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Economic Briefing To the Penang State Government (Special Issue)

PENANG ECONOMIC REPORT 2003

1. INTRODUCTION (By Dr. Chan Huan Chiang)

2003 has been an eventful year.

A year ago, business confidence and consumer sentiments were weak or at best mixed across much of the world, and the various sectors braced themselves for a difficult year ahead when 2003 rolled in. The events that unfolded could not have been worse, because the world was thrown into uncertainty with international travel brought nearly to a standstill as a result of the SARS outbreak that was traced to the world's fastest growing economy, China. Fortunately, thanks to the Internet, that has become integral to today's business, worldwide communications were able to remain open that not only kept business going, but the World Health Organization and public health agencies across the world were able to make use of the Internet to collaborate and share newly discovered knowledge in a timely and unprecedented manner. As a result, SARS, which is a disease that has never surfaced before, could be brought under control within a few months.

Geopolitical circumstance at present do not offer reasons for optimism given the prolonged instability in Iraq, many unknowns concerning North Korea and doubts over the *road-map* that was to form a basis for peace between Israel and Palestine. However, third quarter (Q3) 2003 numbers, that are beginning to come in country by country, have offered evidence that better times are ahead. Compared to a year before, with minor exceptions, the world's economies are reporting positive growth. Since fourth quarter (Q4) numbers traditionally show an improvement over the third quarter, further improvements might be expected before 2003 draws to a close allowing fairly firm numbers to be obtained for the year's GDP. Naturally, seasonal effects will bring moderating influences during the early parts of 2004 but from the longer cycle view, 2004 and 2005 might be expected to offer more comfortable times compared to the trials that all of us have gone through these last couple of years.

In Malaysia, the appointment of the new Prime Minister is a momentous event. Even though Prime Minister Abdullah Badawi has reiterated a continuance of the familiar policies, there is nevertheless fresh excitement about how the government will respond to the changing economic scenario, that is, one involving economic recovery to one of growth sustenance. Many important mechanisms introduced for the recovery are in place: the *ringgit* peg, asset management

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via Dana Modal, bank mergers, issuance of bonds, the capital markets master plan and restructuring of the role between the KLSE and the Securities Commission, including the introduction of competition policy and corporate governance measures. These will continue to play crucial roles in sustaining economic growth although some, like asset management, will need tweaking as they have successfully done the job that they were called to do.

2a. INTERNATIONAL ECONOMY (By Dr. Chan Huan Chiang)¹

Forecasts by the Economic Intelligence Unit (EIU) show an average of 3.4% growth for the global economy in 2003 rising to a 4.1% average during the following two years. The economic performance of several large economies have picked up. The OECD *Economic Outlook* reports that its members are expected to grow by about 2% in 2003, rising to 3.0% in 2004 and 3.1% by 2005. Figures for Q3 2003 were the highest seen since 2000. The U.S., which is among the benchmark economies, is expecting 4% growth in 2004, which is upwards from the earlier forecast of 3.4%. Q3 year-on-year (y-o-y) growth turned out higher than the 7.2%, announced by the U.S. Department of Commerce in late October, by surging 8.2%, more than double the performance during the second quarter (Q2) of 3%, 8.2% is also the highest GDP growth recorded in 20 years.

In Europe growth rates may appear modest but figures through to Q2 2003 continue to indicate a down-trend. However, with Q3 2003, positive side numbers are beginning to come in. Germany's Q3 2003 performance also rose marginally by 0.9% y-o-y after three consecutive quarters of y-o-y decline. France and Italy did better with a 1.6% and 2.0% y-o-y growth, respectively in the third quarter. Britain's Q3 2003 figures looked even more buoyant at 3.1% y-o-y, fueled by strong consumer demand, outdoing the 2.3% previously projected.

Japan, which has had a good decade of recession, may have finally come around. Reports in November indicated 2.2% y-o-y growth in Q3 2003 marking up seven consecutive quarters of expansion. However, the latest figures released in early December showed only a modest 0.3% growth. Capital investment figures turned out lower than expected, because previously observed sharp rises in machinery orders did not sustain. Japanese deflationary tendency has still to be watched as nominal GDP fell by 0.4% in the third quarter. Deflation has also plagued Hong Kong for five years where consumer prices continue to fall even though Q3 2003 figures showed a 4.0% y-o-y expansion, after falling by a half percent point during the second quarter, indicating that SARS has, at last, released its grips on Hong Kong's economy. In South Korea there has been two consecutive quarters of decline but Q3 2003 figures showed a 2.3% y-o-y expansion largely attributed to better exports performance. China, as usual, continues to outpace its trading partners surging another 9.1% y-o-y during Q3 2003².

Closer to home, Singapore appeared to have hit bottom and gone on an upswing to expand by an enviable 17% between the second and the third quarter. Of course this huge growth is due to the small base of the second quarter numbers as Singapore's economy plummeted by 9.8% between the first and second quarter due to the crippling effects of the SARS outbreak. In response to the recovery, they are looking at 1.7% overall for 2003 which is upwards of the 1% growth rate previously projected.

While the improved economic circumstances are finally showing up in the numbers of most economies, particularly in Q3 2003 figures, a few continue to remain pinned down by internal difficulties. For example, Q3 2003 y-o-y figures show a sizable contraction of 7.1% in Venezuela.

2b. NATIONAL ECONOMY (By Dr. Chan Huan Chiang)

Bank Negara Malaysia announced the Q3 performance figures in the middle of November. In line with expectations, more encouraging numbers were seen given that the SARS crisis had, as hoped, receded as the economy moved into the second half (H2) of 2003. But the source of optimism was not based so much on the better showing of Q3 over Q2 numbers, since the Q2 numbers do not really count due to the peculiar circumstance brought about by SARS. The better gauge was that the year-on-year (y-o-y) change between Q3 2002 and Q3 2003 had registered 5.1% growth, revised upwards from the 3.5% previously projected. This was fueled partly by the growth of private consumption by 5.4% (y-o-y), even though public consumption had fallen marginally by 1.6% (y-o-y).

However, when these Bank Negara numbers were announced, it was baffling that Q3 2003 exports were reported to have fallen by 3.1%. Semiconductor export sales that constituted nearly a fifth of total exports, performed even worse, having dropped a hefty 10.8%. These numbers were counter-intuitive as market talk during the same period appeared to indicate that there had been a recovery in external demand from the beginning of the second half of the year. Furthermore, Governor Zeti had reported in her central bank press conference that shipments out of Malaysia had indeed risen during the third quarter. In fact several other East Asian economies have also reported stronger export growth during this period. It was imagined that an even larger drop of imports by 5.7% had helped offset the poor trade performance to keep overall GDP performance on the up side.

Finally the mystery cleared up in early December when the Ministry of International Trade and Industry announced that the earlier figures from the Department of Statistics might be incorrect. The department had been in the midst of overhauling its computer system and its interface with the data collection system. The New Straits Times reported that the Penang figure in E&E export has been inadvertently omitted. The October 2003 trade numbers were thus considered to be more indicative of those observations of the market made previously during the third quarter. October 2003 exports amounted to RM34.2 b., which is a three-year monthly high since the RM34.9 b. figure obtained in September 2000, and a respectable 7.2% y-o-y expansion from October 2002. Relative to imports, the trade numbers looked even better, because the RM6 b. trade surplus in October 2003 was an increase by 24% y-o-y from October 2002.

Much of exports performance is driven by the E&E sector, as it comprises about half of Malaysia's total exports in value and nearly half of manufacturing output. E&E exports started its decline in December 2002, after nearly a year of steady exports expansion, and continued to decline through this August when it plunged to negative 16.2% y-o-y relative to August 2002. Most observers are saying that the downtrend in electronics has bottomed out and the sector and the growth cycle is making headway. For example, October sales of electronic chips worldwide was 23.3% better than a year ago, a feat that has not been seen since 1990. The upswing in E&E suggests that Malaysian exports are likely to be buoyant during the months ahead.

Everybody is thus looking forward in anticipation to the Q4 numbers that would not appear for a few months yet, because Q4 numbers traditionally do better than those for Q3. Most northern hemisphere countries begin a new work-year each Fall, i.e. in September, that would bring forth a new round of investment and sales. For Western economies there is the surge towards Christmas before the economy does its seasonal retreat in the first quarter of the following year. Thus the 5.1% y-o-y Q3 growth already observed may lead to, say, a 5.4% growth y-o-y for Q4. These numbers would easily offset the weak numbers from the first part of the year and make the 4.5% government target for 2003 easily achievable. More likely, considering that it is already December 2003 and no peculiar downside events have occurred at home or worldwide, we might see GDP numbers about the 5% mark overall for 2003

in Malaysia.

The current weakness of the American dollar, to which the ringgit has been immovably locked since 1998, gives mixed feelings to Malaysian consumers and producers. Parents who are paying for the tuition fees of sons and daughters abroad are looking at having to reach down deeper into their pockets but exporters are likely to feel more optimistic due to the price competitiveness that the weaker dollar offers. The dollar has been steadily falling over the past three decades, except during brief periods of improvement, between 1980 and 1985 and again between 1995 and 2001. In early December 2003, the dollar slid past the \$1.20 to the Euro mark, which is an all time low against the currency. How a weak dollar might affect the American economy in contrast with a stronger currency is an issue of debate but most economists agree that any improvements should be achieved through better economic fundamentals at home and not via exchange rate intervention, sometimes carried out as part of monetary policy.³ The argument is the Federal Reserve Bank's interventions for decades prior to 1990 has met with little success simply because monetary authorities cannot process or influence information as well as the highly efficient forex market in which some \$1.5 trillion are traded daily around the globe.⁴

Although most central banks do undertake measures as part of monetary policy to address exchange rate movements, the *ringgit's* currency exchangeability has, by design, gone beyond the control of Bank Negara. Thus monetary policy in Malaysia is entirely on managing inflation and domestic interest rates without the usual consequential effects on the exchange rate. In other words, by giving up control on the *ringgit's* exchangeability, inflation and interest rate management at home becomes almost totally effective, as there is no longer the need to balance, or constantly adjust, the movement of one against the other (see *Box 2b.1* for explanation). Such is the design behind the rock solid RM3.8 to the dollar peg.

Box 2b.1: How Exchange Rates Work and Malaysia's Currency Peg

Typically, monetary policy involves selling and buying government securities as part of open market operations to influence domestic interest rates, which then affect the rate at which money supply grows. If money supply matches demand by producers and consumers, inflation will be kept under control. However, if a mismatch did occur, then domestic inflation rates will differ from those abroad causing relative purchasing power parity or PPP to alter. The exchange rate then moves to reflect the new PPP. This sets off a vicious cycle of central bank interventions in the exchange rate that will inevitably affect, through the direct channels, the money supply. If sterilization is carried out to halt movements in the money supply, the relative amounts of government securities in the hands of the public is altered, consequently acting to move the exchange rate further and calling for more interventions. Understanding this, most economists today agree that sterilization is not helpful. Without it, the affected money supply will come in line with demand levels thus bringing all components into equilibrium. This means that monetary policy can either influence exchange rate by an interventionist policy, or inflation purely through open market operations without exchange rate interventions, but not both at the same time. In this regard, the unique design of the *ringgit's* peg allows for the possibility of money supply targets without exchange rate movement difficulties in Malaysia.

See also, Goldfajn I and Gupta P (2003) "Does monetary policy stabilize the exchange rate following a currency crisis." *IMF Staff Papers*, 50:1, pp. 90-114.

3. ECONOMIC DIRECTIONS FOR PENANG (By Tan Pek Leng)

A sense of crisis has permeated the manufacturing sector in Penang, brought about the declining trends in FDI, the gigantic challenge from China and the looming ones from India and other regional economies. The Penang Economic Competitiveness Committee (PECO) was set up two years ago to explore ways and means to enhance the competitiveness of Penang as a centre for the production of higher value-added products within manufacturing, in particular electronics and services. During the past year, the thinking caps of PECO members have been kept firmly on to figure out new directions, roadmaps and initiatives to ensure the continued competitiveness of Penang's manufacturing sector.

PECO has identified the following as the key structural problems faced by Penang's economy:

- Narrow GDP base
- Lop-sided manufacturing base
- Over-dependence on the US market
- High import content of manufactures

However, there remain major strengths that Penang can leverage to hold on to its competitive edge:

- Agglomeration economies arising from concentration of electronic firms
- Good supply chain of SMLs
- Skilled managerial class

The strategy that has been enunciated for some time now is to move up the value chain into higher value-added activities. Happily, this vague statement has been converted into more concrete strategies in the past year. The setting up of the Collaborative Research and Resource Centre (CRRRC) was a crucial step in this direction. Through consultations amongst key industry players both within PECO and CRRRC, a few niche areas have been identified as the focus for attention, viz., I.C. design, software development, automation and biotechnology. In addition, manufacturing services that will help propel the transition to the k-economy have also been given emphasis, such as call centres, packaging, marketing and logistics.

To effect this economic transformation, the state will promote more research and development (R&D); training of relevant skilled manpower, especially in design and development (D&D), management, marketing and ICT, and work towards offering more customised incentives to attract the targeted industries and services.

For the purposes of promoting R&D and D&D, CRRRC has been exploring greater university-industry collaboration in research; greater commercialisation of research output; better training of skilled manpower through joint university-industry training and curriculum modification to better cater for the needs of industry. Discussions are on-going with the Multi-Media University to adapt the content of its micro-electronics course to better suit the needs of industry in Penang and hence to incentivise industry to sponsor their staff for such courses. Similar collaboration is being sought with other universities.

To cope with the current environment of extreme competition, the State Government has encouraged the formation of consortiums from Penang-based firms to combine resources for technology, training and global marketing. The two major consortiums which have been launched are the Software Consortium of Penang (ScoPe) and the Penang Electronics Consortium.

ScoPe is an alliance of Penang-based software companies with diverse products and service portfolios. It aims to position Penang as a software hub by promoting locally developed software within Malaysia, regionally and globally. Efforts, including the possibility of attaining certification of quality processes for their products and services, are being taken to help promote its member companies. It is an initiative to

put local software developers on par with the software powerhouses through mutual support and synergy.

The Penang Electronics Consortium (PEC) envisions being a one-stop manufacturing consortium for the global electronics and electrical (E&E) cluster. PEC facilitates networking between its members and potential customers or technology partners abroad. It also builds bridges between local industry and MNCs undertaking localisation initiatives.

SMLs in Penang have been engaged in the supply chain for an extensive period of time, it is now incumbent that they migrate to the design chain. One strategy for facilitating this process is to help develop local design houses by creating opportunities for design outsourcing from MNCs operating in Penang to local SMLs. A pilot proposal is being formulated to seek R&D grants from the Malaysian government to enable local SMLs to design solutions for MNCs. The MNCs would be required to transfer technology in exchange for grants to support their projects which are not on the active lists due to priority and cost constraints.

Another initiative is to assist Penang-based firms with good technology to obtain venture-capital funding. Under the CRRC-USains-MDC scheme for collaboration in technopreneur development, a venture capital mentoring session has been organized for ScoPe members, a talk on the Cradle Programme which provides pre-seed funds for start-ups was held and plans are afoot for further programmes in technopreneur networking and capacity building.

All these efforts will be very much boosted if Penang manages to impress upon the federal government the need to extend the Multimedia Super Corridor (MSC) provisions to Penang. The Penang Cybercity initiative is geared towards laying all the groundwork for the MSC rollout to Penang as soon as possible.

Evidently, those in the manufacturing sector have been abuzz with new initiatives. However, the same cannot be said about the Penang's other major economic pillar – tourism. Besides the coming on-stream of two new eco-tourism products: Pulau Jerejak and Pantai Acheh, the upgrading of bungalows in Penang Hill and some infrastructural works, not much is apparent in terms of innovations and new attractions. Quick thinking and quick action are urgently needed before the pearl loses further lustre.

4 PENANG'S ECONOMIC PERFORMANCE IN 2003 (By Lee Seok Yee)

Penang's economy had its share of ups-and-downs during the year of 2003, but as the year draws to a close, its economy is showing healthy signs of recovery. The first half of 2003 double-whammed the state as two major calamities dominated the horizon: SARS and the Iraqi war.

Worldwide, the first probably case of Severe Acute Respiratory Syndrome (SARS) was detected in China in November 2003, but the major effects were felt the most from February to April 2003. In Malaysia, the first probable case was detected in March 2003 and the last case was detected on 22 April 2003. A total of 5 people were diagnosed with SARS in Malaysia, of which 2 died. The tourism-related sector of Penang, which includes wholesale, retail, hotels, and restaurants (WRHR), however, received the brunt of the negative consequences among all sectors. Incessant news of cross-border contagions, the uncertainty of effective treatment method, and numerous travel warnings from the Americas and European countries brought many Asian economies to its knee. Penang's tourism, a major state revenue-earner, fell on its side. (Please refer to *April 2003's Economic Brief* for more detailed analysis of SARS and *Section 5.c* for analysis on Penang's tourism sector in 2003.)

The early part of the year also saw tremendous political disruptions. While the Afghanistan war ended in 2002, the Iraqi war erupted in March 2003. Across the world, terrorism exploded, spreading from Turkey to Saudi Arabia to the Philippines. Malaysian militants were arrested as preventive measures. In August 2003, the World Markets Research Center listed two of ASEAN's countries – Indonesia and the Philippines

– on the top 10 list of “countries at risk.” These political uncertainties, in turn, translated into economic uncertainties – investments and business spending slowed, consumer as well as business confidences were shaken, and foreign tourists shied away.

In 2003, contributions from the agriculture, forestry, and fishing sector remains small at 1.6%; similarly mining and quarrying only accounts for a mere 1% of Penang’s GRP (*Table 4.1*). Nationally, the agriculture sector grew by 6.7% due to high demand for palm oil and rising CPO prices. Penang’s agriculture sector is expected to produce more dismal numbers in 2003 (3.4% growth) due to flooding and crop destructions during the rainy season in September / October. (Refer to *Section 5a: Agriculture*) Construction activities reversed its slide into the negative territory in 2003, buoyed by historically-low interest rates and improving economic outlook.

The manufacturing sector, which accounts for 41.3% of Penang’s economy, is expected to grow by 4.1% in 2003. The 4.1% manufacturing growth in 2003 is marginally lower than the 4.5% increase observed in 2002. Penang’s growth in the manufacturing sector was muted in the H1 2003. The state’s heavy exposure in the electrical and electronics (E&E) sector, global weaknesses in semiconductor, and lower demands for E&E goods depressed the sector. The burgeoning Chinese economy also affected Penang adversely, as subcontractors and suppliers increasing follow their MNC customers to the middle kingdom. Had it not for the recovery in Q3 and continuing uptrend in Q4, Penang’s manufacturing sector would have suffered more (Refer to *Section 5b: Manufacturing*).

To date, available data point towards a healthy recovery in the second half of 2003. The national industrial production index (IPI) touched a 34-month high. Malaysia’s productivity growth grew 8.5% y-o-y in September. The Asia Pacific semiconductor market is growing strongly in the double digits. Several MNCs in Penang also continue to show confidence in the state. For example, Intel opened a US\$40 million design and development centre in Penang, adding to the US\$2.3 billion already invested here; Schmitter Group AG, a leading German steering wheel component manufacturer, set up its regional headquarters in Penang; and SCI-Sanmina extended its Netvista series of desktop PCs manufacturing agreement with IBM. Nonetheless, competitive threats arising from China and other emerging markets continue to be a counteracting factor.

The tertiary sector of Penang is expected to grow 4.5% in 2003, compared to 5% last year. The utilities sector is largely unchanged. Nine-month tourist arrivals in Penang dropped 14%, due to severe decrease in foreign visitor arrivals as a result of SARS and the Iraqi war. However, the decline is ameliorated by an increase in domestic tourists who opted for the safety of domestic tourism instead of the risk of global travel. The tourism sector also benefited from the 5% service tax waiver introduced under the economic stimulus package. Although badly ravaged by SARS, the tourism sector is beginning to experience some revival in the fourth quarter. Furthermore, the financial, insurance, real estate, and business services sector is rather robust. In Q3 2003, loan for this sector grew by 5.7% y-o-y. Though extremely competitive, the financial sector continues to experience strong demand due to growth of existing products, introduction of innovative offerings, rise in Islamic banking activities, and increased awareness of insurance relevancy for the population. (Refer to *Section 5c-5h: Tertiary*)

In short, Penang should see a 4.2% growth at the end of the year, dragged down by the depressed manufacturing market and unforeseen circumstances in the tertiary sector. The year 2004 will be much brighter (Refer to *Section 7: Outlook for 2004*).

Table 4.1 Penang's Gross Regional Product (GRP) by Economic Sectors

Value (RM Million in 1987 Prices)	2001	2002	2003(e)
Agriculture, forestry, fishing	268	277	287
Mining & Quarrying	202	196	187
Manufacturing	6,926	7,236	7,533
Construction	405	369	381
Tertiary	8,972	9,423	9,847
Overall GRP	16,773	17,502	18,235
% Share	2001	2002	2003(e)
Agriculture, forestry, fishing	1.6%	1.6%	1.6%
Mining & Quarrying	1.2%	1.1%	1.0%
Manufacturing	41.3%	41.3%	41.3%
Construction	2.4%	2.1%	2.1%
Tertiary	53.5%	53.8%	54.0%
% Growth	2001	2002	2003(e)
Agriculture, forestry, fishing		3.6%	3.4%
Mining & Quarrying		-3.1%	-4.6%
Manufacturing		4.5%	4.1%
Construction		-8.8%	3.3%
Tertiary		5.0%	4.5%
Overall GRP		4.3%	4.2%

Note: Projection for 2003 based on preliminary data. Data may be revised pending release of Q4 data.

Source: SERI's Forecast

5a. AGRICULTURE (by Khor Hung Teik)

The last quarter of 2003, especially the month of October, was bad news for the agriculture sector, heavy inter-monsoonal rains wreaked havoc and brought record high floods to many areas in Seberang Perai and Penang. The Muda River overflowed its banks and caused heavy crop losses especially to padi farmers. Altogether 12,739.45 acres of padi fields were affected, involving 2,976 farmers. The most damaged areas were the Northern District with 11,258.78 acres (88%) affected and Central District with 1,273.71 acres (10%). Padi yields will be greatly reduced for the 2003/04 season as many fields were still at planting stage when the floods hit. Farmers who had planted early suffered total crop loss whilst those who had not done so had their planting schedules delayed.

The aquaculture sector was also affected by the floods, involving 114 ponds covering 12.68 acres. Altogether 54 rearers were suffered losses. The Penang Department of Fisheries estimated that as much as RM507,000 was lost in the floods. Once again, the Northern and Central Districts more severely affected compared to other districts.

For the animal husbandry sector, the floods also caused much damage, with losses estimated at up to

RM2.17 million (Department of Veterinary Services, Nov 2003). The most affected animals were kampung chickens (206,225 heads, valued at RM1.24 million), swine (5,392 heads, valued at RM539,200) and broilers (22,000 chickens, valued at RM220,000). The most badly hit district was the Central District with losses up to RM1,248,685, followed by the Northern District at RM684,292 and the Southern District at RM232,800.

At Kampung Selamat – a renowned, pig rearing area – at least 600 pigs drowned and an estimated 1,000 newborn piglets perished in the floods. Farmers sold more than 8,000 pigs below costs to prevent them from drowning or starving to death in the floods. It is believed that this is the most severe flood to hit the area in the last 50 years. (The Star, 10 October 2003)

Crop Agriculture

The area under crop agriculture continues to decline over the years, as shown in Table 5.a.1. This trend will continue as long as areas presently under agriculture are converted into other land uses. However, the area under padi cultivation is expected to hover around 12,500 hectares as the Integrated Agriculture Development Project (IADP) continues to upgrade the padi area for the maximization and intensification of land use resulting in better yields provided there are no natural disasters like flood, drought or pests attacks. Overall, the change in agriculture land use per annum since 2000 is as high as 13%.

Table 5.a.1: Area of Agriculture Commodities in Penang 2000 - 2003 (hectares)

Type	Agriculture Areas (Hectares)				CAGR 2000-2003
	Year				
	2000	2001	2002	2003f	
Rubber	13,013.00	12,758.20	12,758.20	12,632.68	-1%
Oil Palm	13,018.00	12,988.00	12,988.00	12,973.03	0%
Padi	28,125.00	13,448.00	13,448.00	9,299.09	-31%
Coconut	2,364.00	2,339.10	2,309.10	2,282.13	-1%
Cocoa	104.00	103.50	75.40	64.20	-15%
Vegetables	1,566.00	1,718.00	1,544.96	1,534.55	-1%
Fruits	7,283.00	6,830.00	6,760.00	6,512.76	-4%
Cloves	67.00	52.20	41.20	32.31	-22%
Nutmeg	82.00	75.40	70.40	65.23	-7%
Cash Crops	197.00	246.70	190.11	186.76	-2%
Others	438.00	86.70	55.10	19.54	-65%
Total	66,257.00	50,645.80	50,240.47	43,748.65	-13%

Note: CAGR denotes "Compound Annual Growth Rate."

Source: Dept of Agriculture, Penang

Livestock Husbandry

Livestock husbandry in Penang consists mainly of poultry and swine. Chicken meat remains the biggest income earner, raking in a total of RM230 million in 2002 followed by pork, RM110mil. Chicken eggs ranked third with RM53 million. Total growth rate per annum since 1996 remained at 2% for the whole livestock industry (Table 5.a.2).

Commodity	2001			2002		
	Production	Value	Percentage	Production	Value	Percentage
	(Tonne Metric)	(RM Million)	%	(Tonne Metric)	(RM Million)	%
Meat						
Cow	1,065.96	12.68	3.20	977.65	11.63	2.79
Buffalo	32.87	0.39	0.10	33.09	0.39	0.09
Goat / Lamb	40.75	0.49	0.12	28.17	0.34	0.08
Pig	18,922.75	103.13	26.04	20,343.60	110.87	26.58
Chicken	48,222.76	221.82	56.02	50,201.00	230.92	55.35
Duck	448.24	2.17	0.55	492.66	2.39	0.57
Quail	110.50	0.96	0.24	72.96	0.63	0.15
Rabbit	2.78	0.03	0.01	0.30	0.00	0.00
Eggs	(No. of eggs)			(No. of eggs)		
Chicken	282,045,266	50.77	12.82	280,846,89	53.36	12.79
Duck	16,000,000	3.20	0.81	28,024,000	6.17	1.48
Quail	0	0	0	1,600,000	0.14	0.03
Milk	(Liter)			(Liter)		
Fresh milk	455,440	0.34	0.09	455,440	0.34	0.08
TOTAL		396.00	100.00		417.20	100.00

Source: Dept of Vet Services, Penang

The forecasted production values of livestock for the year 2003 are found in Table 5.a.3 below. The big floods in October 2003 affected especially the poultry and the swine industries.

Table 5.a.3 : Value of Livestock in Penang from 1996 - 2003								
Commodity	1996	1997	1998	1999	2000	2001	2002	2003f*
Beef	10.05	11.21	10.05	10.93	11.60	12.68	11.63	11.92
Buffalo	1.87	1.75	1.87	0.81	0.62	0.39	0.39	0.30
Mutton	1.04	0.95	1.04	0.49	0.51	0.49	0.34	0.28
Pork	105.22	102.89	105.22	102.49	101.39	103.13	110.87	111.84
Chicken	183.38	173.84	173.84	161.83	200.35	221.82	230.92	239.96
Duck	1.62	2.29	2.29	6.19	2.08	2.17	2.39	2.55
Quail	0.31	0.5	0.5	1.79	0.81	0.96	0.63	0.71
Rabbit	0.09	0.05	0.05	0.05	0.04	0.03	0.00	0.00
Chicken Eggs	53.32	54.79	54.79	51.91	50.72	50.77	53.36	53.37
Duck Eggs	3.56	1.85	1.85	2.01	3.48	3.2	6.17	6.76
Quail Eggs	0.29	1.52	1.2	1.74	0.68	0.40	0.14	0.12
Milk	0.34	0.34	0.34	0.27	0.34	0.34	0.34	0.34
Total	361.09	351.98	353.04	340.51	372.62	396.38	403.84	411.44

* Forecasted

Source: Dept of Veterinary Services Penang

Fisheries

Data from the Penang Department of Fisheries indicates that marine landings fell from 35.9 thousand metric tons in 2001 to 31.9 thousand metric tons in 2002. This represents a decrease of 35%. Landings are forecasted to fall too for 2003 due to heavy inter-monsoonal rains during the last quarter of the year.

Table 5.a.4: Landings of Marine Fish in Penang (1990-2003)

Year	Quantity	Value
	('000 tons)	(RM million)
1990	52.36	90.54
1991	28.42	91.44
1992	33.77	119.97
1993	33.77	111.43
1994	40.80	130.71
1995	46.18	151.24
1996	37.61	154.88
1997	37.53	158.79
1998	35.47	189.18
1999	34.79	137.84
2000	35.90	148.27
2001	49.37	145.27
2002	31.99	152.15
2003f	30.71	158.88
CAGR Since 1991	-4%	4%

Source: Dept of Fisheries, Penang

Table 5.a.5 shows the aquaculture production and value in Penang from 1991 – 2003. The production from brackish water pond culture continues to grow, followed by brackish water cage culture. The production value for brackish water pond culture and brackish water cage culture in 2002 were RM14.82 million and RM33.04 million respectively. Cockle culture raked in RM6.73 million in 2002 and freshwater pond culture, RM0.94 million. Aquaculture production continues to grow positively with brackish water pond culture leading the sector. For the year 2003, the production of brackish water pond culture, freshwater pond aquaculture and brackish water cage culture are expected to rise to 961.03 metric tons (23% increase), 315.68 metric tons (17% increase) and 2,553.13 metric tons (11% increase) respectively. Overall, the aquaculture sub-sectors seem to be showing a positive growth annually.

Table 5.a.5: Aquaculture Production & Value in Penang 1991 –2003

Year	Freshwater Pond Aquaculture		Brackishwater Cage Culture		Cockle Culture		Brackishwater Pond Culture	
	MT	RM Mil	MT	RM Mil	MT ('000)	RM Mil	MT	RM Mil
1991	49.29	0.15	762.46	10.56	8.29	3.22	78.76	0.80
1992	45.06	0.13	862.48	10.39	7.59	2.95	401.80	10.39
1993	54.03	0.16	1,642.93	19.47	14.62	6.47	555.86	6.12
1994	50.44	0.19	1,173.36	16.03	14.59	7.26	567.32	5.92
1995	31.10	0.12	1,105.10	15.29	15.30	7.61	606.37	10.91
1996	76.30	0.25	1,090.69	13.43	16.43	8.13	835.65	13.98
1997	108.01	0.38	1,145.67	14.61	13.11	9.59	643.05	11.96
1998	106.96	0.41	1,836.16	17.70	13.17	9.14	957.12	15.08
1999	110.68	0.33	1,247.42	14.45	13.99	9.73	498.76	8.82
2000	236.49	0.67	1,313.56	19.14	13.12	9.18	407.96	7.57
2001	191.39	0.60	2,093.25	28.84	11.60	8.12	778.02	12.74
2002	270.42	0.81	2,308.53	33.04	9.05	6.33	780.19	14.82
2003f	315.68	0.94	2,553.13	36.65	9.12	6.73	961.03	19.32
CAGR	17%	17%	11%	11%	1%	6%	23%	30%

Note: MT = Metric Tonne, CAGR = Compound Annual Growth Rate
Source: Dept of Fisheries, Penang

5.b MANUFACTURING (By Lee Seok Yee)

Manufacturing is a significant sector in Penang. As shown in Table 4.1, manufacturing accounts for 41.3% of Penang's gross regional product (GRP).

Nationally, the newly-released Bank Negara's Gross Domestic Product (GDP) data for the Q3 2003 showed that manufacturing grew 8.5% y-o-y. The Malaysian Institute of Economic Research (MIER), meanwhile, projected that the Malaysian manufacturing sector will expand by 6.4% in 2003. In Penang, we project a 4.1% growth in the manufacturing sector for 2003.

2003 was a challenging year for Penang. Amidst global problems – such as SARS, the Iraqi war, and ASEAN region security problems – that have shaken the state as well the country, Penang also encountered various other adversities. Semiconductor market billings, as tracked by the Semiconductor Industry Association (SIA), showed an alarming growth plunge in the Asia Pacific market from February until August 2003. Penang's semiconductor industry, a major engine of growth in manufacturing, naturally followed the same fate as it was highly integrated into the world market. While some major MNCs, such as Intel and Dell, are growing their presence in Penang, many others are facing a challenging year in the E&E sector. Several reported marginal to flat profits, even though revenue is growing. Foreign direct investments (FDI) inflow to Penang (Table 5.b.1) is mediocre and is more depressed than the previous year. Local players are unable to fill the void as most are still small or competitively-challenged. For many of such local companies, their fortunes are tied to the business cycles of the MNCs. To make matters worse, some of these manufacturers are increasing forced to look externally, e.g. to China, as a result of their customers' (MNCs) shift in manufacturing strategy away from Penang. In short, Penang's export-oriented manufacturing, a jewel during the global economic growth in the 1990s, encumbered growth in 2003.

Nonetheless, the second half of 2003 witnessed stronger demand internally and externally. A multitude of national indicators point towards brighter times in the manufacturing sector. Business confidence and consumer sentiments have gone up. Production volume increased due to lowering of inventory level especially in food and beverage (F&B), plastics and plastics products, and electronics and electrical (E&E) products. Semiconductors export grew. Growth of intermediate goods imports reversed its slide.⁵ Given that this is already December and we have only heard positive developments in the field, we believe that manufacturing has climbed onto the growth ramp again – and the H2 2003 will compensate for the lacklustre development in H1.

In 2003, the state government took a step forward when it launched the Collaborative Research and Resource Center (CRRC) in February 2003 with a grant of RM300,000. Through CRRC, better matchmaking and influencing could be made between the industry and the universities in the areas of R&D participation and manpower training. Four months later, in June 2003, the local industries received recognition when the Local Industry / SMI cluster was set-up, established specifically to address their competency and competitive issues.

To counter the losing battle of competitive advantage to lower-cost countries, Penang is preparing a move towards higher value-add manufacturing. The Penang Photonics Consortium, consisting of 19 companies, is an example of such move. The potential for Penang to make an impact is large because the photonics market is fragmented and Penang could reasonably count on its "reputation for volume manufacturing, highly trainable workforce, established training centers, pro-business government incentives and supply chain infrastructure already in place."⁶ Penang's foray into biotechnology, supported by the presence of three institutions – the Fisheries Research Institute (FRI), Universiti Sains Malaysia's Centre for Marine & Coastal Studies, and the World Fish Centre – is also an appropriate extension of the state's competitive strategy. The state's foray into biotech is guided by a three-pronged strategy of marine biotech research works, bio-ICT development and biotech education.

Apart from pushing the manufacturing and technology boundary, Penang is also trying to grow the market in more traditional ways. There has been much effort to increase overseas partnerships among Malaysian companies. In November 2003, 15 Penang companies, guided by the Penang's Chief Minister, signed MOUs with their counterparts in software and hardware manufacturing from Karnataka, India.

Selected National Manufacturing Indicators

The latest industrial production index (IPI) (October 2003) beats market expectation by registering a y-o-y growth of 11.3% and touching a 34-month high. In the first ten months, IPI rose by 8.5% due to strong domestic demand and a pick-up in external demand. CIMB predicts IPI to touch 9% in 2003, and between 11 and 12 percent in 2004. National manufacturing sales also grew by 10.9% y-o-y in September, to RM30.51 billion.

Productivity figure for manufacturing was very encouraging. In September 2003, y-o-y productivity growth is 8.5%. Productivity growth was achieved by running a leaner operating environment (i.e. number of employees per establishment dropped 0.4%) and squeezing more output from the remaining workers (i.e. sales per establishment increased 8.3%). Unit labour cost actually fell by 4.5% because sales growth outpaced wage increase.

In terms of production, 40% of manufacturers surveyed by MIER reported production increases in Q3 2003. The improvement was broad-based, from plastics and plastics-products to E&E products. Capacity utilization has also risen to 79.6% in Q3 2003 from 78% a quarter ago. Several sectors, such as plastics and plastic products, textiles and apparel, nonmetallic products, and chemicals and chemical products are operating close to full capacity. Capital spending is up with E&E being the biggest spenders. And finally, inventory level is dropping with 26% responded that stock is lower in Q3, against a corresponding 22% in Q2.

Approved Manufacturing Projects in Penang

Up until October 2003, 117 manufacturing projects were approved in the state of Penang (see Table 5.b.1). In the entire year of 2002, only 111 projects were approved.

However, even though there are more projects, they are smaller in scale both in terms of investment and potential employment. Potential employment of the approved projects in 2003 is expected to fall short of that in 2002: currently available figure up until October demonstrates that possibility. Of the 117 projects approved, only 8,461 new jobs will be generated. Last year, the 111 projects generated 13,523 jobs. Total capital investment from January to October 2003 is RM 1.59b. If the trend continues, investment will be less than RM2b by the end of 2003, compared to RM 2.42b in 2002.

Penang's dependence on foreign investment is evident from Table 5.b.1. Foreign investment accounts for three-quarters (76%) of total capital investment in 2003. This is an improvement from the 82% foreign stake in 2002, which means lesser dependency on foreign capital.

Table 5.b. 1 – Total Approved Projects in 2002 and Jan-Oct 2003

Industry	# of Projects	Potential Employment	% Domestic Investment	% Foreign Investment	Total Capital Investment
Jan-Oct 2003	117	8,461	24%	76%	RM 1.59b
Entire year 2002 (Jan-Dec)	111	13,523	18%	82%	RM 2.42b

Source: MIDA

The nature of local vs. foreign investments differs in the sense that domestic investments are more geared toward new projects, whereas foreign investments are more focused on expansion and diversification. As evident in Table 5.b.2, 73% of domestic investments go towards new projects whereas only 25% of foreign investments go towards new projects; nonetheless, the 25% foreign share figure in new projects (aforementioned) is an improvement over the 7% figure in 2002.

Table 5.b. 2 – Type of Investments by Domestic vs Foreign Investors

Industry	Domestic		Foreign	
	New	Expansion / Diversification	New	Expansion / Diversification
2002	78%	22%	7%	93%
2003	73%	27%	25%	75%

Source: MIDA

The dominance of foreign investment in Penang's manufacturing strategy is further illustrated in Table 5.b.3. Apart from Terengganu, which benefited heavily from petrochemical-related investment, Penang is a premier FDI destination in Malaysia in 2003. In 2002, Penang was also on the second rung of the ladder, albeit trailing Selangor. Judging by the amount of investment and number of projects approved, Penang is the third-highest ranked among Malaysian states.

Table 5.b. 3 Ranking of Approved Investments, Jan-Oct 2003

Industry	# of Projects	Foreign Investment (FDI)	Investment Approved
1	Selangor	Terengganu	Terengganu
2	Johor	Penang	Selangor
3	Penang	Selangor	Penang
4	Kedah	Johor	Johor
5	Negeri Sembilan	Negeri Sembilan	Kuala Lumpur

Source: MIDA

According to the Penang Development Corporation's (PDC) *Industrial Survey* for the H1 2003, top foreign investments for Penang were from Japan, United States, and Taiwan⁷. They individually accounted for 36%, 24%, and 19% of FDIs into Penang. Other major foreign investors were from Singapore, Germany, Hong Kong, and United Kingdom.

Further statistics from MIDA shows that the top five manufacturing projects approved in Penang in 2003 – measured in terms of total capital investment – are electrical and electronic products (74%), fabricated metal products (7%), scientific & measuring equipment (5%), machinery manufacturing (4%), and basic metal products (3%) (see Table 5.4.b). Together, they accounted for 93% of all capital investments, translating into RM1.48 billion. Machinery manufacturing and scientific & measuring equipment are new additions to the 2003 top five list, while furniture & fixtures as well as chemical & chemical products dropped out of contention.

Table 5.b. 4 – Top 5 Manufacturing Sectors in Penang by Total Capital Investment (% of Total Approvals), Jan – Oct 2003

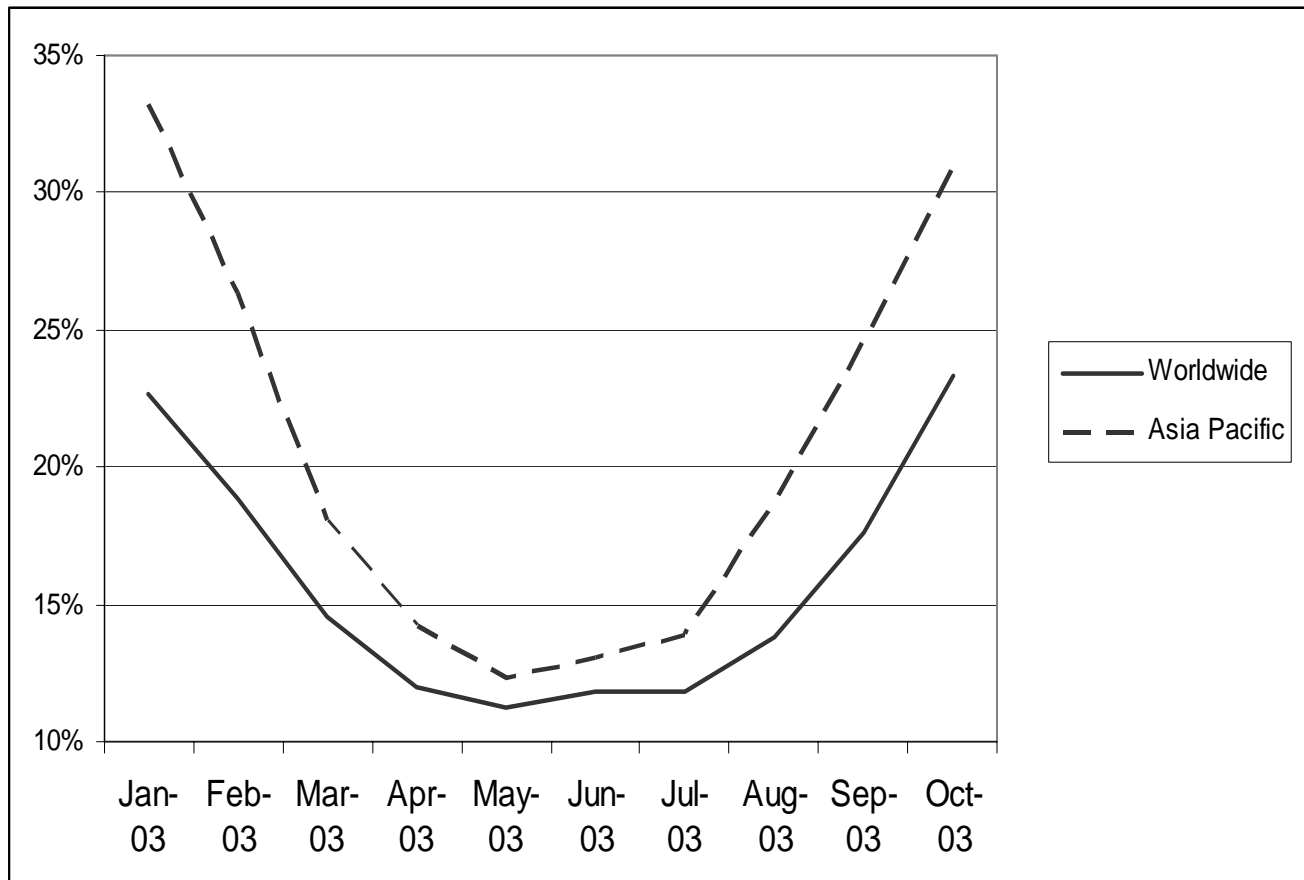
Industry	# of Projects	Potential Employment	Total Capital Investment	% Domestic Investment	% Foreign Investment
E&E Products	45%	62%	74%	7%	93%
Fabricated Metal Products	17%	16%	7%	72%	28%
Scientific & Measuring Equipment	4%	3%	5%	44%	56%
Machinery Manufacturing	11%	7%	4%	90%	10%
Basic Metal Products	3%	1%	3%	88%	12%
<i>Total for Top 5 Industries</i>	94	7555	RM1.48 Bil	RM 0.3 Bil	RM1.18 Bil
<i>Total Approvals</i>	117	8461	RM1.59 Bil	RM 0.39 Bil	RM1.21 Bil
<i>Top 5 Industries' % of Total</i>	80%	89%	93%	77%	93%

Source: MIDA

Global Semiconductor Demand

Semiconductor, a key export of Penang, is showing some sparks again. Worldwide semiconductor market billings in 2003 rebounded following prolonged demand depression since the end of 2001. The y-o-y growth has been double-digit for both worldwide and Asia-Pacific for the entire 2003.

Chart 1 – y-o-y Change of Semiconductor Market Billings Based on 3-Month Moving Average



Source: Semiconductor Industry Association (SIA)

Overall, y-o-y semiconductor growth in 2003 followed a U-shape curve, with lower growth in Q2 and sharp turnaround beginning Q3. As evident in Chart 1, the Asia Pacific region's semiconductor market out-paced worldwide growth. The October 2003 y-o-y growth was a high 31% for Asia Pacific, while global growth was 23% -- 8% lower.

In November 2003, the Semiconductor Industry Association (SIA) revised its global sales forecast for 2003 to \$163 billion, or equivalent to 15.8% y-o-y growth. 2004's revenue is projected at \$194.6 billion, or 19.4% growth. Meanwhile, the World Semiconductor Trade Statistics (WSTS) projected 14.2% growth in 2003 and 19.4% in 2004.

Regionally, technology research house Gartner predicted that Malaysia will generate \$10.1 billion worth of semiconductors sales in 2007, with an annual growth rate of 11.4%. China and South Korea will be the growth leaders in Asia Pacific, supported by cellular phone, digital consumer electronics, and flat panel display demands. New technologies such as next generation mobile communications infrastructure, wireless LAN and wireless personal area networks will be emerging in the next 5 years.

Manufacturing Employment

When we last wrote about manufacturing in the “2002 Penang Economic Report,” labour-saving processes were going full-swing. Retrenchments, lay-offs, and voluntary separation schemes (VSS) were often heard on the street.

The good news is that most of the manufacturing sectors have started picking up again in the first half of 2003 after a poor performance during the latter half of 2002 when the world economy nosedived, global political situation see-sawed, and manufacturing companies relocated elsewhere.

Data from the Penang Development Corporation’s (PDC) *Industrial Survey for January – June 2003*⁸ shows that a total of 154,121 workers worked in the PDC industrial area (see Table 5.b.1). This represents a 14% increase over the second half of 2002 but a 7% y-o-y reduction (i.e. between the first halves of 2003 and 2002). We expect manufacturing employment to continue its upward trend during H2 2003, in line with rising manufacturing workers employment nationally.

Consistent with the economic positioning of Penang, resource-dependent manufacturing sectors such as timber / wood, mineral, animal feeds, and agriculture, make up a small percentage of total employment. Conversely, the electrical and electronics (E&E) sector – accounting for 56% of manufacturing workers – is the largest employer in the manufacturing field. Hiring 8% of manufacturing workers, the fabricated metal sector is a distant second largest employer, while textiles and garment is third at 7%. The percentage breakdown as well as the ranking is unchanged from the same period in 2002 (i.e. Jan-June 2002).

All of the manufacturing sectors have increased their employment numbers in H1 2003 (compared to H2 2002). Three of the smaller sectors (machinery, timber-based/wood products, and rubber-based products), whose absolute employment figure is small, have doubled their employment. The two biggest employers, E&E and fabricated metals, also recorded double digit growth at 11% and 17% respectively.

Table 5.b.5 Employment in the PDC Industrial Area

Sector	Employment in '000			Y-o-Y Change - H1'02 - H1'03	H-o-H Change - H2'03- H1'03	% Share in 2003	% Share in 2002
	Jan-Jun '03	Jan-Jun '02	Jan-Dec '02				
Electronics / Electrical (E&E)	86.53	91.17	84.64	-5%	11%	56%	55%
Fabricated Metal Products	12.32	12.99	11.74	-5%	17%	8%	8%
Textiles & Garments	10.85	11.82	11.20	-8%	3%	7%	7%
Plastic & Plastic Products	8.12	7.96	7.11	2%	30%	5%	5%
Paper & Paper Products / Printing Works	5.19	6.06	5.32	-14%	13%	3%	4%
Prof, Scientific, Measuring, Controlling Equip & Optical Goods	4.88	5.43	4.64	-10%	27%	3%	3%
Chemicals / Fertilizers	4.60	5.16	4.54	-11%	18%	3%	3%
Others	4.57	4.60	4.41	-1%	8%	3%	3%
Rubber-based Products	3.79	7.11	4.31	-47%	150%	2%	4%
Transport Equipment	3.10	3.00	3.06	3%	0%	2%	2%
Basic Metal Industries	2.79	2.36	2.25	18%	31%	2%	1%
Food processing / Canning	2.71	2.50	2.14	8%	52%	2%	2%
Machinery	2.16	2.72	1.88	-21%	109%	1%	2%
Processing of Agricultural Products	.91	.99	.95	-8%	1%	1%	1%
Non-metallic Mineral Products	.86	.80	1.24	8%	-49%	1%	0%
Timber based / Wood Products	.39	.40	.29	-2%	113%	0%	0%
Animal Feeds	.37	.42	.38	-13%	13%	0%	0%
TOTAL	154.12	165.48	150.08	-7%	14%	100%	100%

Note : * Figures for 2nd half of 2002 reverse calculated by SERI from available data for periods Jan-Dec '02 and Jan – June '02.

Source : PDC, SERI calculation

Challenges in Manufacturing

The prospect for manufacturing in Penang is rather favourable in 2004. Regardless, there are wrinkles.

The forward-looking project approval figure from MIDA shows that despite a growth in investment projects, there could be a dent in the size of future investments. Increasingly, investments are targeted towards expansions and diversifications as opposed to fresh projects.

SERI's informal survey among the MNCs in Penang found that price competition is a problematic issue, especially for the low-end, mass manufacturers and subcontractors dependent on MNCs. The double-sword attack of AFTA liberalization and China's emergence has opened the floodgate for global competition. As a result, even though revenue is growing, profit is marginal to flat.

In addition, the government could support the manufacturing sector further by improving infrastructures such as immigration (i.e. ease of hiring foreign labours and skilled professionals) and customs clearance. The difficulty of obtaining local engineers and technicians with adequate skills was often highlighted by big and small players alike. Even MNCs, which are the traditional employers of choice, have difficulties hiring adequately-skilled technical workers locally. Furthermore, the alternative solution of inviting foreign experts to train local workers is made irrelevant due to tough immigration laws.

Given Penang's increasing push towards high value-added manufacturing activities, it is imperative to increase linkages between universities and industries and also to improve the labour force's adaptability and interest towards research. There cannot be progress up the value chain without an accompanying upgrade of human skills. Reskilling is also vital as low-skilled, labor-intensive employments flow outwards to lower-cost countries. To bolster the claim of HR inadequacy, the bi-annual National Productivity Centre (NPC) survey found that the top three problems affecting the quality of labour nationally are English language proficiency, IT, and creativity / innovation skills.

Continuous focus towards cluster-based manufacturing and R&D development should spell Penang's direction forward. Industrial R&D is in its infancy stage and hence nurturing – through firm government support as well as creation of support structures and supporting industries -- is an important ingredient for success.

Finally, the state government must shed its reliance on FDI and stimulate domestic investment. Budget 2003 is a good start, but must be followed by efficient implementation true to the spirit of the stated policy. As one of the manufacturers in Penang commented, "Penang's attractiveness as an FDI investment focus will be degraded because of China. It's going to be imperative that Malaysia starts investing in the development of local SMEs especially in the area of product development."

In concurrence with that, a recently-concluded survey of Penang's SMEs by SERI discovered that the state's small- and medium-sized industries lack mental and strategic preparation for global competition. In the report, seven core problems were highlighted and ten recommendations were put forward to help redress the situation (*Table 5.b.6*).

Table 5.b. 6 Survey of SMIs in Penang, 2003

7 Core Problems Among Penang's SMIs	10 Recommendations To Improve SMIs
<ol style="list-style-type: none"> 1. Poor knowledge and interest in knowledge acquisition, 2. Lackadaisical mentality among SMIs, 3. Inadequate credit and financing, 4. Constraints in human resources, 5. Technological challenges, 6. Restricted marketing and distribution reach, and 7. Institutional red tapes. 	<ol style="list-style-type: none"> 1. Better capture list of all SMIs in Penang through a Penang SMIs / SMEs Census; 2. Consider the needs of Chinese-speaking SMIs; 3. Centralize information access to provide efficiency in administrative processes (SMI portal, One-Stop Centre, or One-Day Open Day); 4. Improve promotion of trade missions, facilitate trade matching, and increase trade exhibitions; 5. Set up a Penang SMI Council to discuss and debate the intended direction for SMI development; 6. Provide financial assistance and explore alternative financing; 7. Conduct continuous tracking and research; 8. Identify and modify labour-related activities (low-skilled workers and high-skilled professionals); 9. Increase SMIs' competitiveness through mergers, partnerships, joint-ventures, technology transfers, and improved commercialization of research; and 10. Identify industrial focus areas to shift towards higher value chain.

Source: SERI

Without doubt, the manufacturing sector of Penang still has many years of vibrant life ahead. In the last 30 years, Penang has established itself well in the arena of manufacturing. Its manufacturing positioning is an envy of developing and developed countries alike. The wrinkles aforementioned are more likely to need preventive rather than resuscitative solutions to smooth them out.

TERTIARY SECTORS

5c. TOURISM (by Tan Yin Hooi)

It has been a dreadful year for the tourism industry – the worst of all economic sectors. Tourist arrivals plunged this year, following the occurrence of the Severe Acute Respiratory Syndrome (SARS), the war in Iraq and multiple terrorist bombings worldwide. These developments dampened the sector just as it was regaining tourist confidence after the September 11th and Bali bombing tragedies.

Table 5c.1: Penang: Estimated Total Visitor Arrivals

	Jan - Jun 2002	Jan - Jun 2003	% change	Jul - Sept 2002	Jul - Sept 2003	% change
Estimated Total Visitor Arrivals	1,492,917	1,319,456	-11.6	990,024	811,433	-18.0
Estimated Domestic Visitor Arrivals	727,051	809,288	11.3	430,660	496,466	15.3
Estimated Intl Visitor Arrivals	765,866	510,168	-33.4	559,364	314,967	-43.7
Estimated Domestic Share	48.70%	61.30%		43.50%	61.20%	
Estimated International Share	51.30%	38.70%		56.50%	38.80%	

Source: DCT Consultancy Services Sdn. Bhd.

As the figures show in Table 5c.1, the estimated visitor arrivals has dropped 11.6%, from 1,492,917 people in the H1 2002 to 1,319,456 for the same period in 2003. According to the Penang International Hoteliers Association (PIHA), the tourism industry had started out strongly in the first two and a half months of 2003. It went downhill thereafter until July or August, when there was a slight recovery. However, on a y-o-y basis, total visitor arrivals still recorded a drastic drop in the July to September period, equivalent to an 18% annual decline.

Estimated international visitors arrival plummeted the most – by 33.4% y-o-y in the first half and 43.7% y-o-y in the third quarter. Meanwhile, the share of international visitors shrunk from 51.3% in the first half of 2002 to 38.7% in the equivalent period in 2003; in the third quarter, the share shrunk from 56.5% to 38.8%.

However, the silver lining was that there is a significant increase in the number of domestic visitors to Penang. Fear of contracting the SARS virus had prevented many locals from going abroad for their holidays, hence they turned to local destinations instead. Credit has to be given to the Cuti-Cuti Malaysia campaign that has encouraged more Malaysians to travel domestically. Indeed, the numbers confirm that. Positive growths in domestic visitor arrivals were witnessed in H1 as well as Q3 2003 at 11.3% and 15.3% respectively.

Table 5c.2: Penang: Average Hotel Occupancy Rate (%)

	BEACH HOTELS			CITY HOTELS			TOTAL		
	2001	2002	2003	2001	2002	2003	2001	2002	2003
1 st Quarter	61.5	50.5	48.6	50.8	50.6	50.3	55.1	50.5	49.6
2 nd Quarter	52.2	48.2	31.8	54.3	51.8	43.7	53.5	50.5	38.8
3 rd Quarter	65.4	63.9	51.7	56.0	55.1	55.8	54.8	58.4	54.1

Source: DCT Consultancy Service Sdn. Bhd.

Average hotel occupancy rate (AOR) has been rather disappointing in 2003 (Table 5c.2). Historically, AOR for the first and second quarters were 50% and above; however, AOR decline to 49.6% in Q1 2003 and dwindled to 38.8% in the second quarter. Beach hotels, which tend to attract leisure vacationers, (as opposed to city hotels which attract business travelers) saw lower AOR all three quarters this year compared to city hotels.

The second quarter was a period of dire straits for the tourism industry as it was the peak of the SARS pandemic. The major players, namely the hoteliers, the tour operators, restaurant operators, and retailers, were hard hit. PIHA acknowledged that revenue dropped dramatically in April and May. A survey that was done among 10 tour agencies in Penang revealed an estimated loss of RM2.47 million. Hotel room cancellations was said to have totaled 888 in March, 6486 in April and 2542 in May⁹. Thankfully, the threat of SARS died down significantly by the third quarter and AOR climbed back up again for both the beach and the city hotels.

Table 5c.3: Penang: Market Mix of Tourists

	1 st Half			3 rd Quarter		
	2002 (in %)	2003 (in %)	Change (%)	2002 (in %)	2003 (in %)	Change (%)
Malaysia (Domestic)	48.7	61.3	12.6	43.5	61.2	17.7
Middle East	2.4	1.1	-1.3	13.5	6.1	-7.4
Indonesia	4.0	4.3	0.3	4.6	4.6	0
United Kingdom	9.7	7.8	-1.9	6.7	4.3	-2.4
Singapore	5.6	4.2	-1.4	4.4	3.5	-0.9
Japan	6.1	4.5	-1.6	6.1	3.1	-3
Australia	4.6	2.5	-2.1	5.6	2.8	-2.8
Hong Kong	1.5	1.5	0	1.4	2.3	0.9
Taiwan	1.3	1.0	-0.3	1.2	2.3	1.1
USA	2.6	1.7	-0.9	2.0	1.6	-0.4
Netherlands	2.1	1.7	-0.4	2.1	1.5	-0.6
Thailand	2.3	1.8	-0.5	1.6	1.4	-0.2
Mainland China	2.1	1.2	-0.9	1.6	1.0	-0.6
Germany	1.5	0.8	-0.7	1.0	0.5	-0.5
Others	5.5	4.6	-0.9	4.7	3.8	-0.9
TOTAL	100.0	100.0		100.0	100.0	

Source: DCT Consultancy Service Sdn. Bhd.

Looking at the market mix in Table 5c.3, domestic visitors constitute the biggest share of tourists. The percentage share of domestic visitors soared 12.6% y-o-y in H1 2003, i.e. from 48.7% to 61.3%. Correspondingly, the third quarter saw 17.7% y-o-y growth. In H1, Indonesia was the only country to record positive share growth (apart from domestic tourists); all other countries saw zero to negative growths. In

the third quarter, tourists from Hong Kong and Taiwan began to increase their presence but unfortunately Middle Eastern tourists drastically reduced their visits due to escalating political disturbances in that region. Visitors from three other countries – the UK, Australia, and Japan – have also gone down significantly.

The launch of direct flights from London to Penang in October 2003 was an exciting step towards bringing English tourists to Penang. It is a vital step towards reviving Penang's tourism as the English have more purchasing power than those from other countries. Direct flights have also been launched between Penang and Xiamen and Kunming in China. At the moment, there are only a handful of Mainland Chinese visitors coming to Penang. In 2003, their market share only stood at 1.2% and 1.0% in the 1st half and 3rd quarter respectively. With a population that exceeds 1 billion people and a burgeoning economy, China is definitely a market full of potential. As 2004 will see the commencement of the Malaysia-China Friendship Year, Penang must make full use of it to attract Chinese tourists to the state. Given the fact that Penang has already established good and close ties with some of the Chinese provinces through trade relations, success should be within grasp.

Prospects and Challenges in the Tourism Sector

PIHA estimates that it would take at least up to the end of Mar 2004 for the tourism industry to return to historically-competitive levels. They are, however, uncertain whether their existing long-haul market will ever recover to the level enjoyed in the late 1990s and early 2000s. Development of new markets presents much-needed opportunities for the tourism sector, but the hoteliers must learn from the past and work in more diverse ways to cover the eventualities, should something untoward happen in the future.

Generally, there is renewed hope in reviving the tourism sector in 2004. The tourism sector should be able to do fairly well, barring any significant incidences or epidemic outbreaks. Recent news about suspected re-emergences of the SARS in Taiwan and Mainland China will keep those in the tourism sector on their toes. It is definitely hoped that there will not be any emergence or re-emergence of infectious diseases that will put the tourism sector in jeopardy again.

Eco-tourism will definitely continue to be an area of attraction for international visitors and local visitors. There will be great opportunities for growth in this area as Penang is richly blessed with natural heritage trails such as in Teluk Bahang, Pantai Aceh, Sungai Tukun, Pantai Kerachut, Pulau Jerejak, Pulau Aman and not forgetting Penang Hill. According to the Chief Minister of Penang, Tan Sri Dr. Koh Tsu Koon, the awaited Tropical Island Resort on Pulau Jerejak, accessible via a 15-minute ride on a 50-seater ferry, will be opened by Chinese New Year 2004. The resort is part of the RM207 million Pulau Jerejak International Eco-Tourism Project covering 32.7ha targeted for completion by 2010. Meanwhile, work on the Penang National Park in Teluk Bahang and Pantai Aceh will start soon.¹⁰

Health tourism and education tourism are two other areas that are expected to draw tourists to Penang. The state has the facilities, equipment, technology and the specialists needed to become a world class health as well as education centre. With comparative cost advantage over developed countries with the same kind of facilities, Penang may well become a hotspot for tourists looking for high quality and affordable health and education services.

Credit has to be given to the Penang State Tourism Action Council for its promotional activities but much more still has to be done to woo more tourists to visit Penang and to make constant return visits. The state has not only to think of new attractions and programmes to draw tourists to Penang, but also to solve fundamental problems, such as flash floods, inefficient and insufficient transportation linkages, traffic jams, dirty toilets and rubbish-strewn facilities, that drove tourists away. The local authorities must continue to improve on the sanitation system and the level cleanliness in our state. Having said that, the task of keeping our surroundings clean does not only lie in the hands of our local authorities but also upon each individual, to make Penang a better place to live in and an alluring tourist destination.

Finally, transportation linkage is a tourism problem yet to be fully resolved, as noted in SERI's "Economic Brief" in February 2003. We have highlighted the importance of direct flights; happily, we saw in the year 2003 initiation of direct flights to the UK and China. Charter flights could also be the bridge to make up for the lack of regular commercial direct flights. Within the city, trishaws are a viable alternative public transportation for the tourists. They get around the problem of pollution and cordoned-off roads and they are also a cultural treasure. Finally, water-related transportation such as water taxis and cruises have been proposed for a number of years but are still not in sight.

5.d FINANCE (by Khor Hung Teik)

Loan Disbursements

Bank Negara statistics for Q3 2003 show marked increase in total loans disbursed. This upward trend has been evident since the beginning of 2000 (see Chart 5.d.1). This increase represents a 3.7% hike over the last quarter and a 5.8% increase compared to the same quarter last year (Table 5.d.2). The increase is fueled by positive growth in all sectors except for non-residential sectors, purchase of consumer durable goods, mining & quarrying, manufacturing, utilities, community, social and personal services. The total value of loans disbursed in Penang for the third quarter stood at RM34.14 billion.

Sectors registering y-o-y double-digit growths include construction (26.8%), purchase of securities (22.8%), agriculture, fishing, and hunting (16.7%), purchase of residential properties (13.7%), and credit card (12.7%). Conversely, the utilities and mining & quarrying sectors witnessed significant declines, approximating 30% or more.

In Table 5.d.1, we see that loans disbursed to the residential property sector which constituted 27.6% of total loans in the third quarter, continues to head the list. This is followed by loans to the manufacturing sector (20.4%), transport vehicles sector (14.3%) and WRRH (10.9%). Loans to the construction industry only constituted 4.6% of total loan disbursements.

Chart 5.d.1: Total Loans Disbursed in 1997 to 2003 for Penang

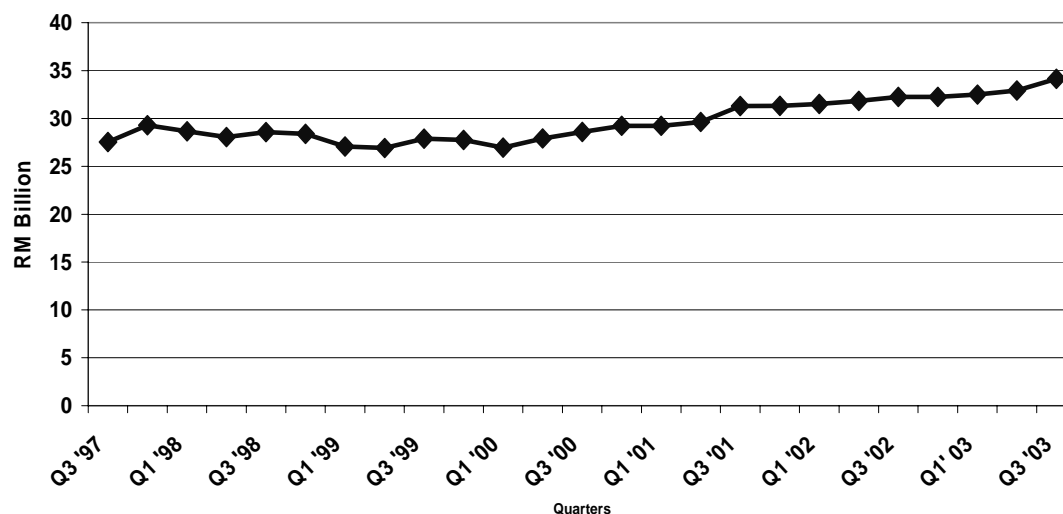


Table 5.d.1: Amount of Loans By Sectors for Q3'03 in Penang

Sectors	Amount (RM Millions)	% Share
Purchase of securities	624.044	1.8
Purchase of transport vehicles	4,897.695	14.3
Purchase of residential property	9,424.349	27.6
Purchase of non-residential property	2,042.420	6.0
Personal use	1,105.176	3.2
Credit card	827.315	2.4
Purchase of consumer durable goods.	15.514	0.0
Agri.,hunting,forestry & fishing	326.460	1.0
Mining & quarrying	16.277	0.0
Manufacturing	6,977.543	20.4
Electricity,gas & water supply [utilities]	15.702	0.0
Construction	1,556.598	4.6
Wholesale,retail, restaurants & hotels	3,710.919	10.9
Transport,storage & communication	493.961	1.4
Financial, insurance,real estate & bus. services	1,423.021	4.2
Community,social & personal services	417.654	1.2
Sectors n.e.c. (not otherwise classified)	270.830	0.8
Total	34,145.478	100%

Source: Bank Negara Malaysia

Table 5.d.2: Changes in Sectoral Loans Compared to the Previous Quarter and Same Quarter Previous Year

Sectoral Loans	Previous Quarter (q-o-q)	Same Quarter Previous Year (y-o-y)
Purchase of securities	4.4%	22.8%
Purchase of transport vehicles	6.8%	9.7%
Purchase of residential property	4.0%	13.7%
Purchase of non-residential property	0.0%	-2.7%
Personal use	0.7%	1.6%
Credit card	5.1%	12.7%
Purchase of consumer durable goods.	-6.5%	-21.8%
Agri., hunting, forestry & fishing	4.6%	16.7%
Mining & quarrying	-5.2%	-29.8%
Manufacturing	0.4%	-4.2%
Electricity, gas & water supply [utilities]	-19.7%	-32.2%
Construction	23.2%	26.8%
Wholesale, retail, restaurants & hotels	1.5%	5.2%
Transport, storage & communication	-1.6%	8.5%
Financial, insurance, real estate & bus. services	10.2%	5.7%
Community, social & personal services	2.8%	-24.5%
Sectors n.e.c. (not otherwise classified)	-14.5%	-21.8%
Total	3.7%	5.8%

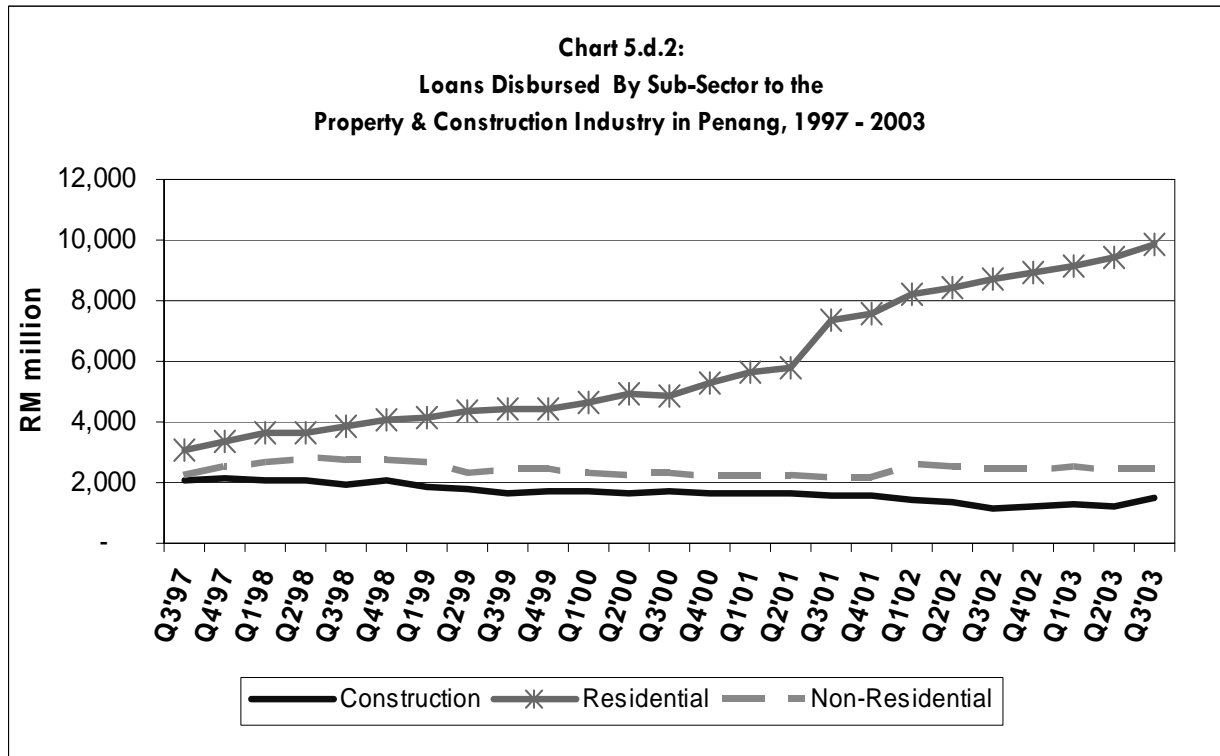
Source: Bank Negara Malaysia

Loans to the Property & Construction Sector

Loans to the residential property sector rose 13.7% y-o-y this quarter, to RM 9.42 billion. On a q-o-q basis, the Q3 2003 was 4% higher (Chart 5.d.2).

This rising trend of residential property loans has been on-going many years, i.e. since the Q4 1997. It shows that the purchase of residential property in Penang continues to be steady and sustainable compared to the non-residential sector and the construction sector. Chart 5.d.2 shows that loans to the residential sub-sector stands in sharp contrast over marginal growths witnessed in the other two sub-sectors. However, house buyers are still cautious and prefer to choose high-rise residential units and properties in selected locations. The prices for such properties in choice locations remained steady.

Loans to the non-residential property sector rose by a dismal 0.5%, valued at RM2.04 billion compared to the last quarter (Q2 '03) but shrunk by 2.7% when compared to the same quarter last year (Q3 '03). This clearly shows that the overhang of non-residential property such as commercial and office space, especially in George Town (for example, the new EPF building at Jalan Sultan Ahmad Shah) and its suburbs, have not yet been taken up. The uptake of these properties will continue to be slow as investor sentiments remain cautious.

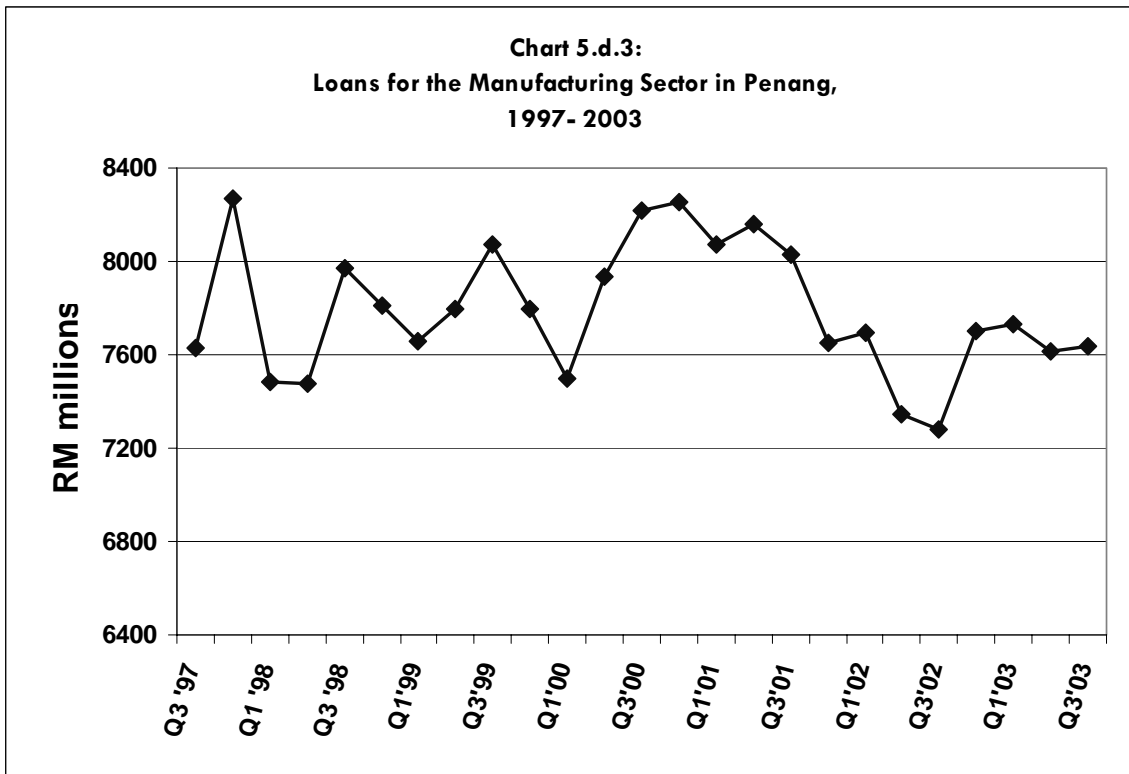


Source: Bank Negara Malaysia

Loan disbursements to the construction sector in Penang fared better this quarter and saw a sharp rise of 23.2% over the last quarter (Q2 '03) and did even better when compared to the same quarter last year (Q3 '02) at 26.8%. This was evidently not true last year when the sector experienced negative growth in terms of loans disbursement, both on a q-o-q as well as y-o-y basis. The value of loans disbursed was RM1.56 billion. This shows that the construction industry has finally picked up with the completion of projects like the Jelutong Expressway, the Tanjung Tokong to Tanjung Bungah expressway, the continuation of Butterworth Outer Ring Road and the elevated highway along Jalan Sultan Azlan Shah.

Loans to the Manufacturing Sector

On a q-o-q basis, loans disbursed to the manufacturing sector in Penang rose 0.4%, from RM6.95 billion to RM6.98 billion. There is however, a decrease of 4.2% on a y-o-y basis. Chart 5.d.3 below shows that the amount of loans disbursed has risen sharply after the third quarter following a slight dip beginning the first quarter. This is due to brighter global economic outlook and a return of positive consumer sentiments.



Source: Bank Negara Malaysia

Loans to the Wholesale, Retail, Restaurants and Hotels (WRRH) Sector

Loan disbursement to the wholesale, retail, restaurants and hotels (WRRH) sub-sectors rose by 1.5% in the third quarter on a q-o-q basis and by 5.2% y-o-y. Total loan disbursement to this sector amounted to RM3.7 billion.

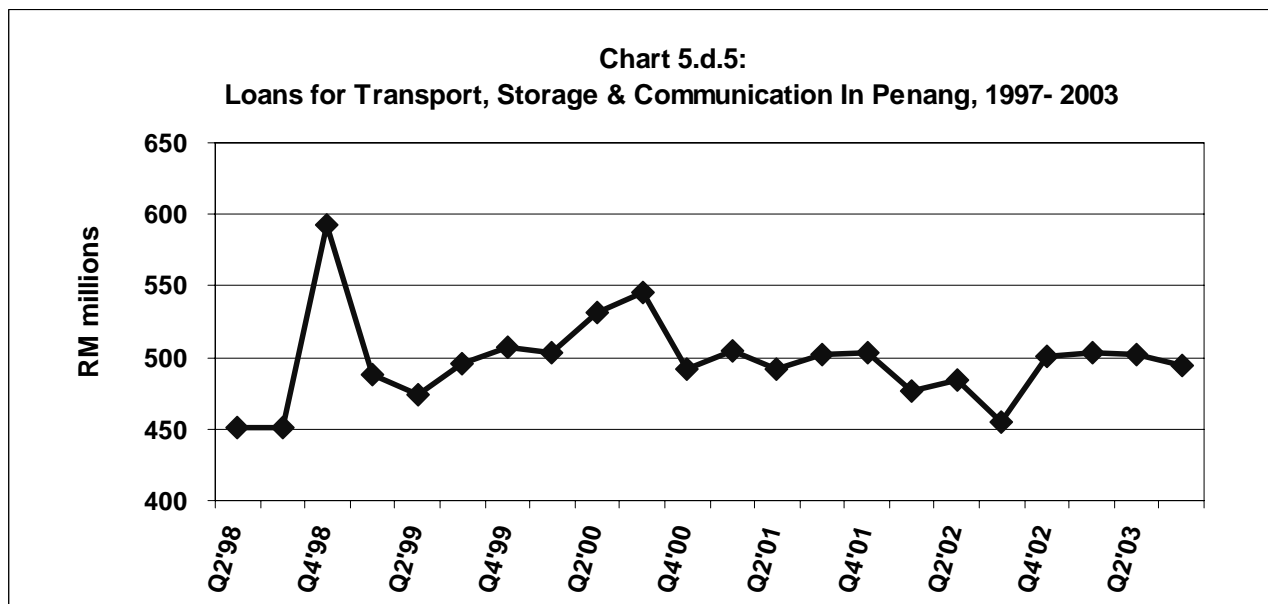
The WRRH sector is doing much better compared to the previous quarter (Q2 '03) during which the SARS outbreak caused hotels to suffer from substantive room cancellations from both domestic and foreign tourists. Local wholesale business, retail outlets, restaurants and hotels have seen a pick up in business as domestic consumption returned. The prevailing Mega Sales continue to have a positive impact on this sector.



Source: Bank Negara Malaysia

Loans to the Transport, Storage and Communication Sector

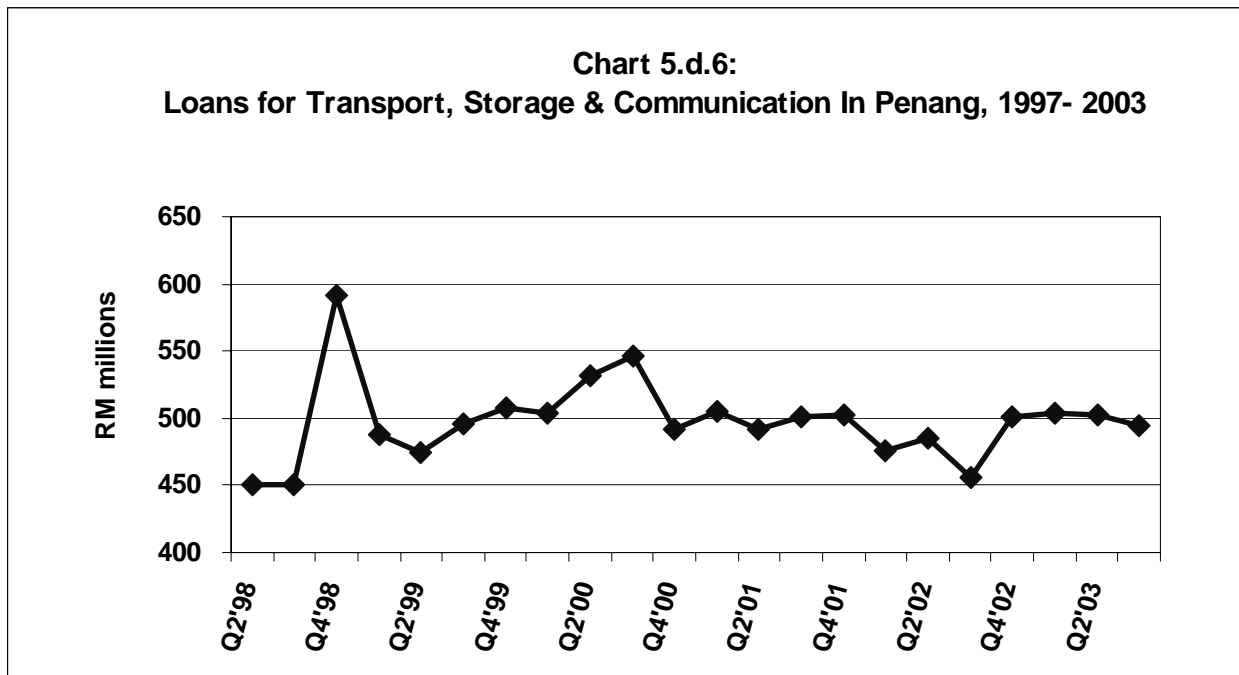
Loans to the transport, storage and communication sub-sectors declined by 1.6% q-o-q but rose by 8.5% y-o-y. Since the first quarter of 2002, loans to this sub-sector have been hovering slightly under RM500 million. Total amount of loans for this year is RM493 million. The transport, storage and communication sub-sector is influenced by development in other related sectors such as manufacturing and WRRH.



Source: Bank Negara Malaysia

Loans to the Vehicular Sector

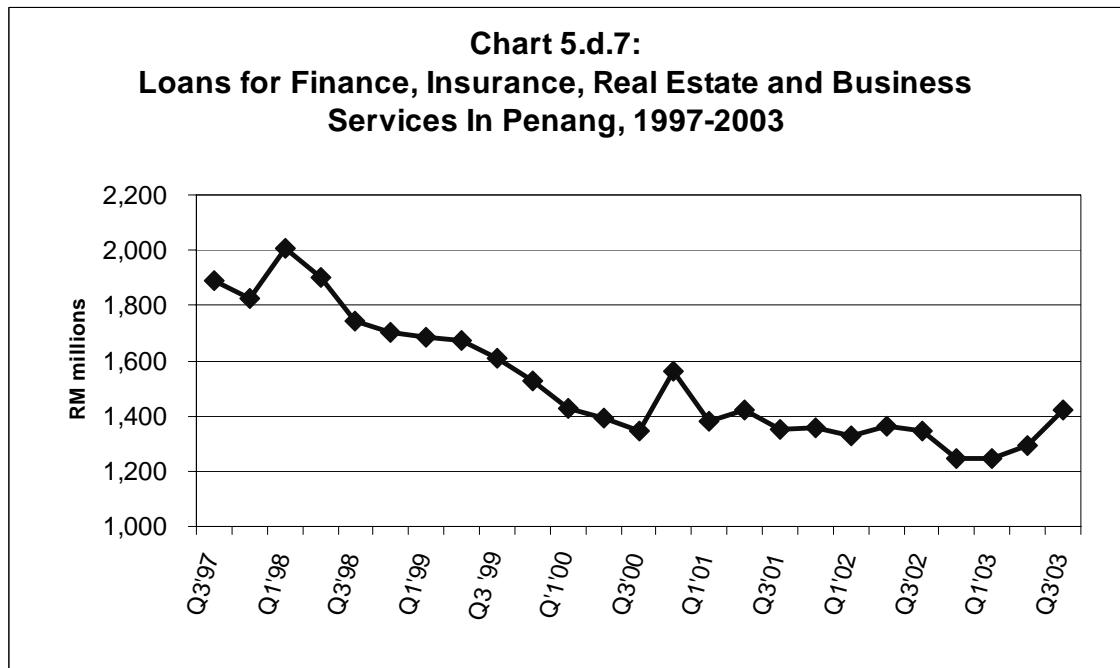
Overall there is a rising trend in loans disbursed for the vehicular loans sector. Vehicular loans increased sharply by 6.8% compared to the previous quarter (Q2 '03) and by 9.7% compared to the same quarter last year. The rise could be traced to the low interest rate environment that has been present since last year. Value of loans for this sector was RM4.9 billion in Q3 2003, as compared to RM4.6 billion during the previous quarter.



Source: Bank Negara Malaysia

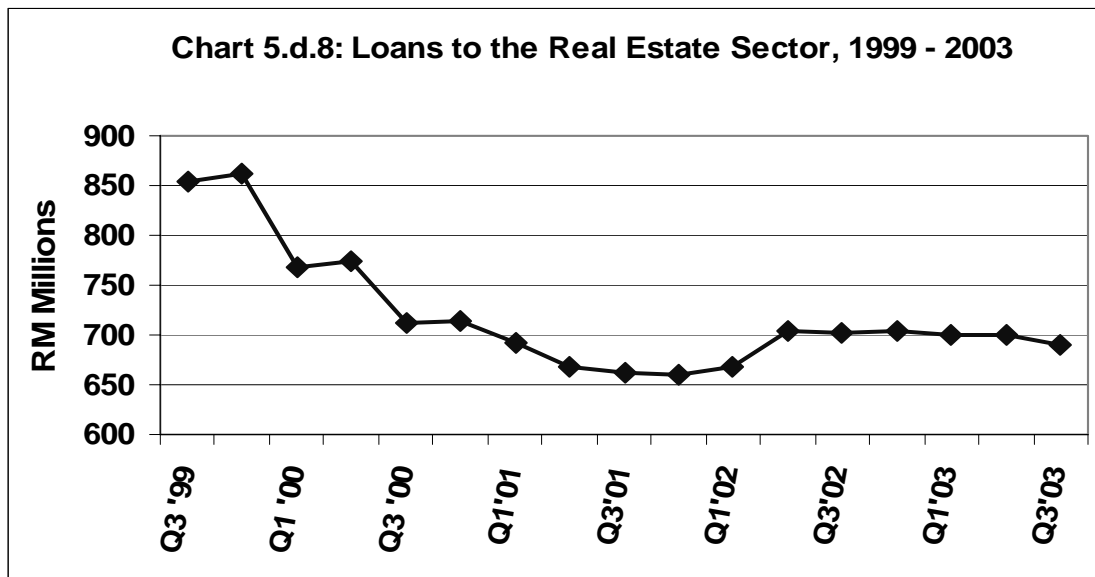
Loans to the Finance, Insurance, Real Estate & Business Services (FIREBS) Sector

Loans to the FIREBS sub-sector rose sharply by 10.2% in comparison to the last quarter and 5.7% on a y-o-y basis (Chart 5.d.7). This situation stands in contrast to that of last year where declines were recorded for the same periods. The value of loans for the latest quarter is RM1.42 billion.



Source: Bank Negara Malaysia

From Chart 5.d.8, we see that the real estate sub-sector under the FIREBS category saw a marginal decline of 1.4% q-o-q and 2% y-o-y. The decline, however, is not a cause for concern as the change is very slight and probably reflects seasonal cycles. The overall trend shows that loans picked up since Q1 2002 after marked decline since Q4 1999. This means that more people are borrowing money for the purchase of properties other than the residential and non-residential properties. The scarcity of land in the state is a driving factor.



Source: Bank Negara Malaysia

5e. WHOLESALE AND RETAIL SECTOR (by Baharulnizam Baharom)

The Malaysian Retail Association estimated retail growth for 2003 to be 5%.

In the first half of 2003, the wholesale and retail trade has suffered one of its worst downturns in history. The sector's fortune, tied somewhat to the tourism sector, suffered a large blow as foreign tourist arrivals nosedived precipitously. On top of that, locals' fear of mingling too closely with each other in the public was to be blamed for the sector's poor performance in the initial half of 2003.

While global problems continued well into the second quarter, the shock of the sector's downturn was cushioned by a RM7.3 billion federal economic stimulus package announced in late May 2003, contributed jointly by the Federal Budget, Bank Negara Malaysia, and financial institutions. Among other goodies, the package contained special relief guarantee facilities for sectors affected by SARS. The hospitality industry received direct help through a 5% discount on electricity bills, service tax exemptions, and road tax deduction for taxis. To increase disposable incomes among the population and to stimulate domestic demand, the government lowered employee's contribution towards the Employee's Provident Fund (EPF) to 9% from 11% starting June. Besides that, government employees received a half-month bonus. Numerous measures to promote investment in new growth areas for small- and medium-scale enterprises (SME's) and traders were instituted through lower interest rates, tax exemption and other fiscal incentives as well as financing cost reduction and easier access to the micro-credit scheme.¹¹ To top it off, the September Malaysian Budget 2003 included a one-month bonus¹² for all government servants.

Initially launched as the promotion vehicle to position Malaysia as the "Leading International Shopping Destination in the Region," the tri-annual "Mega Sales" became an important growth engine for Penang and elsewhere for restoring local retail confidence in the second half of this year. By the second Mega Sales this year, consumers are starting to spend money again – good news for the wholesale and retail sector. At the time of writing, the third and final Mega Sales of the year is going full-swing at major shopping complexes, Campbell Street, and Little India.

Apparently, the stimulus has coursed its way into consumer spending. According to the Malaysian Institute of Economic Research (MIER), consumer sentiment is on the rise thanks to improved income prospect and increased employment opportunities. This confidence led to a rise in retail spending. In Q3 2003, MIER's consumer sentiment index rose to 112.8. Private consumption is projected to grow steadily from 4.4% to 5.0% per cent this year and 7% in 2004.¹³

One of the most exciting developments in the wholesale and retail sector of Penang, relates to hyper-market Tesco's plan to develop a new store in Penang. Tesco, a UK's leading retailer, in alliance with Sime Darby Bhd, is planning a store opening by the end of 2004. This is part of Tesco Malaysia's strategy to open 10 new stores to complement the existing 5 stores in operation, including a brand new one in Sungai Petani launched during December 2003. On December 18, 2003, Bernama also reported that Ikano Corporation Sdn. Bhd., the franchise owner of furnishing store IKEA, is on the outlook for land to build a new IKEA store in Penang.¹⁴ Such development will require RM100 million investments spanning from land and building to inventories. Lastly, the Bayan World Megamall project, which has been halted since 1998 due to financial crisis, is set to resume with the signing of a Definitive Agreement (DA) between Bayan Bay Development Sdn. Bhd. (BBDBS) and CP Landmark Sdn. Bhd. on July 2003. Agreement provides for RM70 million to be paid to BBDBS and RM23.2 million to the Penang Development Corporation (PDC).

All in all, the retail and wholesale sector of Penang is set for a most exciting time in 2004.

5.f TRADE (By Baharulnizam Baharom)

For the first ten months of 2003, Malaysia conducted RM558 billion worth of trade, out of which 56% consisted of exports and the remaining of imports (Table 5.f.1). Malaysia's total export for the January to October period was RM 310 billion, up 5.4% from the same period last year. Import was RM 247 billion, declining -2.15% from the previous year. Overall, Malaysia's balance of trade has been favourable (i.e. exports surpass imports) since 1998.

Table 5.f.1. Malaysia's Balance of Trade (RM Million)

	Export	Import	Balance of Trade
Jan – Oct 2003	310,350	247,800	62,550
Jan – Oct 2002	294,542	253,249	41,293
y-o-y Growth (%)	5.37%	-2.15%	51.48%

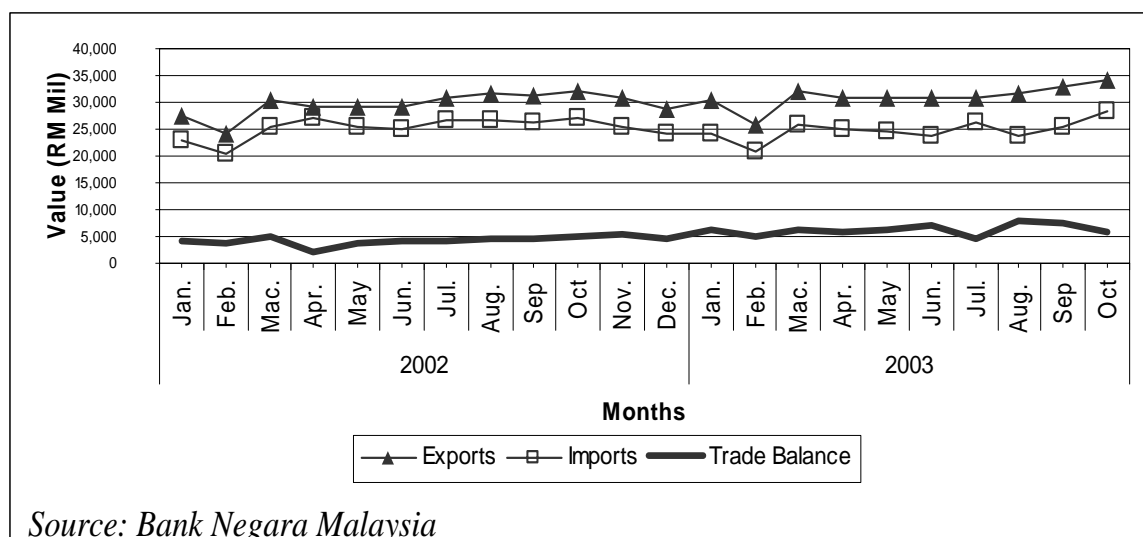
Source: Bank Negara Malaysia

By and large, export has been hovering around RM30 billion for much of the first half of 2003, except for a dip in February (Chart 5.f.1). Due to the improving global economic situation, export began to pick up during the third quarter and has been climbing ever since. For every month this year, export figures were higher than comparable months last year, with the exception of a 0.1% drop in July 2003 (Table 5.f.2).

Similar to export, import also saw a one-time decline in February 2003 (Chart 5.f.1). The similarity ends there, however. Import fluctuation is more drastic on a monthly basis. Comparing y-o-y changes for each month this year (Table 5.f.2), we see that there were some growths in the first quarter (although less than export growths) followed by declines from April till October 2003. The month of August saw the most dramatic decline in import, at -11.1%.

In summation, we see that trade liberalization has been beneficial for Malaysia. Since export is growing more than imports, Malaysia's balance of trade is witnessing a generally upward trend in 2003 as shown in Chart 1. For the first ten months in 2003, balance of trade was 51.48% higher than the comparable period in 2002. There has not been a month in 2003 whereby Malaysia had a trade deficit or declining y-o-y growth in trade balance.

Chart 5.f.1. Malaysia's Monthly Trade Trend, Jan 2002 – Oct 2003



Source: Bank Negara Malaysia

Table 5.f. 2. Malaysia's Balance of Trade by Month (RM Million)

	Value (in RM Million)			Y-o-y Growth		
	Exports	Imports	Bal of Trade	Exports	Imports	Bal of Trade
Jan.	30,437	24,123	6,315	11.4%	4.7%	47.4%
Feb.	25,928	20,967	4,961	8.0%	3.0%	36.0%
Mar	32,121	25,683	6,438	5.1%	0.4%	28.9%
Apr	30,742	24,958	5,784	6.1%	-7.4%	184.3%
May	30,771	24,412	6,360	6.1%	-3.8%	75.3%
Jun	30,808	23,923	6,886	5.8%	-3.7%	61.5%
Jul	30,716	26,294	4,423	-0.7%	-2.1%	8.5%
Aug	31,865	23,842	8,022	1.1%	-11.1%	71.5%
Sep	32,760	25,400	7,360	5.0%	-3.8%	54.0%
Oct	34,202	28,199	6,003	7.2%	4.5%	22.4%

Source: Bank Negara Malaysia

In Penang, the trade story is slightly different.¹⁵ Total export for the first nine months of 2003 was RM 71.15 billion, down -13.46% over the same period in 2002 and import was RM 58.51 billion, down - 6.37% (Table 5.f.3). (As a note, we advise readers to read the September 2003 trade data for Penang cautiously. Figures may have omitted critical EDI data on the Penang port. Comparative analysis of the October 2003 data, when available, should be more indicative.)

Table 5.f.3: Penang's Balance of Trade (RM Million)

Total Trade (RM billion)	Jan-Sept		
	2002	2003	Y-o-Y Change (%)
Total Export	82.21	71.15	-13.45
Total Import	62.49	58.51	-6.37
Balance of Trade	19.72	12.64	-35.90

Source: Department of Statistic in Putrajaya

Exports

The United States of America is, without doubt, a major export market for Malaysia (Table 5.f.4). For the first ten months of 2003, the States absorbed RM54 billion of Malaysian's export, constituting 17.7% of total exports. However, on a y-o-y basis, the figure dropped by more than 10% -- a reflection of the overall weakness in the American market this year. Next in line is Singapore, with RM51 billion worth of exports or 16.7% share. China's phenomenal growth has generated positive contribution to Malaysia. In fact, trade has grown 18.9% -- the biggest increase of all. It is now the fourth largest export destination. To reduce reliance on the traditional markets such as the United States, EU, or ASEAN market, the Malaysian government is enhancing trades with non-traditional markets such as the Eastern European and West Asian countries.

Table 5.f.4. Major export markets by country

	2003 (Jan-Oct)			2002 (Entire Year)		
	Value (RM million)	Share (%)	Y-o-y Change (%)	Value (RM million)	Share (%)	Y-o-y Change (%)
USA	54,926.3	17.7	-10.6	71,478.4	20.2	5.7
Singapore	51,738.2	16.7	2.0	60,524.6	17.1	6.9
Japan	34,261.2	11.0	5.1	39,689.9	11.2	-10.6
China	19,204.4	6.2	18.9	19,960.6	5.6	35.9
Thailand	13,987.9	4.5	11.1	15,087.2	4.3	18.3
Hong Kong	18,673.3	6.0	17.2	20,164.9	5.7	30.6
Netherlands	10,596.2	3.4	-2.9	13,136.1	3.7	-14.9
Indonesia	6,708.4	2.2	17.4	6,801.1	1.9	14.7
Taiwan	10,893.7	3.5	-2.2	13,202.3	3.7	8.5
Germany	7,518.3	2.4	15.2	7,961.9	2.2	2.5

Source: Ministry of International Trade & Industry Malaysia (MITI)

Accounting for more than half of exports, E&E is by far the largest export category (Table 5.f.5). From January to October 2003, Malaysia sent RM156 billion worth of E&E products out of the country. The percentage share paints a gloomier picture. In 2002, E&E made up 56% of exports; this year it is down to 51%. Weakness in the electronics demand is to be blamed. On the brighter side, there has been steady improvement in the global electronics market outlook and we project that demand will grow again by Q4 this year and beyond in 2004. Penang will benefit much from this expansion as E&E export is a mainstay of the state economy.

The brightest spot in export in 2003 is palm oil. Driven by the voracious appetites of China and Middle Eastern countries as well as high CPO (crude palm oil) prices, export of palm oil surged 41% this year. The fate of palm oil export appeared momentarily threatened this year when the government awarded the RM14.5bil double-tracking rail project to Gamuda and MMC after giving the letter of content to a China-India consortium earlier. The decision to postpone the project might have saved potential backlash from either country – their weapons being the importation of palm oil.

Other significant export product growth in 2003 was in the liquefied natural gas (LNG) (37.2%), crude petroleum (32.3%), refined petroleum (25.5%), and chemical & chemical products (21.5%).

Table 5.f.5. Major export items

	2003 (Jan-Oct)		
	Value (RM million)	Share (%)	y-o-y Change (%)
Electrical & Electronic products (E&E)	156,761.0	50.5	-5.8
Palm Oil	19,487.0	6.3	41.0
Chemical & Chemical products	16,700.7	5.4	21.5
Crude Petroleum	12,727.5	4.1	32.3
LNG	12,238.1	3.9	37.2
Machinery appliances & Parts	10,312.0	3.3	9.7
Wood products	9,205.3	3.0	7.1
Refined Petroleum	6,899.3	2.2	25.5
Textiles & Clothing's	7,074.3	2.3	1.3
Optical & Scientific Equipments	7,474.5	2.4	9.7

Source: MITI

Imports

In terms of imports, Japan is the most important source at 17.5% share or RM43 billion worth of imports (Table 5.f.6). Other countries in the top five list include the USA, Singapore, China, and Germany in that order. The interesting trend to note is that the top two markets, namely Japan and the US, are declining in their importance as import sources – both saw y-o-y declines of 4.6% and 10.6% respectively. Taiwanese imports has also shrunk substantially, by 16.1%. Meanwhile, imports from Germany shows the most vibrant growth this year, increasing by 30%. Import figures are shown in Table 3 below.

Table 5.f.6. Major import markets by country

	2003 (Jan-Oct)			2002 (Entire Year)		
	Value (RM million)	Share (%)	y-o-y Change (%)	Value (RM million)	Share (%)	y-o-y Change (%)
Japan	43,263.4	17.5	-4.6	53,812.6	17.8	0.1
USA	37,815.2	15.3	-10.6	49,490.8	16.4	10.3
Singapore	30,410.5	12.3	0.0	36,242.7	12.0	2.5
China	19,744.3	8.0	3.6	23,327.8	7.7	61.2
Germany	11,799.1	4.8	30.1	11,187.6	3.7	7.0
Thailand	11,275.3	4.6	10.8	11,981.6	4.0	7.7
Korea	12,921.6	5.2	-3.2	16,006.1	5.3	42.3
Taiwan	11,936.4	4.8	-16.1	16,848.3	5.6	5.8
Indonesia	9,005.0	3.6	10.7	9,683.2	3.2	13.4
Hong Kong	6,641.9	2.7	-6.3	8,809.2	2.9	24.7

Source: MITI

Reflecting the poor year in manufacturing, imports of E&E products as well as machinery appliances and parts saw 4.3% and 9% declines respectively (Table 5.f.7). In addition, transport equipment, whose fortune is tied to manufacturing, dropped 15.6%. On the upside, in the oil and petroleum business, we saw that imports of crude oil and refined petroleum products grew by 35.2% and 15.4% respectively, in line with their export growths of 32.3% and 25.5%. Iron and steel products import, matching high demands from China's big infrastructure boom, was another highlight, growing 12.3%.

Table 5.f.7. Major import items

	2003 (Jan-Oct)		
	Value (RM million)	Share (%)	y-o-y Change (%)
Electrical & Electronic products (E&E)	119,521.6	48.2	-4.3
Machinery appliances & parts	20,284.2	8.2	-9.0
Chemicals & chemical products	18,612.6	7.5	1.3
Transport equipment	8,642.5	3.5	-15.6
Manufactures of metal	9,164.7	3.7	0.8
Iron & steel products	8,852.6	3.6	12.3
Optical & scientific equipment	7,642.5	3.1	1.2
Refined petroleum products	7,290.1	2.9	15.4
Processed food	3,528.2	1.8	-4.0
Crude oil	5,195.8	2.1	35.2

Source: MITI

Implication of AFTA on ASEAN Trade

ASEAN countries have been Malaysia's largest trading partners over the years. The introduction of AFTA (ASEAN Free Trade Area) in 1992 has led to the expansion of intra-ASEAN trade through Common Effective Preferential Tariff (CEPT).

To date, the average tariff rates across imports for Malaysia have fallen from 3.58% in 1998 to 2.06% in 2003, much faster than the overall decline across ASEAN. In comparison, tariff rates have fallen from 5.37% and 2.68% for ASEAN as a whole.

Under AFTA, there are a series of mechanisms aimed at fostering inter-industry links across ASEAN. A summary of each mechanism is shown in Table 5.f.8.

Table 5.f.8. AFTA series of mechanisms.

	Name of Mechanism	Objective	Deliberation
1	Common Effective Preferential Tariff (CEPT)	An agreement for the lowering of tariffs to facilitate in the creation of the ASEAN Free Trade Area	Tariffs for relevant products to be reduced to 0-5% by 2003 for the original ASEAN-6
2	ASEAN Investment Area (AIA)	Increasing investment and enhance competitiveness by removing barriers to intra-regional investments	Regulations would be liberalized, streamlined and made more transparent and incentives would be offered to boost regional investment
3	ASEAN Industrial Cooperation (AICO) Scheme	Encourage and facilitate the transfer and investment of technology in ASEAN	The latest industrial cooperation program of ASEAN to promote joint manufacturing industrial activities between ASEAN-based companies, offering immediate preferential tariff rates of 0-5% upon approval
4	ASEAN Customs Initiatives	Reduce the cost of doing business by streamlining and simplifying customs and related procedures	ASEAN has taken a number of steps to simplifying and harmonize customs procedures, some of which include: - Regionwide adoption of the WTO valuation system - Harmonization of customs procedures - Adoption of common interpretation of the Harmonized Code

Source: MITI

Through AFTA, Malaysian companies have an opportunity to expand their market coverage. By establishing more extensive networks regionally, Malaysian companies can expect benefits from the sharing of technology, resources, and research and development (R&D). With larger market size and the elimination of intra-regional tariffs and non-tariff barriers through AFTA, local investors can enjoy economies of scale in production. In addition, AFTA can attract more foreign direct investments, which in turn can stimulate the growth of supporting industries. (Refer to Section 5.b for more discussion on AFTA and Penang SMLs.)

5.g PROPERTIES (By Baharulnizam Baharom and Lee Seok Yee)

The Malaysian property sector is expected to grow in tandem with Malaysia's positive domestic economic scenario. However, house prices are expected to increase with the rise in labour and material costs.¹⁶

On Penang Island, scarcity of land and land premium has spurred a trend of developing luxuriously designed bungalows to meet popular demands of the affluent. The average price of landed property on the island is RM300 per square foot. Land, by itself, fetches RM200 per square foot in the premier areas and RM150 in the outskirts of Penang.¹⁷

In Q3 2003, 4,995 property transactions were conducted, which represents a 16% increase over the

similar period last year (Table 5.g.1). This is equivalent to RM 1.1 billion; the value of transactions having increased by 10% only (Table 5.g.2). Among the all sectors, only agriculture recorded a drop in the number of transactions (Table 5.g.1), not surprising given the shrinking importance of the agriculture sector to the state. Most significant increases were seen in "Others" (+422%) followed by development land (+80%).

Residential property accounted for the highest share of transactions among the principal property sectors in Penang. However, its share of the pie dropped due to increased transactions in other sectors, notably development land and commercial property (Table 5.g.1). In total, residential properties accounted for 73.6% of transactions while commercial property accounted for 10.6%, industrial 7.6%, agriculture 2.5%, development land 9.8%, and others 0.9%.

Table 5.g.1: Number of Transaction For The Principal Property Sectors in Penang

	Time Period	No. Of Transaction	Y-o-Y Change (%)	% Share
Residential	Q3 '03	3,676	9.2	73.6
	Q3 '02	3,366	-	78.2
Commercial	Q3 '03	531	62.9	10.6
	Q3 '02	326	-	7.6
Industrial	Q3 '03	126	10.5	2.5
	Q3 '02	114	-	2.6
Agriculture	Q3 '03	125	- 42.1	2.5
	Q3 '02	216	-	5.0
Development Land	Q3 '03	490	80.8	9.8
	Q3 '02	271	-	6.3
Others	Q3 '03	47	422.2	0.9
	Q3 '02	9	-	0.2
Total	Q3 '03	4,995	16.1	100.0
	Q3 '02	4,302	-	100.0

Source: Valuation and Property Services Department, Ministry of Finance, Malaysia

In terms of value of transaction (Table 5.g.2), increases were noted in others (+198%), industrial (+59%), and residential (+24%), while decreases were seen in agriculture (-23%), commercial (-18%), and development land (-4%). Ironically, while commercial and development land make up the largest growths in terms of transaction numbers (apart from "others"), growths of their values went down. This signifies that the value of each individual transaction in these respective sectors has shrunk.

Table 5.g.2: Value of Transactions (RM million) For The Principal Property Sectors in Penang

	Time Period	Value Of Transaction (RM million)	Y-o-Y Change (%)	% Share
Residential	Q3 '03	615.25	23.6	54.7
	Q3 '02	497.75	-	48.8
Commercial	Q3 '03	168.92	- 17.5	15.0
	Q3 '02	204.79	-	20.1
Industrial	Q3 '03	89.28	59.1	7.9
	Q3 '02	56.10	-	5.5
Agriculture	Q3 '03	25.78	- 23.0	2.3
	Q3 '02	33.49	-	3.3
Development Land	Q3 '03	214.40	- 4.0	19.1
	Q3 '02	223.22	-	21.9
Others	Q3 '03	11.34	198.2	1.0
	Q3 '02	3.80	-	0.4
Total	Q3 '03	1,124.97	10.4	100.0
	Q3 '02	1,019.15	-	100.0

Source: Valuation and Property Services Department, Ministry of Finance, Malaysia

Looking at the residential property in particular (Table 5.g.3), we notice that the trend is shifting towards vacant plot. As seen in Table 5.g.3, vacant plots recorded 85.7% increase in number of transactions or equivalent of 314% increase in value in Q3 2003. The acute scarcity of residential land in Penang is further evidenced by comparing growths in transaction number versus value of transaction. In general, we notice a large disparity between the two: value grows much faster than actual transactions. Prices of vacant plots and detached houses are soaring steeply. Of course, prices of other residential sectors are increasing as well. The only cold spot in the residential market is in the condominium and apartment market where there has been a 13% drop in transactions (or 1.7% drop in value).

Table 5.g.3: Breakdown of Penang Residential Property Transactions by Number & Value of Transaction

Residential Property	Number of Transactions		Y-o-Y Change (%)	Value of Transactions (RM million)		Y-o-Y Change (%)
	Q3 '03	Q3 '02		Q3 '03	Q3 '02	
Terraced	1,102	1,095	0.64	206.36	179.29	15.10
Semi-detached	279	231	20.78	86.95	64.36	35.10
Detached	126	89	41.57	63.99	37.49	70.69
Condo / Apt.	375	430	-12.79	87.00	88.50	-1.69
Flats	1,046	946	10.57	105.71	91.46	15.58
Cluster & Town House	81	72	12.50	9.36	6.64	40.96
Low-Cost Houses & Flats	550	440	25.00	34.24	24.78	38.18
Vacant Plot	117	63	85.71	21.64	5.23	313.77
Others	0	0	-	0	0	-
Total	3,676	3,366	9.21	615.25	497.75	23.61

Source: Valuation and Property Services Department, Ministry of Finance, Malaysia

Repeating the trend seen in the residential market, the commercial sector is similarly witnessing a boom in vacant plot purchasing (Table 5.g.4). In Q3 2003, vacant plot transactions grew from RM0.9 million to RM11.75 million – an overwhelming 12,955% increase! After years of demand depression, office lot transactions are picking up again. Transactions for it were up 308% and its value up 661%.

Table 5.g.4: Breakdown of Penang Commercial Property Transactions by Number & Value of

Commercial Property	Number of Transactions		Y-o-Y Change (%)	Value of Transactions (RM million)		Y-o-Y Change (%)
	Q3 '03	Q3 '02		Q3 '03	Q3 '02	
Vacant plot	28	1	2,700	12	0	12,956
Shops (incl.pre-war houses)	320	230	39	101	77	31
Shop Unit / Retail Lot	126	80	58	31	19	63
Office Lot	53	13	308	17	2	661
Others ¹	4	2	100	8	106 ²	-93
Total	531	326	63	169	205	-18

Note:

1. Including commercial complexes, purpose built offices, hotels, leisure, and other commercial properties.

2. High value of transactions for "Others" in Q3 2002 reflects a one-time, record-high transaction on a purpose-built office. Therefore, y-o-y comparison is misleading.

Source: Valuation and Property Services Department, Ministry of Finance, Malaysia

Finally, all sectors in the industrial property category are either stable or growing marginally (Table 5.g.5). Increases or decreases in the number of transactions are slight, but total value of transactions is between 45% and 102% higher. Warehouse represents 82% of all industrial property transactions.

Table 5.g.5: Break-down of Penang Industrial Property Transactions by Number & Value of Transaction

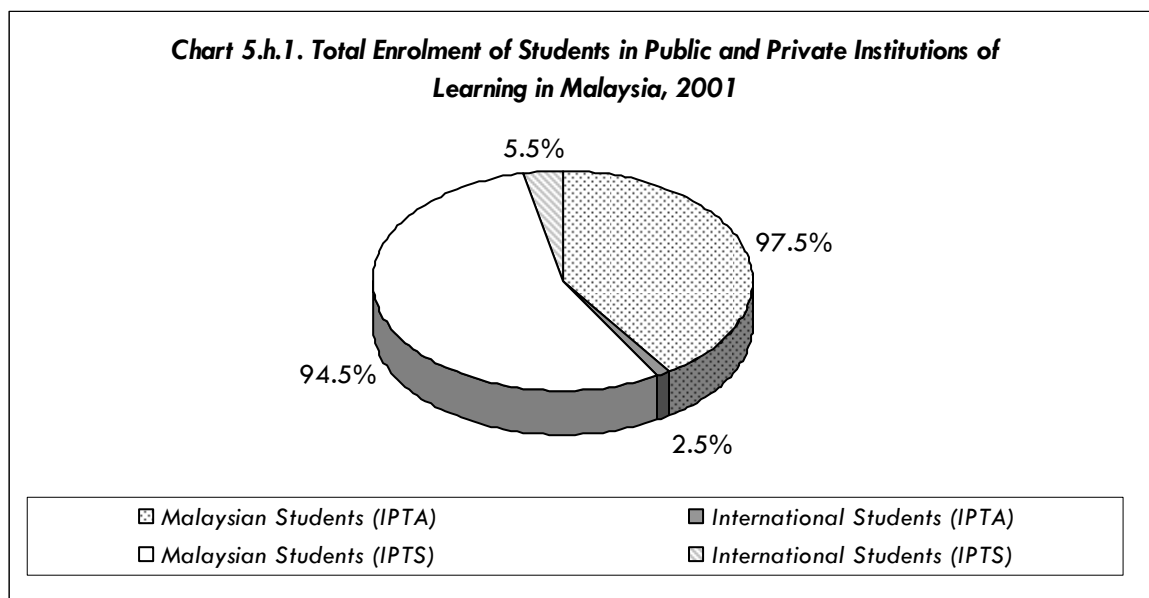
Industrial Property	Number of Transactions		Y-o-Y Change (%)	Value of Transactions (RM million)		Y-o-Y Change (%)
	Q3 '03	Q3 '02		Q3 '03	Q3 '02	
Vacant plot	16	17	-5.88	25.98	12.81	102.81
Warehouse	104	95	9.47	62.16	42.86	45.03
Industrial Complex / Unit	2	2	0.00	0.66	0.42	57.14
Others	4	0	-	0.47	0.00	-
Total	126	114	10.53	89.27	56.09	59.15

5.h EDUCATION (by Lee Shok Mee)

Education is basically seen as a tool to improve living standards, eradicate poverty and perpetuate development. In Malaysia, education is also perceived as a means to promote national integration and unity. Higher education, on the other hand, is intended to meet the high-level manpower requirements of a country. It is often regarded as a channel to develop the human capital and increase the assets of a nation. Hence investing in higher education is expected to yield higher returns, meaning the more developed the assets the greater will be the returns to a nation. Hence it is not surprising that there is always a steady increase in demand for higher education world-wide.

Tertiary Education in Malaysia

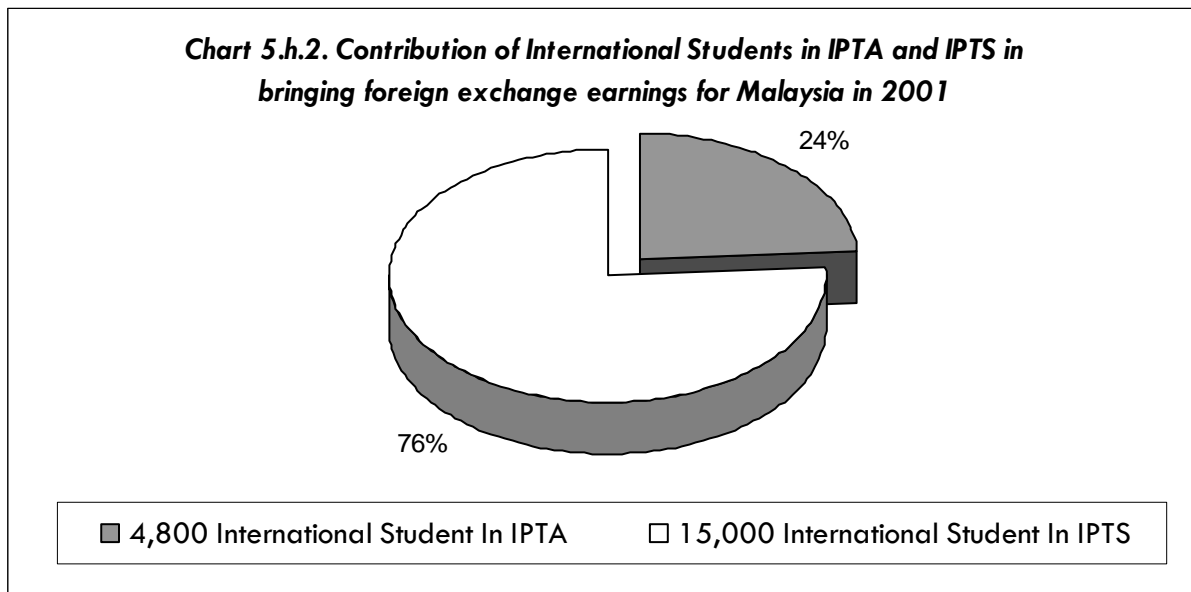
In line with this trend, Malaysia aspires to be a centre of academic excellence in this region. Based on the latest available data from the Ministry of Education, In 2001, Malaysia had 16 Public Institutions of Higher Learning (IPTA, *Institut Pengajian Tinggi Awam*) with a total enrolment of approximately 192,500 students, of which less than 2.5% was made up of international students (Chart 5.h.1). This is rightly so since IPTA is a group of universities and university colleges fully funded by the Government. On the other hand, there are about 700 Private Institutions of Higher Learning (IPTS, *Institut Pengajian Tinggi Swasta*), which include 13 private universities, 1 university college and 4 branch campuses of reputable foreign universities, with a total student population of about 270,900. Out of these, about 200 IPTS are granted approval by the Ministry of Education to recruit foreign students. Together, they provide places for 15,000 international students (constituting about 5.5% of the above figure) to study in this country. Most of these students are from China and South East Asian countries.



Source: SERI's calculation

As a whole, international students contributed an estimated RM 480 million directly to Malaysia in foreign exchange earnings in 2001 (Chart 5.h.2). A rough calculation shows that each international student brought in RM 24,000 in foreign exchange earnings. Not to mention the saving in foreign exchange by reducing the number of Malaysian students going overseas to pursue tertiary education. Obviously this is made possible by booming tertiary education opportunities available in the country as provided by IPTS. If the Government is serious about promoting Malaysia as a regional hub in education, then it should work hand-in-hand with the providers of IPTS to recruit more foreign students, specifically from China and Middle East countries, to study here.

Chart 5.h.2. Contribution of International Students in IPTA and IPTS in bringing foreign exchange earnings for Malaysia in 2001



Source: SERI's calculation

IPTS in Penang

Similarly, if Penang wishes to establish itself as a centre of excellence in education in the northern region of the country or to position itself to compete with Klang Valley in providing private higher education, the State Government has to provide more education facilities to support the more than 40 IPTS in the state to meet the challenge of attracting more local and international students to study in Penang. Based on a survey conducted by SERI in 2001, there were about 19,500 students enrolled in Penang's IPTS, of which approximately 4% were foreign students. This percentage of international students is lower than the national average. It also means that Penang enjoys only a small slice (RM19.2 million) of the economic cake yielded from the foreign exchange earnings of private tertiary education. Surely the private tertiary education providers and the State Government need to take a hard look together and come out with a strategic action plan to get a bigger slice of the expanding economic cake in educational industry. Perhaps this can be done by charting a realistic strategic action plan to woo both foreign and Malaysian students from other states to study in Penang.

Strategic Plan for Education in Penang

It is generally said that Penang must provide quality and affordable tertiary education in order to attract more local and foreign students to study in the state. The main players among the IPTS should offer market-driven quality education, in line with the demands and needs of the industrial and service sectors both locally, nationally and in the countries of the foreign students. While the State Government may need to assist in providing some auxiliary educational facilities, such as providing hostel accommodation, easier accessibility to public transport and library networking, the IPTS themselves should also constantly upgrade their infra-structure and institutional facilities, as well as staffing and general services to the students. Since most of the IPTS in Penang are private colleges running their own programmes, or twinning with both local and foreign universities, cost of tuition fees is generally affordable and reasonably at par with the kind of courses and services provided. Living expenses here are lower compared to that in the Klang Valley.

The State Government and IPTS need to collaborate to publish a comprehensive but concise directory of IPTS to guide the potential local and foreign students to choose the courses and institutions Penang that are most appropriate for them. All IPTS should exercise utmost transparency and accountability in providing detailed information on the various aspects to be included in the directory, such as courses, fees, staffing,

physical facilities and counseling. In connection with this, the participating IPTS should voluntarily contribute financially towards the publication of the directory.

The Penang Educational Consultative Council should be allocated a larger budget and empowered to promote aggressively the higher education opportunities in the state by way of conducting educational road shows, fairs or exhibitions both within and outside the state as well as overseas.

Recruitment of foreign students must be more focused. As in any other sectors, China seems to provide a big economic cake that everyone wants to take a bite of. As far as the education industry is concerned, Penang has its competitive edge in terms of historical and cultural links with China that can enhance its position to attract Chinese students from its huge student population to pursue higher education here. In fact the scope of recruitment should not be confined to undergraduate studies. Other innovative short educational packages should also be designed and marketed.

Hence the State Government's recently initiative to promote education tourism in China is very timely. At the moment there are two programmes under discussion, i.e. providing short (6-9 months) postgraduate English proficiency courses for Chinese students to make them more employable to foreign firms in China, and to host 'summer camp' types of exposure course in English cum tourism for Chinese secondary students. The bottom line is how the various business groups in Penang can get together to capitalise on our strategic position to tap into the educational industry. The ingredients are there. We need to put our heads and hands together to bake the cakes and eat them.

6. K-ECONOMY (by Fatimah Hassan, Lim Peng Keong)

Penang is pushing itself to become an "intelligent" state by 2010, which demands considerable development and investment in all aspects of the state's IT infrastructure in terms of connectivity, facilities as well as manpower. The aspiration is to achieve Cybercity status, that is, to be granted Multimedia Super Corridor (MSC) privileges by 2004.

Having been the hub of the ICT industry in the country for thirty years, with the presence of the who's who in this sector, it would seem that Penang should be the natural choice as the site for the first MSC rollout. But it is facing competition from other states in the pursuit for Cybercity status. Hence, this is no time for complacency. Indeed it is a matter of urgency for Penang to win the bid to be the first Cybercity as it would serve as a habitat to catalyse and support the growth of ICT and ICT-enabled industries. Simply put, this is a necessary condition for taking Penang's ICT industry to greater heights.

Although first importance is given to gaining this status for the key industrial areas, it is also recognized that to bring about a living and operative cybercity requires a total approach that incorporates e-enablement on many fronts: political, social and economic. Also, successful transition of the state to a k-economy requires collaboration between the government, business and academia, as well as the public. The Penang Knowledge-Information Communication Technology (K-ICT) Blueprint recognizes this need for a multi-prong and multi-partner approach. Hence, five Strategic K-Economy Initiatives were formulated to guide knowledge worker development, connectivity, electronic economy, digital equity and electronic good governance.

Knowledge Worker Development

Human Resource is the most vital foundation for realizing the k-economy as a shortage of professionals in information, communication and other technology skills will handicap growth, innovation and productivity.

Therefore, steps have been taken to address the issue at school levels with the introduction of e-learning centres. These materialized through collaborative efforts between the Penang State Education Resource

Centre & the Penang State Education Department. A centre is operational at *Pusat Kegiatan Guru* (Teachers' Activity Centre) in Tanjung Bungah and two more centres will be established soon in Balik Pulau and Kepala Batas. Meanwhile three mini e-learning centres have been or are being established, in SM Al Mashoor (P) and SRJK (C) Kwang Hwa in Bayan Baru and also at Kampung Bestari in Kampung Semilang, Juru.

However for better proliferation of e-learning, a five-year e-Learning Road Map has been conceptualized which is expected to begin in 2004 once funds have been sourced. The concept incorporates a Mobile Promotion Unit that will be fully equipped with notebooks, LCD projector and a mobile CD library for free distribution. It is also anticipated that more e-learning centers will be established.

The identification and tracking of workers who have been retrenched or are unemployed is essential in order to provide them with further training or retooling. In this regard, a recommendation paper was submitted to the Ministry of Human Resources to enhance the electronic Labour Exchange.

Electronic Economy

Their continued stay after 30 years is proof of the confidence the multinationals have in Penang. However, further efforts are underway to give them every reason to remain.

To ensure ease of doing business, the integration of e-commerce in the supply chain has been augmented with the establishment of RosettaNet Malaysia – a common messaging standard for online supply chain management. To date, the adoption rate of RosettaNet in Malaysia is as follows: 19 companies have implemented the system (i.e. are able to connect to any supplier in Malaysia through regional or corporate connection), 15 companies are in the process of implementing the system and 21 companies have just signed up.

The e-business hub initiative, which adopts the concept of incorporating logistics and ICT solutions to enhance supply chain collaboration between manufacturers and trading partners, was also launched. It will help to enhance growth opportunity for supporting industries and small- and medium-industries (SMIs), thus boosting the economic performance of the Penang by innovating local business through the use of ICT as a business tool.

The Software Consortium of Penang (ScoPe), although newly established, has made considerable headway in the past year. It now boasts 16 member companies and has organized numerous talks for its members to keep abreast of industry developments and for networking purposes. Its plans for 2004 include building bridges between its members and the multinational corporations as well as helping them to secure new businesses from both the private and public sectors.

Digital Equity

Efforts to bridge the digital divide in Penang are focus on three major gaps: access, disabled community, and content.

In addressing the issue of access, the State has taken initiatives to set up *Pusat K-Komuniti* in two localities; they are situated at Bagan Ajam and Balik Pulau. The Pusat K-Komuniti not only acts as a computer centre but also an e-learning centre for the community. The provision of access enables the community to integrate technology into their daily routines.

Realising that access does not simply mean access to up-to-date technology; the digital equity programmes also include providing access to qualified teachers, appropriate software and Web content, as well as an environment which fosters inclusion.

Hence, steps are being taken to secure the use of locally developed software from the Education Ministry

and local universities. These contents will not only be limited to the *Pusat K-Komuniti* but will also be distributed to the *Pusat Komputer Desa*. To date, there are ten (10) *Pusat Komputer Desa* and two (2) *Pusat K-Komuniti* in Penang. Besides that there are other private sector initiatives like the Intel Computer Centres in Bayan Baru and Air Itam.

In recognition of special needs of the disabled community in Penang, a project has been initiated to provide a Disabled-friendly Internet Centre each at the George Town Library and the St Nicholas Home for the Blind. The centres will not only boost the IT literacy of the disabled, it will also serve as a job-link for them. A job-matching portal that will link employers to the talent pool in the disabled community will support the job-link centre. Through the job-matching portal, the pool of talent in the disabled community will then be integrated into the work force. This will help to enable the disabled community to be independent and financially stable.

Connectivity

The establishment of wireless fidelity (Wi-Fi) hotspots in public places in Penang is envisioned to enable its residents to stay connected at all times. This will also demonstrate their readiness to embrace the knowledge economy. To date there are 34 hotspots in Penang which have been provided by Tmnet. There are a growing number of hotspots that have been set up privately by business outlets in their premises.

Apart from encouraging the establishment of hotspots, the existence of a competitive broadband market in Penang is necessary to provide the consumer with more viable alternatives and better quality of service. With the availability of more choices, the consumer will be able to make comparisons between the different service providers in terms of quality and pricing. As of October 20, 2003, four broadband providers have established their operations in Penang:

- TMnet
- AtlasONE
- NasionCom Sdn Bhd
- EB Technologies Sdn Bhd

As of May 2003, TMnet had 4,335 subscribers for its Streamyx packages. EB Technologies Sdn Bhd launched its first e-building in Penang on October 17, 2003 at Marina Bay, Tanjung Tokong.

The existence of these broadband (high-speed transmission that are above 256Kbps) Internet service providers in Penang is a testimony of the robust Penang economy. Thus, to ensure that these service providers stay in Penang, it is necessary for the State Government to provide them with the necessary support, such as access to government owned buildings to set up access points to provide wider coverage. The lack of access to buildings in Penang has slowed down the rollout of broadband by these providers. This is because most of these companies use Wireless Technology to deploy their services.

For Penang to be entirely serviced by broadband by 2005, the State Government must take the necessary steps to encourage a competitive broadband market. This will provide Penang with a competitive edge over its neighbouring states.

Conclusion for K-Economy

Therefore, the key design element of a k-economy is that it must be backed by a good system of education that encourages research, focusing in particular on the needs for appropriate education and skill levels in a rapidly changing knowledge society. Besides that employers, either local or foreign, should be encouraged to upgrade the skills of the existing workforce. In order to encourage the reading habit

among Malaysians, the government introduced a tax rebate for the purchase of books; similarly expenses for IT-related training should be granted tax rebate in order to accelerate IT literacy.

The creation of a friendly and conducive environment for businesses to get “connected” is also critical in order to foster innovation and entrepreneurship, and hence remain competitive. Moreover, the government machinery should be able to position itself for the online era and support the widespread use of electronic transactions.

Finally, to help spur the development and deployment of ICT in the state, financial instruments play an important role. A major barrier preventing some of the ICT projects from taking off smoothly is the lack of funds. A better mechanism for sourcing the required funds needs to be explored and put in place.

Regardless of whether Penang succeeds in being the first Cybercity outside of the MSC, it definitely has to keep pace with technological advancements to build its k-society as well as accelerate development of the k-economy in order to stay competitive.

7. HUMAN RESOURCES (by Tan Yin Hooi)

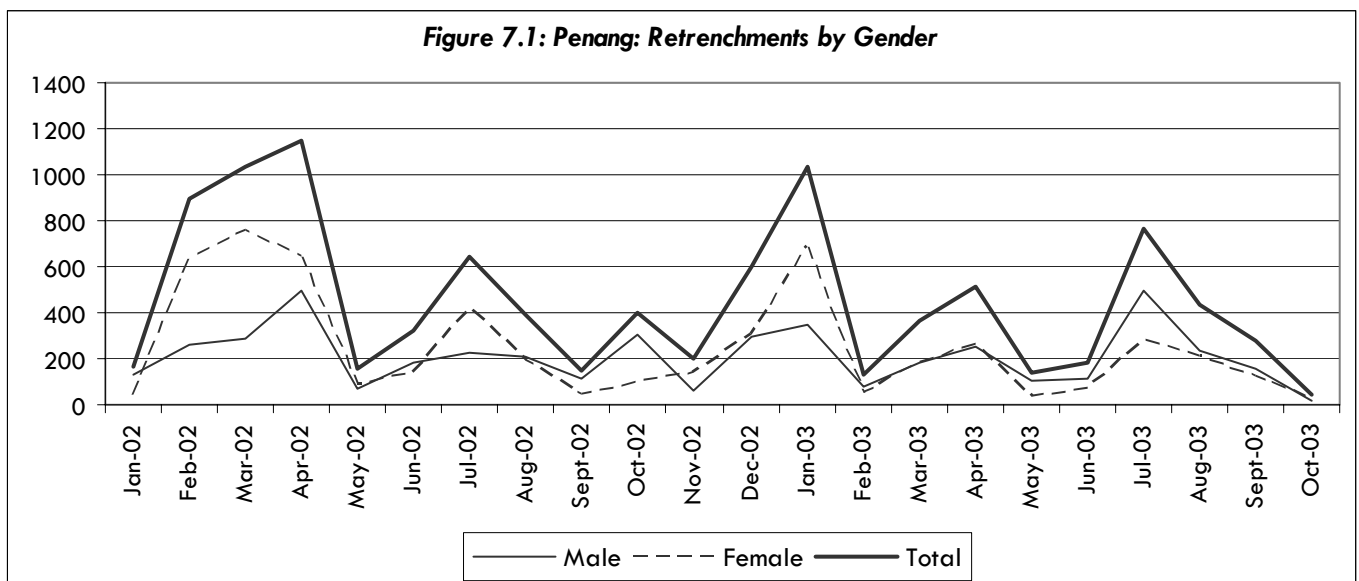
2003 has indeed been a year of mixed fortunes for many. While we cannot say for sure that our economy is prospering, it is probably safe to say that we are on track for recovery from the economic slowdown and the aftermath of the September 11th tragedy. It seems pretty ironic that when things began to look a little brighter for the nation, we were plagued by events such as SARS, Iraqi war, and more terrorist bombings across the world. These issues have dominated much of our media frontlines in the past year and they have certainly brought forth much uncertainty unto Penang’s open economy. In the wake of China’s growth, Penang faces stiff competition as more and more investors turn to China.

On the bright side, despite all the bad news, retrenchment figures this year (until October) has recorded quite a significant drop y-o-y (Table 7.1). From the period between January and October this year, there has only been 3,886 cases of retrenchments compared to 5,308 cases for the same period last year. There is also an interesting twist to the gender composition in 2003 whereby more males were retrenched than females; the difference is marginal though. 50.5% of the retrenched this year are male and the remaining 49.5% are female compared to last year’s ratio of 42.7% male to 63.3% female. Table 7.1 and Figure 7.1 show the figures and trend for 2002 and 2003.

Table 7.1: Penang: Retrenchment by Gender And Month, 2002 & 2003

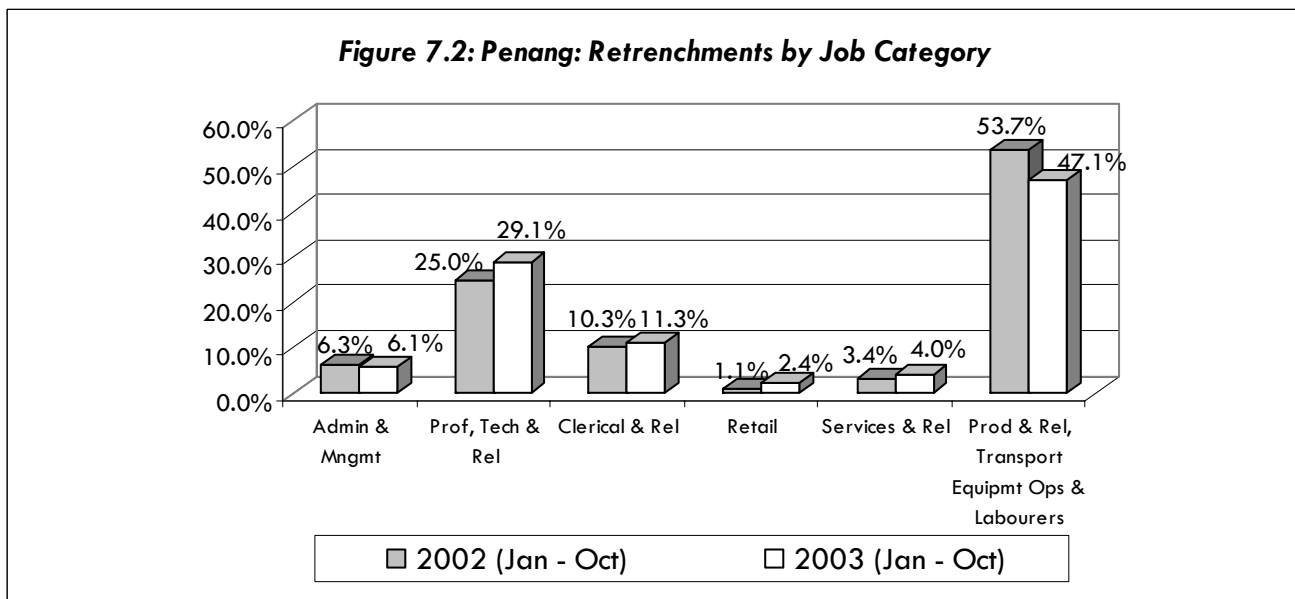
2002												
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec
Male	127	261	286	500	67	181	222	205	110	306	65	292
Female	40	634	753	644	89	140	419	187	41	96	137	306
Total	167	895	1039	1144	156	321	641	392	151	402	202	598
2003												
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec
Male	346	74	180	248	104	115	493	231	157	16	n.a.	n.a.
Female	688	53	182	261	38	71	276	205	124	24	n.a.	n.a.
Total	1034	127	362	509	142	186	769	436	281	40	n.a.	n.a.

Source: Jabatan Tenaga Kerja, Penang



Source: Jabatan Tenaga Kerja, Penang

Although the “Production & Related, Transport Equipment Operators & Labourers” category still makes up the majority of retrenched workers, its percentage share of the total has gone down from 53.7% to 47.1% (Figure 7.2). The “Administrative and Management” category has also recorded a drop in percentage share of total retrenched. Nevertheless, the rest of the categories have recorded a rise in percentage share, especially in the “Professional, Technical & Related” category whereby there has been of a marked increase of 4.1%, as shown in Figure 6.2. The increase in percentage shares does not necessarily translate into an increase in the absolute number, however. While the percentage share of workers retrenched from most of the job categories have risen, all the job categories have experienced a drop in the absolute number of retrenchments, except for the “Clerical & Related” category.



Source: Jabatan Tenaga Kerja, Penang

Since the Penang economy is driven mainly by the manufacturing sector, it is not surprising to see that the bulk of the retrenched comes from this sector. On the upside, the data in Table 7.2 (on the next page) shows that there is a large decline in the number of retrenched from the manufacturing sector this year compared to the previous two years. Only 3,221 people were retrenched from January till October 2003, compared to 4,848 people in the same period last year. Not only is the economic picking up, there was also no significant factory closure this year. Figure 7.3 shows the percentage share of retrenched workers by sectors for Jan-Oct 2002 and Jan – Oct 2003.

Figure 7.3: Penang: Retrenched Workers by Sectors, Jan – Oct 2002 & Jan – Oct 2003

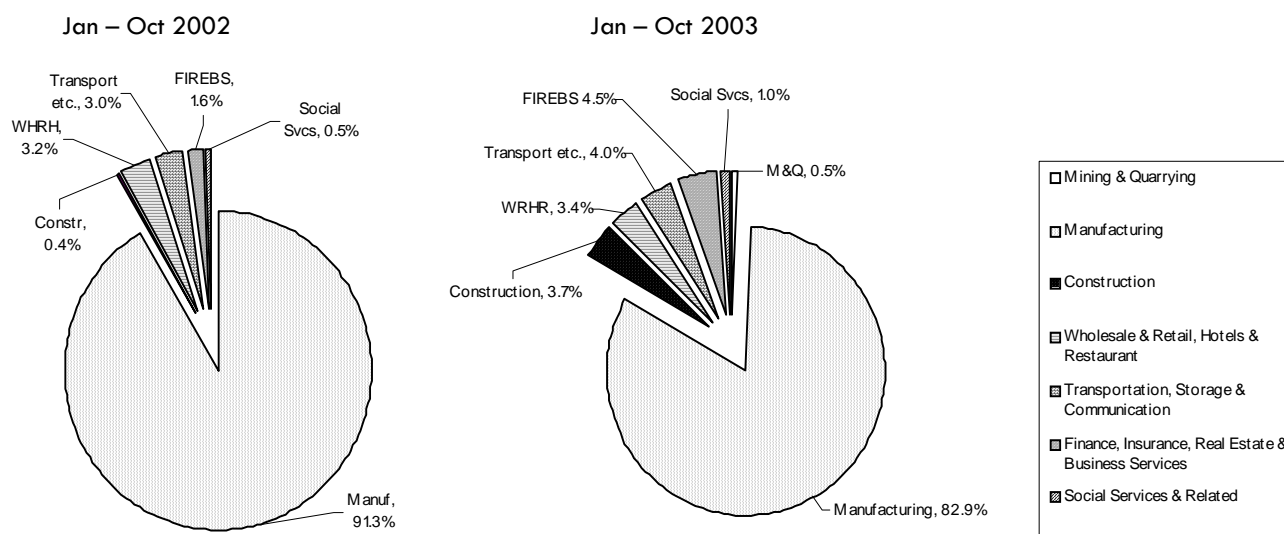


Table 7.2: Penang: Retrenched Workers by Sectors, 2002 & 2003

2002												
Description	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec
Agriculture, Forestry & Fisheries	0	0	0	0	0	0	0	0	0	0	0	0
Mining & Quarrying	0	0	0	0	0	0	0	0	0	0	0	0
Manufacturing	97	840	1024	1119	142	229	547	365	135	350	125	411
Electric, Gas & Water	0	0	0	0	0	0	0	0	0	0	0	0
Construction	0	0	0	10	0	0	2	8	0	0	32	17
Wholesale & Retail, Hotels & Restaurant	9	45	15	13	10	6	12	13	9	37	38	16
Transportation, Storage & Communication	50	1	0	2	0	80	21	0	6	0	0	9
Finance, Insurance, Real Estate & Business Services	9	6	0	0	4	6	42	6	1	13	7	143
Social Services & Related	2	3	0	0	0	0	17	0	0	2	0	2
Total	167	895	1039	1144	156	321	641	392	151	402	202	598
2003												
Description	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec
Agriculture, Forestry & Fisheries	0	0	0	0	0	0	0	0	0	0	n.a.	n.a.
Mining & Quarrying	0	0	0	0	20	0	0	0	0	0	n.a.	n.a.
Manufacturing	955	60	238	502	81	152	529	403	270	31	n.a.	n.a.
Electric, Gas & Water	0	0	0	0	0	0	0	0	0	0	n.a.	n.a.
Construction	20	0	8	0	18	1	97	0	1	0	n.a.	n.a.
Wholesale & Retail, Hotels & Restaurant	30	8	23	2	12	18	20	16	0	4	n.a.	n.a.
Transportation, Storage & Communication	0	24	74	0	0	3	36	17	0	0	n.a.	n.a.
Finance, Insurance, Real Estate & Business Services	15	35	4	5	9	11	87	0	4	3	n.a.	n.a.
Social Services & Related	14	0	15	0	2	1	0	0	6	2	n.a.	n.a.
Total	1034	127	362	509	142	186	769	436	281	40	n.a.	n.a.

Source: Jabatan Tenaga Kerja, Penang

Because of the high occurrence of unemployment among fresh graduates, the Government has implemented a number of retraining/reskilling schemes. The Penang Skills Development Centre (PSDC) offers a Graduate Reskilling Scheme (GRS) for fresh graduates who are currently unemployed. Looking at PSDC's GRS statistics in Table 7.3, we can see that to date, 1,276 people applied for the ICT/SMI course and 229 for the Design and Development (D&D) course. Since its implementation, 130 have graduated from the GRS/ICT-SMI course.

Table 7.3: PSDC Graduate Reskilling Scheme (GRS) Statistics, 2001 - 2003

	Applied	Current	Graduated	Dropped Out	Terminated
ICT-SMI	1276	264	130	29	1
D & D	229	50	0 (See note)	7	

Note : No graduate in the D&D course as of today. D&D was introduced in Nov 2002 and the initial batch of students has yet to complete their courses.

Source: Penang Skills Development Centre

Challenges and Needs in Human Resources

Many believe that 2004 will turn out to be a thriving year: there are expectations that the nation's economy will rebound and transit from the current recovery stage into a growth stage. In line with constant advancements in the world of ICT, the demand for knowledge-based workers would similarly be on the rise. The increasing use of automation and high technology will necessitate more engineers, designers, programmers, system analysts, technocrats and other high-skilled professionals. Some industrialists, whom SERI interviewed, voiced their frustrations that skilled and quality workers are lacking locally, especially in the engineering and technical fields. This might be a turn off for potential investors; it could jeopardize Penang's allure as an investment destination in the future, if it hasn't been already.

The issue of unemployment among fresh graduates, especially the local ones, has always been in the limelight. Graduates are still finding it difficult to get jobs after leaving their respective universities while some are underemployed, working in positions that do not fit their university qualifications. The Government should be lauded for offering tax exemption incentives to employers who agree to employ unemployed graduates who are registered with the Economic Planning Unit, as mentioned in the recent Budget announcement.¹⁸ The incentive, along with the Graduate Reskilling Scheme, will hopefully increase graduates' employability and turn them into useful productive labour for the economy.

On the other side of the coin, it is disappointing to note that many unemployed graduates are reluctant to take up the retraining /reskilling courses, despite the comprehensive training and vital experiences that can be gained, plus a RM500 monthly allowance from the Federal Government. Several reasons may account for this. For one, many graduates would rather take on positions that neither fit their educational backgrounds nor interests, or to undertake temporary jobs – either way, their justifications are that the take-home pay would be higher than the meager RM500 monthly allowance given by the Government, at least for the time being. The reality of having to “hit the books” after completing 3 years of undergraduate study is also a hindrance for some unemployed graduates to take up the courses.

From SERI's interviews with the MNCs and local companies, we gathered that there is considerable consensus for a modified education system. Employers need graduates who have practical skills and who require minimal retraining. They complain that students cannot apply what they have learnt from the universities – many graduates appear to have paper qualifications but little understanding of the practical applications of knowledge they are supposed to have gleaned. The inability to perform well in their work has caused local graduates to be stigmatized as the “low quality ones”. The employers strongly believe that graduates should have a strong grasp of the industry fundamentals and have the willingness and initiative to learn more each day. Apart from that, the ability to converse in various languages and good communication skills are vital. Unfortunately, these issues are inadequately addressed by the current Malaysian tertiary education system.

In the field of Design and Development (D&D), the human resource challenge is the overall lack of a graduate pool who should not only have comprehensive knowledge of design but the right aptitude for it. While training of fresh graduates to assume responsibilities in design has worked quite well during the early phases of design startup in most MNCs, it is getting increasingly difficult because of the sheer number of people who need to go through extensive in-house training. This creates additional cost and long lead time before the new hires could be put to work. Given today's competitive environment where Penang has to compete with other Asian sites for design responsibilities, Penang stands to lose out to countries like Taiwan, China and India that do not face the same resource issues.

To address this shortfall, the Collaborative Research and Resource Centre (CRRC) is working with the local universities to review their current VLSI¹⁹/Microelectronics course curriculum and make recommendations for

changes to better match the industries' needs. In addition to the availability of a pool of fresh graduates with strong microelectronic fundamentals, the design community also needs experienced design personnel to lead design teams as we move into the next phase of design growth in the MNCs. These shortfalls of experienced design resources may have to be satisfied for the short term, at least with experienced professionals from abroad. Appropriate incentives and ease of approvals as well as residency status issues will have to be addressed to make it attractive for companies as well as the individuals concerned to consider such moves. Furthermore, to satisfy specific gaps in design expertise there is need to tap into short professional courses including those that may be available from other universities overseas. Victoria University of Australia is a likely candidate as it has a good Government-Industry-University partnership model in microelectronics. Discussions are also underway with the Multimedia University to offer courses for employees of electronics companies in Penang.

The more macro issue of expertise shortfall is being addressed by the Ministry of Human Resources. Malaysian experts overseas in the fields of ICT, science and technology, finance and accounting, arts and culture, medical and health, maritime, aerospace, education, and agriculture are being courted with incentives and exemptions beginning January 2001. Nonetheless, the number of takers is low due to a combination of passive action by the government, lacklustre opportunities in Malaysia, and better earning ability elsewhere.

Due to the lack of local expertise, employers are turning to foreigners. But they are finding it hard to source for both foreign expertise and low-skilled workers, not because of a lack of external supply, but because of federally-mandated immigration and visa barriers. Their solutions, some companies said, is to shift certain aspects of their operations overseas. While the Government has reasonable explanation for its immigration policy, it should also consider the industrialists' dire need for both skilled and unskilled workers. If there no ready supply of local workers and there is no feasible manner to bring in foreign workers, then the economy as a whole suffers as productive works shift overseas. Besides, employment of foreign experts will also benefit local workers through new knowledge acquisition. In the end, it will be a win-win situation for the country.

8 OUTLOOK FOR 2004 (by Lee Seok Yee)

Outlook for 2004

The International Monetary Fund (IMF) projected in its "*World Economic Outlook September 2003*" that the Asia-Pacific countries will be the world's fastest growing region in 2003 and that growth in 2004 will pick up further. According to the IMF, while domestic demand is growing its role in the Asia-Pacific region, "global cycle continues to be a key determinant of cyclical developments." Among the ASEAN-4 countries, the IMF stated that "economic activity in Malaysia and Thailand appears well-sustained, partly reflecting supportive macroeconomic policies."

Meanwhile, the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP) predicted in its newly-released annual report, that momentum will pick up in the global economy in 2004. The expected strong performance is attributed to increased inter-regional trade and reduced dependency on foreign capital.

In Penang, 2004 will herald rosier times, barring destabilization of the global geopolitical situation, re-emergence of SARs and other contagious diseases, or other external shocks. Our projection for 2004 is tabulated below in Table 8.1. The Penang state gross regional product (GRP) is forecasted to grow by 6.6% in 2004, compared to a 4.2% in 2003. The state GRP growth is expected to be higher than the projected national GDP growths of 5.7% and 5.8% by MIER and CIMB respectively. Penang's export-dependency will be an advantage next year as intra-regional trade benefits from AFTA liberalization and increasing trade with other global partners. The E&E sector's turnaround will provide a boost to the

manufacturing sector, helping it to grow by 9%. The agriculture, forestry, and fishing sector will follow more closely the national growth trend – however, bear in mind that the sector makes up a tiny percentage of Penang’s GRP. Finally, unless some unexpected travel-dampening factor arises, the tertiary sector should recover slightly to 5%.

Table 8. 1 Growth in 2004 by Economic Sector

	Growth in 2004 (f)	Share in 2004 (f)
Agriculture, forestry, fishing	6.7%	1.6%
Mining & Quarrying	-2.3%	0.9%
Manufacturing	9.0%	42.3%
Construction	3.3%	2.0%
Tertiary	5.0%	53.2%
Overall GRP	6.6%	100%

Source: SERI’s Forecast

The S.W.O.T. analysis in Table 8.2 shows that Penang still possesses certain strengths, thanks to its 30 years of manufacturing experience. In the last three decades, Penang has upgraded its core competency from an agriculture-based economy to an industry-based economy. Of late, the focus of development has shifted from low-cost, mass manufacturing to higher value-added activities such as designing and research and development. The Penang government continues to emphasize the “China + 1” strategy to persuade foreign investors to diversify their investment risks in Asia beyond China. This shift of strategy is timely, given the obsolescence of the East Asia Economic Model (EAEM). The single-track, manufactured-export strategy is now defunct as China intensifies its competitiveness as a global factory, at the same time that Penang is losing its competitiveness edge.

In 2004, competition for FDI will only become fiercer with more countries vying for a shrinking pie. Malaysia Budget 2004 testifies to the perils of FDI dependence. Increasingly, the Malaysian government is turning towards domestic-led growth by home-grown industries. A study conducted by SERI in the second half of 2003 shows that Penang’s SMEs are ill-prepared for AFTA and WTO, somewhat ignored, and in need of mental and technological overhaul (see *Economic Brief*, October 2003). Going forward, the Penang government must work with the federal government to strengthen more local industries.

The formation of linkages between MNCs, local industries, and SMEs is an essential recipe for deepening Penang’s manufacturing expertise. Therefore, February 2003 heralded an important milestone with the formation of the Collaborative Research and Resource Centre (CRRC). It is hoped that CRRC will accelerate Penang’s movement up the value chain by increasing industry-universities collaboration and commercializing outputs from the academic field. Not forgetting, the Penang Development Corporation (PDC) and Penang Skills Development Centre (PSDC) continue to bear the burden of industrial linkages and skill upgrading in 2004.

Opportunities abound for Penang in 2004, notably with the full implementation of AFTA beginning January 2003. Manufacturers could look forward to economies of scale, faster amortization of research expenditures, a bigger consumer / customer market, more choices of outsourcing partners, lower input costs, and opportunity for specialization. The liberalization of China could be viewed as an opportunity for growth, learning, and restructuring. Although the Malaysian currency remains pegged (and said to be overvalued), the continued weakening of US Dollars makes Malaysian exports cheaper and increases the country’s ability to buy imported products, while the expected revaluation of Chinese Renminbi will lessen the allure of China as an investment destination. US statistics of late have been rather encouraging. On top of that, American companies are looking abroad for outsourcing (including professional jobs such as programming); Penang could be a probable beneficiary.

Nonetheless, the threats do exist. Internally, the Malaysian bureaucracy will need to catch up with the new reality of business and enhance its efficiency. The state also needs to upgrade its infrastructure, especially in terms of ICT. The education system should be geared towards graduates' employability instead of graduation rates. Externally, the threat of terrorism remains. Regional instability in the Philippines and Indonesia coupled with foreigners' perception of Malaysia as a Muslim country may dampen FDI into Malaysia. To top it off, many subcontractors have been forced to move to China to follow their customers: as a result, there may be a shortage of quality suppliers left in the state in the long run.

Table 7.2 SWOT Analysis of Penang

(S)trengths	(W)eaknesses
<ul style="list-style-type: none"> • 30 years of manufacturing experience with MNCs • Multicultural environment enables expansion in high-growth / promising markets eg. China, India, Middle East • Good infrastructure in the FIZ areas • Stable political factors – Peaceful transition of Malaysia's leadership and promise of stable governmental policies calmed investors • Cooperation between government, institutions, and private sectors better established <ul style="list-style-type: none"> • CRRC established in 2003 is a good example of public-private partnership 	<ul style="list-style-type: none"> • Dependence on FDI and weak domestic-led growth • SMEs not prepared for globalization (AFTA and WTO) • Government policies & agencies slow to catch up with industries' needs and changing business demands • Cost of doing business not as low as China and other ASEAN countries • Insufficient R&D, design and development, and other value-added activities
(O)pportunities	(T)hreats
<ul style="list-style-type: none"> • <u>Internal</u> • Key MNCs e.g. Intel, Dell, and Agilent, upgrading technological, research, and design capabilities – may compel local companies to do the same to meet MNCs' demands • "China + 1 strategy" compels MNCs to diversify investment beyond China – Penang is well-positioned as the diversification market • <u>External</u> • Global, regional, and national economy on a rising trend. • US companies continue to outsource to Asian countries, Malaysia could be a beneficiary because of knowledge base, pool of existing MNCs, and political stability • Weakening of US dollars and potential appreciation of Renminbi makes Malaysia more attractive • Increased regional cooperation among ASEAN countries and China-ASEAN FTA increases attractiveness 	<ul style="list-style-type: none"> • <u>Internal</u> • Slow upgrade of connectivity infrastructure hinders technological development • Constraints on human resources (skills, attitudes, and employability) due to small size of population and inadequate workforce preparation may force companies to look elsewhere • Subcontractors forced to relocate to China to follow customers – may erode capability of suppliers to existing locally-based manufacturers • <u>External</u> • Continued terrorism and perception of Malaysia as a Muslim country may dampen FDI into Malaysia. Penang will be significantly affected. • AFTA and WTO increases competition, especially in low-cost manufacturing

Source: SERI's Analysis

9. CONCLUSION (by Dr. Chan Huan Chiang)

The more buoyant Q3 2003 numbers that were announced in November and December this year provided most of the input for the forecast of Penang's gross regional product or GRP for 2003 and 2004 that is provided in this report. The first part of the year was particularly difficult for Penang, partly due to the SARS outbreak, that affected the tourism related sectors, and partly as a result of the continuing down-trend in the electronics sector, thus shaking the twin pillars of Penang's economy. Fortunately, the turnaround in the numbers for Q3 2003 were able to offset the poor performance figures for the first two quarters of 2003. True to expectations, the electronics sector did bottom out and the up-trend is now clearly shown in the numbers. Thus for Penang, the same factors that dragged the Penang economy down earlier in the year were responsible for turning things around, once again putting growth at a reasonably brisk pace by today's standards.

However, the numbers are still in the midst of being announced from a variety of sources and accordingly we would expect to see frequent adjustments made during the weeks and months ahead. A case in point is the surprisingly dismal export performance figures officially released for the third quarter that contradicted market observations. This is no longer a mystery, because the export figures from October 2003 have confirmed that exports have also begun the upswing that has traditionally been a critical factor to Penang's overall economic performance.

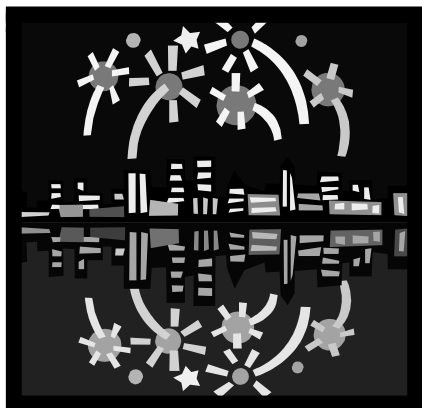
The numbers for the fourth quarter would be the one to watch out for. Typically, the fourth quarter would appear more upbeat than the third and if this comes to pass, 2003 would turn out not too bad a year for Penang. Even though by the first and second quarters of 2004 there will be the usual seasonal retreat, the overall annual outcome should still show a healthy improvement next year compared to this. The up-trend, following global expectations, is expected to continue into 2005 with only some slight moderation.

As usual, we would like to caution readers with the use of the GRP numbers given here. The GRP should be derived from a national accounting exercise carried out by the Department of Statistics, the way it is done in obtaining the gross domestic product or GDP numbers for the nation. Unfortunately, the Department of Statistics does not provide national account breakdowns by states and therefore accurate estimates for GRP numbers are not obtainable throughout the different states in Malaysia. Thus the GRP numbers that are provided here are derived by formula rather than through field enumeration. Financial movements, particularly the relative rate of credit disbursements in Penang and for the rest of the nation, for which timely data is available, are among the more important indications used to drive the GRP figures in Penang. The operation of multinationals, which is widespread in Penang, may not be captured in the data. Fortunately, the PDC through their regular surveys undertakes a close monitoring of factory operations in PDC areas and these provide useful intelligence that allow us to overcome the shortcoming concerning multinationals in the financial flows data.

Although not always spot on in terms of absolute figures, we hope that this report and the forecasts contained within provide useful insights on the performance of the past year and trends to expect in the year to come.

FOOTNOTES & BIBLIOGRAPHY

1. Figures discussed here are based on numbers that appeared in *The Economist*, *The Edge* and MIER outlook reports during the past couple of months.
2. There is a substantial variance in S.Korea's and China's third quarter y-o-y figures reported. The figures quoted here were from *The Economist* and differ from those in *The Edge* that reported 5.8% and 7.9% growth respectively for these two countries. Such discrepancies in the numbers are usually caused by frequent official revisions resulting from new data and/or previously noted trends that did not sustain.
3. The Fed has geared its monetary policies to controlling inflation only from the early 90s, setting exchange rate targets aside to be more efficiently determined by the forex market. See Craig, B and Humpage, O (2003) "The myth of a strong dollar policy." *Cato Journal* 22:3 pp.417-429.
4. Sterilized intervention and signaling, as Craig and Humpage put it, involves the Fed setting exchange rate targets that affect market perceptions. However, information asymmetry among market participants causes this kind of signaling to be ineffective causing policy and the market to go in somewhat different directions.
5. Data compilation from MIER's National Economic Outlook Conference, 9-10 December, 2003.
6. "Penang to Create Cluster for Photonics Industry," *Nikkei Electronics Asia*, April 2002.
7. Note that data only include PDC industrial areas.
8. PDC's Survey of the Manufacturing Industries in PDC Industrial Areas. Survey for June-Dec 2003 will not be available until early 2004.
9. "Tourism in Penang hit by RM2.47M losses," *New Straits Times*, 20 May, 2003 .
10. "Penang Aims to be Next Cybercity," *The Star*, 31 December, 2003.
11. "New Strategies Towards Stimulating the Nation's Economic Growth," The SEACEN Research and Training Centre, <http://www.seacen.org/newsletter/2003-2ndQtr/nbfd-Malaysia.aspx>
12. Half a month bonus was given in May prior to stimulus package.
13. "Retail Confidence On The Rise," *The Star*, 4 October, 2003.
14. "Plans For New IKEA Stores In Malaysia," *Bernama*, 18 Dec, 2003.
15. The *New Straits Times* reported that the Penang figure in E&E export has been inadvertently omitted due to glitches in the EDI system. Because of that, October data for Penang, unavailable at the time of writing, is considered to be more indicative of the actual situation.
16. "Property Sector On Firm Ground," *The Star*. 23 December, 2003.
17. "Strong Demand Continues in Penang," *The Star*. 2 May, 2002. <http://www.star-space.com/stories/storyfocus.asp?artfolder=focus&file=archives/focus/2002/05/bob>
18. "Sistem Potongan Cukai 2 Kali Bagi Majikan Yang Mengambil Granduan Menganggur yang Berdaftar Dengan Unit Perancangan Ekonomi," http://www.epu.ipm.my/prog_khas_siswazah/cukai_siswazah.htm
19. VLSI denotes "Very Large Scale Integration."



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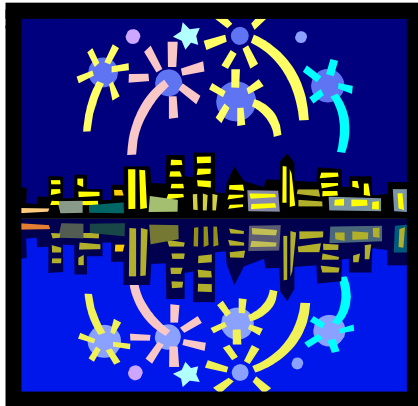
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