



rates in 1998. Thus if we were to try to predict Penang's growth rate entirely based on the U.S. economy, the result will turn out something like in Figure 2. The results is statistically significant, the probability value of America's GDP used as a regressor is as high as 87 percent even though the fit as expected is not very good at only 8.6 percent. Notice that the East Asian crisis would not be predicted .

Figure 1

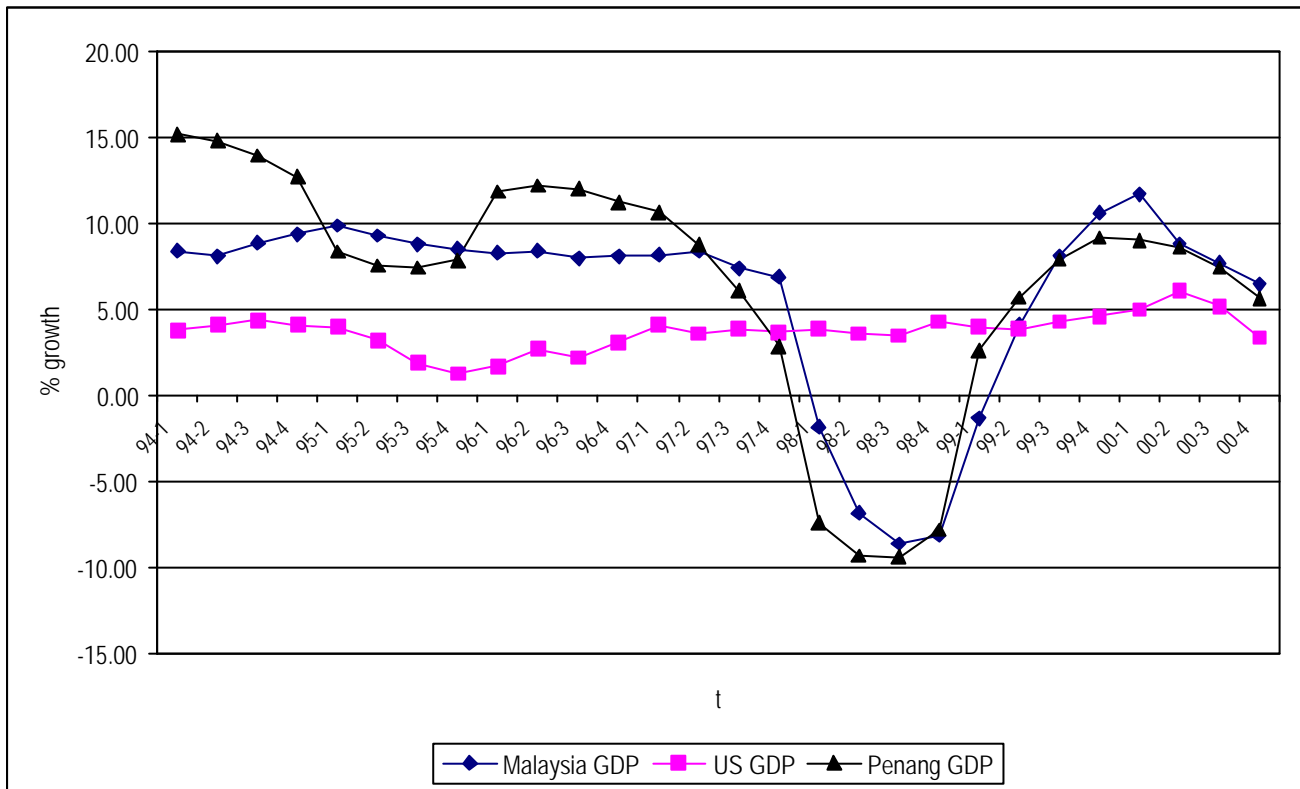
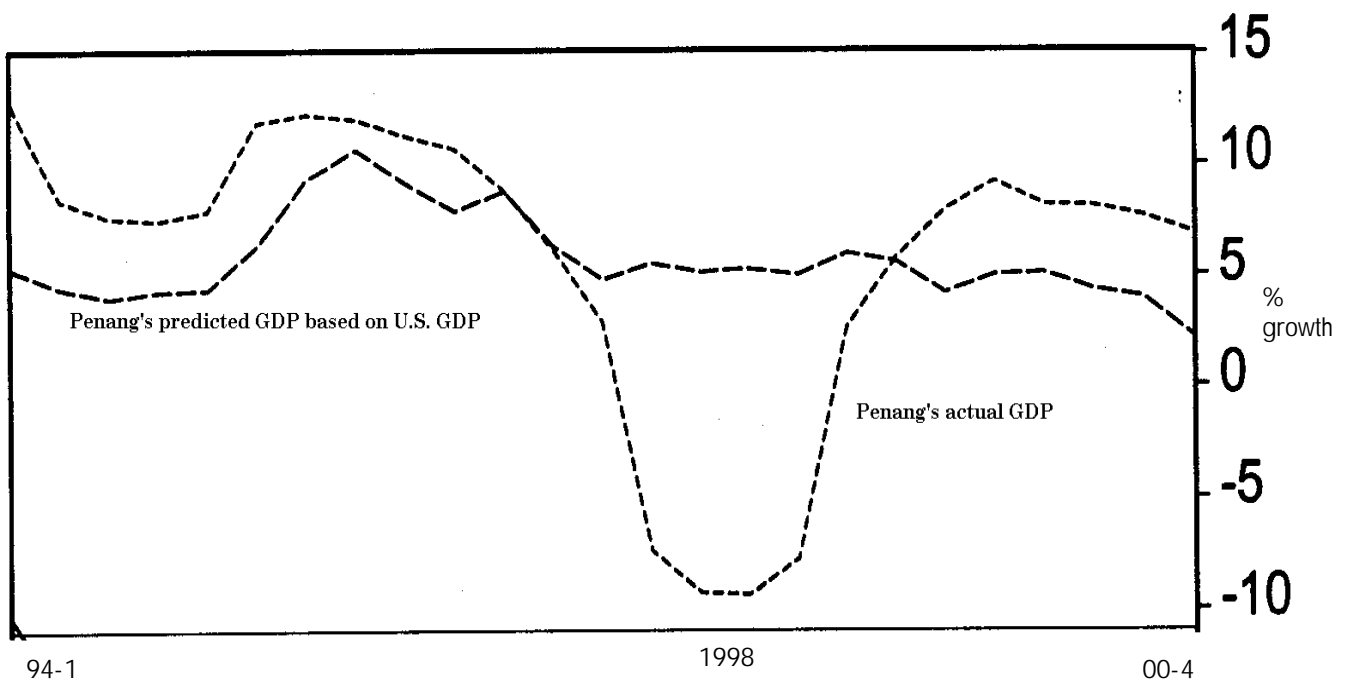


Figure 2





We might consider looking more generally at Malaysia's trade as a regressor instead of just the indirect effects of U.S. imports reflected by America's GDP figures. The results appear in Figure 3. This time the East Asian crisis would have been picked up although somewhat belated and not as serious a downturn would be produced. The significance of trade as a variable goes up as high as 88 percent probability and the fit of the model is about 34 percent. If we had used Penang's manufacturing output instead of Penang's GDP, the fit is slightly better at 36 percent. To predict Penang's GDP based on its manufacturing output performance, the results will look like that shown in Figure 4. The fit of this model is about 77 percent.

Figure 3

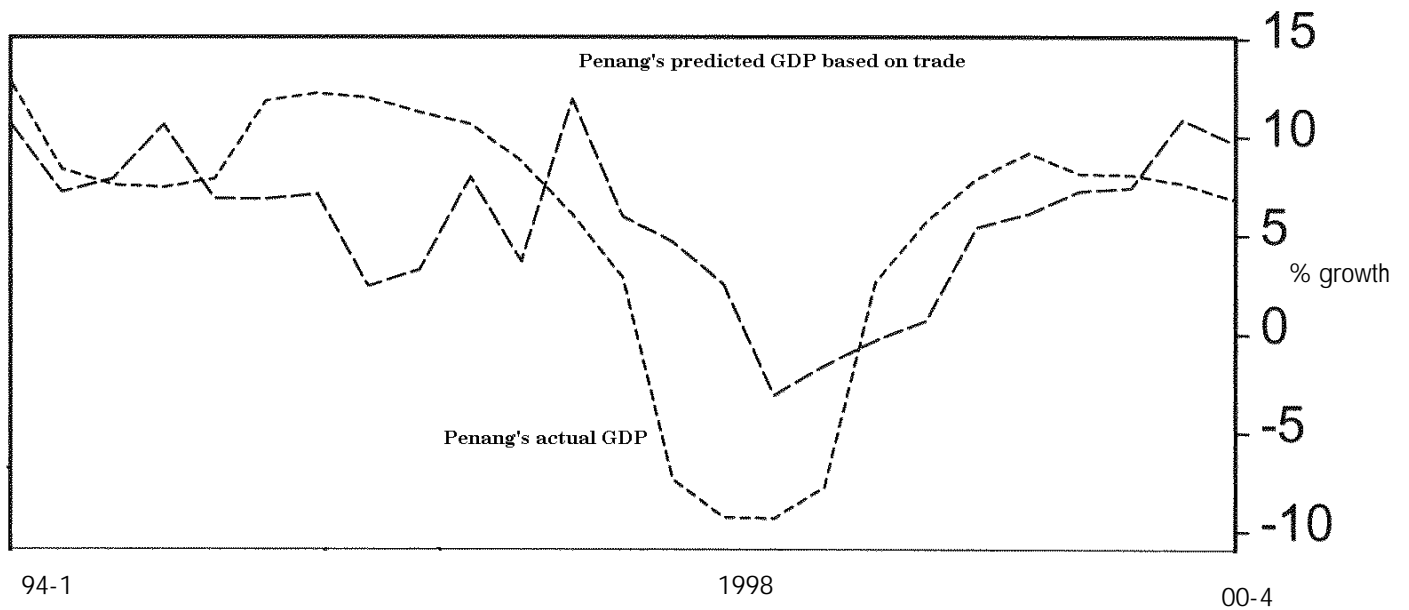
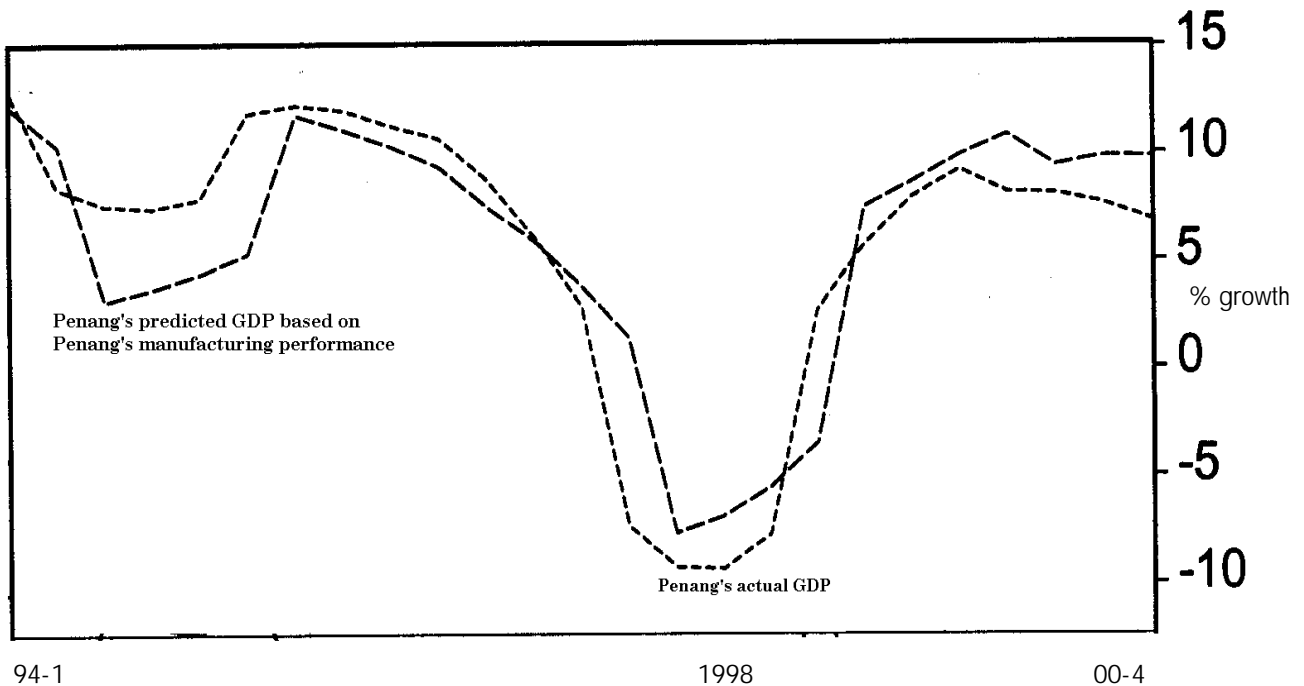


Figure 4

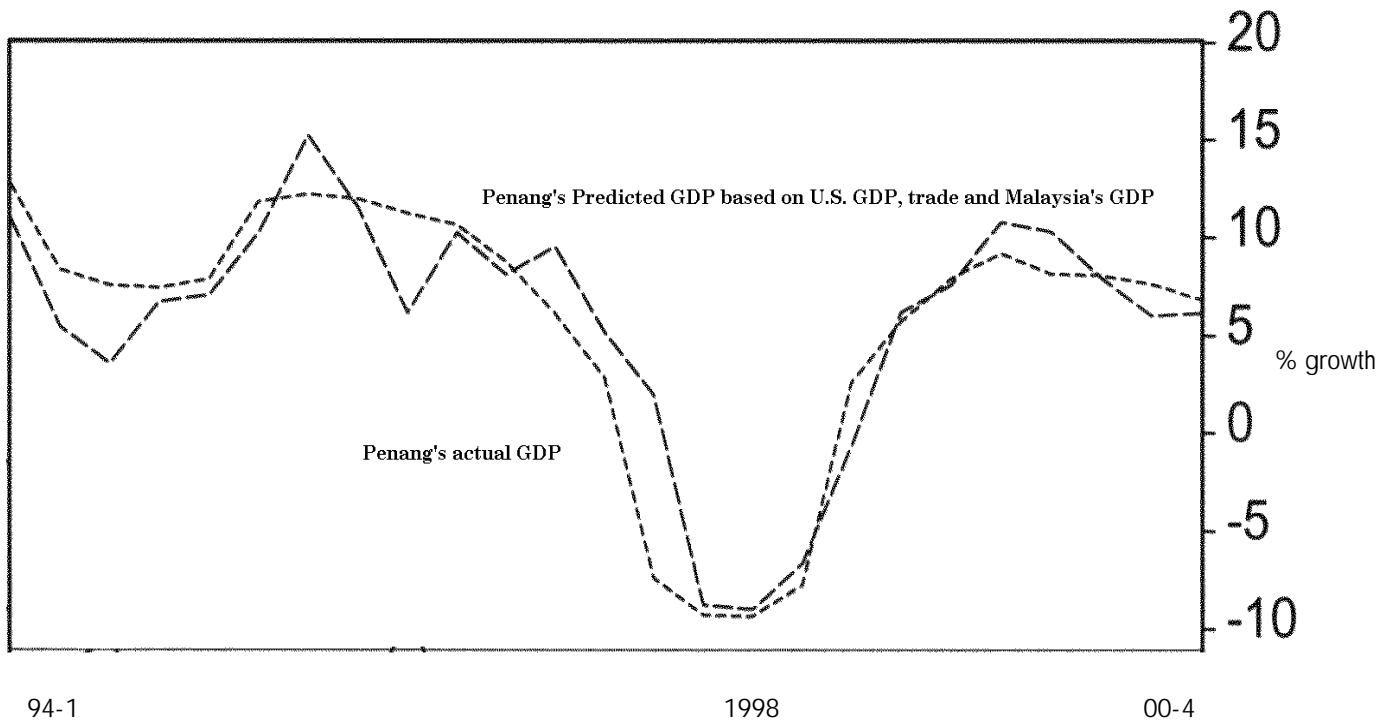




Our ultimate question is of course trying to link Penang's GDP performance against the U.S. economy or over-all trade effects, that is, to include both America's GDP as well as trade as regressors. To get a reasonably good prediction, we will also include Malaysia's GDP in the list of regressors. The results are shown in Figure 5. This model has an 82 percent fit. Again by considering instead, Penang's manufacturing performance, the fit improves to 85 percent.

This brief exercise has shown that a reasonably good fit could be achieved in predicting Penang's GDP if data for the U.S. economy, Malaysia's trade and Malaysia's GDP could be obtained. This amounts to translation rather than forecasting, that is it allows us to have a feel of what will likely happen in Penang following changes to the U. S. economy, trade and Malaysia's economy. Making a Penang forecast would require forecasts of the U.S. economy, Malaysia's trade and Malaysia's GDP. At the present time, forecasting would prove very difficult since most forecasts look for characteristics and movements in past data. Recent events affecting the economy were unprecedented and one can be quite certain that their effects on the economy would not be found in past data. *§ Chan Huan Chiang*

Figure 5





Fighting Poverty Through Globalisation and ICT

Introduction

Although Penang is a relatively rich state compared with the nation as a whole and with most of the other states in Malaysia. The distributive agenda of the state nonetheless implies that poverty, even in the smallest pockets should be eradicated. The incidence of poverty which stands at 2.7 per cent, although a small proportion of the population, still means that more than 33,000 persons in the state are living below the poverty line.

Moreover, recent events have shown that the open and export-oriented nature of the economy means that the workforce of Penang is very much exposed to the vagaries of the international economy. For instance, the Asian financial crisis caused the incidence of poverty in Penang to increase from 1.6 per cent in 1997 to 2.7 per cent in 1999, although the rise was also in part attributable to the revision of the poverty line income from RM460 to RM510 per household per month in the latter year. This year, Penang has once again been affected by the global economic downturn which has brought in its wake several factory closures and a spate of retrenchments, to date affecting more than 10,000 workers although a significant number have found alternative jobs.

Although poverty may not appear to be a very significant problem in Penang in terms of numbers and on the macro-level, it nonetheless is very real and pressing for those in the throes of poverty. Hence, it is imperative that measures be taken to ensure an acceptable standard of living for them. In this regard, some lessons may also be learned from the international experience in poverty alleviation.

The World Bank has also recently identified poverty as the world's greatest challenge, and the Bank's latest *World Development Report for 2000/2001* focuses on the theme *Attacking Poverty*. Poverty is often defined as deprivation in well-being, such as being hungry, sick, illiterate, lacking shelter and clothing, or education. However, living in poverty, in actual sense is more than that. The World Bank's *World Development Report 1990* defined poverty as encompassing not only material deprivation measured in terms of income or consumption, but also low achievements in education and health. An additional notion is that of vulnerability and exposure to risk. This facet of poverty is particularly relevant in the context of Penang.

Dimensions And Causes Of Poverty

Narayanan (et al) 2000, *Voices of the Poor: Can Anyone Hear Us?* and *Voices of the Poor: Crying Out for Change*, gave examples of how poor people in 60 countries described poverty. They described poverty as lack of material and physical well-being, being powerless, and vulnerable to all kinds of shocks. Poverty is a state that describes the condition of hardships and deficiencies encountered and experienced by people. As such, it is easier to understand the causes of poverty and its dimensions if we think in terms of people's assets. These assets are classified as:

- Human assets such as the capacity for labour, fundamental skills and good health
- Natural assets such as land
- Physical assets such as availability of and access to infrastructure
- Financial assets such as savings and access to credit
- Social assets such as networks of contacts and political influences

The availability of these assets will contribute to the accumulation of wealth and the alleviation of poverty. The returns to these assets, on the other hand, depend on various factors, which include access to markets, vulnerability to shocks as well as performances of the institutions. Access to markets is important to everyone, be it the rich or the poor. However, access to market is also subject to global, national and local influences and thus those who are deprived of or lack assets may face difficulty in gaining access to markets. Furthermore, they are also more susceptible to shocks, including market volatility, which is affected by changes in weather, social norms, as well as political influences. This, in turn, result in other negative impacts like the depletion of savings, loss of income as well as the deterioration of natural assets.

The performances of the institutions, which basically comprise the government and the society at large, are also determinants of the returns to the assets. These institutions form the political and social forces that are responsible for formulating public policies & promoting government intervention. More importantly, these institutions are also controlled by the political influences of different groups, which have their own agenda and are not likely to strive for the welfare of the poor.



It is rather common that the materially deprived feel an acute lack of voice, power and independence. This is mainly because their condition of being poor subjects them to rudeness, humiliation, shame, inhumane treatment and exploitation at the hands of the richer society and sometimes the government. Likewise, discrimination based on race, ethnic, religious beliefs and social status also have similar effects.

In addition to discrimination, poverty is also linked with economic growth. Economic contractions and expansions should translate into higher or lower incidences of poverty. However, there is a high possibility of an increase in inequality in the distribution of income as the economy expands. A sound and stable government is perceived to be the most effective way to reduce such socio-economic inequalities and thus, alleviate poverty. It is thus, crucial to provide a socially sustainable growth and to ensure that the poor people benefit from this growth.

The low level of assets makes the poor people more vulnerable to negative shocks. Those with more assets, especially physical, natural and financial assets can withstand the shocks but the lack of adequate assets can create a vicious decline for the poor people in the long term. This is especially so when the poor people take drastic short-term actions to alleviate their problems. For example, taking the children out of school to help increase the family income during crisis; making quick sales of physical assets, like land and house at desperately low prices; and lowering nutritional intake below the levels necessary to sustain good health to reduce expenses on food during crisis. This issue is further aggravated by the unwillingness of the global community to address global changes like climate change, arms sales, volatile capital flows, civil conflicts, wars as well as natural disasters, which are the causes of shocks and disturbances that result in increase in the level of poverty in the poor countries.

Opportunities For Growth

What Drives Economic Growth?

Economic growth is a result of interaction among the initial conditions, institutions and policy objectives of the different countries. Economic growth hinges on the education level and the demographic characteristics of the population. For instance, increase in female literacy rate and education level is considered good for the overall economic growth of a country. An outcome of increased literacy rate and education level is the increase in female labour force participation rate (LFPR). As in the case of Penang, the island state began to prise itself out of economic doldrums in the late 1960s/early 1970s when the state government encouraged the employment of women workers in the export-oriented industrial sector. The changing age structure of the population can also affect economic growth. A growing ageing population can result in a decline in the overall economic growth as opposed to the growing working-age population that contributes more to the economic growth. Likewise, rapid growth in population can also affect the per capita GDP.

Geographical factors can also affect economic growth. Remote and landlocked locations normally lack access to markets as well as external linkages. These locations are normally less developed than those with access to external markets and linkages. This is evidenced in the case of Penang, where areas on the north-eastern side of the island are more developed than the coastal areas on the south-western side of the island as well as the mainland Penang, where transportation access and good communication system and networks are less advanced.

In addition to the demographic characteristics and geographical factors, institutional factors are equally important. The enforcement of a strong regulatory framework by the government would provide a fair environment to facilitate growth. For example, rules and regulations that are capable of adjusting to adverse external shocks and disturbances could benefit the population. However, this will require changes in the economic policies of the country concerned. Countries with economic policies that are open to the international trade and global financial system as well as those with sound monetary and fiscal policies are more conducive to economic growth. China and India are key examples of success stories in policy reforms and restructuring toward liberalization.

Expanding Economic Growth Through Globalisation

Globalisation is commonly described as internationalisation of markets, production and distribution as well as a greater and freer flow of capital, technology and human resource. As such, globalisation means liberalization in trade, investments and services. The factors that limit and restrict globalisation such as (i) tariff and non-tariff impediments, (ii) rules and regulations preventing entry into markets, and (iii) government support/subsidies/protection need to be removed/reduced to promote globalisation. Such efforts have been mooted and promoted through the establishment of WTO (World Trade Organisation) at the global level and the AFTA (Asean Free Trade Area) at the regional level.

In addition, governments, particularly those in the developing countries should facilitate globalisation through the adoption of ICT (information & communication technology) and the advancement in infrastructure development, including access and connectivity as well as transportation. The manufacturing industry has been the engine of growth



for many developing countries and as such, it is also very important for the governments to facilitate the assimilation and development of manufacturing technologies to encourage higher value-adding activities. Lastly, it is also crucial to provide a liberal environment with little or no restrictions to trade, investments and mobility of human resource as well as other value-added activities such as innovation.

However, by nature of their stature of being deprived, the poor (people & countries) will be more negatively affected by globalisation. As such, it is crucial to make both markets and institutions work better for the poor because the poor rely on markets, be it formal or informal, to sell their products and more importantly their labour. In short, the poor rely on markets to insure themselves against risks. Institutions on the other hand will determine strategies and direction for growth of a nation. For example, the increasing attrition of inward-oriented development has resulted in governments implementing reforms to replace state intervention with private sector driven growth. This has resulted in economic growth and an end to economic stagnation, as proven in the case of China.

To make markets work better for the poor, institutional support is very important. The government can help the poor by:

- Easing the regulatory burden for small local firms through tax exemptions or reductions; removing constraints such as compliance for approvals; as well as the provision of blanket approval for incentives and licenses to companies that participate in activities that are being promoted or of national interest (for example, providing employment for the poor or enhancing the quality of life of the poor).
- Promoting and adopting basic labour standards such as the abolishment of child labour. Labour standards have already been formulated in the *Declaration of the Fundamental Principles and Rights at Work*, adopted by the International Labour Organisation (ILO) in 1998. However, enforcing these standards through sanctions may not bring the desired results and the poor may remain poor or even worse, their condition could even deteriorate. As such, it would benefit the poor better if employers were encouraged to adopt 'desirable labour practices', which complement public standards with the market-driven standards.
- Improving access to financial markets such as credit, savings and insurance services for the poor. Access to these services will help the poor to manage risks and economic shocks as a result of declining yield/income, falling prices as well as natural disasters. The Malaysian government provides incentive packages to the small- and medium- enterprises (SMEs), but the management of such incentives is not effective and the dissemination of information regarding these incentives is inadequate and ineffective. As such, many deserving SMEs do not benefit from these incentives.

Alleviating Poverty Through ICT and the Development of a Knowledge-Based Economy

The World Development Report 1990 presented a two-part strategy for poverty alleviation, namely (i) Labour-intensive growth, and (ii) Broad provision of social services. A labour-intensive growth pattern basically refers to the growth pattern that makes efficient use of labour. By doing this, it allows the poor to use their most abundant asset, i.e. labour. This was the growth pattern undertaken by Penang in the 1970s and 1980s. A broad provision of social services, on the other hand, improves the well-being of the poor and increases their capacity to take advantage of emerging opportunities. With regard to this, the provision of social services in today's economy, basically the era of a knowledge-based economy, will include the provision of ICT as a tool to drive economic growth. Access and connectivity to Internet has proven to generate opportunities for people in poor countries to bid for jobs (such as subcontracting jobs) and to sell their products.

Tackling Poverty Issues: A Framework of Action for Penang

The Penang case differs from those in the agrarian economies, either within or outside Malaysia. Penang is highly urbanised with a population density of 1190 persons/sq.km. compared with the national average of only 67 persons/sq.km. Urbanisation rate in Penang in 2000 was 79.5 per cent compared with the national average of 61.8 per cent (8MP). While the agriculture sector accounts for 8.7 per cent of the national GDP (8MP), contribution from the agriculture sector in Penang is a mere 1.3 per cent of the State's GDP in 2000.

Poverty is normally linked with the agrarian society and remote locations. However, in the case of Penang, which is an industrialised state with high urbanisation rate and low incidence of poverty, the poor people are to be found in both rural and urban sectors. These people are poor because they lack access to markets or skills that are required in a highly urbanised society. Literacy rate is relatively high in Penang, at 93.1 per cent in 1995, compared with many other parts of Malaysia (national average was 89.3 per cent, source: 7MP). This facilitates the efforts to develop a knowledge-based economy in Penang, provided that each and every resident in Penang is given the opportunity and access to improve himself/herself. In addition, economic growth in Penang in the past



three decades had been driven by a labour-intensive growth pattern, taking advantage of Penang's abundant pool of literate, educated and trainable labour force. Today, Penang can no longer depend on that comparative advantage and has to move ahead towards the era of a knowledge-based economy.

ICT, supported by other social programmes, will be an ideal tool to drive the development of a knowledge-based economy, especially when the State is intensely wired (According to the PDC, 90 per cent of the state is covered with fibre optics) and has a high ratio of Internet subscribers to population (1:7.76). As such, ICT can be used in various areas to help enhance the standard of living of the Penang populace as well as to alleviate urban and rural poverty in the State. These areas include:

- e-business and e-commerce
- e-learning
- e-community

E-business and e-commerce would very much have to be private sector driven with the support of the government through the provision of infrastructure and connectivity. Penang, which economy that is mainly driven by the private sector, is rather advanced especially in B2B among the multinational companies, their customers and the larger-scale suppliers. The State Government is also aggressively promoting supply chain management through the application of Internet and other ICT tools.

E-learning is a move towards greater educational attainment and human resource development through the use of internet and ICT. Both the private and public sectors can contribute to the efforts towards e-learning by establishing programmes and networks to provide the opportunities for advancement as well as to create the learning culture among individuals, institutions as well as organisations. Such programmes could include computer literacy classes for both primary and secondary school teachers, setting up of computer laboratories in schools, establishment of digital libraries, setting up of virtual courses/classes using the Internet as the mode of instruction/teaching, etc.

E-community on the other hand comprises efforts to stimulate the interest of the various communities to use ICT to improve their quality of life. Community development efforts through the use of ICT, in the case of Penang, can take a more contemporary approach, i.e. to provide accessibility, opportunities for greater knowledge and information as well as a feedback system to the government/state assemblyman of the respective constituency. As such, the e-community project would be mainly government driven with the provision of accessibility and connectivity for the community, particularly the urban poor to enrich their knowledge and skills level as well as the sub-urban and rural poor to help improve their accessibility to market and income. E-community projects should also include a feedback system to the government/state constituency and this comprises the setting up of websites, which empowers the residents of the respective constituency to express opinions over the Internet.

The three areas for development would meet four of the five assets that are related to poverty and alleviation of poverty. Government support through the provision of physical assets such as infrastructure and utilities will help to enhance e-learning and e-community, which in turn, help to increase the skills level and capacity of Penang's labour force, or in short, enhance the human assets. The support for e-commerce and e-business through pro-poor (According to ADB, pro-poor growth is defined as growth that enables the poor to actively participate in and significantly benefit from economic activity) regulations and easier access to financial markets may also result in the enhancement of financial assets. These developments, in turn, result in the enhancement of social assets, thus improving the standard of living and alleviating urban and rural poverty. The only asset that is quite impossible for Penang to acquire at this stage is the physical asset, mainly because Penang, being the second smallest state in Malaysia, lacks natural resources. **§ Anna Ong**