

Globalization and Localization: Economic Performance and the Housing Markets of the Asian Tigers since the Financial Crisis

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Introduction

The Asian financial crisis in 1997 and 1998 engendered a long spell of economic depression in the region. However, the depression was not uniform across the Asian tigers, namely, Singapore, Hong Kong, Taiwan, and South Korea. Similar divergence could also be found in the housing markets, which are important constituents in these economies. This paper examines these variations. Further, as the economic depression was triggered by the movements of global funds, this paper attempts to explain the divergences in economic performance and housing market conditions by comparing the degree of openness of the tiger economies to global investments and the government measures that have been taken to cope with rapid changes in the housing markets.

The economy and the housing markets since the Asian financial crisis

Table 1 and Figure 1 show that the Asian financial crisis hit the Asian economies by various degrees. Among the four Asian Tigers, the worst hit was Hong Kong, followed by Singapore, and South Korea. Taiwan withstood the storm well initially as it was still able to achieve a high growth rate of 7.3% in 1998. However, general economic depression in the region and other factors has subsequently retarded its economic development in the following years, especially since 2001. Taiwan's economic growth was in fact not as strong as South Korea since the latter recovered quickly from the brief depression in 1998. Singapore managed to bounce back sharply in 2000 and 2004, but in other years experienced either slow or negative growth. Hong Kong went through the longest economic recession period, and only

showed more sure signs of recovery when the recession was reversed in 2004 with a growth rate of 5.1%, and a predicted growth rate of 6.8% for 2005.

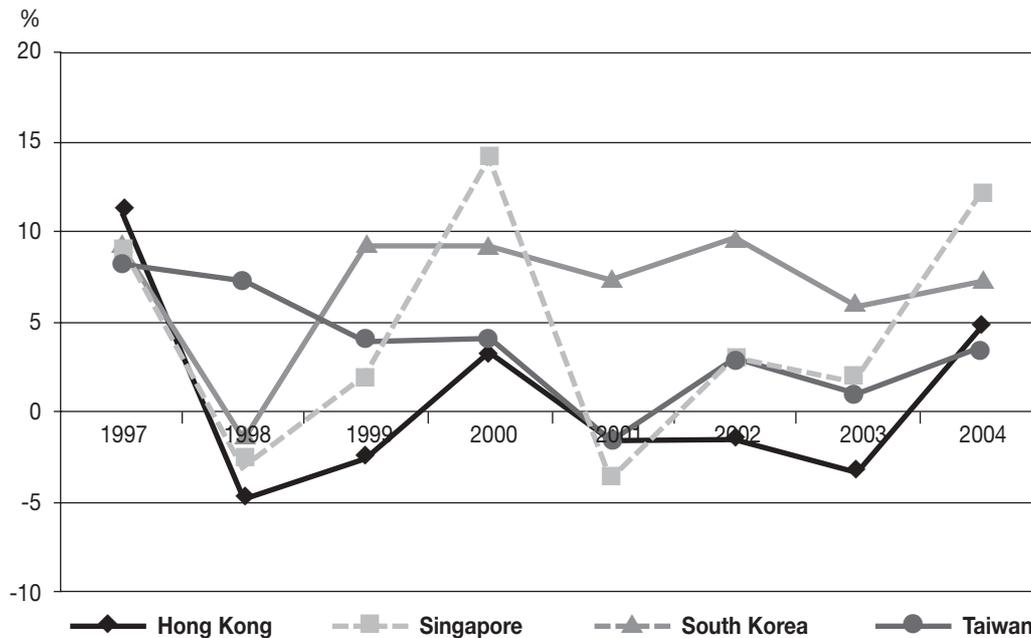
Like the economic growth trends, the property markets of these economies responded differently to the economic crisis. However, as shown in Figure 2, the price trends of the private housing market show similar patterns to those of economic growth rates. The bust period lasted the longest in Hong Kong and the overall price fall was also the greatest, amounting to around 60% between 1998 and 2003. The bust period of Singapore was also considerable, lasting from 1997 to 2002, and recovery since then has been slow. Although with less fluctuation, Taiwan's housing market declined slowly from 1998, and dropped quite significantly in 2001 (Taiwan Ratings, 2005). In contrast, the housing market of South Korea, as indicated by the house price trend, bounced

Table 1 – Growth Rate of Gross Domestic Product (GDP) at Current Market Prices in Asian Countries/Regions (Percentage)

Country/Region	1997	1998	1999	2000	2001	2002	2003	2004
Hong Kong	11.0	-4.8	-2.6	3.4	-1.4	-1.7	-3.4	4.7
Singapore	9.0	-3.0	1.9	14.1	-3.6	3.0	1.6	12.2
South Korea	9.5	-1.4	9.4	9.3	7.5	10.0	5.9	7.4
Taiwan	8.2	7.2	3.9	4.0	-1.7	3.0	1.1	3.7

Sources: Census and Statistics Department, HKSAR Government (2004:398; 2005:402 and 2006); Directorate General of Budget, Accounting and Statistics (DGBAS) of Executive Yuan, R.O.C. (2006); Korea National Statistical Office (2005a) and Singapore Department of Statistics (2005a)

Figure 1 – Growth Rate of Gross Domestic Product (GDP) at Current Market Prices in Asian Countries/Regions (Percentage)



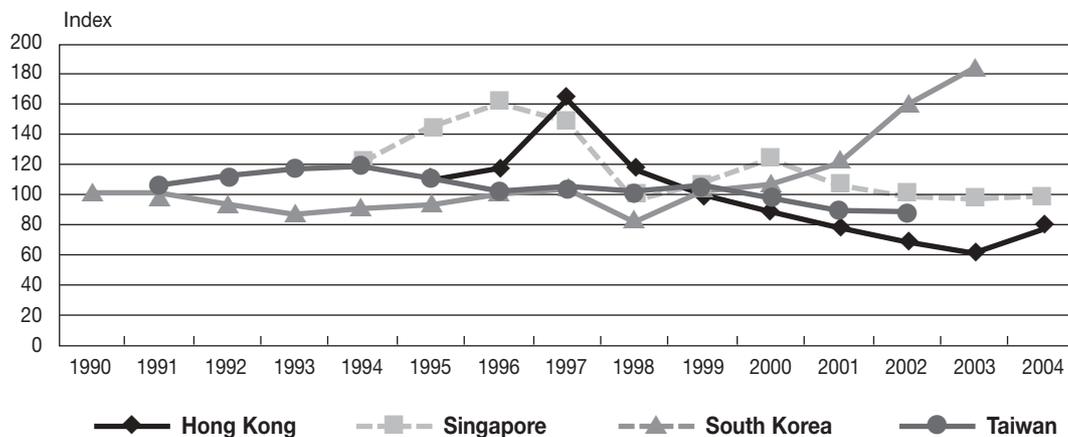
Sources: Same as Table 1

back strongly from the fall in 1998, and overall the average prices of apartments increased by 69% between 1997 and 2003 (Kim, 2004). Thus, there were significant variations among the housing markets of the four Asian Tigers in the wake of the

Asian financial crisis. However, by 2004, house prices in all four economies had either stabilized or re-surged, and the housing markets had shown sure signs of recovery.

It is important to note that the fall in house prices did not cause collapses of the financial sector in the four economies owing to housing finance policies, the existence of informal financial sectors and the relatively less developed housing mortgage

Figure 2 – Housing Price Changes in Four Asian Tigers



Notes: Housing Price Indices: Hong Kong 1999=100; Singapore 1998=100; and South Korea 1990=100

Sources: Hong Kong Special Administrative Region (HKSAR) Government (2005:Table 15); Kim (2004:328); Taiwan Ratings (2005) and Urban Redevelopment Authority, Singapore (2005)

Table 2 – Sharing of the Financing Activities in GDP in Hong Kong and Singapore (US Million Dollars)

Country/ Region	1997		1998		1999		2000		2001		2002		2003		2004	
	Amount	%														
Hong Kong	18,037	10.5	16,197	9.9	18,002	11.3	20,033	12.1	18,833	11.6	18,804	11.8	18,963	12.0	20,527	13.0
Singapore	N.A.	N.A.	10,735	13.1	10,326	12.5	10,299	11.1	10,646	12.4	10,567	12.0	10,732	11.6	11,822	11.1

Sources: Census and Statistics Department, HKSAR Government (2004:398) and Singapore Department of Statistics (2004:63 and 2005c).

Table 3 – Foreign Direct Investment in Four Asian Tigers (US Million Dollars)

Country/Region	1997	1998	1999	2000	2001	2002	2003	2004
Hong Kong	170,141	223,526	403,756	455,231	419,192	336,192	379,538	N.A.
Singapore	86,612	99,609	113,067	125,241	131,784	142,077	140,932	N.A.
South Korea	3,563	4,703	3,227	4,807	4,922	3,643	3,975	5,920
Taiwan	4,267	3,739	4,231	7,608	5,129	3,272	3,576	3,953

Sources: Census and Statistics Department, HKSAR Government (1999:358 and 2004:403); Department of Statistics, Ministry of Economic Affairs, R.O.C. (2005); Korean National Statistical Office (2002:386 and 2005b) and Singapore Department of Statistics (2004:71; 2005b and 2006).

instruments in some cases. In South Korea, the loan-to-value ratio was generally capped at 30%, and only about 10% of the loans had a ratio of over 50% (Kim, 2004). In Taiwan, the down payments averaged around 46%, and home buyers often sought help from close relatives and the informal financial sector (Yip and Chang, 2003). In Hong Kong, the loan-to-value ratio was capped at 70% in the years before 1997 to safeguard possible economic turmoil when the government changed over in 1997. In Singapore, a majority of the home owners (87%) purchased government housing and they usually obtained mortgage loans from a subsidized housing provider, the Housing Development Board. It was also in the government's interests to keep the prices of these subsidized flats buoyant, in order to protect the post-retirement benefit of the predominant owner-occupiers.

Why did economic performance vary?

Openness to the global economy

A myriad of reasons accounted for the varied impact of the financial turmoil on the Asian economies. The most often quoted was the degree of openness of the

economy to foreign investment and especially the financial market to global capital. Hong Kong, being the most open economy with the least restrictions on foreign capital, was naturally the most badly hit. In contrast, China, being a closed financial entity, was able to escape from the direct impact of the turmoil. The financial market of Taiwan was also conservative and capital movement was only partially deregulated, and was therefore secure from the regional financial crisis (Hsu, 2001). South Korea was similar although it was relatively more open to foreign investment. Singapore was an open economy but its financial market was less liberalized than Hong Kong.

Tables 2 and 3 also demonstrate the openness of these major Asian economies and the importance of the financial sector and foreign investment to the respective economies. As Hong Kong and Singapore are the financial centres in the region, a comparison of the importance of the financial sector to the economy may offer some clues to the relative economic performance of the two places after the regional crisis. Although in proportionate terms, financial activities accounted for a relatively larger share in GDP in Singapore, the total value of the financial sector in

Hong Kong had been over 1.5 times that of Singapore. Thus, a sizable financial and real estate sector coupled with heavy reliance on foreign investment may explain why Hong Kong was more adversely affected by the regional financial crisis. It also rendered the economic recovery of Hong Kong susceptible to external economic conditions, either in the regional or the international markets. In contrast, as the financial services industries in South Korea and Taiwan were less significant, and the finance markets were more highly regulated, they were better sheltered from the shocks of global movements of funds on the local economy. Further, Taiwan had undergone a successful economic restructuring in the early 1990s, replacing the construction industry by information processing, semiconductor and electronics as the driver of growth (Hsu, 2001). Economic revival was therefore less subjected to the cyclical movements in the property sector.

The openness of the real estate sector might also be significant in determining the impact of the Asian financial crisis and the speed of recovery. Hong Kong is again fully open in this regard as local and overseas investors and buyers are not discriminated. As well, no capital gains tax is levied and has not been considered as a possible

measure against speculation. Singapore limits housing purchases by foreigners and foreign-owned corporations to residential premises in buildings of six floors or more and apartments in approved developments (APEC Committee on Trade and Investment, 2003). The housing market in Singapore is small and capital gains tax or similar tax measures may be used when speculation gets out of hand. Taiwan imposed restrictions on overseas real estate investors and buyers regarding the types and uses of the premises and the transaction procedures but relaxation of these controls has been mooted. South Korea also imposed restrictions on foreign investors and buyers but removed the discriminations in 1998; since then foreign investors and buyers have been subjected to the same rules and regulations as local buyers (*Business Korea*, 1 July 1998).

The openness of the real estate market to foreign investment and buyers may

extenuate the magnitude of the property cycles as hot money may pour into the real estate sector in the boom periods, intensifying speculative activities. These short-term investments may leave the market quickly during bust times, aggravating the downward trend. Thus the open economy of Hong Kong in general and the financial and real estate market in particular might have partially accounted for its relatively poorer economic performance after the Asian financial crisis.

Undeniably the speed of economic rebound in the wake of the crisis was attributable to a wide array of other factors: the economic base and structure of respective economies, policy responses to the financial crisis, government leadership, the economic trajectories of respective countries, the need and strategy for economic restructuring etc. Being an important economic sector, the performance of the housing market and

relevant government policies to overcome the bust conditions also affected the economic recovery of the Asian Tigers.

Policies to revive the housing market

As discussed earlier, the housing markets of the four Asian Tigers trod different paths from 1998. Their divergence can be explained, at least partially, by the variations in policy changes and the perceived role of the housing market in facilitating economic recovery. Table 4 outlines the major changes in housing policies since the late nineties. Overall, there has been a general reduction of government intervention in the market. However, the governments take different tacks in steering housing development and the policy changes were made for different purposes. For South Korea, the relaxation of the highly regulated housing system was to enhance housing supply and promote home ownership with the intention of facilitating economic recovery. The relaxation was

Table 4 – Changes in housing policies of the four Asian Tigers post-1998

Countries/cities	Overall housing strategies	Subsidized housing policies	Private housing policy
South Korea	<ul style="list-style-type: none"> ● Deregulation of supply & price control. ● Liberalization of consumer credit. 	<ul style="list-style-type: none"> ● No significant change. 	<ul style="list-style-type: none"> ● Deregulation and liberalization. ● Tax deduction. ● Financial assistance to developers and buyers.
Hong Kong	<ul style="list-style-type: none"> ● Removal of home ownership target. ● Abolition of production target. ● Minimization of government intervention. ● Emphasis on government’s facilitator role. 	<ul style="list-style-type: none"> ● Termination of all subsidized home ownership schemes. ● Expansion of public rental housing supply. 	<ul style="list-style-type: none"> ● Reduction of land and housing supply. ● Introduction of the ‘land application policy’.
Singapore	<ul style="list-style-type: none"> ● Relaxation of home ownership policy. ● Expansion of public rental housing. ● Necessity to maintain property value. 	<ul style="list-style-type: none"> ● Relaxation of eligibility for rental flats. ● Relaxation of sublet restrictions of subsidized flats. ● Restructuring of Housing and Development Board. 	<ul style="list-style-type: none"> ● Temporary suspension of land sale. ● Introduction of the Reserve List for land sale. ● Facilitation of urban renewal.
Taiwan	<ul style="list-style-type: none"> ● Low interest loans for home purchase. ● Coverage for mortgage arrears. 	<ul style="list-style-type: none"> ● Moratorium of public housing construction. 	<ul style="list-style-type: none"> ● Mortgage interest rate subsidies. ● Tax deduction.

Sources: Hsu (2001); Li (2002); Kim (2004); Kim and Kim (2000); Son (et al, 2003); Taiwan Ratings (2005); Yip and Chang (2003); Yoon (2003) and Yu (2004)

implemented in all fronts: price control, housing finance control (eg liberalization of mortgage loans), supply control and tax payments. Despite the reduction of its controls in the housing markets, it stepped up financial assistance to facilitate housing provision and purchase. The wide array of policies to stimulate market activities explains the quick recovery and rapid growth of this housing market after the regional crisis (Kim, 2004, Kim and Kim, 2000; and Son, *et al*, 2003).

The government of Hong Kong also minimized its intervention from 2001 onward after a period of stagnancy from 1998 to early 2001, but the emphasis has not been on relaxing control as the housing market operates on free market principles. Rather, it was the reduction of the subsidized sector in the home purchase market. The reduction was for the purpose of expanding the territory of the inactive private housing market as private homes became more affordable to the lower income families. Another measure to regulate market conditions was to address the supply of new land and subsidized owner-occupier housing to redress the oversupply problem at the time. Thus overall, the tactic of the Hong Kong government was to address the supply and demand imbalance situation by reducing supply and increasing the demand of the private housing market by shrinking the public sector, not by providing financial assistance to potential home buyers to stimulate demand (although the loan schemes were stepped up initially after the market had slumped but eventually were all abolished). This was because the government had experienced in the past few years the negative effects and impacts of its ambitious home promotion policy implemented since 1998. The home ownership promotion policy and the home ownership target were subsequently abolished altogether in 2001. Such a strategy inevitably relied on the recovery of the general economy to enliven the housing market (Chiu, 2003).

Changes in Singapore and Taiwan were less drastic. There was no drastic reversal of housing policies. Nonetheless, the

Singapore government modified its full home owning policy. The importance of relaxing entry to public rental housing was acknowledged as there were families which could not afford home owning, especially during times of economic downturn (Yu, 2004). The government also recognized the significance of maintaining property values in a high home owning society as it tied in with the asset value of individual households, and hence their retirement protection (Chua, 2003). Although mild, Taiwan took different means from those of Hong Kong and South Korea to stimulate market activities. It provided subsidized loans to potential home owners and helped home owners to tide over difficult periods by covering their mortgage arrears for six months. However, similar to Hong Kong, the government also imposed a temporary moratorium on public housing production in order to boost the stagnant market (Hsu, 2001; Li, 2002; Yip and Chang 2003). Although it was the intention of the government to facilitate economic growth through stimulating demand in the housing market, less drastic measures were undertaken (see Table 4 for details). This was possibly due to the fact that the home ownership rate had already been as high as 80% and that housing prices had not fallen as substantially as in the other Asian markets.

Thus, it is evident that if housing market performance was regarded as important in facilitating economic revival, governments had implemented policies and measures to stimulate housing demand, such as in the case of South Korea and Taiwan. If, however, the housing market was not considered as a propeller of economic recovery, the major emphasis had been placed on controlling supply, such as in the cases of Hong Kong and Singapore. These housing policies, in turn, affect the performance of the housing markets alongside other factors.

Conclusion

Obviously the Asian financial crisis, which was triggered by the massive and quick movement of global funds, exerted

tremendous economic impact on the region. But as demonstrated in this article, the impact varied among the four major Asian economies. It was argued that economies which were more open and operated bigger financial sectors were more susceptible to the regional crisis. Likewise, the housing markets of the tiger economies which were more open to foreign investors were more severely affected. Policies to restore the housing markets depended on the perceived role of the housing sector in reviving the economy. Where a strong housing market was regarded as expedient to stimulate economic growth, greater emphasis was placed on inducing housing demand. Otherwise, government actions mainly pertained to the reduction in the supply of land and subsidized owner-occupied housing.

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