRIBUTION OF POPULATION IN SINGAPORE
BY ETHNIC GROUP, 1824-1980

<u>Year</u>	<u>Population</u>	<u>Percentage</u>				<u>Total</u>
		<u>Chinese</u>	<u>Malays</u>	<u>Indians</u>	<u>Others</u>	
1824	10,683	31.0	60.2	7.1	1.7	100.0
1830	16,634	39.4	45.9	11.5	3.2	100.0
1836	29,984	45.9	41.7	9.9	2.6	100.0
1840	35,389	50.0	37.3	9.5	3.1	100.0
1849	52,891	52.9	32.2	11.9	3.0	100.0
1860	81,734	61.2	19.8	15.9	3.1	100.0
1871	97,111	56.2	26.9	11.8	5.0	100.0
1891	181,602	67.1	19.7	8.8	4.3	100.0
1901	226,842	72.1	15.8	7.8	4.3	100.0
1911	303,321	72.4	13.8	9.1	4.7	100.0
1921	418,358	75.3	12.8	7.7	4.2	100.0
1931	557,745	75.1	11.6	9.4	3.9	100.0
1947	938,144	77.8	12.1	7.7	2.4	100.0
1957	1,445,929	75.4	13.6	7.0	1.8	100.0
1970	2,074,507	76.2	15.0	7.0	1.8	100.0
1980	2,413,945	76.9	14.6	6.4	2.1	100.0

Sources: 1824-1957: Saw 1970:57.
1970: Arumainathan 1973.
1977: Yearbook of Statistics Singapore 1977/78:15.
1980: Khoo 1981.

Note: From 1970 onwards, Indians include Sri Lankans (Ceylonese) who were previously classified as "Others."

FIGURE 2

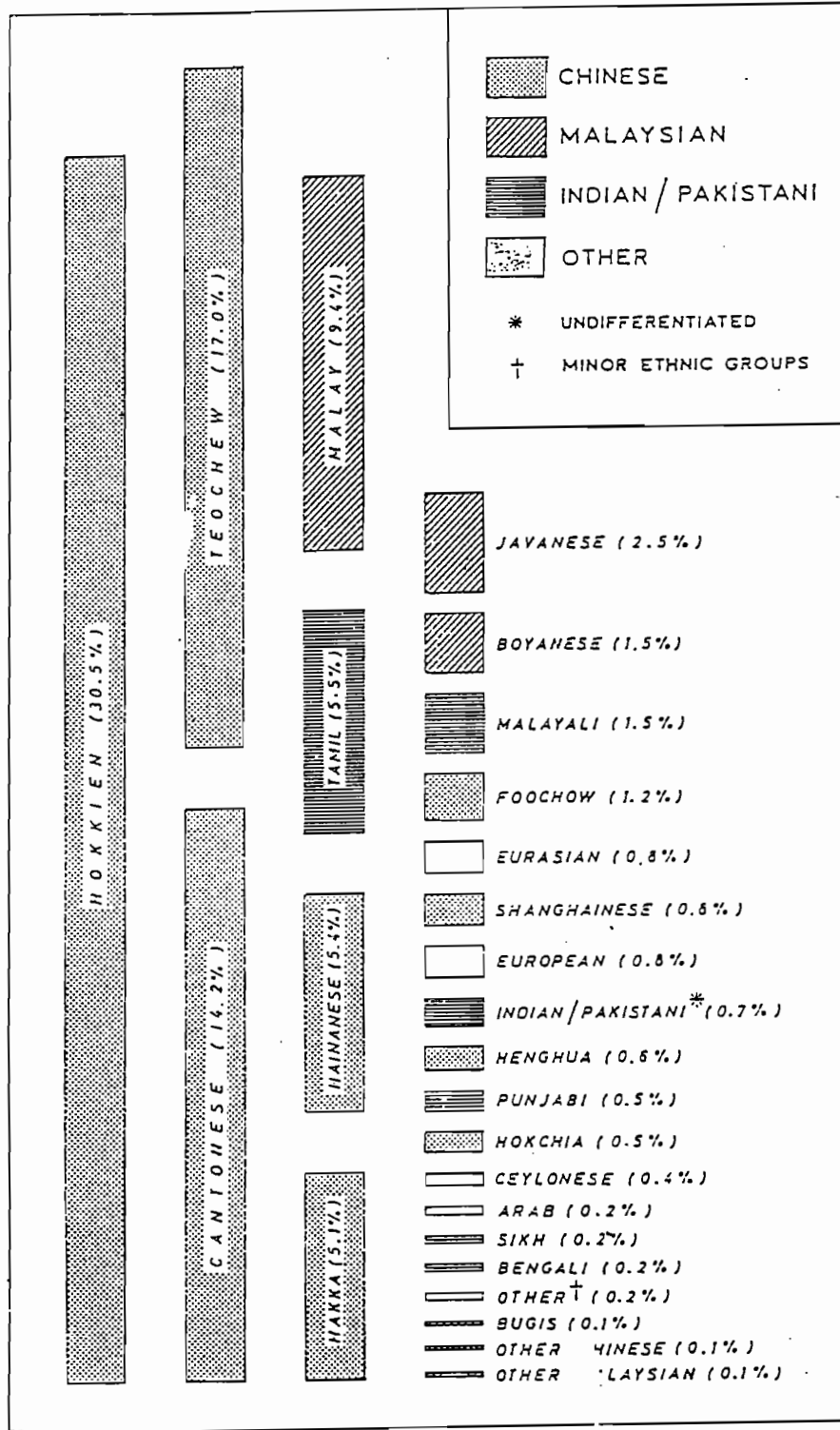


FIG. 1. Specific communities as percentage of total population, 1957.

dock area or were merchants who traded in the Kandang Kerbau area. These nuclei were at the peripheries of the main Chinese districts. There were also many Indian-Pakistani skilled and unskilled laborers employed in the British military bases in the peripheral areas. Similar diversity occurred among the Indian-Pakistani language group of Tamil, Hindi, Bengali, and Urdu. The rest of the population was less dispersed than the main ethnic groups but also lacked any focus of concentration. They lived mainly in the Tanglin, Mount Sofia, Serangoon, and Katong areas, where class rather than ethnic groupings developed.

To other ethnic groups, the Chinese community may have appeared very cohesive, but in fact it was divided by at least 12 different dialects, mostly not mutually intelligible. Since the 1880s, the relative size of each dialect group has remained fairly constant (Table 2). Hokkiens, Teochews, Cantonese, Hakkas, and Hainanese are the five major dialect groups, and together they formed about 96 percent of the total Chinese population in 1980. Social disorder; intercommunity feuds and competition; the collective needs of the destitute, unemployed, sick, and deceased; and the need for education, religious worship, social contact, and mutual help -- all these necessitated some form of coordination and mediation to help the Chinese settle in a new land. This led to the registration of more than 1,000 different types of voluntary Chinese associations (Table 3 and Figure 3), organized mainly on the principles of dialect, place of origin, kinship, and trade, and aimed at promoting fellowship, unity, and welfare for specific groups of people. These associations were greatly influenced by the Chinese secret societies until 1890, when secret societies were outlawed. Before the 1960s, these associations functioned beyond local social institutions, since their activities were extended to benefit fellow countrymen in China and in other parts of Southeast Asia.

The extreme heterogeneity and plurality of the communities, coupled with the youthfulness of the post-war population, had serious social and economic implications for Singapore. The economic differences between ethnic groups resulted in the unequal sharing of the predominantly youthful dependency burden. The Malay population, with the largest proportion of children under 15 years of age, had the smallest proportion of economically active members, and those working were employed in the less remunerative occupations (Figures 4 through 8). The predominantly male and adult Indian-Pakistani population had a very small dependency burden within Singapore, but had substantial numbers of dependents in India and Pakistan who benefited from remittances and the eventual return of men and capital to their homelands.

The need to provide adequate educational facilities and opportunities for the large proportion of children was complicated by the need to provide for schooling in at least four languages and to reach similar standards of achievement regardless of the language medium. It was difficult to train teachers, standardize syllabuses, and provide teaching materials suited to each cultural group's mores and values.

Inter- and intra-ethnic diversity also posed a serious problem in providing adequate employment opportunities. Many occupations and industries were specialized and sometimes were monopolized by certain

TABLE 2 -- PERCENTAGE DISTRIBUTION OF CHINESE
BY DIALECT GROUP, 1881-1980

Dialect Group	1881	1891	1901	1911	1921	1931	1947	1957	1970	1980
Hokkien	28.8 ^a	37.6 ^a	36.0 ^a	41.7 ^a	43.0	43.0	39.6	40.6	42.2	43.1
Teochew	26.1	19.5	16.8	17.1	16.8	19.7	21.6	22.5	22.4	22.0
Cantonese	17.1	19.2	18.8	22.2	24.9	22.5	21.6	18.9	17.0	16.5
Hainanese	9.6	7.1	5.8	4.9	4.6	4.7	7.1	7.2	7.3	7.1
Hakka	7.1	6.1	5.2	6.6	4.6	4.6	5.5	6.7	7.0	7.4
Foochow					4.0	1.6	1.3	1.5	1.7	1.7
Sanjiangren					0.4	NA ^d	NA	1.0	0.8	0.8
Henghua					0.5	NA	1.0	0.8	0.8	0.7
Hokchia					1.8 ^b	2.1 ^b	0.9	0.7	NA	NA
Kwongsai					e	0.2	0.1	e	NA	NA
Others	0.3			7.5	2.2	1.6	1.3	0.1	0.7	0.7
Straits-Born ^c	11.0	10.5	9.4	NA	NA	NA	NA	NA	NA	NA
Total (%)	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Total No. (in hundred thousands)	86.8	121.9	164.0	219.6	317.5	418.6	729.5	1,090.6	1,579.9	1,856.2

Sources: 1881: Talbot, et al., 1882:12-13.

1891, 1901: Lee 1974:143.

1911, 1921: Nathan 1922:79-83.

1931: Vlieland 1932:181.

1947, 1957: Chua 1964:68, 148-149.

1970: Arumainathan 1973, Vol. II:32-33.

1980: Khoo 1981, Release No. 2:59-60.

Notes:

^a Probably including Foochow, Henghua, and Hokchia.

^b Probably including Henghua.

^c They were largely Hokkiens migrated from Malacca, and thus could be classified under Hokkien.

^d NA: not available.

^e Less than 0.1%.

Source: Cheng, 1985

TABLE 3 -- DISTRIBUTION OF CHINESE ASSOCIATIONS BY TYPE AND BANG, 1976

Bang/ Non-Bang		Locality/ Dialect	Clan/ Surname	Trade/ Occupational	Mutual Help	Recreational/ Cultural/ Athletic/ Alumni	Religious	Total
Hokkien	No. %	20 (27.4)	12 (16.4)	3 (4.1)	2 (2.7)	23 (31.5)	13 (17.8)	73 (100)
Teochew	No. %	15 (25.4)	26 (44.1)	5 (8.5)	-	12 (20.3)	1 (1.7)	59 (100)
Cantonese	No. %	35 (29.9)	30 (25.6)	13 (11.1)	3 (2.6)	36 (30.8)	-	117 (100)
Hainanese	No. %	20 (35.1)	23 (40.4)	1 (1.8)	-	12 (21.1)	1 (1.8)	57 (100)
Hakka	No. %	15 (34.9)	16 (37.2)	1 (2.3)	3 (7.0)	4 (9.3)	4 (9.3)	43 (100)
Foochow	No. %	6 (31.6)	4 (21.1)	2 (10.5)	1 (5.3)	5 (26.3)	1 (5.3)	19 (100)
Sanjiang	No. %	7 (87.5)	-	1 (12.5)	-	-	-	8 (100)
Henghua	No. %	4 (57.1)	-	2 (28.6)	-	1 (14.3)	-	7 (100)
Hokchia	No. %	2 (66.7)	1 (33.3)	-	-	-	-	3 (100)
Non-bang	No. %	-	83 (13.4)	150 (24.3)	19 (3.1)	279 (45.1)	87 (14.1)	618 (100)
Total	No. %	124 (12.3)	195 (19.4)	178 (17.7)	28 (2.8)	372 (47.1)	107 (10.7)	1,004 (100)

Notes:

1. The Chinese associations compiled in this table refer to those whose names are written in Chinese and English and which appeared in the list of registered societies, excluding the political parties (Republic of Singapore, Government Gazette, Vol. XVIII, No. 45, June 25, 1976).
2. Since a variety of functions and activities are performed by all types of associations, the classification of associations by type is primarily based on the registered names with the Registrar of Societies and cross-checked with sources mentioned in note (3) below.
3. The categorization of associations by bang is achieved by cross-checking with several sources (e.g., Ngow 1975, 1977; the various associations and their publications; Sin Chew Jit Poh, Singapore; and Nanvang Siang Pau, Singapore).

Source: Cheng, 1985.

FIGURE 3

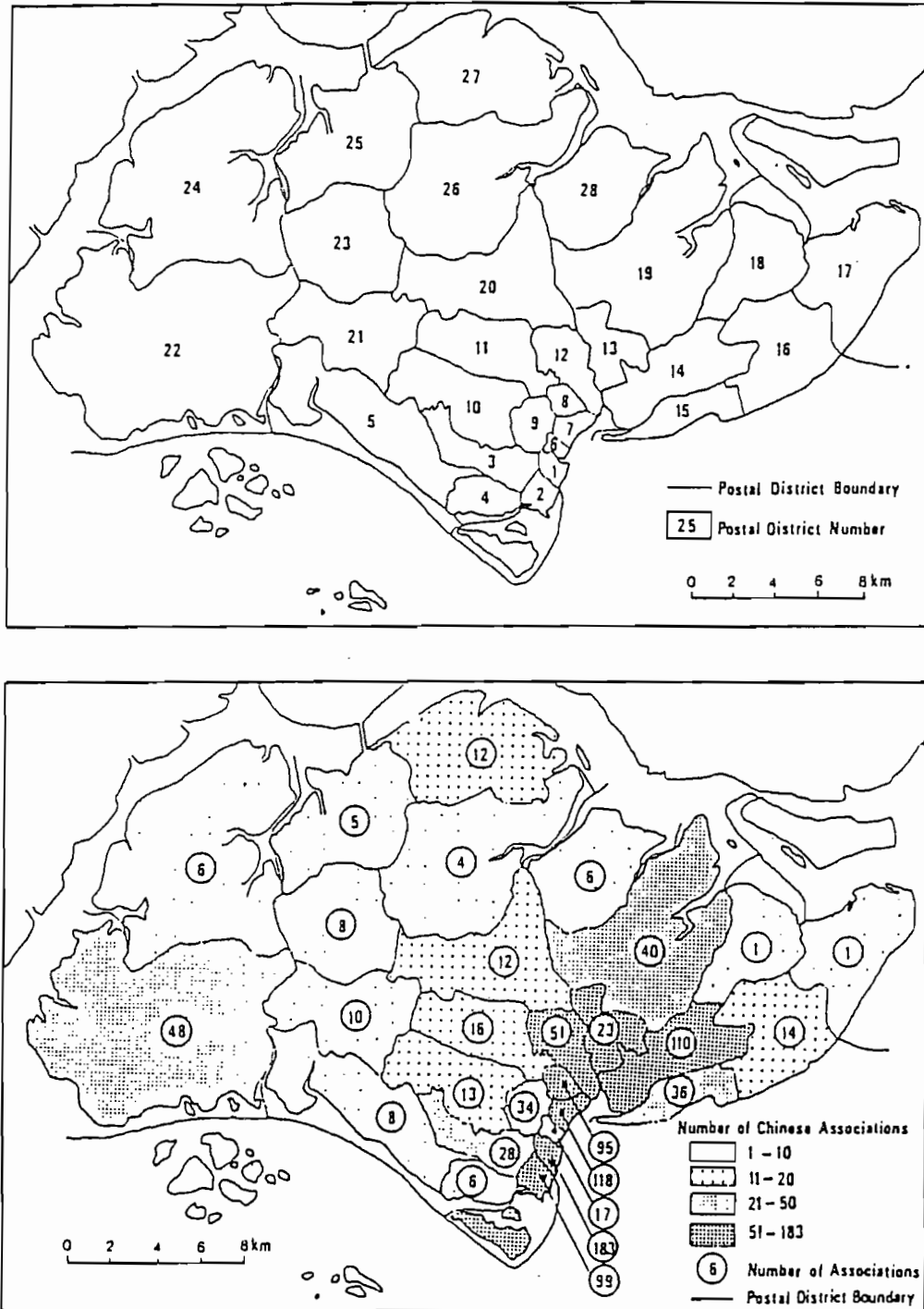


Fig. 3.1 Distribution of Chinese Associations by Postal District, 1976

FIGURE 4

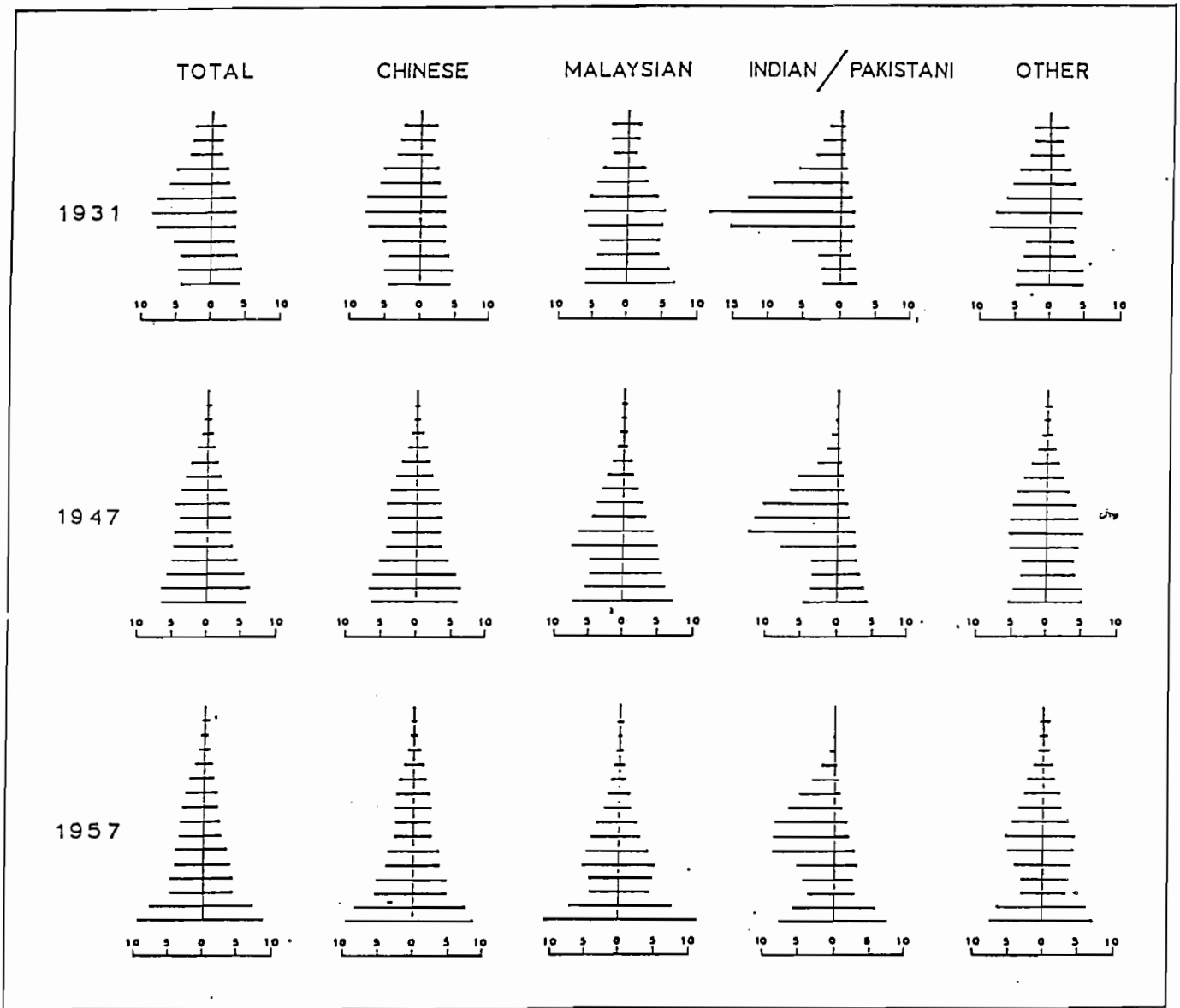


FIG. 2. Sex and age composition by ethnic groups, at the 1931, 1947, and 1957 Censuses. Age groups are for five-year intervals, with males represented on the left and females on the right. The scale indicates the percentage of the total population in each group.

FIGURE 5

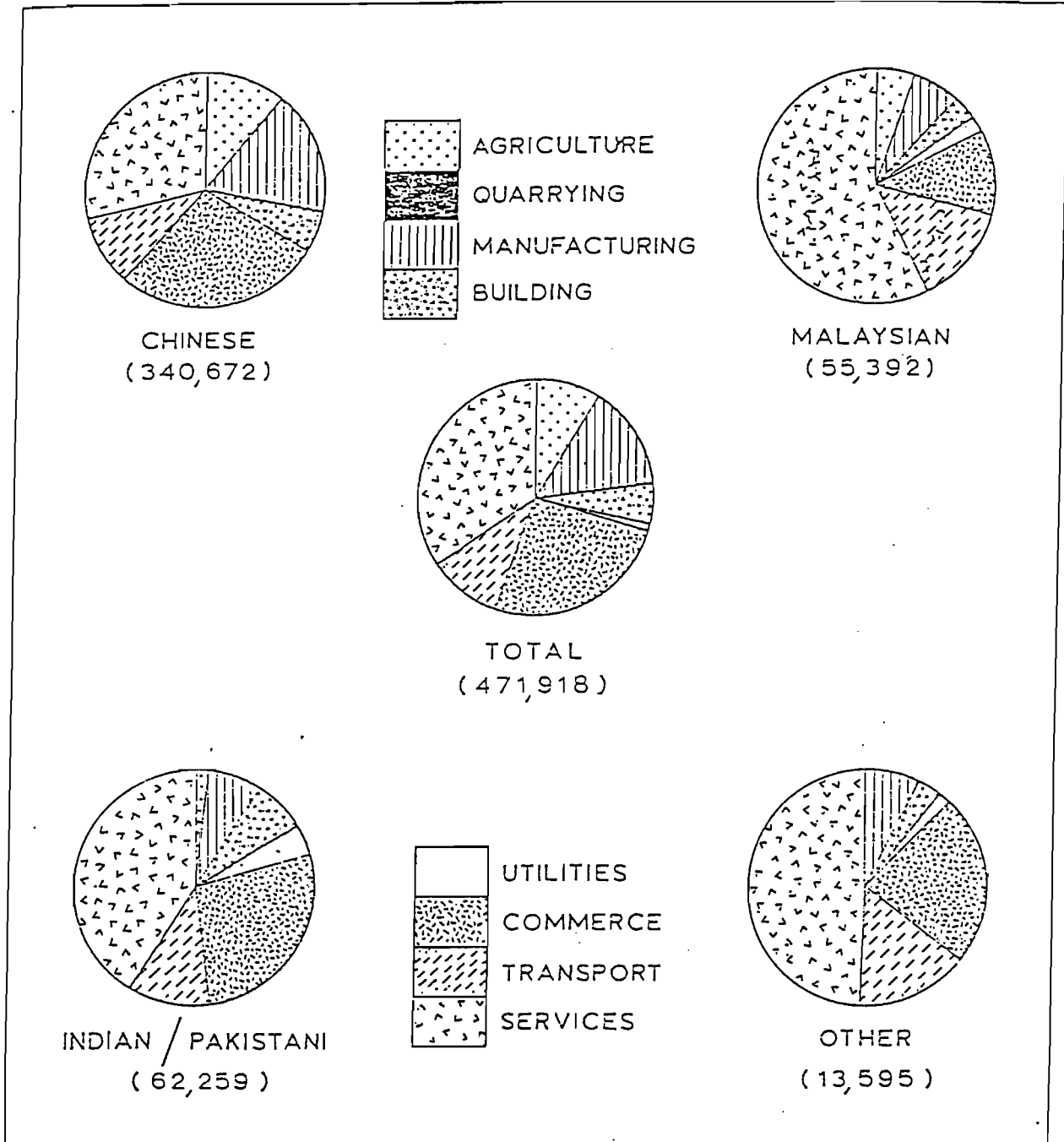


FIG. 3. The economically active in each ethnic group by industry, 1957.

FIGURE 6

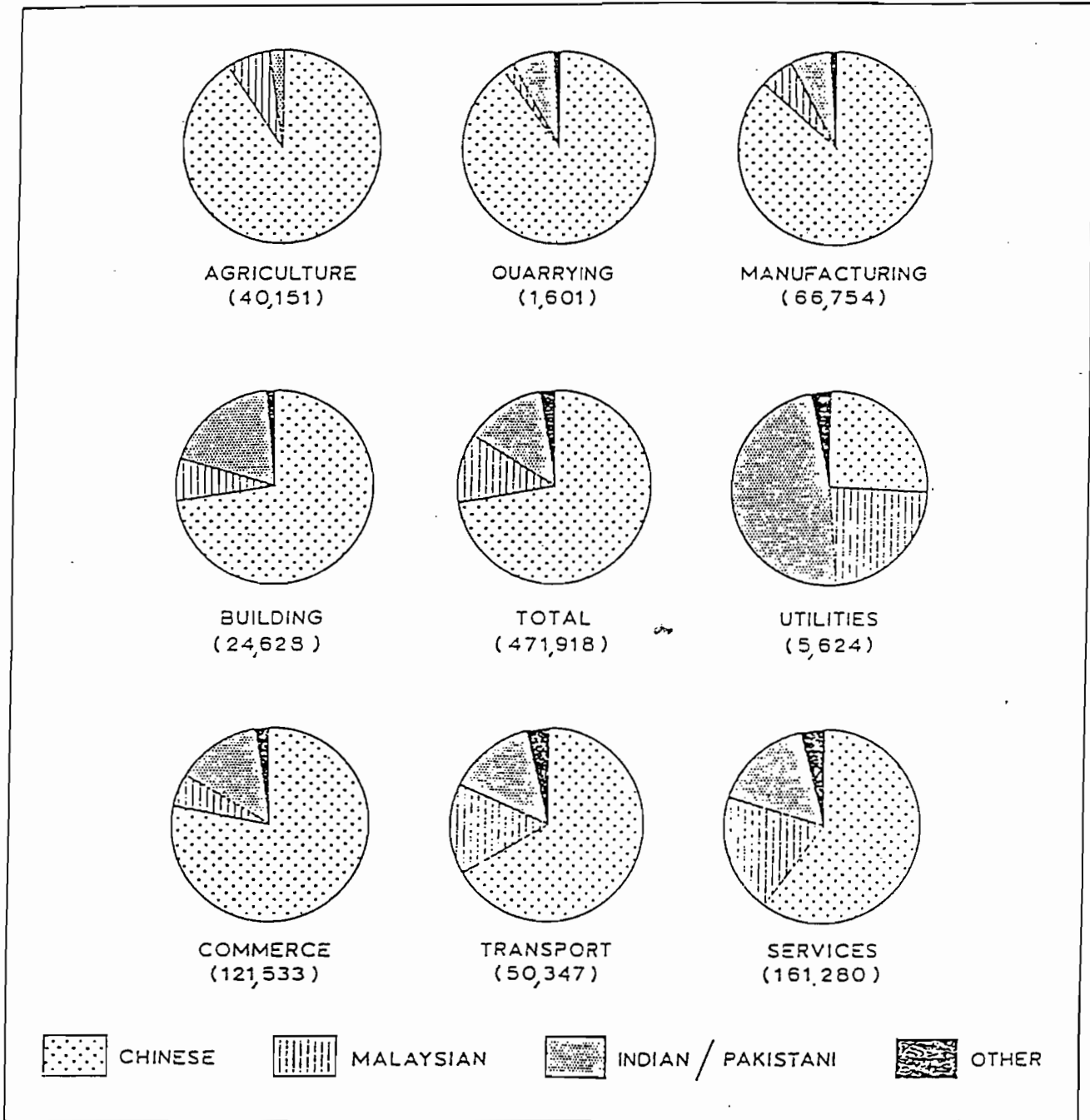


FIG. 4. The economically active in each industry by ethnic group, 1957.

FIGURE 7

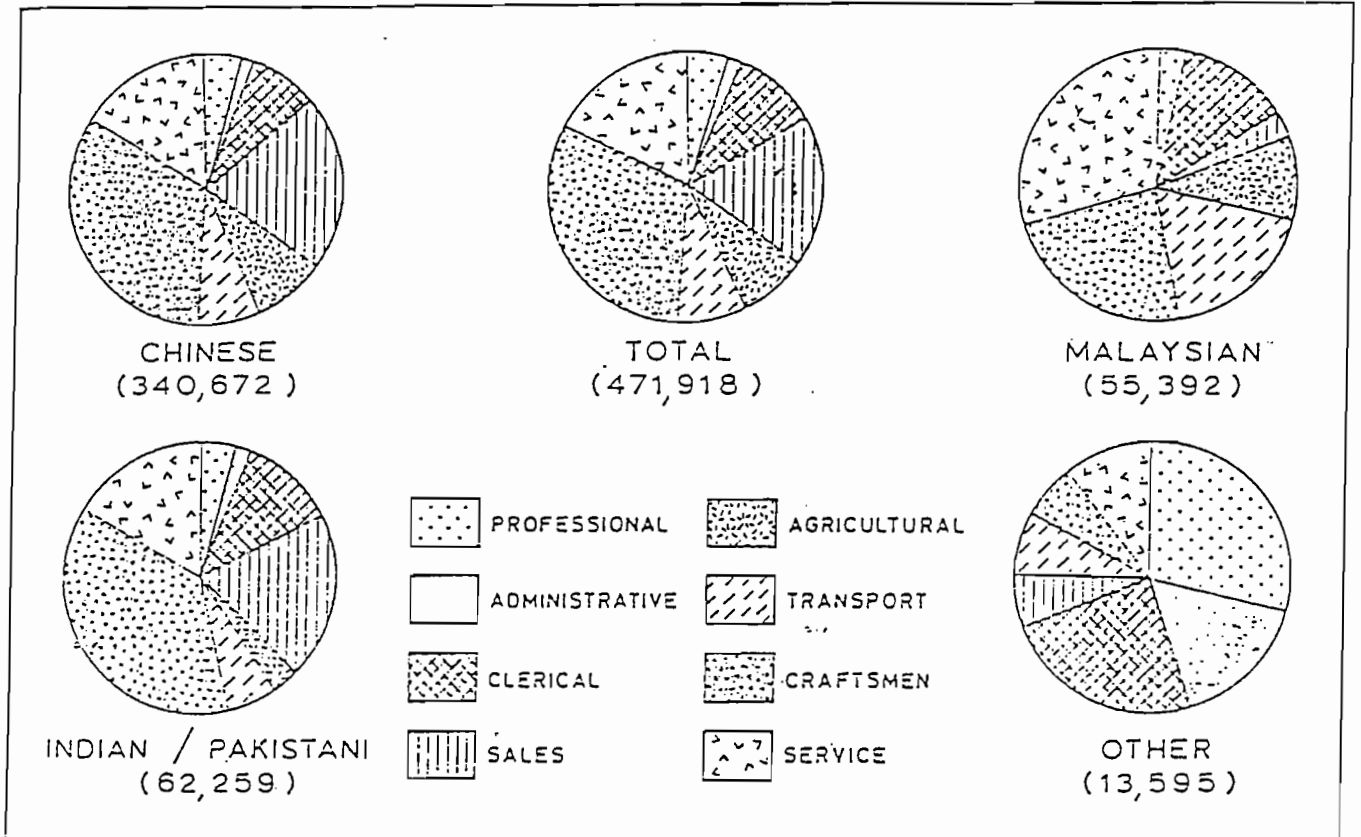
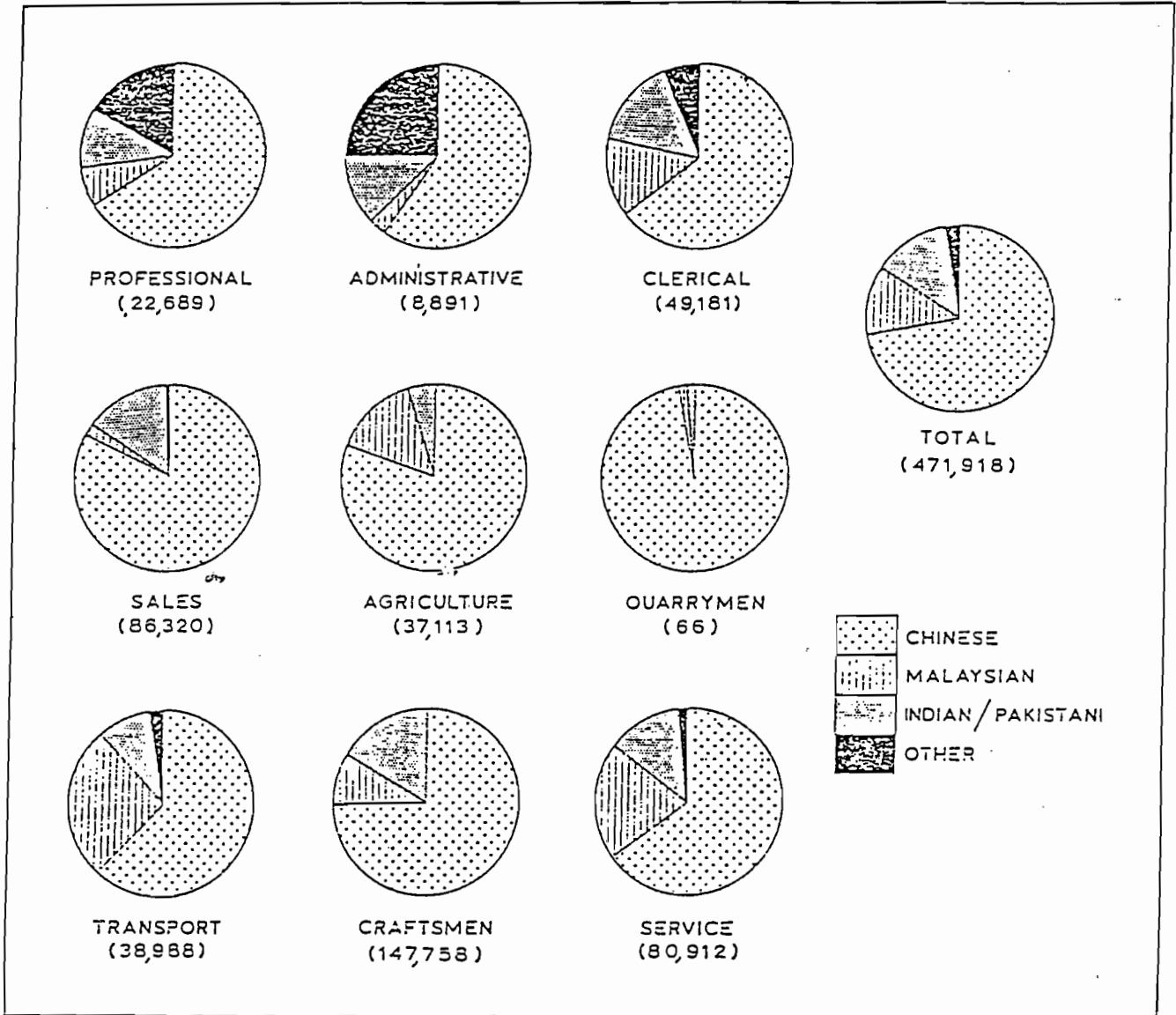


FIG. 5. The economically active in each ethnic group by occupation, 1957.

FIGURE 8



The economically active in each occupation by ethnic group, 1957.

ethnic or dialect groups, thereby perpetuating their status quo. Unskilled and semi-skilled jobs, in particular were usually filled through personal contacts. Thus, members of other dialect groups were inevitably excluded from entry or effective participation.

Religion and language are two factors with the potential to create a sense of community or nationhood. In Singapore, the religious diversity formed one of the main barriers to fraternization between groups and it precluded extensive intermarriage and minimized opportunities for cooperation. The Malays were Muslims. The Indians were mostly Hindus, but among the Indian-Pakistanis, there were also Muslims, Sikhs, and Christians. The majority of the Chinese were Buddhists, Taoists, Confucianists, or followers of folk-religions derived partly from these religions. A small minority group of Chinese were Christians. Almost all Europeans and Eurasians were Christians. Others were Jews, Parsees, or agnostics.

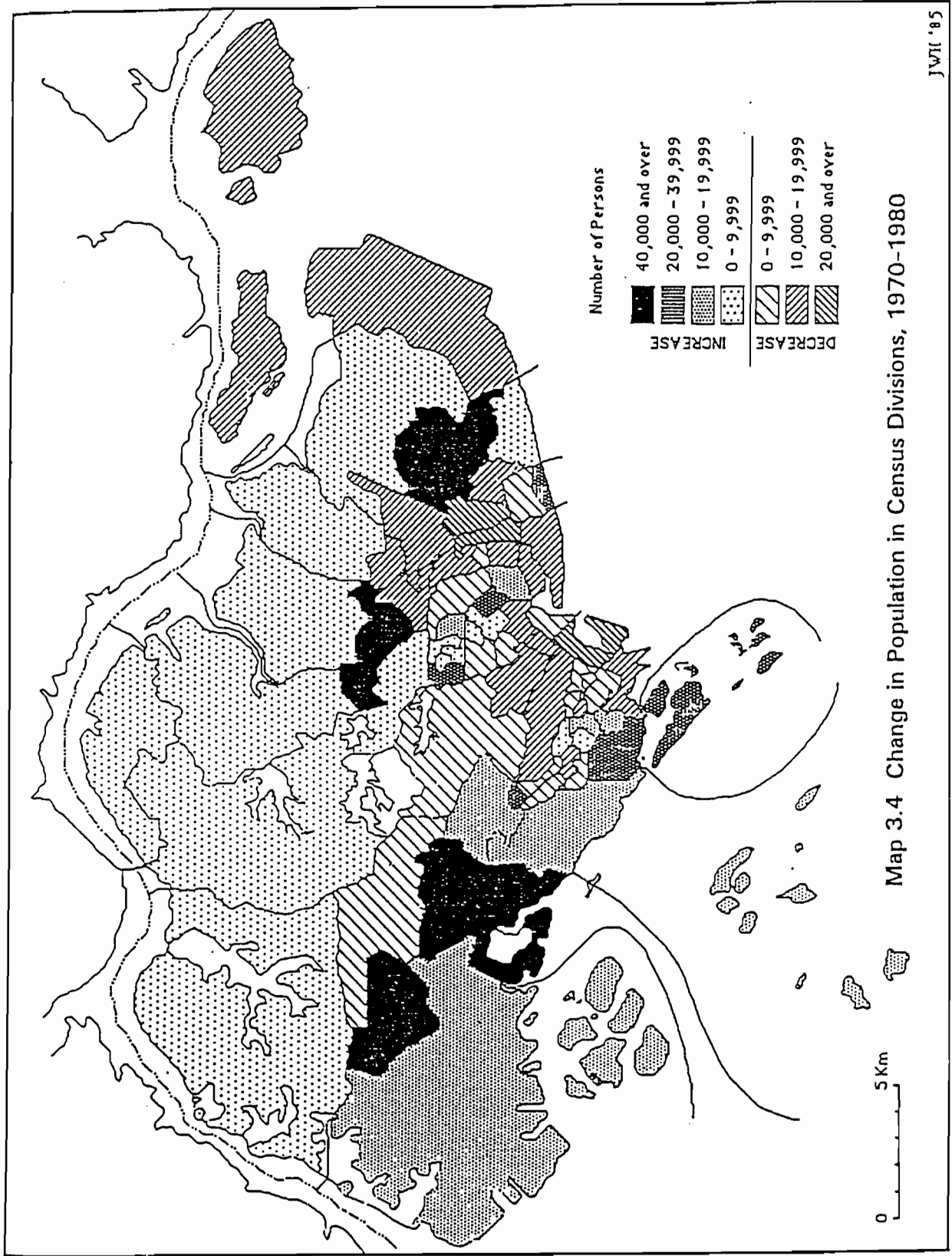
Thus, the multiplicity of race, religion, language, and culture presented severe obstacles in the path of economic and social development in Singapore. The maintenance of close connections with the countries of origin also contributed to skepticism about the personal and political loyalties of the migrant population. Clearly, any planning for economic development and expansion in Singapore had to redress the imbalances and inequalities existing among the heterogeneous population.

The People's Action Party government's goal to modernize Singapore through the development of a meritocratic and bilingual multiethnic society had facilitated national integration. Socially and culturally, the peoples of Singapore are more unified than ever before. Behind this growing self-awareness of being Singaporeans both as an individual and a national identity are many diverse political and socioeconomic forces: the People's Action Party leadership, urban renewal and public housing, bilingualism and multiethnicity, integrated school systems, national defense service, new forms of community development, industrialization, and meritocracy. (Economically, industrialization has broken ethnic and dialect occupational specialization to some extent. Competition is now based on merit.)

Public housing and urban renewal have resulted in substantial suburbanization as well as relocation of the population within the central city area (Figure 9). In 1970, there were about 411,600 people, or 25 percent of the population living in the city area. By 1980, the population in the city had dropped to 226,884, which dropped further to 149,895 in 1980. The pattern of spatial concentrations of ethnic and Chinese dialect groups still continues to a certain extent today. Both the former ethnic and dialect spatial concentrations are fast disappearing and being replaced by new housing estates in which a wide cross-section of all ethnic and dialect groups are represented.

The traditional spatial concentrations that persisted can be explained. When the HDB clears an area for redevelopment, most of the flats available for new occupants are obviously in estates currently nearing completion. When offered a choice of several estates, the average family prefers to minimize dislocational problems by selecting an estate

FIGURE 9



that is as near as possible to their original home. The net result has been that while there has indeed been increased integration of the ethnic groups within the HDB estates and new towns, there were still some discernible ethnic spatial concentrations existing at the time of the 1980 census.

To provide a picture of the current locations distribution of the population, we find it useful to summarize Humphrey's geographic analysis for 1980. Of the 215 census districts, 130 districts or 60.5 percent of the total had a larger proportion of Chinese than the national average; 74 districts or 34.4 percent had a higher proportion of Malays; and 87 districts or 40.5 percent had a higher proportion of Indians and others combined together (Figures 10 through 14). A total of 47 census districts each contained more than 12,000 Chinese, or 49.8 percent of all Chinese in Singapore. Nearly all of these districts were either dominated by large public-housing estates, or were located in the outlying, semi-rural portions of the island where the Chinese have long engaged in various agricultural activities. In another nine districts, each with more than 24,000 Chinese, one contained a sizeable private housing estate and the rest were parts of the new satellite towns, although it contains a sizeable HDB estate.

While the older HDB estates situated on the fringe of the urban core were overwhelmingly Chinese, as in Toa Payoh and Ang Mo Kio, the more recently developed Clementi and Bedok new towns had a smaller proportion of Chinese than the general population. This reflects the nature of the HDB's programs over the past two decades: the earliest public housing accommodated mainly those originally living in the essentially Chinese inner-city slums and adjacent squatter settlements, while more recent ones housed a larger proportion of other ethnic groups resettled from outlying concentrations. Thus, the public-housing program has had its limitations in breaking up the traditional ethnic distributions. Although significant changes in the population distribution have occurred since 1960 as a result of redevelopment, traces of the old settlement pattern were still evident in 1980.

Unlike the more dispersed Chinese population, the Malays traditionally congregated in several nuclei where their cultural and religious needs could be more easily met. Nearly all of these Malay settlements underwent redevelopment during the 1970s, with their inhabitants resettled in various public-housing estates. As an incentive for strong Malay communities to move out from their kampongs to public housing, it was announced in the Straits Times (Nov. 1, 1965) that

The Singapore Government will give a rent subsidy of 20 percent to Malay families affected by the government's urban development scheme if they accept accommodation in HDB flats.

The West Coast, Sembawang, and Jalan Eunos Malay Settlements were all redeveloped to provide sites for new housing and industrial estates. The Ayer Gemuruh Malay Settlement was dispersed due to the development of the Changi International Airport. In addition, nearly all of the Malays



FIGURE 12

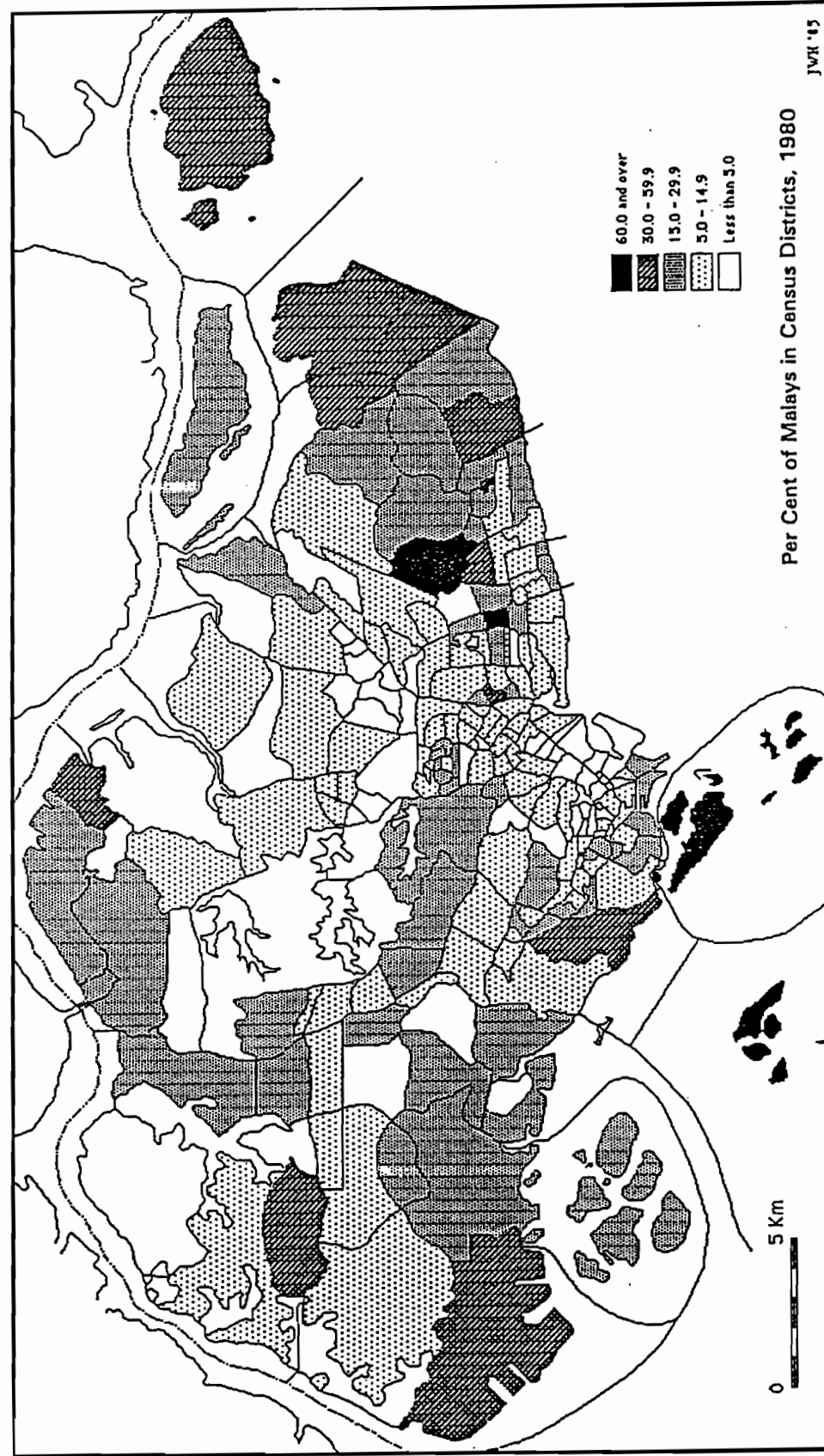


FIGURE 10

Figure 4.2 Percentage Distribution of Population Census Districts by Ethnic Group, 1980

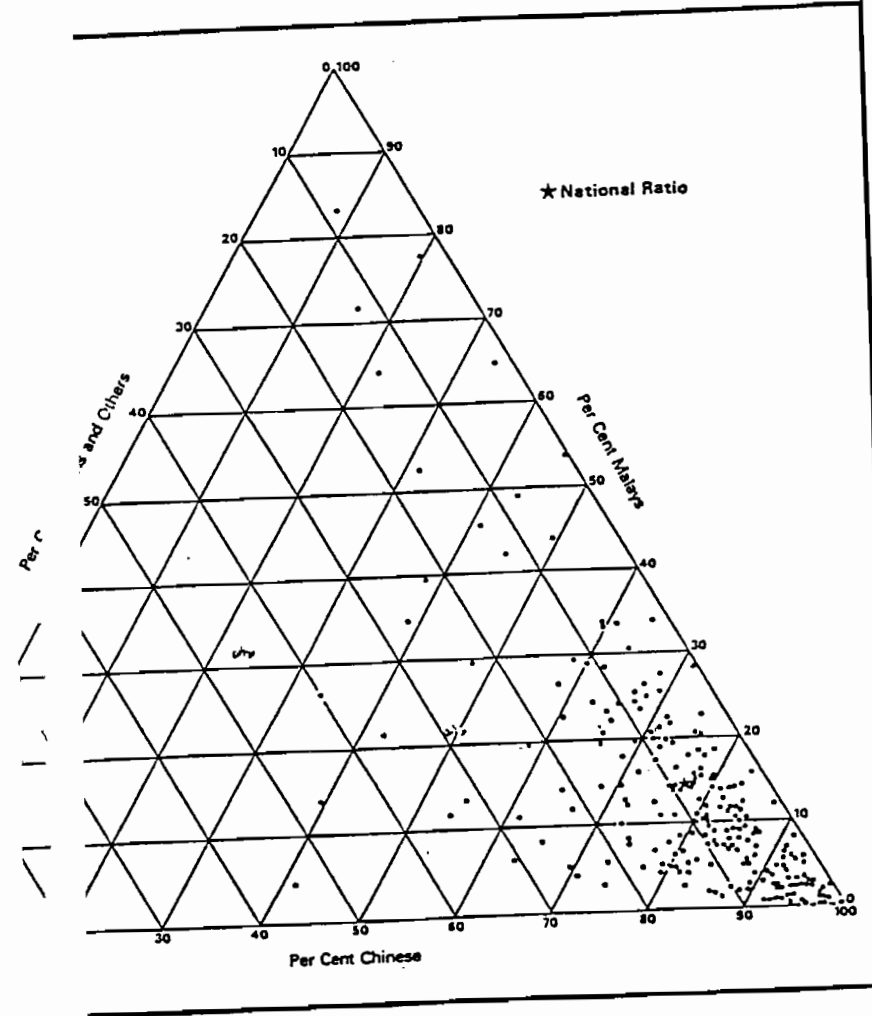


FIGURE 13

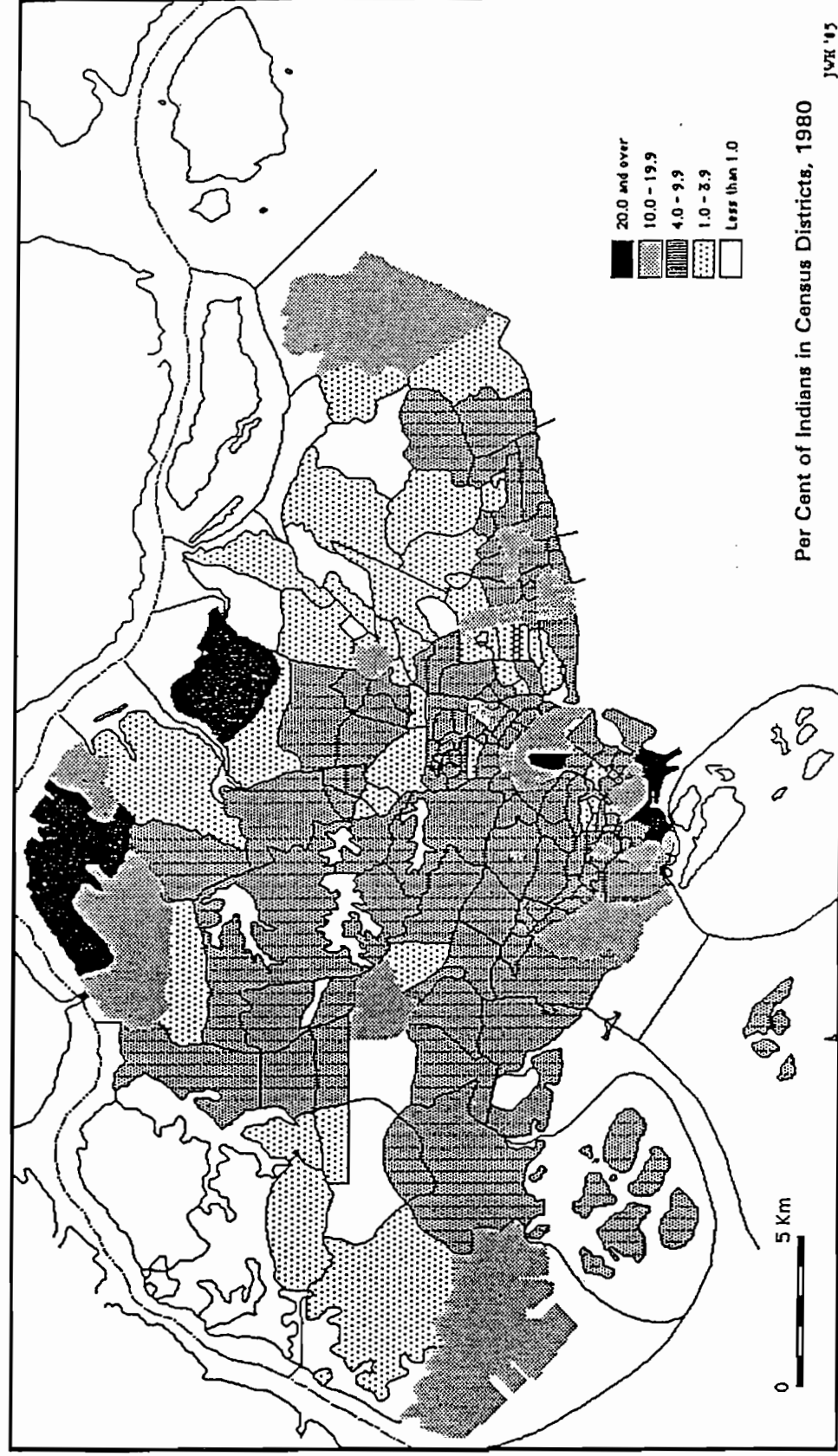
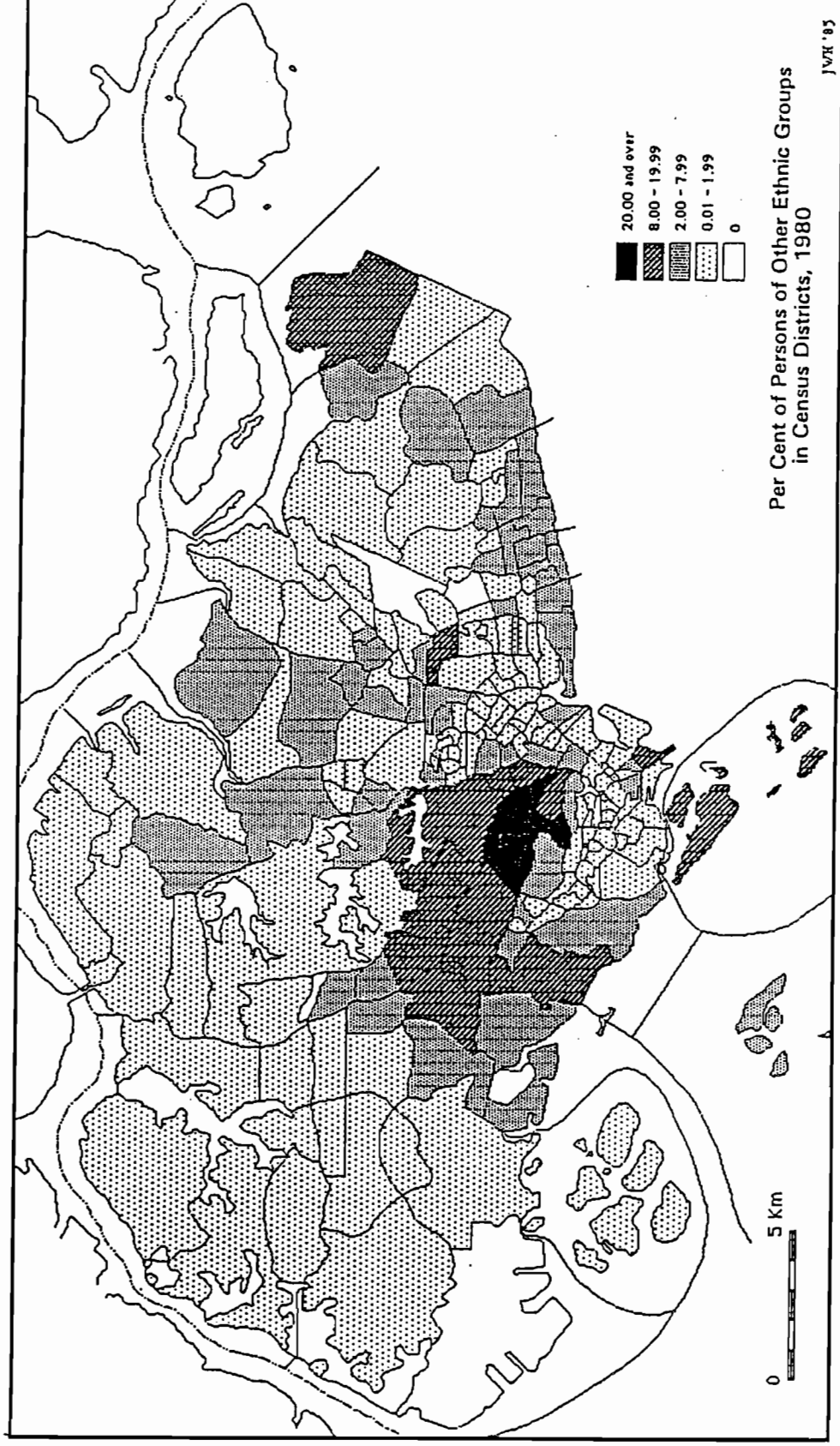


FIGURE 14



previously living in the southern islands were relocated to the main land in order to convert these outlying areas to recreational, industrial, and military uses. Despite these major resettlements, however, the Malays continued to live mainly in districts on the eastern and western fringes of the old city area. Four of these census districts were conspicuous for their relatively large number of Malays: Bukit Timah III (18,183), Kampong Chai Chee II (14,695), Jurong III (12,558), and Bedok III (12,512). These areas jointly accounted for 16.5 percent of Singapore's total Malay population, and contained three of the relatively recent HDB new towns (Clementi, Jurong, and Bedok). An additional nine census districts contained between 5,000 and 7,000 Malays each, and (as in the previous instance) a large percentage of them resided in public-housing estates side by side with other ethnic groups. Among these nine districts in this group are the newer HDB estates of Woodlands/Sembawang, Ang Mo Kio, Clementi, the Kallang Basin, and Marine Parade. There were still modest numbers of Malays remaining in the Geylang Serai, Kampong Ubi, Kampong Kembangan, and Changi areas who had not been resettled at the time of the 1980 census. The rest of the 215 census districts contained relatively few Malays.

Like the Chinese, the general preference of Indians for commercial, financial, and other urban-based activities has historically been reflected in the relatively higher proportion of the Indians residing in and near the urban core. A secondary center for the Indians was in the vicinity of the old naval base at Sembawang. There were five Indian nuclei in the urban core, each differentiated by its particular occupational, religious, linguistic, and caste distinctions, in the vicinity of Market and Chulia Streets, the High Street retailing district, the area next to Keppel Harbor and the railway terminus, Kampong Glam, and "Little India" along Serangoon Road. These and several other new nuclei continued to exist in 1980 despite the many changes that occurred over the two decades. Most of the country's census districts contained relatively small numbers of Indians. The largest single concentration was in Bukit Timah III (4,719 persons), and there were just ten other census districts having more than 2,000 Indians. Most of the remaining census districts contained fewer than 800 Indians each. In no census district did Indians constitute a majority of the population in 1980, not even within the Serangoon and Sembawang nuclei. Even Cairnhill I, the heart of "Little India," had 2,070 Indians who formed 28.4 percent of the total population living there.

In 1980, Cairnhill, Tanglin, and River Valley continued to form the heart of the "others" population. ("Others" refers to the many smaller ethnic or nation-origin groups too small to warrant individual naming.) There were few "others" living in HDB estates and new towns, except for some spouses of Singaporeans and several blocks used to house relatively small numbers of foreign workers. In contrast, census districts featuring higher percentages of "others" tended to be those containing major private-housing estates and/or privately developed blocks of flats and condominiums.

Although the broad traditional geographic distributions for each of the major ethnic groups continued to change rather slowly during the 1960s and 1970s, the basic character within those spatial patterns was

undergoing dramatic change. The larger concentrations and concurrent presence of Chinese, Malays, and Indians in the republic's HDB estates and satellite centers were fundamentally different from the historic ethnic nuclei. In these new neighborhoods, intercommunity interactions were inevitable, unlike the old ones where opportunity for intercommunity contacts was minimal. Social interactions between neighbors, irrespective of race, have been actively encouraged in the public housing estates through various official and semi-official institutions and associations. Thus, similarities between the 1980 distributions and those from earlier censuses are misleading in that they fail to convey the basic social changes that have taken place.

To introduce social integration effectively, it was crucial to have a majority of the population living in public housing. A national policy that aims at providing public housing for at least 80 percent of the population facilitates social engineering. With a great majority of the population living under rules and conditions governed by the national housing authority, social and other policies can be coordinated and implemented through the housing policies of the HDB to ensure better social and political control.

For social restructuring and reconstruction to take place expeditiously and effectively, there were few better solutions than firmly breaking up the segregated communities, integrating them physically, and then offering them, through a redistributive process, assets and properties that could not be owned individually unless they were also owned collectively. So, in defending their own individual stakes, communities were defended as a whole.

This was a very clever masterplan, but not without engineering and implementation problems. Only through a careful combination of coercion, motivation, and incremental demonstration of results could some extent of success be achieved. The principle of eminent domain forced people to give up their existing claims and expedited the process of redistribution. The commercialization of public housing provided an interesting pacifying option and incentive for those compelled to move and for owners of public housing. The possibility of using social security savings for public housing ensured that public housing would be affordable to the targeted population. Finally, by providing capitalistic opportunities for profit-making through marketing public-housing as a commodity, the program met with great success in motivating and attracting the population.

Political Legitimation and Domination

Finally, to understand how instrumental the public housing program has been in checking any political opposition and in establishing the People's Action Party autocracy, it is crucial to understand the political history of Singapore, which is analyzed earlier in the paper.

In 1959, when Singapore was granted full internal self-government, the People's Action Party came into power with the overwhelming support of Chinese-educated persons. The new government pledged to introduce a

program of active social reform and to secure full independence through a merger with the Federation of Malaya. For many years the People's Action Party had pro-communist militants within the party and had allied itself with the communists outside the party. In fact, the People's Action Party leaders had admired the commitment and effectiveness of the pro-communists and had learned much of their politics from them. Yet they had differed in goals and international alignments, so that soon after the People's Action Party's triumphant election, major cleavages developed between the moderates and the radicals within the party. Lee Kuan Yew's moderates wanted to build the economy of Singapore by encouraging private investments, both local and foreign, to reduce unemployment and to finance a social reform program. Lim Chin Siong's radicals wanted a socialist (and eventually a communist) society predicated upon the extinction of capitalism.

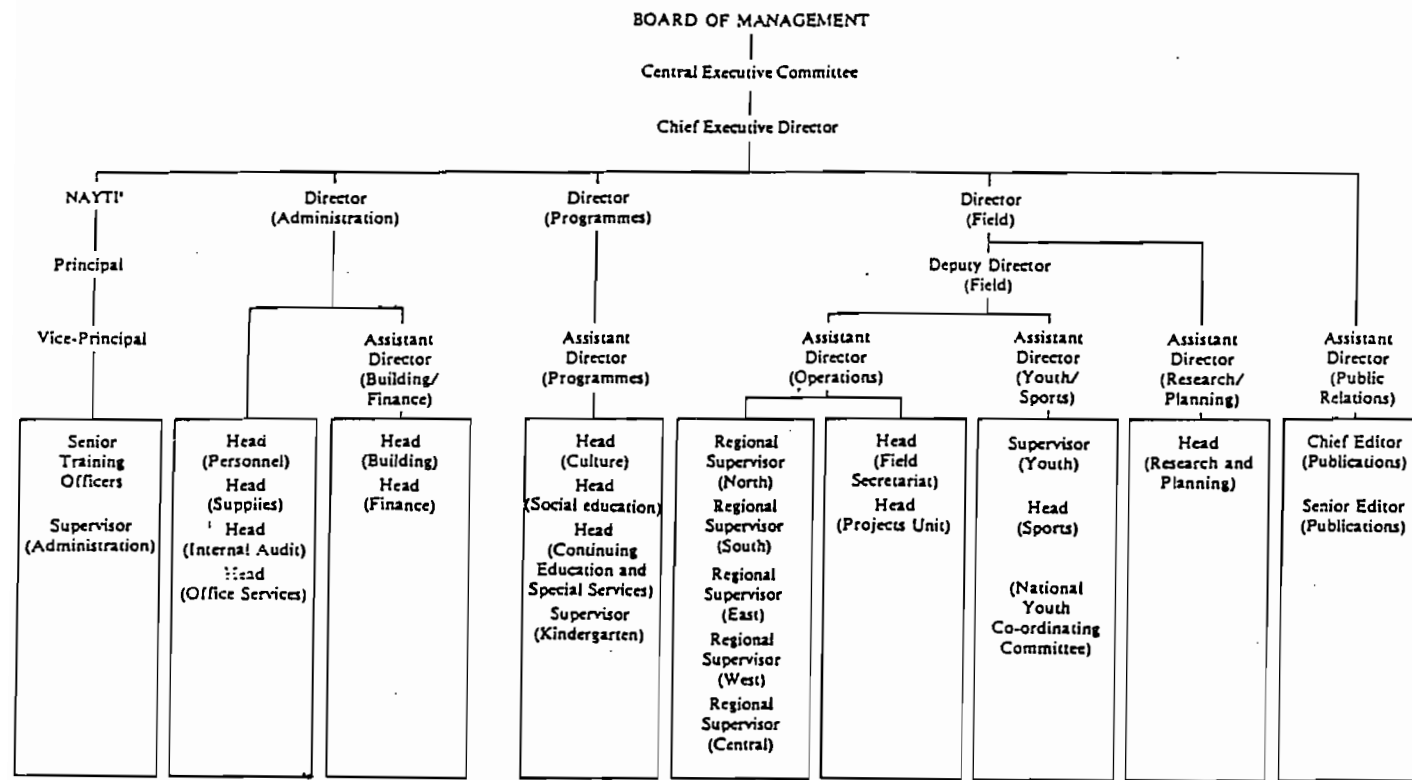
The moderates were convinced that there was a serious possibility for Singapore to be taken over by a communist movement that could link up with the strong communist influence in Indochina and in Indonesia (under Sukarno). They decided to fight the communists and expelled the pro-communists from the People's Action Party. This led to the formation of the communist Barisan Socialist Party in July 1961. Open confrontation between parties in Parliament and within the unions on the streets led to the detention of left-wing militant leaders under the Internal Security Act and the dismantlement of the left-wing communist-inspired labor union (the Singapore Trade Unions Council) by the People's Action Party. (In its place, a new labor organization, the National Trade Union Congress, was established in 1964 under the complete control of the People's Action Party government.) In August 1963, as a result of the People's Action Party's successful negotiations, Singapore became part of the Federation of Malaysia.

Singapore's history as a Malaysian state, however, was shortlived. The People's Action Party government's political vocalism and intent to build a multiracial society of equal opportunity was translated by Malaysian leaders as Singaporean Chinese aggression. Racial sentiments were aroused and erupted in bitter, unprecedented community riots in July and September 1964. The civil unrest was aggravated during this period, when the Indonesians launched a military confrontation in the peninsula of Malaysia and in Singapore, in protest of the merger. Allegations by right-wing Malay extremists that the People's Action Party leaders were plotting to seize control of Malaysia finally led to the expulsion of Singapore from the federation.

Thus, it was not by choice that the Republic of Singapore came into existence in August 1965. When Singapore was expelled from the Federation of Malaysia, its leaders were doubtful of its ability to survive in this hostile world. There was the utmost skepticism that Singapore could ever survive independently as a viable social, economic, and political entity. (It was this same skepticism that drove the People's Action Party leaders to seek a merger with Malaysia in the first place.) The small island was cut off from the resources of Malaysia, surrounded by hostile neighbors, torn with widespread racial riots and social unrest, and divided by internal political and ideological conflicts. The Indonesian confrontation between 1963 and 1966 had destroyed much of the entrepot trade, and to

FIGURE 15

People's Association Organisation Chart 1980



People's Association Organisational Chart 1980

Note: ¹ Acronym for National Youth Leadership Training Institute (NYLTI) since 1979.

Source: People's Association, 1980. The First Twenty Years: 104-105.

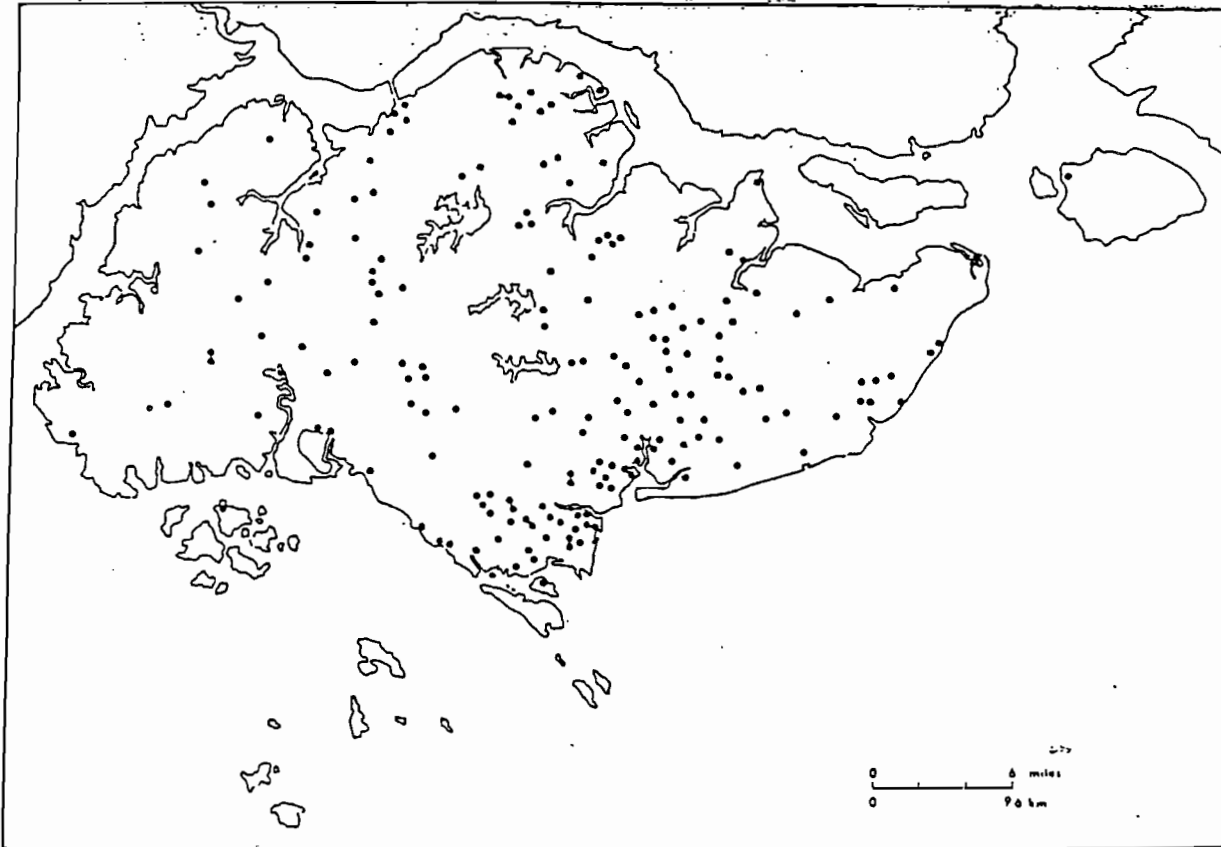
TABLE 4 -- NUMBER OF COMMUNITY CENTERS, 1960-1983

<u>Year</u>	<u>No.</u>
Before 1960	28
1960	42
1961	54
1962	62
1963	177
1964	180
1965	181
1966	181
1967	183
1968	182
1969	186
1970	187
1971	189
1972	187
1973	178
1974	172
1975	167
1976	175
1977	175
1978	166
1979	166
1980	154
1981	158
1982	157
1983 ^a	149

Sources: 1960-76 Jan.-Apr.: People's Association, Annual Reports, quoted in Wong & Chen, 1977:11.
1977: Loke & Tan, 1977:14, 18:1.
1979-83: People's Association.

^a Up to April 1983.

FIGURE 16



Distribution of Community Centres, 1976

Source: Singapore Guide and Street Directory 1976.

any government campaign, people can be easily mobilized on a broad base through the chain of institutions directly or indirectly associated with the Peoples' Association.

The day-to-day business of the community centers is carried out by the executives appointed by and accountable to the Peoples' Association. Nearly all executive staff were trained by the National Youth Leadership Training Institute, an affiliate body of the Peoples' Association, which also offers training facilities for industrial relations officers, trade union leaders, civil servants, youth and student leaders, and regional and international training programs. A local management committee is set up to manage the community centers at a higher level. Management committee members are appointed from among prominent leaders of the neighborhood. They are expected to play the role of intermediaries between the government and the people. Thus, the community center provides the local leaders and the residents with an avenue to serve the community. (This is significant for nation-building. The talents and resources of people who otherwise would have been mobilized and reoriented towards ethnic and dialect-based institutions are redirected to serving more socially and politically desired institutions. Women's subcommittees and youth executive committees were later introduced to supplement the management committees. Management committees also work closely with other institutions dealing with community development, such as the Citizens' Consultative Committee.

As of April 1965, each political constituency was to have a Citizens' Consultative Committee. Several Citizens' Consultative Committees form a district committee. Requests for projects and services in a neighborhood are received by the Citizens' Consultative Committee, which channels them upwards for consideration. The Citizens' Consultative Committee also helps mediate in matters such as civil quarrels, family rows, divorces, littering, and vandalism. Members of the Citizens' Consultative Committee are also drawn from locally prominent people. Often some of the Management Committee members are also Citizens' Consultative Committee members. The Management Committee and Citizens' Consultative Committee combine their efforts in fund-raising campaigns for community projects and in organizing functions of national significance.

Residents' Committees

In the HDB housing estates, resettlement uprooted the the spirit of neighborliness that used to prevail in the former rural settlements and urban communities based on ethnicity, dialect, or clan. A new spirit of neighborliness had to be cultivated in the new HDB estates, where high-rise flats have reduced the chances of social interface among the residents. The first Residents' Committees were formed in 1977 in the Tanjong Pagar and Marine Parade constituencies as a response to this need. By July 1982, the number of Residents' Committees had increased to 244. Political observers also see the creation of Residents' Committees as an ingenious strategy of the People's Action Party to mobilize the grassroots

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CHAPTER FOUR -- CONCLUSION

The Effects of Housing Policy in Economic Development

Location for Foreign Investments

Despite widespread skepticism about the benefits that multinational companies could bring to the less-developed host countries, the Singapore government opted for a strategy of industrializing by cooperating and working in partnership with the multinational companies. The multinational companies presented an opportunity to open up world markets to Singapore; provide the technological know-how for industrialization; provide sufficient skilled and relatively well-paying jobs for the population; and hence, upgrade the economy quickly through value-adding activities. In order to attract the multinational companies to invest in Singapore, the state decided to deliberately create many conducive conditions and incentives. In addition to controlling wages and labor relations and providing preferential treatments, taxes, and other fiscal advantages to make it more profitable to operate in Singapore, the cost of operation for investors were kept low indirectly through the public-housing program by lowering the cost of living.

Public housing served to provide housing for workers at low rents and prices, thereby relieving the pressure on wages without lowering the quality of labor, particularly during the early days of industrialization. Despite increases in real income, public-housing rentals set in 1960 (as low as S\$15 per month for one-room emergency flats) were not increased until 1979, and selling prices of public flats set in 1964 also were not increased until 1974. In conjunction with public housing construction, a package of other human and social services such as educational, health, recreational, and other community facilities were developed and provided at relatively high standards. This package of urban infrastructure further subsidized the workers' cost of living.

The state decided to invest in industrial sites and services, expressways, and other physical infrastructures to minimize the overhead and operating costs of the investing companies. This investment also facilitated the expansion of the industrial and commercial activities. The Jurong Town Corporation was established in 1968 as a spinoff from the Economic Development Board, specifically to develop industrial sites and services, factories, and living quarters for workers. The Jurong Town Corporation's scope of work was limited to assisting mostly the heavier industries and all industries within the Jurong Industrial Town. On the other hand, as the major landlord and developer in the republic, the HDB was effectively responsible for the orderly coordination and development of almost the entire network of urban infrastructure and services, including the provision of sites and factories for light and non-polluting industries in the new towns.

Thus, all these public-housing-led developments and services created a sophisticated level of social and urban services that form the very basis of industrialization and of human and capital productivity. On one hand, these infrastructural investments served to subsidize a relatively high standard of living for the labor force. On the other hand, they

4 percent in 1973, while females' participation in the workforce increased from 29.5 percent in 1970 to 44.3 percent in 1980.

Housing Policy and Social Integration

The earlier generations of the Singapore population had comprised a complexity of heterogeneous and segregated communities from different parts of the world and with diverse and competing interests, as has been described earlier. We also mentioned that the British administration had further exacerbated the situation by encouraging geographical separatism between the various groups on the tiny island. In sum, the social structure that existed was extremely fragmented and unstable.

In recent times, however, improved literacy and bilingualism have encouraged marriage between persons of different language heritage. This, combined with an increase of nuclear families in HDB flats, further diluted separations based on different Chinese dialects. Public housing and urban renewal, however, are perhaps the most important processes that have almost totally uprooted the geographical base of each subgroup. Politically, MPs have replaced the traditional clan representatives. Channels of communication between MPs and the various dialect groups have been further facilitated and strengthened by appointing the MPs as advisers to the community centers, Citizens' Consultative Committees, and Residents' Committees. Leaders of these new institutions enjoy high social status and prestige, and those who make distinguished contributions and volunteer their services to the community are honored by the president of the republic. Resettlement of gang members does not favor the reestablishment of gang associations.

The public-housing program was, therefore, conceived as a potential mechanism for the integration and reconstruction of a new, orderly, multiracial and multilingual Singaporean society modeled according to the type of community and everyday life envisioned by the People's Action Party leaders. The compulsory land acquisition policy of the HDB had destroyed the traditional pattern of segregated communities and forced people to give up their existing claims to facilitate the process of redistribution. Its policies of first-come, first-served and public balloting allocation were designed to integrate the population physically and socio-spatially.

Housing Policy and Political Legitimation

Finally, not to deny that the People's Action Party government has been highly authoritarian and heavy-handed even to the point of being repressive, public housing was used effectively as a political tool to maintain the social and political stability that has been crucial for the smooth operation and function of its economic system.

With widespread skepticism among the populace (including the political leaders) about the ability of Singapore to survive as an independent nation, public housing was seen by the People's Action Party government as a mechanism to unite the people. Skepticism prevailed,

particularly at a time when Singapore was torn by ethnic conflicts and faced with the threat of being expelled from the Federation of Malaysia, but the government used the goal of "a 100 per cent property-owning democracy" as a way to harness the loyalty of the population. Thus, public housing with homeownership possibilities was offered to appease the restless population and to give them a stake in the country.

Since the beginning in the early 1960s, the People's Action Party government organized and sponsored mass-based institutions to promote values sanctioned by the People's Action Party leadership, and to provide an organizational framework by which to channel political participation and mobilization. These organizations were effective political tools for mobilizing support for the ruling party, repressing political and ideological opposition, and maintaining the People's Action Party's political dominance.

Decentralized throughout the public-housing estates, these organizations are managed by the Peoples' Association, which is controlled by the Peoples' Association Party. The main objectives of the Peoples' Association include training leaders and promoting a multiracial community through group participation in social, cultural, educational, and athletic activities. For this purpose, grassroots leaders who formed committees such as the Residents' Committees, the Citizens' Consultative Committees, and the Community Center Management Committees are carefully selected from among the masses.

The HDB has not only been responsible for the siting and construction of most of the community centers and facilities used by these institutions, but it has also been instrumental in directly assisting and cooperating with the committees managing these institutions by reaching out to the residents to encourage them to participate in the People's Action Party's political projects. In particular, the HDB has to work closely with the Residents' Committees, which are based on residential zones in HDB estates, to function specifically as a channel of communication between the people and the government. Thus, by providing a controlled channel for citizen participation and by actually delivering relatively good housing and related human services (as promised in every election campaign) at affordable rates, true political legitimacy was maintained. Hence, as the government continued to devote greater commitments to the public-housing program, the people continued to express their support of its policies, as evidenced in the overwhelming victories of the People's Action Party at the general elections.

Crisis of the System

Singapore's bold experiment of providing large-scale urban public housing was not without mistakes, miscalculations, and costs. In fact, the HDB built so much that it has been unable to sell and lease a significant quantity of its housing stock and other premises in the past few years. In 1986, the HDB had a stock of 1,170 vacant HUDC flats and only 260 applicants on its waiting list. As of January 1987, there were 21,939 units of public flats completed but unsold. While the waiting list showed 62,198 applicants to buy, the unsold units gave a clear indication

that these figures did not reflect the real demand, especially since 13,430 of the unsold units had been vacant for more than one year.

These miscalculations and the extent to which the public-housing program and the HDB have grown were factors that could partially explain the republic's economic crisis of 1985-86, during which real gross domestic product declined by 1.7 percent for the first time in two decades. Unemployment reached 6.5 percent, and only eased to 5 percent because of the repatriation of foreign workers. The recession lasted well into 1986, when the overall growth rate for the year was 1.9 percent, but started to recover in 1987.

Financing public housing through the Central Provident Fund also siphoned off massive financial resources into the public sector, creating a contractionary impact and the over-allocation of resources into the construction sector, at the expense of investment into more productive machinery and equipment. Private-sector activities were crowded out and the capital market stunted because so much of the Central Provident Fund was locked away in housing. Ironically, with cuts in Central Provident Fund rates and wage restraints, the whole homeownership push became a burden to many.

The task force set up to evaluate the causes of the recession concluded that Singaporeans were spending too much on housing and that the government must stop pushing the homeownership goal too far. According to their report, an average of 37 percent of Singaporeans' income, including withdrawals from Central Provident Fund accounts, goes to buying a home and other housing services such as insurance, maintenance, property taxes, and utilities. And since the existing housing schemes approved by the Central Provident Fund tended to encourage members to upgrade their homes, the percentage may have been even greater. Since home buyers did not have to draw out their own savings for the purchase of their flats, many had lavishly spent their savings or even obtained loans to renovate and furnish their flats in an ostentatious manner. The committee warned that the ability of Central Provident Fund accounts to finance old-age livelihood, the original and main objective of the Fund, might be seriously impaired. The committee further warned that putting too much savings into a property might be risky because future Central Provident Fund contributions might not be enough to pay the mortgage if high rates of employment and income growth were not maintained. Besides, the 99-year lease on all HDB flats meant that the older the flat, the less value it would fetch when the owner sold it back to the HDB. Hence, the Home Ownership Scheme might not prove to be an absolutely reliable means of providing for old-age security financing unless the government continually revised upwards the prices of public-sector flats as well as compensation rates. But such deliberate price revisions would cause hardship to younger generations of home buyers.

One reason for the over-investment in construction was that construction activities were used to stimulate the economy during the years preceding the crisis. Despite global recessionary trends, Singapore's real gross domestic product growth averaged an impressive 4.9 percent growth between 1980 and 1984. However, this was because a higher-than-usual share of growth during that period was contributed by

domestic demand, and particularly by the construction sector, which grew at 24 percent per annum between 1981 and 1984 (47 percent per annum for residential construction), increasing its share of gross domestic product to 29 percent during that period, up from 14 percent in 1978. Thus, by 1985 the island was so completely overbuilt with residential, commercial, and industrial blocks, including a large proportion built by the public sector, that public construction activities could not be used to bail the economy out of its recession, as was the normal strategy of the government. In the six months ending September 1985, the amount of vacant commercial properties in the public sector increased by about S\$230 million to an estimated S\$1.33 billion. According to the Business Times (Jan. 16, 1986), 122,422 sq m of public-sector offices, 14,449 sq m of shops in the central area and Orchard Road, and 58,787 sq m of shops outside these areas were left vacant as of September 1985. Occupancy levels of shops in the suburban areas were 84.8 percent in the public sector and 80.1 percent in the private sector.

The over-construction by the HDB took place during a period when the government bureaucracy had grown so huge and powerful that it seemed to take on an authoritarian life of its own. The HDB even began overtly to assert itself as a political power, using public housing as an tool of political patronage. In a parliamentary session in March 1985, the late minister in charge of public housing, Teh Cheang Wan, expressly warned the people against supporting any opposition parties by admitting that the HDB had been and would continue to give deliberate priority to People's Action Party constituencies and discriminate against opposition constituencies in the delivery of public-estate maintenance services. Teh made no apologies for the policy; in fact, he was quoted as saying

This is a very practical political decision. . . . It's fair from our party point of view that we should give priority to the constituencies with PAP MPs and give lower priority to opposition MPs. . . . But they will not be denied the service. (Straits Times, Mar. 22, 1985.)

It was the first time that a high-level government representative plainly said that there would be discrimination in the provision of community services. Before and immediately after the 1984 general election, the government threatened to withdraw services from constituencies that did not vote for the People's Action Party, but only political services such as "meet the candidates" sessions were withdrawn.

There were many other incidents to demonstrate that the HDB organization was beginning to suffer from over-bureaucratization. But the most significant and ultimate indication of trouble with the HDB organization came in the form of the historic corruption scandal involving Minister Teh himself at a time when the HDB was also being accused of making a profit from the public through the HDB's sales of flats and public-housing-related operations.

To the people and their elected representatives in Parliament, including some People's Action Party MPs, the HDB had become such an overwhelmingly insensitive landlord and bureaucratic monster that they

started protesting in various ways. The litter-killer problem that became very serious in 1984 could have been associated with problems of high-rise, high-density living, but it could also have been indicative of the frustration and discontent with the repressive living conditions under the management of the HDB. The loss of three parliamentary seats to the opposition in the 1984 general elections represented a more dangerous form of protest to the People's Action Party government.

The results of the 1984 elections showed the People's Action Party government that it could not afford to ignore the complaints of the people. The election had started the ruling party thinking of some form of decentralization of the HDB authority. The concept of local governments in the form of town councils and teams of MPs run and maintain the public-housing estates and new towns has been tried in a pilot project. The concept is expected to be widely implemented in 1988 in the next general elections. This short history serves to show the limitations of a totally autonomous bureaucracy. It also shows that the HDB had been so highly politicized that, in order to debureaucratize and restructure the organization, it was necessary to restructure the entire political system.

The formation of town councils will effectively devolve a large part of the HDB's authority and power over the people to the locally elected representatives. When the devolution process is completed, the scope of the HDB is expected to be reduced from that of a national landlord and social-control agent to the more traditional role of a development and estate management corporation responding to the real market demands. With 86 percent of the population living in public housing, new construction will naturally be at a much reduced rate, with efforts concentrated on upgrading the overall public-housing standards through rehabilitation and conservation programs. In harmony with a general trend of the government to encourage a better balance of private and public participation, it is also likely that much of the traditionally public planning, design, and construction work may be reserved for the private sector.

In spite of the severity of its recent problems, Singapore has recovered from its crisis very rapidly, through the continuous and conscientious efforts of the state to reassess policies and outcomes and to introduce changes where appropriate.

Singapore's development has been a political process by which the state took on the fundamental role of planning and guiding the overall process of economic growth. Its experience and status in the world today serves to show that planning has worked for Singapore.

Integrated with the state's national development goals and macroeconomic planning, Singapore's public-housing program has significantly raised the standard of living of the Singaporeans at large and provided the very foundation of the nation's sustained social and political stability. It has been an important weapon for this strongly nationalistic developmental state in its fight for survival, when it has been trying "to get a unique society set up out of extraordinary circumstances of near despair" (Lee Kuan Yew, in Parliament, 1985). The housing program has to a great extent integrated the highly segregated

population, internalized social control, provided employment, suppressed civil unrest, and maintained the political legitimation and domination of the state. Such stability has been an important pillar of the program's remarkable economic growth which, in turn, has been translated into rising income for the people, enabling them to afford the continuous upgrading of the public-housing program and hence their total living conditions. Thus, integrated with planning, public housing can be a major element that contributes to economic development.

Singapore's experience can perhaps serve to shatter the strong belief and stigma in capitalist countries, particularly in the United States, that public housing can only be a drain on public resources. Public housing need not be built only as a social welfare program for the very poor. For countries that have come to accept squatters' settlements and slums as the inevitable solution to the urban housing crisis, public housing offers an alternative.

Undeniably, Singapore's situation may not be generalizable as a model system, given its specific demographic and geopolitical compositions as a small island city-state with Chinese migrants as the major population. But the Singapore of the 1960s was not very different from many Third World countries of the 1980s, with widespread slums, squatter settlements, and other comparable economic, social, and political problems and uncertainties. There surely are lessons that can be learned and mechanisms that can be adapted from Singapore's experience. Essentially, though, the basic formula lies in the dynamic role of the hegemonic state to mobilize whatever resources are available (in this case, the people, the infrastructure, and public housing) to serve the nation's economic development goals.

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A P P E N D I X A

LIST OF INTERVIEWS AND MEETINGS CONDUCTED IN SINGAPORE*

IN SUMMER 1987

* All interviews were conducted by Manuel Castells
with the assistance of Lee Goh.

APPENDIX A

Meeting with the Economic Development Board:

Mr. Philip Yeo, Chairman;

Mr. Tam Chin Nam, General Manager;

Mr. David Lim, Head, Operations Planning Division;

Ms. Khoo Seok Liu, Head, Policy and Planning Division.

Mr. Hwang,

Deputy Chairman of Temasek Holdings;

Chairman of INTRACO.

Dr. Tan Kong Yam,

Director, Economic Research Unit,

Ministry of Trade and Industry.

Dr. Teh Kok Peng,

Director, Economic Department,

Monetary Authority of Singapore.

Mr. Henry Heng Jee Kwang, Deputy Administrator, Skills Development Fund,

Ms. Cheung Yan Hong, Head, R&D Section,

National Productivity Board.

Mr. Fong Teng Kee, Head, General Assistance Department,

Mr. Patrick Yang Pah Tsing, Assistant Head, Planning and Coordination,

Small Enterprises Bureau,

Economic Development Board.

Mr. Ooi Inn Bok,

Deputy Director,

German-Singapore Institute.

Mr. Pakir Singh,

Executive Director,

SHATEC Training Center.

Mr. Si Hoe Kok Sing, Senior Director, Planning;

Mrs. Tam-Lai Siew York, Head, Planning,

Jurong Town Corporation.

Mr. Vincent Yip, Executive Director,

Dr. Nawdrawn, Assistant Head, R&D,

Ms. Coreen Ooi, Research Officer,

Science Council and Science Park.

Mr. Loh Swee Seng,

Chief Planner,

Planning Department.

Mr. Bruno Wildermuth,

Planning Manager,

MRT.

Mr. William Lim,
Planner and Planning Consultant.

Visit to four new towns, interviews with presidents of Resident Committees, with managers of Housing Development Board Officers and with Housing Development Board planners.

Interview and visit to AMD Company (Mr. Chuck Stitler and Mr. Victor S. K. Foo).

Mr. Frank Tamru,
Pacific Biomedical Company.

Meeting with Department of Economics,
National University of Singapore.

Meeting with Professor Amina Tyabji,
Department of Economics,
National University of Singapore.

Meeting with Professor Peter S. J. Chen,
Department of Sociology,
National University of Singapore.

Meeting with Professor Aline Wong,
Department of Sociology,
National University of Singapore;
M.P., Parliament of Singapore.

Meeting with Professor Chua Beng Huat,
Department of Sociology,
National University of Singapore.

PART THREE

THE COMMODIFICATION OF HOUSING IN A PROCESS OF
SOCIALIST INDUSTRIALIZATION: THE PARADOXES
OF MODERNIZATION IN SHENZHEN

INTRODUCTION

Since late 1978, China has adopted the Open Door Policy,¹ which is the cumulation of a political decision to revert from the self-reliance development policy adopted during the Cultural Revolution (1966-76).² The present developmental approach initially allowed for a limited international economic sector in the specific geographic areas of special economic zones and Open Cities, providing a concentrated source and stimulus for economic growth. This policy also reflects the political acceptance of the market economy and capitalist methods of production as legitimate tools for economic development. The Open Door Policy is, therefore, a politically determined economic policy. Special economic zones are the key components for the implementation of the Open Door Policy. Thus the overriding goals are oriented to economic growth and to reducing the social, community, and cultural aspects of development to a secondary position.

The purposes of a special economic zone are both to introduce foreign technology and management into the Chinese production system, and to attract foreign capital to supplement the capital stock and improve production. Through these zones, China experiments with market economy and learns the capitalist system. Four zones were designated: three in Guangdong Province (Shenzhen, Zhuhai, and Shantou) and one in Fujian Province (Xiamen). Shenzhen is located adjacent to Hong Kong, while Zhuhai is adjacent to Macao. Both Hong Kong and Macao are colonial cities under British and Portuguese rule respectively. Both are western cities as well. These special economic zones have the advantage of immediate contact with cities that have adopted the market system and have a higher level of development. Xiamen is a port city and -- because of its proximity -- has potentially the same advantage regarding Taiwan. Shantou, located in eastern Guangdong Province from which a large portion of Southeast Asian Chinese originated, has a different function: to capture the overseas Chinese remittance and transfer it into productive investment.

Shenzhen and Hong Kong

Shenzhen special economic zone in southern China is adjacent to Hong Kong and is a part of Shenzhen Municipality, which includes the special economic zone and a large rural hinterland (Figure 1). It is a new city specifically established as an experiment in economic development. The total area of Shenzhen special economic zone is 327.5 square kilometers or 16.21 percent of the Municipality (2020.5 square kilometers). Since the unique political economic system only applies to the special economic zone, the municipal area outside the zone is under a system similar to the other parts of China. In 1985, the special economic zone contained 65.57 percent of the municipal population, nearly 85.22 percent of its workforce, and 63.43 percent of its enterprises.³ Thus, the special economic zone is the core of the municipality's economic, social, and political activities, with the remaining part of the municipality as its immediate hinterland.

FIGURE 1

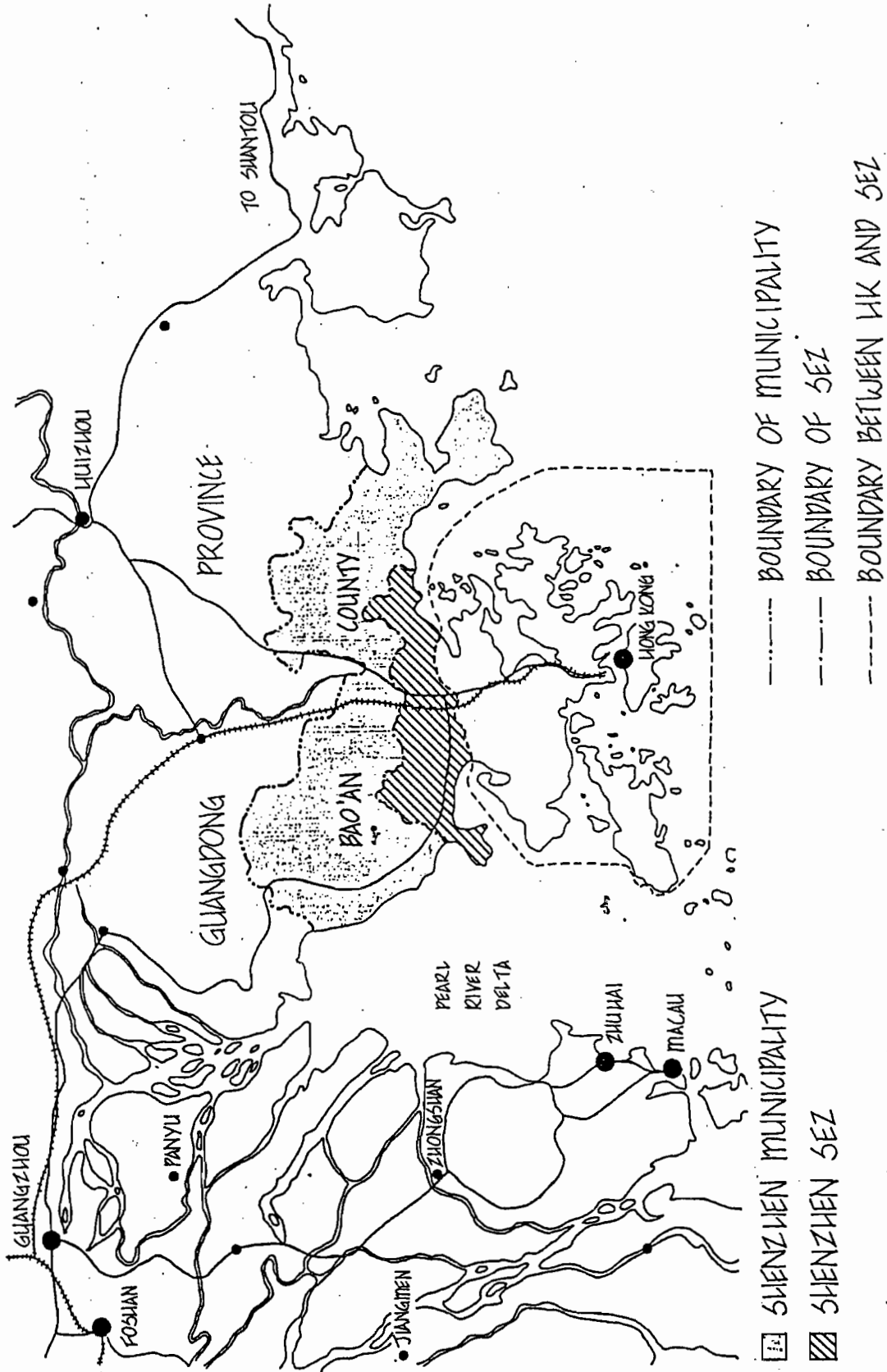


FIG.1 LOCATION OF SHENZHEN 1985

Not surprisingly, the generally stated goals of Shenzhen special economic zone are to import foreign capital, technology, and management skills to formulate export-oriented production. It is also the window to study the capitalist mode of economy and its operation. In order to attract foreign capital for export production, Shenzhen must produce conditions favorable for this type of market economy.⁴

Shenzhen is located because of its specific geographic advantages, north of and contiguous to Hong Kong. As an international city, Hong Kong has already developed a production sector for the international market. In the last decade, it has developed strong international finance and service sectors, with many multinational corporations established there. The latest western management and production techniques are successfully applied or adapted there. The economic growth of Hong Kong has been one of the most impressive in the world. All these developmental experiences provide a wealth of examples for the Shenzhen experiment.

In the late 1970s and early 1980s, there was substantial demand for real estate development in Hong Kong. The shortage of land supply and the pressure of rapid housing and industrial development had almost exhausted the urban land resources. Land development had occur farther away from the city center. In the New Territories (Hong Kong's suburban/rural area), land was under a complex tenure system and the holding price was rising; thus, assemblage was both legally and financially difficult. The excess land demand could be met across the border in Shenzhen, if an attractive package could be offered to the Hong Kong developers seeking property investment opportunity. Since real estate is a major sector of the Hong Kong economy, developers could be invited into Shenzhen, thus bringing foreign capital and management for urban construction to the special economic zone.

Hong Kong's production advantage in the international market has been the low wages of the labor force. As economic development takes place, Hong Kong's economy increasingly moves in the service or tertiary sectors: management, professional services, and international finance. As the standard of living improves and the quality of labor is also upgraded, the wages of higher-skilled labor are still competitive in the international market because of high labor efficiency and productivity. But when the low-skill labor supply diminishes, the higher wage level may become relatively overpriced and lose competitiveness. In Hong Kong's manufacturing sectors, firms are looking for a cheaper low-skilled labor force elsewhere to supplement the skilled labor and management personnel. Because of its proximity, Shenzhen can provide a reasonably priced low-skilled labor pool for Hong Kong manufacturers and thereby bring manufacturing activities to the zone.

Since economic growth is generally strong in Hong Kong, the entrepreneurs are accumulating capital and constantly seeking opportunities to re-invest. Because of the geographic isolation of Hong Kong, the most obvious location for investment is southern China, specifically Guangdong province, where there are no cultural and language (either written or spoken) barriers. Moreover, since most Hong Kong residents originally came from that region, family and clan links have been maintained. For the Hong Kong investors, there are cultural and

business reasons to invest in that region; also, such investment can directly benefit the entrepreneur's relatives and clan. If Shenzhen can concentrate these investment opportunities spatially by providing a special economic and social system, it can absorb these potential investments.

These are the conditions and advantages of the Shenzhen Special Economic Zone. They are also the context of economic development. Policy and system of development therefore either reflects or exploits these conditions. The growth of Shenzhen is therefore heavily tied to the development of Hong Kong.

Shekou Industrial Zone, in the western end of Shenzhen special economic zone, was established as a company under a state ministry. Administratively, it is one of the five districts within the Shenzhen Special Economic Zone. However, Shekou is economically different from the rest of the zone. Although its bureaucratic system is a district bureaucracy within the zone, the bureaucracy services the China Merchant Steam Navigation Company, which operates as a corporation and which has an office in Hong Kong with the specific function of marketing Shekou to overseas investors. Moreover, as an industrial zone, Shekou's economy concentrates on industrial enterprises and is less comprehensive and diversified than the rest of Shenzhen. The rest of Shenzhen has a dualistic system of bureaucracy and enterprise. Both systems have different functions. In Shenzhen, bureaucracy has much influence over enterprise although the latter is becoming more independent. In Shekou, the reverse is true. Shekou's development and its model are therefore different from the rest of Shenzhen.

CHAPTER ONE -- THE STRUCTURE OF GOVERNMENT ADMINISTRATION IN SHENZHEN:
THE MANAGEMENT OF MODERNIZATION POLICIES IN CHINA

Determinants of Local Administration

During the Cultural Revolution (1966-1976), administrative power was decentralized to the grassroots level. Although the policy formation function of administration at the state level remained, the organization and the authority of the provincial and the local level of administration were reduced. After a long period of unstructured and disjointed local administration, a gradual rebuilding process took place after 1976. Shenzhen special economic zone was established during this period of re-establishment and restructuring of local administration. Shenzhen started as a small rural town but as a special economic zone was under a unique economic system; nevertheless, administration was at the local level and officially carried no special status. Although the local government system had no unusual features, its de facto relationship to the state was different from other local governments within China. The officials and administrators -- the cadres -- were theoretically recruited from other parts of China or appointed by the state, but in reality they were mainly from Guangdong province, at least initially.

The newly established special economic zone government was faced with several special issues. First, the administration had to provide for the experimental nature of the economic development and the adaptation of a market system. Second, there had to be a great degree of local independence, since the economic system was vastly different from the rest of China, but it had to maintain some dependence on the state, i.e., the relationship between vertical and horizontal administration. Third, since it was the largest experiment of the four zones, it would need a greater level of both political and financial support from the state. And last, realizing that enterprise is the engine of economic development, the local administration had to devise a decision-making process that could adjust the power interplay between bureaucracy and enterprises. Let us now broadly review these four issues in Shenzhen's administration.

Administrative Issues in China

From 1949 onwards, Chinese economic development has gone through many innovations and changes. The experimental nature of Chinese development has been reflected in its administrative structure. Through trial and error, contemporary Chinese development has meandered on a pragmatic path, attempting to find a combination that would work within its economic and social constraints and yet achieve economic growth. The administrative system also has followed a similar trail. As a result, certain patterns frequently occurred: amalgamation and separation of ministries, duplication of responsibilities, and lack of clarity about function and authority.⁵

In determining developmental policy, the Chinese often adopt a pragmatic process. A new development policy and its strategy are designed at the state level. Without research and development before adoption, the strategy is placed in several locations as laboratories for trial. After

a period of practical tests and amendments, the results are monitored and then evaluated at the state level. When such experimentation is considered to be adoptable, it is then proclaimed by the leadership as the model of development. The rural commune in the 1950s and the Daqing and the Dazhai models in the early 1960s were adopted by this method.⁶ The proclamation usually is accompanied by visits of the prominent leaders with extensive media coverage. Once this process is completed, the model of development is officially adopted and it receives both the support of and authority from the leadership.

In contemporary Chinese administration, the vertical level and horizontal level have never been coordinated well. (By vertical level or role, we are referring to the administration of ministries and departments from the state to the local level; by horizontal level or role is meant the coordination of the ministries and departments at the state, provincial, or local level. The vertical and horizontal relationship has been a major contradiction, especially at the local level. Often local administration responds to the vertical role, receiving authority and resources from the higher level and performing to satisfy the objectives and the duties set by the state. Local government has great difficulty in coordinating the different development projects, which are under different ministries and which aim to satisfy the different requirements set by the ministries and departments. The dominance of the vertical role over the horizontal role⁷ is one of the major developmental problems at the local level.

Shenzhen's governmental administration is confronted with these two issues, development experimentation and the dominance of the vertical role. Although Shenzhen has greater independence because of its financial solvency and its unique economic system, its administration is still influenced by the state apparatus. In part, the various ministries and departments participate extensively in its economic development, and, in part, the higher level bureaucrats are appointed by the state, bringing with them the state's directives. Nevertheless, the way in which Shenzhen's governmental administration operates is still significantly different from that of China, in general because the local government has much greater financial and political independence and has a greater ability to change.

The Chinese administration has been highly politicized. The bureaucracy is interwoven with the party. Positions within the governmental administration are allocated to party leaders; thus, the party cadres and the bureaucrats are the same people, making party ideology indistinguishable from administrative directive. The close relationship of the bureaucracy and the party has been further reinforced by the similarity of the hierarchies of the party administration. In a planning system, production is a function of the state bureaucracy, and bureaucrats often have to manage production activities. Since party cadres are selected by their political commitment, they are often unfamiliar with economic management or production technology.

The relationship between the enterprise managers and the administrative bureaucrats is crucial to Shenzhen's development because they interpret and implement modernization under different norms. This

relationship is often contradictory and uncompromising. In China, the administration is politicized in structure and function. Since the bureaucrats are in control of production and exercise their judgement based on party politics, they often damage production efficiency and misinterpret or ignore market requirements, thus indirectly raising questions of their own competency, credibility, neutrality, and incorruptibility.⁸ The politicized bureaucrats, when making decisions on production, also specify the ideologically prescribed behavior pattern for industrial and commercial management, and often limit flexibility in production. Since Shenzhen's development has depended on the industrial and commercial sectors, such control directly interferes with the production process. Even after enterprises are separated from the bureaucracy, enterprise managers are mainly concerned with production efficiency, market, and technology; but in organizing production, they come into direct contact and negotiation with the bureaucracy. The bureaucracy still has much indirect control over enterprise, especially domestic enterprise. In a market economy, the enterprise decision and the bureaucratic decision are maximally separated except in the area of control of externalities, and such separation is essential for economic development and growth. Shenzhen's enterprises have been unfavorably influenced by the bureaucracy, and as a result, the speed and the scale of development has not proceeded effectively.

Shekou, because it is under the China Merchant Steam Navigation Company which is under the Ministry of Communication, is an industrial zone and is therefore one step removed from political bureaucracy. It has a higher growth rate in business and industry than the rest of Shenzhen. Enterprises in this industrial zone can negotiate with Shekou's administration on production and business terms rather than having to deal with political directives. Shekou has a large sector of foreign enterprise -- which needs greater leeway to produce under market conditions. Because of foreign participation, these enterprises, reacting to the international market and using imported technology, necessarily require both a change from the production process as practiced in China and a degree of flexibility to respond to the changes in the external circumstances. The administration, in order to attract these enterprises, has had to be more tolerant and accommodating to their operational needs. These enterprises generally have been able to overcome bureaucratic dominance.

The conflict between the socialist approach (of control by the bureaucracy), and the capitalist approach (of independence of the enterprises in handling business and production) is a major administrative problem in Shenzhen. Since a compromise is not often possible, production usually suffers. As Shenzhen's direction of development increasingly moves towards the market system, the politicized bureaucratic dominance logically gives way to the demands of a production-oriented enterprise.

Administrative History

The establishment of the special economic zone was unorthodox. In a planned economy, decisions are usually made at a top level and then transferred downward to the local level. Shenzhen's administrative establishment was the reverse. As early as 1978, Shenzhen started to

invite foreign investment; for example, between May 1978 and February 1979, 20 foreign contracts were signed.⁹ In terms of official designation, the eastern part of Shenzhen-Shekou was first established as an industrial zone: Shekou Industrial Zone was established in January 1979. Later in the same year (December 1979), Shenzhen Special Economic Zone was established directly under the Guangdong provincial government. Guangdong Province then set up a management committee for all the province's special economic zones in August 1980, with the duty of managing the three special economic zones within the province (Shenzhen, Zhuhai, and Shantou).¹⁰ In terms of regulations for the special economic zone, it was during August 1980 when the state published the Regulations for special economic zones in Guangdong Province -- eight months after Shenzhen special economic zone became official. The State Council approved regulations for Guangdong special economic zones that placed the registration and operation, preferential treatment, labor management, and the organization and management of enterprises (especially foreign enterprises) under the control of the Provincial Management Committee.¹¹ Shenzhen municipal government formed a legislative working group in 1981 and took on the tasks of drafting regulations for personnel movement, enterprise registration, wages, land, commodity housing, contract with foreign enterprises, import of technology, and enterprise registration.¹² Most of these regulations were started as temporary measures, presumably to be amended later in light of experience. While these regulations were being developed, Shenzhen already had started its capital investment and had begun to accommodate domestic enterprises and foreign investments.

In practice, the Shenzhen municipal government has been the bureaucracy that formulated and implemented these administrative matters. Once the regulations and processes are decided in Shenzhen, the Provincial Management Committee routinely approves them. Because Shenzhen is the largest and most advanced of all the special economic zones, many regulations and processes are initiated and designed by the municipal government. By 1983, nine sets of legislation had been drafted by the municipal government; only one set, on foreign banks, was referred to the State Council. The rest were approved by the province.¹³ In practice, the municipal bureaucracy has a large degree of independence in legislation and administration.

It was not until June 1982 that the State Council Office for Special Economic Zones Affairs was set up, led by Vice Premier Gu Mu, with responsibility for all special economic zones in Guangdong and Fujian Provinces.¹⁴ The reversal of the normal decision process indicated that the administrative establishment reacted to a series of rapid local actions, resulting from the tentative and experimental nature of the special economic zones. Because the state apparatus was too removed from the actual development to respond, the management and the function of the zones were left to the municipal administration.

From the time Shekou was established until the end of 1983, Gu Mu visited Shenzhen six times, while Premier Zhao Ziyang visited once. From the beginning of 1979, Shenzhen's construction and development went at a fast pace. However, it was not until January 1984 that Deng Xiaoping visited Shenzhen. Before he left, he made a statement: "From the experience and development of Shenzhen, our policy of establishing special

economic zones is correct."¹⁵ His proclamation was further endorsed both by the visit in May by Hu Yaobang, who at that time was the party secretary, and later by Premier Zhao Ziyang's second visit in November.¹⁶ During 1984, two more vice premiers came to Shenzhen, approved its development, and praised its success. These visits were well reported by the press; the visits reaffirmed that Shenzhen was indeed the model for special economic zones, and the zone had political approval and support from the state. By then, economic development in Shenzhen was unquestionable; the state commitment to its continuing development was assured.

Between 1981 and 1983, Shenzhen special economic zone Daily (Shenzhen tequbao) regularly reported that organized smuggling through Shenzhen was rampant. In July 1982, these activities were brought to the attention of the State Council, which called a special meeting to discuss this matter.¹⁷ The customs officers of Guangdong and two adjacent provinces tightened their operation three times in an attempt to stamp out these activities. Although the state was not overly alarmed by the illegal commercial practices, it realized that these politically undesirable activities in the special economic zone were due to the unusual conditions it provided.

The optimism in the Open Door Policy led to the opening of 14 coastal cities and Hainan Island.¹⁸ The Open Policy escalated in January 1985, when the three river deltas of Zhujiang, Changjiang, and South Fujian were designated as open regions.¹⁹ By March 1985, however, the state began to recognize that all was not well in the special economic zones. Premier Zhao reported that Shenzhen special economic zone had been unable to bring in high technology or export production. While the state had invested heavily in capital construction, it had yet to bring in foreign investment. Shenzhen, instead of supporting export production, had become an area for real estate speculation.²⁰

This revelation was not helped by the Hainan incidents. Between January 1984 and March 1985, the Hainan Island administration imported a large amount of motor cars, televisions, tape recorders, and cameras, and sold them to domestic markets for a large profit. This was discovered and promptly criticized.²¹ With these discoveries, the state became increasingly skeptical and critical of the special economic zone policy. In March 1985, Vice Premier Yao Yilin stated that Shenzhen gained profits from the domestic market because one-third of its income originated from overseas while two thirds was from the interior. He made a visit to Shenzhen and Shekou in April and further stated that the Zone could not use a continuous reliance on long-term state investment to maintain its development.²²

In response, the mayor of Shenzhen at that time, Liang Xiang, reported that most of the investment on urban capital construction came in fact from foreign sources, local accumulation, and borrowing, implying that the state's direct investment was small. Table 1 verifies that the state's direct share of investment in capital construction up to 1985 was only 3.7 percent of the total. He was pointing out that Shenzhen's development had been self-financed and had cost the state very little. In reality, he was only partially right; a total of 46.4 percent of capital construction investment had been indirectly contributed by the state and

TABLE 1: SOURCES OF CAPITAL CONSTRUCTION IN SHENZHEN SEZ 1979-1985
(in million yuan)

Source of Investment ^a	1979	1980	1981	1982	1983	1984	1985	TOTAL
National Government (in percent)	18.61 47.82%	29.85 26.43%	22.29 8.41%	43.95 7.49%	43.19 5.16%	20.96 1.35%	42.85 1.65%	221.70 3.70%
Foreign Sources (in percent)	4.27 10.97%	48.77 43.18%	132.68 50.05%	177.49 30.25%	222.12 26.56%	264.98 17.03%	355.98 13.69%	1206.29 20.12%
Ministries & Provinces (in percent)	9.55 24.54%	11.90 10.54%	23.96 9.04%	53.72 9.16%	67.65 8.09%	141.85 9.12%	378.42 14.55%	687.05 11.46%
Domestic Loans (in percent)	0.00 0.00%	6.36 5.63%	31.01 11.70%	188.18 32.07%	311.67 37.26%	673.22 43.27%	483.89 18.60%	1694.33 28.25%
Local Government (in percent)	4.88 12.54%	8.72 7.72%	32.74 12.35%	59.32 10.11%	73.99 8.85%	207.27 13.32%	440.47 16.93%	827.39 13.80%
Municipality Enterprises (in percent)	1.61 4.14%	7.34 6.50%	19.57 7.38%	46.37 7.90%	77.51 9.27%	205.53 13.21%	681.74 26.21%	1039.67 17.34%
Other Chinese Enterprises ^b (in percent)						8.06 0.52%	173.76 6.68%	181.82 3.03%
Others (in percent)			2.84 1.07%	17.70 3.02%	40.29 4.82%	33.86 2.18%	43.97 1.69%	138.66 2.31%
TOTAL INVESTMENT (in percent)	38.92 100.00%	112.94 100.00%	265.09 100.00%	586.73 100.00%	836.42 100.00%	1,555.73 100.00%	2,601.08 100.00%	5,996.91 100.00%
Accumulation		38.92	151.86	416.95	1,003.68	1,840.10	3,395.83	5,996.91

Sources: Shenzhen SEZ Yearbook 1985, pp. 592-593; and Shenzhen SEZ Yearbook 1986, pp. 436-437.

Notes:

^a For 1979-82 breakdown figures, only municipality ones available. The figures are estimated from SEZ/Municipality of investment.

^b Before 1984, other Chinese enterprises are included under Ministries and Provinces.

other provinces -- domestic organizations from the state and other provinces (from Table 1). Liang further argued that all domestic cooperative enterprises were making large profits that far exceeded the local income. The assertion that Shenzhen profited from the interior was therefore factually incorrect.²³ Doubt and criticism still persisted at the state level; thus, Shenzhen's future was uncertain. There were rumors that Shenzhen was similar to Dazhai (the agricultural development model during the Cultural Revolution) and that the state might abandon the Shenzhen experiment altogether.²⁴ The uncertainty did not last too long. In July 1985, Deng admitted that Shenzhen was only an experiment, and that naturally some problems remained unresolved. He expected, however, that solutions would be found within the next three years.²⁵

The continued state support was not altogether unqualified, and Liang's policy was examined and questioned. Mayor Liang was a local official, whose political and administrative career was tied exclusively to Guangdong Province.²⁶ His staff was also recruited from the same province. Shenzhen's administration, therefore, was local in that it was removed from Beijing. In August 1985 he was replaced by Li Hou,²⁷ who was an assistant secretary from the State Council. Shenzhen's administration since then has been more closely tied to the state.²⁸ Prior to 1985, Shenzhen had enjoyed a privileged position with strong state support. The local bureaucracy had a great degree of independence and much flexibility for experimenting. The free hand given to Shenzhen was not wisely used, as seen from the political ideology viewpoint. In the short period of development, it had not achieved its explicit goal of export production. With the delay in achieving its development objectives, some state leaders viewed Shenzhen as an inefficient development. With the abnormal activities, the view of the special economic zone as politically undesirable seemed confirmed.

However, Shenzhen was able to develop with little direct state financial support. Moreover, by 1984 the import deficit was reduced and export production grew substantially. Both trends were maintained in 1985. These economic acts convinced the state that since the Shenzhen experiment was working better, the Open Door Policy should continue; but it must be monitored cautiously, so that the administrative and production behavior would be more acceptable.

The high degree of localization in Shenzhen's early administration was seen as the weak point in enforcing political thinking. The mayoral change to a state candidate provided a closer vertical link between the zone and the state and would assure a more politically acceptable form of development.

From the perspective of administrative history, the issues of experimentation, dependence/independence, and state support can be seen to be the dominant themes. These issues become more complex and urgent as Shenzhen adopts the market system in parallel with the planned system. These contradictions are magnified in the special economic zones because they are the first large-scale experiment and therefore are scrutinized rigorously. Constant evaluation by the state is necessary because they are the most important developmental experiment under the present

development strategy. The economic and political effects will affect the further development of the Open Policy.

Administrative Structure

How does the administrative system in Shenzhen reflect the issue of bureaucracy vs. enterprise? A review of the administrative structure and its changes will explain their interrelationship. When Shenzhen was established as a special economic zone in 1979, the municipal bureaucracy was under Guangdong Province as well as Huiyang District. (The district is an administrative level lower than the province.) This system is called double leadership, or *xiangchong lingdao*.²⁹ The system proved to be cumbersome, and by November 1979 Shenzhen was no longer under the district but was directly under the province.³⁰ Initially there was no distinction between the bureaucracy and the enterprises since all enterprises were under the control of the bureaucracy. This early arrangement did not consider the independence of enterprise as necessary in a market system, and assumed that the production operation could easily fit in the bureaucracy, as it does in a planned system.

In October 1981, a major reform of the municipal administration took place. It was by now recognized that enterprises required a much simpler bureaucracy to deal with and greater freedom to operate. Moreover, Shenzhen enterprise operation was significantly different from those under the bureaucracy in other parts of China. First, the multitude of municipal units were reduced from 51 departments to 20, thereby eliminating some duplication and simplifying the process. Second, the municipal government took out those departments that were production-oriented and set them up as semi-independent corporations (Figure 2). The functions of these corporations were to combine industry and trade, to develop the service sector, and to generally explore production opportunities. Under the corporations, companies were set up for specific types of production or projects (Shenzhen Special Economic Zone Yearbook 1986).

Further reorganization was made between 1984 and 1985; the municipal government now was under a Three-Level Management System (*Sanji Guanli*). The first level is the municipal government. The second level consists of the municipal committees which have a policy and supervisory function. Under the committees, there are offices which have an executive function and coordinate the various bureaus. The bureaus are also executive units but with specialized functions and duties. The third level is the district offices in the zones. They consist of the branch offices and bureaus (see Figure 3).

The bureaucracy at the second level is equivalent to the corporation in the enterprise system. It is at the second level that the bureaucratic and enterprise systems interact and negotiate. The third bureaucracy level is equivalent to the companies, the production units. This is an attempt to separate the bureaucracy and the enterprise in order to accommodate the market operation. The bureaucracy now has three levels: the first level is the municipal government; the second level is the municipal committees, offices, and bureaus; and the third level is the district offices. The enterprise system has only two levels, starting at the equivalent of the

FIGURE 2

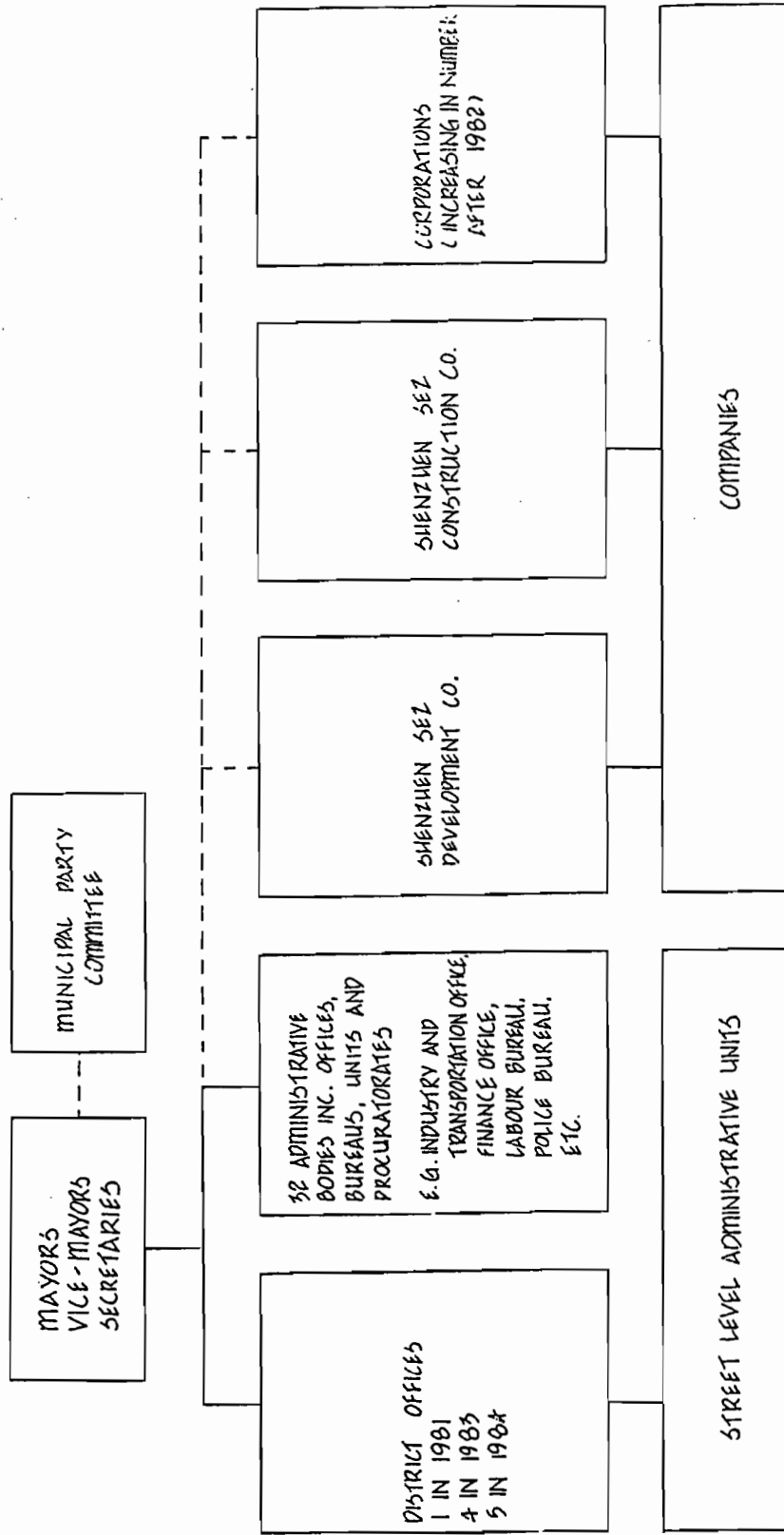


FIG.2 ADMINISTRATIVE STRUCTURE OF SHENZHEN, 1981-1984

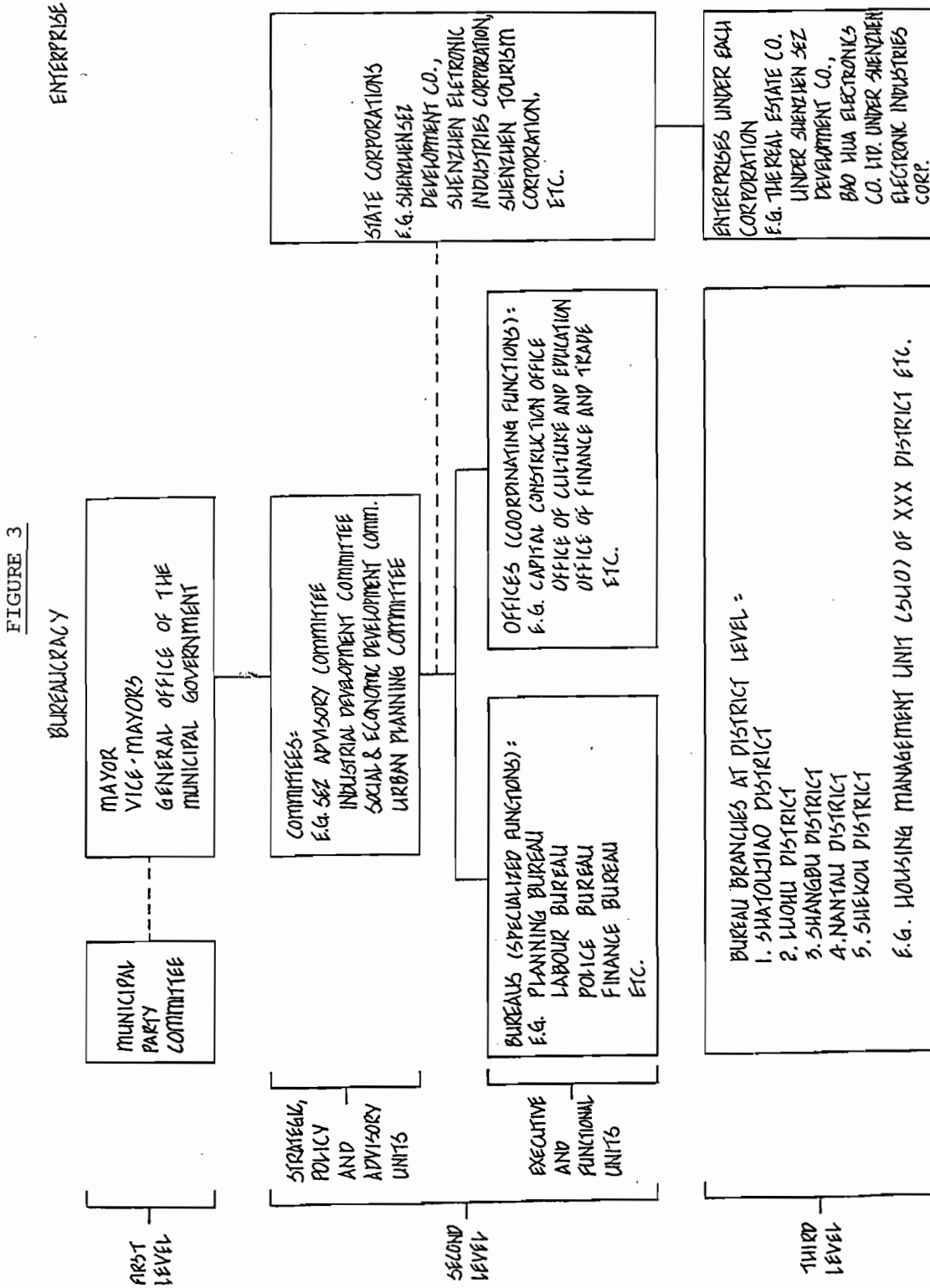


FIG.3 ADMINISTRATIVE STRUCTURE OF SHENZHEN SEZ AFTER 84/85 REFORMS (IN 1986)

second level with the corporations and the equivalent of the third level as the companies. In reality, as we shall see in the next section, the enterprise system is not independent from the bureaucracy.

The reform of the administrative and management system was completed in early 1982. The municipal government was still under the People's Government of Guangdong Province. Since the State Council Office for Special Economic Zones Affairs was established, the municipal government was also responsible to this state office. What this meant was that the legislation in the Shenzhen municipality would mostly also need approval by the province. Cases with national implications would be referred to the State Council Office. The criteria and the authority of the provincial and state bureaucracy regarding Shenzhen legislation were broad, general, and by no means distinct.

The intention of separating bureaucracy and enterprise was to remove production decisions from bureaucratic interference so that production would be internalized to the enterprise system. Since many of the corporations had previously been governmental departments, the top-level managers had been originally appointed as bureaucrats. For example, the two major corporations during this period, the Shenzhen SEZ Development Company and the Shenzhen SEZ Construction Company, were set up by regrouping some of the municipal departments,³³ but without major change of top-level personnel. Hence, close ties between enterprise and bureaucracy persisted. Moreover, legislation controlled by the municipal administration required the enterprises to obtain different types of approvals from the bureaucracy. As a result, the independence and flexibility of the enterprise operation was limited.

Since the 1981-82 administrative reform, many corporations have been established. Initially, Shenzhen only had two corporations, Shenzhen Special Zone Development Company and the Shenzhen Special Economic Zone Construction Company. Before 1982, practically all foreign investment came through the Shenzhen Special Economic Zone Development Company, whose function it was to attract foreign enterprise. From 1983 onwards, its role regarding foreign investment was substantially reduced (see Table x). As many other similar corporations were established in various forms and performed similar functions, competition significantly reduced the Company's share of foreign enterprises. In 1983, the company started to diversify and brought in domestic cooperative enterprises.³⁴ It also went into real estate development, covering residential, commercial, office, and industrial development, with the major area of investment being in residential development.³⁵ The fast growth of the corporations created competition and forced each to diversify into many areas. In order to maintain growth, the corporations came to act like local entrepreneurs and businesspeople. In a market system, their role was economic; they were the prime actors to initiate and organize economic development.

This system of administration went through some adjustment in 1985, since the number of corporations had increased substantially. Some were started by further transference of municipal departments, others by the state through ministries or by other provincial governments, some by collective ownership or joint ownership with foreign investors, yet others by various combinations of state, provinces, and municipality overseas

investors, as well as by collective ownerships. Most of the economic sectors that the major corporations developed were in capital construction and industrial production, especially electronics. Trading came next, followed by catering and tourism.³⁶ As there were more enterprises, the administrative response was to increase municipal departments. In part, the recent growth of municipal departments has been necessary because of the growth in size and complexity of the special economic zone.

The 1981-82 administrative reform separated the bureaucracy and enterprise in form. It succeeded in inducing the formation of corporations, which are the entrepreneurs of economic development. It also allowed these corporations to be formed with various organizational structures. Shenzhen, however, had not abandoned the administrative link to enterprise. In Chinese bureaucracy, the transference of directives does not depend on the administrative structure alone, even in vertical communication, but mainly depends on the personnel, especially in horizontal communication. The party cadre system is an effective way to instill political thinking in bureaucratic decision-making as well as in enterprise decisions. The Shenzhen enterprise system was by and large run by bureaucrats or ex-bureaucrats who were not politically independent. Companies with full foreign ownership were the only exception, but their number was restricted. Even the companies with foreign participation were controlled by the Chinese partner, since the board chairman by legislation must be Chinese, irrespective of the proportion of capital contribution.³⁷ In spite of the structural separation of bureaucracy and enterprise, the bureaucratic control over enterprise was maintained by the personnel.

The Process of Enterprise Establishment

When a foreign entrepreneur decides to invest in Shenzhen, a series of negotiations with the various municipal departments and agencies for approval will take place before a firm can be established. A review of this process will show the level of bureaucratic intervention in enterprise-production decisions.

At first, the investor contacts the relevant corporation and proposes the form of company structure, such as joint or private ownership, purpose of the investment, type of production, land requirement, size of investment, and feasibility. If the proposal is acceptable to the corporation, a contract is signed. Through the corporation, the application is submitted to the municipal government for approval. Within the municipal government, the application now goes to three groups: the Municipal Industrial Development Committee, which assesses the appropriateness of the proposal; the Municipal Social Economic Development Committee, which determines the priority of the project; and the Municipal Urban Planning Commission, which allocates land for the factory and workers' housing.³⁸

With the municipal government's approval, the entrepreneur now can proceed to construct the plant, hire labor, and arrange for imports and exports. The firms must be registered with the Municipal Industrial and Commercial Administration.³⁹ For building construction, a specific site is secured from the Municipal Planning Bureau, which provides a suitable

site, issues the land-use certificate, and determines the land-use fees. Alternatively, plant is rented or purchased from one of the real estate development companies. If the plant is constructed, the plans and design have to be approved by the Municipal Capital Construction Office, which also supplies the infrastructure. The Municipal Capital Construction Office will arrange for bidding and construction of the building. For laborers, a labor recruitment plan must be submitted to the municipal labor bureau for approval. The entrepreneur can then advertise for labor independently or recruit through the Shenzhen Labor Service Company. The contract between the employer and the laborers has to be approved by the Municipal Labor Bureau. For the import of technology, production machines, raw materials, and export of output, the entrepreneur, after obtaining the municipal government's approval, submits the list to the state's Customs Office.⁴⁰

These are the general and minimum requirements for bureaucratic approvals before a foreign firm starts production. Through these negotiations and application procedures, the bureaucracy imposes direct control over all the major production decisions of the enterprise.

Although it is part of Shenzhen, Shekou has a similar process for the establishment of foreign enterprise, but the process is much simpler because Shekou itself is directly under an enterprise that understands production needs and is therefore more sympathetic and cooperative. In part, the process is much more direct because all the agencies are within one building.⁴¹ Moreover, Shekou established a commercial promotion bureau in Hong Kong, Zhaoshangju (China Merchant Steam Navigation Company), which has a much wider variety of investment activities than the English name implies, and has a comprehensive business interest in industry, commerce, and trade. Through this bureau, overseas investors can obtain official approval for their enterprise.⁴² Although the establishment process is similar, the bureaucrats exercise little political control over the enterprises. Shekou has proven to be more successful in attracting foreign industrial enterprises than the rest of Shenzhen Special Economic Zone.

Summary

The governance of Shenzhen, and specifically Shekou, was originally conceived as an independent local administration for industrial development. The local public administration had much authority to determine regulatory mechanism and latitude to cope with economic activities which were different from those in China. The degree of freedom and flexibility was designed for experimentation. Even after Shenzhen special economic zone was established, it was initially put under Guangdong Province and not under a state department. Moreover, regulations were proposed by Shenzhen and endorsed by the provincial government, and most regulations were temporary so that they could be changed as the local government gained experience.

Many bureaucratic appointments were made by ministries and departments at the state level; local bureaucrats were partially tied upward and influenced by political directives. The higher echelons of Shenzhen

government, however, were originally from the province. The process of centralization and politicization was made explicit when Li Hao, previously with from the State Council, was appointed mayor in 1985. Shenzhen's administration lost much of its independence and increasingly reflected directives from the state. As the local bureaucracy has moved towards greater political commitment, the dominant ideological views on the market system have determined the bureaucratic directives and the enterprise system.

Bureaucracy intervenes in the enterprise operation, particularly when politically unacceptable behavior is discovered in the production and commercial sectors. Any abnormality in the economic system is also interpreted as undesirable, and thus is subject to some degree of administrative correction and sanction. Under these circumstances, bureaucracy and enterprise will merge in operation, if not in form, even though the separation of the two is advocated as desirable in other parts of China.

The detachment of production-related agencies from bureaucracy into semi-independent corporations has created a new form of enterprise organization. These corporations do not themselves produce, but instead serve as brokers for production and service units. Their roles of providing information, creating production and business opportunities, and initiating, assisting, and forming enterprise units, are entrepreneurial in a market context. In addition, they serve as trade associations and regulating agencies. The corporations compete with each other in seeking out investors and clients and business opportunities, although they maintain strong bureaucratic ties through the high-level managers. As collective entrepreneurs, they maintain growth. Since economic development remains the *raison d'être* of Shenzhen's existence, the corporations assume the role of economic agents for Shenzhen's production growth and development. Increasingly, they work within a market environment and will shift away from the bureaucracy. If Shenzhen experiments move in the market system, the separation of enterprise and bureaucracy is likely to take place.

Within the bureaucratic system, there is a tendency to have greater links with the central government and greater control over enterprise, and thus less independence. In the enterprise system, the trend is towards less restriction and greater autonomy. Given these contradictory tendencies, Shenzhen has now witnessed three periods of political-economic development. Between 1978 and 1981, Shenzhen was in the Formative Stage, and administratively concentrated on establishing regulations. This was an experimental period. In capital construction, the special economic zone government invested mainly in infrastructure, while Hong Kong capital channeled into real estate, developing the building stock.

Shenzhen then entered into the Transformation Stage. From the beginning of 1982 to early 1985, the state gradually increased its political support and endorsement. With political backing, a development model began with the separation of the bureaucracy and the enterprise and the creation of the corporation -- introducing the new actors of the market economy with which the zone was set up to experiment. Domestic enterprises entered into the scene, and import trade started and flourished.

From early 1985, Shenzhen lost much of its political support and therefore had to be economically independent. However, administratively, it is moving towards the central state. Because of the necessity to sustain a self-generating economy, the market system has depended on competition to provide government revenue and profits for enterprises. This is the Market Stage, when income generating enterprise units are encouraged and competition between enterprises started. The form of economic development becomes the determining factor in resolving the dilemma of bureaucratic dependency and enterprise independency.

CHAPTER TWO -- ECONOMIC DEVELOPMENT IN A SPECIAL ECONOMIC ZONE

Development of Shenzhen Special Economic Zone

The goals of Shenzhen special economic zone are similar to those of a free trade zone, except that its development is comprehensive.⁴³ By opening up to the international market, the former gains market information and generates income and employment. Income earned from overseas via the special economic zone also contributes to the national balance of payment.

The type of foreign enterprise that a free trade zone attracts is usually branches of multinational corporations. These corporations have a threefold interest in locating branch plants overseas: (1) for resource extraction, when the host country has some low-price and abundant resources; (2) for domestic markets, whereby the multinational corporations either produce in the free trade zone for the domestic market or import products from its other branches; and (3) for export production, when the free trade zone had some production advantages for nearby markets.

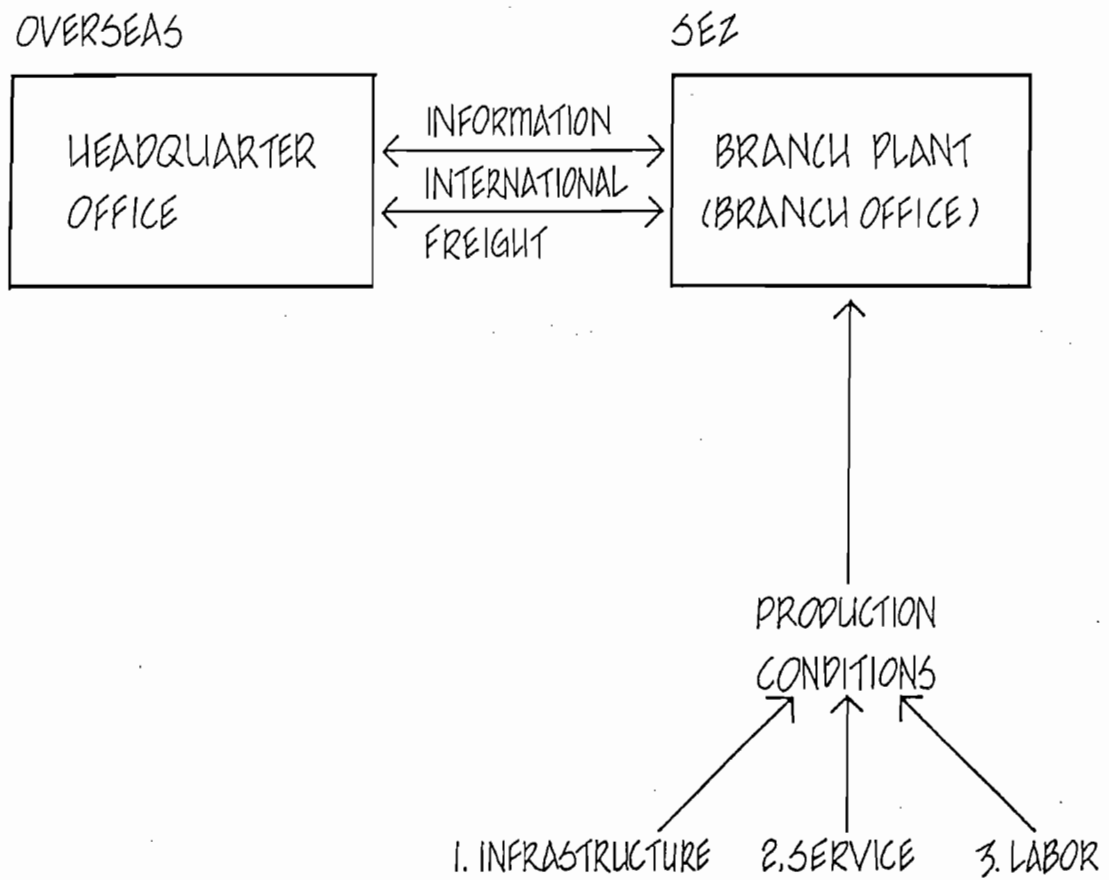
Since China wishes to avoid a foreign exchange deficit and to prevent an outflow of currency, it attempts to close the domestic market to foreign products. Although certain types of imports are allowed, both capital and consumer goods, China's policy is essentially protectionist. The safeguarding of natural resources is of paramount importance, because once they are extracted, they are irrecoverable. Moreover, the pressures of the vast population demand careful control of natural resources. Shenzhen Special Economic Zone was originally set up to obviate these problems and to create export production only.⁴⁴

Since Shenzhen concentrates on export production, its development combines the multinational corporation with export production as its main engine of growth. The multinational corporation generally has its headquarters in the more advanced industrialized countries, with branch production plants located overseas in both developed and less developed countries. Not only will the branch normally handle for production, but there must also be an associated office to manage production, organize input and output distribution, maintain communication with the headquarters, and negotiate with the regional market. A multinational corporation branch requires an international network for information communication and freight transport.

In order to attract branch offices and production plants, Shenzhen must generate a production environment suitable for such operations. The set of production conditions can be separated into three parts. The first is infrastructure: this is the "hardware," such as transport, energy, and communication. The second is services: this is the "software," and includes finance, banking research, and human capital development. The third is a labor force that has the appropriate skills and is available at reasonable wages. Shenzhen's development model (see Figure 4) uses local infrastructure, services, and labor to attract foreign investment.

FIGURE 4

FIG.4 SHENZHEN MNC MODEL



With this special economic zone development model, how does Shenzhen provide these sets of production conditions? What effect does the pattern of investment in production conditions have on Shenzhen's economic structure? What kind of development actually takes place? Does the actual development respond to the developmental goals?

Capital Investment

The pattern of capital investment in infrastructure, services, and production and/or retail is shown in Table 2. Of these categories, infrastructure and services contribute the most towards providing favorable conditions for production by foreign investment. Over the last seven years, capital investment has not been concentrated on either of these two sectors. In fact, close to half of the expenditure has been in the production-retail sector and essentially not contributing to production conditions. Within the infrastructure category, 72.6 percent was expended on urban infrastructure. (Up until 1985, this was close to seven times the total investment in services.) Only 6.3 percent of the total capital investment was allocated to the services, of which 89.7 percent went to human capital development. Since it takes time to develop human skills, the contribution of human capital investment only will have a long-term effect on production. Thus, the services investment directly applicable to production conditions was small.

In providing the conditions for production for foreign investment, the Shenzhen government placed the greatest emphasis on infrastructure for production, deeming physical utilities as the most important element in attracting foreign investment. The low priority given to services is significant since this sector has been poorly developed. In comparing these two production conditions, Shenzhen was much stronger in providing infrastructure while relatively weak in the services.

Shenzhen's investment did not contribute directly to the third production condition, skilled labor. Almost all labor employed for production is contracted from other provinces when required by various enterprises. Laborers engaged on a long-term basis are given permanent residence, while all others are given a contract based on production demand. If the demand for labor is below supply, the temporary laborers are sent back to their native provinces when the contract for the surplus labor expires. Thus far, the labor requirement in Shenzhen has been increasing and there has been no case of repatriating temporary labor. In order to attract labor, Shenzhen uses two strategies: (1) providing higher wages; and (2) providing better housing. These will be discussed later. Thus far, these strategies have worked well and there has been no labor shortage.

A summary of production conditions in Shenzhen can be made by saying there is abundant available labor and infrastructure has been improving, but services are inadequate. With regard to the production conditions in Shenzhen, the emphasis has been on hardware. Software is poorly provided, including information and management, which are equally necessary as preconditions for foreign investment. This imbalance of production conditions has had a significant impact on the nature of Shenzhen economic

TABLE 2: CAPITAL INVESTMENT IN SHENZHEN SEZ 1979-1985
(in million yuan)

	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>TOTAL</u>
Infrastructure (in percent)	6.92 17.78%	22.52 9.93%	64.48 24.32%	264.62 45.10%	465.12 55.60%	663.99 42.68%	1,139.49 43.81%	2626.25 43.80%
Services (in percent)	2.05 5.25%	5.47 4.85%	10.62 4.01%	22.34 3.81%	26.78 3.19%	141.33 9.09%	168.08 6.46%	376.67 6.28%
Production, Retail, & Others (in percent)	29.94 76.96%	84.96 75.22%	190.00 71.67%	299.76 51.09%	344.51 41.19%	750.41 48.24%	1,293.51 49.72%	2,993.11 49.92%
TOTAL (in percent)	38.91 100.00%	112.95 100.00%	265.10 100.00%	586.72 100.00%	836.41 100.00%	1,555.73 100.00%	2,601.08 100.00%	5,996.03 100.00%

Sources: 1979-1983 adapted from Shenzhen Special Economic Zone Yearbook
1985, pp. 592-593; 1984-85 from Shenzhen Special Economic Zone
Yearbook 1986, pp. 436-437.

development -- industrial structure, foreign investment, and development policy.

Production Input Prices

The rationale for the establishment of the Shenzhen special economic zone was based on Lenin's idea of concessions. Recognizing that the state had to establish economic ties with the rest of the world, China had to adjust its relationship with capitalist nations. Therefore, concessions had to be granted to capitalist economies, so long as certain conditions were met. First, power had to be kept from the capitalists. Second, the state had to ensure that the capitalists would abide by some form of contractual obligation. Third, the bulk of the economy was to be retained in the hands of China. And finally, the incentive of profit was to be used to attract the capitalists, since such a compromise would help to realize socialism.⁴⁵ In other words, the basis of accepting a capitalist system was that it was to be under the control of the state and in the service of the national economy. The capitalist would undertake to organize and improve production, but must pay the state a share of the profits.

The intention was for Shenzhen to be an export production zone, with the Chinese supplying some of the inputs: labor, land, infrastructure, service, and raw materials. It was in these inputs that the state would absorb part of the capitalist profits. Since there was no market pricing mechanism, the basis for fixing input prices were those already existing in China. In order to gain a share of the profit, Shenzhen was to charge a higher price to the foreign investor than those in China. In order to provide foreign investors with some economic advantages to locate their plants in Shenzhen, these input prices were to be below the international prices.

Since Shenzhen's administrators did not necessarily have information on international prices, the prices in the special economic zone have often been arbitrarily determined, which, although higher than Chinese prices, have been at a level that the foreign investors were willing to pay. Generally, the principle has been to charge all production input prices somewhere between the Chinese prices and the international prices. Since the price difference constitutes income for the local government and net profits for the enterprises, there has been a tendency to charge the maximum that the foreign investors are willing to bear. Often, the desire to attract certain types of foreign contracts has suppressed input prices. Depending on the contract and the decision-makers, prices of inputs have been variously determined. Consequently, input prices have varied, especially in wages.⁴⁶ These different systems of price determination have resulted in prices subject to negotiation or float. The arbitrary price system has raised the organization cost, caused unnecessary delay in the investment program, increased uncertainty and risk, and reduced the attraction to the foreign investors.⁴⁷

Land

Land use is determined by the Shenzhen Urban Planning Bureau. The master plan, covering 37.5 percent of the central part of Shenzhen special economic zone, determines the land use. The distribution of land use is shown in Table 3. The three major land-use sectors are housing (18.2 percent), industry (15.1 percent), and roads (14.5 percent). The land-use distribution clearly expresses the economic structure of Shenzhen, and indicates the opportunities for investment in real estate and industry.

Recently, Shenzhen experimented by auctioning land for a 50-year leasehold, thus allowing for what in effect is land ownership. Previous to this experiment, all Shenzhen land had been allocated to the users according to the land-use plan. There was no right of ownership, only right of use. Approval of a user's application for the right to use land implied no right by the user to transfer the land. After land was allocated, foreign investors paid land-use fees that were established in 1982 and subsequently modified in 1984 (Tables 4 and 5). The established land-use fee scale was drastically reduced in 1984. Even at the relatively high fees in 1982, they were very competitive compared to Hong Kong land prices at the same period. The right of use was allowed for various periods for various land uses (Table 6), and they were renewable upon expiration. The payment of land-use fees was either in one lump sum or by yearly installment with an annual interest rate of 8 percent. After 1984, the annual interest rate payment was eliminated. In its place, fee variation was introduced by adjusting land-use fees according to the location in relationship to the town center. In this way, three categories of fees were established. The 1984 adjustment also introduced land-development costs, which covered infrastructure and site formation and land requisition compensation to the previous owner if the land had been privately owned. These were the capital costs to be paid by the users; thus, land ownership implicitly was established.

Domestic enterprises, however, received differential treatment. Land-use fees were levied on them, but they were not subjected to land-development costs and land-requisition compensation. For the high-technology projects that were the most preferred industries, reduction of and even exemptions from the capital costs were granted for overseas Chinese.

The adjustment of land-use fees in 1984 was in response to the depressed property market in Hong Kong. By introducing the concept of land leases and lower annual fees, Shenzhen attempted to provide land attractive to Hong Kong developers and at the same time provided immediate revenue to cover the state investment in land.

Labor Structure

The system of employment in Shenzhen is different from the rest of China, which normally allocates labor to enterprises. Generally, employment allocation is for life, without any possibility of employment termination. Shenzhen's system is by contract, whereby both enterprise and labor have equal rights to employment termination when entering into

TABLE 3: THE DISTRIBUTION OF LAND USES
IN THE SHENZHEN SEZ MASTER PLAN 1985

<u>Land Use</u>	<u>Hectare</u>	<u>Percentage</u>
Industry	1,848	15.1
Store House	533	4.4
External Transport	1,133	9.2
Public Facilities	248	2.0
Housing	2,235	18.2
Public Building	1,384	11.3
Road and Square	1,775	14.5
Greening Area	1,421	11.6
Research Institute and University	449	3.7
Tourist Facilities	1,170	9.5
Special Purpose	82	0.6
Total	12,276	100.00%

Sources: Shenzhen SEZ Yearbook 1986 p. 244; China City Planning Review, Vol. 3, No. 1/2, 1987, p. 124.

TABLE 4: LAND-USE FEES IN SHENZHEN SEZ 1982

<u>Uses</u>	<u>Yuan/Square Meter/Year</u>
Industrial uses	10-30
Commercial uses	70-200
Residential property	30-60
Tourist undertakings	60-100
Agricultural	set separately

Source: Article 16, Provisional Regulations of the Shenzhen Special Economic Zone on Land Control, Shenzhen SEZ Yearbook, 1985, p. 224.

TABLE 5: LAND-USE FEES IN SHENZHEN SEZ 1985

<u>Uses</u>	<u>Yuan/square meters/year</u>
Industrial and warehouse use	1.0 - 1.6
Commercial, hotel and restaurant use	13.0 - 21.0
Residential property and hostels	5.0 - 9.0
Tourist facilities	12.0 - 18.0
Outdoors recreation facilities	0.3 - 0.4
Quarries, outdoor parking lots	0.4 - 0.7
Agricultural	0.2 - 0.3

Source: Measures on Readjusting Land-use Fees and Preferential Reduction and Exemption of Land-use Fees in Shenzhen Special Economic Zone, Shenzhen SEZ Yearbook, 1985, pp. 276-278.

TABLE 6: LAND-USE LEASE IN SHENZHEN SEZ

<u>Uses</u>	<u>Year</u>
Industrial use	30
Commercial use	20
Residential property	50
Educational, scientific, technology, medical use	50
Tourist undertakings	30
Agricultural	20

Source: Article 15, Provisional Regulations of Shenzhen SEZ on Land Control, Shenzhen SEZ Yearbook 1985, p. 223.

an employment contract. Labor also has the right to select jobs.⁴⁸ Shenzhen's labor system in reality operates similarly to the free labor market.

In order to satisfy the special economic zone's labor needs, enterprises which need labor must first recruit within the special economic zone. When they can no longer find labor within the special economic zone, they can then recruit labor from the municipality -- graduates from secondary schools and technical and professional colleges. If an enterprise still cannot fulfil its labor needs, they are then allowed to advertise for, examine, and select labor from other parts of China.⁴⁹ Through this system, Shenzhen has already transferred all the agricultural labor within the special economic zone into non-agricultural work and has to import labor from the surrounding counties for agricultural production.⁵⁰ Because of the tremendous labor demand, most of Shenzhen's labor has been recruited outside the special economic zone.

There are three groups of workers in Shenzhen. The permanent workers, who are given household registration, are the original residents, with higher-level bureaucrats and enterprise managers appointed or recruited from the outside. The contract workers for Shenzhen's bureaucracy and enterprises are recruited from inside and outside the municipality. They are usually given two- to three-year contracts. By 1985, they numbered 51,188.⁵¹ Contract labor usually is skilled technicians, managers, and administrators. In addition, there are the temporary workers, such as the 201,209 workers recruited on a temporary basis from outside Shenzhen in 1985 alone. Table 7 shows the distribution of the temporary laborers. All are production and service workers, with more than half of them in capital construction. The remaining half are mostly in enterprise, but a sizeable group has been recruited for agricultural production.

The occupational structure in the state enterprises, which hired close to 75 percent of all employees (excluding temporary workers) in the special economic zone (Table 8) from 1982 to 1985, has resulted in permanent and contract workers being concentrated in three sectors -- industry, construction, and retail. In 1985, urban public utility and state institutions and social organizations began to absorb a larger proportion of the labor force. Since the state enterprise employees constituted 91.3 percent of the total labor force in 1982 and were reduced to 72.5 percent in 1985, these figures did not represent the entire labor structure in the special economic zone. However, with the state sector being the largest, the figures can be used as references to indicate labor concentration. The large share of labor in construction and natural resource and urban public utilities reflects the emphasis on infrastructure development. But the proportionate increase in state institutions and social organizations indicates that Shenzhen has begun to expand its service sector, rectifying the underdevelopment in this sector.

In the industry sector, Shenzhen's labor efficiency is higher than the national average. When compared with the urban average industrial efficiency, Shenzhen has been more efficient in the state sector -- inasmuch as the per-worker fixed asset ratio was lower and per-worker net output was higher. In the collective enterprises, the fixed asset ratio

TABLE 7: TEMPORARY WORKERS IN SHENZHEN SEZ 1985

	<u>Workers</u>	<u>Percentage</u>
Enterprises	78,948	39.24
Capital Construction	110,065	54.70
Agriculture	12,186	6.06
Others	10	0.00
TOTAL	201,209	100.00

Source: Shenzhen Special Economic Zone Yearbook 1986, p. 203.

TABLE 8: OCCUPATION STRUCTURE OF WORKERS
IN STATE-OWNED UNITS AND ENTERPRISES IN SHENZHEN SEZ 1982-1985
 (in 1,000 workers)

<u>Category</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>
Industry (in percent)	12.2 20.10%	11.9 13.68%	19.3 16.40%	23.6 16.86%
Construction/Natural Resource (in percent)	5.8 9.56%	27.8 31.95%	30.0 25.49%	25.4 18.14%
Agriculture, Forestry, Water, & Weather (in percent)	7.6 12.52%	3.3 3.79%	2.7 2.29%	2.5 1.79%
Transport, Communication, & Postal Service (in percent)	6.2 10.21%	4.3 4.94%	6.8 5.78%	9.4 6.71%
Retail, Catering, Services, & Supplies (in percent)	13.5 22.24%	20.5 23.56%	32.2 27.36%	34.2 24.43%
Urban Public Utilities (in percent)	4.3 7.08%	4.3 4.94%	6.7 5.69%	14.4 10.29%
Scientific Research (in percent)	0.1 0.16%	0.7 0.80%	0.2 0.17%	0.8 0.57%
Culture, Medical Health, & Social Welfare (in percent)	2.9 4.78%	3.0 3.45%	6.4 5.44%	10.1 7.21%
Finance & Insurance (in percent)	1.1 1.81%	1.3 1.49%	2.2 1.87%	3.1 2.21%
State Institution/Social Organization (in percent)	7.0 11.53%	9.9 11.38%	12.2 9.52%	16.5 11.79%
Total State Employment	60.7	87.0	117.7	140.0
Total State Employment/Total Employment (in percent)	91.32%	80.86%	76.25%	72.50%

Sources: 1979-1983 adapted from Shenzhen Special Economic Zone Yearbook 1985, pp. 606-607; 1984-85 from Shenzhen Special Economic Zone Yearbook 1986, pp. 449-450.

was higher but the per-worker net output was not significantly higher (Table 9). However, compared with metropolises such as Shanghai and Guangzhou, Shenzhen had a higher per-worker fixed asset ratio but produced a lower per-worker net output in both state and collective enterprises. It therefore had a lower industrial efficiency among the metropolises. From the labor-efficiency point of view, it would be more beneficial for industry to be located in coastal metropolises other than Shenzhen. Up to 1985, Shenzhen had yet to produce the labor conditions with a comparative advantage for industrial enterprises.

Part of the reason for this failure lay in Shenzhen's labor training program. Most of these programs relied on the educational institutes within the municipalities and higher educational institutes from other parts of China. From 1983, Shenzhen started to tap Hong Kong expert resources for training. Training mainly concentrated on administration and management, particularly in trade, finance, and commerce. Most of these programs were short-term training courses.⁴⁵ Since these training programs essentially were related to management, the training periods should have been long-term. Short-term programs were not particularly effective. Moreover, production-labor skills still relied on on-the-job training; therefore, the industrial labor productivity has remained low. With low-skill industrial labor, Shenzhen has not been able to attract high technology industries.

Table 10 compares wages in the state, collective, and joint sectors. In each case, Shenzhen's wage rate was substantially higher than not only the urban average, by also those of Shanghai and Guangzhou. Assuming that Shenzhen's labor skills were on a par with other cities, the substantially higher wage rate for the enterprises would be a cost factor deterring foreign investors from locating their plants in Shenzhen.

Economic Structure

Shenzhen's major economic sector has been other than export production. Table 11 shows that in national income, industrial production in 1984 was only 29.3 percent, much less than half of the national income. Most of the income contribution came from other production, including construction, commerce, transportation, and communication. Thus far, Shenzhen has yet to develop itself into a dominant industrial production center. While the explicit goal of Shenzhen was to generate export production, statistics show that Shenzhen had not yet reached that stage.

Comparing commerce to industry, commerce exceeded industrial production in most years before 1984, and industrial production only pulled slightly ahead in 1984. Shenzhen started as a retail center and its function as a retail center is still growing, although in recent years industrial production so escalated that it caught up with the retail sector. On a per-capita basis, Shenzhen's retail sales far exceed those in other Chinese metropolises such as Shanghai, Beijing, and Guangzhou.⁵³ As well as serving its own residents, more than half of Shenzhen's consumers come from other parts of China. More than 80 percent of the sales in electronics and clothing were to the consumers from other

TABLE 9: COMPARATIVE INDUSTRIAL EFFICIENCY 1985 (RMB)

	<u>Per-Worker Fixed Assets</u> <u>(original value)</u>		<u>Per-Worker Net Output Values</u> <u>(current prices)</u>	
	<u>State</u>	<u>Collective</u>	<u>State</u>	<u>Collective</u>
Urban Average	16,269	2,523	6,180	2,132
Shanghai	13,314	2,623	11,000	4,680
Guangzhou	14,246	3,183	7,949	3,581
Shenzhen	14,588	4,764	7,591	2,662

Source: China Urban Statistics 1986, pp. 298-299.

TABLE 10: COMPARATIVE URBAN WAGES (1985)
(in yuan)

	<u>State</u>	<u>Collective</u>	<u>Joint</u>
Urban Average	1,249.5	981.4	1,401.6
Shanghai	1,409.5	1,128.0	1,576.9
Guangzhou	1,691.1	1,541.5	1,905.0
Shenzhen SEZ	2,405.2	2,004.5	2,763.0

Source: China Urban Statistics 1986, pp. 465-467.

TABLE 11: NATIONAL INCOME^a IN SHENZHEN SEZ 1979-1984
(in million yuan)

	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>
Industry	8.39	14.48	57.28	84.60	176.28	367.00
(in percent)	11.9%	11.8%	23.4%	19.1%	21.4%	29.3%
Agriculture	28.82	35.57	30.83	29.57	44.65	41.00
(in percent)	40.8%	29.1%	12.6%	6.7%	5.4%	3.3%
Construction	13.54	39.31	92.27	204.23	286.14	42.20
(in percent)	19.2%	32.1%	37.6%	46.0%	34.8%	33.7%
Commerce	15.20	24.90	48.63	96.08	235.68	342.00
(in percent)	21.5%	20.4%	19.8%	21.6%	28.7%	27.3%
Transportation/Communication	4.64	8.03	16.11	29.16	79.53	81.00
(in percent)	6.6%	6.6%	6.6%	6.6%	9.7%	6.4%
Total National Income	70.59	122.29	245.12	443.64	822.28	1253.00
(in percent)	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: Liu, Guoguang, ed., 1985, Shenzhen tequ fazhan zhanlue yanjiu (Study of the development strategy of Shenzhen Special Economic Zone), Hong Kong, Jingji daobaoshe, pp. 80-81.

Note:

^a Defined as the net output value of the five sectors.

parts of China.⁵⁴ It is therefore safe to say that in the retail sector, Shenzhen services other parts of China.

Apart from commerce, much of Shenzhen's economic activity is in international trade. Table 12 shows the recent import and export figures of Shenzhen. From 1983, the import deficit was apparently high, though it was decreasing fast. Given the volume of imports and exports, some argued that Shenzhen's major economic function was in import trade rather than export production.⁵⁵ In an analysis of the imported commodities in 1984, building materials comprised 19.0 percent, and production material -- including equipment, raw materials, and spare parts -- comprised 28.7 percent. The remaining 52.3 percent was consumer goods. Among the imported consumer goods, the highest volume was set by air conditioners, automobile spare parts, clothing, foodstuff, and TV sets.⁵⁶ As a retail center, Shenzhen has provided domestic consumers with imported goods. It is a marketplace for foreign household consumer goods for customers from all parts of China. Shenzhen has become an import trade center because of its unique relationship with the overseas market. Since it is open to the international market, foreign goods have been allowed to enter Shenzhen without much restriction. And since it is also open to the interior, domestic enterprises in Shenzhen have access to the flow of goods between the special economic zone and interior regions. Import goods are therefore channelled to the domestic consumer through the special economic zone to take advantage of this conduit. Moreover, situated as it is adjacent to the major international metropolis of Hong Kong, Shenzhen has a nearby and ready supply of foreign goods available.

Industrial Enterprises

Statistics for recent years support the notion that Shenzhen's industries have shown signs of taking off and are catching up with the retail sector. Moreover, stricter control over imported consumer goods has begun to reduce the import deficit. Indications are that industry is gradually being established in the leading position.

From Table 13, we can see that more than 73 percent of the industrial enterprises in 1985 were domestic establishments. Various forms of foreign enterprise amounted to around 27 percent. Even with the dominance of domestic enterprises, the value of their output was less than half of the foreign industries. More than two-thirds of the industrial output value was produced with foreign industries (Table 14). In the industrial sector, these overseas enterprises were the main producers of income. This shows that enterprises with foreign participation have been far more productive. It is logical to assume that Shenzhen's industrial growth would be greater if it relied on foreign-invested industries rather than on domestic enterprises.

Most of the industrial enterprises were owned collectively or by the state. By 1985, together they comprised more than two-thirds of all industrial enterprises (Table 13). State and collective enterprises started in 1979, with slow growth in the early years. Joint foreign enterprises started in 1981 and grew steadily until 1985, when they increased by 2.7 times the previous year's growth. Sole foreign ownership was the smallest

TABLE 12: IMPORT AND EXPORT IN SHENZHEN SEZ 1983-1985
(in million US\$)

	<u>1983</u>	<u>1984</u>	<u>1985</u>
Total Import	724.12	807.08	742.91
Total Export	60.94	265.40	563.40
Balance	-663.18	-541.68	-179.51

Sources: 1983 from Shenzhen SEZ Yearbook 1985, pp. 439-443;
1984-85 from Yearbook 1986, p. 132.

TABLE 13: NUMBER OF INDUSTRIES IN SHENZHEN SEZ 1979-1985

	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>
Total Industries	68	69	95	153	200	374	575
% annual increase		1.47	37.58	61.05	30.72	87.00	53.74
<u>Domestic Industries</u>	68	69	88	133	154	313	420
State	41	41	46	60	75	133	184
Collective	27	28	42	72	79	175	211
State & Collective				1	0	5	25
Domestic Industries/ Total Industries	100%	100%	92.60%	86.90%	77.00%	87.70%	73.04%
<u>Foreign Industries</u>	0	0	7	20	46	61	155
Joint-ownership			7	19	35	52	142
Sole-ownership				1	11	9	13
Foreign Industries/ Total Industries	0%	0%	7.40%	13.10%	23.00%	16.30%	26.96%

Sources: 1979-1983 from Shenzhen SEZ Yearbook 1988, p. 587.
1984-1985 from Shenzhen SEZ Yearbook 1986, p. 431.

FIGURE 5

FIG.5 HK BRANCH PLANT MODEL

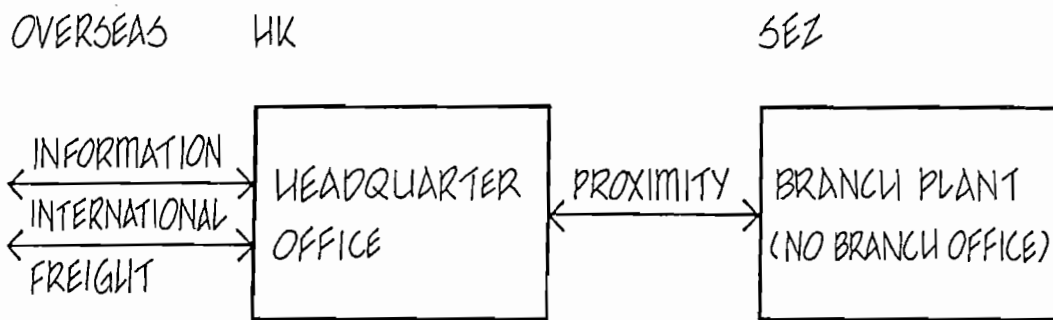
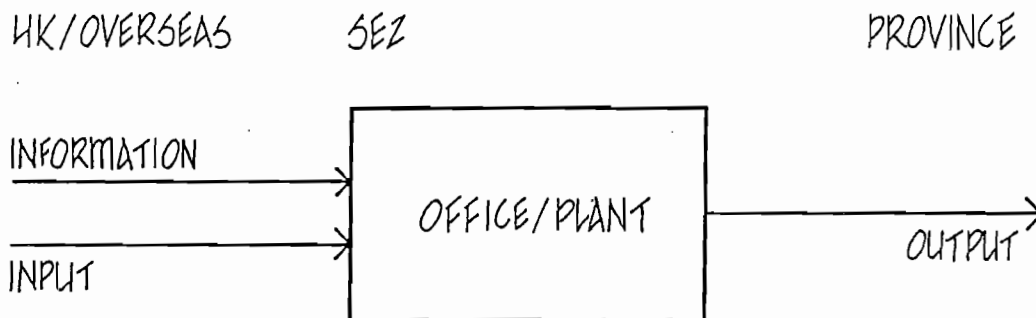


FIG.6 DOMESTIC COOPERATIVE ENTERPRISE MODEL



stages of a new settlement pattern, one in which the state was to be responsible for initial capital construction, and private investment participated mainly in the development of the building stock and industries.

During the Transformation Stage (1982-85), capital construction was financed from much more diverse sources, and the state share was reduced drastically. Subsequent to the strong political endorsement of Shenzhen reducing investment risks and the zone's construction of infrastructure improving the physical conditions of production, foreign investment increased steadily and foreign industrial output value escalated (Tables 18 and 14). It was at this stage that the Shenzhen government decided to take over a large share of real estate development; consequently, foreign investment in this sector subsided. Domestic enterprises took up the import trade to respond to the inland market. The separation of bureaucracy and enterprise began to give greater scope for market operation. Corporations were set up, thus creating a collective entrepreneur sector. The diversification of the economic structure and the change of investment patterns reflected a period of trial and error in development and the fluidity of the economic environment.

From 1985, the Market Stage, the local government recognized that the economic system must necessarily be radically different from the traditional planned economic system. In response to political uncertainty, Shenzhen adopted the market as its prime economic system in order to gain economic independence. Through corporations and domestic enterprises, the special economic zone switched to commodity production as the main developmental direction, using foreign technology and inputs from domestic enterprises because of the zone's diminishing ability to attract foreign investment. These areas of economic reform were adopted to prepare for export production by domestic enterprises.⁷⁵

The year of 1985 seemed to be the turning point of Shenzhen's development. Since 1979, when it was established as a special economic zone, Shenzhen's early years were devoted to capital investment, real estate, and import trade. Although its explicit purpose was to achieve export production, during the pre-1985 years, Shenzhen had not developed a full physical or institutional environment for foreign investment and industrial production. But because of its experimental nature and the lack of effective administration and regulations, the service deficiencies provided a situation which commercial enterprises found advantageous and profitable. The enterprises found ways to fulfill the vast, suppressed consumer market domestically and made use of the available overseas goods through Hong Kong. So long as these deficiencies exist, import commercial enterprises will continue to flourish.

In 1985, Shenzhen began to recognize the importance of reducing import deficits and encouraging industry production. In the process, the advantage of servicing domestic enterprises by obtaining overseas technology and production inputs was also realized. Apart from using foreign enterprises as the engine of economic development, domestic enterprises could now be used in upgrading production efficiency and quality, and service the domestic market. Since official statistics are not available after 1985, the exact situation of Shenzhen's economic

development cannot be assessed. Based on field research, we believe import trade has subsided significantly, given the tighter controls over foreign exchange, and domestic enterprises apparently have continued to increase, emerging as the dominant sector of growth. Offices from almost all provinces have been set up in Shenzhen to investigate business and production opportunities and to advise the provincial enterprises about the potentials and conditions of Shenzhen.

For the foreign investors from Hong Kong, Shenzhen still lacks the production advantages and labor conditions to compete with other parts of Pearl River delta. Most of the Hong Kong branch plants are bypassing Shenzhen and moving further inland. Unless Shenzhen can provide a better competitive position, its ability to attract Hong Kong's investment in industrial production will continue to diminish.

Judging from a recent comparative analysis of the potential of Shenzhen and Hong Kong for overseas investment, Shenzhen has certain tangible cost advantages, yet the intangible costs are much higher than Hong Kong. Moreover, the social, legal, and production systems are still alien to overseas investors. Thus, the risks of production in Shenzhen are seen as very high.⁷⁶ Since Shenzhen has yet to develop a competitive position for overseas investors, we believe it should concentrate on upgrading services and institutions before it will be able to attract further foreign investment (including those from Hong Kong). It seems quite apparent that Shenzhen should expend substantial investment in widening and deepening its service sector, while drastically reducing its bureaucratic control and changing its social environment so as to be more conducive to the operations of multinational corporations.

CHAPTER III -- HOUSING DEVELOPMENT AND HOUSING POLICY

Population and Employment

Before Shenzhen Special Economic Zone was designated, it had a population in 1978 of 68,166.⁷⁷ Initially, Shenzhen's population grew slowly and the employee-to-population ratio was low, as the original farmers gradually moved into newly created non-agricultural employment. Migration began; workers with permanent contracts or temporary employment were the only migrants allowed into Shenzhen. Over the years, Shenzhen's proportion of employee-to-population ratio increased (see Table 22). By 1985, the population was almost seven times its original 1978 population and employees were almost 17 times that of 1979.

For the inland population, particularly the young working population, Shenzhen offers many tangible and intangible attractions. The wages are substantially higher than those in the rest of China -- in fact, more than double (Table 23). Although in many social indicators Shenzhen has inferior social services in health, education, and entertainment, it has superior transportation, open space, and housing space (Table 24). Most important, Shenzhen has one of the highest housing standards among Chinese cities, and housing with reasonable and affordable rent constitutes a major benefit of living in the special economic zone. The most frequently mentioned attraction for migration by the young workers are the specific lifestyle and entrepreneurial spirit. In providing an economic and social environment closer to that of the West, Shenzhen presents a modern western lifestyle which is seen as adventurous and novel. The perceived vibrancy of activities promises excitement, action, and opportunity. Indeed, compared with other parts of China, it offers greater diversity and it is more unconventional.

The special economic zone was a workers' town because the condition of residency is based solely on employment. Once the contract or temporary work terminates, the worker is repatriated inland. Since employment practice follows that of a market system, hiring and firing are based on productivity. Labor productivity and work attitude become the criteria of worker selection. Since recruitment of workers from outside must be approved by the labor department and registered with the police department, employment acts as a political and social control over the population. Since the population is work-oriented, the more desirable work conditions and higher standard of living give rise to greater satisfaction. With a contented population and effective political control, the special economic zone has freed itself from any major social and political problems.

Planning and Administration

The concept of housing planning in Shenzhen follows conventional planning concepts in China -- that is, housing is organized around the work place. Usually, an industry is the focal point of a neighborhood where all industrial workers live around the production plant. Commercial and social services for the workers are then located in the housing areas. For reasons of environmental health, residential accommodations

TABLE 22: POPULATION AND WORKERS IN SHENZHEN SEZ 1979-1985

	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>
Permanent Population	70,899	84,057	98,337	116,571	165,040	191,474	231,857
Temporary Population	NA	NA	NA	49,459	119,933	146,052	137,900
Total Population	70,899	84,057	98,337	166,030	284,973	337,526	469,757
Employees ^a	23,300	26,500	38,500	66,800	107,600	154,500	193,100
Temporary Workers	NA	NA	NA	NA	NA	NA	201,209

Sources: Population data from Shenzhen SEZ Yearbook 1986, pp. 42-43.
Employee data from Shenzhen SEZ Yearbook 1985, p. 606; 1986 p. 449.

Note:

^a There is no definition given for "employees." Given the high proportion of employees in permanent population in 1984-85, "employees" is assumed to include both permanent and contract workers.

TABLE 23: COMPARATIVE WAGES 1985
(in yuans)

	<u>Urban Average</u>	<u>Shenzhen SEZ</u>
Average annual wage	1,152.5	2,524
State-owned units	1,219.9	2,558
Collective units	961.3	2,000
Joint enterprises	1,339.0	2,713

Sources: Urban average from China Urban Statistics 1986, pp. 212-213;
Shenzhen SEZ figures from Shenzhen SEZ Yearbook 1986, pp. 452.

Note:

^a Calculated from total wage bill of 324 cities (excluding counties) and their total number of staff and workers.

TABLE 24: COMPARATIVE SOCIAL INDICATORS 1985

<u>SEZ Residents</u> ^b	<u>Urban Average For:</u> ^a		<u>Shenzhen Averages For:</u>	
	<u>Permanent Residents</u>	<u>Permanent and Temporary Residents</u> ^c	<u>Permanent Residents</u>	<u>Permanent and Temporary Residents</u>
1. Living space per capita (sq m) ^d	5.02	4.73	11.80	5.24
2. Green area per 10,000 population (hectares)	7.99	6.95	61.15	30.18
3. Public buses per 10,000 population	2.24	1.95	6.60	3.26
4. Cinemas & theatres/10,000 population	1.80	1.56	2.59	1.28
5. Hospital beds/10,000 population	45.01	39.14	55.84	27.56
6. Teachers per 10,000 population				
in higher institutions	15.67	13.62	12.42	6.13
in special secondary schools	6.40	5.56	6.64	3.28
in regular secondary schools	36.84	32.04	44.46	21.95
in primary schools	47.94	41.69	62.05	30.63
7. Public libraries/10,000 population	0.30	0.26	0.43	0.21
8. Retail trade value per capita (yuan)	67.54	754.38	9,828.59	4,851.53

Sources: China Urban Statistics 1986, pp. 197, 358, 373, 415, 431, 439, 363.
Shenzhen SEZ Yearbook 1986, pp. 424, 444, 453, 455, 456, 457.

Notes:

- ^a Urban average figures based on figures for 324 cities (excluding counties) given in source.
- ^b Temporary residents for Shenzhen SEZ given in source.
- ^c Temporary residents is assumed to be 15% of permanent on average.
- ^d Population base for living space per capita calculation refers to non-agricultural population in the inner city. For other items, total population in the inner-city is used.

are separated from the work plant by open and green spaces. Consistent with the normal planning of industries, industrial areas are decentralized to all parts of Shenzhen (Figure 6). This kind of dispersed planning incurred high cost in infrastructure and, initially, low rate of utility.⁷⁸ This style of planning has its origin in the socialist administration, which considers housing to be a part of capital construction in industrial development. Since all industries are under various ministries, the ministries, in establishing new industrial plants, are responsible to provide housing for their workers. Urban land is allocated to the ministries for the plant and workers' housing. For easy estate management, convenient workers' transport, and site constraints, ministries locate the plants and the workers' housing in the same sites.

In reality, Shenzhen's development has been centralized to some degree. To meet the locational requirement of a market and transportation node for the crossing to Hong Kong, the commercial center is located in Louhu, with the administrative center in its western district. This constitutes the center of the special economic zone. Development spread out concentrically from this center, but mainly to the west (Figure 7).

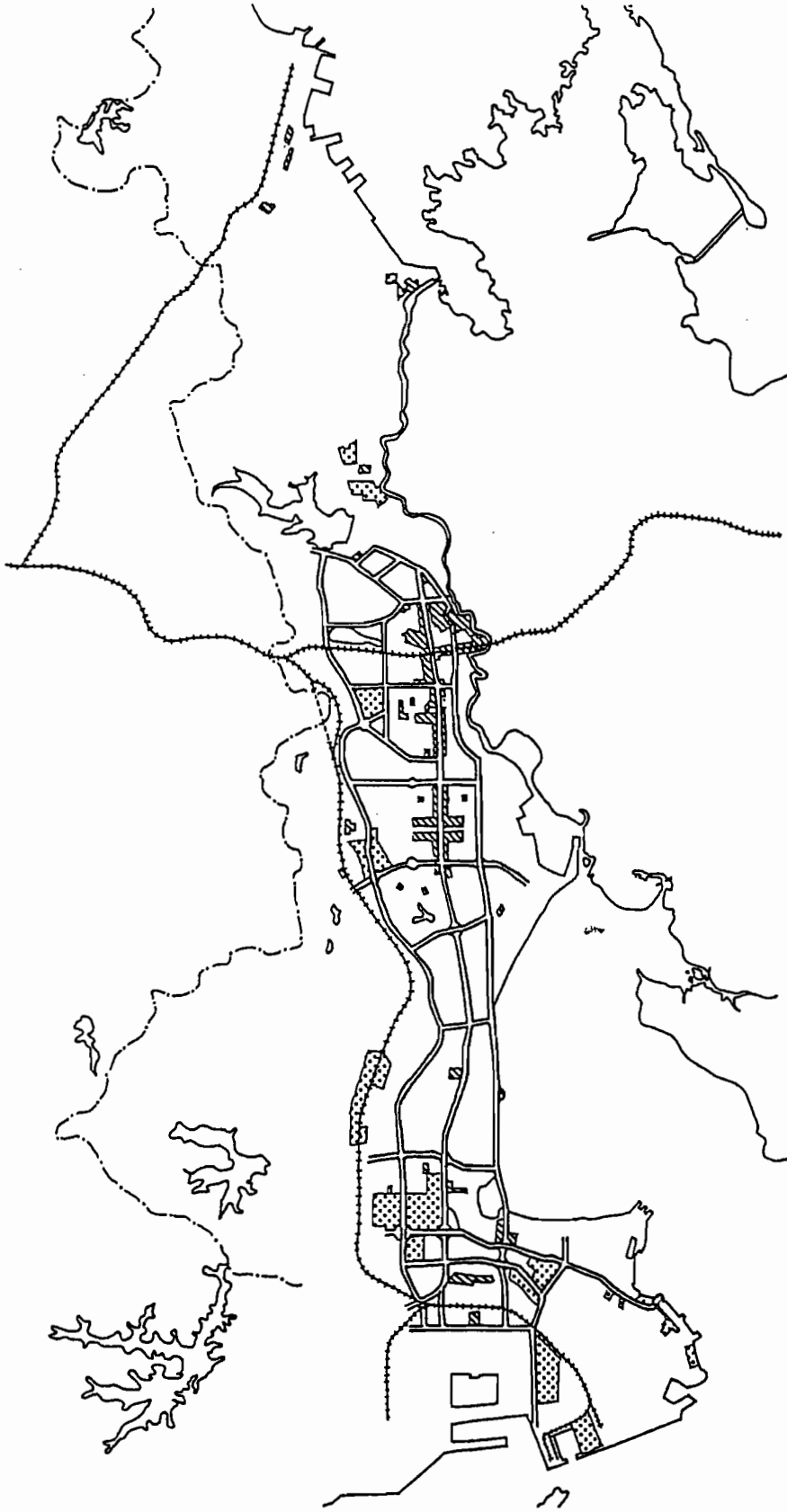
The radial pattern of the municipal development is the classical spatial form reflecting the forces of the market -- agglomeration and economies of scale. Because of the adoption of market as the main economic system,⁷⁹ the more centralized, concentric spatial form replaces the socialist dispersed multinuclear development pattern.

Reflecting the economic activities in Shenzhen, Table 25 shows floor space constructed in Shenzhen Special Economic Zone. By 1985, housing consisted of 44.5 percent of the total floor space built, with industry taking 19.2 percent and the commercial and service sector taking 11.2 percent. These are the major economic activities and the main occupiers of space in Shenzhen. Significantly, with only a minor exception in 1981, they have been consistently the greatest annual users of space.

Generally speaking, housing areas in modern cities usually exceed 50 percent of the developed land, but in Shenzhen housing occupies less than half of the built area. Table 26 shows the land allocation of 18.2 percent of the total planned land use to housing. This is far below the normal distribution. Shenzhen undersupplies land for housing relative to other spatial development, even though it occupies twice as much space as its nearest rival, industry. The shortage of housing land is consistent with the housing market, which will be discussed later.

In the Formation Stage (1978-82), housing was supplied through the bureaucracy, and it was the responsibility of the Housing Management Bureau, a municipal government department. The bureau had a policy and management function for residents' housing construction. Under the bureau, there were two development companies formed in 1980 -- Shenzhen Real Estate Company and Shenzhen Housing Company (Figure 8), which were the executive and construction units. Shenzhen Real Estate Company developed and operated all types of property development with foreign investors, but most of its projects were in housing. The Shenzhen Housing Company had a simpler mission, to produce housing for local workers.

FIGURE 6



- ▣ INDUSTRIAL USE
- ▤ COMMERCIAL AND PUBLIC USE

FIG. 6 PLANNED INDUSTRIAL, COMMERCIAL AND PUBLIC LAND USE

FIGURE 7

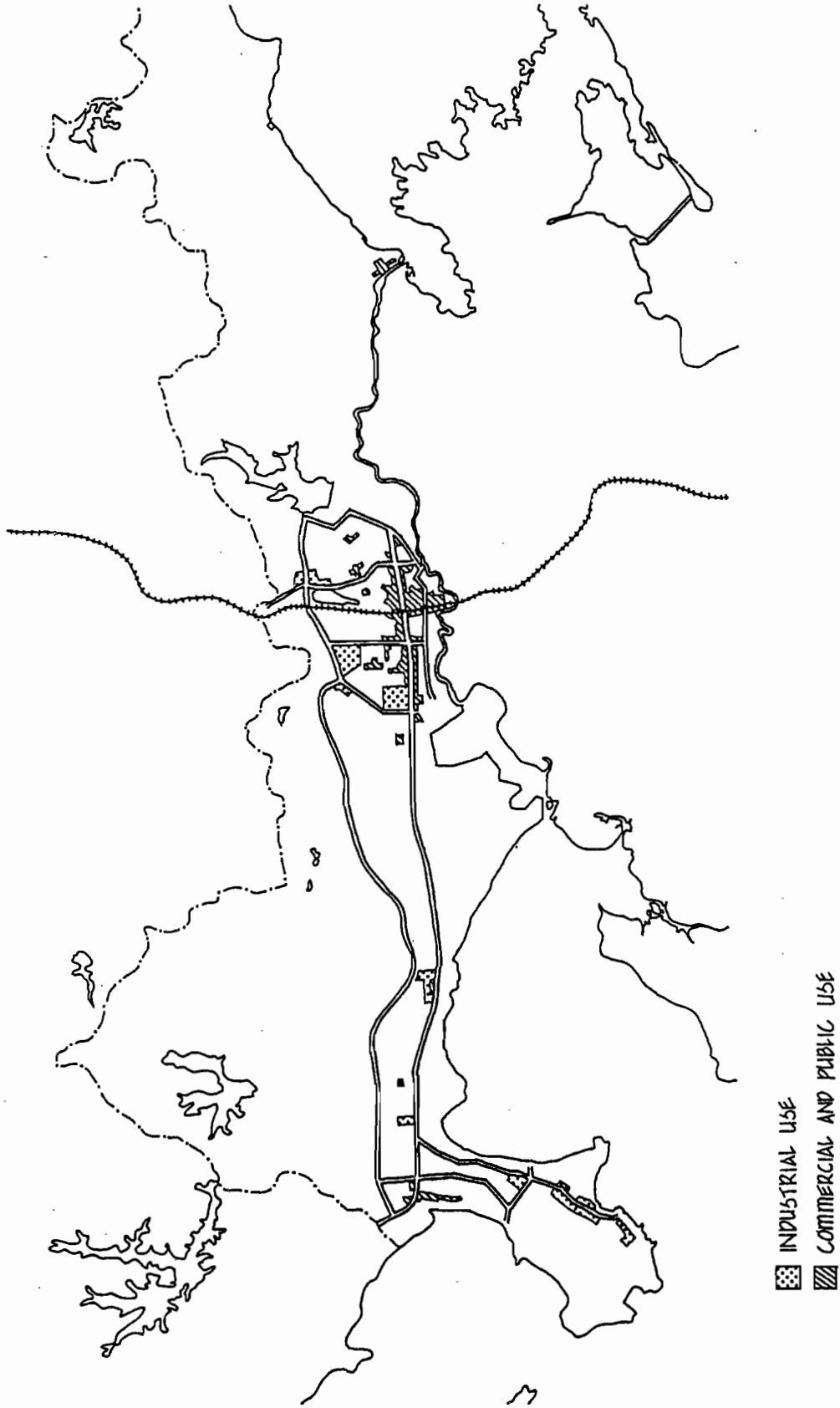


FIG.7 EXISTING INDUSTRIAL, COMMERCIAL AND PUBLIC LAND USE, 1987

TABLE 25: FLOOR SPACE IN SHENZHEN SEZ 1979-1985
(in million square metres)^a

<u>Nature of Business</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>Accumu- lated Total</u>
Housing (in percent)	0.053 40.40%	0.179 51.60%	0.234 42.90%	0.456 49.20%	0.624 42.50%	1.238 46.40%	1.393 43.40%	4.176 44.90%
Industry (in percent)		0.043 12.30%	0.038 7.00%	0.173 18.60%	0.255 17.40%	0.475 17.80%	0.798 24.90%	1.781 19.20%
Warehouse (in percent)		0.026 7.50%	0.042 7.60%	0.068 7.40%	0.100 6.80%	0.136 5.10%	0.177 5.50%	0.550 5.90%
Commerce/service (in percent)		0.029 8.30%	0.028 5.10%	0.094 10.10%	0.141 9.60%	0.356 13.40%	0.395 12.30%	1.042 11.20%
Office (in percent)		0.012 3.60%	0.014 2.50%	0.035 3.80%	0.063 4.30%	0.112 4.20%	0.193 6.00%	0.429 4.60%
Cultural/education (in percent)		0.017 5.00%	0.025 4.60%	0.030 3.20%	0.035 2.40%	0.155 5.80%	0.092 2.90%	0.354 3.80%
Health (in percent)		0.009 2.60%	0.007 1.20%	0.008 0.90%	0.039 2.70%	0.041 1.60%	0.050 1.06%	0.016 1.70%
Research (in percent)		0.005 1.40%	0.002 0.40%	0.003 0.30%	0.004 0.30%	0.002 0.07%	0.012 0.40%	0.028 0.30%
Others (in percent)	0.077 59.60%	0.273 7.90%	0.157 28.70%	0.060 6.50%	0.207 14.10%	0.151 5.60%	0.101 3.10%	0.780 8.40%
TOTAL (in percent)	0.130 100.00%	0.346 100.00	0.546 100.00	0.927 100.00%	1.469 100.00%	2.666 100.00	3.290 100.00	9.293 100.00%

Source: Shenzhen SEZ Yearbook 1986, pp. 249.

Note:

^a Rounded off from figures in the source; therefore, figures and percentages do not match exactly.

TABLE 26: LAND-USE DISTRIBUTION IN SHENZHEN SEZ MASTER PLAN 1985

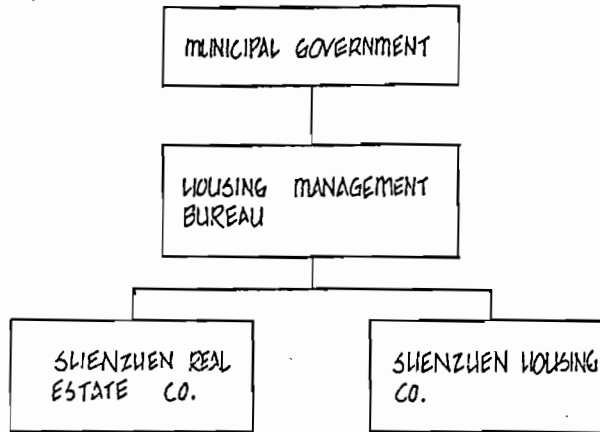
<u>Land Use</u>	<u>Hectares</u>	<u>%</u>
Industry	1,848	15.1
Store House	533	4.4
External Transport	1,133	9.2
Public Facilities	248	2.0
Housing	2,235	18.2
Public Building	1,384	11.3
Road and Square	1,775	14.5
Greening Area	1,421	11.6
Research Institute & University	449	3.7
Tourist Facilities	1,170	9.5
Special Purpose	82	0.6
Total	12,276	100.0

Sources: Shenzhen SEZ Yearbook 1986 p. 244; China City Planning Review, Vol. 3, No. 1/2, 1987, p. 124.

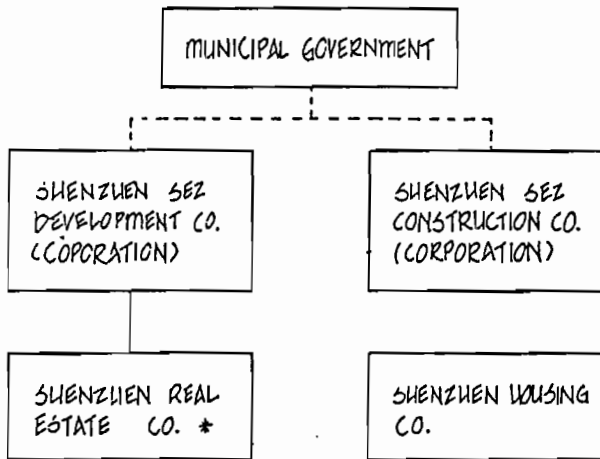
FIGURE 8

FIG. 8 STRUCTURAL CHANGES IN HOUSING ORGANIZATION IN SHENZHEN SEZ

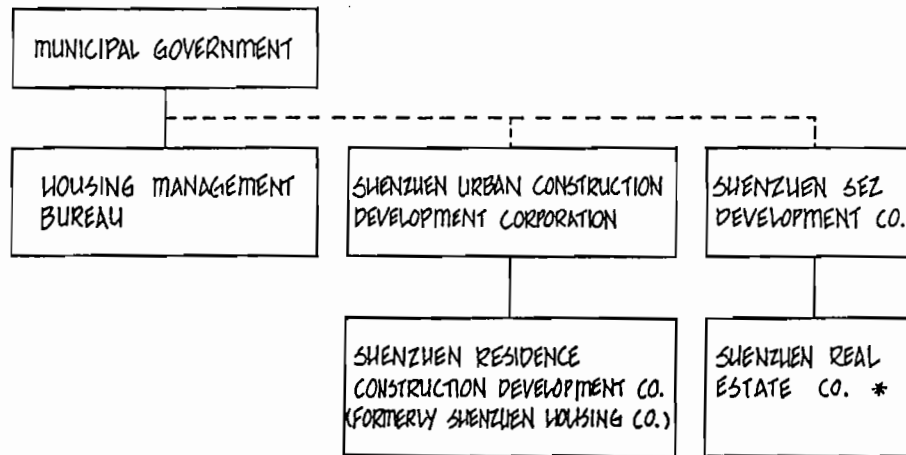
STAGE 1
(BEFORE 1981)



STAGE 2
(1981 - 1984)



STAGE 3
(1985 -)



* ALSO REFERRED TO AS "SHENZHEN SEZ REAL ESTATE COMPANY"

At the end of the Formation Stage, the Housing Management Bureau was dissolved and its functions were given to several units. Ahead of the Transformation Stage (1982-1985), two corporations -- the Shenzhen SEZ Development Company and the Shenzhen Real Estate Company -- were formed. Shenzhen SEZ Development Company's main functions were to raise investment funds for local, domestic, and foreign enterprises, including housing, and to act as agent for sales and purchases to the inland areas.⁸⁰ It was also the corporation to which the Shenzhen Real Estate Company was allocated. The Shenzhen Real Estate Company took over some of the bureau's functions, such as performing the administrative duties of registration of ownership and transfers involving foreign investors. Registration and administration of construction, engineering, and design contracts, and overseeing the quality of work -- the bulk of the bureau function regarding housing -- were transferred to the Shenzhen SEZ Construction Company.⁸¹ The Shenzhen Housing Company, now placed under this construction company, began to develop commodity housing projects for enterprises. The separation of the housing production units from the bureaucracy (see Figure 8) responded to the policy of the Transformation Stage (1982-1985), but the abolishment of the bureau meant its bureaucratic functions had to be distributed to these semi-independent enterprises.

The housing companies, including the two already mentioned, grew to seven by 1984,⁸² and given the greater independence in the policy and financing divisions, were able to respond better to market demands. In the Market Stage (1985-), the Housing Management Bureau was re-established at the end of 1985, reclaiming the responsibilities to administer and manage state-owned housing units. Some changes were made to the housing enterprises. Shenzhen Urban Construction Development Corporation was established in mid-1984 to replace the Shenzhen SEZ Construction Company, and also retained the latter's enterprise function. Under this new corporation, Shenzhen Residence Construction Development Company took over the Shenzhen Housing Company with minor changes of function, allowing the new company to move more completely into commodity housing production (Figure 8). The Shenzhen SEZ Development Company and Shenzhen Real Estate Company remained intact. With the elimination of foreign investment in housing, the Shenzhen Real Estate Company no longer worked with foreign investors, but became financially independent.

In allowing enterprises such freedom, vertical disintegration of the construction industry took place. By 1985, there were close to a hundred architectural contractors and almost 200 engineering contractors registered in Shenzhen, with a large sector of construction workers totalling 135,800.⁸³ By 1987, because of the intensive demand in housing, there were over a dozen housing development companies.⁸⁴

Demand for Housing

The functions of housing in China are twofold. First, housing is provided for bureaucrats. In China, the state defines urban housing as a social welfare to be supplied by the state through municipalities or ministries. Urban housing is a state expenditure, and as such it is a part of capital construction -- the infrastructure to support economic development. Second, housing in Shenzhen has another function: commodity

production for capital accommodation. Managers and workers of the foreign and domestic enterprises are the consumers of this commodity. This form of housing is either for ownership or rental. Unlike the rest of China, where urban housing is heavily subsidized by the state, Shenzhen's commodity housing eliminated the state's subsidies except for urban land, and even this subsidy is being removed. Most of the housing is for private consumption, and the market maintains the housing stock. This sector of housing is privatized both in consumption and in supply.

There are three groups of consumers for housing. First are the government administrators, whose housing was allocated through the Housing Management Bureau and the various departments of the municipal government. For this group of consumers, the housing system is similar to inland China, i.e., the state subsidizes the rental and ownership.

The second group of consumers is the managers and the workers. For both the permanent and contract workers, the responsibility for housing supply lies with the enterprises which employ them. In order to attract workers from the interior, enterprises either purchase or rent housing units from the market and sublet them to their workers with a high subsidy. Effectively, the enterprises pay for the workers' housing and thereby are the main consumers of housing. Housing for the temporary workers is left entirely to them. They obtain their housing through the market in the formal and informal sectors and bear the whole housing cost themselves.

The third group of consumers is the agricultural workers. Since the original Shenzhen farmers have all been absorbed by the industries and enterprises, agricultural workers are imported from the surrounding counties. The migrant agricultural workers cannot afford private housing. Since they live outside the urbanized areas where little formal housing is provided, they live in informal housing, i.e., self-built housing. They provide and maintain housing themselves.

Supply of Housing

Historically speaking, commodification of housing was introduced even before the inception of the special economic zone. The general principle is that housing is a commodity and a part of production outputs that contributes to economic development. Although it is part of the infrastructure for development, housing is generally supplied without state subsidies and is an economic service whereby the producers are permitted to make profit. Initially, foreign investment was welcomed in the effort to provide housing for foreigners, overseas Chinese, and their relatives.⁸⁵ At the initial stage, because of lack of investment funds and knowledge of the market, Shenzhen invited the Hong Kong real estate developers to contribute not only financial investment but also management and technical skills to property development. Through joint investment, local companies developed housing for sale or rent and learned the process of production - financing, developing, constructing, and marketing housing units for private housing. Once these methods of private housing development were understood, financial capital was secured through the banking system, and the creditability of the local companies was established; foreign

investors were excluded from the housing development in 1984 so that all profits would be retained locally.⁸⁶

In the early stage, joint-investment housing was built not only for overseas managers and workers who were employed by the foreign enterprises, but also for relatives of overseas Chinese. Overseas Chinese -- mainly from Hong Kong -- were allowed to purchase units for their inland relatives. Once the housing units were purchased, their designated relative families would be able to obtain residency permits in Shenzhen Special Economic Zone and live in those units.⁸⁷ This was a mechanism to raise the demand for housing. As enterprises developed, managers' and workers' demand for housing became so intensive that the housing demand by relatives of overseas Chinese became insignificant. Furthermore, because this group of residents was financially well-provided-for by their outside relatives, they did not enter into employment. Their lifestyle and their social behavior were distinctly different from the rest of Shenzhen, and they were perceived by the bureaucracy as disruptive and undesirable.⁸⁸ The migration of overseas Chinese relatives was discouraged by removing the migration privileges, and they now follow the normal regulation and approval procedure.⁸⁹ The flow of overseas Chinese relatives has been checked.

As more enterprises were established in Shenzhen, enterprises had to secure housing units in the open market in order to provide housing for the managers and the workers. Because of the pressure of demand, housing pricing was usually high; enterprises had to subsidize the managers and workers by absorbing a large part of the market price so that prices would become reasonable and affordable. Because of the intensity of the market, housing has become an enterprise with high profit margins that are acceptable to the bureaucracy. It is also a sector favored by the banks with large loans.⁹⁰

There are six forms of housing supply: real estate companies, enterprise-owned housing, state-owned housing, private housing, informal housing, and Shekou Real Estate Company.

Real Estate Companies

In 1981, real estate companies were established by separating the property development units under the Housing Management Bureau. They were explicitly set up as enterprises to accumulate capital. These companies are now financially independent, but their profits are shared through negotiation with the municipal government. Since land is allocated by the state, each company has spatial monopoly over specific areas. Furthermore, companies that are allocated land in or near the city center have economic advantages over those that received land further away from the center. Both a capital cost for the supply of infrastructure and compensation if the land was previously owned privately are incurred, but there are no land-use fees charges. Although the main functions of these real estate companies is housing development, all of them also invest in commercial, industrial, and other forms of property development.

Shenzhen Real Estate Company is the company which was allocated land in the city center. With the locational advantages, this company developed the highest quality of housing in the special economic zone. Since the spatial development in Shenzhen expands concentrically from the center, most of the housing demand is concentrated within the company's area. Up to 1986, the company provided 30 percent of Shenzhen's total housing -- although the housing units were for high-level managers and technicians

The Shenzhen Real Estate Company was the pioneer in working with overseas investors, with foreign buyers providing its original market. Units were sold to Hong Kong residents for their relatives or enterprise managers. By 1984, the company turned over its profits to the government -- more than HK\$100 million or Y74 million.⁹¹ This company now finances housing development entirely from bank loans. Through Hong Kong investors, it has created credit links with banks and established itself as a solid commercial enterprise with a track record of profit-making. With a monopoly of the best locations and heavy housing demand from the imported high-level managers and technicians, it is a supplier's market in housing, and this company is positioned to its own advantage and that of the zone's as well. Housing units by this company are sold for foreign exchange currency, which is then used for purchasing high-quality imported building materials and machinery. For domestic enterprises which have no foreign currency reserve, housing units can be purchased by renminbi at a higher cost.

Of the 5 million square meters of housing space built by 1987, this company produced 800,000 square meters -- approximately 16 percent of total housing production. Its housing units are of high quality and are sold at Y800 to Y1200 per square meter or rented at Y10 to Y15 per square meter per month (Table 27). Sales are paid in foreign currency, or at a high price for renminbi.⁹²

Another company, the Shenzhen Residence Construction Development Company -- whose allocated land has less locational advantages -- supplies housing for the general housing market, providing housing for workers and bureaucrats. Approximately 30 percent of its production is for the government; the company supplies 90 percent of state-owned housing. For state-owned housing, the company is allowed to charge on a cost-plus basis. The profit margin is limited to 1 or 2 percent of the total development cost. This profit margin is much lower than the 15 percent allowed by the government for units sold in the open market. Until 1987, more than 2.75 million square meters of floor space was completed by this company, supplying 55 percent of the total housing space. The commodified 70 percent of its production, the non-state-owned housing for sale, sells at a price range of Y600 to Y800 per square meter (Table 27). After completion, the state-owned housing units are handed over to the government to allocate and manage. Housing land for governmental administrators are separately allocated to the real estate company by the municipal government (field research, November 6, 1987).

TABLE 27: HOUSING RENTS, PRICES, AND SUBSIDIES IN SHENZHEN SEZ 1987

	<u>(in yuan per m² per month)</u>			<u>(in yuan per m²)</u>
	<u>Rent Paid by Residents</u>	<u>Rent Paid by Enterprise</u>	<u>Subsidies by Enterprise</u>	<u>Average Sales Price</u>
Private Housing ^a	0 - 7	5 - 7	0 - 7	-
SEZ Real Estate ^b	0.2	10 - 15	9.8 - 14.8	800 - 1,200
Residence Construction Development Co ^c	-	-	-	600 - 800
Shekou Real Estate Co ^d	0 - 1.07	4 - 5	3 - 5	600

Sources: Rents for Private Housing from Takung Bao, 6-7-85; other figures from field research, 29-30 June, 28 August, and 6 November, 1987.

Notes:

- ^a When individuals rent directly from the farmer, the housing payment is between 5 to 7 yuans per sq m. If the enterprise rents from the farmer for its workers, all or a large part is subsidized by the enterprise. Therefore, the residents of private housing pay from 0 yuan to the full rents.
- ^b In the average sales price, lower price for six to eight storey walk-ups, higher price for multi-storey apartments with lifts and villa-type housing.
- ^c The Shenzhen Residence Construction Development Company develops housing for sale only.
- ^d Worker who rents accommodation from Shekou Real Estate Company pays Y1.07 per sq m per month on average, while some enterprises provide free accommodation to the workers.

Enterprise-Owned Housing

When an enterprises is established in Shenzhen, a site is allocated to it for factories or offices, but land is also sometimes supplied for workers' housing -- single workers' dormitory housing, mainly. These enterprises are large-scale organizations such as Shenzhen University. They organize and construct housing using their own resources, but the housing units are allocated only to the enterprises' workers. Since this type of housing is provided only by large enterprises and few organizations have the resources to construct and manage their own housing, this type of development is rare.

Another form of housing development is comprehensive development for a district or neighborhood; the developers are large state or development organizations that invest in land development as a commercial venture. For example, the Chinese Tourist Agency in Hong Kong is developing an Overseas Chinese City covering 6 square kilometers. This development is aimed at overseas Chinese investment in industries; land allocated for industries is 25 percent of the total, but this also includes a large section for housing development.⁹³

State-Owned Housing

This is the form of housing for governmental administrators. All administrators and workers in the governmental sector are provided with housing by the municipal government. The departments estimate their housing demand and apply to the government for allocation. Usually the state-owned housing is supplied through the Housing Management Bureau, which contracts a real estate company to organize the design and construction of the housing unit at limited profits, as stated earlier. On completion, the bureau takes possession of the housing units, allocates them to the departments, then either manages for the departments or lets the departments manage the units themselves. If the departments have sufficient resources of their own, they can contract real estate companies direct.

The rents charged to the government employees are low, set at Y0.16 to Y0.18 per square meter per month, with the average purchase price estimated to be Y620 per square meter (calculated from Table 27). The annual rent (approx. Y 2/m²) is just over 0.3 percent of the capital cost. It takes 310 years to repay the capital cost discounting interest rates, depreciation, and maintenance and management costs. Rent for government administrators and workers is heavily subsidized. Government employees are encouraged to purchase units for ownership with a subsidized price of Y400 to Y450 per square meter -- a 38 to 55 percent subsidy⁹⁴ (bao, June 11, 1986). By 1986, approximately 825,000 square meters of the 5 million square meter housing space were in this category.⁹⁵

For the real estate companies, this form of housing brings in low profits; however, they are under an obligation to provide the government with housing. State-owned housing is therefore receiving subsidies from the real estate companies. Since land for state-owned housing is allocated without charge, especially for this purpose, government also

subsidizes in the form of free land. The real estate company does not use the land allocated for their own development. In order to accelerate the separation of bureaucracy and enterprise, no further land has been allocated to the real estate companies, but land is being auctioned off to the highest bidder. In order to increase (1) the financial independence of the real estate companies, (2) the ample supply of state-owned housing already in the process and (3) the stabilization of government employee recruitment, government in the future will purchase housing in the market, and pay the full price to the real estate companies.

Private Housing

Private housing supply comes from landowners who invest in housing. Since the special economic zone is a new urban development, much of the land -- including that located in the city center -- is owned by the original farmers. In order to protect these farmers, the government allows each family 150 square meters of housing land, within which they can build on 80 square meters. There is a height restriction of 25 meters and a floor area restriction to a total of 250 square meters. Farmers who are allocated land within the city have developed many areas of low-density housing. Their housing units are for rent with no restrictions, as offices, workshops, workers' hostels, etc. Because of the intense demand, the resulting high rent gives incentive to the farmers to develop private housing. According to informal estimates, this sector now houses approximately 30,000 workers.⁹⁶ Another estimate reported more than 2,000 farmers' families owned and developed their land for rental purposes⁹⁷ in 1985; rents charged were between Y5 and Y7 per square meter per month⁹⁷ (Table 27).

Informal Housing

There are two forms of informal housing. First, enterprises which cannot obtain housing from the market because of financial constraints or the shortage of housing are allowed by the government to build temporary housing units for their workers -- usually, temporary workers. These informal enterprise housing units are located around the production unit. Most typically, construction workers are housed in this form of housing which is built on the site. Often, when enterprises do not have sufficient land for temporary housing, they rent land from the farmers on the outskirts of the city and build there. Farmers outside the city also build temporary housing for rent or else rent out the land for workers to build their own shelters. Although informal housing is illegal in the city center -- where the removal of such development is strictly enforced⁹⁸ -- the municipal government tolerates this form of development outside the city. These structures are similar to squatters' housing of simple one- or two-story structures. The target for the informal housing is the temporary workers who have short-term employment. In 1985, nearly 110,000 workers were accommodated with the approval of the government, and 12,186 of these workers were short-term.⁹⁹

Shekou Real Estate Company

Shekou Real Estate Company is responsible for all property development in Shekou Industrial District. Therefore, it has a total monopoly on construction. Because it is supported financially by Shekou's local government, all its profits are returned to the bureaucracy. (Recently, the company was allowed to self-finance -- borrow from banks -- but the net profits will still have to be returned to the local government.) All Shekou's workers must live in Shekou; most are single workers. With its monopolistic position, the company is able to set up a rental market structure that makes use of commercial and industrial land use to subsidize housing. Via cross-subsidies, Shekou suppresses the worker's housing price in order to maintain wages at a reasonable level.

The average wage in Shekou is approximately 20 to 25 percent higher than the rest of Shezhen.¹⁰⁰ Therefore, it has a greater attraction to industrial workers. In order to compensate for the higher wages for overseas investors, Shekou subsidizes single workers' housing rent extensively. Married workers are not provided with dormitory housing. They either live separately in housing units provided by employers, or, if they are employed by the same enterprise, married quarters are provided. Otherwise they have to rent a housing unit from the company at a much higher cost. For the married workers, commodity housing for ownership is available. The sales price covers the construction cost, but the infrastructure costs are absorbed by the local government. The land costs are totally subsidized by the real estate company, which recovers these costs by redistributing them to the other land users such as commercial and industrial land-users. The tenure of housing ownership is limited to 50 years and transfer of ownership is not allowed. Because this is the only form of housing for the permanent residents who have families, there are no housing alternatives. The monopolistic housing market is totally controlled by the real estate company; this ensures that more than 62 percent of the married workers purchase housing units.¹⁰¹

By 1987, the company produced 300,000 square meters of housing space, of which 180,000 square meters were apartments and the remaining 120,000 square meters were dormitories. Rent charged by the company was kept to approximately 15 percent of the average wage. The average monthly rent charged by the company for housing was Y4 to Y5 per square meter. The enterprises paid this rent in order to secure housing for workers, and sublet at no or little cost to the workers (Table 27). The enterprise subsidy was an income incentive to attract migrant workers. The company sold commodity housing at Y600 per square meter to enterprises, but for workers the housing price paid was reduced to Y175 per square meter, which represented only the construction costs. Infrastructure costs were underwritten by the local government; other capital investment in the land was absorbed by the company.¹⁰²

Rationalization of Housing Market

There are several discernible trends in the housing sector: Housing is a commercialized commodity; it is an economic sector for profit-making. The real estate companies and the landowners/farmers are the agents and

entrepreneurs in this sector. Privatization of housing occurs both from the supplier and the consumer sides. The suppliers are organizationally and financially independent. The consumers -- a combination of enterprises and workers -- purchase housing services and pay full market price. The housing market is stratified, and each sub-market is monopolistic or oligopolistic in structure and in spatial distribution. Moreover, profits in housing are partially diverted to the state as revenue for local government investment and expenditure.

Of the three groups of housing consumers, managers and both foreign and domestic workers constitute the largest market for housing. Enterprises, in order to improve workers' living standard and reduce their cost of living, either purchase or rent units from real estate companies and then provide housing for the managers and workers at extremely low rent or no rent at all. This applies to the permanent and contract workers. Temporary workers seek housing through the private market. They rent either from private housing owned and developed by the farmers or informal housing built by the enterprises or the farmers.

In order to reduce cost, the bureaucracy used its political position to obtain housing from the real estate companies, giving only a low-profit margin. In effect, the real estate companies were subsidizing government administrators' housing. This system is now being revised. Whereas the real estate companies will pay the market price for land, the local government will purchase housing units for their staff at full market price. Management of governmental administrators' housing remains largely in the Housing Management Bureau and the departments. The local government has to pay full market price, so it will subsidize the government renters extensively. Since the wage levels of the bureaucrats are fixed, they will be unable to pay the higher market rent.

Agricultural workers who are migrants from nearby counties contracted to agricultural work are not provided with any formal housing. Their income does not give them access to the formal housing market. Spatially they are in the rural area of the special economic zone, where commodity housing development has not taken place. Generally they build their own informal housing in the rural areas or rent informal housing from the farmer-owners.

In Shekou, housing monopoly is total. Housing for workers and enterprises is supplied by only one real estate company, which provides all other construction in addition to housing. Because of lack of any competition, it has been possible to make commodity housing workable and housing ownership acceptable to the consumer sector for which the supply is designed.

Summary

Unimproved land was provided free to the real estate company, except where land was privately owned, for which a compensation to the previous owner would have to be paid. Real estate companies had to pay the improvement cost -- the cost of infrastructure. The economic benefit of the low land costs was passed on to the consumer. Since Shenzhen is now

auctioning its land, the market land price will be much higher than the previous capital cost. The future housing consumer will then pay the full land price. Land has been subsidized; since there was no charge for the intrinsic and locational value of land, these subsidies have been withdrawn with land auctioning. Housing prices will increase.

Real estate companies are profit-making enterprises. Because of the intensive demand, spatial monopoly, and stratified markets, they are able to corner a specific market to such an extent that each group of consumers has few choices in purchasing or renting housing. Real estate companies therefore can charge the highest possible prices. If managers and workers have to pay for housing services in a market economy, housing prices will be related to their income, which determines what the consumer can afford. Housing prices are brought down accordingly. There are special conditions operating in the Shenzhen housing market, since enterprises do not have a readily available labor force and have to recruit from inland. Higher standards of living are one tangible attraction to the inland labor, but although Shenzhen offers much higher wages than inland, the cost of living is also substantially higher. The cost of living is comprised of such factors as Shenzhen's consumer prices being pegged higher than inland. In order to compensate for the higher cost of living, enterprises heavily subsidize managers' and workers' housing. In providing low-cost but high-quality housing for managers and workers, enterprises reduced rents to a rate well below that of the market. For single workers, housing is often provided free of charge. Thus, the primary housing consumers are the enterprises. In order to maintain the real estate companies' profits, enterprises absorb the housing subsidies as part of production costs. In paying for housing profit as an industrial cost, Shenzhen increases industrial production costs to a level higher than those in other parts of China -- all of which is now all opened to foreign investment as well.

Part of the housing profit is paid back to the local government as a source of state revenue. In order to maintain financial solvency, the local government accepts (if not encourages) profit maximization of the real estate companies. Then, when higher housing profits are obtained, government revenues increase as well.

Enterprises now pay the full price of land cost, infrastructure cost, real estate company cost, and profit, as well as contributing to local government revenue. All these expenditures are covered by production. In effect, industrial production in Shenzhen pays the full cost of Shenzhen's housing development and receives no state subsidies. If this model is to be believed, as Shenzhen moves into a market economy, Shenzhen can lose its effectiveness and its economic attraction to foreign investors.

CHAPTER FOUR -- CONCLUSION

Development Policy Change

The economic reform started in 1978 radically changed the Chinese economy from a closed system to an open system. The state and the collective mode of production have changed into a mixed economy in which the private sector and the market economy play increasingly larger roles in development. Acceptance of an expanding private sector and adoption of a market system occurred in order to diversify and decentralize decision-making so that production units would grow. The production linkages and multiplier effects of industrial development would expand and extend. These mechanisms would lead to more efficient production, greater output varieties, and larger quantities. Complementing the change in the mode of production, the Open Door Policy was designed to update underdeveloped production technology, management, and labor practice, with the end goal of improving production quality. These policy changes sought to raise the level of production, improve standard of living, and satisfy consumers' demands. It was under these conditions that Shenzhen Special Economic Zone was created as an experiment in order to assess the effects of these policy changes.

Separation of bureaucracy and enterprise was necessary for the market economy operation. State enterprises were released from the state enterprise system because it was necessary to transform the distribution system from allocation by state to exchange between firms. Enterprises given independence now negotiate and trade with each other through the market as their production processes require. The linkages between firms build up an input-output relationship which is the conduit to transfer growth effects. In this system, sectorial output increase generates growth in the rest of the economy, and is a more effective way of raising the level of development. In a new-town development such as Shenzhen, high demand for housing was expected and was obvious. It was natural to attempt to convert this substantial economic sector, which has many industrial linkages, from a public good into a private good. Commodification of housing maximizes the economic benefits and is consistent with the post-1978 economic reform policy.

In order to adopt a market system, the previous "permissive" development sequence (which is favored in a planned economy and which places the developmental sequence in the order of "primary," "secondary," and then "final" production) is replaced by a "compulsory" development sequence which reverses the production order. In the past, China adopted the "permissive" sequence, which relied on the state as the initiator of production. Through the allocative system, state enterprises had no incentive to improve production, since all outputs would be consumed. Typically, production did not aim at the household consumer market. Domestic production in China was generally poor in quality, lacking in variety, and scarce in quantity. The "compulsory" sequence adopted since 1978 means that consumers dictate production, which has resulted in goods becoming the primary output of production. Suppressed and unmet household demand provided the stimulus for higher-quality production and imports. Although not by design, Shenzhen has provided an environment for trade and

higher-quality production to satisfy this domestic market, because of the zone's location and its relatively flexible import-export regulations.

Shenzhen's Conditions

Because Shenzhen's business and production behavior is unacceptable, the state from 1985 has been reluctant to support investment in the area. Consequently, Shenzhen depends on enterprises as the income generators for the government and the private sectors. Profits from enterprises are the only local source of income and reinvestment. Economic development entirely depends on the efficiency of private production. In moving into a full market economy, all enterprises -- whether owned by state, collective, or private -- have had to take the locational and institutional advantage of Shenzhen, explore all possible markets -- domestic, local, and export, and select the technology and inputs that are available. The change in political support has determined the system of economy and the mode of production, and the result has been that the market dominates.

In its economic development, Shenzhen's original goal (of export production using foreign investment) contradicts the idea of concessions. Since the Pearl River Delta, a region adjacent to Shenzhen, is also open, Shenzhen has lost its monopoly over foreign investment. In competing for overseas investors, all Shenzhen's production costs are comparatively higher than the surrounding areas. Moreover, because of lack of established regulations, the Pearl River Delta counties are able to provide more flexible conditions and require less bureaucratic red tape of foreign enterprises. Water transportation servicing the delta area also reduces what transportation advantage Shenzhen might have due to its proximity to Hong Kong. Hong Kong investment now goes directly into the Pearl River area and reduces Shenzhen's ability to attract investment.

In balancing the decline of foreign investment, domestic enterprises have been welcome to take up the slack. Domestic enterprises, by exploiting Shenzhen's special trade conditions and the vast inland market, have engaged in import production by purchasing overseas technology and inputs. Their outputs are sold in other parts of China, whence their profits arise as well. Since enterprise profits are the source of local income and reinvestment, the economic development contributed by domestic enterprises is in effect supplied by the vast domestic market. Because this is the sector of growth, an increasingly larger proportion of Shenzhen's development is indirectly financed by the inland provinces.

Housing Policy and Economic Development

Industry, commerce, and real estate are the economic bases of Shenzhen. Within real estate, housing is a major sector, and housing has always been considered as a commodity, a profit-making activity. Since 1981, this sector has been systematically privatized as to consumption and production. State subsidies have been gradually withdrawn; land that traditionally had been provided by the state is now being auctioned off in the market. Thus, housing receives no subsidies. In industrial production, however, housing in a new settlement is a part of the necessary

infra-structure. The total housing costs are treated as part of production cost.

Because of intensive demand by the migrant workers, housing has become a supplier's market. In such a market, real estate companies are able to pass on housing costs to consumers and maximize profits. Because of the segmented housing market, real estate companies are monopolistic or oligopolistic suppliers, and thus are able to charge high prices. In order to attract workers and managers, enterprises must provide reasonable housing of good quality. The only way to accomplish this has been for the enterprises to absorb the housing costs by subsidizing the managers and workers substantially in order to reduce their housing payments to a reasonable level. For the enterprises, housing subsidies become part of the production cost. As real estate companies gain greater profits, industrial production costs increase proportionately. The commodity housing sector therefore reduces the potential of industrial growth.

Since reinvestment in production and state investment largely comes from enterprise profits, housing development competes directly with industry for local resources. Because the market conditions allow for high profits in housing, real estate companies have greater advantage in obtaining local financing. They take a lion's share of the local resources. Industrial development, both foreign enterprises and domestic enterprises, have to depend heavily on external investment sources. With domestic enterprise expanding, the housing consumers are dominated by domestic enterprises, and the housing sector is increasingly financed by the inland market.

Housing development thus seriously affects enterprise investment and production cost. Commodity housing diverts capital from industry to real estate. Because industry is still the main sector of export earnings -- even though the earnings come from inland -- commodity housing is indirectly competing with industrial production and ultimately undermines the economic development of Shenzhen.

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CONCLUSION

a multi-ethnic society, public housing was the basis on which to build human capital in all its dimensions. Subsidized labor and a solid family structure, for which public housing was a fundamental element, were major factors in the development process.

However, the connection between private production and collective consumption, between housing and manufacturing, was only possible because of the deliberate action of the State. Both in Hong Kong and Singapore, under specific circumstances and characteristics, the State took the initiative of building a major housing program as a program of social stabilization and economic regulation. An efficient state bureaucracy and well-developed civil service, oriented toward the public service on the basis of its own interest as power holder, were necessary aspects of making the public housing programs happen and succeed. Thus, the structural benefits of the public housing program for the development process were not so much a cause as an effect of their existence and implementation. There was the deliberate policy of state bureaucracies, translated into powerful, insulated, and largely autonomous public housing bureaucracies, that accounts for programs so effective that they have been used by international agencies as training grounds for bureaucrats of other developing countries. The efficiency of public management was a necessary condition for the implementation of the policy.

Yet, housing policy was politically decided before being structurally determined or bureaucratically implemented. The political priority that both Hong Kong and Singapore gave to their housing programs ultimately explains their effectiveness and accounts for their beneficial effects on economic development. As a matter of fact, Hong Kong's the program went through almost two decades of equivocal realizations until it was put on track by the political decision of an all-powerful governor.

But what in both cases explains the decisiveness of such state policies lies beyond the institutional boundaries of the state apparatuses. The dynamics of the civil societies of Hong Kong and Singapore were where the forces emerged that made the states act as they did. Social integration in both cases, and social mobilization for nation building in the case of Singapore, were the overarching reasons why the state intervened so forcefully in the field of housing policy. Rightly or wrongly (the matter is in fact irrelevant for our analytical purpose), the two states considered that a decent, controlled, built environment for the working population was a key element for social stability, social peace, and, down the line, social dynamism and workers' productivity. The riots in Hong Kong, the strikes and workers mobilization, along with inter-ethnic violence in Singapore in the 1960s, were determinant factors in the governments' decision to provide new housing, in clean, planned, well-serviced, new communities. It was thought this setting would be where a new society could be created or, at least, the demons of the old one could be more easily tamed. Social integration was the first and most direct target of the public housing policy in both contexts.

Thus, the dynamics of society led to state intervention that, by assigning high political priority to the public housing program, reinforced the power and the resources of a competent civil service bureaucracy whose diligent work, overall, did produce dramatic results in

the built environment. The indirect beneficial effects of the built environment on the process of economic development were recognized as such by the business elites, resulting in a reinforcement of the programs. Ultimately the effects contributed to achieving social stability through the combined effects of higher economic growth and improved collective consumption.

Nothing of that existed in Shenzhen. Not only there were no pressures from the society -- there was no society at all. The state there was created ex nihilo, basically by delegation from the central government. As a result, housing was conceived as an additional means to extract profit, in accord with the goals that the Chinese government had set for the special economic zones. But, by so doing, the housing sector attracted to its profitable ventures the public and private capital that was supposed to be invested in manufacturing for export, including a considerable amount of speculative capital from Hong Kong. The net result was that capital sources for manufacturing dried up, while the industrial companies that did locate in Shenzhen had to pay a high price both for land and housing for their workers and managers. Such levy from housing seriously affected their production costs, undermined their competitiveness, and, ultimately, greatly reduced the attractiveness of Shenzhen for manufacturing investment. Thus, the absence of pressure from the society and the one-sided, profit-oriented policy of the Chinese government undermined the profit-making chances of industrial companies and transformed Shenzhen into an speculative, import-processing zone by the mid-1980s. The recognition of such failure led to a major rectification of their policy by the Chinese authorities, and with real estate investment under much tighter control by 1987, Shenzhen was on its way to recovering its originally planned industrial character.

However, we believe that our analytical findings provide a clear demonstration of the argument we put forward by reversing the terms of the relationship and obtaining the symmetrically opposite result, namely: The more housing policy is dominated by profit-making, then the less competitive is the manufacturing industry that has to work in such a housing environment. And vice-versa: The more collective consumption is provided by the State as a service, then the more both people and the industry benefit from it. By trying to imitate a theoretical model of textbook capitalism in order to compete in the world economy, China actually undermined the chances of Shenzhen -- until they were improved by looking at the reality of Hong Kong and not at Hong Kong as seen by Milton Friedman. After all, our findings have nothing surprising for whoever is familiar with the most productive model of stable economic growth in the world: the social-democratic experience in Sweden. By socializing and rationalizing consumption, both social peace and economic productivity are dramatically enhanced, making it possible to compete at high levels in the world economy. While we are not trying to be unnecessarily paradoxical, it seems that Hong Kong and Singapore have more in common with the productivity model implicit in the Swedish experience than that of the historically mythical *laissez faire* capitalism.

Neither should these remarks should be taken as an invitation to build a model of housing policy for industrializing countries that relies on high-rise public housing, nor are we trying to idealize the experiences

of Hong Kong and Singapore. The still overcrowded and often dilapidated conditions of many housing estates in Hong Kong and the oppressive political atmosphere in Singapore show clearly the limits of these and many other experiences of government intervention. However, housing conditions can be improved, as they have been in Singapore -- or political control can turn into social mobilization, as actually was the case in Hong Kong, today a most dynamic and mobilized society. What our study points towards is the need for recognizing the articulation between collective consumption and economic development through the deliberate action of the State, something that is generally absent in the public policy formulations of most international institutions for developing countries. And yet, we know that the State is the driving force in the production of the built environment in most of the Third World -- except that it generally does it through tolerance and manipulation of squatter settlements and slums, the increasingly predominant habitat of the metropolitan Third World. Regardless of the form and processes of a new housing policy (specific to each country and each geography), what really matters is to accept and formalize the informal control of the state over the built environment in the cities of the Third World. Two of the major reasons for such formalization are (1) the possibility of designing an explicit strategy to connect housing policy to the process of economic development, learning from such experiences as those analyzed in this study, and (2) the need to enfranchise the urban dwellers that can only become true citizens when the State recognizes its own direct and formal responsibility to provide housing that the formal market cannot deliver, a responsibility that other formal institutions refuse to assume.

Thus, the major lesson and the fundamental implication of our research is that there is a close relationship between economic development, housing, and state policy. Such connections, and therefore the outcome of the policy, ultimately depend on the relationship between the State and society, expressed in the interaction between the city and the grassroots.